

A new realty

Dissolving borders through cross-border integration

September 2011

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Foreword



The US and European economies reeled under the impact of a meltdown in real estate prices in the wake of the Lehman crisis. In contrast, the real estate sector in India experienced only a minor hiccup after which the prices solidified and the sector continued its rapid growth. Moreover, the Indian real estate sector has also attracted reasonable volumes of foreign direct investment (FDI) in recent years.

In this context, I am happy to share with you the annual FICCI-Ernst & Young Indian Real Estate Report 2011. The report provides valuable insights into the growing phenomenon of cross-border integration of real estate markets and how globalization is aiding it like never before. The report depicts the influence of globalization on real estate business and sheds light on increasing cross-border opportunities for real estate firms and professionals worldwide. It captures this growing trend towards globalization in regions like India, Africa, Mauritius, Nepal, Sri Lanka, Singapore, UAE, the UK and the USA.

The global slowdown has indirectly created opportunities for India, and Indian real estate has benefitted. It is pertinent to note that real estate is no longer influenced by just local culture or factors but is now more globalized. Global themes and concepts are influencing our designs, architecture and landscaping. This opens windows of opportunity for international realty companies to do business here. At the same time, globalization and liberalized investment regimes are helping Indian developers to explore development opportunities abroad.

I am confident that the FICCI 's 8th International Real Estate Summit 2011 will provide us an ideal platform to discuss the findings of this report. I am sure the summit and this publication will contribute to the pursuit of excellence and further globalization of the Indian real estate sector.

Dr. Rajiv Kumar
Secretary General - FICCI





Globalization has been an extraordinary force with India and China pegged as its greatest success stories and the US and the European Union perceived as a demonstration of the domino effect of interlinked economies. As the world debates the consequences of the downgrade of America's credit status and the shift of the global economic power from the US to some of the major emerging economies, Ernst & Young focuses it's energies on confronting one of the greatest global challenges and identifying symbiotic opportunities.

We live from one boom-bust cycle to the next, often driven by a similar sequence of events. It starts with speculation driving valuations far beyond the bounds of reasonableness, only to have reality catch up and end the euphoria in a decline. The past two decades have seen three downturns in the mid 90s, 2001 and again in 2008. The most recent downtown was a cumulative response to many wrongs over several years which caused us to challenge our stereotypical thinking. The looming economic crisis has left most with no option but to adapt to change.

Diverse events have led the real estate sector to interesting crossroads where the comfort zone of developed economies was impacted by the euro and debt crisis; we need to look beyond and explore the lesser known. Now is the time to pause, evaluate and, most importantly, take concrete action.

In our endeavor to help you stay ahead of the market, we have shared our perspectives to help you take the much-needed pause and think from a differing perspective to take your business to the next level. In this edition of our annual publication, we present a concise overview of the traditional markets in addition to consolidating our global market knowledge and experience to unveil what we believe are opportunities waiting to be tapped. Together, on the platform of the FICCI's 8th International Real Estate Summit, we intend to explore and define "the new reality about realty!"

Ajit Krishnan
Partner and Real Estate & Infrastructure Leader
Ernst & Young Pvt. Ltd.







The year 2010 began with cautious buyer sentiments, fresh from the tremors of global recession and an uncertain environment. Inflationary pressures and constant interest rate hikes had a destabilizing impact on buyers who were anticipating a better future, but were getting interrupted every time a grim situation emerged elsewhere in the world. The global economies were striving to overcome and/or prepare for debt defaults and consequent downgrades. The flow of funds for growth was restrained everywhere; liquidity became a challenge as public markets dried up and banks tightened the reins for realty lending in particular.

Like in every adversity, there was an opportunity for some nimble-footed funds – funds that dared to provide innovative funding to the developer community. This was a particularly aggressive move; many mature peer funds had pressures of delivering returns to limited partners and were in an exit mode, finding the going tough because of lack of exit opportunities due to large valuation gaps that emanated out of the economic situation.

Inflationary trends proved to be a dampener as the Reserve Bank of India stepped in with regular interest rate hikes to combat the uncontrollable price rise. Due to the consequent hike in the cost of housing loans, customers postponed their purchases. Premium developments, to some extent, remained unaffected as customers in this segment typically do not fund home purchases through loans, but the cascading cost impact on the developer community led to delays in delivery across geographies.

In particular, the middle-market affordable housing segment that drove sales volumes for realtors at the start of the year was affected significantly by these rate hikes. Buyers feared delivery challenges at negotiated prices and within the given timelines.

Commercial office space, especially information technology/information technology enabled services (IT/ITES), which accounts for a significant part of office space in India, stepped up their revenue projections for the year, backed by a positive outlook in global trends. However, as we saw later, developers were increasingly witnessing hard negotiations on rental contracts and a cautious approach toward space absorption. Leasing out or strata sale of spaces became gradually difficult as the projections overshot the real situation on the ground.

With reduced sales due to interest rate hikes, developers were increasingly facing a liquidity crunch as the sources of capital were drying up. Construction finances from banks were tightened with end-use restrictions and close monitoring. IPO markets were non-existent due to poor economic sentiments. Realtors were seen selling off non-core businesses in order to monetize their assets and reduce their debt exposure.

The crisis doesn't seem to be ending soon. The sector will need to seriously pause and rethink sustainable strategies in order to capitalize on the next economic revival.

Rajiv Sahni
Partner and Leader – Transaction Real Estate
Ernst & Young Pvt. Ltd.





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Outlining the influence zones

Globalization impacts real estate

Globalization has changed the world at a much faster and intense pace than any other economic shift in the past. The economic meltdown has made it apparent that real estate – an asset class that was traditionally regarded as a local practice – is no longer shielded from the impact of economic integration on a global scale. Real estate, perhaps regarded historically as an asset class that has single-handedly contributed to the making and breaking of the greatest fortunes, turned out to be the cause of the economic crisis that began with the sub-prime crisis in the US.

The rising phenomenon of globalization has influenced the cross-border integration of various sectors such as services and manufacturing. This also has indirectly influenced the various domains comprising real estate. The gradual opening up of formerly closed economies in the developing world has provided varied opportunities for international companies with expertise. The liberalization of property ownership regulations and relaxed taxation regimes are making it attractive for foreigners to consider investments across borders. This, along with regulations dealing with modifications in business licensing, have all contributed to dissolving boundaries.

Three years after the start of the economic meltdown, there has been a mix of global reactions to the changing economic conditions. The developed economies are subjected to high debt and the emerging economies are witnessing tremendous growth. Each region had a different survival strategy in the global meltdown; the situation post-crisis is equally diverse. The economic downfall of one country has resulted in an opportunity for another. Non-cyclic investors are looking at economies that are still on the path to recovery. Stronger economies are expanding their footprint and seeking opportunities in countries that are recovering from political instability.

Globalization and information technology is bringing the world closer, resulting in avenues to invest in any part of the world and even participate in the growth story of developing nations. Dwelling on the status quo, unraveling hidden opportunities in adversity as well as daring to explore beyond the beaten path, this report presents an overview on some select countries.

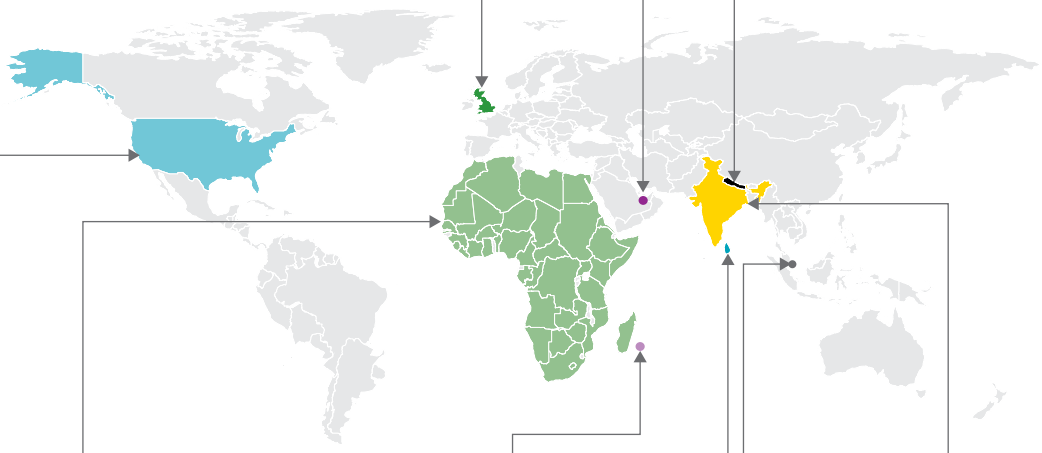
Influence zone outlook

US
- Economy still witnessing slow recovery with a high fiscal deficit
- Assets and locations perceived to be the best are in demand; investors are cautious; distress sales find takers

UK
- Economy still recovering from the recession
- London real estate commanding a higher demand in comparison to other cities

UAE
- Economy hit hard by recession, still recovering with favoring oil prices
- Real estate revival linked to the global economy

Nepal
- Economy facing high unemployment and high inflation
- Political stability after a long period of instability has opened avenues for real estate development



Africa
- Financial state has shown a gradual improvement; GDP to grow by 5% in the long term (2011–2015)
- Tremendous growth in real estate driven by urbanization and increase in FDI
- According to IMF forcasts, Africa will have seven of the world's ten fastest growing economies over the next five years

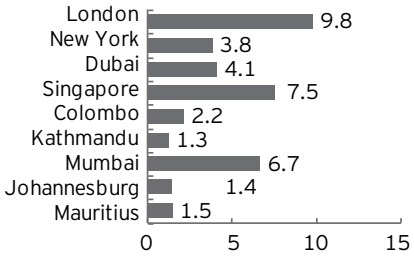
Mauritius
- One of the fastest-growing economies in the African continent powered by bold reforms
- Robust growth in real estate centered around high-end development for nonresidents

India
- Consistent GDP growth of 8% in the last five years
- Massive urbanization, local demand and buoyant economy driving real estate

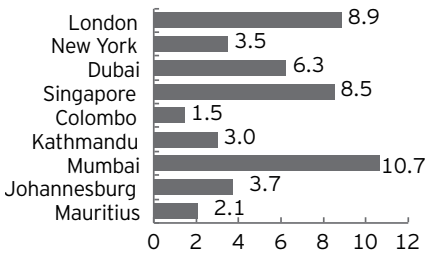
Sri Lanka
- End of the war triggering economic growth in last two years
- Strategic location near India and China and the need to develop war-torn areas opens avenues for real estate development

Singapore
- Real GDP increased at CAGR of 6%; robust economic recovery
- Successful track record of government measures to control the overheated real estate market continues to instill confidence in investors

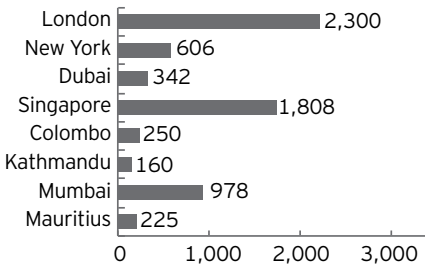
Average monthly commercial rental values CBD (US$/sq. ft.)



Average monthly retail rental values CBD (US$/sq. ft.)

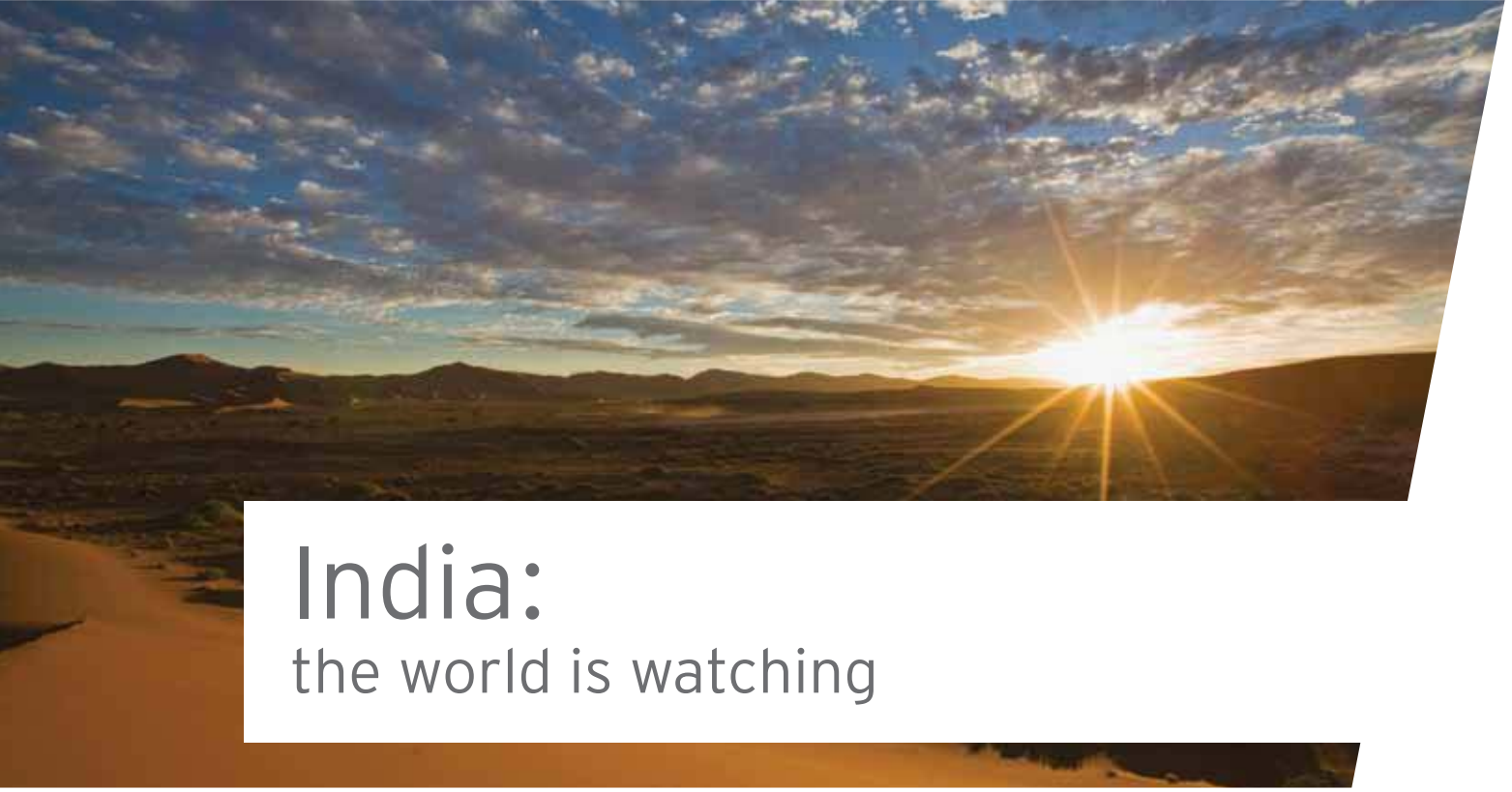


Average residential capital values CBD (US$/sq. ft.)



Source: Refer source section (page 44) under "Influence zone outlook."

Area	CBD
London	Commercial: West End; Retail: Bond Street, Oxford Street; Residential: SW1, W1 and SW7
New York	Downtown, Midtown South and Midtown
Dubai	DIFC, Downtown and Business Bay
Singapore	Raffles Place, Cecil Street, Marina, People's Park
Colombo	Commercial and retail: Colombo 1, Galle Face Road, Navammawatha; Residential: Colombo 2 and 3
Kathmandu	New Road, Durbar Marg, Kamladi, Baneshwar, SinghDurbar, Putalisadak, Teku Road (main)
Mumbai	Commercial: Nariman Point, Fort, Churchgate; Retail: Kemps Corner, Breach Candy, Colaba Causeway, Fort-Fountain; Residential: Altamount Road, Malabar Hill, Napeansea, Cuffe Parade
Johannesburg	Johannesburg CBD
Mauritius	Plaine Lauzun, Pailles, Phoenix, Coromandel, Riche Terre, La Tour Koenig



India:
the world is watching

Country and economic overview[1]

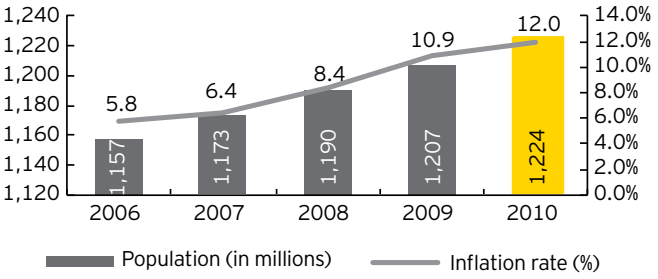
Land area	2,973,193 sq. km.
Urban population	364 million (30% of total population)
Average household size	5.0
Key economic activities	Information technology services, agriculture and manufacturing

India's real GDP has increased at a CAGR of 8% during the period between 2006-2010, driven by the growth in the services sector (especially information technology), which is expected to continue to outpace the rest of the global economy. In recent years, manufacturing has once again reflected signs of growth due to the emergence of the export-oriented sub-sector. The fundamentals fueling the growth of the economy are intact and the economy is expected to grow by more than 8% in the next few years, albeit with the support of improved infrastructure.

India real estate market[2]

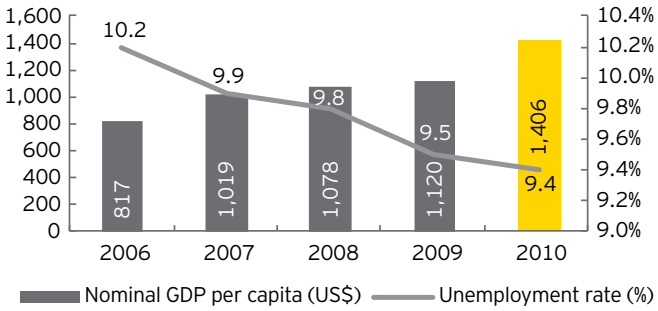
The phenomenal recovery, particularly in the residential sector, was accompanied by a rise in inflation, which finally prompted the Reserve Bank of India (RBI) to take extreme steps that made loans an undesirable option and properties unaffordable, impacting transactions in some micro-markets. The oversupply in the commercial and retail segments has kept rentals at bay. Rising income levels and an overall strong economic recovery seem to be driving the demand for retail. This has given confidence to some retailers who are taking advantage of the stable rentals and have started implementing gradual expansion plans.

