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CAMBRIDGE ASSOCIATES LLC

ASIAN REITS INVESTING

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C O N T E N T S

ABSTRACT

1. This report focuses on the listed Real Estate Investment Trust (REIT) markets in Asia (and does not include any discussion of securities of public real estate companies). The Asian REIT growth story appears to have just begun. Japan, Singapore, and Hong Kong already have decent-sized REIT markets and other nations in the region are beginning to promote REITs. The total pool becomes much larger if one looks at the Asia Pacific region, which includes the nation of Australia. Reasons to be bullish on the continued development of the Asian REIT market include (1) strong economic growth and personal income in the region, particularly in China and India; (2) increasing urbanization and demand for good-quality real estate in Asian cities; (3) potential for strong increases in demand from generally risk-averse Asian investors who are underweight in real estate; (4) growing retail investor interest; and (5) the good possibility of new supply from government entities and non-real estate companies.

2. Returns from the REIT markets in Japan, Singapore, and Hong Kong have been spectacular, with J-REITs (Japan) and S-REITs (Singapore) registering double-digit returns at lower volatility than the stock market as a whole since their inception earlier this decade. However, those returns have largely come from price appreciation rather than dividend yields (DYs), raising concerns that investors may mistakenly view REITs as growth stocks.

3. As prices have risen, valuations have remained attractive, but the character and risk profile of the market continue to evolve. In Japan, the compression of yields from rising REIT prices, coupled with rising interest rates, has reduced the REIT DY spread over ten-year government bonds, making them a less attractive investment than when they were first introduced. Similarly, spreads in Singapore have also compressed, but remain attractive. It has become more attractive for REITs in such instances, to issue new units at their current high prices. Perhaps more importantly, investors in developing REIT markets such as Hong Kong and Singapore need to monitor the use of financial engineering to enhance initial yields and entice investors during the initial public offering. Other concerns include the probability of increased risk as more mature Asian REITs look to less developed real estate markets in Asia for yield accretive acquisitions, the potential effect of rising interest rates, and a willingness in Japan to extend long-term loans to REITs without collateral. Investors should also be aware that (1) leverage has risen as borrowing limits imposed on REITs have gradually been relaxed in many countries and (2) the regulatory framework of REITs in some countries permits REITs to engage in limited development activities.

4. In the medium to longer term, as the number of REITs proliferates and competition for good properties intensifies, poor-performing REITs will become attractive acquisition targets and there is likely to be some industry consolidation. The spectrum of REITs in the market will also widen with hotel REITs and several health care REITs already in the pipeline. There is even talk of an Islamic (shariah-compliant) REIT being launched later this year in Malaysia.

5. Further REIT development should be encouraged by vibrant demand and supply characteristics. As in other markets, the REIT structure offers investors distinct benefits such as converting real estate assets into highly liquid and tradable securities with diversification across property assets and sectors for a minimal capital outlay, making them accessible to both retail and institutional investors. Their tax-efficient structure and regular income stream are additional key advantages. Retail investors in Asia are particularly attracted by the prospect of owning a piece of high-quality real estate, given the asset class's cachet in the region. From a broader perspective a vibrant REIT market promotes transparency and improved corporate governance, which in turn boost investor confidence and reduce the risk premium investors require.

6. From a supply perspective REITs offer property developers and conglomerates holding non-core real estate a variety of benefits such as freeing up cash for core business expansion, improving balance sheets and efficiency and economies of scale, and even providing a new income stream. REITs also serve as an exit vehicle for private real estate equity funds.

7. Although it dates back a generation, the Asian REIT market has blossomed only since the opening of the Japanese REIT market in September 2001. The Asian REIT market grew from three REITs, with a market capitalization of US$1.8 billion in June 2001, to 70 REITs, with a market capitalization of over US$45 billion today. Although it remains much smaller than the U.S. REIT market, the Asian REIT market is now roughly the size of the European REIT market, and has been growing at a much faster pace. Expanding the Asian REIT market to include the Asia Pacific nations of Australia and New Zealand changes the picture somewhat thanks to the vibrancy of the Australian listed property trust (LPT) (REIT) market. With 54 LPTs and a market cap of US$73 billion at the end of 2005 the Australian REIT market trails only that of the United States (which is the world's oldest REIT market).

