INVESTMENT INTENTIONS ASIA SURVEY 2009

AREA

INREV

PREA
pension real estate association

Contents

EXECUTIVE SUMMARY

The Investment Intentions Asia Survey is a joint research project by the Asian Real Estate Association (AREA), the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) and the Pension Real Estate Association (PREA). The study aims to provide a guide to the expected trends of European, US and Asian investors, fund managers and fund of funds managers active in the Asian non-listed real estate funds industry.

Asian real estate markets have not been immune to the global financial crisis that saw the industry slowing down in mid 2007 followed by a collapse in September 2008. The ongoing uncertainty surrounding financial markets around the world has affected this year's survey results. The Investment Intentions Asia Survey 2009 provides an overview of the Asian non-listed real estate funds market trends and investment preferences of participants for the coming year.

The majority of investors and fund managers are expecting the Asian real estate markets to show the first signs of recovery in 2010. Investors and managers are far more optimistic in their views of a turnaround compared to fund of funds managers.

The main findings based on the results of an online survey of 73 organisations active in the Asian non-listed real estate funds market are as follows:

- In the 2008 survey, all survey participants – institutional investors, fund managers and fund of funds managers – indicated an intention to increase their activity in the Asian real estate market and non-listed real estate market in particular. The year has seen a large drop in the number of investors intending to allocate funds to Asian non-listed real estate in the short term, falling from 88% in 2008 to 24%. One year on, the survey has found major changes to the real estate investment market landscape as the industry continues to grapple with the consequences of the current market downturn. As a result, there have been some notable changes from the 2008 survey.

- Opinions are divided between investors and fund of funds managers in terms of their preferred style and type of investment for developed and emerging Asian markets. Core and value-added funds are equally popular amongst investors, with 42% selecting them as their preferred style in developed Asian markets. Not surprisingly, opportunistic funds received the most votes as the preferred fund style for all three groups of respondents for Asian emerging markets. Fund of funds managers are biased towards opportunistic funds with an overwhelming 88% of respondents selecting it as their preferred fund style of investment.

- A greater proportion of US-based investors, fund managers and fund of funds managers prefer value-added and opportunistic funds than their Asia- and Europe-based counterparts. Around 77% of US-based respondents preferred either value-added or opportunistic funds in developed Asian markets compared to approximately half the Asia- and Europe-based respondents. For the emerging Asian markets, all US-based respondents preferred value-added or opportunistic funds while 23% of Asia respondents and 27% of Europe respondents showed a preference towards core funds.

- A manager's local presence is the most important criteria for fund selection in Asia in this year's survey amongst 70% of investors and 65% of fund of funds managers, the highest of all considerations. Target location has become one of the most important attributes for fund selection according to 60% of investors, up 31 percentage points from last year. Target sector also ranks highly as the most important criteria for fund selection amongst 40% of investors.

- Access to expert management is one of the key reasons for investing in Asian non-listed real estate funds, according to 75% of investors, 90% of fund of funds managers and 83% of fund managers. Current market conditions and a lack of transparency continue to be major obstacles the industry has to overcome to attract capital.

- Asia-based investor respondents take the lead in addressing environmental issues, with 67% indicating they have already developed or are in the process of developing minimum environmental performance criteria for fund investment in Asia non-listed real estate vehicles. This compares to 58% of Europe-based investors and 29% of US-based investors. Asia-based fund managers appear most prepared to meet the growing demand for fund products that offer minimum environmental performance standards, with 42% developing this feature in their Asian non-listed real estate fund products.

- China, Australia and Japan were identified as locations most preferred amongst the respondents in this survey. Eight of the top ten location and sector combinations preferred by survey respondents comprise one of the three locations. China takes the top two location-sector preferences amongst investors with China residential preferred by 45% and China retail preferred by 35%. China retail, Australian office and Japan office investments attained the most votes amongst fund of funds managers, with each selected by 41% of respondents as most appealing. The highest proportion of fund managers also picked Japan office investments as most appealing. An equally favoured target amongst 33% of fund managers is China residential.

- All investors believe that, on average, debt levels in Asian non-listed property funds will be lower over the next two years. About 88% of fund of funds managers and 86% of fund managers also share this view, with the balance indicating that, on average, debt levels in funds will remain unchanged over the same period. This trend reflects expectations that the lack of debt available for financing is unlikely to ease in the short term. Not surprisingly, very few respondents expect an increase in the use of debt in Asian non-listed property fund vehicles over the next two years, whether that be in the level of debt used or the reliance on debt in fund strategies.

- The survey was also expanded this year to capture the views of respondents towards key issues likely to affect the Asian non-listed real estate funds industry over the next two years. Common themes highlighted by respondents include issues relating to:

  1. Economic conditions
  2. Impact of government intervention
  3. Property market fundamentals
  4. Debt and re-financing
  5. Market liquidity and capital raising
  6. Transparency and corporate governance
  7. Non-listed property funds structure

INTRODUCTION

The Investment Intentions Asia Survey was initiated in 2008 as a joint research project by INREV and AREA that aimed to provide a guide to the expected trends of European and Asian investors, fund managers and fund of funds managers active in the Asian non-listed real estate funds industry. This year, AREA and INREV have combined resources with PREA to provide a more holistic picture of investment intentions towards Asia over the 2009-2011 period from organisations based in Asia, Europe and North America.

The survey included AREA, INREV, and PREA members as well as other market participants in the non-listed real estate funds industry, and sought their intentions and investment preferences in terms of locations, sectors and strategies. This year, respondents were also asked to comment on the timing of an expected turnaround in the Asian property markets and issues presently affecting the investment market. The survey was sent to 730 organisations with the intention of obtaining company-level rather than individual-level responses. It was not known if all of these organisations invested in Asia. The survey attracted 73 responses, an increase from 65 in 2008.

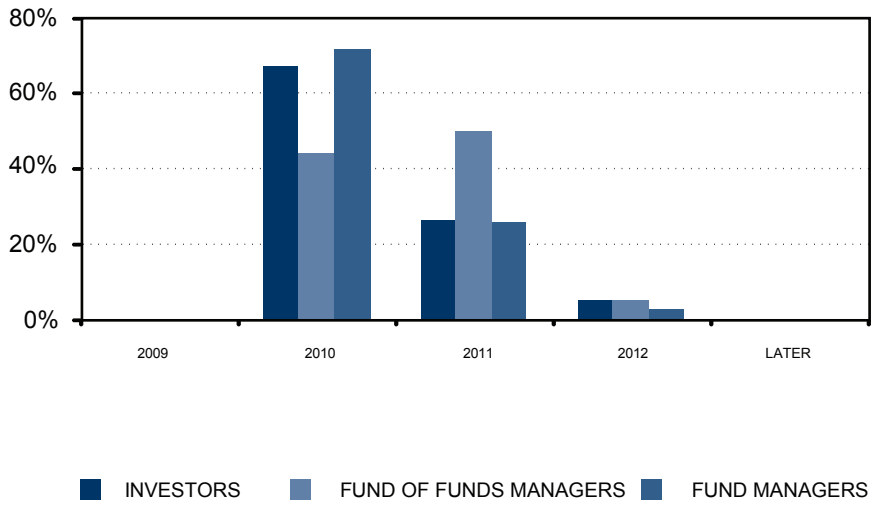
The survey results are grouped according to three types: institutional investors (26% of respondents), fund managers (50%) and fund-of-fund managers (24%). A breakdown of the respondents by the location of their main headquarters shows 44% of respondents are based in Europe, 26% in the US and 30% in Asia. Further details of respondents can be found in Appendix 1 of this report.

TRENDS IDENTIFIED BY PLAYERS IN THE ASIAN NON-LISTED REAL ESTATE MARKET

Expected timing of turnaround for the Asian real estate markets

Respondents were asked to predict the timing of a turnaround in the Asian real estate markets following the current downturn. Figure 1 shows the majority of investors and fund managers are expecting the Asian real estate markets to show signs of improvement in 2010. Investors and fund managers are far more optimistic in their views of a turnaround than fund of funds managers, with a respective 67% and 72% expecting to see improvement in the Asian real estate markets in 2010 compared to just 44% of fund of funds managers. The views of fund of funds managers were divided, with another 50% anticipating 2011 as the year when signs of improvement become apparent, whilst the remaining 6% do not expect to witness any signs of improvement until 2012. The more pessimistic outlook by fund of funds managers may reflect their tendency to invest more in higher-risk fund strategies and their anticipation of further debt issues to surface in the near future.

FIGURE 1 - CURRENT VIEW ON YEAR ASIAN REAL ESTATE WILL IMPROVE



The results of the Asian survey differ somewhat from the INREV Investment Intentions Europe Survey 2009, which was conducted in October 2008. Institutional investors who responded in that survey were far more pessimistic than fund managers and fund of funds managers when asked to predict a turnaround in the European real estate market. Only 36.7% of investors expected to see a recovery in the European real estate market in 2010 compared to 53.8% of fund of funds managers and 53.5% of fund managers. This difference in opinion may be attributed to varying market outlooks of respondents in October 2008 compared to April 2009 as well as investors' confidence in a recovery taking place in Asia before Europe. Moreover, the latest European poll taken at the INREV Annual Conference in April 2009 found sentiment to have worsened across the board, with 70% of investors anticipating the recovery to be pushed back to 2011 and a further 18% expecting the European market turnaround to be delayed to 2012.

The only group of respondents that did not expect a recovery until 2012 comprised those with their main headquarters based in Europe, with 11% of European respondents sharing this view. Conversely, 71% of respondents headquartered in Asia expect the first signs of a market turnaround in 2010, making them the most optimistic group.

Asian countries most and least affected by the current downturn

Respondents were asked to list three Asian countries they see as most and least affected by the current downturn. According to Figure 2, 76% of fund of funds managers, 67% of fund managers and 55% of investors consider Japan to be most affected by the current downturn, followed closely by Singapore. There is then a large drop, with around 20% of respondents believing Hong Kong and Australia to be most affected by the current downturn. Developed countries in the region were generally considered to be more severely affected than emerging markets, though investors and managers appear divided in their views towards the impact of the current downturn on Korea, with 20% of investors sharing this view compared to 12% of fund of funds managers and 14% of fund managers.

China was overwhelmingly considered to be the least affected country (Figure 3), being nominated by 65% of investors and fund of funds managers and 56% of fund managers. Around one in four to five investors and fund of fund managers ranked India, Australia and Korea amongst the three markets least affected. However, there was a divergence of opinions. Countries such as Australia, Hong Kong and Korea attracted a mixed response with similar proportions of respondents (10% to 20%) indicating they were either in the top three worst affected markets (Figure 2) or in the top three least affected markets (Figure 3).

FIGURE 2 - ASIAN COUNTRIES MOST AFFECTED BY THE CURRENT DOWNTURN

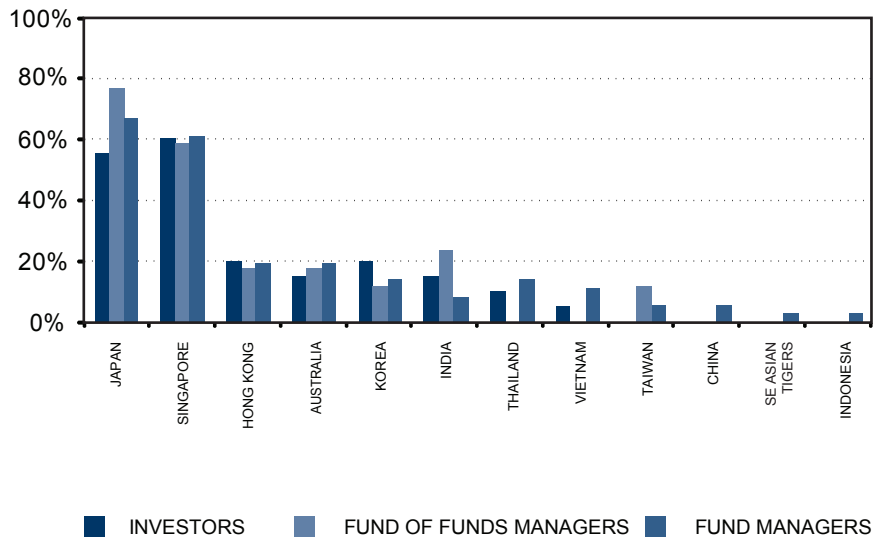
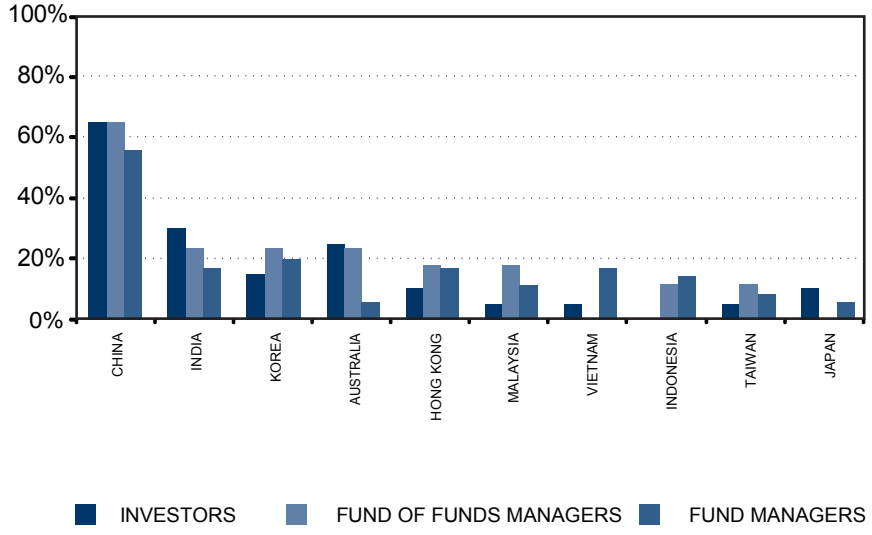


FIGURE 3 - ASIAN COUNTRIES LEAST AFFECTED BY THE CURRENT DOWNTURN



Use of debt in Asian non-listed property fund vehicles over the next two years

It is evident from the survey results that investors and managers alike intend to take a much more conservative approach towards the use of debt in Asian non-listed property fund vehicles going forward. The employment of debt in non-listed real estate funds had a significant impact on fund performance in the past. Leverage helps accentuate fund returns in a rising market in the same way it accentuates losses in a falling market.

