



Real Estate in the Asia-Pacific region: Boom or Bust?

Jonathan Thompson

19 November, 2008

TAX

Quotes

“Next year almost all the advanced economies would contract: the United States 0.7%, Japan 0.2%, the eurozone 0.5% and Britain 1.3%.”

International Monetary Fund

“Real estate capital values across Asia Pacific could fall by up to 20% in 2009 as the international financial meltdown continues to spread.”

Global Research Head, ING Real Estate

“Credit market stress remains at unprecedented levels.”

Senior Banking Analyst

“The financial crisis is negatively impacting the real economy worldwide, and the automotive markets, especially in developed countries, are contracting rapidly.” Toyota said it now expects a 68% plunge in net profit, the first drop in nine years.

Mitsuo Kinoshita, Executive Vice President, Toyota

The impact of the financial services meltdown on the global economy and the real estate industry

How did this happen?



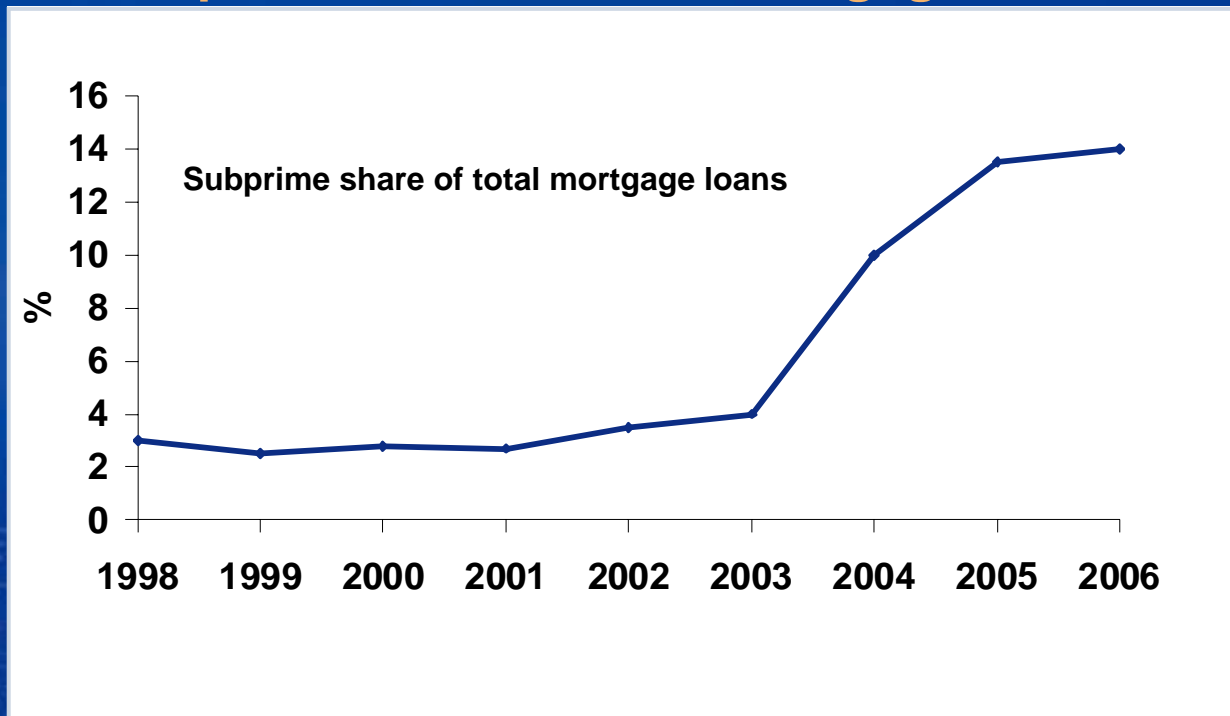
**“Nothing sedates rationality like large doses of
effortless money”**

- Warren Buffet

Subprime loans

- Subprime loans accounted for 15% of the US mortgage market in 2006 versus 3% in 2002

