

CHINA

REAL ESTATE IPO MARKET BOOMING

Driven by the need to find long-term capital sources to implement growth strategies and fund upcoming land purchases and new construction, mainland Chinese real estate companies have turned to the public equity markets in neighboring countries, predominantly the Hong Kong Stock Exchange ("HKEx"). Mainland Chinese real estate companies raised \$5.2 billion via IPOs on the HKEx during the first three quarters of 2007, significantly outpacing the previous eight years combined. Of note, these offerings account for much of the year-to-date total IPO activity on the HKEx. The reason these companies have turned to HKEx (rather than the domestic capital markets) is due to the size, liquidity and access to international capital that the HKEx provides. The fourth quarter is already off to an impressive start: Soho China completed a \$1.7 billion IPO in early October, and Shenzhen developer Excellence Group and ZhongAn Real Estate Holdings plan to raise an additional \$1.5 billion via IPOs in the coming months.

Major Chinese Real Estate Companies Listed on the HKEx¹

Firm	Type of Real Estate	Trade Starting Date	Capital Raised (USD \$M)
China Aoyuan	Residential	September 28	\$468
Sino-Ocean	Residential, office, retail and hotel	September 21	\$1,531
Franshion Properties	Residential, office, retail and hotel	August 17	\$388
Greentown Real Estate	Residential	July 13	\$343
KWG Properties	Residential, office, retail and hotel	July 3	\$585
Country Garden	Residential, hotel and resort	April 20	\$1,904
Total - 6 Listings			\$5,219

¹ As of September 30, 2007.

Sources: Bloomberg, Hong Kong Stock Exchange, company websites, China State Information Center.

INDIA

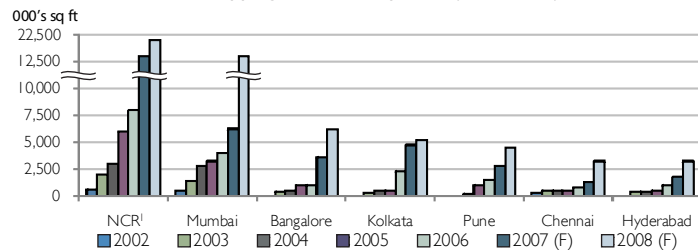
SHOPPING MALL DEVELOPMENT SOARS IN INDIA

Between 2002 and 2006 India's shopping mall stock rose from less than 1 million sq. ft. to approximately 19 million sq. ft. across seven cities and is expected to grow to 60 million sq. ft. by 2008. Despite this demand, many developers have brought supply to the market of inferior quality with inefficient mall configurations influenced by rising construction costs and inadequate local infrastructure.

Fed by continued retailer demand, the Indian shopping mall market has absorbed double digit rental growth since 2004, and asset prices have maintained an upward trajectory. Nevertheless, as supply increases, a number of malls – particularly those of inferior quality – are unlikely to remain competitive and such growth levels appear unsustainable.

Approximately 80% of mall units are currently under individual ownership (strata title), and such a lack of unified ownership has hindered the evolution of strategic mall management in India.

India Shopping Mall Development (2002-2008)



¹ National Capital Region comprises Delhi and neighboring towns of Faridabad, Gurgaon, Noida, Greater Noida and Ghaziabad.

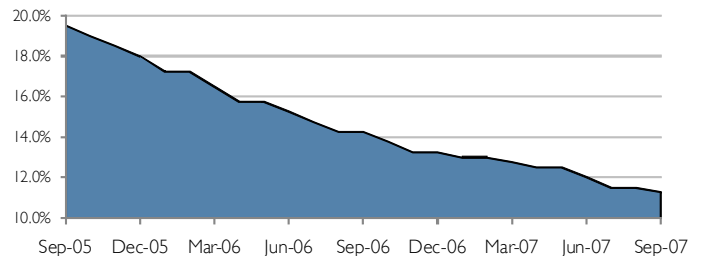
Sources: Jones Lang LaSalle Meghraj, The Economic Times.

BRAZIL

FOCUS SHIFTS TO UNDERSERVED RESIDENTIAL SECTOR

Since September 2005, 22 Brazilian developers have raised over \$8 billion in equity via initial and secondary offerings in the public market. This infusion of capital has been concentrated primarily on high-end residential developments, mainly in Sao Paulo and Rio de Janeiro. However, the saturation of the high-end sector, coupled with a large housing deficit in the low-end segment and improvements in Brazil's macroeconomic stability (e.g. declining interest rates, moderate inflation, higher real wages), has prompted major public residential players to shift focus. With an estimated shortage of eight million homes, the Lula administration has enacted legislation to improve lenders' foreclosure rights and increase government-backed mortgage loans. This is spurring the availability of mortgage financing and increasing the volume of loans attainable for low- to middle-income residential consumers. Another driver behind the growth of new loan originations has been the downward trend in interest rates due to the Central Bank's recently launched cycle of monetary easing (17 successive interest rate cuts over the past two years). As a result, public companies such as Cyrela, Gafisa and Rossi Residential are actively commencing efforts to partner with local developers to gain a foothold in this sector.

Brazilian Interest Rates¹



¹ Reflects Banco Central do Brasil's overnight lending rate (SELIC rate).

Sources: Bloomberg, M3 Capital Partners, company filings.

RUSSIA

FINANCING THE DEVELOPMENT BOOM

Over the last few years a select group of Russian developers have accessed the public markets to satisfy their financing requirements for development projects. In June 2007, Moscow-based PIK Group floated 15% of its shares on the LSE, raising \$1.85 billion. This followed an IPO by AFI Development which raised \$1.4 billion during May 2007. Russian developers remain largely under-levered as a result of the current high cost of unsecured debt, and an IPO is one option used in bridging this liquidity gap. Raising capital in the public markets may provide the capital required for expansion and offers a valuation metric in an otherwise illiquid direct market. However, it should be noted that PIK's offer price was at the bottom of its guidance range, possibly indicating that the market's appetite has been sated and that future similar IPOs will be difficult to place.

An alternative available to developers in securing financing can be shown by the recent \$200 million joint venture between Storm Properties and Marbleton Property Fund for an office development outside of Moscow. As more institutional capital enters Russia via property funds, privately sourced capital is likely to become a more popular alternative to the public markets. This capitalization strategy offers access to capital without being exposed to the volatility of public equity markets and having to comply with open book rules. However, developers should be aware that this type of capital typically seeks active participation or oversight.

Sources: Real Estate Quarterly, Financial Times, Reuters, PIK Group, AFI Development, M3 Capital Partners.

M3 CAPITAL PARTNERS IS A GLOBAL INVESTMENT BANKING AND ADVISORY FIRM SPECIALIZING IN RAISING PRIVATE EQUITY FOR REAL ESTATE OPERATING COMPANIES AND FUNDS, AND DELIVERING STRATEGIC FINANCIAL ADVISORY SERVICES TO ITS CLIENTS.

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