FIGURE 4 - USE OF DEBT LEVELS IN ASIAN NON-LISTED PROPERTY FUND VEHICLES OVER THE NEXT TWO YEARS

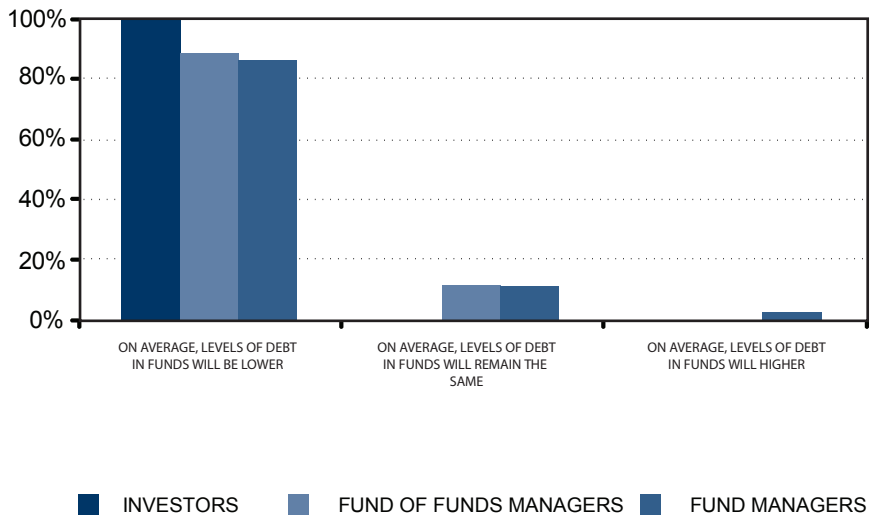
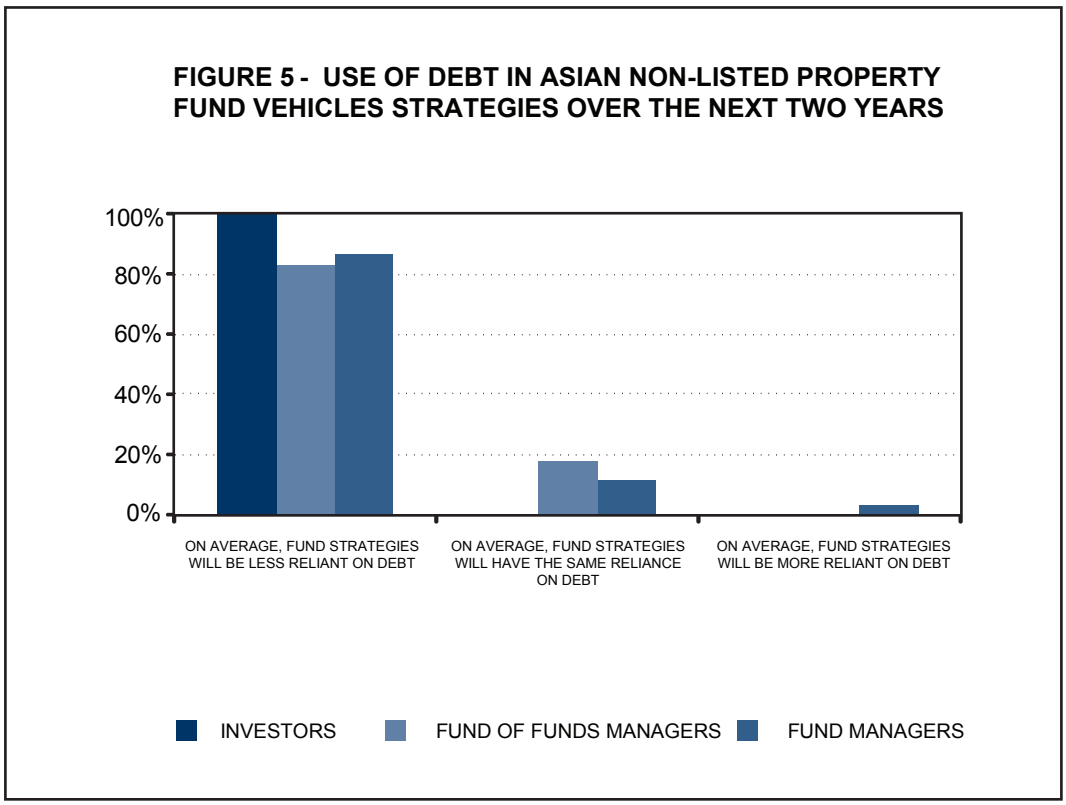
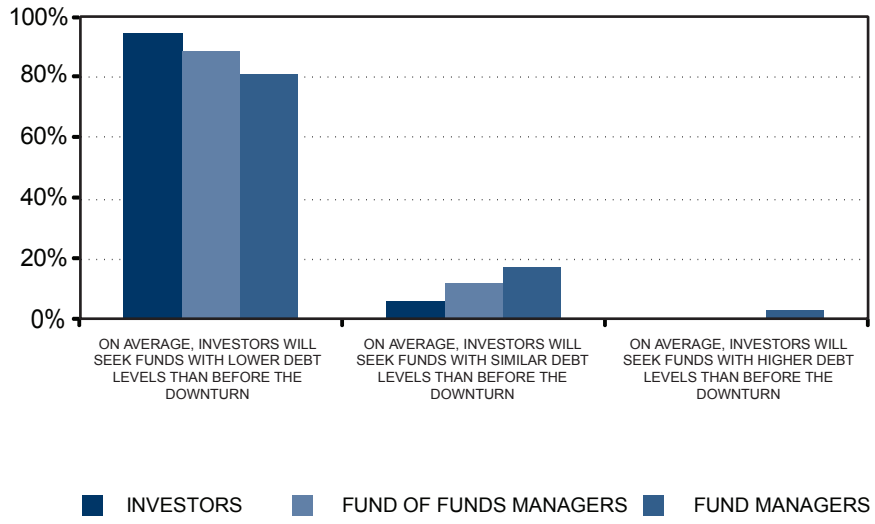


Figure 4 shows all investors believe that on average, debt levels in Asian non-listed property funds will be lower over the next two years. About 88% of fund of funds managers and 86% of fund managers also share this view with the balance indicating that on average, debt levels in funds will remain unchanged over the same period. This trend reflects expectations that the lack of debt available for financing is unlikely to ease in the short term. Not surprisingly, very few respondents expect an increase in the use of debt in Asian non-listed property fund vehicles over the next two years, whether that be in the level of debt used or the reliance on debt in fund strategies.



Figures 5 and 6 show a clear aversion by market participants towards the use of debt in Asian non-listed property fund vehicles. All investors believe that, on average, fund strategies will be less reliant on debt over the next two years. Around 89% of fund managers and 82% of fund of funds managers contributing to the survey were also of the same opinion. Some 18% of fund of funds managers and 11% of fund managers expect to see the reliance on debt in fund strategies remain unchanged (Figure 5).

FIGURE 6 - INVESTORS' APPETITE TOWARDS THE USE OF DEBT IN ASIAN NON-LISTED PROPERTY FUND VEHICLES OVER THE NEXT TWO YEARS



About 90% of investors and fund of funds managers anticipate that on average, investors will seek Asian non-listed property fund vehicles offering lower debt levels than before the downturn. To a slightly lesser extent, fund managers also share this view with 81% expecting investors to seek funds offering lower debt levels than before the downturn (Figure 6). It is interesting to note that banks are reducing the Loan To Value Ratios (LTVs) they will lend to at the same time investors seem to be demanding lower debt levels.

Asian real estate market and non-listed property market concerns over the next two years

Key issues identified by respondents as major areas of concern regarding Asian real estate markets and non-listed property fund markets in particular are outlined below:

1. ECONOMIC CONDITIONS

   Macro-economic factors have a major influence on performance for the real estate sector. Uncertainty surrounding the depth and duration of the current global downturn, the speed of recovery and the impact this will have on local Asian economies and real estate fundamentals, including export demands and consumption levels, were noted as significant issues. Respondents acknowledged a market turnaround can only take place once sustained economic growth is achieved.

2. IMPACT OF GOVERNMENT INTERVENTION

   The full effects of government intervention through capital injections and stimulus packages are yet to be fully played out. Investors and managers have expressed concerns over the market volatility from inefficiencies that result from government stimulus packages as well as any unforeseen consequences of such measures.

3. PROPERTY MARKET FUNDAMENTALS

   Property market performance is clearly one of the biggest concerns for investors and managers. The slowdown of major economies worldwide has affected to a large extent the outlook for the underlying real estate assets within the market. Respondents are most concerned with falling occupancy demand, rising vacancies, falling rents, over-supply in some markets and a mismatch between supply pipeline and future demand.

   Respondents also acknowledged the impact that deteriorating property market fundamentals have on property values going forward. Many highlighted valuations and the re-pricing process as one of their biggest concerns.

4. DEBT AND REFINANCING

   Investors and managers have raised debt as a major area of concern. Issues relating to the cost and availability of debt financing for new funds, dysfunctional credit markets, difficulties faced in refinancing of assets purchased at the peak of the market, and debt maturities in highly geared markets like Japan were all highlighted as issues. A number of respondents also expressed concerns over the ability of some funds to overcome debt issues with lenders without defaulting. Hence, management and availability of debt are major concerns for market participants going forward.

5. MARKET LIQUIDITY AND CAPITAL RAISING

The global financial crisis has dried up market liquidity to a large extent in Asia and globally. The industry is yet to see any real signs of improvement. For this reason, investors and managers have major concerns relating to the ability and time that will be taken to raise capital.

6. TRANSPARENCY AND CORPORATE GOVERNANCE

Apart from issues related directly to the current economic downturn, survey respondents expect factors such as a lack of market transparency, transparency of local laws and corporate governance issues, which have always been challenges faced by investors and managers, to persist over the next two years. However, it was observed that improvements to transparency and governance might result from the current difficulties over the long term.

7. NON-LISTED PROPERTY FUNDS STRUCTURE

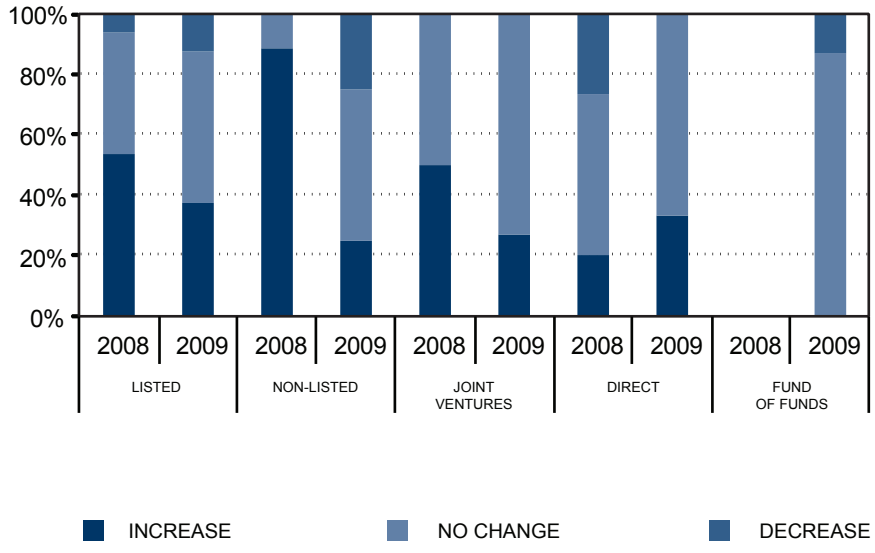
The property funds sector has been severely affected by the current market downturn. As investors and managers assess their losses and the trust given to GPs to make investment decisions that optimise investors' returns, a major challenge for the property funds industry in the next two years will be the successful restoration of trust and investor confidence in the sector. Respondents also highlighted the importance of board compositions and gaining a better understanding of who the co-investors are, as concerns have grown over the future viability of fund sponsors. Investors and managers expect to witness much closer scrutiny on fund terms, more rigid investment parameters and compliance thereof to prevent seeing a repeat of the losses that have been suffered during the current market downturn. Respondents also consider termination rights and exit strategies in less liquid markets to be an issue for the market over the next few years.

INVESTORS' FUTURE ALLOCATIONS

As at 31 December 2008, Asian real estate allocations accounted for 5.2% of investors' global portfolios on average, with a further 7.3% allocated to non-Asian real estate investments, including the domestic allocations in real estate by some investors. Note the sample of investors only included investors with a multi-asset class allocation. If target weights are achieved, real estate will make up 13.4%.