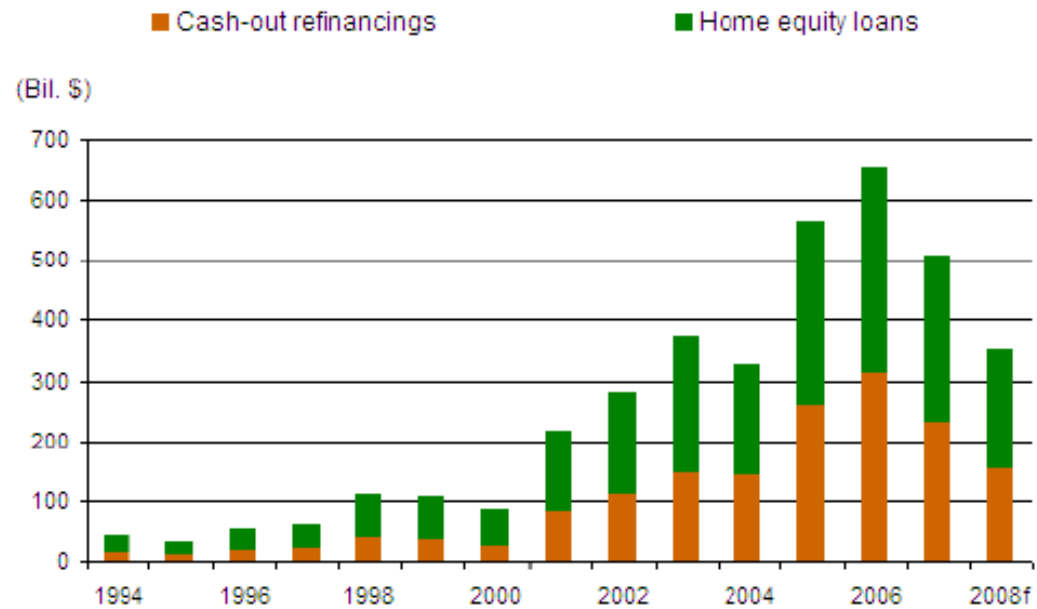
Subprime Share of Total Mortgage Market



Source: Danske Bank, 30 March 2008

Equity extraction from housing

Americans Continue To Extract Equity From Their Homes

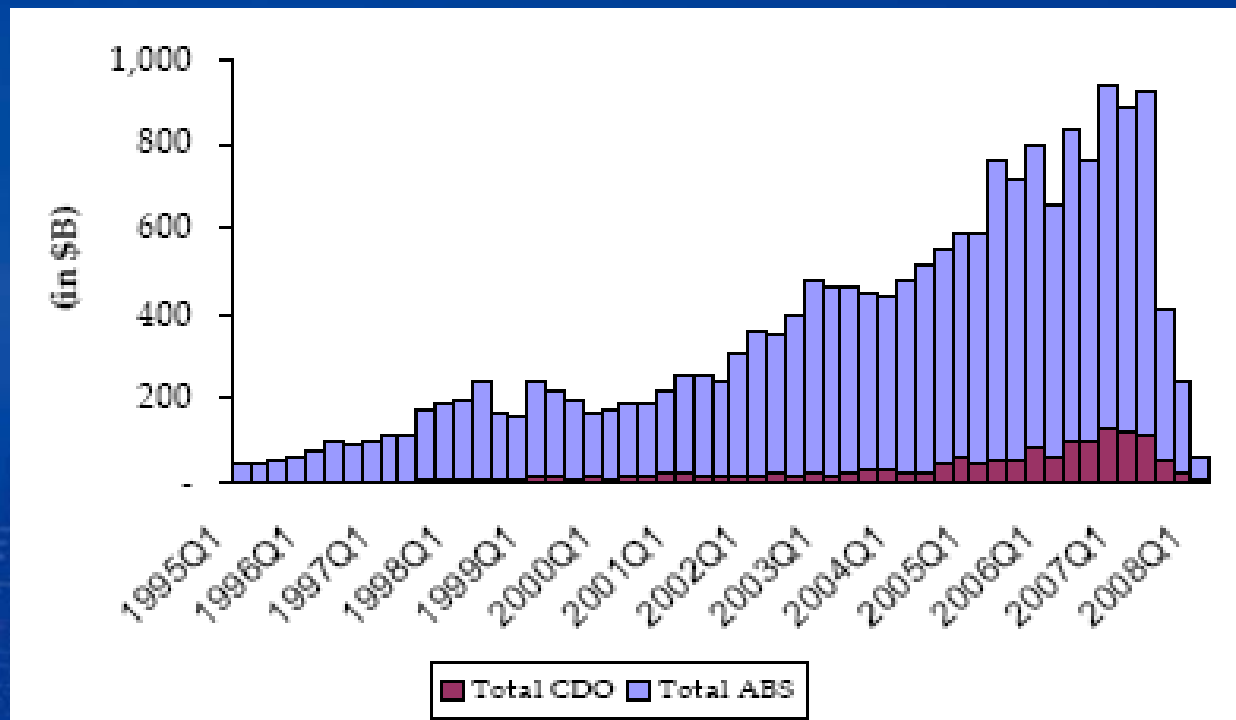


f—Forecast. Source: Freddie Mac.

© Standard & Poor's 2007.

Mortgages were packaged into structured financial products

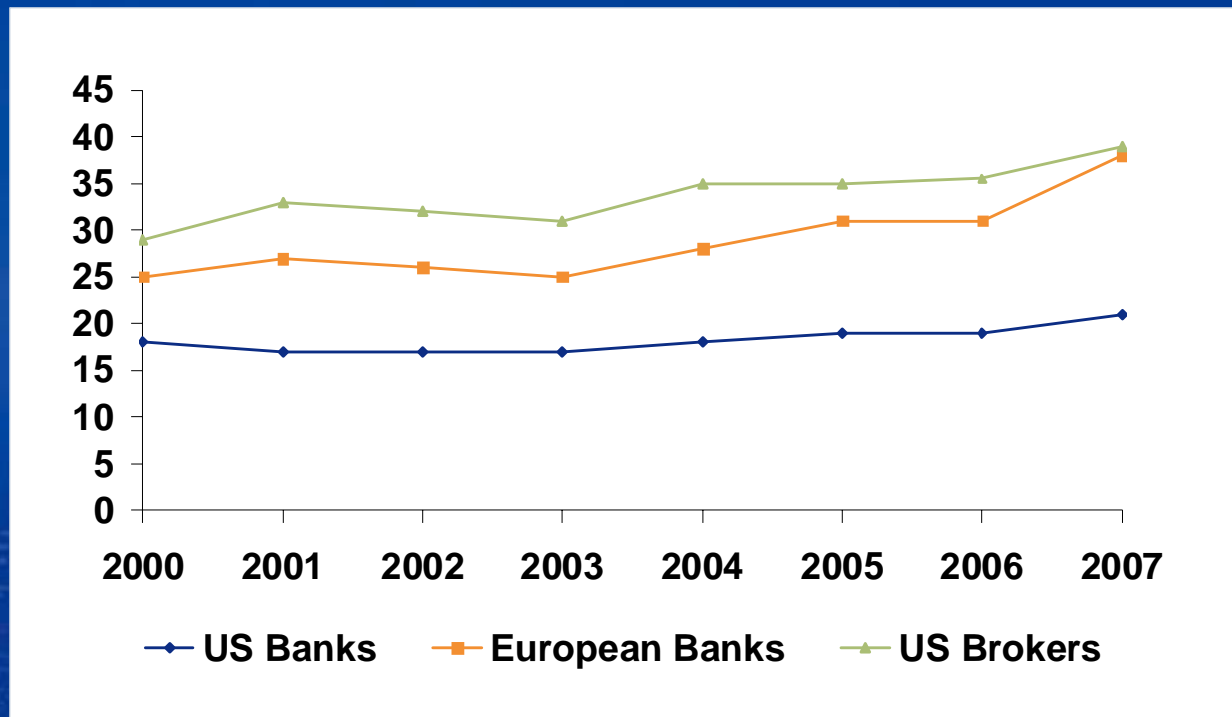
Global Issuance of Structured Financial Products (US\$ billions)



Source: Lehman Brothers, April 2008

Financial institutions dramatically increased leverage levels

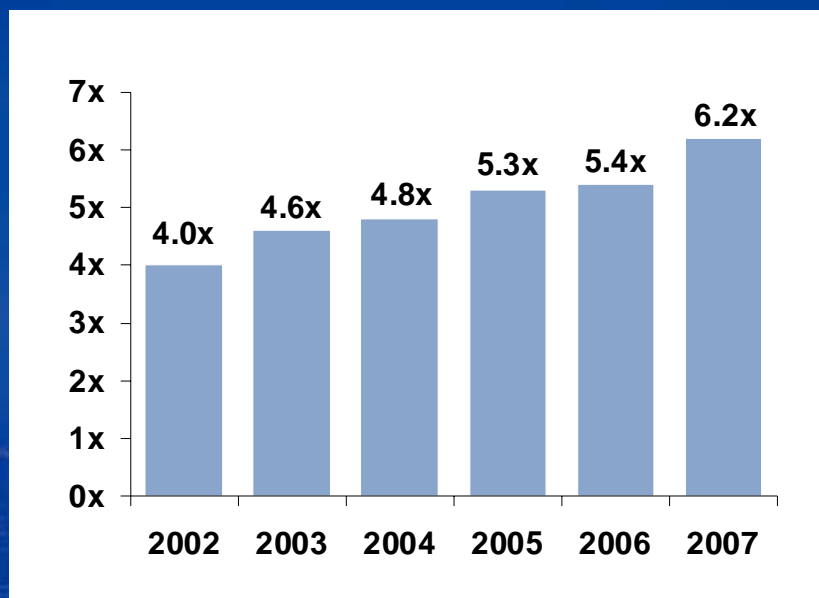
Bank and Broker Leverage Levels (Assets/Equity)



