Asian Equities Lead Globally; Chinese REITs Close at Hand

ASIAN REAL ESTATE EQUITIES OUTPERFORM

Despite continuing uncertainty regarding Asia's overall economic outlook, Asian real estate stocks outperformed other regions in 1Q 2009, according to Standard & Poor's Global Property Index. While 1Q returns were still in the red, governmental stimulus plans implemented in Australia, China, India, Malaysia, Singapore, Japan and South Korea appear to be having an impact.

With central banks across the region continuing to add liquidity to the capital markets and a turnaround in stock market performance in 1Q, the refinancing risk for real estate companies in Asia has been somewhat mitigated. Regional highlights during the quarter include:

- In Australia, LPTs raised A$3.1 billion through equity placements / rights issues.
- In Japan, JP¥88 billion of J-REIT debt maturing (88% of total) was refinanced.
- In China and Hong Kong, property companies raised or refinanced approximately RMB40 billion.
- In Singapore, CapitaLand's S$1.84 billion rights issue was oversubscribed.

China saw a strong increase in residential sales during the quarter (8.7% year-over-year), particularly in March, and developers began participating in land auctions again after being sidelined for over a year. In Japan, more consolidations are expected as J-REITs have secured JP¥54 billion of debt for acquisitions, mainly from the Development Bank of Japan. The weak overall outlook for Asian economies may result in further challenges for the real estate sector, but opportunities continue to exist for moderately leveraged developers and REITs with good liquidity.

Standard & Poor's Global Property Index

Annualised Returns[1]	1 Month	1Q 2009	1 Year	3 Years	5 Years	10 Years
Global	7.1%	-19.8%	-55.7%	-21.4%	-5.2%	4.1%
North America	3.6%	-31.7%	-59.4%	-25.9%	-9.2%	3.8%
Europe	3.6%	-18.2%	-64.0%	-26.8%	-6.7%	3.6%
Asia	11.0%	-15.6%	-50.8%	-17.0%	-2.7%	3.1%

[1] As of 31 March 2009.
Sources: Standard & Poor's, ING Clarion, M3 Capital Partners.

LAUNCH OF CHINESE REITs APPEARS IMMINENT

After several years of deliberation, the Chinese Government announced in November 2008 that a legislative framework for REITs would be introduced in the near future, and the China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC) were tasked with formulating appropriate rules and structures for a REIT framework.

Developing and adopting a legislative REIT framework will be difficult given that China's real estate capital markets are relatively underdeveloped and existing REIT regimes around the world vary greatly. In addition, uncertainties associated with China's existing legal and tax regimes, as well as restrictions on redenomination and repatriation of dividends and capital by foreign investors, further complicate matters.

At the beginning of April, the Peoples Bank of China announced that a draft proposal was close to being finalised to (i) set up REITs as part of the government's efforts to ease the cash constraints of property developers, and (ii) seek the State Council's approval to launch a series of pilot REITs to test and fine tune the proposed structure. While no deadline for the adoption of REIT guidelines has been announced, the first pilot REITs are expected to be launched in 2009.

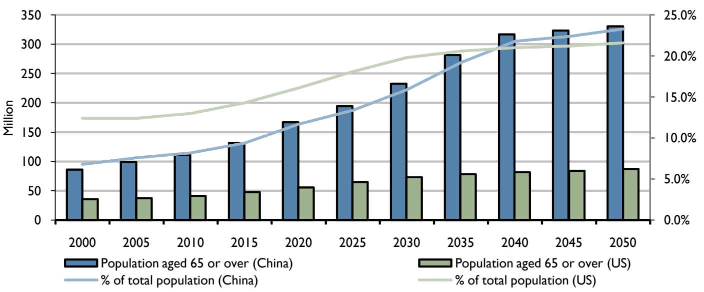
The CBRC's proposal is expected to include a structure similar to the one adopted in Hong Kong and Singapore—an externally-managed listed investment vehicle which must invest at least 80% of its capital in stable, income generating assets and which requires the oversight of an independent trustee. It has also been announced that three asset management firms will be entitled to run pilot REITs. In contrast, little detail has emerged about the CSRC's REIT proposal, though there have been comments indicating a general preference for the US model, which the CSRC believes offers more flexibility and appropriate alignment of interests between the manager and the shareholders. However, the CBRC and CSRC appear to agree that the new investment product should only be available initially to institutional investors to further test and fine tune the proposed structure.

Sources: www.cnstock.com, OMM, M3 Capital Partners.

DEMAND FOR SENIOR HOUSING IN CHINA GROWS

While China is usually thought of as a vast emerging market with excellent economic growth prospects, its rapidly ageing population often goes unnoticed. Between 2000 and 2050 the segment of China's population aged 65 and over (currently 109.6 million people), is forecasted to grow, on average, 2.9% per annum. Shanghai is China's "oldest" city with over 3.0 million people, or 21.6% of its population, aged 60 or above.[1] In Beijing, over 2.4 million people, or approximately 20.0% of the population, are aged 60 or above.[1]

Population Aged 65 or Over (China vs. US)



The senior housing sector in China is still in its infancy, particularly when compared to the well established senior housing sectors in the more mature economies, which include retirement home, independent living and assisted living facilities. The concept of retiring in a modern, purpose-built facility is still new to most Chinese. While this is due, in part, to the Chinese custom which dictates caring for the elderly at home, it is also a result of concerns over the affordability of this option. Most government-owned facilities, while typically free of charge, are of poor quality, outdated and offer limited services. Additionally, the fledgling sector lacks institutional capital and specialised senior housing operators.

The shortfall of senior housing facilities in China stands in stark contrast to significant demand potential. An increasing number of empty nesters from China's growing middle class are starting to understand and embrace new retirement lifestyles that can be provided by state-of-the-art senior housing facilities. Of note, the "4-2-1" population structure (i.e. 4 grandparents, 2 children from single-child families as a couple and 1 grandchild) that has resulted from more than 30 years of the one-child policy will continue to create increased demand for many years to come.

[1] As at the end of 2008.
Sources: United Nations, Local and National Bureaus of Civil Affairs.

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