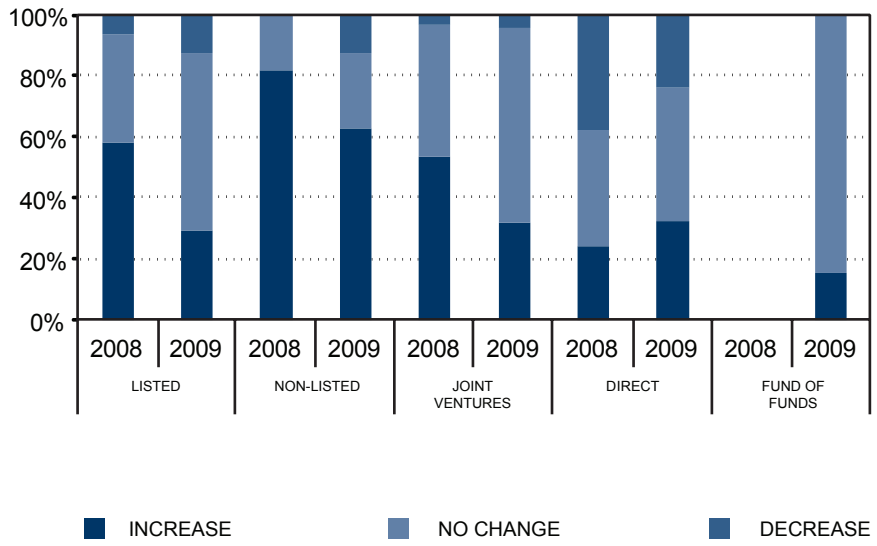
Figure 7 shows a large drop in the proportion of investors intending to allocate funds to Asian non-listed real estate funds over the next one to two years, falling from 88% in 2008 to 25%. A further 25% of respondents have signaled intentions to reduce their non-listed real estate fund allocations. Similarly, fewer investors anticipate increasing investments in joint ventures and listed real estate. In contrast, the appetite for direct real estate investments almost doubled amongst investors, with 33% of respondents expecting to increase their allocation to this form of investment compared to 20% last year. This increase can be partly attributed to more interest from investors in investments where they have more control, though direct real estate investments are typically restricted to those who can make larger capital commitments.

FIGURE 7 - INVESTORS' EXPECTED CHANGE IN REAL ESTATE ALLOCATION OVER THE NEXT ONE TO TWO YEARS



The survey results also mirror findings in the 2009 INREV Investment Intentions Europe Survey. The proportion of European investors that expressed intentions to increase allocations to real estate investments also fell across the board, with the exception of direct investment (Figure 8).

FIGURE 8 - EUROPEAN INVESTORS' EXPECTED CHANGE IN REAL ESTATE ALLOCATION OVER THE NEXT ONE TO TWO YEARS

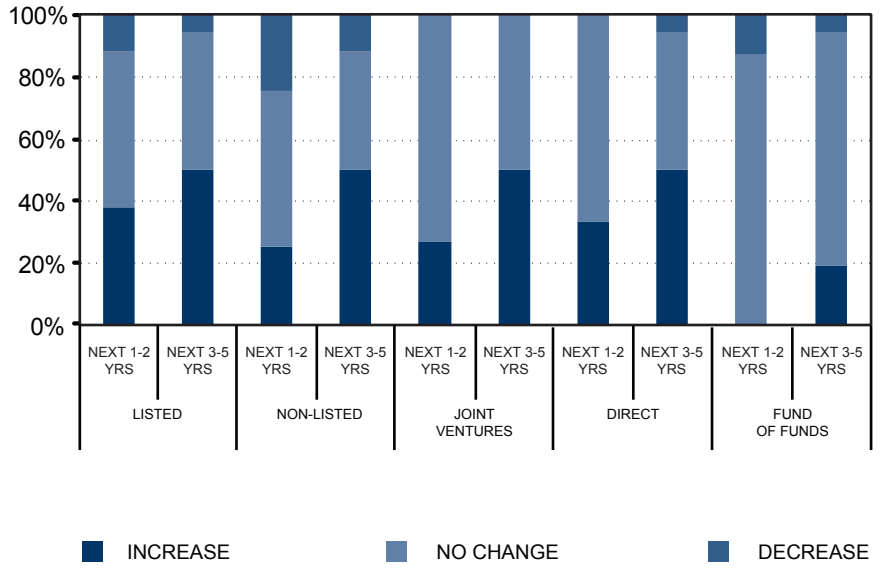


SOURCE: INREV INVESTMENT INTENTIONS SURVEY

For the first time, investors were also asked for their expected change in real estate allocations from a longer-term perspective, on a three- to five-year time horizon. Figure 9 indicates a higher proportion of investors intend to increase allocations to all real estate investment types over the medium term than in the short term. This is consistent with investors' expectations of a market recovery set to take place in 2010.

Figure 9 shows there are twice as many respondents intending to increase allocations in non-listed real estate fund investments over the medium term versus the short term. Similarly, a higher percentage of investors in this survey expressed intentions to increase allocations in joint ventures over the medium term than short term. The proportion of investors revealing intentions to increase allocations to other types of real estate investments (direct and fund of funds) over the medium term was around 19 percentage points higher than in the short term. Intention to increase allocations in listed real estate on the other hand was only 12 percentage points higher over the medium term compared to the short term.

FIGURE 9 - INVESTORS' EXPECTED CHANGE IN REAL ESTATE ALLOCATION - SHORT TERM VS MEDIUM TERM



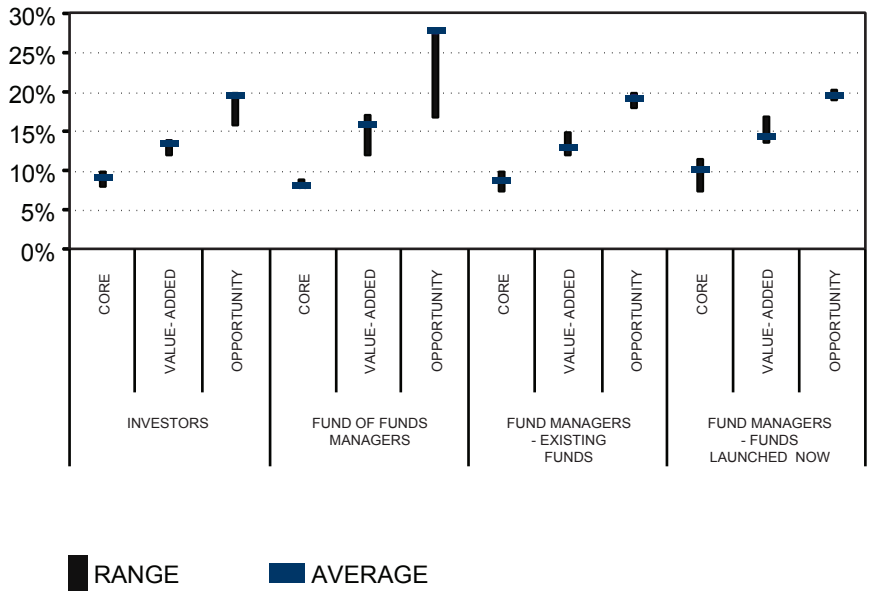
A closer examination reveals none of the Asia-based investors intend to increase allocations in Asian non-listed real estate over the next one to two years, as opposed to 30% of European investors and 50% of US investors. Interestingly, half of the Asia-based investors contributing to the survey intend to reduce allocations in non-listed real estate funds while the remaining half indicated allocations would remain unchanged over that period. Allocations by Asian investors look set to increase over a three- to five-year horizon, however, with 25% indicating such plans.

Few investors expressed intentions to reduce real estate allocations in the future. However, the results of both the Asian and European surveys suggest non-listed real estate investments have fallen in popularity amongst investors compared to the 2008 surveys. Around 24% of investors in Asia and 13% of investors in Europe are intending to lower allocations to non-listed real estate funds compared to none a year ago.

Target returns

Investors, fund of funds managers and fund managers were asked to break down their target Internal Rate of Return (IRR) by style. The average target IRR sought by investors for Asian non-listed real estate fund portfolios is 14%, compared to 10.4% last year. This year's average target IRR for Asia is also higher than the average target IRR of 10% that European investors are looking to achieve for their portfolios according to the INREV Investment Intentions Europe Survey 2009. The lowest and highest quartile of target IRRs set by investors, fund of funds managers and fund managers for different Asian non-listed real estate fund styles are presented in Figure 10.

FIGURE 10 - RANGE AND AVERAGE OF IRRS



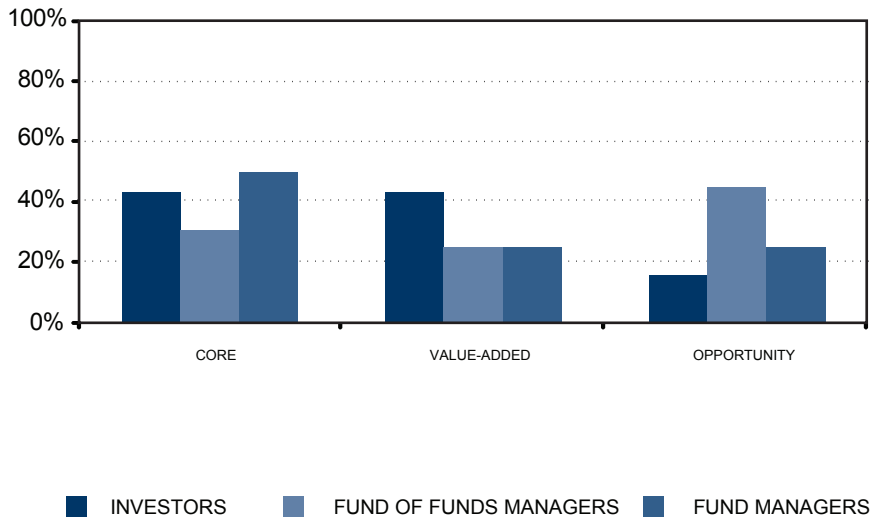
Investors have maintained a lower average target IRR compared to fund of funds managers for value-added and opportunistic funds for two consecutive years, reflecting the strong bias of institutional investors towards lower-yielding core products. Similar to last year's findings, fund of funds managers have the highest average hurdle rate of return for opportunistic funds at 28%, some 800 basis points higher than investors.

As shown in Figure 10, the average target IRR for new fund launches by fund managers are almost the same as those required by investors. In fact, the average target IRR is the same for core funds amongst investors and managers in this survey and there is only a 100 basis point difference between the two groups for value-added and opportunistic funds.

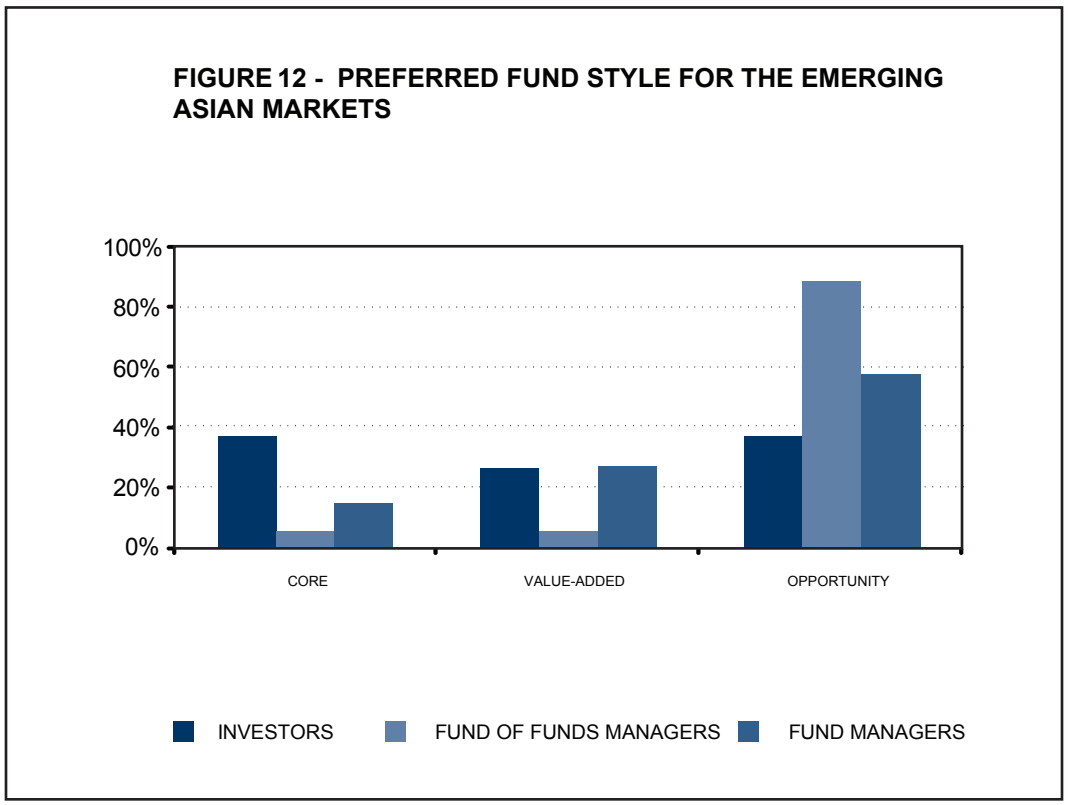
PREFERRED FUND STYLE AND TYPES

To gain a better insight of the preferred fund styles in Asia, respondents were asked to select their preferred fund style in both developed and emerging markets in the region. Opinions are divided between investors and fund of funds managers in terms of their preferred style and type of investment for the developed Asian markets. Figure 11 illustrates core and value-added funds are equally popular amongst investors, with 42% selecting them as their preferred style. The balance of respondents (16%) preferred opportunity funds for developed Asian real estate markets. This is understandable given investors are more likely to seek this style of product in emerging Asian markets. Interestingly, opportunity funds in developed Asian markets received the biggest vote amongst fund of funds managers, with 44% having the most interest in this fund style. The INREV Global Funds of Funds Database reveals most managers with global and Asian investments have higher-risk strategies.

FIGURE 11 - PREFERRED FUND STYLE FOR THE DEVELOPED ASIAN MARKETS



Fund managers were asked their views on what investors' preferred fund style would be. It is fair to say that fund managers have a sound understanding of the style that investors prefer, with the pattern of fund manager responses very much in line with those of investors. Half the fund managers also find investors are most interested in core funds for this segment of the market. The difference of opinion lies in their views on investors' preference towards opportunistic funds. According to 25% of fund managers in the survey, investors are most interested in opportunity funds in developed Asian markets, but only 16% of investors in this survey preferred this style of fund.