Source: Citigroup, 17 September 2008

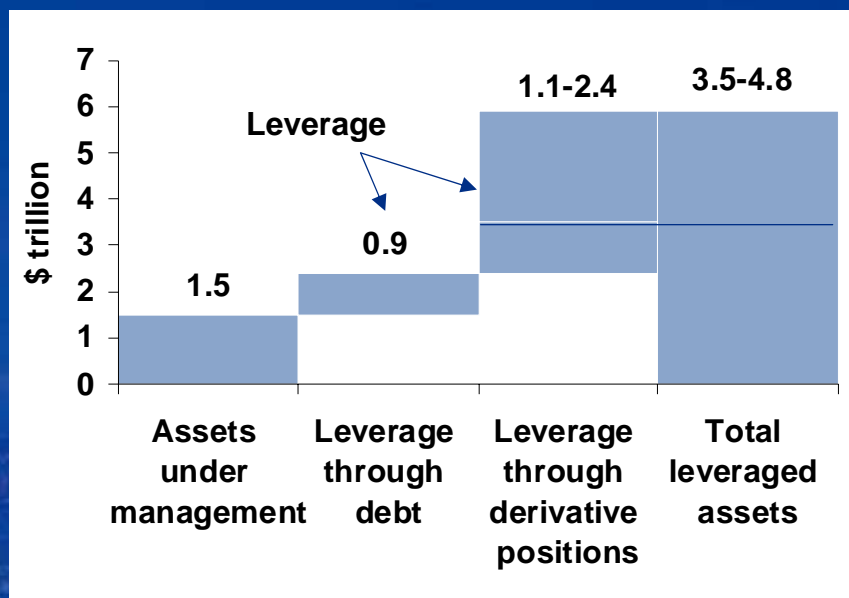
Hedge funds and private equity firms increased their use of leverage

Private Equity Leverage Multiples



Source: Morgan Stanley, September 2008

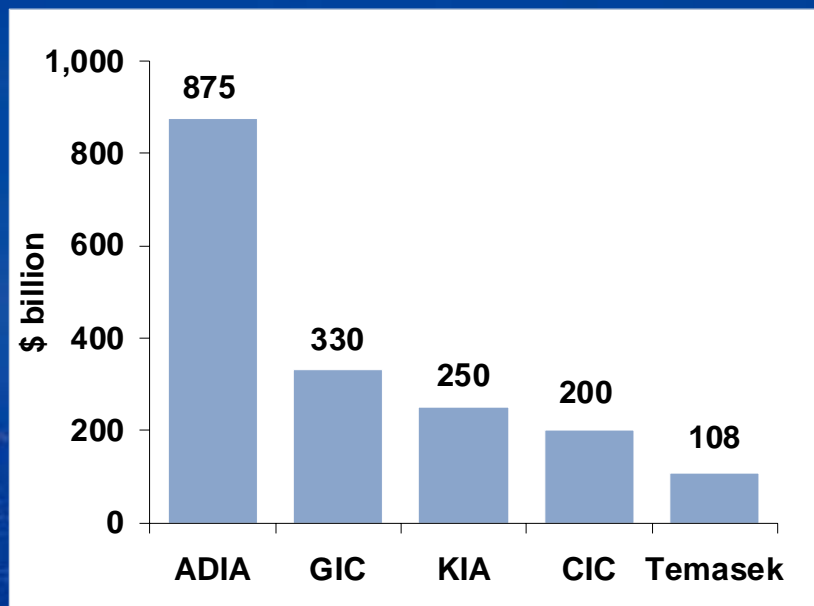
Estimated Hedge Fund Leverage 2006 (US\$ trillion, 2006)



Source: McKinsey, October 2007

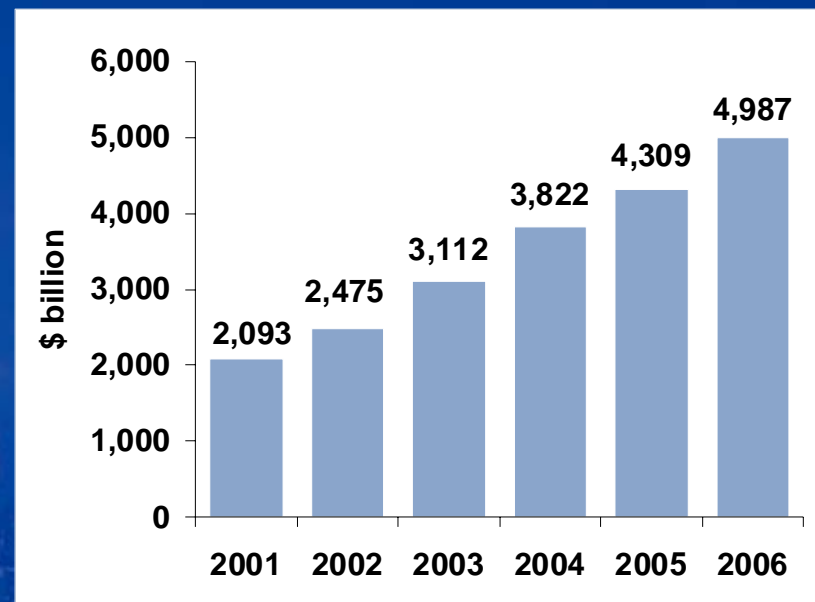
Sovereign Wealth Funds and central banks bolstered global liquidity

Top Five Sovereign Wealth Funds (US\$ billions)



Source: Monitor, 12 May 2008

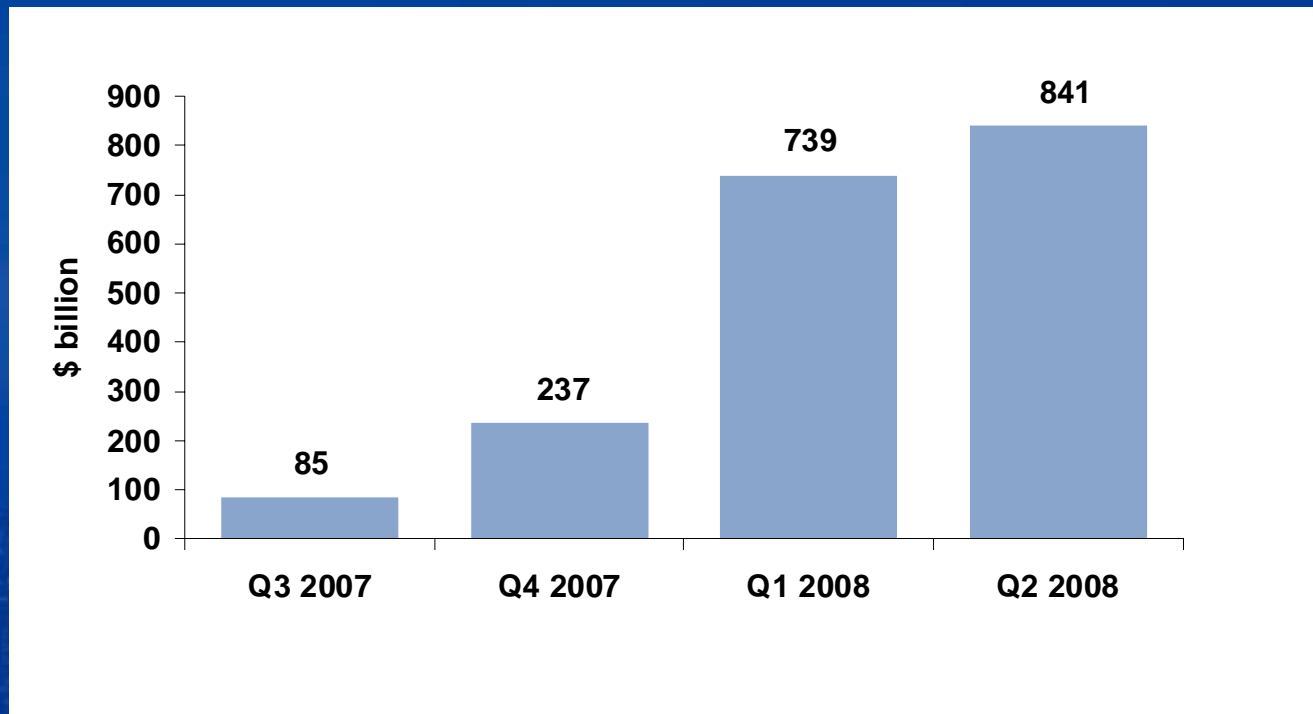
Global Foreign Exchange Reserves (US\$ billions)