Population and inflation rate



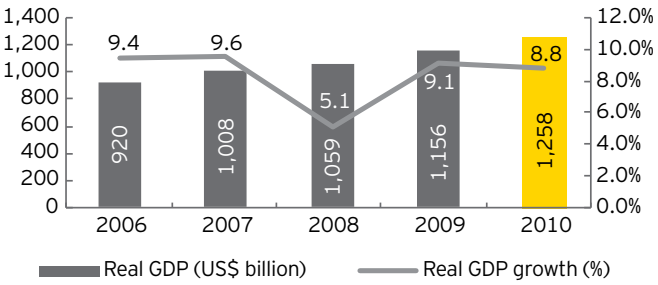
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

Snapshot of the Indian real estate sector[2]

Residential: wait and watch

- **Diminishing liquidity for developers**: The stimulus measures by RBI have been reversed and monetary tightening continues in an effort to tame inflation.
- **Affordable housing revisited**: During the period between March 2009 and November 2010, developers sold more than 40 million sq. ft. of mid-income residential property in the National Capital Region (NCR) region alone. Beginning in 2011, the focus reverted to luxury housing. The tightening liquidity has once again caused developers to focus on affordable housing.
- **Stagnant prices**: Beginning in 2011, the micro-markets of Mumbai and NCR prices had surpassed the peak prices of 2007–2008. Cities such as Bengaluru, Chennai and Hyderabad (driven by end users) were witnessing a gradual rise in prices. The accelerated rise in prices, increased interest rates along with wider margins have impacted affordability and negatively impacted transactions despite wage hikes and a buoyant job market. This may result in a decline in prices in some micro-markets.
- **Outlook**: In the long term, the demand for housing is expected to remain intact, driven by a sizable working population, rapid urbanization and rising income levels.

Commercial: oversupply impacting growth

- **Rising demand**: Increased hiring (~1 million jobs created in 2010) is likely to positively influence transaction volumes. Information technology/information technology enabled services (IT/ITES) is projected to lead the office space demand (200 million sq. ft. needed in the next four years). Healthcare, hospitality, real estate and construction are the other sectors creating jobs.
- **Oversupply**: The release of deferred supply (delayed/aborted by developers during the recession), along with new projects, is likely to lead to an oversupply scenario (expected supply of 60 million sq. ft. in 2011). Although expected absorption in the current year is 40 million sq. ft. higher than the earlier peak of 33 million sq. ft., rentals are expected to continue to remain under pressure.
- **Outlook**: Bengaluru has the lowest vacancy rates and may therefore witness an increase in the rental yield. Rentals in Mumbai may remain under pressure due to a high vacancy rate and oversupply. Rentals may see a rise in Delhi and Gurgaon, but Noida may not experience an increase in rentals due to high vacancy rates. Pune, Chennai and Hyderabad are witnessing stable office rentals, but are still lower than the 2008 peak.

Retail: growth prospects amid policy reforms

- **Oversupply**: While consumer spending has increased, rentals continue to remain under pressure due to excessive supply (supply in 2011: 20.1 million sq. ft.; expected absorption: 11.5 million sq. ft.; supply in 2012: 13 million sq.ft.; expected absorption: 11.3 million sq. ft.). However, the cumulative excessive supply of more than 15 million sq. ft. in the last three to four years will negatively impact the rentals, nearly eliminating the probability of a new peak formation. To make malls attractive amid an oversupply market, luxury and theme-based malls are increasingly gaining momentum.
- **Outlook**: The Government of India is considering the proposal of 100% FDI in multibrand retailing, which may be the next boom in retailing.

Hospitality: driven by the growing economy

- **Demand trend**: International tourist arrivals in India have increased at a CAGR of 7.7% to reach 5.5 million between 2000 and 2010. In the same period, foreign exchange earnings (FEE– US$14.2 billion in 2010) witnessed a robust growth of more than 15%. At the end of 2009–10, occupancy rates (ORs) were 70%, as compared to 65% during the corresponding period in 2008–2009. Domestic tourist visits in the country were recorded at 714 million during 2010, a growth of 14% over the previous year. Moreover, the number of domestic trips is expected to increase at a CAGR of 14% between 2010 and 2015. Business spending on travel for 2011 was US$26.8 billion, which is expected to grow to US$60.6 billion by 2021.
- **Supply trend**: In 2009–2010, India was home to around 137,421 hotel rooms, of which the Ministry of Tourism approved 61.3% (84,220). Domestic and international players are making large-scale investments to bridge the demand-supply gap.
- **Regulatory changes**: The RBI has delinked the credit for hotel projects from commercial real estate, enabling hotel projects to avail relaxed credit norms and reduced interest rates. In addition, the Ministry of Finance has relaxed external commercial borrowing (ECB) norms to address liquidity problems.
- **Outlook**: The Indian hotel industry is poised to witness healthy growth (expected CAGR of 11.8%) over the next five years (2009-2010 to 2014-2015) and is expected to reach US$5.7 billion in 2014-2015. During 2009-2010 to 2014-2015, room demand is expected to grow at a CAGR of 11% and supply additions are likely to take place at a CAGR of 8%, driven by rising foreign tourist arrivals (FTAs) and growing business travel.

Industrial: changing regulations

- **Special economic zones (SEZ)**: The demand is likely to see a negative influence due to the modifications made in the current income tax act, coupled with proposed modifications in the Direct Tax Code (DTC) bill (such as withdrawal of MAT exemption—applicable since 2011–2012/DDT—applicable since June 2011, substitution of investment linked tax holiday vis-à-vis profit-linked tax holiday). Considering the substantial investment that has gone into this sector, including foreign investment, frequent changes in tax policies would create significant uncertainty and distrust for the investors who have invested in SEZs in India.
  - **Reduced SEZ attractiveness**: With these modifications in DTC, SEZs, as a destination, are likely to be on the same plane as any other commercial office space. One significant disadvantage could be that SEZs (because of their minimum land area requirement) would typically be located away from the main business district.
  - **Magnitude of impact**: As of April 2011, 377 SEZs were notified and the Board of Approvals granted formal approvals to 584 SEZs. The growth in the exports of the IT/ITES industry is expected to create a demand for 189 million sq. ft. of space between 2010–2011 and 2013–2014. Uncertainties brought about by such regulations are dampening the demand for SEZs. It is currently difficult to predict how many of the formally approved SEZs will be implemented.
- Software Technology Parks of India (STPI): The tax holidays for STPI were being extended periodically with an unclear long-term vision; the last extension lapsed on 31 March 2011.

  The constant changes geared toward the gradually waiving off of tax benefits is encouraging players, especially in the IT sector, to move to commercial office complexes.
- **Logistics and warehousing**: Pure-play warehousing and specialized ones such as temperature-controlled warehouses present lucrative avenues for growth in India. The emphasis is slowly increasing to enhance the scope of the warehousing sector to include supply chain management, material management, inventory management and tracking.

Key trends[3]

- **Change in developer strategy**

Pre-crisis	Post-crisis
Focus on land acquisition and creation of land banks at high prices	Purchase of land at only strategic locations after cost-benefit analysis
Venturing into various alternate businesses such as hotels, telecom and insurance	Exit from non-core business and focus back on the core businesses
Developers of residential projects venturing into malls and offices, which need more capital and have a larger gestation period	Changes in the mixed design of the projects with a major portion given to the residential segment with an aim to quickly monetize the land banks
Announcement of large luxury projects in line with the surge in transaction volumes	Major announcement in the mid-income group segment with a focus on affordable housing

Key trends (cont.)

- **Decline of FDI**

  Housing and real estate attracted FDI of 8.9%, 10.3% and 11% of the total FDI in India in FY08, FY09 and FY10, respectively. However, FDI in real estate has declined to merely 6% for FY11.

- **Labor availability**

  Currently, the total requirement of skilled and unskilled laborers in the construction sector, including real estate, is 33 million people per day. The construction sector is facing a labor shortage of around 10 million people on any given day (approximately 30% of the requirement is unfulfilled). The situation is expected to worsen in the next decade when the need for workers is expected to go up threefold.

- **Rising cost of construction**

  The cost of cement, steel and sand has increased drastically, putting pressure on the profit margins of developers. The cost of construction is likely to impact the affordable housing segment, urging developers to retain their focus on the premium housing segment.

- **RBI tightening its grip**

  - **Loan-to-value (LTV) ratio**: RBI had left the regulation of LTV ratio to individual banks. The Central Bank has proposed the LTV ratio for loans above US$40,000 to be below 80% and, for loans below US$40,000 million the maximum permissible limit is 90%. This has discouraged individuals from investing in premium properties and restricted multiple bookings.
  - **Teaser loans**: RBI has proposed to increase the standard asset provisioning to 2% for all teaser loans. Following this, most of the banks have stopped the teaser loan offer. However, RBI has proposed that after the initial period of teaser rates provided by the bank, the provisioning may resume at 0.4%.

- **Developers oscillating between higher volumes and higher prices**

  During the recovery phase (2008–2009), developers banked on affordable homes, counting on volumes to generate cash flow. However, peak price formations, along with low volumes in NCR and Mumbai in the recent past, indicated that developers were inclined to increase prices over volume growth. Considering the recent tightening of the credit situation, developers seem to have come full circle and are now inclined to re-evaluate affordable housing.

- **Alternate forms of funding providing the much-needed liquidity**

  In addition to conventional funding sources, developers are considering qualified institutional placements (QIPs) and the alternate investment market (AIM) for equity funding. External commercial borrowings (ECBs) and foreign currency convertible bonds (FCCBs) are options being considered as alternate sources for debt.

  - **Heightened private equity (PE) activity**: During the period between January and June 2011, PE investments in real estate reached US$444 million, which is 47% higher than the investments made in 2010 during the same period. Most of the investments are coming from realty-focused funds. The year 2011 has already witnessed 12 PE deals thus far. However, unlike 2007–2008, funds are currently investing in projects, which already have basic approvals in place and where construction has commenced.

- **Concept of "green building" gains popularity**

  Until September 2007, India had 17 certified LEED Green buildings totaling an area of merely 4 million sq.ft. The end of FY11 saw more than 153 certified Leed Green buildings. Moreover, there are 1,124 registered green building projects with a footprint of over 725 million sq.ft.



Key transactions[4]

Name of the entity	Nature of transaction	Additional details
Red Fort Capital	The company formed a joint venture (JV) with 3c company, an Uttar Pradesh-based real estate developer.	The JV company plans to develop a residential project in Noida at an investment of US$540 million.
Absolute Hotel Services	The Thailand-based hotel management chain entered a JV agreement with the KBJ Group, a Mumbai-based jewelry firm and financial management company, National Capital Management.	The JV company, named Absolute KBJ Hotel Services India, will help Absolute Hotel Services to expand its presence across India, Bangladesh, Sri Lanka, Nepal and Maldives.
Godrej Properties	The company sold a 22.27% stake in Godrej Sea View Properties to HDFC Asset Management Co. (HDFC) for US$5.6 million.	The company may further sell a 26.7% stake in Godrej Sea View Properties to HDFC. The total deal size is expected to be valued at around US$12.3 million.
Ansal Properties & Infrastructure Ltd	Ansal Properties & Infrastructure Ltd. has signed an agreement with Red Fort Capital to form a JV to undertake the expansion of a residential township project in Gurgaon, NCR.	Red Fort Capital is expected to acquire a 26% stake in its JV with Ansal Properties & Infrastructure Ltd. for US$40 million.
Sun Apollo	Sun Apollo has agreed to acquire a 49.9% stake in Parsvnath Developers Ghaziabad project for US$20 million.	This is a premium residential project spread over 31 acres.
Vascon Engineers Ltd	Vascon Engineers Ltd. has acquired a 20% stake in Ajanta Enterprises for US$11.2 million.	The company has acquired a stake in Ajanta from Marvel Housing Pvt. Ltd., a wholly owned subsidiary of Vascon Engineers Ltd.
Platinum Investment Management (PIM), an Australia-based fund manager	PIM raised its stake in Unitech Ltd. to 5.2% from 4.9% for US$125 million.	
TPG Capital	TPG Capital has invested US$100 million to acquire a 15% stake in the Bengaluru-based real estate developer, Shriram Properties.	Shriram Properties is primarily focused on mid-income housing projects.
J.P. Morgan	J.P. Morgan has invested US$30 million in the residential project, La Tropicana, developed by Parsvnath Developers at Civil Lines in New Delhi.	The 400-apartment project is scheduled to be completed by 2013.
Milestone Capital Advisors	Milestone Capital Advisors has invested US$21.7 million in a suburban Mumbai residential project, being developed by Ackruti City.	The property is at a prime location.
Monsoon Capital	Monsoon Capital acquired a 50% stake in a real estate project promoted by Phoenix Group for US$360,000.	The real estate project, Golf Edge, is of 1 million sq. ft. comprising a five-star hotel and residential complexes at Hyderabad.



Outlook[5]

- The Indian economy is expected to grow at a rate of 8%.
- A strong growth in the service sector and revival in manufacturing would help the economy to maintain high growth levels in the coming years. The service sector (IT/ITES) is expected to grow at a rate of 15%, which would create demand for commercial real estate, which may be witnessing an oversupply for as much as a year. Favored by growth and optimism, corporate India would have a growing demand for offices.
- The retail space is currently experiencing excessive supply; however, the opening up of FDI in multibrand retailing can be a boon for this space. Triggered with a rise in income levels, the middle class of the country is ready to transform the retail landscape in India.
- Urbanization would be the single-largest factor to drive the demand for real estate, and housing in particular. By 2015, more than 410 million people would be staying in cities, which is more than the population of the US. There would be heightened demand in the middle-income segment residential space.
- RBI continues efforts to curb inflation, which has prompted it to increase interest rates 11 times since March 2010. This would not only increase the equated monthly instalment (EMI), but also increase the cost of construction, ultimately impacting the selling price of apartments.
- Mumbai and Delhi are the undisputed leaders in all forms of real estate, but due to scarcity of land, rising rentals and capital value, developers and industries are targeting Kolkata, Pune and even tier II cities such as Mysore, Chandigarh and Jaipur.

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Africa:
on the brink of an economic boom

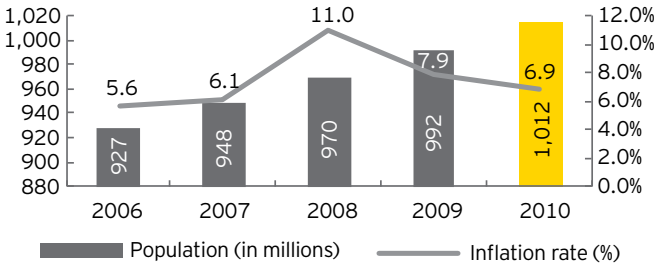


Continent and economic overview[6]

Total area	30,221,532 sq. km.
Urban population	400 million (40% of total population)
Average household size	5.6
Key economic activities	Agriculture, mining, tourism, manufacturing and processing

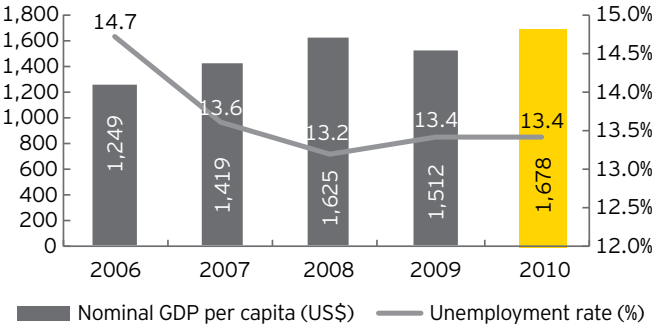
The GDP of the African continent has increased at a CAGR of 4.5% during the period between 2006-2010, driven by the rise in commodities prices and export volumes. The growth rate, however, slowed to 2.4% between 2008 and 2009 due to the global financial crisis. In 2010, the continent's economic growth recovered to 4.6%, supported by a rise in commodity prices, export volumes, agricultural output and domestic consumption. However, recent political events in a few North African countries are expected to restrict GDP growth to 1.9% in 2011. In the longer term (during 2012–2016), the GDP growth rate is expected to stay close to 5%.

Population and inflation rate



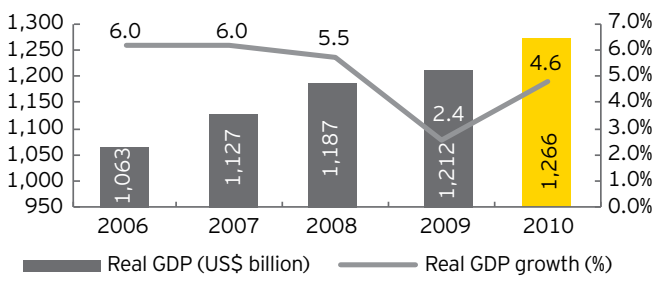
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate

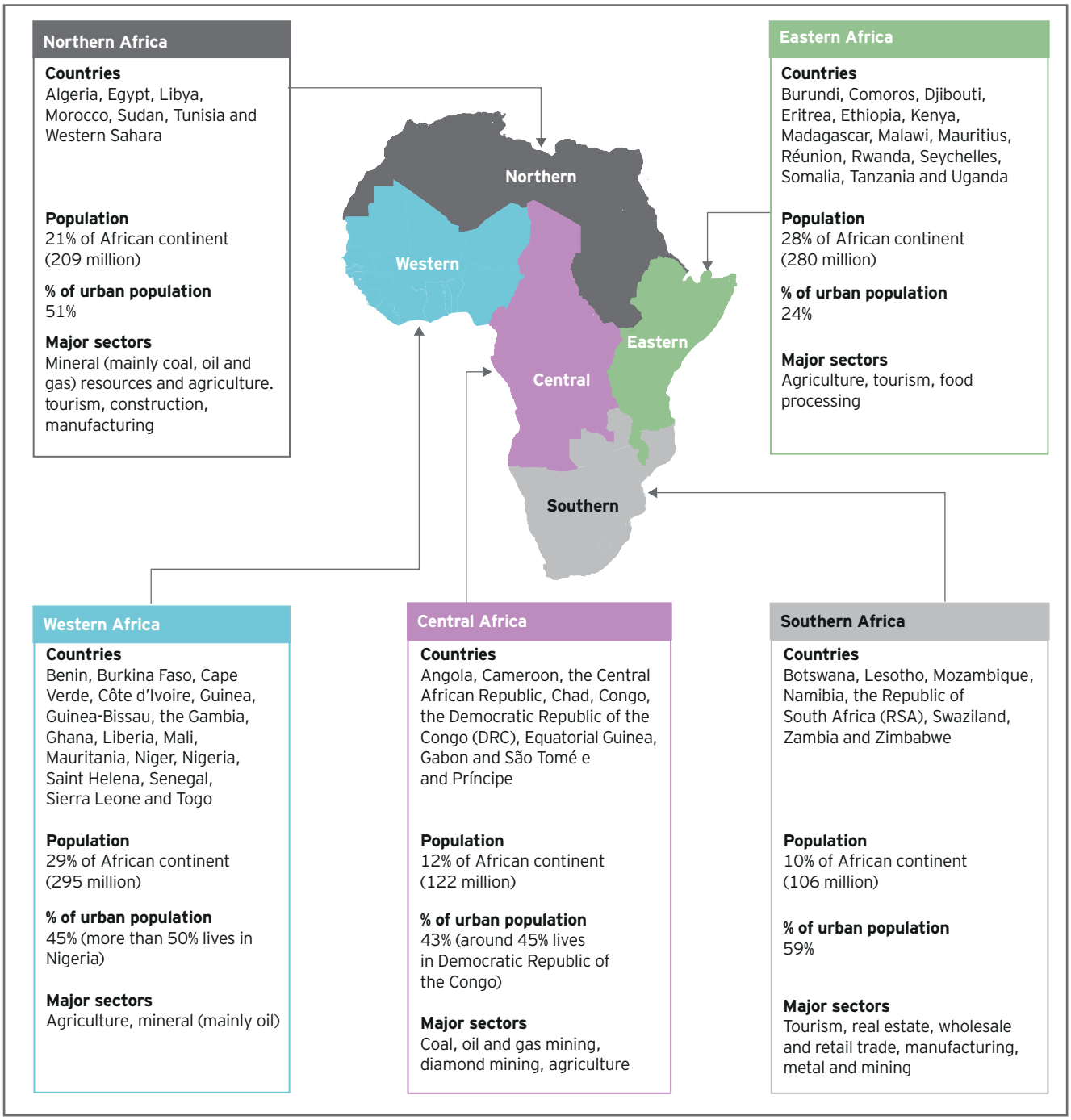


Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight



Note: Population as % of total African continent population.

