

# Asia Pacific

Dolly Dove and Harry Hawk visit the St Bride's World Cities in Asia Pacific



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The story so far: St Bride's Managers have recommended to Harry Hawk and Dolly Dove that they invest 30-35% of their property portfolio overseas<sup>1</sup>. This has provided the ideal opportunity for them to go on a world tour. A flight across America convinced them that the US should be added to their portfolio<sup>2</sup>. Now it is the turn of Asia's real estate markets to stimulate the investment appetites of our feathered friends.

Harry: I am looking forward to this Asian trip. Hill walking in the Himalayas, sun bathing in Bali...



Dolly: Hang on a sec Harry. I think that you've got the wrong idea here. Those nice guys at St Bride's have booked the tickets and suggest that we go to look at some of their Asian 'World Cities'<sup>3</sup>.

Harry: Oh dear, around the world in 20 cities is it? I bet Phileous Fogg had a bit more fun and variety than that.

Dolly: Maybe Harry, maybe. But what we are going to look at are the emerging markets, the Asian tiger economies, the growth engines of the world, the new economic powerhouses.....

Harry: And the blokes down under with baggy caps that we thrashed at cricket last winter!

Dolly: Calm down Harry. In fact they suggest the exact opposite. Recognise that the world order is changing, get exposure to some of the faster growing emerging economies and diversify your portfolio. And, as a risk tool the 'World Cities' model rules out investing in countries run by 'dodgy dictators'.

Harry: Good, that means we can now invest in Italy again! But seriously, why invest in Asia Pacific?

Dolly: The simple reason is that the region offers huge potential for property investors seeking growth.

Today, while much of the world grapples with austerity measures aimed at reducing public debt, most Asian economies are relatively unencumbered by such constraints. Budget deficits may have risen but, in many cases, it will be strong economic growth rather than painful spending cuts that will do most of the work to redress the balance.

Harry: But hasn't Asia seen all its growth already?

Dolly: Economic growth over the last 10 years has been spectacular. Looking forward, as the western economies struggle to come to terms with high levels of debt, the Asian economies will continue to deliver strong growth which is increasingly sustained by domestic consumption as well as exports to the West.

As the table opposite shows GDP growth in Asia is projected to remain strong...certainly when compared to the weak European economies.

Growth in the West will average around 1% if the Euro does not plunge us into crisis. Clearly this is nowhere near as attractive as the 5.00% plus growth projected in some Asian economies.

Harry: So are investors getting into these markets?

St Bride's World Cities

Asia Pacific	Europe	North America
Hong Kong	Amsterdam	Boston
Melbourne	Berlin	Chicago
Seoul	Geneva	Los Angeles
Singapore	London	New York
Sydney	Munich	San Francisco
Tokyo	Paris	Toronto
Shanghai	Stockholm	Washington
	Madrid	

*St Bride's recommend seven cities in Asia Pacific*

Dolly: The table above shows our itinerary, a good mix of Asia Pacific culture and real estate markets.

Harry: With the world economy in meltdown are St Bride's really suggesting we should put our cash into third world countries run by dodgy dictators?



<sup>1</sup>St Bride's Managers – UK Institutional Investment strategy – December 2011

<sup>2</sup>St Bride's Managers – Investing in US Real Estate – October 2011

<sup>3</sup>St Bride's Managers – St Bride's World Cities – May 2011



**Dolly:** Local investors recognise the potential even if the old economies don't. In the first half of 2011, of the \$42 billion of purchasing activity in Asia Pacific, \$39.3 billion came from domestic or regional purchasers, with only \$2.7 billion from North America and Europe.

### Asia Pacific – GDP% pa

	2010	2011 (f)	2012 (f)
Australia	2.7	2.2	4.5
China	10.3	8.9	8.6
Hong Kong	7.0	6.5	5.4
Indonesia	6.1	6.5	6.8
Japan	4.0	-0.6	2.4
Korea	6.2	4.1	4.7
Singapore	14.5	6.2	6.3
Asia	7.5	4.8	5.8
Asia Ex CN	5.9	2.5	4.3
Asia Ex JP	9.2	7.6	7.6
Asia EX JP & CN	7.9	6.0	6.4

Source: HSBC

**Growth is expected to be sustainable over the next 2 years in Asia... slow down but not meltdown**



**Harry:** OK I can see that the economic trends look rosier in Asia but...

**Dolly:** No buts Harry. I know that you are a great fan of demographic trends as well. Just look at the projected growth across Asia over the next 20 years. It is truly staggering. And we know that urban population growth is really good for real estate markets.