Source: McKinsey, October 2007

Rating agencies propagated “the illusion” of a low risk investment environment

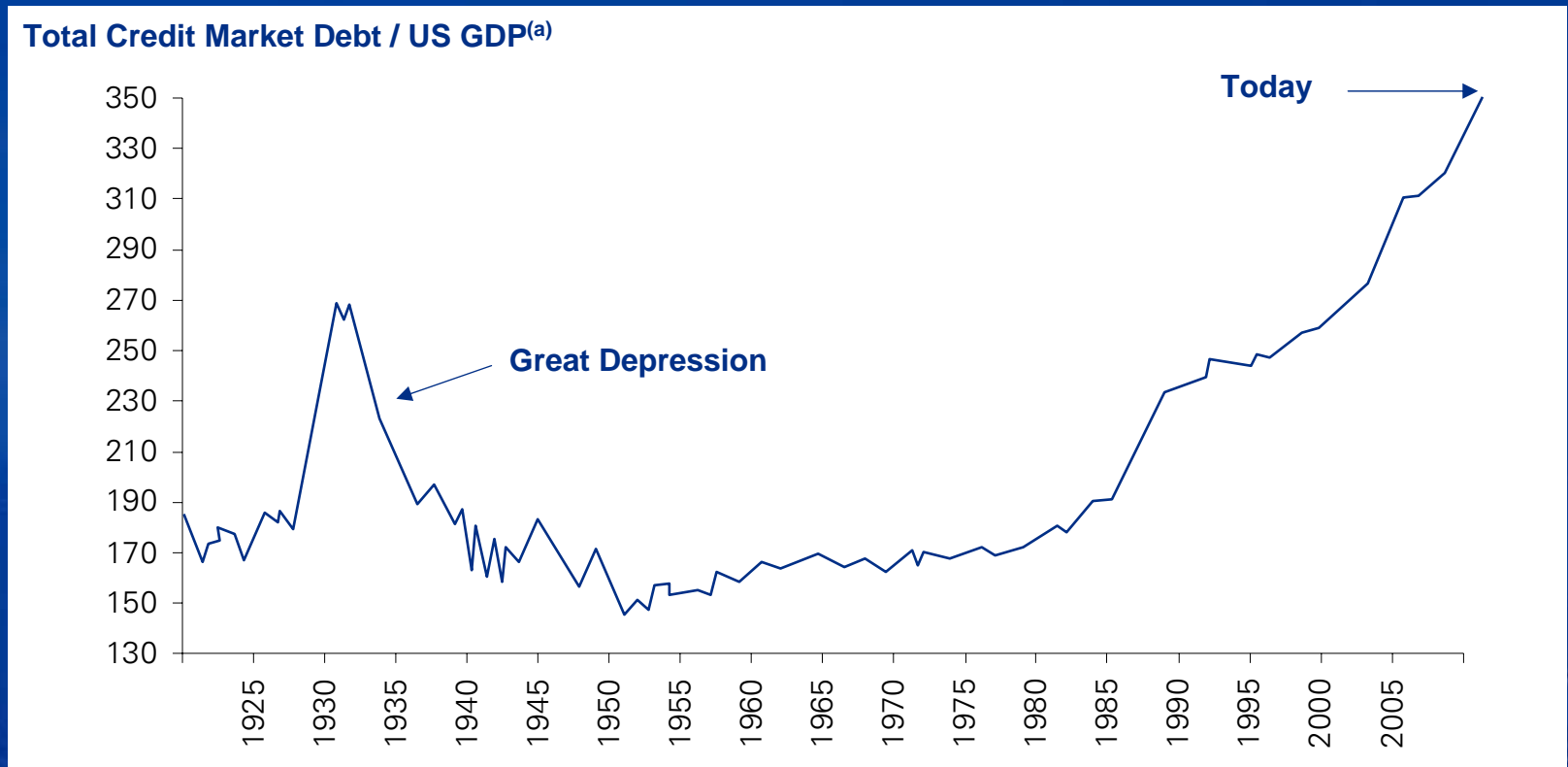
Rating Agency Downgrades: Mortgage Backed Securities (US\$ billions)