8. Asian REIT structures vary from country to country, but generally follow the U.S. model with some form of built-in tax incentive and a requirement to pay out a substantial portion of the REIT's earnings. Unlike the REIT structures in the United States and Australia, however, most Asian REITs have limits on borrowing. In addition, while most U.S. and Australian REITs tend to be internally managed, Asian REITs tend to be externally managed and it is common to appoint an asset manager affiliated with the original owner of the property injected into the REIT.

9. Japan is home to Asia's largest and most developed REIT market, with 34 listings on the Tokyo Stock Exchange having a combined market capitalization of almost US$30 billion (64% of the total Asian REIT capitalization). Since the market's inception in 2001, foreign capital has beaten a path to this asset class due to the attractive spread between the cost of borrowing locally and cash-on-cash yields. Retail Japanese investors have also begun warming up to the asset class. Tokyo properties reportedly account for more than 70% of all J-REIT properties, with the five central Tokyo wards alone accounting for more than half of all J-REIT properties. J-REITs are composed mostly of office and mixed-use buildings.

10. Apart from Japan, Singapore and Hong Kong are the other two most noteworthy Asian REIT markets and are competing vigorously with each other for regional leadership. With 13 listed REITs and a

market cap of about US$12 billion, Singapore boasts Asia's second largest REIT market. Although its market is only four years old Singapore has the region's most innovative and REIT-friendly legislation. Singapore's policies on withholding taxes, stamp duties, gearing limits, ownership, transparency, and corporate governance are all aimed at attracting foreign and domestic investors and permitting REIT ownership of foreign properties. Although Hong Kong's REIT market dates back only to November 2005, it holds bragging rights for the world's largest-ever initial public REIT offering, and has amended its guidelines to better compete with Singapore. While Hong Kong's US$6.1 billion REIT market is slightly smaller than that of Singapore, Hong Kong may be best positioned to attract REITs that hold properties in mainland China.

11. Outside of Japan, Asian REITs are a fairly new investment, although many Asian equity funds do hold REITs in their portfolios. Most dedicated Asia Pacific (i.e., with a multi-country focus) REIT funds have been in existence for only a few years. Benchmarking options are likewise limited.

12. The Malaysian, Korean, Taiwanese, and Thai REIT markets are all small. However, Malaysia has taken measures since 2005 to boost its market and Korean REIT legislation passed in April 2005 could reinvigorate that market as well. Meanwhile, India and Pakistan are drawing up REIT legislation. Indonesia, the Philippines, and China lack REIT legislation, but China has recently ruled that all local real estate not purchased by foreign investors for owner occupation must be held through a Chinese entity, which could possibly throw a wrench into plans to list Chinese properties in REITs outside the mainland.

13. While not strictly part of the Asian REIT market, the Australian LPT market is noteworthy in several respects. First, it is estimated that the market already includes a high percentage of the domestic institutional-grade commercial property (28%) and domestic institutional-grade property held for investment purposes (60%). More than 35% of the properties now held by Australian REITs are outside Australia. Moreover, after undergoing a period of consolidation from 2000 to 2005, with the number of LPTs falling by about 50%, the five largest Australian LPTs now make up about 65% of total market capitalization. Unlike its Australian counterpart the New Zealand REIT market remains small, with five LPTs and a market capitalization of less than US$1.4 billion.

14. Since, outside of Australia and Japan, REITs are a fairly new investment vehicle in the Asia Pacific, it is not surprising that there are only a few dedicated REIT funds. Investors interested in investing in Asian REITs listed outside of Japan and Australia should note that many Asian equity funds do hold REITs in their portfolios, as do many global real estate securities managers. Most dedicated Asia Pacific (as opposed to single-country focused) REIT funds have been in existence for only a short time. Among those with longer histories are Morgan Stanley Investment Management's Asian Property Fund and E.I.I. Realty Securities' Asian Real Estate Securities Fund, which began in September 1997 and September 2000, respectively. The rest have less than four years of history. Given the bull market in Asian real estate of the past few years, investors should be careful not to assess these relatively young funds based on their short performance histories.