Key real estate markets of the African continent[7]

Rising urbanization, increasing income levels and the governments' focus to reduce slums are the growth drivers for the real estate sector across most African countries. Over the past few years, FDI into the sector has increased (to US$84 billion in 2010) due to strong economic growth, political reforms, macroeconomic stability and social development.

Snapshot of the key real estate markets within regions

Northern Africa: Egypt	Western Africa: Nigeria
Key highlights	
▶ During 2007–2010, Egypt's real estate market grew at a CAGR of 3.9%, while the country's GDP grew at 5.7%. ▶ Key growth drivers include favorable demographics (40% of the population is in the age bracket of 20–49 years), rising urbanization, government reforms (related to FDI in real estate, mortgage finance law, property tax law), subsidized housing for low-income groups and the easier availability of finance. ▶ The real estate industry in Egypt was considered a safe investment destination due to the resilience demonstrated during the financial crisis and the recession. However, the sector is expected to witness uncertainty in 2011 due to the current political unrest in the country.	▶ Nigeria is among the fastest-growing economies in Africa with a five-year CAGR of GDP growth of 7.3% and a nominal GDP of US$221 billion in 2010. ▶ Nigeria's increasing urbanization (with more than 50% urban population, among the highest in Africa) is the key growth driver for the country's real estate market. ▶ The residential segment dominates the real estate sector in Nigeria; it accounts for 93% of the country's total real estate market. The commercial segment accounts for 4.6% of the total market, leaving a mere 2.4% to other segments.
Residential	
▶ The housing shortage in Egypt was estimated to be 190,000 houses in 2010. ▶ The demand for affordable housing for mid- and low-income groups is buoyant, while the demand for premium residential units has contracted. ▶ Speculation in the residential real estate market is lesser due to the underdeveloped mortgage finance industry.	▶ The high degree of urbanization has resulted in an acute housing shortage. Nigeria has a housing deficit of around 16 million units. As a result, 70% of the Nigerian population lives in single rooms in urban slums or rural areas. ▶ Government plans to provide housing have not yielded much benefit. In the last 16 years, the government built only 53,000 houses. ▶ Residential real estate is a highly unorganized segment, with few private players. The government has taken the lead in the provision for affordable housing.



	Eastern Africa: Kenya	Central Africa: Democratic Republic of the Congo (DRC)	Southern Africa: Republic of South Africa (RSA)
	▶ Kenya is the economic hub of East Africa. Kenya's GDP has grown at a CAGR of 4.6% between 2006 and 2010. ▶ Agriculture is the major contributor to the country's GDP (around 29%). The construction sector accounts for around 4.5% of the Kenyan GDP. ▶ Kenya's real estate market has outperformed the stock market in the last decade due to strong growth and is expected to remain strong due to rising urbanization (22% in 2010) and economic growth.	▶ The GDP of DRC has grown at a CAGR of 5.6% between 2006 and 2010. ▶ Agriculture (around 40%) is the major sector contributing to the country's GDP. ▶ DRC has significant natural resources; however, due to its inability to exploit its potential riches effectively for developing the economy, DRC remains one of the world's poorest nations. ▶ DRC is witnessing the inflow of foreign expats, which is creating the demand for Grade "A" property across commercial, residential and retail space.	▶ RSA is the largest economy in southern Africa, contributing around 85% of southern Africa's GDP in 2010. During 2006–2010, the GDP increased at a CAGR of 3.1%. ▶ The real estate sector contributes around 5% to the RSA GDP. ▶ The RSA real estate sector, particularly the residential sector, has been struggling due to high unemployment levels and debts. This is despite interest rates being the lowest historically in three decades and household disposable income being on a constant rise.
	▶ Kenya's residential property prices have recovered since the global financial crisis in 2008 and are vibrant in both the mid- and high-end sectors. ▶ Gated communities and apartments are experiencing strong demand compared to standalone homes.	▶ Property prices are currently on an upward trend, due to the housing shortage and rising demand for premium properties by expatriates. Foreign companies are deploying their employees to set up businesses due to the lack of availability of local resources. ▶ Redevelopment is an emerging trend with developers purchasing old houses located on large plots.	▶ Currently, there is an oversupply in the market due to the construction spree that occurred before the global downturn in 2008. ▶ The high level of debt and growing uncertainty of employment is curtailing housing demand. ▶ Through 2010, the growth in housing prices has been subdued despite a cut in interest rates. ▶ Residential real estate demand is expected to be negatively affected by continued weakness in the economy and the financial pressure on households.

Northern Africa: Egypt	Western Africa: Nigeria
Commercial	
▶ There is a lack of office space in Egypt, with almost no vacant office space, as Egypt is a major international corporate base for trading in the North African and Middle East region. ▶ Companies have re-opened their businesses since the political turmoil in January–February 2011. ▶ Monthly office rents in Egypt range from US$1.6 per sq. ft. to US$3.0 per sq. ft.; yields range between 8% and 10%. ▶ Due to the shortage, many corporate entities have set up their offices in sub-standard buildings. However, in the next few years, around 21 million sq. ft. of new office space is expected to be constructed.	▶ There is a major shortage of quality office space in the country. ▶ The increasing shift of the economy toward the services sector has led to an increase in demand for commercial space. ▶ The demand for commercial real estate in Nigeria is restricted to commercial cities such as Lagos and Port Harcourt. This limited supply has resulted in available properties commanding a premium. Lagos has the fifth highest office rents globally.
Retail	
▶ The growth in the retail market in Egypt has accelerated in recent years and a number of shopping malls have come up, as a result of the significant growth in middle and upper classes in Egypt. ▶ In 2009–2010, monthly retail rents ranged between US$2.1 per sq. ft. and US$3.9 per sq. ft. and rental yields ranged between 8% and 13%. ▶ The massive shortfall of retail space in Egypt is driving the construction of malls. At present, the city of Cairo has only 4.3 million sq. ft. of gross lettable area (GLA).	▶ Rising income levels and the increasing demand from expatriate population is driving growth in the retail segment. ▶ Nigeria has few shopping centers, and those are limited to areas such as Lekki Peninsula, Victoria Island and Ikoyi. There are plans to further develop new shopping malls in Ikeja.
Hospitality	
▶ The tourism industry is an important contributor to Egypt's GDP and contributed around 5% to Egypt's GDP growth in 2009–2010. Egypt is estimated to account for around 40% of the total tourism and travel demand for North Africa. ▶ Hospitality is largely driven by tourism trends and, therefore, is expected to witness lower demand due to the political turmoil. ▶ Around 14 million tourists arrived in Egypt in 2009–2010, reflecting a growth of 18% over 2008–2009. Egypt has 509,000 hotel beds with an average occupancy of 77% at the end of 2009–2010.	▶ The travel and tourism contribution to Nigeria's GDP is 1.1%, which is lower than Africa's average of 4%. ▶ Most of the travel and tourism in Nigeria is for business purposes (around 70% of the spending is by business travelers). ▶ In 2011, around 1.2 million foreign tourists are expected to arrive in Nigeria.
Industrial	
▶ With the creation of the Industrial Development Authority (IDA) in 2005, new industrial units have found Egypt to be an attractive destination for setting up industries. ▶ The monthly rental rates for the industrial segment are around US$0.7 per sq. ft. and rental yields range from 8% to 10%.	▶ The improvement in connectivity between cities has led to an increase in demand for industrial real estate. ▶ Lagos is the major industrial center in the country. Lower rents and better connectivity are attracting industrial tenants from Ikeja (traditional industrial area) toward Agbara (west) and the Ibadan Expressway (north). The eastern part of Lagos is seeing the development of some free trade warehousing zones.

	Eastern Africa: Kenya	Central Africa: Democratic Republic of the Congo (DRC)	Southern Africa: Republic of South Africa (RSA)
	▶ The circulation of the new constitution has stepped up confidence levels and improved optimism about the future of global investors. ▶ Kenya is witnessing a considerable amount of prime office development. The new spaces have been let at a steady rate and Grade "A" office rents have increased.	▶ DRC is witnessing the development of several new commercial properties in Kinshasa, which is a prime business destination. The demand for the Grade "A" offices is strong.	▶ RSA is the most mature commercial market in Africa, with Johannesburg being the financial hub. ▶ Rising investments in the segment increased vacancy rates across Johannesburg in 2010.
	▶ Nairobi is the retail hub of Kenya and has the most modern malls in the country. ▶ The retail sector is benefiting from a growing economy and middle-class population. Cities such as Mombasa and Kisumu are also witnessing the development of malls.	▶ Retail is at a very nascent stage in DRC. ▶ Shoprite, the largest supermarket group in Africa, is developing two modern shopping centers at Kinshasa and Lubumbashi. This would be the first-of-its-kind project in DRC.	▶ The economic slowdown has resulted in low demand for retail space. ▶ South Africa has a diversified retail portfolio ranging from local stores to expansive modern malls. ▶ Through 2009, retail sales were adversely impacted due to the global financial crisis, but have reflected some recovery in 2010. The increase in confidence in the sector has helped rents to stabilize, but the retail development activities have slowed down.
	▶ The tourism industry contributes around 4.2% to Kenya's GDP. ▶ Kenya is known as "beginner's Africa" and coined the term "Safari." The tourism sector is expected to grow at 4.3% to reach US$3.5 billion through 2020. ▶ The country has 59 national parks and game reserves. Major tourist activities are based around beaches; the coastal area of Mombasa generates 60% of the total tourists. ▶ Around 2.3 billion tourists arrived in Kenya in 2010, reflecting a growth of 6.1% over 2009. Kenya has 35,000 hotel rooms with an average occupancy rate of 78%.	▶ The travel and tourism contribution to DRC's GDP is around 0.9%, which is lower than Africa's average of 4%. ▶ Most of the travel and tourism in DRC is for business purposes (business travelers contribute around 62% of the total spend). ▶ In 2011, around 62,000 international tourists are expected to arrive in DRC.	▶ The tourism industry is an important contributor to RSA's GDP and contributed around 4% to RSA GDP in 2011. After Egypt, RSA is the most popular tourist destination in Africa and accounts for around 20% of the total tourism and travel demand in Africa. ▶ The government is promoting RSA as a preferred business conference destination. ▶ Around 11.3 million tourists arrived in RSA in 2010, which is a growth of 15% over the previous year. RSA had 117,000 hotel beds in 2010.
	▶ Kenya is connected to The East African Marine System (TEAMS) – a submarine fiber optic cable – which has significantly improved Kenya's broadband capabilities. This has attracted light industries such as business process outsourcing and call centers.	▶ Industrial property supply in DRC is very limited and there is poor infrastructure in the available spaces, while the demand for industrial property is very high. ▶ Currently, there are no concrete plans for industrial land development and, therefore, industrial unit owners drive the construction for industrial property.	▶ With slowing manufacturing growth in 2010, the industrial real estate market also witnessed weakness in 2010. This, coupled with high vacancy rates, led to a decline in rental rates in 2010.

Key transactions[8]

Transactions in the continent are expected to increase going forward, due to the growth potential in the market. Some key transactions in 2010 and 2011 are as follows:

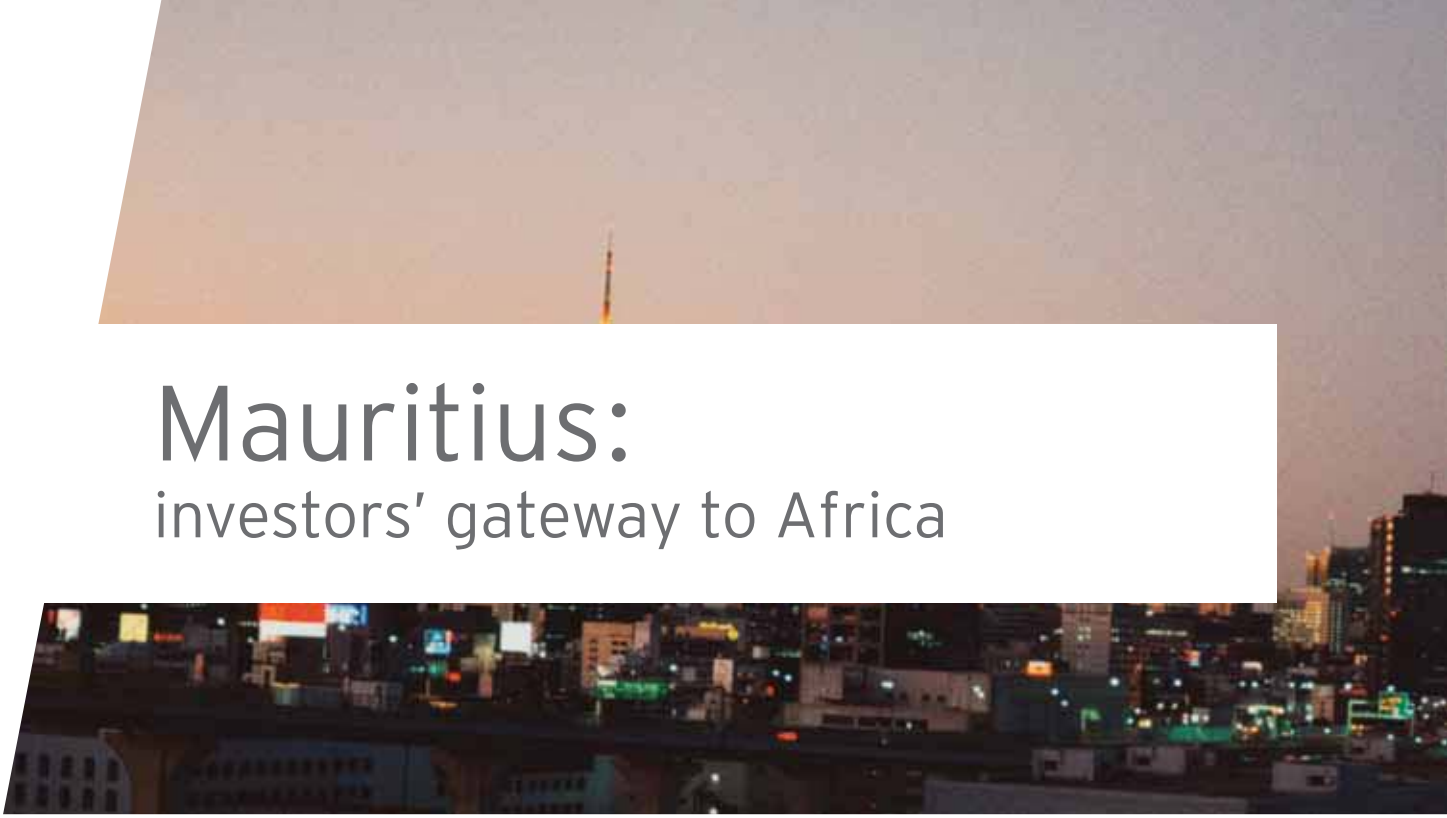
Entity name	Nature of transaction	Additional details
Hyprop Investment Ltd.	Acquisition of Attuned Retail Ltd. (owns and operates properties including Atterbury Value Mart, Woodlands Boulevard, Clearwater Mall and Lifestyle Centre)	The deal was valued at US$1.3 billion.
Palm Hills Development S.A.E.	Acquisition of a 52% stake in Maccor for the Securities Investment Company	The deal size was valued at US$25.9 million.
North Africa Holding Company	Acquisition of a minority stake in the Dar Saada Company	The deal size was valued at US$137 million.
Kingdom Meikles Africa Ltd.	Acquisition of the entire property portfolio of Cotton Printers Ltd.	The Zimbabwe-based Cotton Printers Ltd. has two cotton printer buildings in the Belmont industrial area of Bulawayo, Zimbabwe.

Outlook[9]

- Africa's GDP is expected to grow at a CAGR of 4.6% through 2011–2015, supported by political stability and burgeoning domestic demand from Africa's rapidly rising middle-class population.
- The region is also witnessing a rise in entrepreneurship, which supports commercial and industrial real estate growth in the future.
- Similar to Asian powerhouses, Africa stands to benefit from the rapid expansion of its cities. The growth in urbanization is driving industrialization in Africa as 80% of Africa's GDP comes from urban areas.
- Africa has emerged as a preferred investment destination witnessing growth in FDIs, which are at an all-time high currently. FDI in Africa is expected to increase to US$150 billion by 2015 from US$84 billion in 2010.
- Global businesses have begun outsourcing manufacturing to Africa.
- Africa needs to overcome some constraints, including political instability and the high cost of doing business there in order to achieve its full growth potential.

For more details on the region, contact:

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Mauritius:
investors' gateway to Africa

Country and economic overview[10]

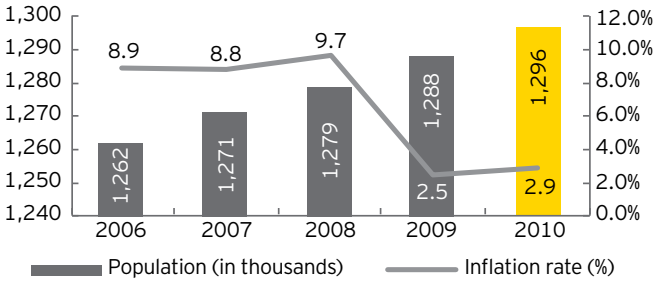
Land area	2,030 sq. km.
Urban population	542,000 (41.8% of total population)
Average household size	3.7
Key economic activities	Sugar, tourism, textiles, financial services, hospitality and property development

The country's real GDP increased at a CAGR of 4% during the period between 2006-2010, driven by a multipronged growth strategy based on a liberal, but streamlined business climate. Mauritius has one of the fastest-growing economies in Sub-Saharan Africa and has evolved from a mono-crop, sugar-dominated economy to a service-oriented one. The country offers a transparent, rule-based and cost-effective business environment. The country ranks first in Africa and 20th worldwide in the World Bank's Ease of Doing Business ranking.

The government's astute foresight has resulted in bold and fundamental reforms, a re-engineered transparent fiscal regime and a wider global market spread. This largely contributed to the Mauritian economy's resilience to the global economic crisis.