Source: Citigroup, 17 September 2008

The bottom line is that systemic leverage rose to unprecedented heights

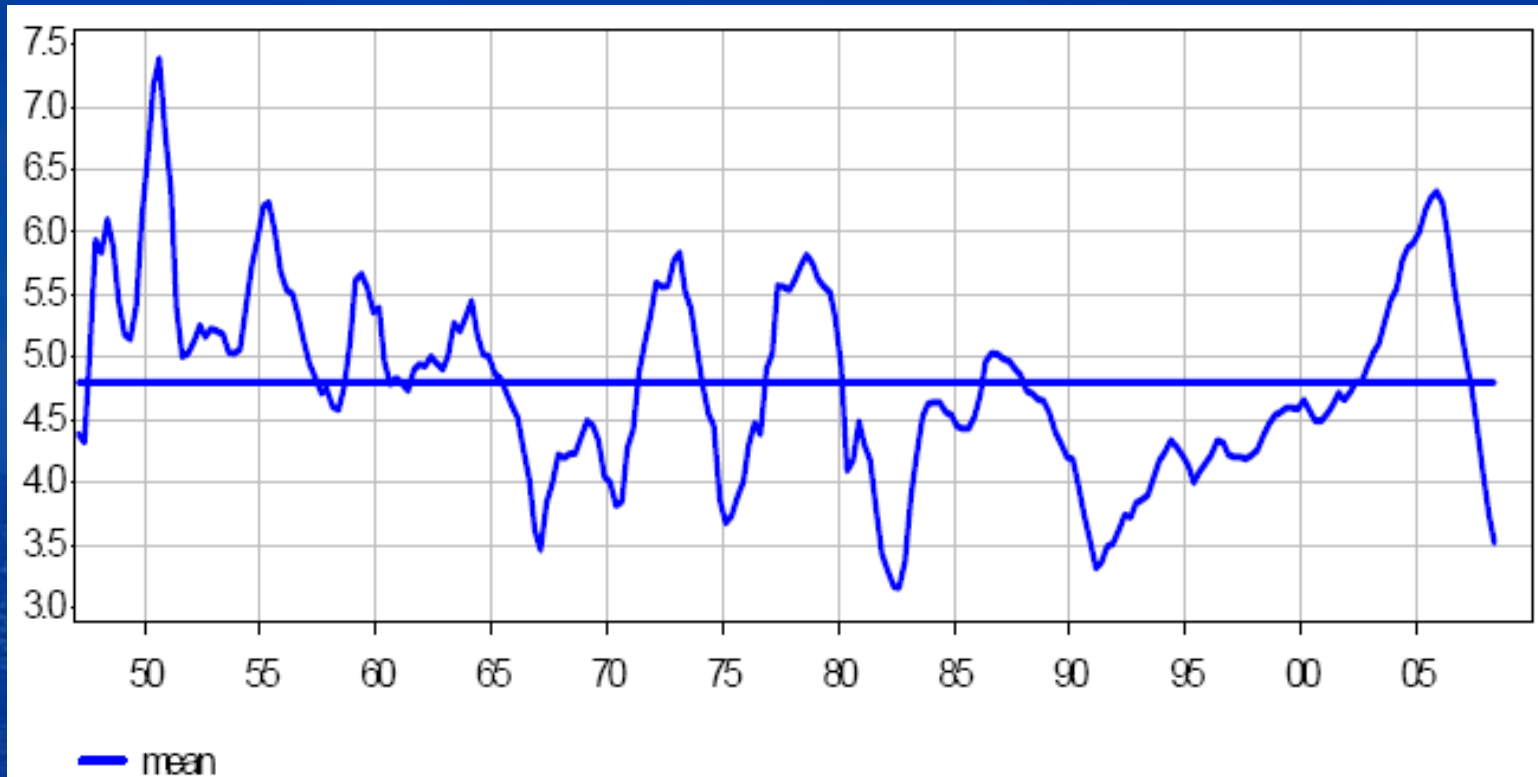
- Total U.S. credit market debt has risen to 350% of GDP



Source: Ned Davis Research, 2008

Has the worst of the housing slump already happened?

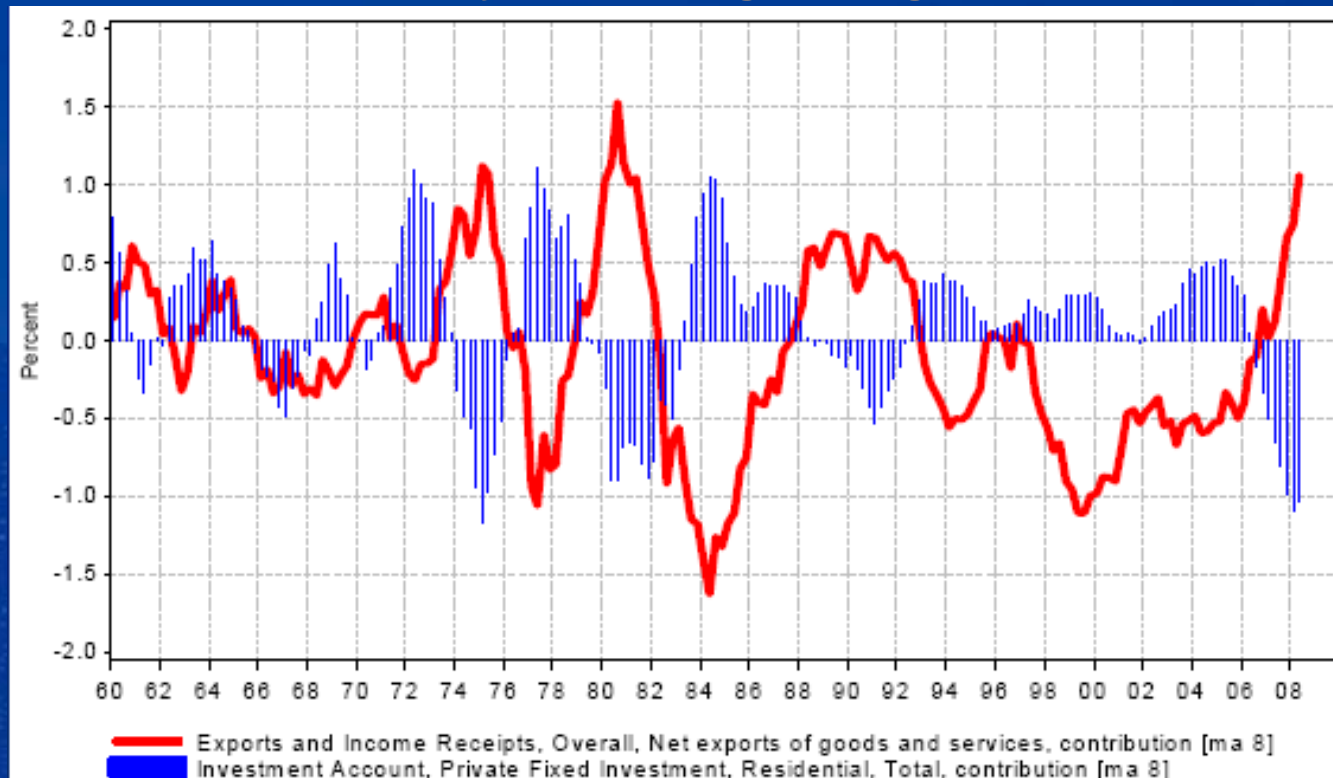
U.S. residential investment rel GDP (value)