SUMMARY

Introduction

The Real Estate Investment Trust (REIT) structure has so many selling points that it is somewhat strange that the world has taken so long to warm to it. For starters, REITs turn what are effectively investments in illiquid physical assets into portfolios of highly liquid and freely tradable securities, thereby eliminating a major risk factor in the real estate asset class. Likewise, real estate securitization breaks down real estate investments into bite-size components and can provide retail as well institutional investors instant diversification across property assets (and in some cases, property sectors) with minimal investment outlay. REITs are also appealing because they are tax-efficient structures and provide a steady stream of income.

While the development of REITs in Asia has been rapid in recent years, growth potential is vast.[1] Japan, Singapore, and Hong Kong already have decent-sized REIT markets and other nascent markets are gaining steam. This report focuses on the listed REIT markets in Asia (and does not include any discussion of securities of public real estate companies). The paper reviews the development of the Asian REIT market;[2] the REIT structures utilized; the tax, regulatory, and current market environment; prospects for future market developments; and implementation considerations related to investing in Asian REITs. A brief reference is made to the Australian REIT market, which while not part of the Asian REIT market, is part of the Asia Pacific region and one of the most established REIT markets in the world.

The Global REIT Landscape

The United States has the world's largest, most mature REIT market, followed by Australia, where REITs are known as listed property trusts (LPTs). According to the National Association of Real Estate Investment Trusts (NAREIT), the market value of U.S. REITs doubled from 2000-05. By the end of 2005, the market capitalization of the 197 listed U.S. REITs had grown to about US$330 billion, compared to Australia's 54 LPTs valued at about US$73 billion. LPTs accounted for nearly 10% of the country's stock market capitalization and 30% of the commercial real estate market, significantly higher than the 2% and 7% share, respectively, that REITs held in the United States.[3]

The European REIT market, which has a market capitalization of about US$40 billion, lags behind that of the United States and Australia. While REITs have appeared in the Netherlands, Belgium, Greece, and France, the landscape is poised for dramatic change as the United Kingdom deliberates over the introduction of REIT legislation in early 2007, and Germany reportedly plans to announce a permitted REIT structure in January 2007.[4]

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[1] Readers should note that the Asian REIT market is changing so rapidly that some of the information included in this report will already be outdated by the publication date.
[2] REITs, in the context of this report, does not include securities of public real estate companies.
[3] European Public Real Estate Association (EPRA), "Global Real Estate Securities - Where do they fit in the Broader Market?" October 2005.
[4] See our September 2005 European Market Commentary: *European REITs—The Changing Landscape.*

At the end of 2005, Australian REITs represented 66% of the US$111 billion Asia Pacific REIT market, which grew by almost eight-fold during the previous five years (Exhibit 1). The Asian REIT market by itself (i.e., excluding Australia and New Zealand) was US$38 billion, roughly the same size as the European REIT market, but has grown at a much faster pace than has Europe over the last five years. Exhibits 2 and 3 illustrate the changing composition of the global REIT market and provide some perspective on the relative performance of REIT markets.[5]

The rise of the Asia Pacific REIT market is a microcosm of the groundswell of activity taking place in the Asia Pacific real estate arena. DTZ, a global real estate adviser, reports that there was US$350 billion worth of real estate acquisitions in 2005, with the Asia Pacific region accounting for US$50 billion of that figure (the United States and Europe accounted for about US$170 billion and US$125 billion, respectively). Within Asia there was US$3.8 billion worth of cross-border acquisitions.

Development of the Asian REIT Market

Although property trusts were first introduced in Asia in 1989, with the listing of AmFirst Property Trust Berhad in Malaysia, the market failed to take off over the next 12 years due to poor legal and tax structures as well as other factors. Thailand, for example, has had property trusts since 1998, but little REIT acitivity. A vibrant Asian REIT market only started in 2001 with the launch of the first J-REIT in Japan.