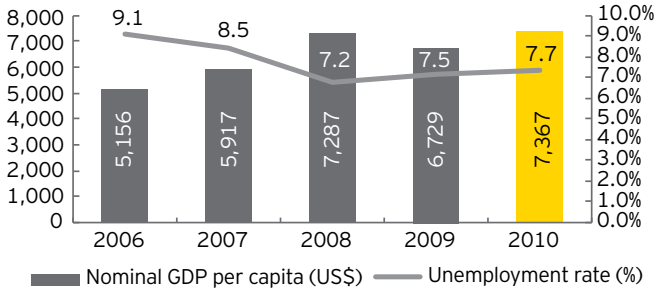
While sectors such as financial services and information and communication technologies – business process outsourcing (ICT-BPO) demonstrated increased value-add, the real estate sector has matured as one of the key economic drivers together with the tourism, services and sugar sectors. The emergence of new sectors such as renewable energies and healthcare development is expected to reinforce the economic base of the country.

Population and inflation rate



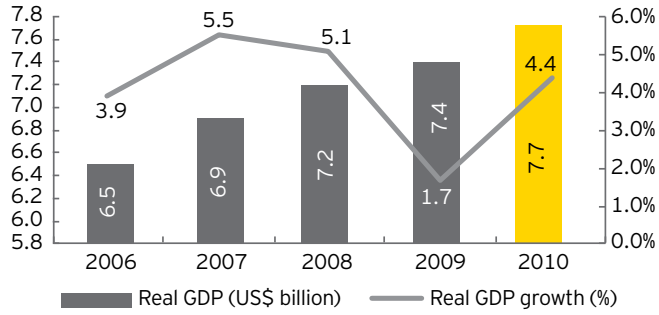
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

The real estate market[11]

In the past five years, the country's real estate market has witnessed robust growth, driven by demand generated from economic growth across sectors. Policies such as the Integrated Resort Scheme (IRS)* and the Real Estate Scheme (RES)** in 2005 and 2007, respectively, allowed foreigners to acquire luxurious residential properties in Mauritius. This has led to the emergence of diverse real estate development opportunities, including the development of marinas, luxury waterfronts, shopping malls, urban regeneration, mixed use real estate projects and land reclamation projects. Mauritius' policy that allows retired non-citizens to become residents in the country has infused an increasing demand for services such as luxurious wellness centers, spas, Ayurvedic centers and healthcare centers for medical treatment and rehabilitation. The government is drafting a new Building Control Bill, which will look at "Zero Energy Building" to encourage green development in Mauritius.

Snapshot of the Mauritius real estate sector[11]

Residential: up-market demand

- Mauritius primarily comprises four townships (Vacoas, Quatre-Bornes, Rose Hill and Curepipe) and one capital city (Port Louis). First-time homeowners have kept the demand for luxury apartments across the country rising. The significant migratory population has created greater demand for homes in urban areas. The emergence of high-earning professionals has paved the way for more demand for second homes in areas neighboring the beachfronts. The evolution of Mauritian societal habits has heightened the demand for retirement homes.
- Foreign nationals have expressed their strong intent to buy luxurious residential properties under RES and IRS. As in July 2011, non-citizens have purchased more than 700 villas, mostly located in tourist areas such as Grand Baie, Pointe aux Piments, Trou aux Biches, Pereybere, Mont Choisy Vieux Grand Port, Bel Ombre, Tamarin, Riviere Noire, La Preneuse and Cascavelle, either as second homes or as an investment.
- The prices for housing in Mauritius have historically always been on the rise. Some luxurious properties have been sold at a margin exceeding 50% in two years from the first acquisition.

Commercial: integrated complexes have become the need of the hour

- The service sector exerts demand for integrated office complexes as opposed to standalone buildings. This is concentrated mainly in the urban corridor located from Curepipe to Port Louis. With offices shifting toward the Ebene region, the trend to decongest the central area has become increasingly visible.
- Some key developments setting this trend include Moka Business Park, Ebene Cybercity, Giga Park, La Tour Koenig Business Park, Rose Belle Business Park, Grand Baie Business Park and the Beau Plan Business Park, among others.

Retail: growing shopping destination

- The government has the vision to transform Mauritius into a duty-free shopping and leisure island. A vision document has already been focusing on the provision of infrastructure for developing shopping venues catering to tourists and the provision of a conducive business environment for potential investors.
- The government has a National Development Plan for demarcating and catalyzing tourism development zones around the island. The country allows FDI in retail.

Hospitality: driven by the growing economy[12]

- Mauritius witnessed an increase of 7.3% in the number of tourists between 2009 and 2010 (934,827 tourists: 2010). Tourists are drawn mainly from France, Reunion Island, the UK, Southern Africa, Italy and Germany. Interestingly, tourist arrivals from the Asian market increased by 22.3% to reach 75,985, with India taking the lead (2010: 49,879, increase of 26.8%).
- The government is keen on attracting high-end hotel development (four and five stars). Five-star hotels from leading hotel groups and already operating chains include Hilton Mauritius Resort & Spa, Oberoi Mauritius, Sofitel Imperial Hotel, Le Meridien, Maritim and the One & Only Group.
- At the end of December 2010, there were a total of 115 registered hotels. The total room capacity for these registered hotels in operation was 12,075 with 24,698 beds. For the year 2010, the room occupancy rate for operational hotels averaged 65% compared to 61% in 2009.
- Policies such as the Invest-Hotel scheme allow property developers to sell hotel rooms, villas, suites or any other part of a hotel to individual buyers. It paves the way to facilitate the overall financing of new hotel projects.

Industrial: restricted to certain pockets

- Industrial development is limited to certain areas namely Plaine Lauzun, Pailles, Phoenix, Coromandel, Riche Terre, Port Area and La Tour Koenig. In addition, the focus is mainly on small and medium enterprises.

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* The Integrated Resort Scheme (IRS) for large format developments has prescribed the sale of luxurious villas developed over a land area of more than 10 hectares. In this scheme, upmarket villas are offered from US$500,000 onwards. Acquisition of an IRS villa entitles the acquirer to claim a residence permit for the owner, spouse and children (minors).

** The Real Estate Scheme (RES) for small format development, allows small land owners to develop luxurious villas over land area to an extent of at least 0.42 hectares (1 Arpent) up to 10 Hectares for sale mainly to foreigners. No minimum prescribed price is imposed on the sale of villas.

Key trends[13]

- **Schemes attracting demand:**

  The demand under IRS started picking up in 2010.

  The IRS and RES schemes saw FDI worth US$66.7 million in 2010. FDI in the construction industry was at an all-time high in 2010 with a six-fold increase attributed mainly to massive investments in shopping malls.

  The luxurious residential market experienced mixed reactions with IRS (large format) residential units showing a decline in sale compared to the preceding years. On the other hand, the RES (small format) market showed increasing activity and sold 92 units in less than two years.

- **Opportunity for tie-ups:**

  The cooperation between local landowners and foreign developers attracted small landowners to participate directly as investors, entrepreneurs and promoters in the real estate sector.

Key transactions[14]

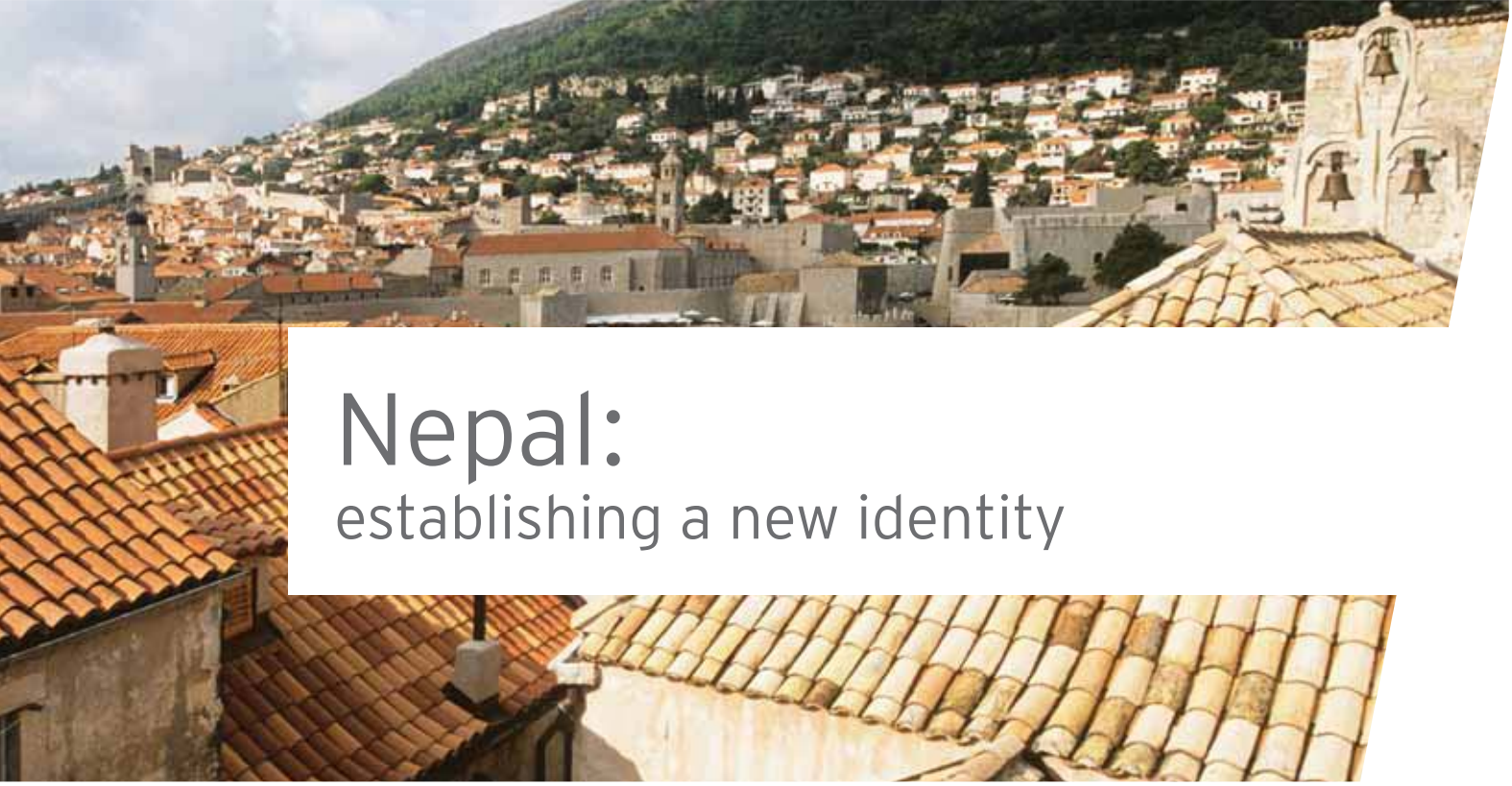
Entity name	Nature of transaction	Additional details
Anahita IRS 40 Ltd.	JV between Anahita Estates Ltd. of Mauritius (owned by the CIEL group) and Kingdom Hotel Investment, which belonged to Prince Alwaleed of Abu Dhabi	Construction of 40 villas
Les Villas Athenas Ltée	Developed by Evaco Group Ltd.	Development of 37 luxurious villas and a gym at Grand Baie
The Oberoi, Cap Macondé Resorts, Mauritius	Partnership between the Mauritian-owned Cliff of Macondé Property Holdings Limited (CMPH) and the East India Holdings Ltd. (The Oberoi Group)	Development of an 80-room luxurious hotel, spa and country club
Bagatelle-Mall of Mauritius	Partnership between ENL, an established Mauritian group, and Atterbury, a leading South African developer	Development of 0.4 million sq.ft. shopping mall with international brands
NEO Town	To be developed by a foreign company in collaboration with the government	Integrated township and waterfront development over 24 hectares of land

Outlook[15]

- Mauritius is emerging as a financial trade and global business destination, with a stable political environment.
- The government is keen to attract foreign investment into the country.
- Attractiveness of the country is reinforced by the favorable tax regime which includes low personal and corporate taxes and the absence of capital gains tax, in conjunction with policies such as the permanent residency permits, which are linked to property ownership (can be extended to the owner's spouse and dependents).
- A residency permit entitles the resident to apply for an occupation certificate to work and start a business in Mauritius.
- The banking sector (forecast to grow at 10%) was relatively unaffected by the global financial crisis on account of sound fundamentals and is likely to pave the way for strong growth.

For more details on the region, contact:

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Nepal:
establishing a new identity

Country and economic overview[16]

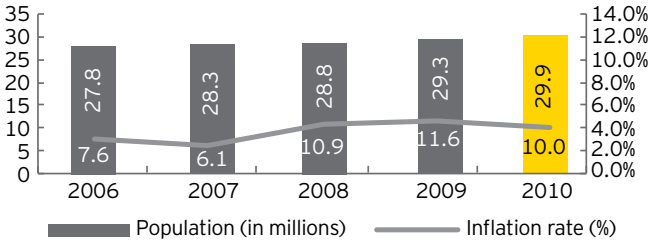
Land area	143,351 sq. km
Urban population	5.56 million (18.6% of total population)
Average household size	5.8
Key economic activities	Agriculture, agro-processing, tourism

Nepal's GDP increased at a CAGR of 4.3% during the period between 2006-2010, predominantly driven by agriculture, which is the mainstay of the economy (51.5% of GDP), providing livelihood to 75% of the population. Industrial activity largely depends on the agricultural produce. With the intervention of the United Nations (UN) and a general consensus among various political parties, there were a series of positive political developments, which contributed towards stability in Nepal. Political fragility over the past decade still has the country battling high inflation and unemployment.

The real estate market[17]

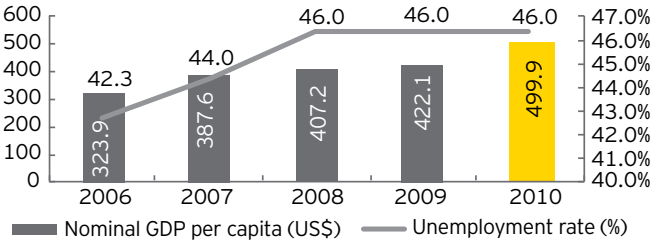
In the past five years, the growth in Nepal's real estate market was primarily centered on urban areas with the Kathmandu valley (Kathmandu, Bhaktapur and Lalitpur) being the most significant. The valley, in comparison to the rest of Nepal, possesses better basic amenities such as education, healthcare and infrastructure. The metropolitan areas within the valley are the key urban and employment hubs attracting workforce from across the country. As a result of the widening gap between the supply and demand for housing and infrastructure, squatter settlements have emerged in urban areas. Kathmandu is currently witnessing the decongestion of the core city areas toward suburbs, along with the conversion of residential properties in the core city to commercial. Land values have increased by more than 300% from the 2005–2006 levels.

Population and inflation rate



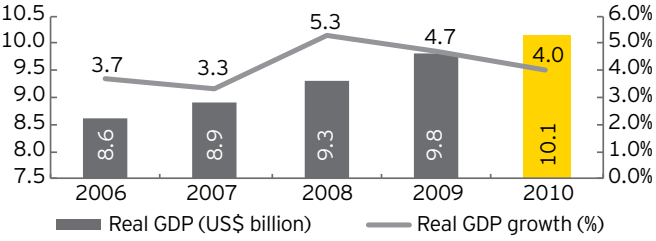
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

The wide disconnect between the urban, semi-urban and rural areas has made infrastructure (power and roads) upgrades a priority for the government. With three new international airports being planned at Nijgadh–Dumarwana, Pokhara and Lumbini, areas other than Kathmandu will see development in the next five years.

Snapshot of the Nepal real estate sector[17]

Residential: rising demand from middle-income group

- Kathmandu has the best employment opportunities and is considered a safe haven for housing. The demand from the growing population is largely met through new residential developments in the suburbs of the valley.
- Historically, the demand for plotted developments has always remained high. The concept of apartments is relatively new and newfound acceptance is pivotal to the rise in the number of such projects.
- Development in tier II cities such as Pokhara, Narayanghat, Butwal and Dharan and border cities such as Biratnagar, Birgunj and Bhairawa are slowly gaining momentum, with traditional plotted developments being the primary format.
- The high cost of land, coupled with low purchasing power, is driving the need for affordable housing across the country. Though there is significant demand, the segment has not picked up.
- Most of the supply (plotted and apartments) is targeted toward the middle-income group. The acceptance and supply of luxury apartments is gradually gaining momentum. The steep rise in prices last year has seen a suspension in sales in Kathmandu. This has led to a downward trend in prices because of the deferred decision.

Commercial: gradually emerging potential for organized developments

- In Kathmandu, there is an emerging demand for office space as businesses move from traditional locations to modern, equipped offices. Offices running in residential premises are a common trend, driven primarily by lower overhead costs. Standalone buildings developed by local land owners are seen sporadically across the city, making the supply erratic. However, organized property developers have not come up with any major development projects at this point.
- The absence of economic drivers has limited the commercial development to Kathmandu, outside of which there is little activity. In Kathmandu, the rentals for office space vary from US$0.5 to US$2.0 per sq. ft. The capital value of office space ranges from US$90 to US$300 per sq. ft. Recently, some deals around the new road areas have taken place at US$700.

Retail: nascent stages of growth

- Kathmandu has seen the rapid emergence of shopping malls across the city. Malls with cinema halls or theaters attract higher traffic. With affordability being a concern, mall locations need to be carefully selected.
- Retail is primarily driven by local brands in Nepal. International brands have a limited presence (Nike, Adidas, Levis, Samsonite, Samsung, LG, Nokia, HP and Dell are among the few brands present). The trend is slowly changing with more brands willing to explore the Nepal market (Hidesign from India has opened a new store in July 2011). Some local brands such as UFO and Himstar as well as a few Chinese brands are also gaining popularity and exploring expansion plans.
- Currently, FDI is not allowed in the retail sector in Nepal.

Hospitality: driven by tourism

- The tourism industry in Nepal is advancing at a fast pace, recording a growth rate of 18.6% in the last one year (CAGR: 7.1% between 2003 and 2009), contributing about 7% of the GDP.
- The government is focusing on positioning Nepal as a safe nation to travel. In an attempt to strengthen tourism, the government has declared 2011 as the Nepal Tourism Year and announced a variety of incentives.
- The liberalization of the FDI policy, which allows 100% FDI in most hospitality products, has attracted a number of hotels to Nepal.
- Limited available land for the purpose of hospitality is restricting the areas of focus to Kathmandu, Pokhara, Chitwan and Lumbini.

Industrial: low on government's agenda

- In the past, the government had come up with special economic zones (SEZs) and industrial parks around Kathmandu and Hetauda, which performed and progressed well. Since industrial development has been low on the government's priority agenda, no such projects have surfaced recently, not even by the private sector.

Key trends[18]

- **Growth restricted to few nodes:**

  Urban development in Nepal is restricted to the Kathmandu valley and, to some extent, Pokhara and Narayanghat. These markets are setting the trend for multistoried shopping complexes with modern theaters, private hospitals and hotels.