The preferred fund style amongst investors, fund managers and fund of funds managers deviates extensively in the emerging Asian markets, as illustrated in Figure 12. Not surprisingly for emerging markets, opportunistic funds received the highest vote as the preferred fund style for all three groups of respondents. However, the results suggest investors' views are split fairly evenly between the three styles of investment, with 37% of investors indicating a preference for core and opportunity funds and the remaining 26% opting for value-added funds. This shows that even when investing in emerging Asian markets, some investors prefer a risk-adverse approach. Conversely, fund of funds managers show a bias towards opportunistic funds with an overwhelming 88% of respondents selecting it as their preferred fund style of investment.

The survey results suggest a greater proportion of US-based investors, fund managers and fund of funds managers prefer value-added and opportunistic funds than their Asia- and Europe-based counterparts. Around 77% of US-based respondents preferred either value-added or opportunistic funds in developed Asian markets compared to approximately half of the Asia- and Europe-based respondents. For the emerging Asian markets, all respondents based in the US preferred value-added or opportunistic funds, while 23% of Asian respondents and 27% of European respondents showed a preference for core funds.

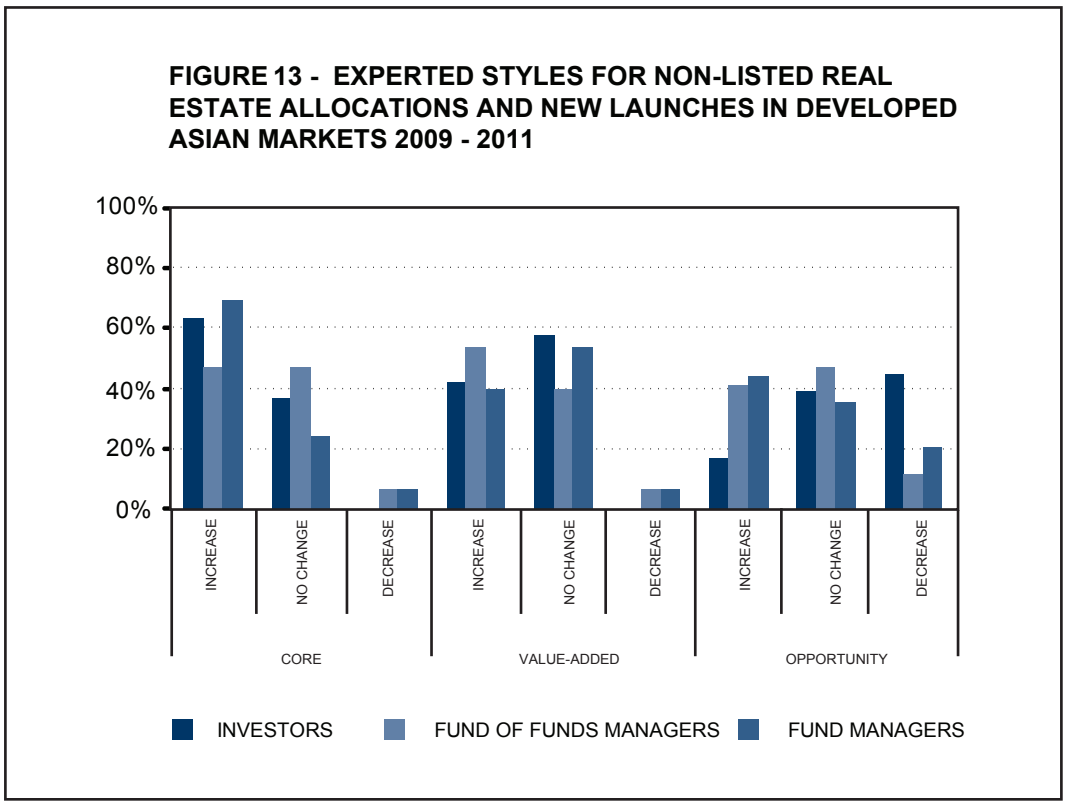
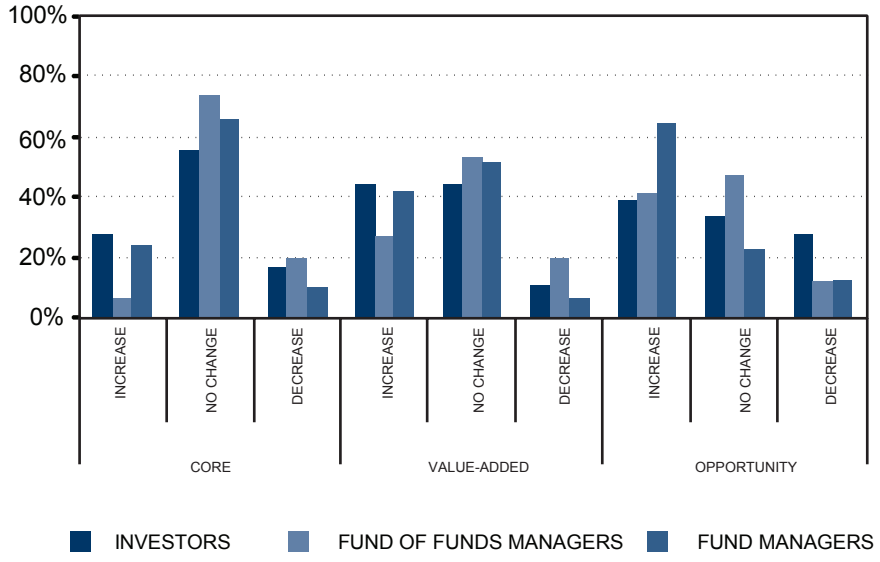


Figure 14 shows the intentions of investors and managers in terms of their non-listed real estate fund allocations in developed Asian markets by fund style over the next two years. On the whole, investors intend to either increase or maintain current levels of allocations in all fund styles over the next couple of years, especially in core and value-added, and to a lesser extent, opportunistic funds. The majority (63%) of investors intend to increase their allocation to core funds over the next two years and the remaining 37% stated their allocation would remain unchanged. Heightened interest in core funds comes at the expense of opportunistic funds with 44% of investors intending to reduce their allocation over the next two years.

A number of investors are showing a clear aversion towards opportunistic funds, which are typically associated with a higher level of risk. It is also probable that investors have acknowledged that core funds are in the best position to take advantage of the heavy discounting of investment-grade assets that has taken place as part of the re-pricing process during the current downturn and therefore see greater value in core funds over the next two years.

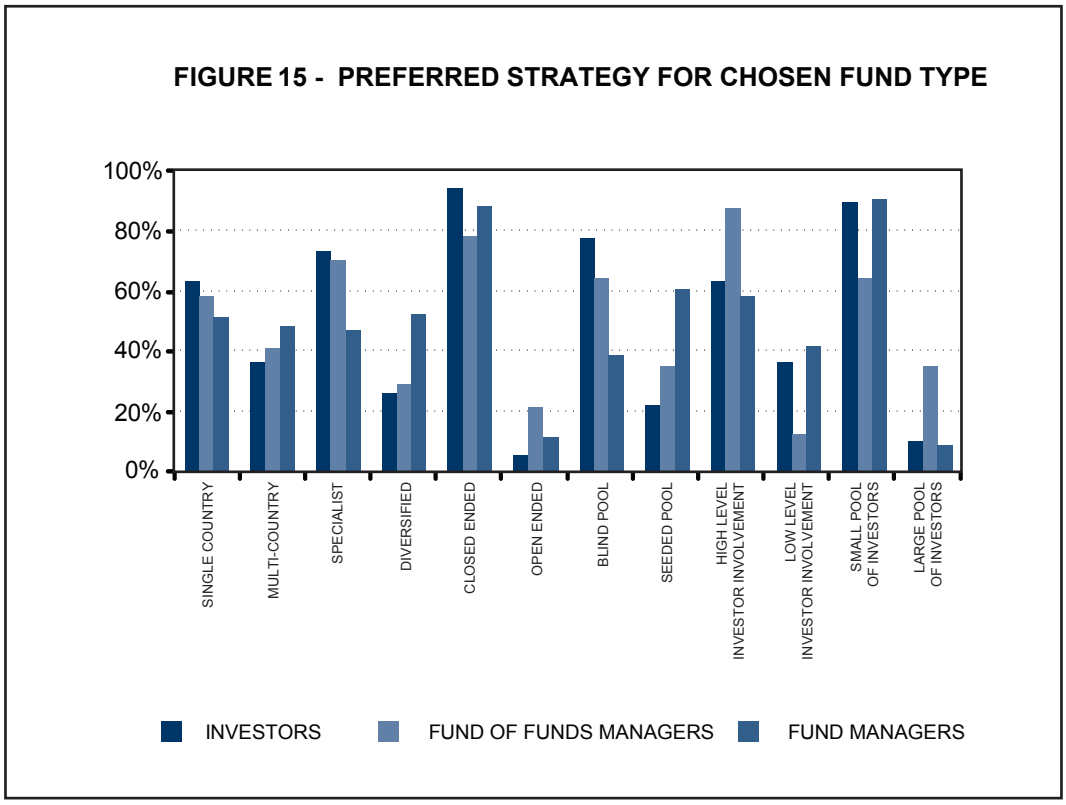
Figure 14 shows a lower percentage of respondents intend to increase their allocation to core funds in emerging Asian markets. However, this is probably a product of the lack of core funds available for investment in these markets and the likelihood of investors seeking value-added or opportunistic funds in emerging markets. Therefore, it is not surprising that the percentage of investors and fund of funds managers intending to increase allocations to core funds in emerging Asian markets is significantly lower than in developed Asian markets.

FIGURE 14 - EXPECTED STYLES FOR NON-LISTED REAL ESTATE ALLOCATIONS AND NEW LAUNCHES FOR EMERGING ASIAN MARKETS 2009 - 2011



What is apparent is that investors active in Asian non-listed real estate markets tend to seek fund styles offering a lower level of risk even in the emerging markets, with 44% of investors intending to increase their allocation to value-added funds as opposed to 39% seeking higher exposure to opportunistic funds over the next two years. Fund managers may wish to take note of this preference, as survey responses show only 42% intend to increase allocations to value-added funds as opposed to the 65% planning to increase new fund creations in opportunistic funds. If this scenario was to eventuate, the Asian non-listed real estate fund industry may be faced with an over-supply of opportunistic funds and an under-supply of value-added funds in a few years' time (Figure 14).

The survey results indicate the majority of Asia- (65%) and Europe- (76%) based respondents intend to increase allocations to core non-listed real estate funds in the developed Asian markets over the next two years. In contrast, 64% of US-based respondents have no intentions to change their allocations to core funds in the developed Asian non-listed real estate markets, whilst 72% expressed intentions to increase allocations to opportunistic funds in the emerging Asian non-listed real estate markets.



The survey also asked investors and managers to select their preferred strategy for fund investment. The responses to this question are similar to those from last year, where the vast majority of respondents showed a strong preference for closed-ended, specialist funds with a high level of investor involvement, investing in single-country funds with a small group of investors. Few investors showed interest in fund strategies with a mandate to invest in multi-country, diversified, open-ended, seeded funds with a low level of investor involvement.

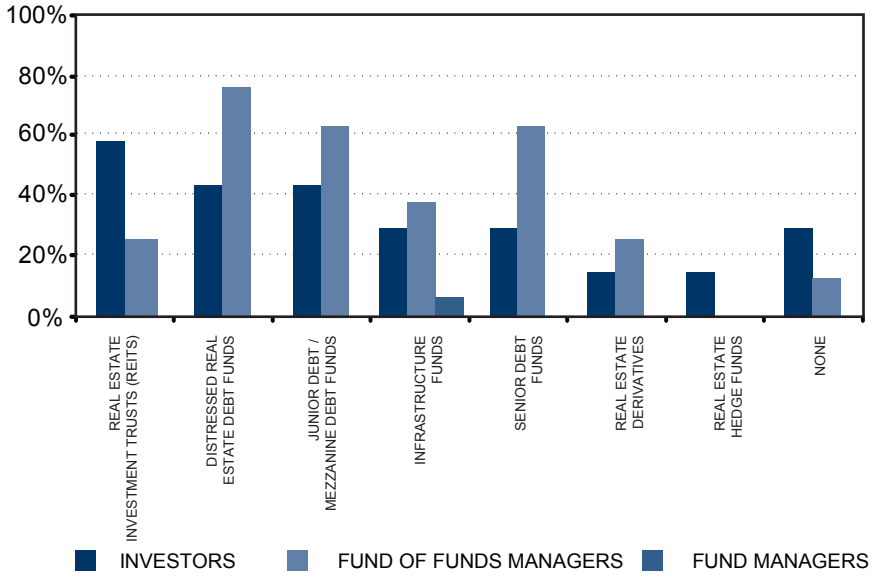
There has been a shift in preferences from last year in terms of size of investor pools. The 2008 results suggest preferences were split fairly evenly between small and large pools of investors, but this year there is a clear trend towards a small pool strategy (Figure 15). This pattern reflects a shift in investors' preference towards Asian non-listed real estate funds that are less complicated in structure, give investors more control and promote an alignment of interest.

Other types of real estate investment

For the first time, participants were asked if other forms of real estate investment and infrastructure formed part of their mandate. Respondents could choose as many options as relevant. As illustrated in Figure 16, real estate investment trusts are used by more than half of the investors in this survey, followed by distressed real estate debt funds, junior debt (mezzanine debt funds) and infrastructure funds, each forming a part of the investment process for 29% to 43% of investors.