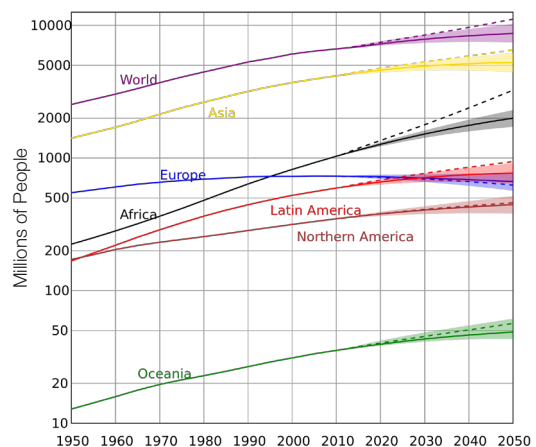
## Demographics

Analysis of population demographics support the view that Asian economic growth will decouple from western demand. Over the course of the next 18 years to 2030 the UN project strong global population growth.

The world's population has just passed 7 billion. 4.1 billion or 60% of these people live in Asia. This area will grow by a further 600 million by 2030.

Over the same period the move from rural to urban areas will see 1.5 billion people in Asia move towards city life. This will have enormous consequences for urban real estate over a period when we shall see population growth turn negative in Europe.

### Population evolution in different continents



Source: United Nations

**Asia leads the way both in terms of size and growth rates**

The sheer size of the region means that demographics combined with strong economic growth will fuel domestic demand in all the region's main countries.

The long term trend is towards higher incomes, greater urbanisation and a rapidly expanding middle class. These increasingly wealthy populations will drive demand for goods and services. This will create good business opportunities in the real estate sector.

China is perhaps the best example of a country on the verge of moving from an export/manufacturing economy to one driven by domestic consumption. Today it mirrors the position of Japan in 1969 and Korea in 1988.

The boom in Chinese domestic demand will have a positive effect on the whole region. The country has become a key source of export growth for the region's other economies who stand to gain from robust domestic Chinese growth.



# The St Bride's Asian Cities

Dolly & Harry head out East for a 'birds eye view' of the seven Asian Pacific cities in the St Bride's model. Each city has been chosen for its unique characteristics and the real estate opportunities it provides.

**Dolly:** So Harry...economic and demographic trends look good for Asia Pacific.



**Harry:** Okay, so now you are saying invest in Singapore because Vietnam is growing rapidly. Isn't that a bit like investing in Manchester to benefit from Spanish economic growth?

**Dolly:** Oh dear Harry. I do hope this tour will help you to understand the world markets a bit better. Both Singapore and Hong Kong are major international finance and trading hubs. Their performance is correlated to London and New York as much as Hanoi and Guangzhou.

They are not immune to the slow down in the West. In fact, over the last few months both cities have seen a deceleration in office leasing as the finance sector reduces its headcount in much the same way as London. Rather than make sweeping generalisations, it is probably a good idea to understand the real estate fundamentals by looking at some of these cities in a bit more detail.

Overseas property markets are often confusing to newcomers. Every market has distinct and sometimes very different rules for investors.

The Asia Pacific markets provide a wide range of transparency and risk. Issues that may be taken as read in the UK, US or Continental Europe need to be clearly understood and assessed before making the step towards investing. The transaction process, the regulatory environment, quality of information and even corruption may influence the ability to deal successfully and deliver good performance.

All these issues are picked up by the St Bride's World Cities model which provides a focused city approach. Most of our cities are mature, although it is in Asia that it is perhaps easiest to move rapidly up the risk curve.

## Maturity Level of Asian Pacific Real Estate Markets

Highly Mature	Mature	Maturing	Emerging
Sydney	Hong Kong	Seoul	Shanghai
Melbourne	Singapore		
	Tokyo		

Clearly, you should expect the risk to increase as you move away from the highly mature Australian markets. Understanding the fundamentals of each market avoids some simple errors. The table below helps to provide some assistance in arriving at the ownership structure and the net operating income that a property may provide.

Four cities (Melbourne, Sydney, Hong Kong and Singapore) helpfully have legal systems based on the British system. However, even they provide the opportunity for confusion between rates per square foot/ metre, per month/annum and the repairing obligations of the landlord and tenant.

Market differences may be subtle. They may be dramatic. Focusing on a few cities provides the opportunity and comfort of understanding market nuances, thus providing the confidence to invest.