From 2001 to June 2006, the Asian REIT market grew from three REITs, with a market capitalization of US$1.8 billion, to 70 REITs, with a market capitalization over US$45 billion (Exhibit 4). Japan accounts for the lion's share of Asian REITs, followed by Singapore. The Hong Kong REIT market is only one year old, but has grown rapidly (Exhibit 5). The Asian REIT market is made up of equity REITs; a market for mortgage REITs has yet to develop.

The driving force behind the phenomenal growth of the REIT markets in Japan and Singapore has been the increasing depth of understanding of the REIT vehicle by investors and local real estate owners, encouraged by governments that have put in place highly favorable regulatory and tax frameworks intended to make REITs a mainstream investment product. Real estate's special place in the hearts of Asian investors—most of the earliest and well-known Asian tycoons made their fortunes in this asset class—has also helped. Once Asian retail investors overcame their initial unfamiliarity with REITs it was not difficult to ignite their interest in this asset class given that it allowed them for the first time to own a piece of good-quality assets in the most prestigious locations.

In addition, Asian retail investors now see REITs as low cost, liquid, and steady income-stream generators, providing an attractive yield premium over government bonds. Indeed, the recent growth in the Asian REIT market coincided with a period of low government bond yields. Investors take comfort in knowing that they will receive an almost certain stream of dividends at predetermined maximum levels of

[5] All returns are reported in US$, so performance differences are also attributable to relative currency exchange rates.

leverage, in contrast to the risk of owning stock in real estate companies whose returns could be hurt by corporate management's pursuit of other strategies. Compared with real estate company stocks, REITs can provide more targeted sector exposure and greater transparency at the specific asset level. Institutional investors have also been attracted to the diversification potential of REITs, particularly in the more volatile Asian equity markets (particularly those outside Japan).

On the supply side, much of the initial interest in REITs has come from property developers and conglomerates holding real estate that is not part of their core business. In fact, the Monetary Authority of Singapore gave local banks a deadline by which to divest their non-core assets and return to their banking roots. Some owner-occupiers, particularly in Japan and Hong Kong, have recognized that entering into sale and lease-back arrangements with REITs can free up cash for core business expansion. Others have sold REITs their real estate assets to reduce the debt assumed to finance the original acquisition, thereby improving their balance sheets. Still others understand that REITs can offer enhanced management expertise, cost reductions, and other efficiencies through economies of scale in managing real estate properties. Such owners have sold their properties to REITs in return for units in the REITs, with a view to capturing a portion of these efficiencies together with the public listing premium. In many cases the sellers have taken an interest in the REIT manager, the property management company, or both in order to create a new income stream after the asset divestment. Some private real estate equity funds in Asia have also used REIT vehicles as an exit for their investments and this trend is expected to pick up.

Country Focus

Asian REIT structures vary from country to country, but generally follow the U.S. model with some form of built-in tax incentive and a requirement to pay out a substantial portion of the REIT's earnings. Unlike the REIT structures in the United States and Australia, however, most Asian REITs have limits on borrowing; Thailand prohibits its REITs from borrowing altogether. In addition, while most U.S. REITs tend to be internally managed, Asian REITs tend to be externally managed and it is common to appoint an asset manager affiliated with the original owner of the property injected into the REIT.

Japan

Despite the fact that Japanese real estate prices were still falling in 2001, the J-REIT market has attracted a flood of foreign capital since its origins in September of that year due to the attractive spread between the cost of borrowing locally and cash-on-cash yields. Yield-hungry Japanese retail investors, meanwhile, are finally beginning to regard REITs as a reasonably secure place to put their savings, gradually increasing their REIT share purchases from only ¥6 billion (US$51 million) for the month of June 2003 to ¥30 billion (US$255 million) of such shares for the month of December 2005. This compares with purchases by overseas investors and domestic institutions (including banks and investment trusts) of ¥50 billion (US$425 million) and ¥40 billion (US$340 million), respectively, that month. As of July 2006, 34 J-REITs were listed on the Tokyo Stock Exchange, with a market capitalization of roughly US$29.8 billion. J-REITs trade on both the Tokyo Stock Exchange and the Osaka Stock Exchange.