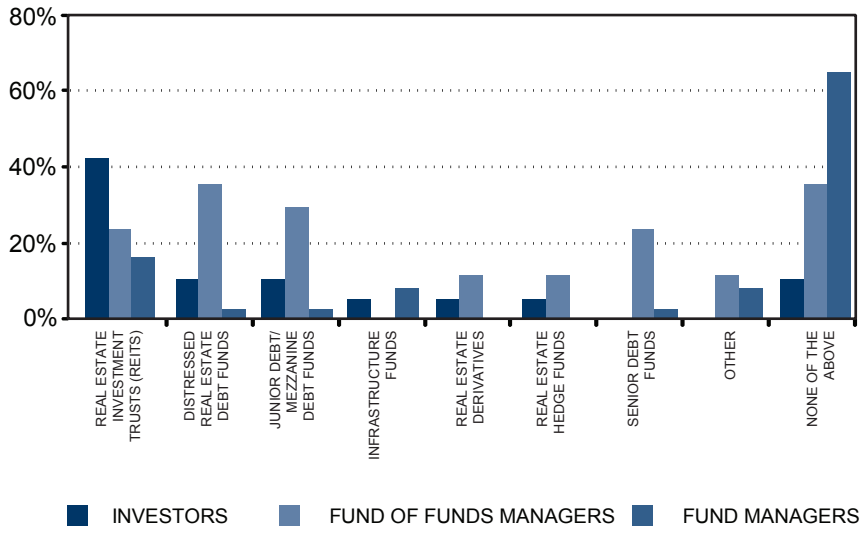
A large proportion of fund of funds managers have mandates that include real estate debt investment products, with 63% to 75% of respondents including distressed real estate debt funds, junior debt (mezzanine debt funds) and senior debt funds as part of their Asian non-listed real estate investment process (Figure 16).

FIGURE 16 - OTHER TYPES OF REAL ESTATE INVESTMENTS BY INVESTORS AS PART OF THEIR ASIAN NON-LISTED REAL ESTATE INVESTMENT PROCESS



Approximately 90% of investors in this survey have already made investments in other types of real estate. In contrast, 65% of fund managers do not offer these types of real estate investment. There are also notable differences in the types of investments made between investors and fund of funds managers. Real estate investment trusts are by far the most popular, with about 40% of investors active in Asia already exposed to this form of real estate investment (Figure 17) while a greater proportion of fund of funds managers are exposed to distressed real estate debt and mezzanine debt (Figure 17).

FIGURE 17 - INVESTMENTS AND FUND OFFERINGS IN OTHER TYPES OF ASIAN REAL ESTATE INVESTMENTS



It is evident that investors and fund of funds managers demand other types of real estate investment products in Asia. Despite this, Figure 17 shows most managers do not offer funds in other forms of real estate investments. Furthermore, Figure 18 indicates an unlikelihood of fund launches of this kind by the vast majority of fund managers.

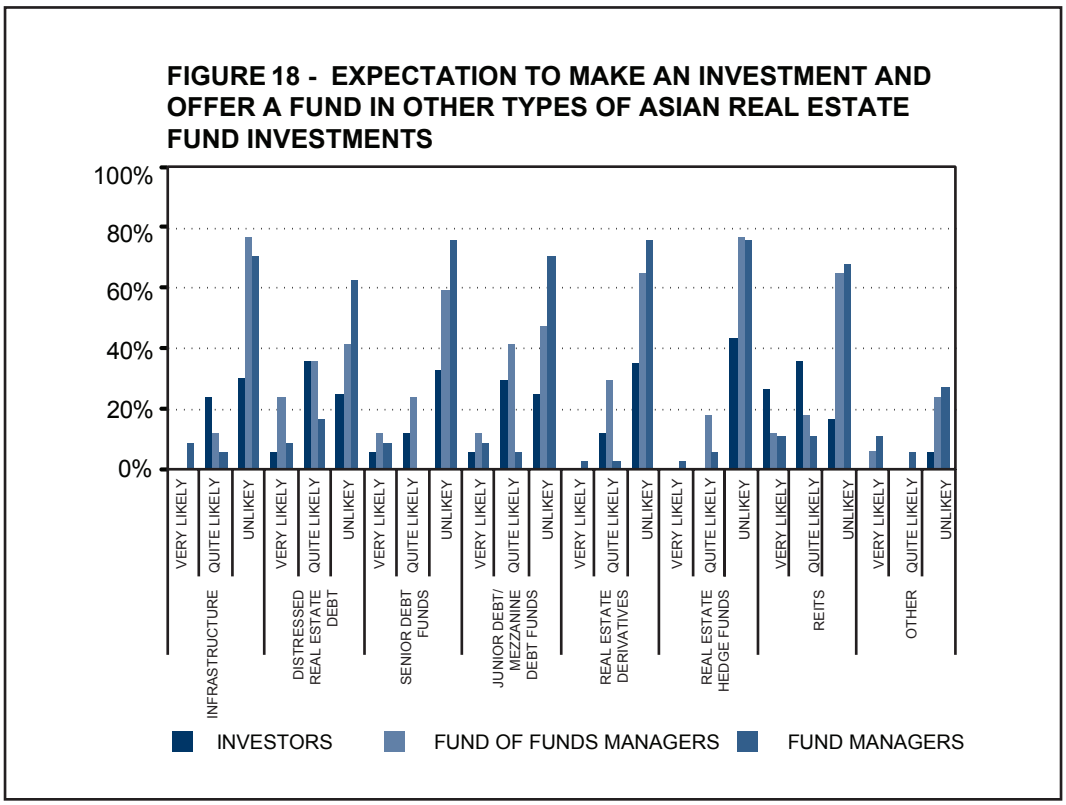


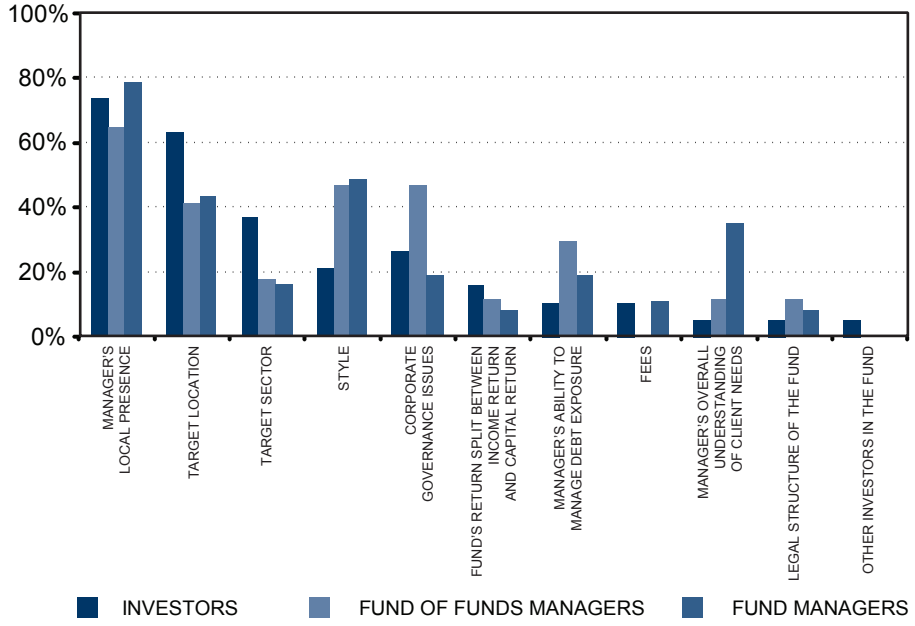
Figure 18 provides an outlook for investment by investors and fund of funds managers in other forms of real estate investment. It also depicts the likelihood of fund managers launching these types of funds. The study shows Asia-based investors have a higher tendency to consider other types of real estate investments than their European counterparts. This could be partly due to the rapid development of Asian real estate investment markets, making investors more open to other types of real estate investments.

CRITERIA FOR INVESTMENT

A manager's local presence remains the most important criteria for fund selection in Asia in this year's survey amongst 74% of investors and 65% of fund of funds managers, the highest of all considerations. Fund managers also recognise the significance of having a local presence for investors in the creation of Asian funds, with the vast majority (78%) indicating it to be the most important criteria. A breakdown of the survey responses based on the respondents' regions of origin results in a similar outcome, whereby 79% of Asia-based respondents, 65% of Europe-based respondents and 83% of US-based respondents considered a manager's local presence the most important criteria for fund selection in Asia.

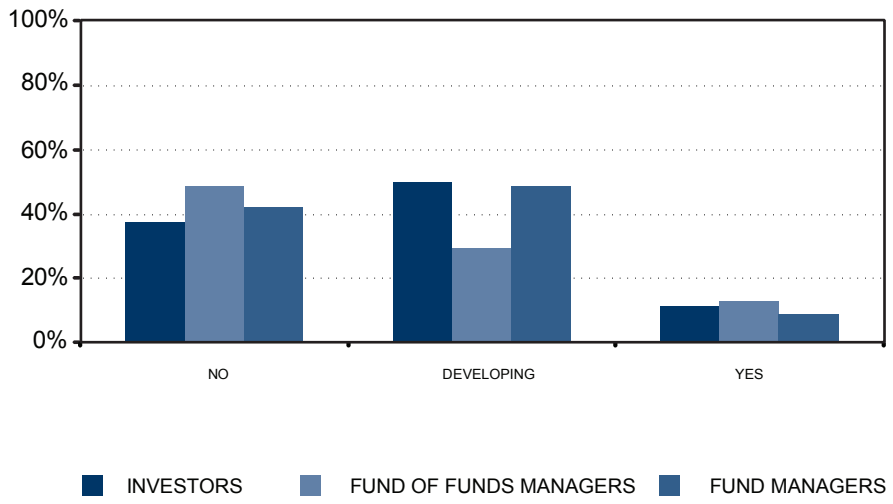
As shown in Figure 19, target location has become one of the most important attributes for fund selection in Asia, according to 63% of investors, up 34 percentage points from last year. This may be the result of the diverse nature of different countries open to investors in the region. An examination of the results based on region of origin indicates 'target location' is more important amongst Europe- and US-based participants than those based within the region. Target sector also ranks highly as the most important criteria for fund selection amongst 37% of investors. Almost half of the fund of funds mangers considered style and corporate governance issues as the most important criteria for fund selection in Asia, compared to only 26% of investors who share the same view.

FIGURE 19 - MOST IMPORTANT CRITERIA FOR FUND SELECTION IN ASIA



As concerns surrounding environmental issues continue to grow along with the development of environmentally sustainable practices across the real estate industry, this year's survey was extended to capture the investment intentions of investors and managers from an environmental perspective. Respondents were asked if they have a minimum environmental performance investment criterion in place when investing, or creating certain funds for investment.

FIGURE 20 - PRESENCE OF A MINIMUM ENVIRONMENTAL PERFORMANCE INVESTMENT CRITERIA IN INVESTING OR CREATING FUNDS FOR INVESTMENT

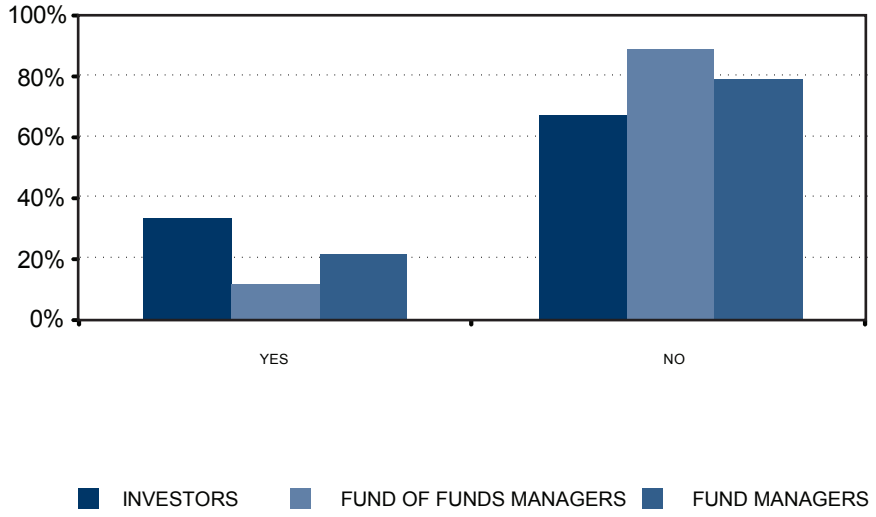


The survey results indicate minimum environmental performance will form part of the investment criterion by investors in the future. Figure 20 shows half of the investor respondents are in the process of developing a minimum environmental performance investment criterion for non-listed real estate fund investment in Asia. With another 11% of investors having minimum environmental performance standards as a criterion for investment already, a total of 61% of investors will seek fund investments that offer minimum environmental performance.

Minimum environmental performance appears to be of less concern to fund of funds managers. Over the long term, less than half of the fund of funds managers will require minimum environmental performance standards as shown in Figure 20. Only 29% of respondents are in the process of developing such a requirement for fund investment into Asian non-listed real estate vehicles with a further 12% already having this requirement in place.

Asia-based investor respondents take the lead in addressing environmental issues, with 67% indicating they have already developed or are in the process of developing minimum environmental performance criteria for fund investment in Asia non-listed real estate vehicles. This compares to 58% of Europe-based investors and 29% of US-based investors. Asia-based fund managers appear most prepared to meet the growing demand for fund products that offer minimum environmental performance standards, with 42% developing this feature in their Asian non-listed real estate fund products.

FIGURE 21 - LONGER TERM INTENTIONS TO REBALANCE PORTFOLIOS BY INVESTING IN ONLY ENVIRONMENTALLY CERTIFIED BUILDINGS OR A FUND OF GREEN BUILDINGS



There are notable differences amongst respondents as to their longer-term investment intentions in funds that offer only environmentally certified buildings or a fund of green buildings. According to Figure 21, 33% of investors have longer-term intentions to rebalance their portfolios by investing in only environmentally certified buildings or certain funds of green buildings. In contrast, only 12% of fund of funds managers and 22% of fund managers share the same intentions to invest or create only environmentally certified buildings or certain funds of green buildings.

BEST SECTORS AND ALTERNATIVE SECTORS IN ASIA

The survey asked respondents to identify up to three location and sector combinations they find most appealing in Asia. China, Australia and Japan were identified as locations most preferred amongst the respondents in this survey. Figure 22 shows eight of the top ten location and sector combinations preferred by the survey respondents comprise one of these countries. China takes the top two location-sector preferences amongst investors, with China residential preferred by 45% whilst China retail was preferred by 35% of investors.

The combination of China retail, Australian office and Japan office investments attained the most votes amongst fund of funds managers, with each selected by 41% of respondents as most appealing. The highest proportion of fund managers also picked Japan office investments as most appealing. Equally favoured amongst 33% of fund managers is China residential.