- **Price trends:**

  The steep rise in prices last year and the sudden restriction of exposure by banks to real estate has led to a sharp decline in real estate prices.

- **Opportunities for themed developments:**

  The theme city concept launched by the government is a new opportunity. Emerging development trends include Lumbini – The Birth Place of Buddha, new development on the suburbs of Kathmandu and Pokhara focusing on adventure tourism and Chitwan popularizing the jungle safari.

- **Need for affordable housing:**

  There is a pressing need for affordable housing in urban centers. The high price of land in Kathmandu and the surrounding hilly terrain provide limited options for affordable housing.

- **Expats begin to show interest:**

  There is also an emerging trend of the purchase of property by non-Nepali citizens.

Key transactions[19]

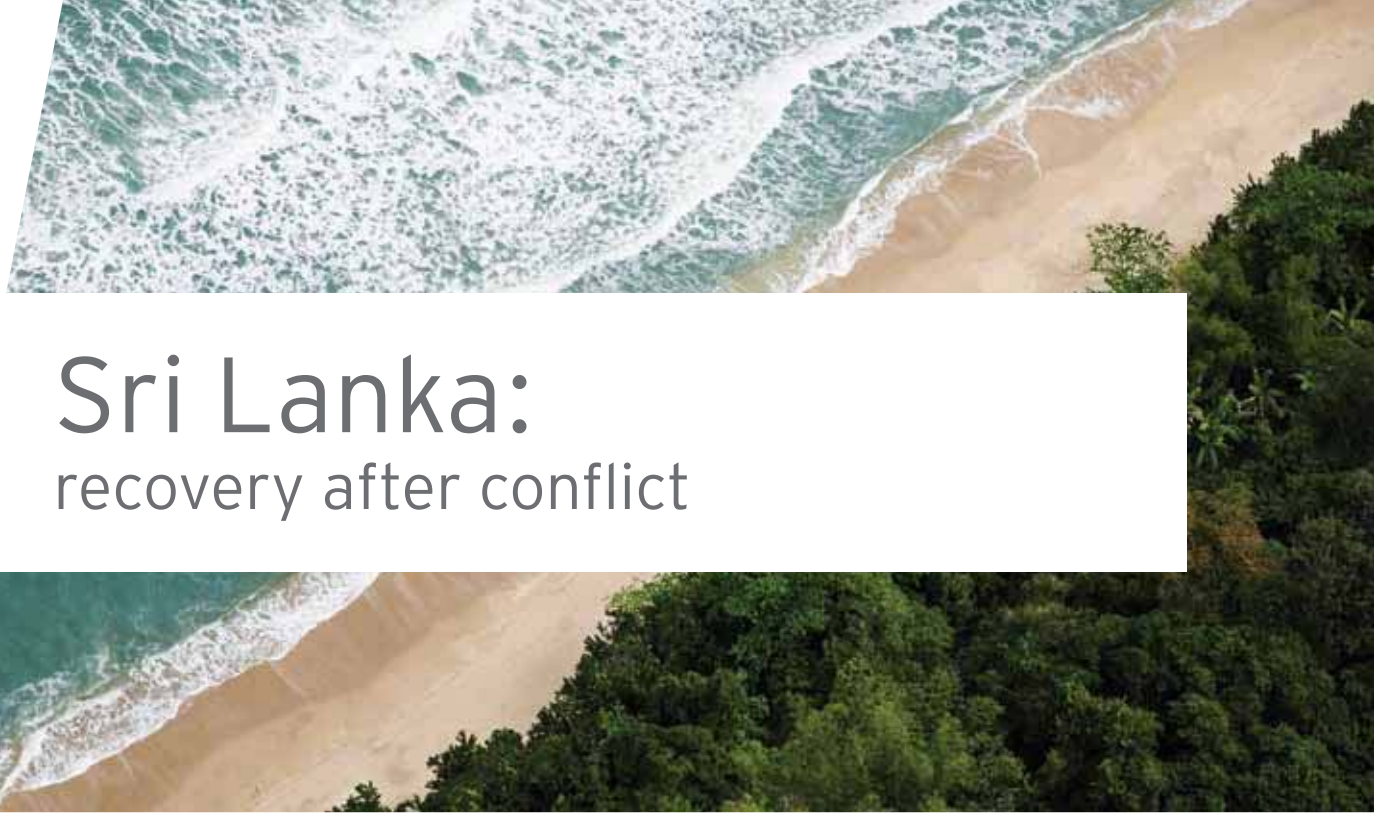
The real estate sector in Nepal still awaits investment activity unlike the telecommunication and hydropower sector, which have attracted investments. Hospitality and housing are sectors that foreign investors seem to be keen on for investments in Nepal; however, political instability continues to keep investors at bay.

Outlook[20]

- Rapid development, though restricted to certain areas such as Kathmandu, Bhaktapur and Lalitpur is opening new business avenues for both developers and investors.
- Improving connectivity with the development of the new airports at Nijgadh-Dumarwana, Pokhara and Lumbini is going to be the main driver for real estate development. In addition, Nepal has over 45 airstrips around the country, making remote areas accessible for unique development opportunities.
- The private sectors and the government are planning developments in areas such as Narayanghat, Lumbini and the suburban towns (mainly around Kathmandu), which are likely to house the migratory population.
- The opening of FDI and/or investment by expats in an individual capacity or through proprietary companies is also expected to fuel demand across the real estate sector.
- Redevelopment in Kathmandu is only in its infancy and there is a large scope of redevelopment in Kathmandu.

For more details on the region, contact:

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Sri Lanka:
recovery after conflict

Country and economic overview[21]

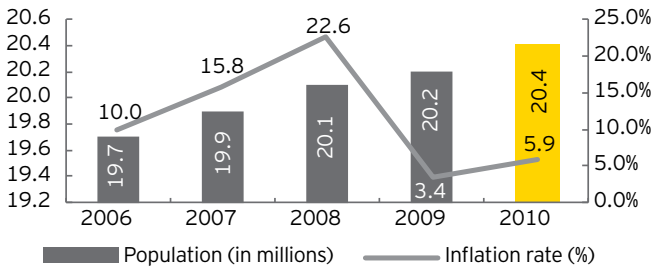
Land area	64,600 sq. km.
Urban population	3.0 million 15% of total population
Average household size	4.0
Key economic activities	Exports (textiles, rubber products, industrial goods), tea, business process outsourcing, construction, telecommunication, tourism

Sri Lanka's real GDP has increased at a CAGR of 6% during the period between 2006-2010, driven by growth in key sectors (agriculture, service and industry) as well as favorable monetary policies, allowing low interest rates, 100% profit repatriation and flexibility to borrow from overseas. The contribution of the service sector to the GDP growth has improved from 55.2 % in 2009 to 59.4% in 2010. Exports rose 17.8% in 2010 (compared with a decline of 13% in 2009), led by the shipments of rubber, tea and industrial goods. Improved security conditions after the end of the 26-year old civil war are expected to accelerate investments into the country and positively impact the tourism sector. FDI into Sri Lanka have increased rapidly in the last couple of years as a result of post-war optimism. The country is a strategic naval link between West Asia and South East Asia and is now using this to its advantage by building ports to fuel its rapid economic growth.

The real estate market[22]

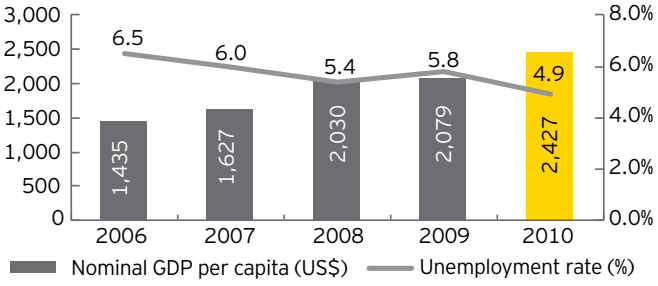
The real sector in Sri Lanka experienced its peak post the 2002 ceasefire agreement. However, with the recommencement of the civil war in 2004–2005, land and property sales dipped once again. It was only in May 2009 that the civil war ended. Since the latter quarters of 2009, real estate has witnessed an upward trend in demand with several local and domestic

Population and inflation rate



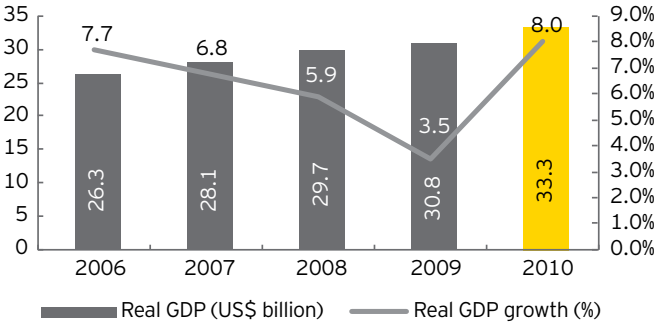
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

investors looking to capitalize on a promising economic growth environment. While the growth in traditional asset classes, namely residential, commercial and retail, is restricted to the commercial capital of Colombo and its suburbs, buoyant tourism and trade trends have resulted in the growth of hospitality and industrial real estate at strategic locations across the island. Policies encouraging home ownership, low interest rates, return of the expatriates and proximity to both India and China have all contributed to the growth of real estate in the country.

Snapshot of the Sri Lanka real estate sector[22]

Residential: growing demand for luxury housing

- The increase in per capita income levels due to high post-war growth is expected to assist the demand for real estate. The average household monthly income of the top 20% of the population is expected to double from the current US$900.
- Colombo is witnessing strong demand in the luxury housing segment, driven not only by high-net-worth individuals (HNIs) and the Sri Lankan expatriates. Colombo city has witnessed a supply of more than 1,500 high-end condominiums with a price range of US$185–260 per sq. ft., with more than 50% absorbed.
- The demand for luxury housing is expected to sustain over the medium term. Political and economic stability, coupled with an increased thrust toward the establishment of a service-based economy, are envisaged to drive the demand going forward.

Commercial: growing economy influencing demand

- Colombo is the prominent commercial real estate destination in the country. The demand is driven by growth in the banking, IT/ITES and tourism sectors.
- The high demand for Grade "A" office space in Colombo over the last few years, coupled with the lack of availability of such space, has led to higher absorption rates in the Grade "B" and "C" spaces.
- The demand for commercial space is also driven by the entry of international players in the country (a case in point, leading Indian bank Axis Bank, has entered Sri Lanka).

Retail: setting foot on an optimistic note

- Retail establishment in the country has largely been in the high street format. Lately, Colombo has witnessed a few organized retail establishments in upmarket locations.
- Given the current trend in organized retail and brand presence, there is a significant scope for enhancing retail capacity with the inclusion of the mid-segment to ultra-premium brands in the retail portfolio.
- The island is already witnessing inbound investments in this sector. Huichen Investment Holdings, China, is planning to set up a shopping mall with a convention hall on 157 acres near the Katunayake International Airport. Indocean Developers Pvt. Ltd. has proposed a mixed use condominium development project along Colombo's Beira Lake, which will include high-end retail stores and restaurants.

Hospitality: a booming sector[23]

- In 2010, Sri Lanka attracted 654,477 tourists (~ 41% increase from 2009 numbers), with a current room inventory in the country of approximately 14,500 rooms. There is likely to be a requirement for 30,500 new hotel rooms by 2016.
- In addition to incentives such as legalizing of gambling, the government is providing incentives for tourism-related developments. Some of these include tax holidays ranging from 5 to 12 years and a concessionary rate of income tax of 15% up to a maximum period of 20 years (depending on nature of project). Tourism development inititative include infrastructure establishment such as the second international airport in Mattala, Hambantota. In addition, domestic airports are proposed in tourist regions such as Nuwara-Eliya, Kandy, Mulathive, Pasikudah and Arugam Bay, Palaviya. A new sea port in Hambantota is also proposed to further development.
- The overall annual hotel occupancy rates rose to increased to an unprecedented level of 70.1% in 2010 from the 48.4% in 2009.
- According to the estimates from the Board of Investment (BOI), US$250 million worth of FDI came into the sector in 1Q10 alone, against US$601 million for the entire year 2009.
- The sector is witnessing a number of joint ventures. Vellai Islands have been leased out for US$33,797 to Sun Resort Investment Lanka Private Limited (joint venture among Sri Lanka, Maldives and Switzerland). The Ippantivu Island has been leased out to Qube Lanka Leisure Properties Private Limited (Indian investment) for US$127,881. Thailand-based Six Senses Resorts chain is building a US$40 million hotel in Ahungalla (in a joint venture with Sri Lanka's Aitken Spence group). Further, there is an investment proposal of US$75 million in the Dutch Bay Resort in Kalpitiya.
- Some hospitality projects in the pipeline include the purchase of six acres of government land in Colombo by Hong Kong-based Shangri-La Asia Limited. The development (investment US$500 million) is proposed to be a multi-use complex with a 500-room luxury hotel and high-end retail facilities. Shangri-La is planning the development of a second property (investment US$125 million), a 300-room, five-star city resort on approximately 100 acres of land in Hambantota, on the southern coast of Sri Lanka (proposed to be opened in 2013).

Industrial: government initiatives likely to drive demand

- Investment in infrastructure will drive investor demand for industrial real estate as it increases connectivity within cities, in addition to creating new destinations.
- The government has initiated new developments such as the free trade zone near the international airport.
- Sri Lanka's free trade zones are currently clustered in the north and northwestern regions of the country. The country is also witnessing the emergence of industry-specific zones such as the pharmaceutical manufacturing zone established in Kurunegala.

Key trends[24]

- **Real estate development drivers:**

  Colombo continues to be the preferred location for mid- to high-end residential, retail and commercial segments. Large-scale infrastructure projects have been announced across the country, with a special focus on the north and northwestern regions. There is a significant opportunity for affordable housing segment in these regions.

- **Potential for hospitality and retail:**

  In the hospitality segment, recent trends include the conversion of colonial buildings into boutique hotels. Further, the coastline offering beachfront locations, heritage sites and wildlife sanctuaries provides an opportunity for the hospitality and retail sectors.

- **Opportunities for theme based developments:**

  Theme-based mixed use developments are coming up in select locations of the country. The proposed Hambantota Sports City is a key sports-based development. The city proposes to house the 2011 South Asian Beach Games and the 2014 South Asian Games, and is also a candidate city for the 2016 Commonwealth Games. In addition, there is a proposal for the development of a business enterprise park, two universities and an IT park in the city.

Key transactions[25]

Karooda Group, Switzerland	US$359 million for the Thona Bay development in Kalkudah, close to the eastern city of Batticaloa. The development includes hotels, apartments, villas, entertainment, stores and a sports hub.
Lifetree Capital Partners	Launched a US$50 million fund to invest primarily in Sri Lankan property. They have bought a property in Dickwella in the south.
Shangri-La Asia Limited, Hong Kong	US$625 million for the development of 500-room luxury hotel in Colombo and 150-room hotel in Hambantota.
China National Aero Technology Import and Export Corporation	US$500 million for development of a shopping mall and 500-room five-star-plus hotel.
Indocean Developers Pvt. Ltd., India	US$400 million for the development of multi-use condominium project along Colombo's Beira Lake. The development shall include premium residences, high-end retail and restaurants.

Outlook[26]

- Sri Lanka expects a GDP growth of above 8% in the next two years, provided policy makers focus on fiscal consolidation, reforms to the key sectors, including the finance sector, and maintain a flexible exchange rate.
- The Board of Investment, an autonomous agency and primary government body responsible for foreign investments in the country, demonstrated foresight in the South Asian region and promoted foreign investments.
- Cities such as Hambantota, Rajagiriya and Battaramulla are the upcoming destinations attracting massive investments along with fast-paced infrastructure development.

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Singapore:
the making of a global city

Country and economic overview[27]

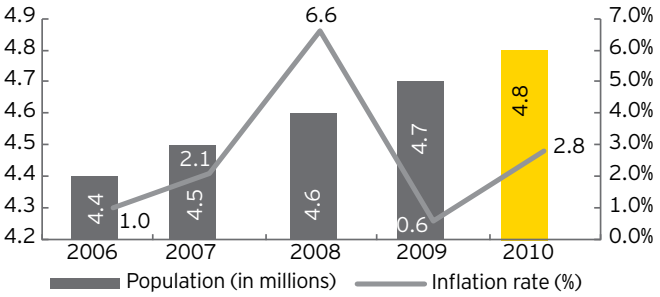
Land area	687 sq. km.
Urban population	4.8 million (100% of the total population)
Average household size	3.5
Key economic activities	Banking and finance, biomedical sciences, tourism, logistics, chemicals, construction and real estate, information and communications

Singapore's real GDP has increased at a CAGR of 6% during the period between 2006-2010, driven by strong exchange rate policies to offset pressures because of inflation ensuring stable growth. In order to drive growth, the government promoted new areas, including medical and biomedical sciences, financial services and tourism. Being a trade-dependent economy, Singapore remains exposed to global trends (for instance, electronic goods account for around half of Singapore's non-oil exports). Rising oil prices and slow Chinese growth (bilateral economic relations between Singapore and China are strong) could also dampen industrial production, export growth and services output.

The real estate market[28]

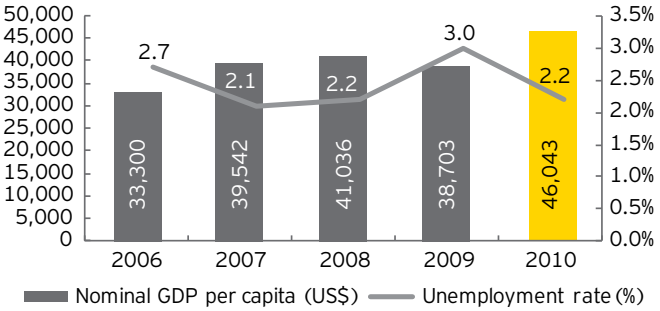
Singapore's real estate market has witnessed robust growth, driven by the economic recovery. The residential sector saw an increase in prices. The luxury end of the market had the highest growth rates. The growth in the sector was so strong that the government had to intervene through the introduction of anti-speculative measures. While the commercial office space witnessed a sharp decline in rents, the retail sector remained stable. In the industrial sub-sector, there was also a sharp lift in yields.