The first J-REITs, which came to market in September 2001, were Nippon Building Fund Inc. and Japan Real Estate Corporation. Both held a portfolio of office buildings. Nippon Retail Fund Investment Corporation, which held retail facilities such as shopping centers and urban retail buildings, then made its debut in March 2002. This was followed by ORIX JREIT Inc, a diversified fund that focused primarily on office buildings, but also incorporated properties from other real estate sectors. As of June 2006, office buildings accounted for 39% of the investment property held by J-REITs while mixed-use assets followed closely with 36% (Exhibit 6).

According to a report by the STB Research Institute, approximately one-half of the J-REIT investment properties are located in the five wards of Central Tokyo (Chiyoda, Chuo, Minato, Shibuya, and Shinjuku) and the proportion exceeds 70% when the rest of Tokyo's wards are taken into account. Property prices in central Tokyo have increased due to the heightened acquisition activity by real estate funds, leading to compressed yields. This has led REITs to pursue more opportunities in other regional urban properties that offer relatively higher yields. A number of J-REITs specializing in locality-specific properties have also entered the market. For instance, TOKYU REIT is characterized by its investments in areas along the Tokyu railway lines while Fukuoka REIT focuses on properties in Kyushu's economic zone and Hankyu REIT's policy is to allocate more than half of its portfolio to properties in the Kansai area (Exhibit 6).

Singapore

Singapore's first two REITs (S-REITs) listed on the Singapore Exchange (SGX) in July and November 2002, respectively. The first cross-border REIT in Asia, Fortune REIT, made its debut on the SGX in August 2003. Sponsored by a company owned by Hong Kong tycoon Li Ka-Shing, Fortune REIT chose to list in Singapore rather than Hong Kong because at the time the latter jurisdiction's legislation did not allow REITs to hold properties outside Hong Kong.

As of July 31, 2006, 13 REITs were listed on the SGX, with a market capitalization of about S$12 billion (US$7.5 billion), up from S$1 billion (US$0.6 billion) less than four years earlier. Singapore recently listed its first hospitality REIT, the CDL Hospitality Trust, making up an initial portfolio of four hotels and a hotel-linked shopping arcade.

In addition to the Fortune REIT, three of the other 12 S-REITs hold foreign properties. Ascendas-REIT has also announced its intention to list its portfolio of Indian industrial properties through an S-REIT and there are reports of an impending listing in Singapore of an Indonesian health care and hospitality REIT. With the increasing number of REITs and a limited supply of quality local properties left to acquire, many S-REITs have indicated they will look overseas for acquisitions.

Singapore is competing with Hong Kong to be the listing venue of choice in Asia and currently holds a slight lead by market capitalization and a larger lead by number—13 REITs to Hong Kong's four. It is touted as having the world's most REIT-friendly tax regime and has exempted from tax S-REIT dividends to individual investors, regardless of nationality. In October 2005, Singapore raised the ante against Hong Kong by cutting the withholding tax on REIT distributions to foreign institutional investors from 20% to 10% over the next five years. It also waived until 2010 the stamp duty payable on the transfer of real estate properties to REITs. This in effect gave S-REITs a 3% (the stamp duty levy) advantage versus non-S-REIT acquirors in bidding for assets. The gearing limit was also raised to 60% from 35%, provided that the S-REIT maintains a credit rating by an established credit rating agency; although no minimum rating has been laid down.

Singapore also lifted restrictions that had prevented S-REITs from holding less than a 100% interest in an asset, thereby opening the door for them to invest in foreign assets in cases where a foreign country requires joint ownership by a local partner. Singapore also removed its prohibition of S-REIT investment in property development, but caps this at 10% of the S-REIT's assets. This creates further opportunities for S-REITs in a region where there is rapid real estate development.

New guidelines have also improved S-REIT transparency and corporate governance. S-REITs must now disclose their top ten tenants and the percentage of net lettable area and gross rental income attributable to each. In addition, S-REITs must now disclose their lease maturity profile and expected gross rental income over the next five years in order to give investors a better picture of their concentration risk. Two independent appraisers are now required for any transaction with an interested party or the REIT's sponsors, and any acquisition fees paid to REIT managers must be disclosed. These new measures bode well for the orderly development of the REIT market in Singapore. While Singapore lags Japan in terms of REIT capitalization, it is far ahead of all of its Asian neighbours (including Japan, despite its more mature REIT market) in its progressive REIT legislation.

