



## Manager's commentary: Asian property update

Asian property equity markets suffered a larger correction than their western counterparts of late. We attribute this to the higher perceived sensitivity of Asia's export and services to the west. Credit has also contracted in some parts of Asia as financial institutions are highly related globally and credit is arguably one of the elements to grow real estate.

However, we see that only sentiment among the general public has weakened and there are in fact several positive undercurrents which continue to move the Asian real estate market forward.

Firstly, with the exception of Australia, Asian households and corporates have not leveraged up toward the real estate market boom of the last few years. This is partly because of a "boomophobia" mentality that remained since the Asian financial crisis, and partly because of improved banking regulatory and credit awareness such that bank lending has not been the key contributing factor to Asia's real estate boom.

Secondly, across the residential, office and retail properties sub-sector in most parts of Asia, we have not noticed a significant build-up of upcoming capacity. Grade A office vacancies remain low for cities such as Tokyo, Hong Kong and Singapore. With the exception of Singapore, future residential supply is not an issue. Homeownership demand in Japan has been weak which should be attributed to a weak economy and perhaps unfavorable demographic. Elsewhere in Asia, homeownership levels have generally been low and demand remains healthy. Furthermore, retail spending has been good although global financial news of late has affected the public's sentiment and spending somewhat. But generally, newer and better retail facilities are still the growing phenomenon, which we feel remains an avenue of growth for several reputable companies in the region.

Thirdly, key economic data such as industrial production and export figures have come out better than expected in the cases of Taiwan and the Philippines for example, citing demand from within Asia and other emerging market to remain "strong".

Besides a sharp equity market correction, the volatility has been extremely high. This is because the equity market correction is not a stock-market event but a combination of global credit market and a sharply weakening global economy. Coupled with large quantity of short-term activities in times of confusing signals, capitals from around the world have decided to withdraw their money from this region and domestic capital market funding could have been also influenced similarly.

Investors like us understand and need to bear with perhaps difficult times and volatilities ahead for a slightly longer period. However, Asia's long-term trend toward a stronger trade and consumption bloc remains unshaken. This will probably lead to benefits to its real estate market.

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