Population and inflation rate



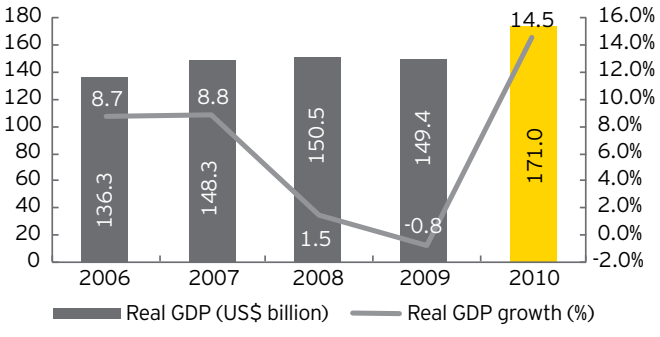
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

Snapshot of the Singapore real estate sector

Residential: growing demand
▶ The surge in housing prices is a result of the substantial purchases by expats.
▶ An undersupply situation is forecast with projects in the pipeline expected to near completion in the next three years (by 2013), causing the price index to witness an increase of 17.6%. The undersupply situation was aggravated with the Singapore Government focusing primarily on affordable public housing projects under the government land sales (GLS) program of 2011, which released 19 residential sites, providing 14,200 residential units.
Commercial: strong economic fundamentals shall drive demand
▶ With higher inflation from 5% to 6% in the first few months of 2011, office rental saw a marginal rise in 1Q11. The rents of the Grade "A" office space in Raffles Place, Shenton Way, Robinson Road and Tanjong Pagar saw a marginal quarter-on-quarter increase of 2% to 3%.
▶ As predicted by the Economic Survey of Singapore (fourth quarter 2010), the business growth outlook for three key office space users, i.e., financial, real estate and business, is expected to remain positive until the end of 2011. This leading indicator translates into a positive outlook for expansion in terms of demand for office space, employment and operating receipts.
Retail: growing tourism industry drives retail
▶ Retail rents remained stable following sustained leasing activities in first quarter of 2011. Although consumer sentiments and tourist arrivals are buoyant, the number of players in the market tends to outplay the supply.
▶ The Singapore Tourism Board (STB) expects 12–13 million tourists in 2011, drawing in expected revenues between US$18.3 billion and US$20 billion. In line with the trends from 2010, approximately more than 20% of the expected revenues through tourism are likely to come from retail sales and about 10% from food and beverage sales from tourists.
Hospitality: business travelers and tourists drive demand[29]
▶ The average room rates (ARR) are pegged at US$186. According to data from STB, ARRs for mid-tier hotels showed the greatest improvement with a 22.4% increase in rates from US$114 in 2009 to US$140 in 2011.
▶ Supported by a healthy economy and a projected increase in visitor arrivals, island-wide occupancy levels are anticipated to be achieved in the range between 83% and 86%. This is a slight dip from the 85.6% recorded last year, but up from the 81.8% and 83% occupancy levels in the first two months of this year. The projected range for average occupancy rates for 2011 indicates a very busy year for the hospitality market.
Industrial: growing manufacturing sector positively influences industrial development[30]
▶ Despite rising business costs and uncertainties in the region, Singapore's manufacturing sector grew by 13.9% year-on-year in 1Q11. Rental rates also followed the growth in manufacturing and rising by 23.4% y-o-y in 1Q11.
▶ There was a total supply of 33.6 million sq. ft. gross floor area (GFA) of factory space from projects in the pipeline as well as from government and private land sources at the end of 1Q11. Further, approximately 32 million sq. ft. of new space is expected to get added between 2Q11 and 2013. The vacancy rate of factory space was 6.9% at the end of 1Q11, as against 7.2% at the end of 2010.

Key trends[31]

- **Real estate demand continues:**

  Strong economic growth and a stable job market are likely to fuel real estate demand. In addition, the inflow of immigrants continues to contribute to a strong mass market. With strong growth, a bullish environment, transparent and uniform regulations, foreign buyers are likely to continue to be attracted to Singapore's market. Luxury market segments in Sentosa, Marina and prime areas such as District 9, 10 and 11 are expected to continue experiencing robust demand.

- **Rentals likely to firm:**

  The strong job market is likely to attract foreign job seekers. The strategic geographic location, which allows companies to serve China in the north and Australia and New Zealand in the south, will continue to attract multinationals and large corporate entities, which are likely to continue relocating to Singapore.

- **Policy risk:**

  With money flowing into Singapore, particularly in the real estate market, policy risk hangs over the market. However, this is positive as the Government of Singapore is proactive to temper down any exuberance and also quick to nudge the market if it were weak. The intent is a stable market, rising in tandem with the economy and fundamentals and not ahead of it. The government has identified the housing affordability, cost of living and widening income gap as issues they would handle. As such, if the real estate prices rise too fast, more measures to cool the market are likely. As a result, short-term investors would not find Singapore attractive. However, longer-term investors with a view of three to five years at least may be the ones who will benefit the most from the steady rising market.

Key transactions[32]

Approximately US$5.6 billion of investment transactions were recorded in the first three months of 2011. Transaction volumes generally declined across the residential, commercial and industrial sectors; however, this can be attributed to the high volumes recorded in the previous quarter, which saw several large deals conclude.

Non-permanent resident (NPR) Chinese buyers remained the largest group of foreigners buying private apartments (non-landed properties) in Singapore in 1Q11, accounting for 28% of the foreign transactions, compared to 25% in 4Q10. Chinese investors, whose wealth expanded quickly over the last few years, perceived Singapore as a safe haven to invest their money and a suitable location to settle their families, given the similarity in culture, favorable investment climate, good quality education and stable economic growth.

Outlook[33]

- Singapore's GDP is expected to grow at 5.9% in 2011, supported by rising private consumption. The factors driving private consumption include rising wages, a low unemployment rate and a stronger currency.
- The real estate prices in Singapore are expected to continue to rise due to the increase in demand from foreign investors, particularly from China, Malaysia and Indonesia.
- The residential sector is expected to maintain strong growth supported by a state-run home ownership program. The Housing Development Board (HDB) is boosting the housing supply to cool rising property prices. To support this, the Government of Singapore has announced an amount of US$7.8 billion to be spent on affordable housing over the next decade.
- The average growth in Singapore's real estate sector is expected to be 7.2% per annum between 2011 and 2015.

For more details on the region, contact:

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UAE:
reassessing the expansion blueprint



Country and economic overview[34]

Land area	83,600 sq. km.
Urban population	3.9 million (84.1% of the total population)
Average household size	3.0
Key economic activities	Oil, tourism, banking sector, construction, real estate

UAE's real GDP has increased at a CAGR of approximately 1.6% (nominal GDP increased at 6%) during the period between 2006-2010, primarily driven by oil and gas, real estate and the hospitality industry. The impact of the global economic recession hitting the UAE resulted in a decline of real GDP from approximately US$211.6 billion (nominal GDP:US$315 billion) in 2008 to US$208.2 billion (nominal GDP:US$270 billion) in 2009. In 2010, the UAE economy showed marginal signs of improvement with the real GDP growing by 1.4% to approximately US$211.2 billion. This rise can be attributed to the growth in oil prices, rebound in-bound tourism and trade strengthening in the UAE. In 2011, the per-barrel price of oil is in the US$90–100 range (2010: average of US$71 per barrel), potentially boosting the surplus for the UAE federal government. The regional instability faced in Egypt, Libya, Tunisia, Syria, Yemen and Bahrain has been beneficial for the UAE as it is viewed by investors as a safe haven in the region.

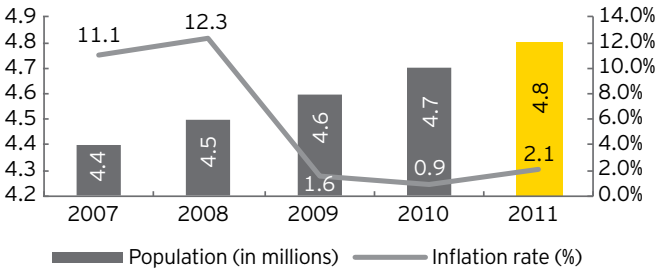
The average real GDP growth in the Middle East for 2011 has been forecast at 4.5%, primarily due to rising oil prices.

The real estate market[35]

In the past five years, UAE's real estate market has witnessed a complete cycle from boom to bust.

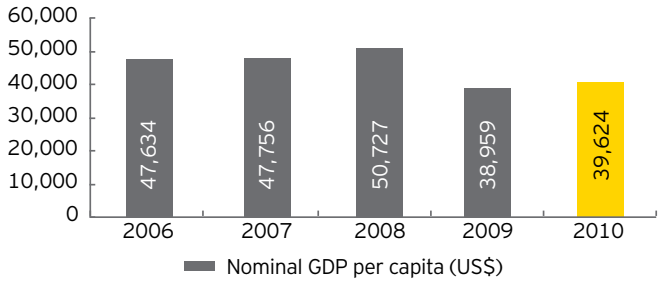
Home to the fastest boom in the world, the UAE real estate market began flourishing at the beginning of 2002 when the law to make properties available for sale to foreigners on a freehold basis was announced. The global economic crisis hit the speculative market in the fourth quarter of 2008.

Population and inflation rate



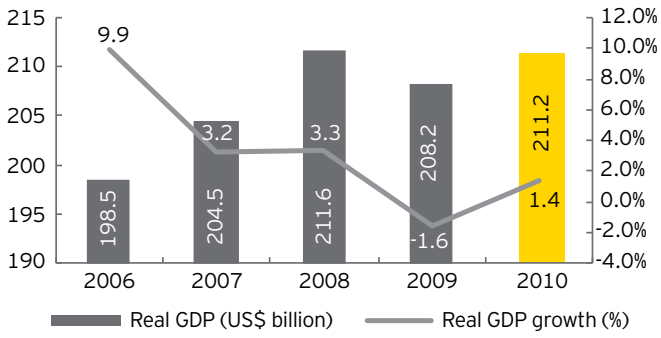
Source: World Bank and IHS Global Insight

Nominal GDP per capita (US$)



Source: IHS Global Insight
Note: UAE unemployment rate in 2009 – 4.2%. (Source: National Bureau of Statistics, UAE). Time series data unavailable

Real GDP and real GDP growth



Source: IHS Global insight

Snapshot of the UAE real estate sector[35]

Residential: oversupply hits the residential market
▶ The UAE housing market has continued to be adversely impacted by the demand and price declines in its key emirates (Dubai, Abu Dhabi and Sharjah). The average rental prices dived down by approximately 17% in 2010. The continuous inflow of new units is resulting in an oversupply, exerting a further downward pressure on property prices, indicating a long-haul recession.
▶ Dubai in particular faces an oversupply situation with current residential supply standing at 309,000 units, with an additional 60,000 units to be completed by the end of 2013. The average achieved prices for apartments in Dubai decreased by about 55% to US$270 per sq. ft. between 2008 and 2010.
Commercial: not enough demand to meet the supply
▶ There is a serious oversupply situation in the commercial office space in the UAE.
▶ UAE, despite being one of the most prominent commercial office markets catering to a number of multinationals in the Middle East and North Africa (MENA) region, has not been able to escape the oversupply situation.
▶ The total office stock in Dubai at the end of 1Q11 stood at approximately 61.4 million sq. ft., a growth of 17% year-on-year. Dubai's office market is currently characterized by an oversupply with vacancy rates of 45%.
Retail: intensified competition urges mall owners to think out of the box
▶ The UAE houses the most developed retail market in the Middle East, with Dubai leading the way in attracting prominent international brands. Dubai has experienced a significant boost in new retail supply entering the market with over 10.7 million sq. ft. completed over the past five years.
▶ The average estimated rental values declined by 47% to US$53 per sq. ft. over 4Q10 from US$100 per sq. ft. in 1Q09. Moreover, vacancies across existing malls are very high and range from 15% to 30%.
▶ Intensified competition among shopping centers in some markets has created the need for mall owners to assess repositioning options such as tenant mix, expansion and refurbishment.
Hospitality: Dubai attracts more tourists
▶ The average room rate (ARR) in Dubai was up by 3% to US$193 in May 2011, while revenue per available room (RevPAR) experienced no change at US$148.
▶ Dubai is one of the key tourist destinations in the UAE. Dubai hotels recorded an average occupancy of 75% in 2010.
▶ Dubai witnessed a 10% increase in tourist arrivals in 2010 receiving 8.6 million visitors, compared to 7.8 million in 2009. According to Dubai Toursim and Commerce Marketing (DTCM), 26 million guest nights were registered during 2010 reflecting an average length of stay of about three nights. The average daily rates continue to be on declining trend.
Industrial: limited opportunity
▶ The industrial real estate is primarily offered on a leasehold basis. There are a very limited number of freehold transactions in industrial real estate.

Key trends[36]

- **Real estate drivers:**

  The focus for future years will be building affordable homes, increasing availability of home loans at lower interest rates, promotion of green buildings and adopting policy measures to regulate developers.

- **Price trends:**

  The oversupply in both residential and commercial space is expected to exert significant pressure on capital values and lease rates.

- **Shift in retail format:**

  The retail sector is expected to see a significant shift in emphasis over the next few years with far greater attention on community-led retail.

- **Government infuses demand:**

  The infused demand through initiatives such as the Dubai Shopping Festival held in January/February is expected to stay robust. Retailers have become more cautious in their expansion plans and are benefiting from a greater choice of possible locations.

Key transactions[37]

Name of the entity	Nature of transaction
Union Properties	The company sold the Ritz Carlton Hotel in the Dubai International Financial Centre (DIFC). The deal size was US$300 billion.
Mubadala Real Estate and Hospitality	The company plans to buy the remaining stake of John Buck International.
TASWEEK Real Estate Development and Marketing	The company has signed a memorandum of understanding (MoU), forming an assets and property management joint venture with the UK-based MERJS Ltd.
AECOM Technology Corporation	The company has acquired Tishman Construction Corp., a leading provider of construction management services in the US and the UAE. The deal was valued at US$245 million.
Prudential Real Estate Investors and Mubadala Development Company	Both the companies have agreed to form a joint venture company, which will raise capital from investors to fund and invest in real estate projects in Abu Dhabi and other global markets.



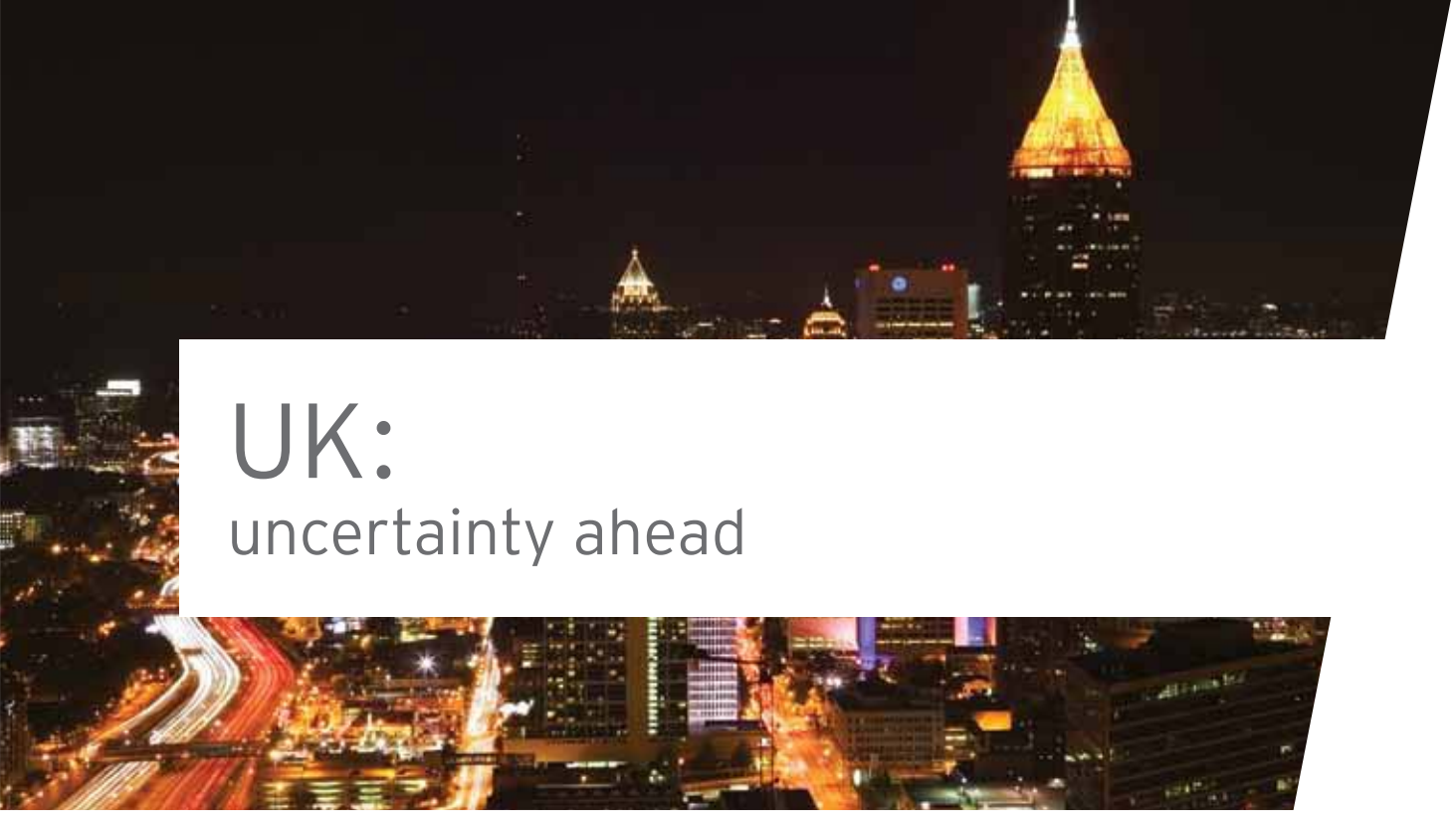
Outlook[38]

- The global economic slowdown has currently impacted the UAE economy; however, its medium-term outlook remains bright, given its oil wealth (rise in oil prices) and the development of its non-oil sectors, development of UAE as a regional hub for service industry and increase in tourism are expected to drive the growth of the real estate and hospitality market in UAE.
- One of the important factors that will contribute to long-term growth in the UAE is the large-volume fiscal resources that are currently being spent on infrastructure and education.
- With global economic recovery, the UAE's governmental bodies are also likely to start taking some steps to revive the real estate market.

For more details on the region, contact:

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UK:
uncertainty ahead

Country and economic overview[39]

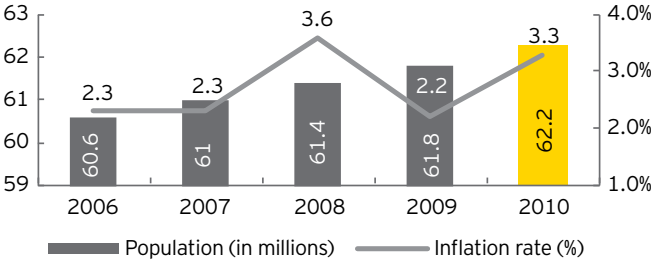
Land area	241,930 sq. km.
Urban population	50 million (79.6% of total population)
Average household size	3.1
Key economic activities	Banking, insurance and business services

The United Kingdom (UK), a member of the European Union, is the world's sixth-largest economy with a real GDP of nearly US$2.3 trillion in 2010. The UK's economy is primarily driven by its services sector, which contributed around 77.1% of its total GDP in 2010. The industrial and agriculture sectors contributed 22.1% and 0.9%, respectively, in 2010.

Since the global economic slowdown, the UK economy, which had seen steady and sustained economic growth with low rates of inflation until 2008, witnessed a complete turnaround. As a result, its real GDP growth dipped to (4.9%) in 2009 from 2.7% in 2007 and the unemployment rate surged to 7.6% in 2009 from 5.4% in 2007. However, as a result of the government's initiatives, the real GDP growth rate improved marginally to 1.4% in 2010.