Even though respondents have indicated preferences for certain fund styles for both the developed and mature markets, the findings are not necessarily aligned with the location-sector combinations selected. In the case of investors, core funds were clearly the preferred style of investment in developed Asian markets and, to a lesser extent, in emerging markets. However, the most popular location-sector combinations selected by investors are typically associated with value-added or opportunity funds. Fund of funds managers indicated a higher preference for opportunity funds, yet their preferred location-sector combinations tend to be contained in core funds.

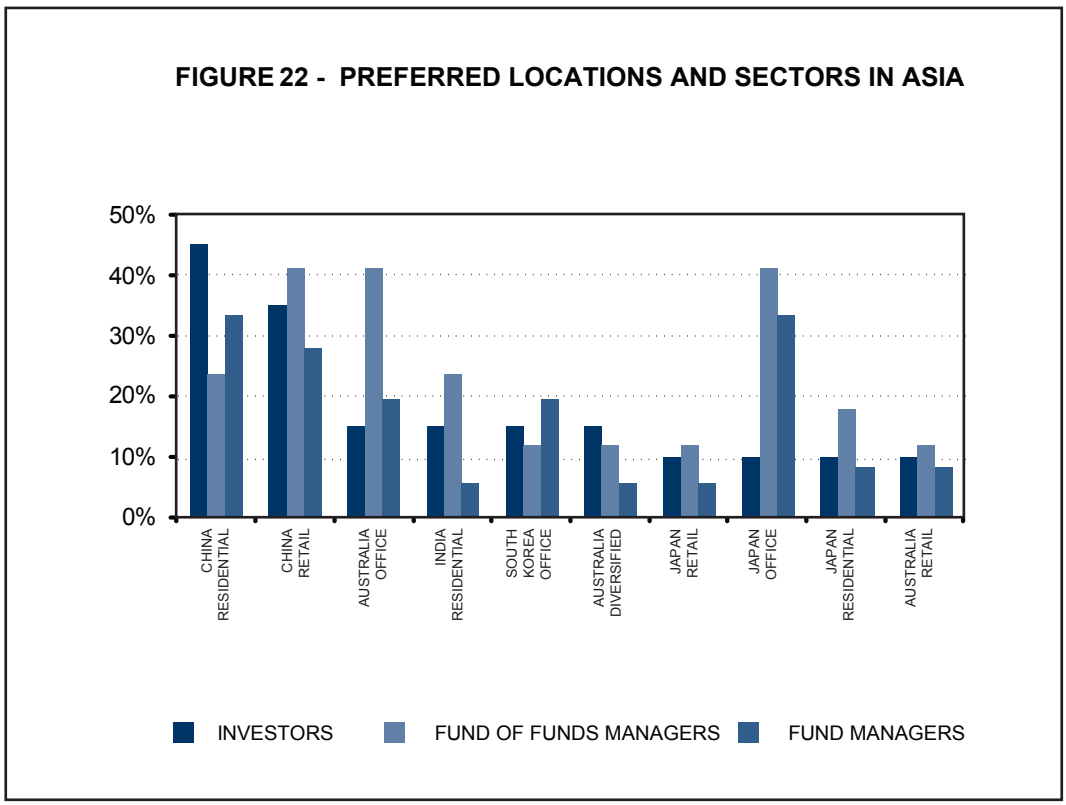
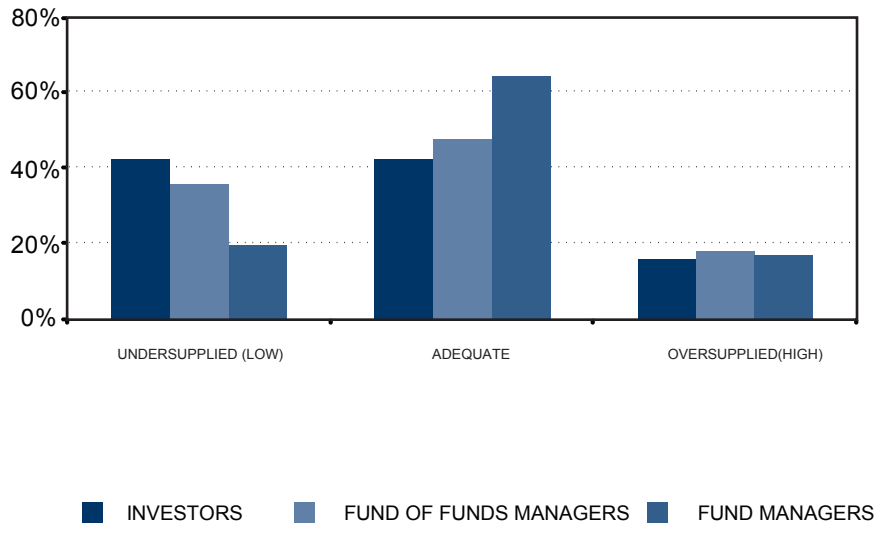


FIGURE 22 - PREFERRED LOCATIONS AND SECTORS IN ASIA
50%
40%
30%
20%
10%
0%
CHINA RESIDENTIAL
CHINA RETAIL
AUSTRALIA OFFICE
INDIA RESIDENTIAL
SOUTH KOREA OFFICE
AUSTRALIA DIVERSIFIED
JAPAN RETAIL
JAPAN OFFICE
JAPAN RESIDENTIAL
AUSTRALIA RETAIL
INVESTORS
FUND OF FUNDS MANAGERS
FUND MANAGERS

The demand and supply of non-listed real estate fund products in Asia are in equilibrium, according to 54% of all respondents in this survey. Around 42% of investors are of the opinion there is adequate supply of products in their favoured markets. At the same time, 64% of fund managers feel there is sufficient interest from investors when launching new funds (Figure 23).

About 40% of investors and 35% of fund of funds managers contributing to this survey feel there is an under-supply of non-listed real estate fund products in their desired Asian markets. This may be partly explained by the relatively immature non-listed property funds industry that exists in the Asian region. Alternatively, it may also be linked to market issues such as lack of suitable stock.

FIGURE 23 - SUPPLY OF PRODUCTS AND INTEREST FROM INVESTORS IN FAVOURED MARKETS

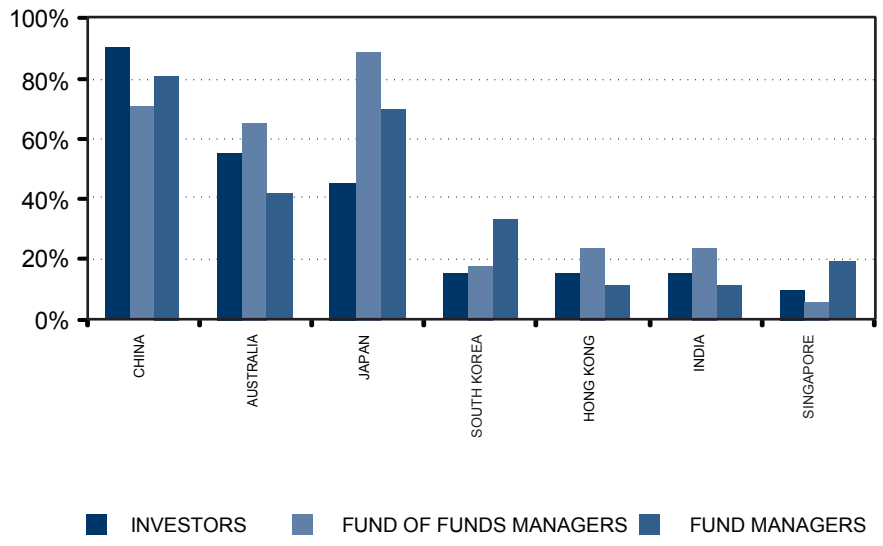


BEST LOCATIONS IN ASIA

Based on the respondents' selection of the most appealing Asian markets for non-listed real estate funds investment, China offers the most appealing location according to the vast majority of investors (90%) surveyed. Some 81% of fund managers also share this view, while 88% of fund of fund managers rated Japan as the top draw (Figure 24). Around half of the investors and fund of funds managers surveyed rated Australia and Japan as the most appealing location in terms of performance prospects in Asia.

With the exception of China, investors generally appear to have a lower regard than fund of funds managers or fund managers on the prospect of other Asian markets delivering target performances. Other Asian countries identified as locations likely to deliver top fund performances include South Korea, Hong Kong, India and Singapore.

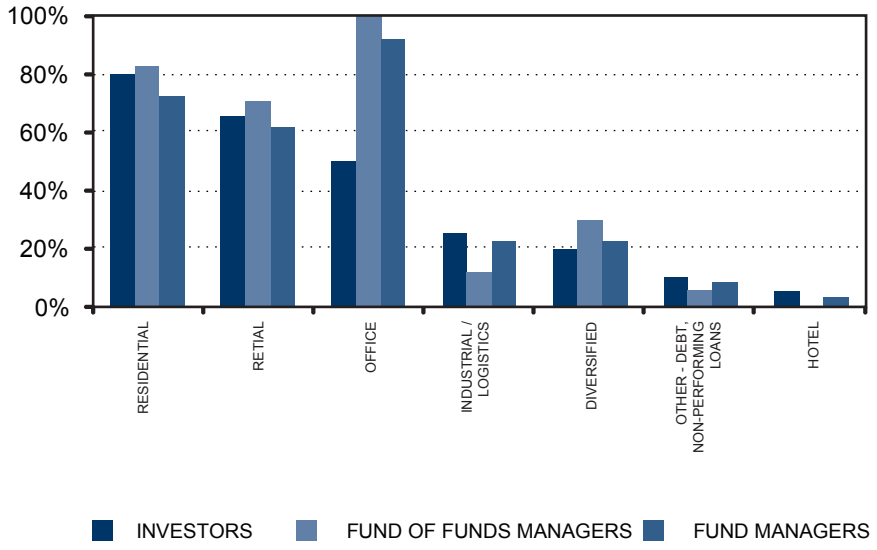
FIGURE 24 - PREFERRED LOCATIONS IN ASIA



BEST SECTORS IN ASIA

Amongst investors, the residential and retail sectors are most preferred at 80% and 65% respectively, as illustrated in Figure 25. The office sector received the most votes from fund of funds managers and fund managers as the sector to offer the best prospects for delivering top performance. It should be noted the survey asked respondents to specify the most appealing location and sector combination for 2009. For this reason, the results for the preferred sector were influenced by the preference of location.

FIGURE 25 - PREFERRED SECTORS IN ASIA



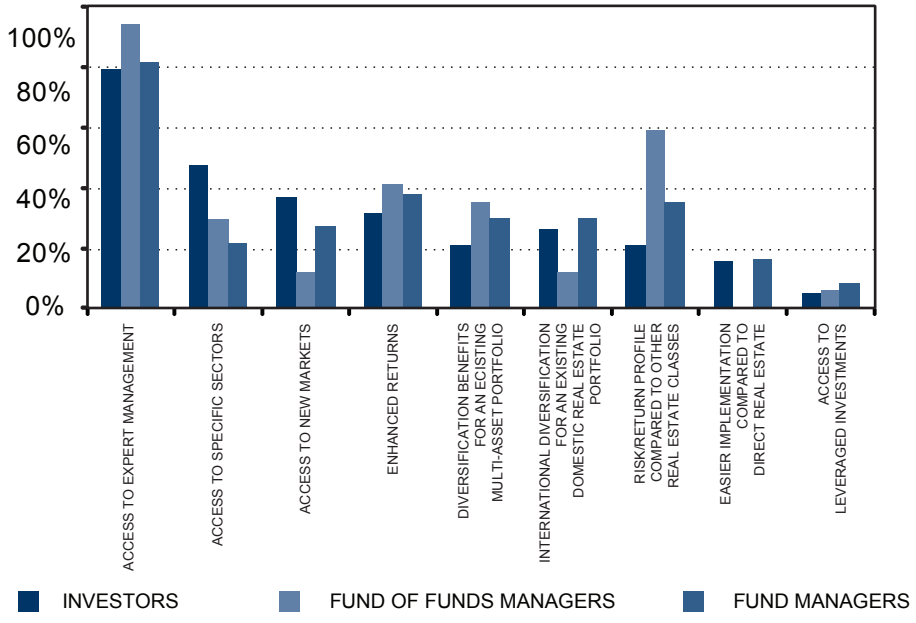
PROS AND CONS OF INVESTING IN NON-LISTED REAL ESTATE

Access to expert management remains the key reason for investing in Asian non-listed real estate funds, according to most respondents in this year's survey. The Asian real estate investment universe offers a diverse range of products for institutional investors, which partly explains the importance of finding expert management (Figure 26).

The risk-return profile of Asian non-listed real estate funds compared to other real estate classes is less of an incentive for investors in this year's survey compared to a year ago. Around 20% of investors were enticed to invest in Asian non-listed real estate funds because of the risk-return profile these products offered as opposed to 43% last year. Interestingly, the trend is reversed for fund of funds managers, where 59% cited the risk-return profile as motivation for investment compared to 29% last year.

When the INREV Investment Intentions Europe Survey was first launched in 2004, a significant proportion of investors cited the benefits of diversification, which gradually evolved to risk-return being more important. The trend is now reversing as investors in all asset classes, not just real estate, feel the impact of the global financial crisis and become more wary of the added risks associated with higher target returns.