Source: Reuters EcoWin

US Housing and exports

Contributions to GDP growth – housing and net exports Two year moving averages

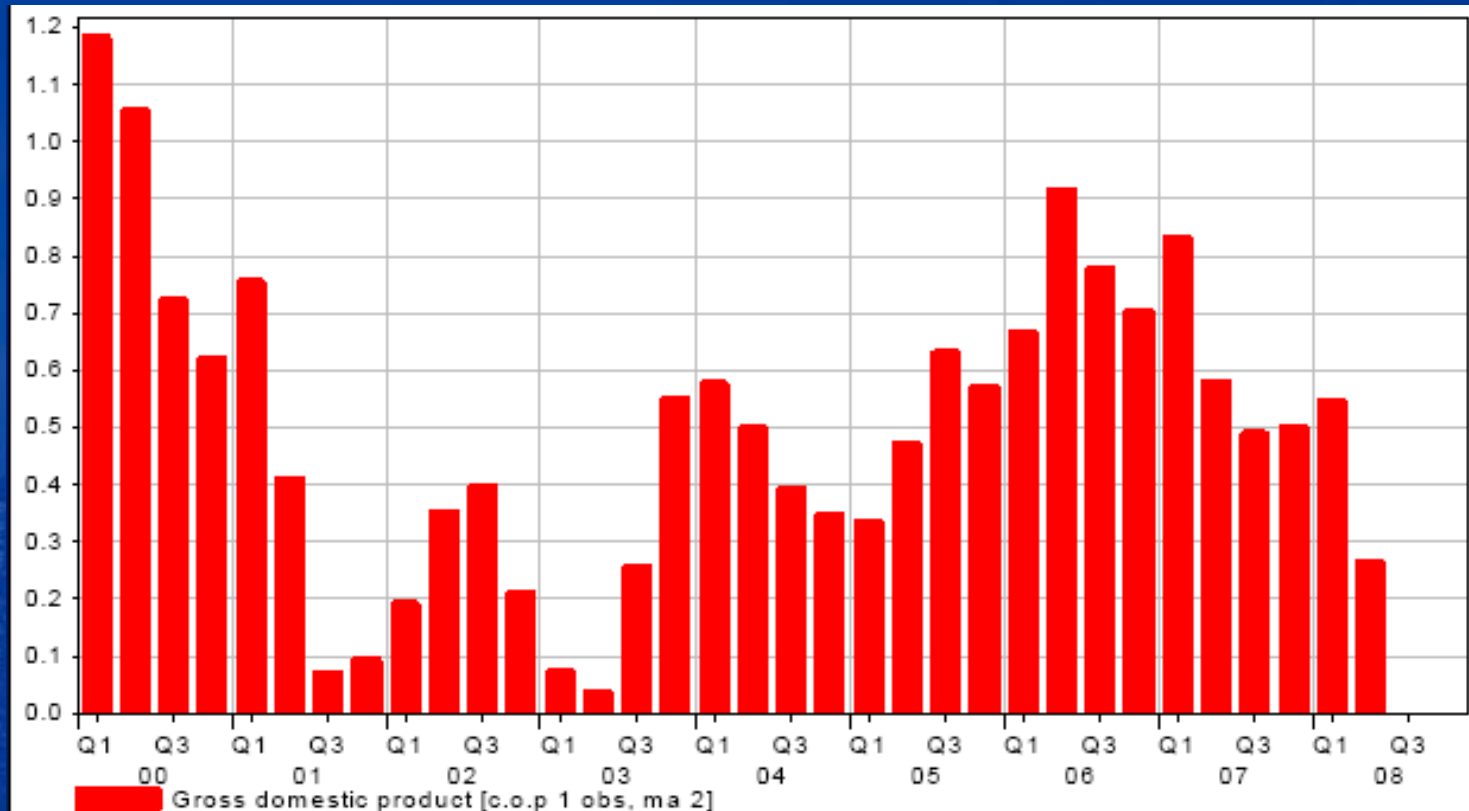


Source: Reuters EcoWin

Europe

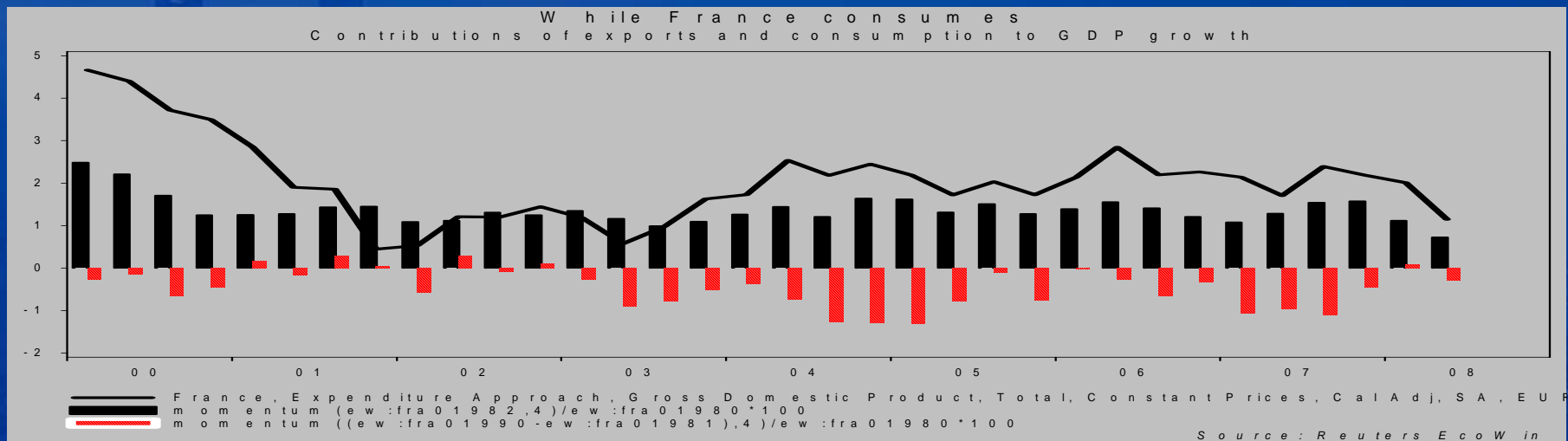
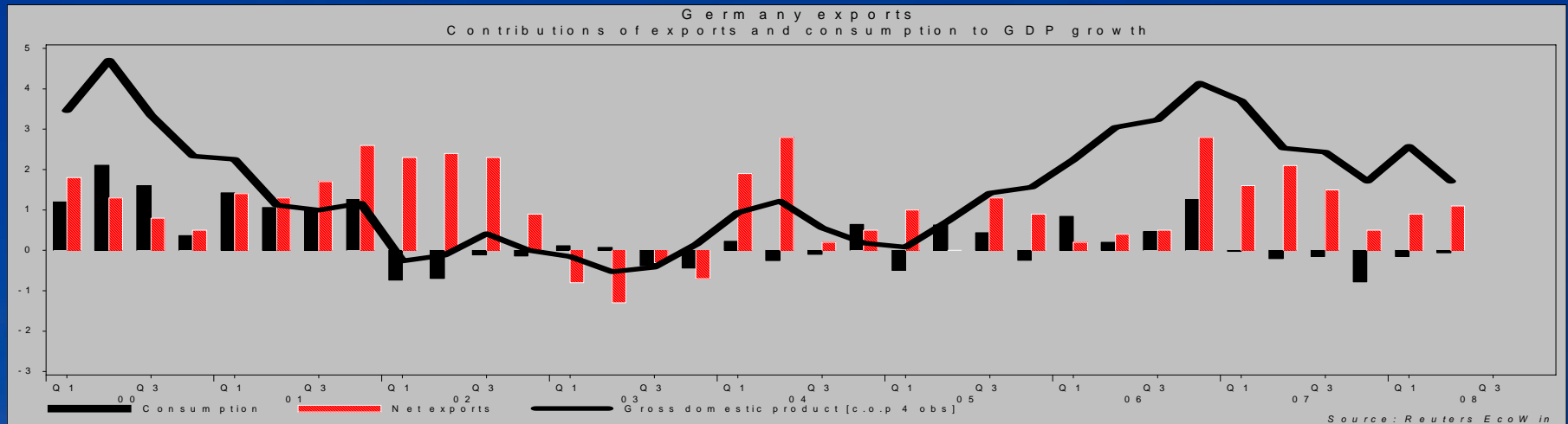
EU economy is slowing down