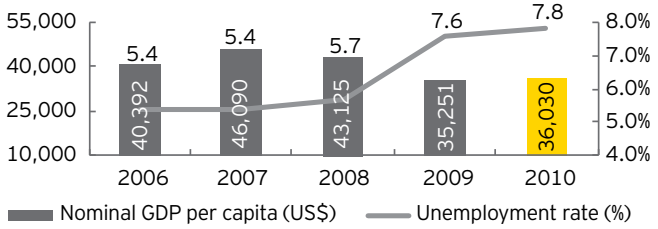
Government initiatives such as stimulus packages and easing of policies to promote trade are helping the UK economy to slowly recover from the slowdown, though the near-term economic forecasts for the UK are very limited growth. In the last three quarters, the UK economy has struggled to grow and activity remained under pressure, primarily due to fiscal tightening that adversely impacted economic growth. Consequently, economists project GDP growth to be limited to 1.1% in 2011 .

Population and inflation rate



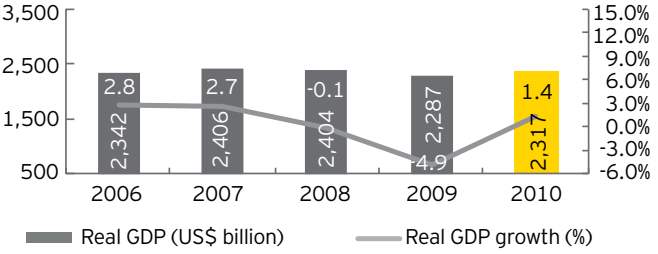
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

The real estate market[40]

The UK real estate market has moved in sync with it's economy, which has witnessed spurts of growth since the slowdown. The sector continues to be under pressure due to slow growth, elevated unemployment and an increased inflation rate. These factors have dampened demand and have negatively affected property prices in most micro-markets in the UK. Estimates released by the National Statistics office show that the year ending March, real incomes (adjusted for inflation) saw a fall of 2.7% – the worst fall since 1977. The increased taxation and inflation are negatively impacting consumer spending power.

The real estate market in London was an exception and continued to attract investors from across the world due to drivers such as low interest rates and favorable foreign exchange rates.

Snapshot of the UK real estate sector[40]

Residential: still subdued
▶ Rising interest rates, negative buyer sentiments and the ongoing shortage of mortgage finance have led to reduced residential transactions across the UK.
▶ In the past few months, house prices in most parts of the UK have declined. Northern Ireland registered the steepest fall at 15.2%, followed by the North East at 4% and West Midlands at 3.8%, as compared with the same period last year. House prices had increased only in the southern region of London (3.6%), the South East (1.1%) and the East (0.8%).
▶ The government announced various programs to improve demand in this segment. For instance, the First Buy Direct program aims to help 10,000 low-income first-time buyers by providing interest-free loans worth up to 20% of the value of the property. The mortgage Interest program that provides support in mortgage interest payments has been extended until January 2013.
Commercial: reflecting signs of growth
▶ Recovery in tenant demand was witnessed in 2010, largely due to corporate entities planning to expand their businesses. As a result, the commercial property market was demonstrating signs of improvement. The financial services and ancillary professional service sectors were driving recovery in the segment. This is expected to decline given the slowdown in the economy in 2011.
▶ London continues to outperform all other regions in the UK commercial property market. London's West End is considered among the world's most expensive office space, with rents in 2010 having increased by 31% to US$140 per sq. ft. per annum. In 1Q11, the rent increased by 6% to US$148 per sq.ft.
▶ The government's austerity measures have, however, created some uncertainty in the commercial property market. Moreover, tight bank lending norms may continue to restrain development activity, especially in the regional markets where private equity investors are not as active as in Central London.
Retail: setting foot on an optimistic note
▶ Retail sales remained resilient during the last year. The demand for additional space has increased marginally due to the entering of a number of new and overseas retailers into the UK market.
▶ The impact of the slowdown has declined and the availability of surplus retail space nationally is expected to favor stable rental growth.
▶ London's retail property market has experienced a phase of strong growth, driven by international retailers competing for space in the city.
▶ The investment market for retail property has continued to be firm with relatively few assets coming to the market and the strong demand for quality assets from a wide range of investors. However, the UK retail property market in particular felt the negative effect of a rise in VAT in January 2011 and government's austerity measures through spending cuts.
Hospitality: signs of potential upside
▶ The hospitality sector is the fifth-largest employer in the UK, directly employing more than 2.4 million people. The number of foreign tourist arrivals (FTAs) in the UK has increased marginally by 3% during the 12 months to April 2011, as compared with the same period last year (from 29.3 million to 30.3 million). During the same period, business visits and leisure travelers have increased by 7% and 6%, respectively.
▶ Hotel industry performance metrics such as occupancy rate (OR), average room rate (ARR) and revenue per available room (RevPAR) have recorded a marginal improvement. In 2011, OR is expected to increase by 1.4% to 70% and ARR is expected to increase by 3% to US$110.2. As with all other asset classes, the profitability and performance of hotels in London outperformed all other regions.
▶ In January 2011, the government increased VAT from 17.5% to 20%, which led to an additional fuel tax burden for FTAs. Other factors negatively impacting the industry are reduced domestic consumer spending, high inflation rate and rising marketing and maintenance costs.

Industrial: limited availability

- Due to uncertain economic outlook, overall investments continue to decline in this sector. The absence of good quality stock has led to competition for the limited available prime assets. More than the quality of the stock is the issue of the right kind of stock sought by suitable occupiers. Most regions of the UK have seen static rentals.
- The deregulation of the UK logistics sector has helped it to be one of the most competitive. The logistics (rail, road, air, inland waterways, sea, warehousing, value added services) sector in the UK was estimated to be worth US$105.7 billion in 2010 (48% of the value derived from road transportation). This was a 9.9% growth from 2009 (US$96.2 billion). The growth in 2010 marked the emergence of the sector out of the recession, which had seen a decline of 20.4% in 2009 from 2008 (US$120.9 billion).

Key trends[41]

- **London rents boosted by the euro-zone crisis:**

  As the financial capital of the UK, London has witnessed a considerable improvement in its rental and investment markets. This has primarily been led by an increase in headcount by financial and business services companies that are expanding operations in the city, pushed by the euro-zone crisis. London has continued to find favor as a preferred investment destination for long term investment capital looking for a safe and transparent economic and political climate. The relative weakness of sterling has also compounded the strong London investment activity levels. The demand from European companies has been a constant driver for the central London rental market, with French, Italian and German tenants taking substantial shares of rentals.

- **Step up in the demand for green offices:**

  Sustainability is fast becoming a key criterion for tenants choosing office space. While green buildings currently comprise a very low share in the UK market, it is expected to pick up momentum as corporate tenants look to reduce operating costs and support corporate environmental and social responsibility goals.

- **New homes bonus program boosts affordable housing:**

  The New Homes Bonus program by the Housing Ministry adds an extra incentive through a cash boost available for affordable homes up to 36% higher than that for a similar-spec market property.

- **Rise in commercial property inquires:**

  With an increase in business confidence in the capital, a growing number of organizations are making inquiries regarding relocation to London. Relocation activity is a reliable indicator of confidence among the business community.

Key transactions[42]

Much of the real estate investment activity in the UK takes place in London and the Southeast region, with investment activity in other regions still being very challenging. Most of the UK's overseas investors are from the Middle East, the US and Asia. Notably, retail witnessed the highest number of transactions.

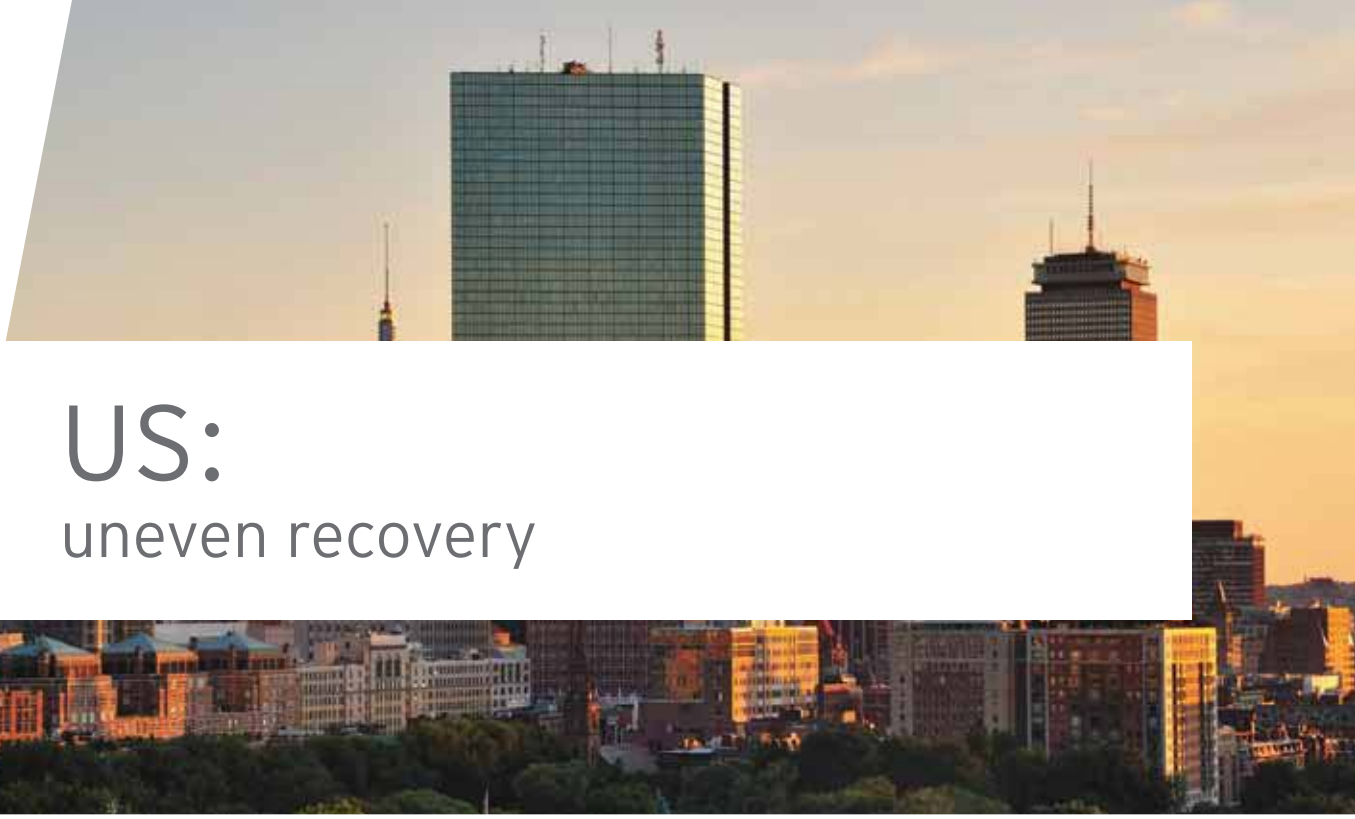
Entity name	Nature of transactions	Additional details
Tesco Pension Fund	Sale and leaseback of 21 Tesco supermarkets	The deal size was of US$1,120 million.
The Capital Shopping Centres	Purchase of the Trafford Centre in Manchester, UK	The deal size was of US$2,560 million.
Norges Bank	The bank took a 25% stake in Regent Street (one of the busiest shopping streets in London) from The Crown Estate	The deal size was of US$742 million.
British Land	Purchase of Drakes Circus (shopping center) in Plymouth from the Kandahar Estate	The deals size was of US$396 million.

Outlook[43]

- The gradual recovery in GDP growth rate and gradual employment generation seen in 2010 was offset by inflation and stagnant wage movements in the first half of 2011. GDP has grown marginally in 2011 (Q1:0.5%, Q2:0.2%). The growth seen in the second quarter was driven by the services and construction sector. GDP growth is projected to increase up to 1.8% in 2012.
- The 2012 London Olympic Games, are likely to boost the sector. The Public Sector Funding Package is nearly US$16.4 billion, and is expected to open significant avenues for real estate sector players.
- With London having shown signs of recovery in 2010, the remaining regions are expected to stabilize in line with economic stability in the near future.

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US:
uneven recovery

Country and economic overview[44]

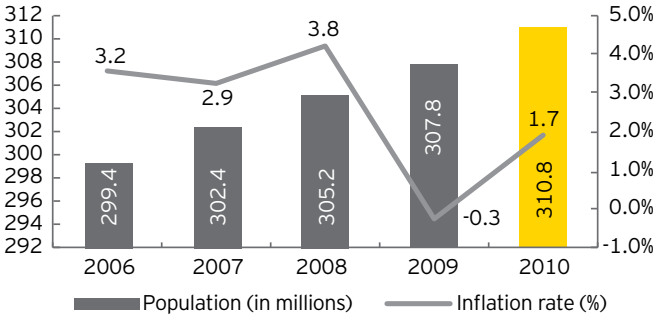
Land area	9,826,675 sq. km.
Urban population	261.4 million (82.3% of total population)
Average household size	2.53
Key economic activities	Petroleum, steel, motor vehicles, aerospace, chemicals, electronics, mining and business services

The real GDP has increased at a CAGR of 0.5% during the period between 2006-2010. This performance was driven by strong consumer spending and a relaxed fiscal and monetary stance following the brief recession of 2001–2002. In 2007, the economy, however, faced a severe crisis originally brought about by the burst of the housing market bubble. A financial crisis then ensued as the over-exposure of many banks and other lending institutions to the sub-prime housing market became evident. Contagion then affected all other sectors of the economy, which drew the country into a recession, beginning December 2007. In an effort to alleviate the impact of the crisis, the US Government enacted bold yet controversial policy measures. Although the recession technically came to an end in June 2009, the recovery has been very gradual and fragile. Current-account and fiscal deficits remain daunting with the national debt at US$14.1 trillion and rising. Simultaneously, the US real estate market faces formidable challenges due to the European sovereign wealth crisis and an uncertain employment outlook. Additionally, the recent downgrade of US debt added to the uncertainty in the marketplace.

The real estate market[45]

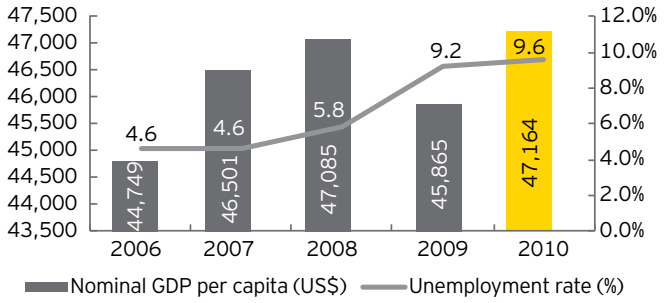
The past five years have seen the real estate market go from robust growth, driven by the abundance of inexpensive debt, to a steep decline brought about by excessive leverage and

Population and inflation rate



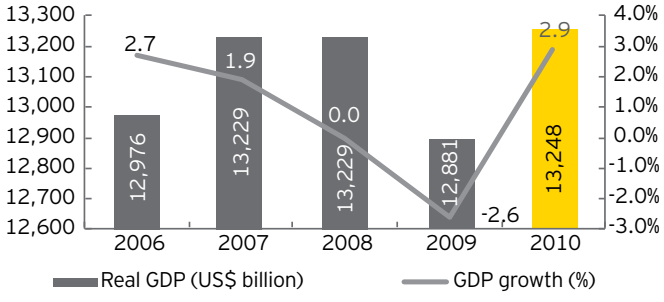
Source: IHS Global Insight

Nominal GDP per capita and unemployment rate



Source: IHS Global Insight

Real GDP and real GDP growth



Source: IHS Global Insight

a shortage of financing. Late 2010 to early 2011 saw the lending environment improve, as life insurance companies started financing stable real estate assets. Commercial mortgage-backed securities (CMBS) programs resuscitated themselves in the first half of 2011; however, the debt crisis has widened CMBS spreads, and Standard & Poor's is re-evaluating its CMBS model. This has frozen the CMBS market in the third quarter of 2011. Specialty lenders have emerged as new players and have begun to participate in the bridge lending market. There is also capital looking to offer mezzanine debt. The financing for construction loans or for properties with minimal or no cash flow remains low, as lenders are averse to taking on additional risk. A lot of capital remains on the sidelines to take advantage of buying opportunities, if and when they materialize.

Snapshot of the US real estate sector[45]

Residential: multifamily is improving while single family remains distressed
▶ The demand for apartments decelerated somewhat during 1Q11. While the growth was still strong, vacancy improvement was not as strong as in 2010.
▶ Despite marginally subsiding demand, the rental market for apartments reflected a strong recovery rate (national index rising at an annual rate of over 3%). The recovery in the multifamily sector has led to clearly discernable rental growth.
▶ With rising apartment demand, the trade-off between vacancy and rent growth will become increasingly evident: lower vacancy will allow for higher rents. If employment gains fail to materialize, then absorpition rates are at risk.
▶ Existing home sales in July 2011 continued to fall, coming in at a seasonally-adjusted annual rate of 4.7 million. New home sales remain near record lows, at a seasonally-adjusted annual rate of 298,000 as of July 2011.
Commercial: real estate recovery depends on job growth
▶ The overall office vacancy rate, based on transactions, continues to decline and downtown submarkets outperform suburban submarkets.
▶ Notwithstanding the improvements in office occupancy since 2010, the sector remains under pressure. Office employment growth was tepid in 2010, and employers must take additional steps for a prolonged rebound in office demand.
▶ The addition of nearly 900,000 new jobs through May 2011 may have an influence on the demand for office space; however, unemployment remains at just over 9%.
Retail: a slight improvement in sales of necessities and luxury goods
▶ Although the recovery in the retail property sector has continued, the overall availability rate improved only marginally in 1Q11, to 13.1%, 10 bps higher than the 4Q10 rate and 20 bps higher than in 1Q10.
▶ While retail sales demonstrated strong growth in January and February, the owners of shopping centers providing primarily necessity goods witnessed an inconsistent rebound in demand. Coinciding with the rise in the availability rate, absorption declined by approximately 1.3 million sq. ft. during 1Q11. This offsets the gains posted during the second half of 2010.
▶ Consumer confidence remains low, as people attempt to digest what's happening with the economy, Washington, DC and around the world.
Hospitality: strong recovery in RevPAR but rates remain below 2007 highs
▶ Occupancy rate (OR), average daily rate (ADR) and revenue per available room (RevPAR) continued to move upward during 1Q11. Strong demand from both leisure and business travelers has strengthened both OR and RevPAR in certain micro-markets such as Hartford, CT; Detroit, MI; Orlando, FL; Pittsburgh, PA; and Dallas, TX.
▶ The combination of room rate growth and robust occupancy changes pushed RevPAR in 1Q11 higher by 9.1% on a year-on-year basis. It marks the third straight quarter with growth higher than 9%.
▶ The combination of rising occupancy and ADRs has supported RevPAR growth well above long-term averages in recent quarters.
Industrial: showing measured improvement
▶ The industrial availability rate has been declining beginning in 2011. The decline offers additional evidence that the industrial sector's recuperation continues. Fundamentals are getting better, but as availability rates still hover near their historical highs, the market remains relatively weak.
▶ Despite the deep trough from which the sector must emerge, most markets recorded widespread declines in availability. Part of the improvement was attributable to a turnaround in US manufacturing which helped to spur manufacturing markets such as Detroit, MI, and Cleveland, OH, during the quarter. However, the improvements were widespread and extended to all industrial sectors.