Hong Kong

Hong Kong holds bragging rights for the world's largest ever initial public REIT offering. Sponsored by the Hong Kong Housing Authority in 2005, the Link REIT had an initial portfolio of 150 retail malls (constituting almost 10% of all retail space in Hong Kong) and 100,000 parking spaces. Total issuance reached HK$19.83 billion (US$2.55 billion) with an oversubscription of 24 times on the institutional tranche and 19 times on the retail tranche.[6]

The Link REIT's success has led to three subsequent listings, all of which were highly oversubscribed. For example, GZI REIT, the first REIT consisting of real estate properties located in mainland China, raised only US$230 million, but was oversubscribed by a whopping 496 times![7] The total market capitalization of Hong Kong REITs was about US$6.1 billion as of June 2006.

Driven by competition from Singapore, Hong Kong's Securities and Futures Commission revised its guidelines in June 2005 to (1) remove a prohibition against Hong Kong-listed REITs owning property overseas and (2) raise the gearing ratio from 35% to 45% of gross asset value. While the tax regime for REITs in Singapore remains more favourable, many observers feel Hong Kong is better positioned to attract REITs that hold properties in mainland China.

[6] Source: Henderson Global Investors.
[7] Ibid.

Malaysia

Malaysia was the first Asian country to introduce LPTs (in 1989), but the market did not blossom. Unlike U.S. REITs and Australian LPTs, Malaysian LPTs were allowed to have significant stock holdings and short-term investments, and up to 40% of their portfolios could be non-real estate assets. There was no tax transparency at the LPT level and there were restrictions against property developers forming REITs (sponsors had to be subsidiaries of financial institutions).

In 2005 the restriction on property developers was relaxed, restrictions against holding properties outside of Malaysia were lifted, and the stamp duty and capital gains tax on the sale of properties to REITs were waived. Leverage, which was previously capped at 35%, was raised to 50% in early July 2006. While it is too early to tell if these changes will breathe new life into the Malaysian REIT (M-REIT) market, the listing of three new REITs in 2005 is a promising sign. At least nine other Malaysian entities are reportedly planning to list their own REITs.

A 28% withholding tax imposed on distributions to foreign investors remains a major impediment to greater foreign interest in the M-REIT market. Foreigners also still need government approval to purchase certain properties and can own, in aggregate, no more than 49% of any M-REIT. However, the Malaysian government has announced new incentives for investors in M-REITs in its 2007 budget. The aforementioned 28% withholding tax on M-REIT dividends will be lowered to 15% for individuals and 20% for institutions. In addition, domestic investors (both institutions and individuals) will pay a flat 15% tax on dividends from REITs, a notable departure from the current practice of taxing domestic individuals based on their respective marginal tax rates (the maximum rate is 20%). The M-REIT market currently has a capitalization of about US$590 million.

Korea

Korean REITs (K-REITs) trace their roots to the passage of the Real Estate Investment Trust Act in July 2001. The Act permits two kinds of REITs: K-REITs and CR-REITs (corporate restructuring REITs). CR-REITs are similar to closed-end funds with a specified life (usually five years), a running yield, and a principal repayment at the end of the term, which is determined by the price at which the trust is able to dispose of the assets. At least 70% of CR-REIT assets must be in the form of real estate to be sold by companies undergoing restructuring due to financial difficulties or intending to use the proceeds to pay down their debt obligations.

Both K-REITs and CR-REITs require a starting capital of KRW50 billion (US$53.3 million), which has been an impediment to market growth. Moreover, K-REITs have been handicapped from the outset by regulatory constraints and a lack of transparency for tax purposes. The market remains domestic in focus and fairly illiquid.

CR-REITs dominate the market although a revision of the REIT legislation in April 2005 could re-energize K-REITs. As of June 2006, Korea had eight REITs (one K-REIT and seven CR-REITs) listed on its stock exchange while total market capitalization of Korean REITs stood at about US$0.7 billion.

