

## Nervous stability across the region

**2008 has seen uncertainty return to the property and capital markets worldwide. After a period of lag, Asia Pacific is beginning to feel the effects of this uncertainty.**

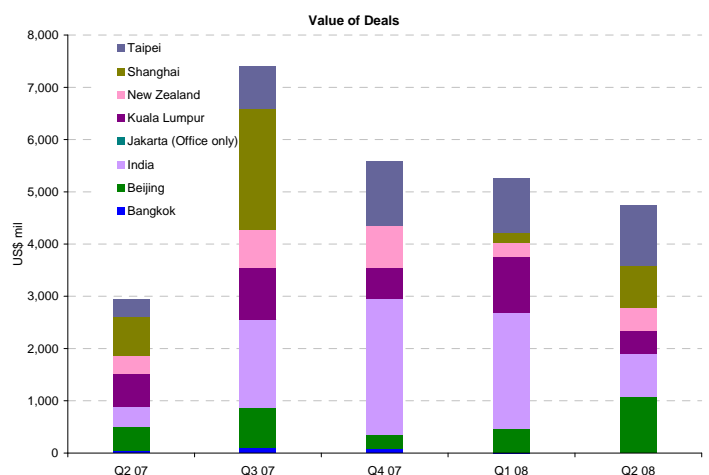
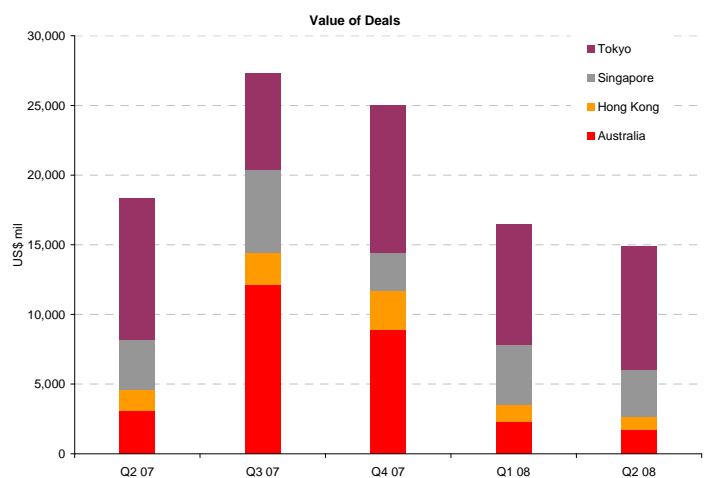
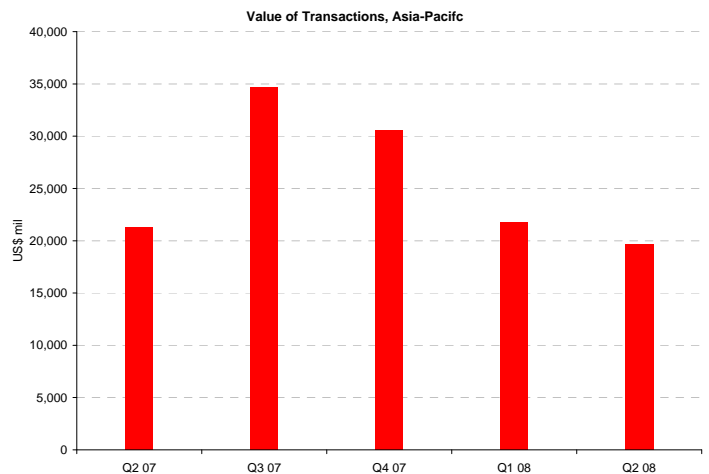
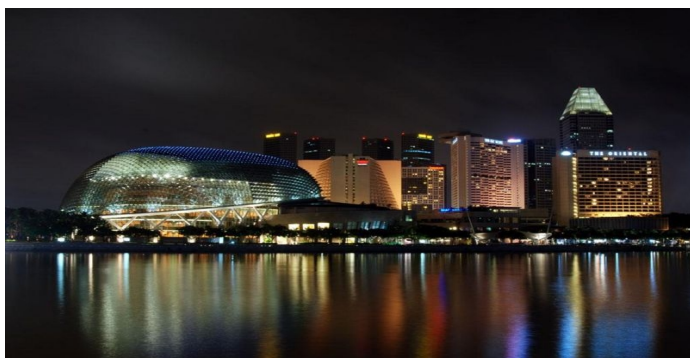
Transaction value of commercial real estate across Asia Pacific decreased in Q2 2008 by over US\$2 billion or 10% from Q1 2008. Transactional values are significantly down from the levels seen during 2007, with almost a US\$15 billion or 43% decline from the peak in Q3 2007.