Key trends[46]

- **Bifurcation of the capital market recovery:**

  Some markets such as New York and Washington, DC are on the rebound, while others lag behind. Yet the shift in values taking place in a select few markets is largely the result of capital markets and capital availability. During the economic slump, commercial real estate prices began to mirror the acute aversion to risk, as investors expected that real estate would inevitably suffer as other sectors had. The first turnaround in values is visible in the assets in markets and locations perceived to be the best.

- **Investors view the most coveted assets in the best markets as carrying the least amount of risk:**

  As aversion to risk subsides and capital becomes increasingly available, investors are expected to increase their appetite for riskier markets. March 2011 recorded the second-largest number of existing property sales since 2008. Of those sales, approximately 33% involved distressed properties, representing the largest volume of distressed transactions since the tracking of distressed sales began in 2000. The major drivers of heightened sales volume include improved fundamentals and the increased access to credit.

- **Rising demand driving hotel occupancy rates:**

  Higher demand drove occupancy rates further up in markets such as Hartford, CT; Detroit, MI; Orlando, FL; Pittsburgh, PA; and Dallas, TX. Each market enjoyed full-service demand growth above 12%. Rising demand was also seen in group and convention properties. Room rate growth and robust occupancy changes collectively pushed RevPAR in 1Q11, an increase of 9.1% on a year-on-year basis.

Key transactions[47]

Entity name	Nature of transactions	Additional details
Private equity firm TPG	TPG has purchased US real estate assets from global logistics giant ProLogis.	The deal includes large portfolio of commercial real estate in the US for US$505 million. Some of the assets which would not be under direct ownership of TPG are four shopping centers, two office buildings, 11 mixed-use projects with related land and development agreements, two residential development joint ventures, Los Angeles Union Station, certain ground leases and other right-of-way leases.
ProLogis and AMB Property Corp. (AMB)	Shareholders of both the companies approved a merger of the industrial landlords as demand for warehouse space rises amid a strengthening global economy.	The combination of the two biggest US industrial real estate investment trusts will result in a company with $46 billion in assets.



Outlook[48]

- The pressures from rising commodity costs, plus supply-chain disruptions from Japan's earthquake and tsunami, extreme weather conditions and some loss of momentum in the labor market, have combined to force a slower economic growth than expected. Overall, the economic recovery appears to be continuing at a slow to moderate pace, albeit at a rate that is uneven across sectors.
- Positive forces such as higher household income and marginal improvement in employment are negated by an increasing debt, higher food and energy prices, declining home values and tight credit markets.
- The slow economic growth is expected to result in a longer period of high unemployment. The struggling housing market is also expected to continue to weigh on the US economic recovery. The Federal Reserve has reduced its economic growth forecast for 2011 as a result of weak growth in 1Q11.
- Despite an edgy US economy, most commercial real estate investors remain upbeat and cautiously optimistic about the industry's future, with very few being dissuaded from eagerly acquiring assets and seeking opportunities across all commercial real estate sectors. Most institutional investors, particularly pension funds, are targeting top-performing commercial real estate assets in strong US markets.



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Highlighting the key opportunities

Where do we stand?

Finding bearings: Countries such as the US, the UK and the UAE are working to gradually restore and offset the impact of the significant declines of the global economic crisis and its related uncertainties. Not surprisingly, the real estate markets in these areas are likely to remain challenged. The confidence of the perceived eventual recovery in these markets can be gauged through heightened activity of non-cyclic investors who are exploiting the low rates.

Emerging market: Africa's burgeoning domestic demand from the rising population, high FDI flows over the past decade and ever-improving investor perceptions, have all contributed to a positive outlook. With capital inflows forecast to reach US$150 billion by 2015, the African continent is poised to be a promising market.

Wake of political stability: Nepal and Sri Lanka – both countries emerging from political uncertainty – are markets waiting to be explored. The real estate markets, being at nascent stages of development, have the potential to provide a significant first-mover advantage to those willing to test waters.

Keep the faith: Singapore's property sector was not spared from the global economic downturn. The turnaround that followed caused apprehensions of a property bubble. The government introduced anti-speculative measures in response to the rapidly heating markets. Government vigilance and measures in conjunction with a compelling geographic location not only position Singapore as the financial capital for the entire Asian region, but also continue to renew investor confidence in the market.

Raising hope: India, rearing to be an economic powerhouse, with a stable political environment, was quick to find its footing during the global recession. Real estate prices have peaked, exceeding the pre-recession rates in some markets.

The world gets smaller ...

Despite the economic recession, the trend of globalization has touched across all quarters of the real estate sector, albeit at different degrees, across various geographies. The peak in 2007 set about a new trend with a few groups daring to risk working outside their local markets, having developed a risk appetite. As the markets change, those who have dared to work in a cross-border capacity see opportunity in adversity. The downfall of one market emerges as an opportunity for another.

Residential	Commercial
India ↑	→
▶ More than 410 million people projected to be staying in cities by 2015 ▶ Significant shortage of homes for the mid-income group ▶ Housing now priority in the government's policy ▶ High disposable incomes and aspirations of young Indians	▶ Creation of more than two million jobs in the next four years may require office space of close to 200 million sq. ft. ▶ India to continue being the destination of choice for outsourcing ▶ Reasonable supply, with long-term market opportunities
Africa ↑	↑
▶ Huge demand for affordable housing ▶ Government drive for urbanization ▶ Tax benefits for FDI ▶ Increase in high salaried expat population adding to the demand for luxurious residential construction	▶ Acute shortage of commercial properties ▶ High demand for commercial space due to economic recovery
Mauritius ↑	↑
▶ Demand for luxurious residential property from foreign high net-worth individuals, especially under the IRS and RES ▶ Government is promoting retirement homes	▶ Commercial office complexes are in demand as opposed to standalone buildings ▶ Mixed-use projects have a greater demand
Nepal ↑	→
▶ New found acceptance to apartments with rising demand for mid-segment housing ▶ Affordable housing has potential ▶ Second-tier cities such as Pokhara, Narayanghat, Butwal, Dharan and border cities such as Biratnagar, Birgunj and Bhairawa have a demand for traditional plotted developments	▶ Demand limited primarily around Kathmandu
Sri Lanka ↑	↑
▶ Foreign high net-worth individuals and Sri Lankans living abroad are fueling the demand for luxury housing, which is expected to sustain over the medium term	▶ Limited supply of Grade "A" office space has fuelled the demand for commercial space; also driven by the entry of international players in the country
Singapore ↑	→
▶ Market likely to experience an undersupply in the luxury residential segment	▶ Steady demand expected for office space
UAE ↓	↓
▶ Residential market characterized by an oversupply and decreasing rates	▶ Oversupply situation
UK ↓	→
▶ New Homes Bonus scheme enhances affordable housing ▶ Incentives such as First Buy Direct and Mortgage Interest Scheme support investors; however, job insecurities keep buyers at bay ▶ Asian communities are some of the largest buyers, investing a large amount in prime real estate, with demand restricted in London	▶ London is the only market witnessing rise in activities and relocation
US →	→
▶ Home ownership rate is declining ▶ Multifamily (apartments) property markets have a strong upside ▶ Economic headwinds are putting continued pressure on household finances ▶ A high percentage of homeowners owe more than their homes are worth; foreclosures are still an issue in certain markets	▶ US transaction volume reached US$49 billion in Q2 2011, a 147% y-o-y increase ▶ Need for infrastructure investments to the tune of US$2.2 trillion will require the public and private sectors to work together ▶ Stabilization of debt and increased availability of financing for certain deals ▶ Improving commercial property valuations ▶ Opportunistic distressed commercial property ▶ Low interest rate environment expected to continue ▶ A lot of debt maturities between now and 2013 ▶ The rate of distress has started to slow

↑ Increasing opportunity → Limited opportunity/distressed asset opportunity ↓ Unlikely opportunity

	Retail	Hospitality	Industrial
	→	↑	↑
	▶ Entry of international brands ▶ 100% FDI in multibrand retail under government consideration ▶ Only 4%–5% of the retail market is organized; therefore, the potential for malls is sizable ▶ Projects which slowed down in the recession have infused supply with new potential opportunities in the long term	▶ Shortage of hotel rooms ▶ Rise in foreign tourist arrivals ▶ Increase in domestic business travel because of the growing economy ▶ Rising demand in tier II cities that have an industrial base for mid-segment hotels ▶ Favorable policies of the government and RBI favoring investments in hotels	▶ Logistics industry witnessing growth ▶ The changing tax regime has hit the SEZ and STPIs; therefore, the demand is shifting towards industrial complexes ▶ Growing manufacturing sector with multinationals setting up base, which is fueling demand
	↑	↑	↓
	▶ Almost negligible development over the last couple of decades ▶ Rising income levels and increase in high salaried expat population	▶ North, East and South Africa are tourist destinations ▶ Increased FDI is an indicator of the growing economy, indicating the rise in demand for business travelers	▶ Industrial development is limited and restricted to a few specific sectors ▶ Rising demand for mineral processing industry
	↑	↑	→
	▶ Heightened demand from retired non-citizens for luxurious wellness centers, spas, Ayurvedic centers ▶ Promotion as a duty-free shopping and leisure island	▶ Demand for high-end hospitality development, with tourism being a key focus ▶ Marina development projects are a focus of the government	▶ Industrial development limited to certain areas, namely Plaine Lauzun, Pailles, Phoenix, Coromandel, Riche Terre, port area and La Tour Koenig; focus is mainly on small and medium enterprises
	→	↑	↓
	▶ Demand limited primarily around Kathmandu, with affordability being a concern	▶ Government is promoting tourism ▶ Liberalization of the FDI policy is attracting a number of hotels	▶ Economy primarily driven by agriculture with limited industrial development
	↑	↑	→
	▶ Upmarket locations and tourist destinations slated as potential markets	▶ Shortage of hotel rooms to cater to the increasing tourist demand; the government is providing incentives for tourism development	▶ Government incentives extended for IT and business process outsourcing
	→	↑	↑
	▶ Steady demand expected for the retail space	▶ High demand expected with 12 to 13 million tourists projected for 2011	▶ Manufacturing sector grew by 13.1%, resulting in a rise in demand and driving up rentals of existing space
	↓	↑	↓
	▶ Intense competition among shopping centers with the ongoing repositioning of malls	▶ Tourism poised as a key economic activity; UAE benefitting from political unrest in North African countries	▶ Primarily offered on a leasehold basis
	↑	→	→
	▶ Entry of international retailers such as Kate Spade and Forever 21 Inc. is creating demand for additional space ▶ Increase in demand for prime retail property assets	▶ Construction opportunities driven by forthcoming series of sports events ▶ London market experiencing the maximum demand	▶ Rising demand for secondary multi-let assets ▶ Continued competition for a limited number of prime assets
	→	↑	→
	▶ July 2011 showed a rebound in consumer spending ▶ Increasing sales numbers in most major cities ▶ Consumer confidence being affected by high joblessness, modest wage growth and difficulty obtaining financing	▶ Hotel market recovery has been dramatic in its speed; this is an excellent time to acquire a portfolio of top-quality assets in major markets	▶ Capital inflow feeding the industrial estate boom as investors seek higher yields; rising interest in buildings with low treasury yields

What works in favor and against these markets

Positives	Negatives
India	
▶ **Economic growth**: Expected at a rate of more than 8%, rising income levels of middle class, which form a considerable part of the population driving affordability ▶ **Rapid urbanization**: Opportunities in all forms of real estate in developing and growing cities ▶ **Demographic support**: Sizable young and working population	▶ **Strained infrastructure**: Power, water and connectivity, unable to keep pace with growth ▶ **Lack of uniform and streamlined regulation**: Land being a state subject; each state has their own policies; this includes concerns such as title risk with few land parcels with clear titles, slow approval and clearance process ▶ **Unexplored funding options**: REITs are not allowed currently; policy is under review
Africa	
▶ **Robust economic growth**: Continent on a growth trajectory, resulting in a high return on investment ▶ **Urbanization**: Widespread development with a focus on infrastructure and tourism is creating the demand for real estate	▶ **Political instability**: Political concerns have slowed the growth of the economy ▶ **Inadequate infrastructure**: Lack of facilities such as power, telecommunication and transportation hinder growth ▶ **Lack of legal and regulatory framework**: Unclear property rights make real estate development a challenge ▶ **Lack of funding**: Underdeveloped mortgage finance industry and high interest rates are also affecting growth
Mauritius	
▶ **Investor-friendly regulations**: These regulations permit an easy sale to non-citizens, attracting high net-worth individuals; Real Estate Scheme (RES) provides residence permits and allows payment in any currency ▶ **Schemes fostering real estate development**: RES and Integrated Resort Scheme (IRS) have given rise to the demand for funding and opportunities to collaborate for real estate development ▶ **Fiscal benefits**: These benefits include a flat corporate and personal tax rate of 15%, the absence of inheritance tax, no foreign exchange controls and no restrictions on capital repatriation	▶ **Scarcity of land and conversion issues**: In most cases, agricultural land needs to be converted; this can be a lengthy process ▶ **High land prices**: With the IRS and RES, foreigners can buy property with ease, which is pushing up the price of land
Nepal	
▶ **Infrastructure growth**: Execution of large infrastructure projects such as airports; large hydro plants are driving development in some areas ▶ **Latent demand**: Large demand for affordable housing and luxury segment in the few urban areas ▶ **Regulatory changes:** Prioritizing and special benefits to sectors such as hospitality, education towns and medical towns; this includes change in the FDI policy	▶ **Lack of infrastructure**: Inadequate power, water supply and connectivity may prove restricting ▶ **Low affordability**: Lack of economic activity limits income ▶ **Political instability**: Political issues pose the biggest challenge in the business environment ▶ **Policy regulations**: Some limitations include the absence of law permitting the sale of commercial property; it can therefore only be rented Similarly, law required for mixed use property development, sale and transfer. FDI can be drawn in for development, but is prohibited for ownership of properties, unless it is for a company (for example: hotels)
Sri Lanka	
▶ **Development focus:** Integration of northern and eastern provinces (previously war-torn) into the economy are opportunities ▶ **Focus on infrastructure**: Funds (US$2.1 billion) raised to rebuild physical and social infrastructure boost real estate development ▶ **Increasing demand and affordability**: 13% of the Sri Lankan labor force works abroad and sends remittance; local residents (including Sinhalese) are slowly returning back to the country impacting demand	▶ **Regulatory scenario**: In Sri Lanka's real estate industry, the regulatory scenario is under transition with the recent enactment of the new legislation and establishment of regulatory authorities ▶ **Restrictions on foreign investors**: Foreigners allowed to own real estate in the northern (50–100 meters from the sea) and southern region (25–55 meters from the sea). Foreign investors buying residential property are liable to pay 100% tax for apartments (below fourth floor) and land; the Board of Investments (BOI) can approve concessions for foreign investments (excluding taxes)

Positives	Negatives
Singapore	
▶ **Pro foreign-investment policies**: These policies historically encouraged foreign participation in Singapore real estate ▶ **Projected appreciation**: Potential for capital values appreciation and strong investment opportunities supported by projected and sustained economic growth	▶ **Restrictions on property ownership for foreigners**: Typically, non-landed property (apartments) ownership is permitted
UAE	
▶ **Regulatory interventions**: Revision of real estate visa regulations for expatriate owning real estate includes an extended tenure from the present six months to three years; residence visa will now be renewed every three years (instead of current six-month renewal) ▶ **Rising investor confidence**: Dubai Government's companies have signed the financial restructuring plan with investors and lenders, giving Dubai a lease of life (in addition to support from Abu Dhabi Government) ▶ **Political stability**: Political unrest in surrounding countries and the current low prices contribute to an attractive buyers' market for anti-cyclical investors ▶ **Tax environment**: Tax free status serves as a big attraction with other countries increasing the tax levy	▶ **Lack of demand**: Oversupply across all sectors. Generation of local demand for real estate and reducing dependence on investors from other countries will be one of the biggest challenges ▶ **Lack of transparency**: This is happening especially in the laws and regulations governing the purchase of real estate by foreign investors ▶ **Lack of liquidity and financing**: Banks and mortgage companies are exercising caution ▶ **Dependency on oil and gas**: Real estate sector is highly susceptible to movements in oil and gas prices
UK	
▶ **Economy**: Recuperating and deregulated economy ▶ **Perceived safe investment**: Safe haven investment opportunities for non-domiciled residents	▶ **Slow economic growth**: Slower-than-expected growth and high inflation rates are discouraging investments ▶ **High unemployment rate**: Recorded at 7.8% in 2010 ▶ **Laws against squatting**: Squatters remaining on the property for more than a decade can claim possession ▶ **Tax barriers**: Current tax laws such as the stamp duty land tax (SDLT) legislation discourages bulk purchasing of property and capital gains tax (CGT) poses a constraint to entrants in the residential property sector
US	
▶ **High property demand and favorable property valuations**: This gives US markets an edge over commercial real estate markets in Europe, Asia and Latin America ▶ **Low interest rates**: Low interest rates have been instrumental in containing the cost of capital, making property returns attractive in comparison to other asset classes, such as fixed-income instruments ▶ **Appealing risk-adjusted opportunities**: In addition to office and shopping center properties, institutional investors can invest in the industrial warehouse, R&D space and multifamily sectors in the US ▶ **Distressed real estate opportunities**: The rate of distressed real estate has started to slow, reversing a three-year trend. Much of that distress remains unresolved. Lenders expected to be big sellers over the coming year	▶ **Pullback in CMBS financing.** Wall Street banks have pulled back from originating new loans to package into securities amid recent turmoil, leaving some banks to cut issuance estimates for 2011 ▶ **High unemployment/underemployment**: Recovery remains fragile and economy is not generating enough jobs. Unemployment remains above 9% ▶ **Financing and legal hurdles**: Foreign investors face mortgage financing issues, in addition to legal, tax and immigration laws. There is a lot of debt maturing between now and 2013 ▶ **Pricing and lack of suitable products**: Equity investors continue to target low-risk assets in prime locations, but are faced with limited options ▶ **Rising costs**: Builders are finding their profits squeezed by rapidly rising costs (the price of construction materials is projected to be 5% to 6% higher in December 2011 than in December 2010) ▶ **National debt concerns**: There is a growing lack of confidence in Washington given the recent stalemate over the US national debt



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Influence zone outlook

Sources for graphs (page 3) : residential capital values CBD, monthly commercial rental values CBD

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New York	CoStar, Real Capital Analytics
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