St Bride's World City	Unit of Measurement	Rental Payments	Typical Lease Term	Basis of Rent Review	Frequency of rent review	Responsibility for repairs and insurance	Property tenure ownership	Restrictions on foreign ownership
Australia (Sydney, Melbourne)	M <sup>2</sup>	AUD m <sup>2</sup> per annum	3-5 years	Open market	Annual fixed plus 3 year open market	Usually tenant	Freehold & Leasehold	Approval needed & usually granted
China (Shanghai)	M <sup>2</sup>	RMB m <sup>2</sup> per day	3-5 years	Open market	At end of lease	Usually landlord	All land owned by Government. Land use rights granted for 40-70 years.	No restrictions against foreign ownership of land use rights
Hong Kong	Sq ft	HKD sq ft per month	3-6 years	Open market	3 years	Usually tenant	All land owned by the Government. Government leases granted for up to 50 years	None
Japan (Tokyo)	Tsubo (=3.3 m <sup>2</sup> )	Y Tsubo per month	2-3 years	Open market	Anytime	Usually landlord	Complicated! Sale & purchase of trust beneficial interests	None
Singapore	Sq ft	SGD sq ft per month	3 years	Open market	3 years	Usually tenant	Freehold & Leasehold	Only residential land is subject to restrictions
Korea (Seoul)	Pyong (=3.3m <sup>2</sup> )	W Pyong per month	1-3 years	CPI	Annual	Usually landlord	Freehold & Leasehold	None — unless in a militarised location



Dolly: Let's have a look at some of these cities in more detail. Singapore for example.

## Singapore



Harry: Oh yes. It's a fine city! You get fined for this, fined for that... you even get fined for chewing gum.....

Dove: The old ones are the best! While there's no doubt that Singapore takes a tough stand on anti-social issues, the safe environment and open economy make it a great place to invest.

St Bride's like this market. It is open and transparent. The World Bank lists Singapore as the easiest place in the world to do business. It's fundamentals are strong. Having established itself as a regional hub, it is now the world's 4th largest financial centre, one of the world's busiest ports and a top oil refining centre.

All this on a small island with limited land supply! The volatile global economy may affect demand and performance in the short term but on a long term view strong demand from international occupiers and limited space will keep rents and capital values high.

### Key Stats

Population	Population Density	GDP US \$ (ppp) per capita
<b>5.25 m</b>	<b>7315 / km<sup>2</sup></b>	<b>43,117</b>
The world's 38th biggest city	The world's most densely populated city state	

## Shanghai

Harry: Ni hao to Shanghai, the commercial and financial centre of mainland China.



Dolly: This is one of the St Bride's wild cards. It is way up the risk curve compared to the 20 'World Cities' but they like it.

Shanghai's metropolitan population is the largest in China and the showcase of a booming national economy. It is the commercial and financial centre of mainland China. In the last two decades it has been one of the fastest developing cities in the world. Since 1992 it has recorded double-digit GDP growth every year (except during the global recession of 2008 and 2009).

It is one of the main industrial centres of China, playing a key role in China's heavy industries. 787 financial institutions are located there together with the Shanghai Stock Exchange. It is the hub of a booming area with plenty of real estate opportunities and plenty of opportunities to take on big risks for big returns.

### Key Stats

Population	Population Density	GDP US\$ (ppp) per capita
<b>18 m</b>	<b>3630 / km<sup>2</sup></b>	<b>11,134</b>
The world's 10th biggest city	The world's 5th largest financial centre	



## Tokyo

**Harry:** Youkoso irasshai mashita to Tokyo. The most expensive place on the planet to live.



**Dolly:** Keep up to date Harry! It handed that mantle over to Oslo a couple of years back. It is expensive but only because it is a major global powerhouse. It has the largest metropolitan economy in the world. It is a major international finance centre, houses the headquarters of several of the world's largest investment banks and insurance companies, and serves as a hub for Japan's transportation, publishing, and broadcasting industries.

You need to understand the feel of this city. From a standing start after World War II, Tokyo has developed and grown to join the old world economies. Its real estate markets now offer stable investment opportunities. Okay, it has been in the doldrums over the last decade but it looks like a decent place to have money invested over the next few years.

And one last point, remember the wild frontiers of Shanghai. Well...St Bride's think that Tokyo illustrates what some growing Asian cities can develop into in 30 years time.

### Key Stats

Population

**32 m**

The world's biggest city

Population Density

**6027 / km<sup>2</sup>**

The 2nd most expensive place in the world to live

GDP US\$ (ppp) per capita

**115,000**

## Hong Kong

**Dolly:** On to Hong Kong, another dynamic financial centre and China's gateway to the world.



**Harry:** Of course. Isn't that where we get all our kid's plastic toys?

**Dolly:** Wrong again Harry. There is virtually no manufacturing these days in Hong Kong. Land is far too valuable for factories.

Like Singapore, Hong Kong has turned itself into one of the world's major financial centres as well as being a gateway into the rapidly growing Chinese economy. Global financial gloom will probably see prices and rents drift downwards over the coming months.

Longer term this looks like a strong investment location. A dense urban population, limited land supply, low tax rates and a Chinese government encouraging the city to act as a link for China to the outside world, all bode well for the future. St Bride's expect it to deliver strong returns over the long term.