Euro zone
quarterly % change (2-quarter MAV)

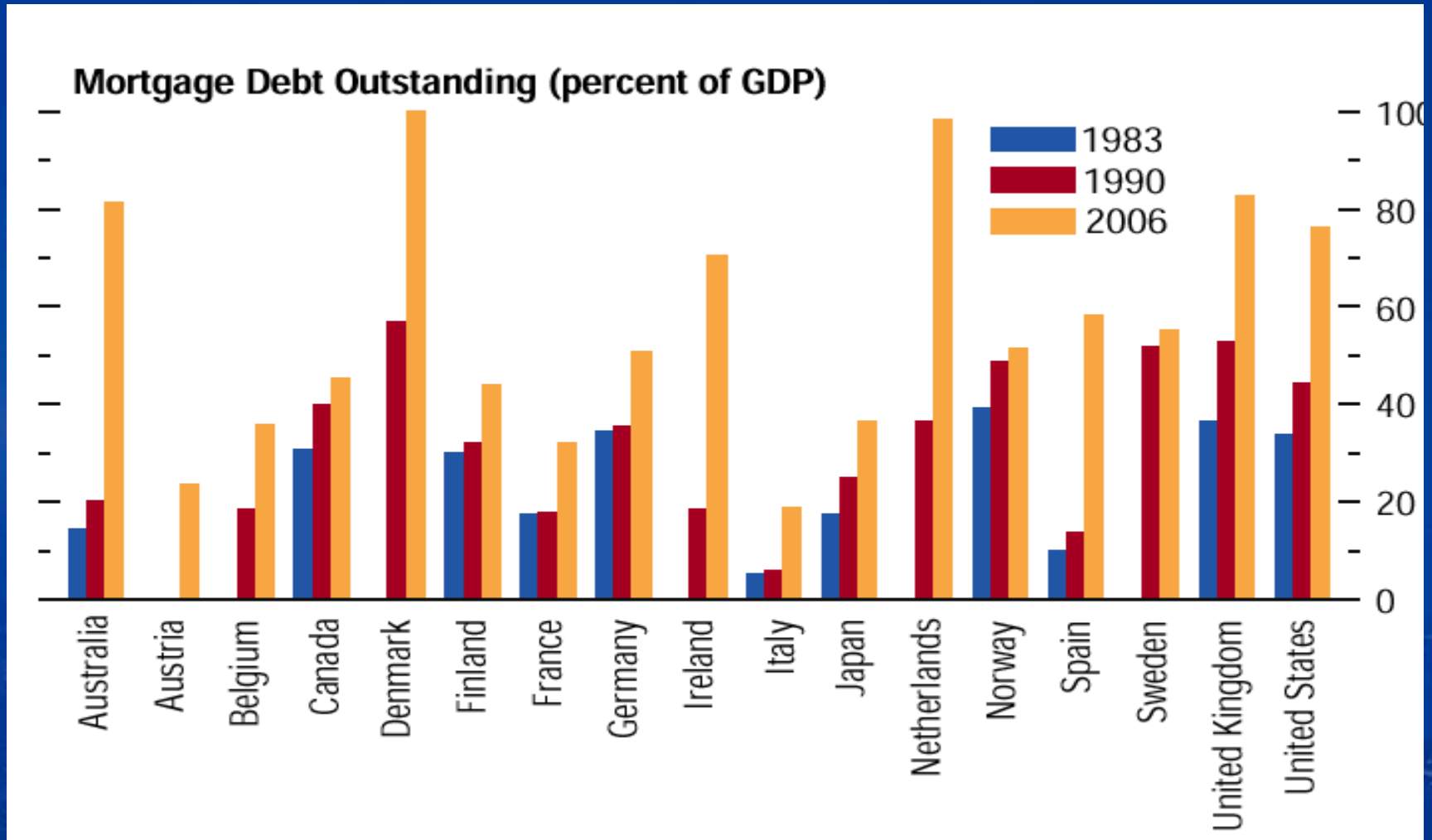


Source: Reuters EcoWin

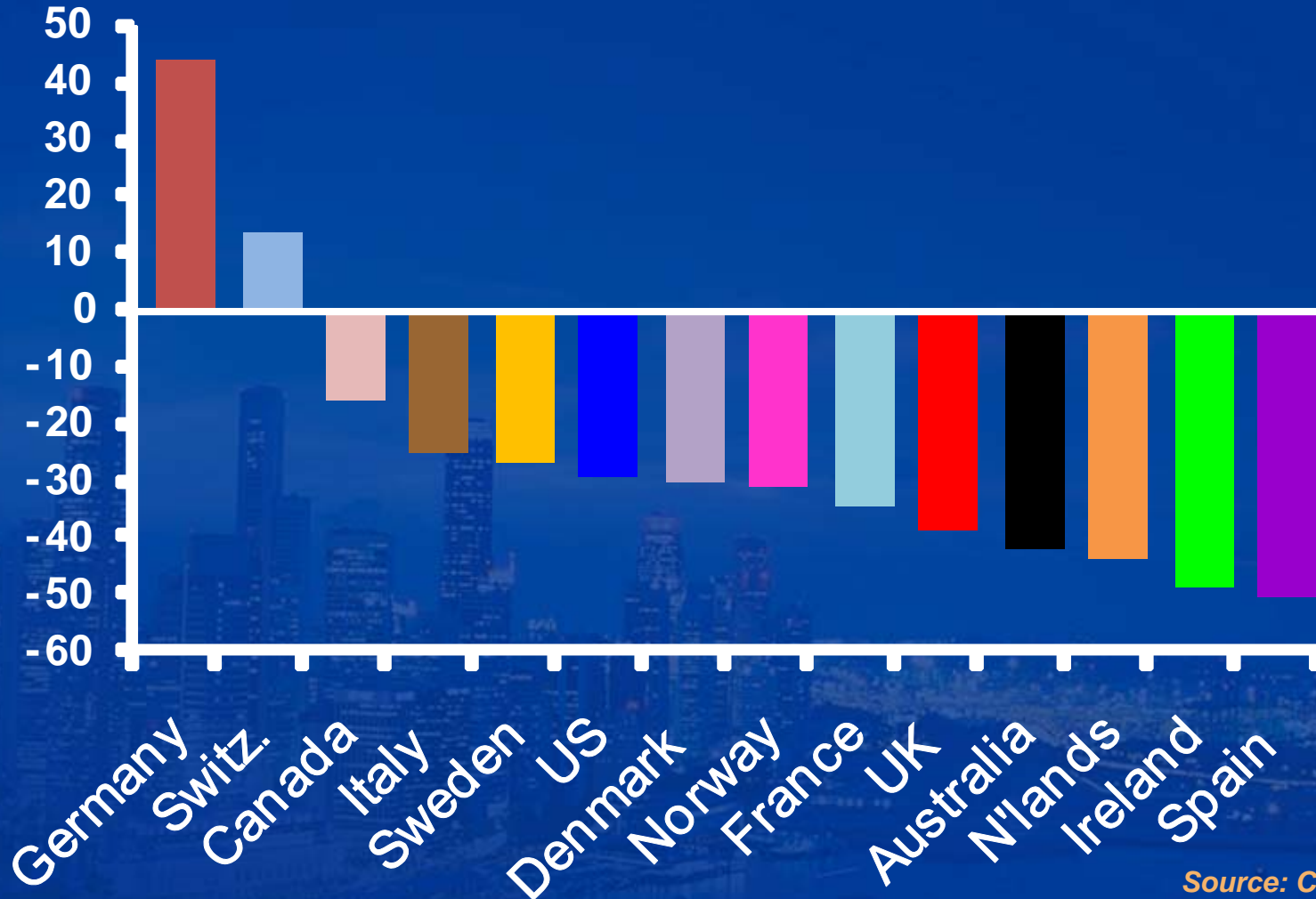
Europe has two quite distinct growth models