Taiwan

REIT legislation was introduced in Taiwan in July 2003 to inject liquidity into the real estate market. However, Taiwan's first, and only, three REITs did not list until 2005. The market capitalization of these REITs was about US$1.2 billion as of June 2006. New REITs in the pipeline include an NT3.8 billion (US$120 million) REIT to be launched by Continental Engineering Corp, which will be the first Taiwanese REIT advised by a foreign entity (reportedly Lehman Brothers). Meanwhile, Cathay Financials announced plans to list its second REIT in September/October 2006, with a target size of NT7.2 billion (US$210 million).

Thailand

Eight REIT-like vehicles are listed on the Stock Exchange of Thailand. These vehicles are not permitted to employ leverage, although this restriction is being reconsidered. Market capitalization was about US$0.5 billion as of June 2006. Although there have been no listings since late 2005, investor interest is expected to pick up in the second half of 2006. ING reportedly will set up three property trusts, making up a portfolio of dormitories, serviced apartments, and resort properties, later this year with a view toward raising THB3 billion (about US$80 million).[8]

The Asia Pacific: Australia and New Zealand

The Australian LPT trust market dates back to 1971. As noted earlier, Australia's 54 LPTs had a market cap of US$73 billion at the end of 2005, representing about 10% of stock market capitalization. The market underwent a period of consolidation from 2000-05, with the number of LPTs falling by about 50%. The five largest LPTs now make up about 65% of total capitalization. Westfield Group, with a portfolio of shopping malls in Australia, New Zealand, the United Kingdom, and the United States, is Australia's largest LPT, followed by General Property Trust and Stockland Property Group.

It has been estimated that LPTs hold about half of the investment-grade real estate in Australia. UBS reports that LPTs own 28% of all institutional-grade commercial property in Australia and 60% of all institutional-grade property held for investment purposes. Institutional investors hold between 60% and 70% of the investments in LPTs. More than 35% of the properties now held by Australian REITs are located outside Australia, primarily in the United States. Unlike Asian REITs, most Australian LPTs are internally managed and have no borrowing constraints. All LPT income must be distributed and LPTs are tax-exempt at the trust level. Distributions are taxed at the unit holder level. Australian LPTs tend to trade at about 190

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[8] CBRE Research.

basis points (bps) above ten-year government bond yields and close to net asset value (NAV)—unlike Asian REITs, which typically trade at a premium to NAV.

The LPT market in New Zealand has not taken off like it has in Australia. Although LPT legislation was introduced in 1992, as of the end of 2005 there were only five LPTs with a total market capitalization of less than US$1.4 billion.

Current Market Environment

Asian real estate markets are abuzz with activity: Asia already hosts seven of the world's ten tallest buildings, and the world's largest shopping mall, which will be named Mall of India and cover 32 acres, is under construction. It is projected that by 2010 China will have seven of the world's ten largest shopping malls. DTZ projects the value of real estate acquisitions in the Asia Pacific region to reach US$65 billion this year. Asian REIT activity has likewise gained momentum in 2006. In the first four months alone, 18 new REITs were floated, raising the total size of Asian REIT market to US$47 billion. In addition, four more LPTs listed in Australia during this period, bringing the total number there to 58.

Returns from the nascent REIT markets of Japan, Singapore, and Hong Kong have been nothing short of spectacular,[9] with J-REITs and S-REITs registering double-digit returns at lower volatility than the stock market as a whole. However, much of those returns have come from price appreciation of the REIT units rather than through dividend yield (DY), driving price-to-NAV ratios up somewhat, particularly in the third quarter of this year. Market players worry that Asian investors may mistake REITs for growth stocks, rather than the defensive, steady dividend-driven investments they are likely to be over the long term. If so, these investors are poised for a major disappointment that could spur a severe downward trend in the REIT market.

In fact, REIT prices in Singapore tumbled recently in response to poor market sentiment, causing a few prospective offerings to be postponed indefinitely or temporarily withdrawn while terms were restructured to cater to the new market conditions. Still, this hiccup is unlikely to dampen investors' fervour for long. A recent REIT offering in Singapore, Frasers Centrepoint Trust, was five times oversubscribed.