FIGURE 26 - REASONS FOR INVESTING IN ASIAN NON-LISTED REAL ESTATE FUNDS



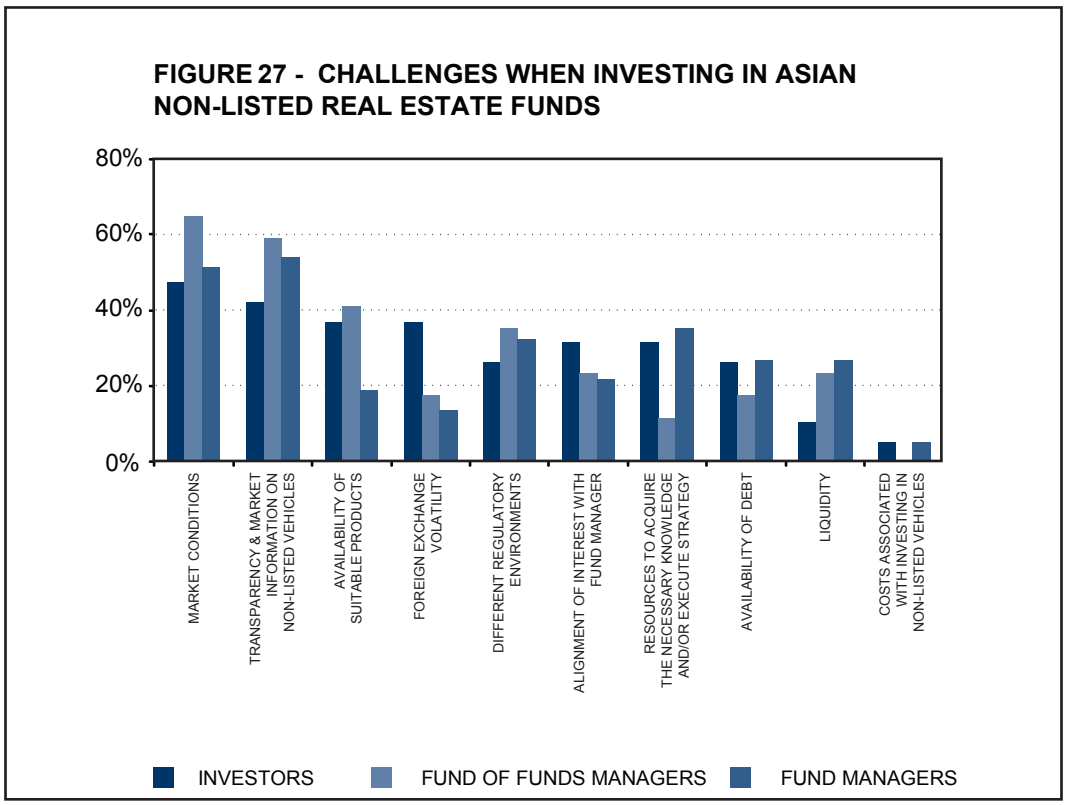


Figure 27 shows current market conditions and a lack of market transparency and information, which AREA is focused on improving, are perceived to be the main obstacles for investment according to all three groups – investors, fund of funds managers and fund managers. This finding is consistent with the results from last year's survey as well as those from the INREV Investment Intentions Europe Survey 2009.

Interestingly, almost 40% of investors perceive the availability of suitable products as an obstacle when investing in Asian non-listed real estate funds. This outcome mirrors an earlier survey finding where 42% of investors thought there was an under-supply of fund products in their favoured markets and a further 16% thought there was an over-supply of fund products in their favoured markets (Figure 23).

Other issues included in this year's survey also proved to be barriers to investment for the respondents. Around one-third of investors and managers indicated that different regulatory environments are a key reason for not investing in the non-listed real estate funds industry in Asia. Interestingly, the percentage of US-based respondents (61%) who share this view was three times higher than their Asia- and Europe-based counterparts, or 21% and 23% respectively. Although 35% of investors also cited foreign exchange volatility as an obstacle for investing in this market, this factor was viewed as less important by fund of funds managers and fund managers, with 18% and 14% making this selection respectively.

APPENDICES:

1. RESPONDENTS

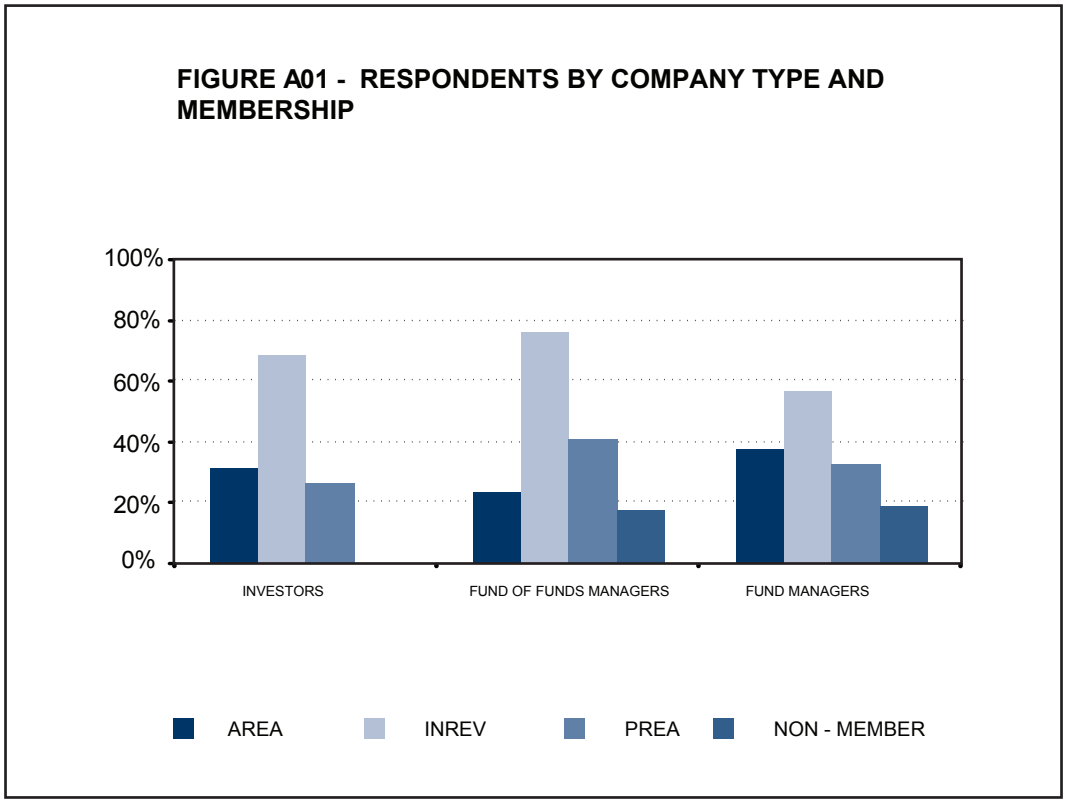


FIGURE A02 - RESPONDENTS BY REGION OF ORIGIN

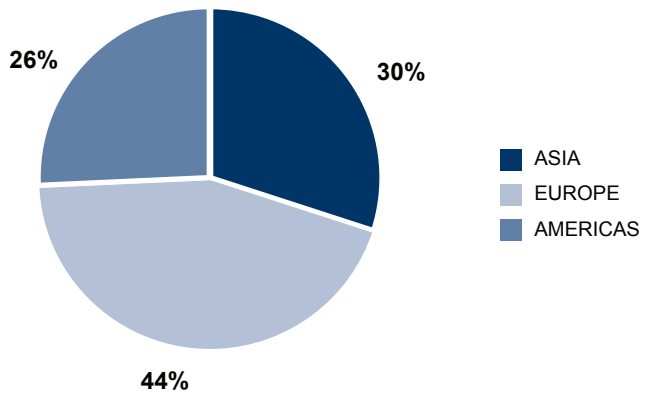
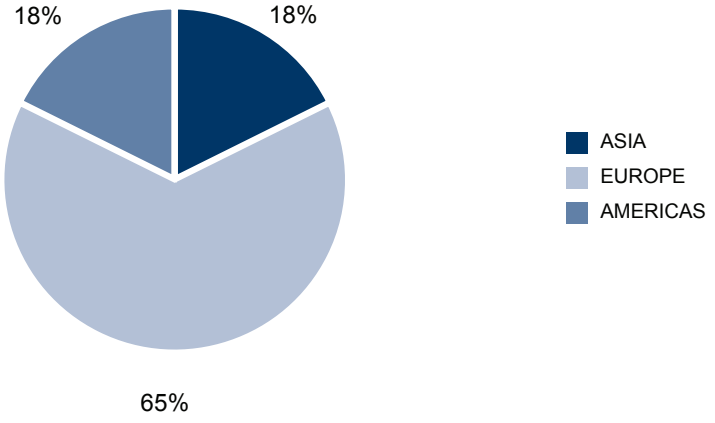
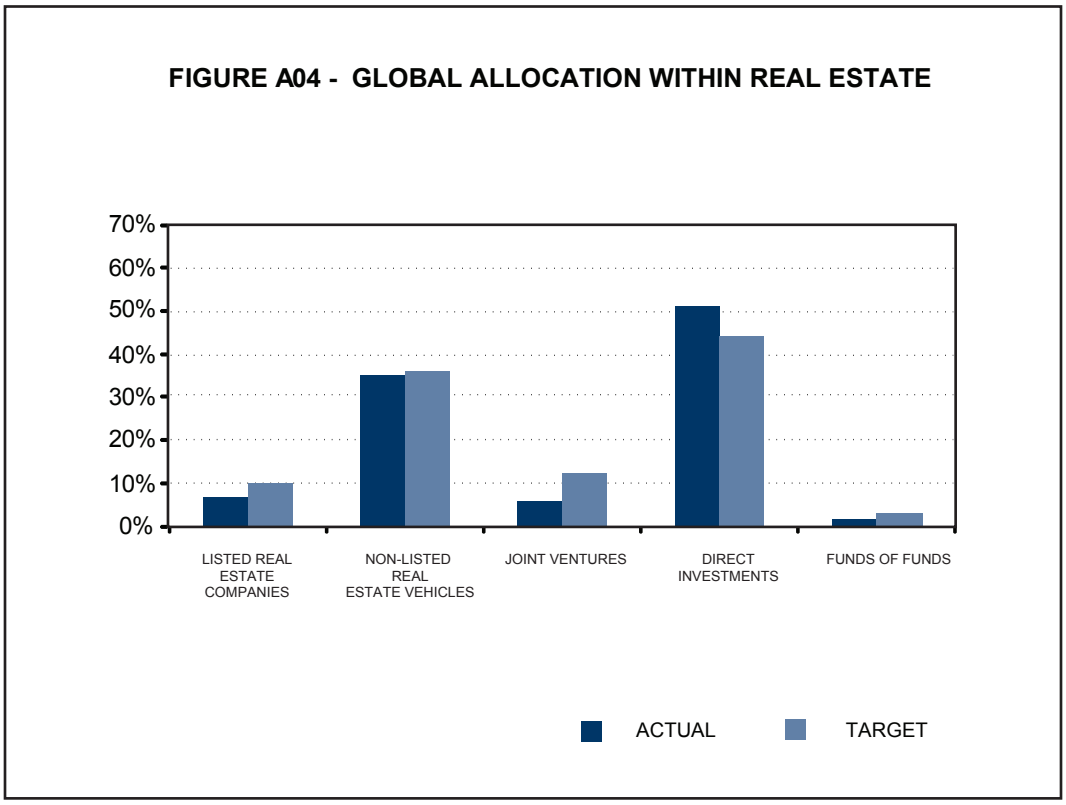