Mortgage debts relative to GDP



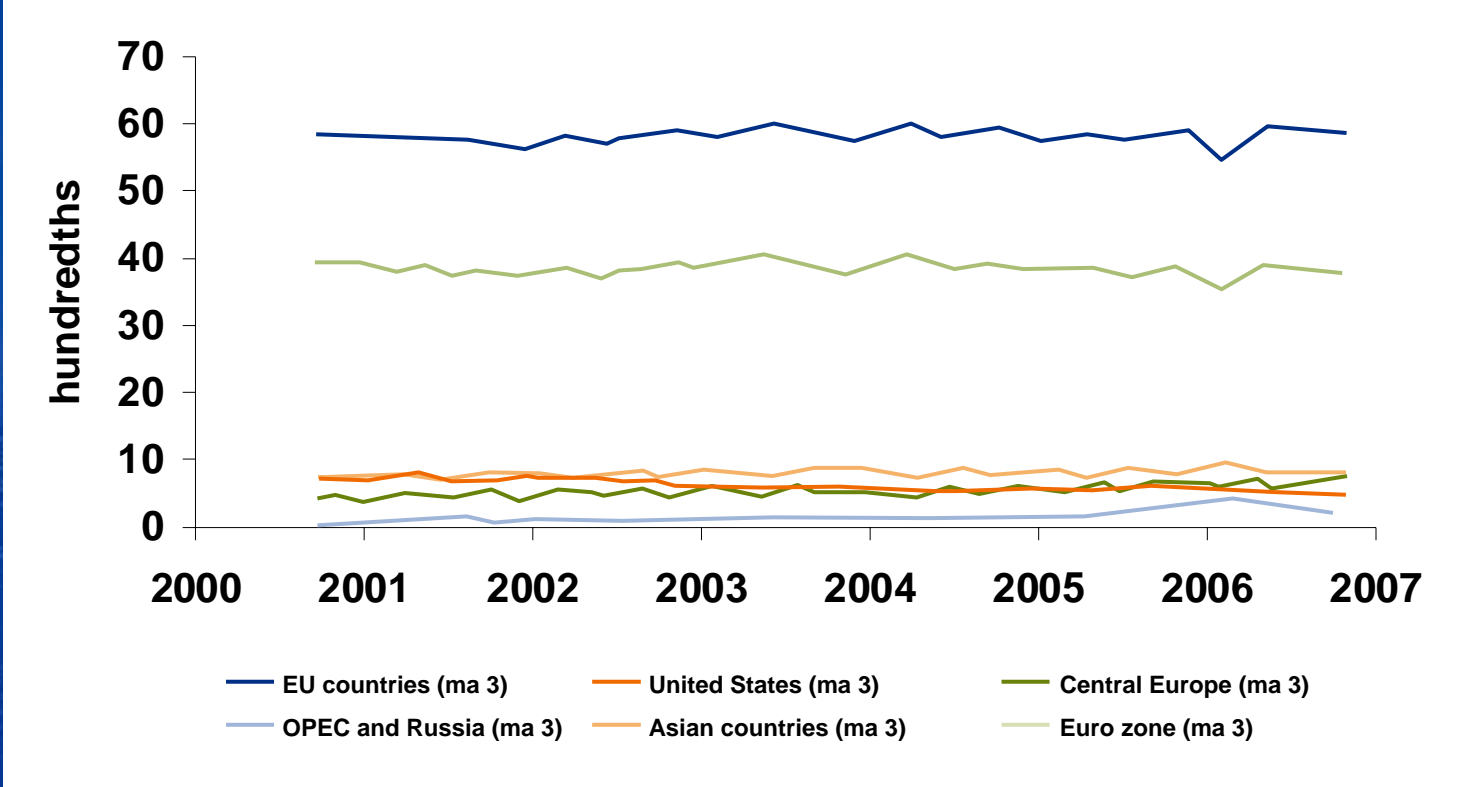
House price changes needed to return house price to income ratios to long-run averages



Source: Capital Economics

German exports depend mainly on EU demand

German export destinations % of total exports



Source: Reuters EcoWin

Asia

Asia

The impact on the Asian real estate industry

Core part of the financial market – debt dependent

- Business is to create and manage real estate investment product
 - The high leverage business model in the financial system is discredited
 - De-leverage is coming to the banking system and to the real estate investment market
 - Volatility – Winners - Losers

De-leverage leads to capital value falls

- Projections at a recent conference from ING's Global Research Head:

	% capital value fall
Japan	-19.8
Australia	-19.1
Singapore	-13.7
Hong Kong	-12.0
Korea	-7.0
China	-4.9

The real estate industry

A core part of the real economy

- Providing accommodation for people and business to live, work, shop and play
 - Inflation
 - Recession in the Western markets and slow down in the developing markets

World economic outlook projections

	Projections		
	2007	2008	2009
Developing Asia	10.0	8.3	7.1
China	11.9	9.7	8.5
India	9.3	7.8	6.3
ASEAN – 5	6.3	5.4	4.2
Middle East	6.0	6.1	5.3
Newly industrialised Asian economies	5.6	3.9	2.1
Japan	2.1	0.5	- 0.2
Euro area	2.6	1.2	- 0.5
United States	2.0	1.4	- 0.7
United Kingdom	3.0	0.8	- 1.3

Source: IMF, November 2008

The future is still bright: extraordinarily positive long-term macro trends exist

- **Rapid growth of emerging markets**
- **Technological innovation**
- **Global peace and stability**

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