Despite these declines in transactional values, activity is still well above the long term average for the region. It is expected to remain so through 2008 as investors remain committed to increasing their exposure to Asia Pacific.

As the global economic outlook remains uncertain, we expect transactional activity to remain subdued. However, we are unlikely to see the significant decline in activity or values that have been seen in other markets around the world most particularly in the US and UK, although there could be isolated incidents within Asia Pacific.

Many international investors are looking to Asia as the engine of growth over the next 18-24 months while economies in the US and Europe slow. This should ensure that capital continues to flow into the region to supplement the already high levels of liquidity and equity that exist in many markets in Asia Pacific.

Those economies that are the most open and have the greatest exposure to markets in the US and Europe are likely to be most affected. We have seen transactional levels in the four largest markets of Tokyo, Singapore, Hong Kong and particularly Australia slow markedly over the last three quarters from a peak of over US\$27 billion to just under US\$15 billion in Q2 2008.



Deal volume in Tokyo continues to do well in what is Asia's largest property investment market. Similarly, demand for assets in China shows no sign of slowing with deals in Shanghai alone exceeding US\$800 million for the quarter, up on US\$184 million in Q1 2008 and the value of deals in Beijing exceeding US\$1 billion for the first time. However, in Hong Kong transaction levels have dropped below US\$1 billion in a quarter for the first time since Q3 2006. While the number of deals done in Singapore has declined, the value of those deals has held up.

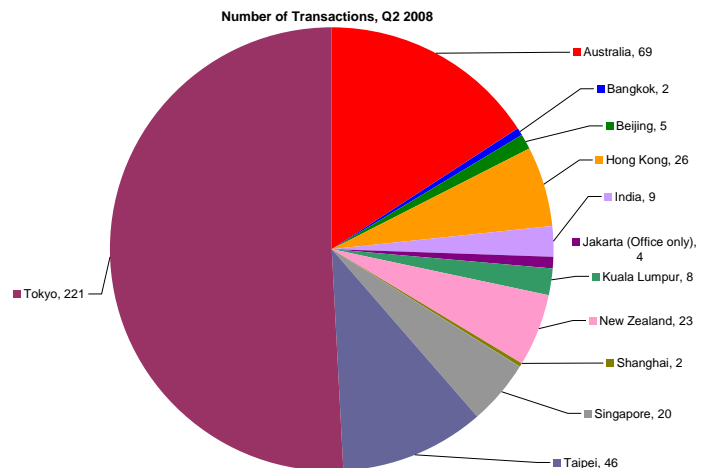
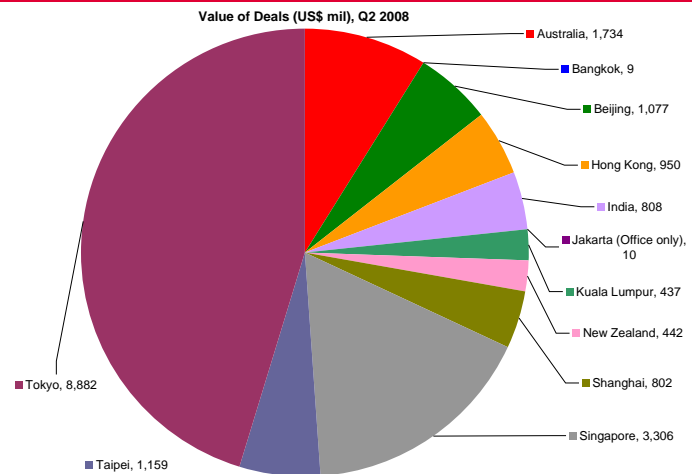
Of all the developing markets India has seen the largest decline in value of transactions from over US\$2 billion in the first quarter of 2008 to under US\$900 million in the second quarter.

Activity levels in Australia are some 86% down from the peak in Q3 2007. This is not due to a lack of available stock on the market, in fact the reverse is the case. Australia has approximately US\$13 billion worth of real estate either officially or unofficially available for transaction. But in the current market it is the buyers who hold the cards and they are waiting for a significant decline in values before reentering the market.

Two of the largest deals done in the quarter were in Tokyo with the purchase by Mitsubishi Estate of the Resona Maruha Building and the Shinsei Bank Building being bought by a special purpose company of Morgan Stanley from Shinsei Bank.



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### Top 5 Transactions in Asia Pacific, Q2 2008

City	Property	Sector	Price (US\$ mil)	Purchaser Nationality
Tokyo	Resona Maruha Building	Office	1,526	Japan
Tokyo	Shinsei Bank Building (BR)	Office	1,111	USA
Shanghai	The Centre	Office	639	China-Hong Kong
Singapore	The Atrium@Orchard	Mixed	617	Singapore
Singapore	Former Crosby House	Office	547	Germany

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