### Key Stats

Population

**7 m**

The world's 36th biggest city

Population Density

**6349 / km<sup>2</sup>**

The world's 3rd most densely populated city state

GDP US\$ (ppp) per capita

**31,514**

## Seoul

**Harry:** Ah Seoul. What a lovely city, Dove. And a good place to upgrade my Samsung smartphone.

**Dolly:** I can see why the St Bride's guys like this place. Seoul, is the capital and largest metropolis of South Korea. Over half of South Korea's population live in the Seoul National Capital Area, and nearly a quarter in Seoul itself, making it the country's foremost economic, political, and cultural centre.

As the headquarters for Samsung, LG, Hyundai, Kia and SK, Seoul has become a major business hub. Although it accounts for only 0.6 per cent of South Korea's land area, Seoul generates 21 per cent of the country's GDP. It's big and economically powerful.

### Key Stats

Population

**22 m**

The world's 3rd biggest city

Population Density

**6700 / km<sup>2</sup>**

GDP US\$ (ppp) per capita

**30,200**



## Melbourne



**Harry:** G'day mate and welcome to what The Economist nominates as the 'most liveable city in the world'. Get that grog down your throat and put another prawn on the barbie.

**Dolly:** Thanks Harry. Now seriously listen to me. Melbourne is on the St Bride's list for a good reason. Yes, it is a beautiful city and a great place to live. It also has a highly diversified economy and is headquarters to five of the six largest corporations in Australia, including two of the big four banks, NAB and ANZ. The city is home to Australia's largest and busiest seaport and is Australia's industrial centre.

As Australia mines itself to a wealthy future, corporate Australia should boom and carry the Melbourne property investment market along in its wake.

### Key Stats

Population	Population Density	GDP US\$ (ppp) per capita
<b>4 m</b>	<b>1566 / km<sup>2</sup></b>	<b>42,184</b>
The world's 91st biggest city	The world's most liveable city	

## Sydney

**Harry:** Strewth mate and what about Sydney?

**Dolly:** She'll be alright! Okay, no more Ozzie slang just straightforward economic data. Sydney is a rival to Melbourne as the financial and economic hub of Australia.



St Bride's like the fact that it has grown to become a wealthy and prosperous city. It is a stable investment choice and is beginning to display many of the common characteristics of a world class city; constrained land supply, increasing pressure from overseas investors and strong demand for prime accommodation.

Domestic superfunds have a strong exposure to the city and overseas buyers, particularly from Asia are looking to build up their holdings in Sydney.

### Key Stats

Population	Population Density	GDP US\$ (ppp) per capita
<b>4.5 m</b>	<b>2058 / km<sup>2</sup></b>	<b>46,563</b>
The world's 73rd biggest city	Australia's most populous city.	

### St Bride's World Cities Asia Pacific Prime Rental Levels

City	Offices	Retail
	Prime Rent psf pa US (\$)	Prime Rental psf pa US (\$)
Hong Kong	126	1,941
Tokyo	114	1,049
Singapore	86	1,375
Shanghai	79	347
Sydney	79	1,224
Melbourne	63	774
Seoul	31	631
London	155	1470
New York	135	2500

Source: St Bride's Managers

Sitting at the airport contemplating their return to the UK, Dolly and Harry reflect on their whistle-stop tour of Asia Pacific.

**Harry:** Well, that was fun and informative. I'm a buyer. Demographic trends look good. Economic trends work for us and performance prospects are strong. I'm looking forward to the return trip to inspect what St Bride's have bought for us.

**Dolly:** Now there's a surprise Harry. I agree with you. St Bride's are telling us there are a number of ways to access the market; investing directly, via funds or joint ventures and in some instances via the listed sector. Their view is that it depends on the market. Sydney for example could be direct, Shanghai via a club and Hong Kong via shares. They will sort out the structures, tax and legal issues as they know the markets.

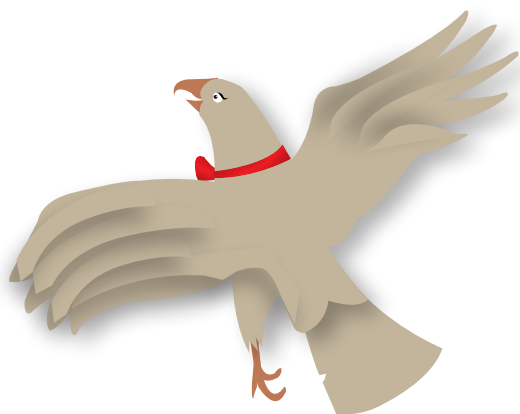
**Harry:** Great! I've got a pocket of small change here...yuan, dollars, yen – that reminds me what about currency risk.

**Dolly:** Well, if you are grown up enough to invest globally you should also be able to put a currency hedging strategy in place. If not, St Bride's can organise it or we can deal with it at a fund level.

**Harry:** Excellent. Lets get investing.

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