FIGURE A03 - INVESTOR RESPONDENTS BY REGION OF ORIGIN



Institutional investors



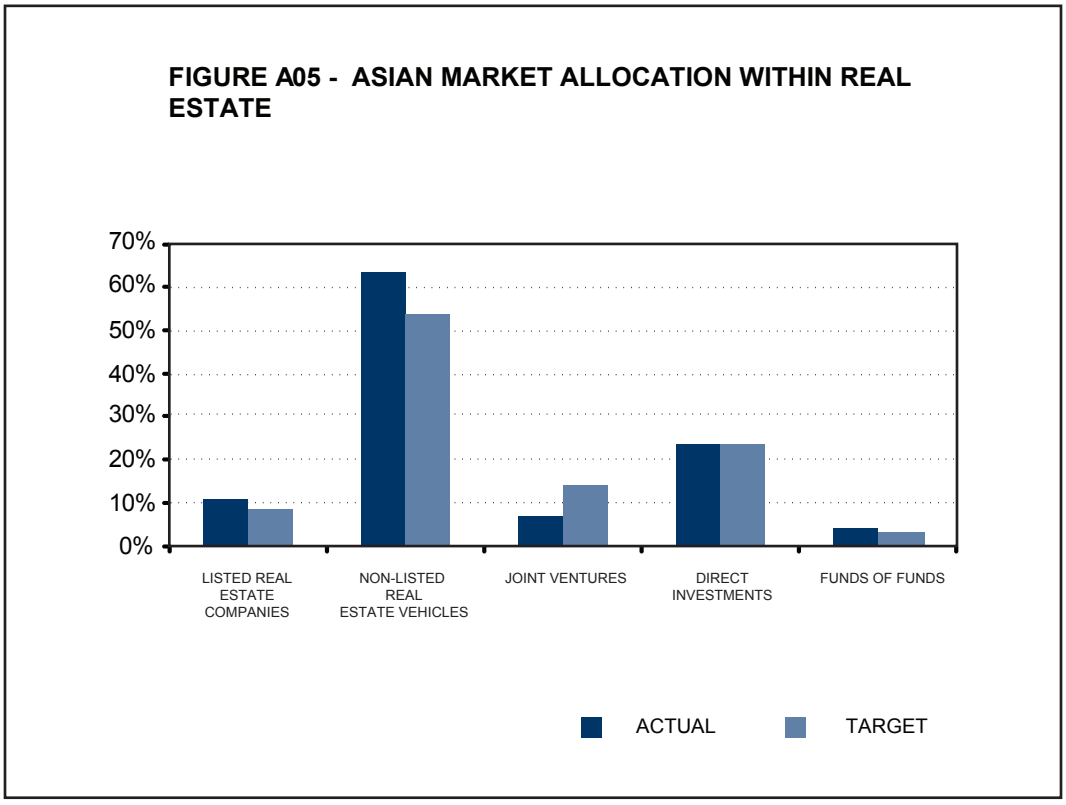


FIGURE A06 - ASIAN REAL ESTATE ALLOCATION - BY GEOGRAPHY

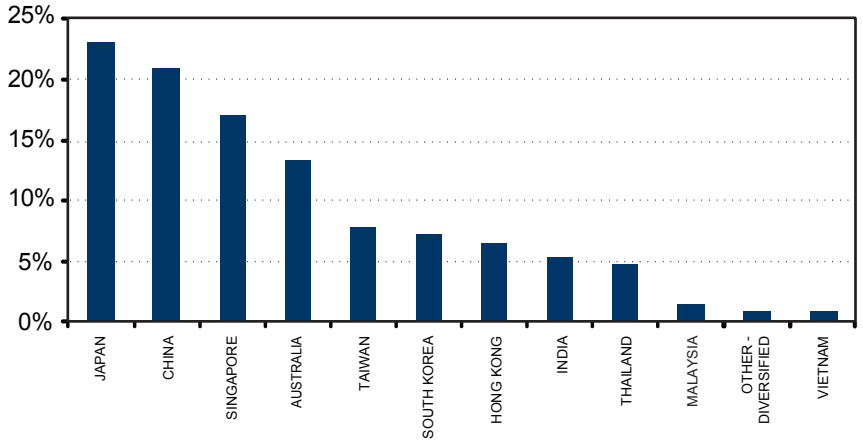


FIGURE A07 - ASIAN REAL ESTATE ALLOCATION - BY SECTOR

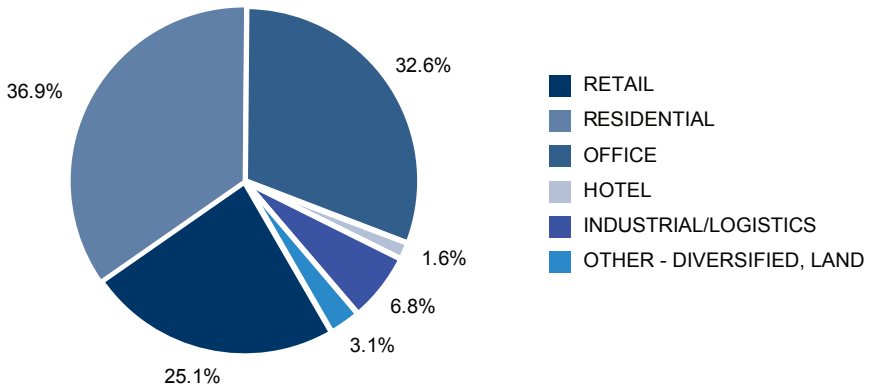


FIGURE A08 - ASIAN NON-LISTED REAL ESTATE FUND ALLOCATION - BY STYLE

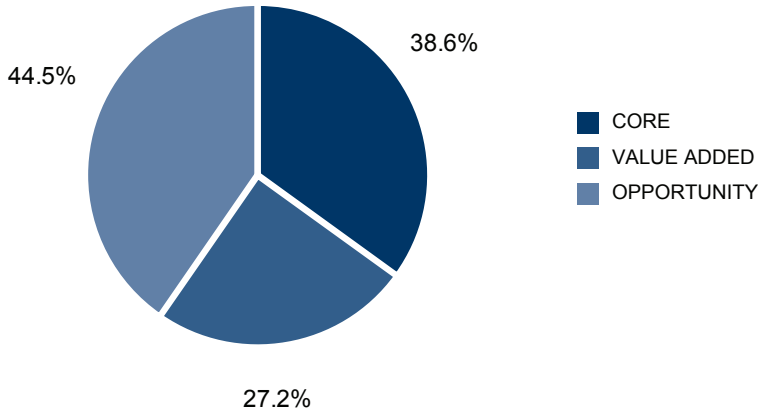
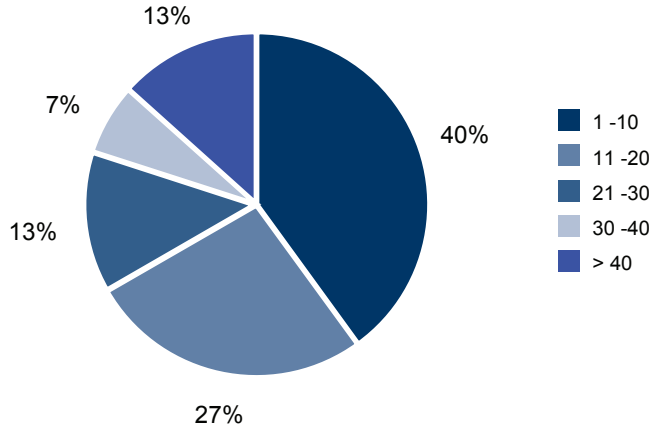


FIGURE A09 - NUMBER OF NON-LISTED REAL ESTATE VEHICLES INVESTED IN



Fund managers

FIGURE A10 - ASSETS BY INVESTOR TYPE

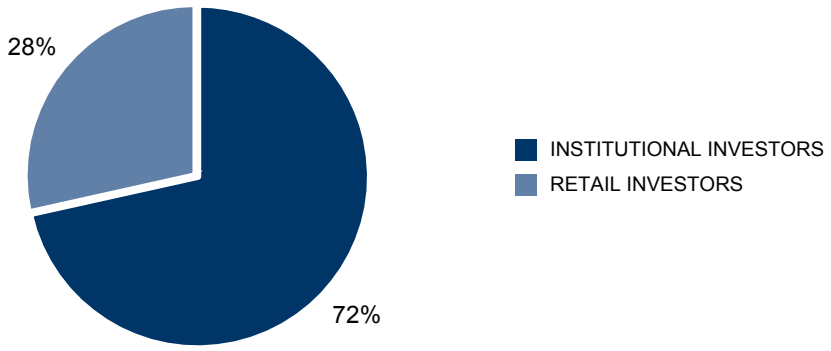


FIGURE A11 - NUMBER OF NON-LISTED REAL ESTATE FUNDS INVESTING IN ASIA UNDER MANAGEMENT

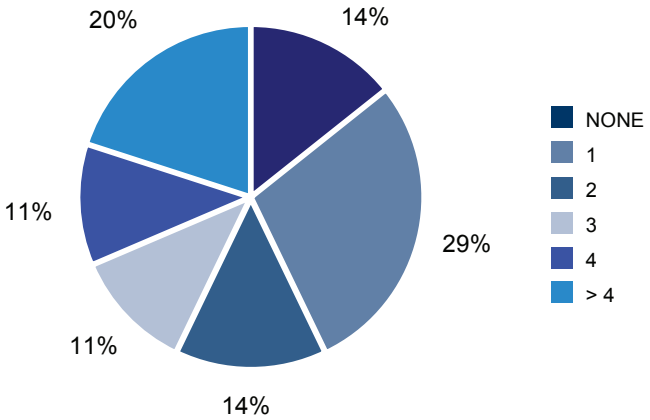
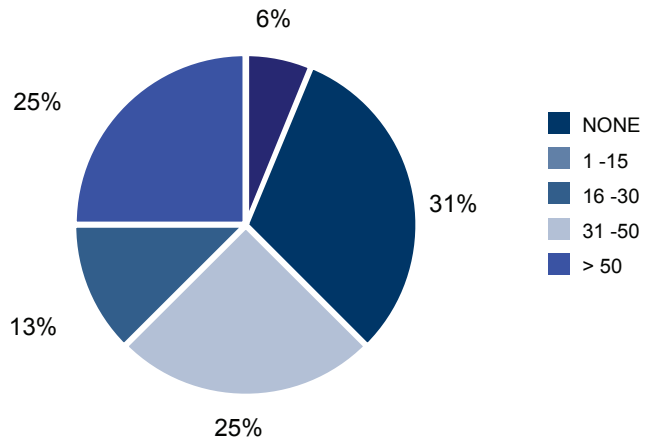
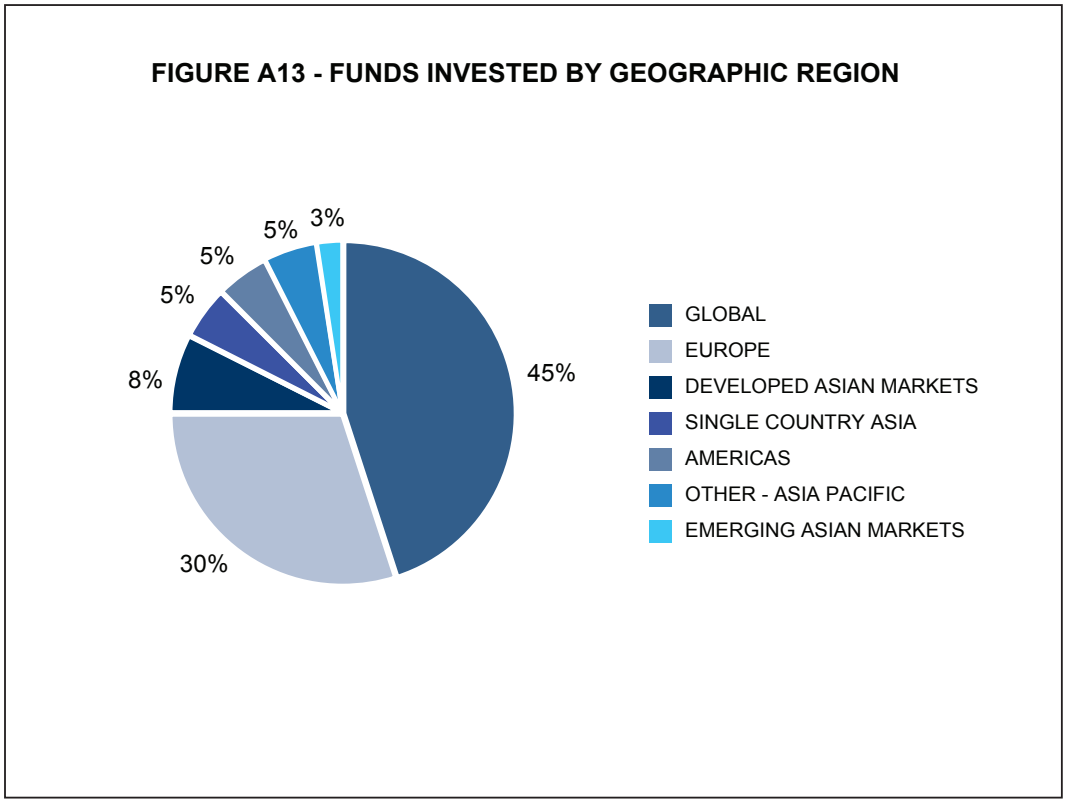


FIGURE A12 - NUMBER OF NON-LISTED REAL ESTATE FUNDS INVESTED IN



Fund of funds managers



2. RESPONDENT COMPANIES

Below is a list of companies that have agreed to be named as contributors to the report.

Adimmo AG
Aetos Capital
Ajia Partners Inc
ALTAN CAPITAL
ANGELO, GORDON ASIA LTD.
ARCH Capital Management Co. Ltd
AXA REIM
Blackrock
CBRE Investors Global Multi Manager
Commerz Real AG
Composition Capital Partners
Cordares Real Estate
Credit Agricole Asset Management Alternative Investment
DEGI
Deka Immobilien Investment GmbH
Diamond Realty Management Inc.
Doran Capital Partners
Dynasty Investments
Fine Grain Property Pte Ltd
Fortis Investments
Forum Partners Investment Management
Franklin Templeton Real Estate Advisors
Gothaer Asset Management AG
Grontmij Capital Consultants B.V.
Grosvenor Limited
Heitman
Henderson Global Investors
ING Real Estate Investment Management Asia
ING Real Estate Select
Invesco Real Estate
Jen Capital Advisors Limited
LACERA
LaSalle Investment Mgt
MacArthur Foundation
Merrill Lynch
Mn Services
Morgan Creek Capital Management
Morgan Stanley
Nomura Real Estate Capital Management
Pamfleet
PGGM Investments
Pradera Asia Limited
ProLogis
Prudential Property Investment Management (PRUPIM)
QIC
Realkapital Partners
Redevco
Royal Bank of Scotland
RREEF Investment GmbH
Russell Investment
SEB Investment GmbH
Sparinvest Property Investors
Syntrus Achmea Vastgoed
TKP Investments
UBS Global Real Estate

AREA - The Asian Real Estate Association is a not-for-profit organisation representing the privately-held real estate sector in Asia. In view of increasing appetite for Asian real estate exposure, founding members of AREA began meeting regularly in early 2005 to plan for an Asian investors' forum similar to those established in North America and Europe. AREA is a platform for institutional investors, fund managers, local property companies, lenders, advisory firms and other stakeholders to address key issues facing the Asian real estate market.

AREA is committed to sharing and spreading knowledge; increasing transparency and accessibility of market information of the privately-held sector; promoting professionalism and best practices; setting an agenda that answers the needs of investors and strengthening investment cooperation

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INREV - The European Association for Investors in Non-listed Real Estate Vehicles. In seeking to generate increased levels of liquidity within the European private real estate fund market, INREV's strategy is to promote greater transparency, accessibility, professionalism and standards of best practice.

INREV is the leading platform for the sharing and dissemination of knowledge concerning the European non-listed real estate fund market. The association's primary focus is on institutional investors, who guide INREV's strategy and control the Management Board, although other market participants such as fund managers, investment banks, lawyers and other advisors provide additional support. INREV has over 320 members. Its investor members include some of Europe's leading institutional investors that together have approximately €140 billion of real estate assets under management.

INREV

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PREA - The Pension Real Estate Association is a non-profit trade organization for the global institutional real estate investment industry. Our members include public and corporate pension funds, endowments, foundations, Taft-Hartley funds, insurance companies, investment advisory firms, REITs, developers, real estate operating companies and industry service providers. PREA's mission is to serve its members engaged in institutional real estate investment through the sponsorship of objective forums for education, research initiatives, membership interaction and the exchange of information.

PREA
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AREA

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