Yield (in particular, the yield premium over risk-free government bonds) has been a key valuation metric in mature REIT markets like the United States and Australia because leases tend on average to be relatively long. However, for Asian real estate investors, who have traditionally held real estate for capital gains, adopting yield-based valuations for real estate has required a shift in mindset. The REIT yields in the Asian markets have taken on a familiar pattern, starting out at about 7% (as high as 8% in some cases), which is more than 200 bps above ten-year government bonds, and compressing over time as investors gain

[9] The one exception is the Hong Kong-listed Champion REIT, sponsored by Great Eagle Holdings, whose portfolio consists of one 15-year-old office building. The high price at which the building was injected into the REIT, the high leverage of the REIT, and the financial engineering built into the initial public offering (IPO) structure are all factors contributing to the 20% fall in Champion REIT's share price since its listing.

familiarity with REITs as an investment vehicle (Exhibit 7). In Japan the compression of yields from rising REIT prices coupled with rising interest rates has reduced the REIT DY spread over ten-year government bonds, making them a less attractive investment than when they were first introduced. Similarly, spreads in Singapore have also compressed, but remain attractive. The spread between S-REIT yields and ten-year government bond yields started out at 500 bps in 2002, but narrowed to 150 bps to 200 bps by November 2005. It has become more attractive for REITs in such instances, to issue new units at their current high prices, and there is more potential for acquisitions to qualify as yield accretive. Not surprisingly, some REITs have taken this opportunity to raise additional capital through new issuances in preparation for further asset acquisitions. As of June 2006, S-REITs were trading at an average yield of 5.4%, which is still fairly attractive given ten-year government bond yields of 3.7%. Investors in the first two S-REITs reaped returns of 50% per year during the REITs' first two years of existence. Market observers, however, feel that total returns of 9% to 12% per annum are a more realistic and sustainable target over the longer term.

Perhaps of greater concern is the use of financial engineering in developing REIT markets such as Hong Kong and Singapore to enhance initial yields and entice investors during the IPO period. One such scheme takes the form of a rental guarantee by the sponsor for a limited period. Another variant sees the sellers of the property to the REIT waiving their entitlement to distributions for a limited period after the listing of the REIT. Some REITs have used swaps to defer the payment of interest on loans taken to finance their acquisitions. In effect, these REITs are paying their banks a lower upfront interest rate that will step up in later years, with the hope of paying the deferred interest from increased future rentals (which may or may not materialize). Other REITs have deferred issuing property sellers REIT units, which constitute the consideration for the sale, thus boosting the distribution per unit ratio at the time of the initial listing. The CEO of Temasek Holdings brought the issue of such financial engineering to the forefront of market consciousness when she highlighted such shenanigans in a speech at the launch of the Temasek-sponsored Mapletree Logistics Trust in July 2005. REITs launched in Singapore since then have been more circumspect in the use of such financial engineering techniques.

Moody Investors Services reports that financial institutions in Japan are now more willing to extend long-term loans to REITs without collateral. When the general tide rises so quickly, it is easy to forget that Asian REITs have taken steep plunges in their short history. In November 2005, for example, residential REITs in Japan were hit by a housing scandal and, while there were other factors at play, three residential J-REITs saw their prices fall by 17.3%, 14.3%, and 13.9%, respectively, in just three months. In May 2006, the prices of S-REITs fell an average of 7.8% in one month (though the overall equity market fell 12%). Historically, Asian equity markets (particularly markets outside of Japan) have been volatile and, during periods of sharp downturns, REITs are unlikely to be spared.

It is also important to keep in mind that as the more mature REITs in Asia grow, their risk profiles will likely increase. REITs are looking increasingly to less-developed real estate markets in Asia, some of which lack transparency, for yield accretive acquisitions.[10] The regulatory framework of REITs in some countries permit REITs to engage in limited real estate development activity and some REITs have already indicated that they plan to head in that direction as part of their growth strategy. In addition, leverage has risen as borrowing limits imposed on REITs have been gradually relaxed in many countries. Finally, exposure to overseas properties means that foreign exchange risk will become a larger influence on returns.

Another concern is that rising interest rates may take the lustre off REIT investments and cause capital to move to higher-yielding assets. However, this is by no means inevitable. If rental growth is robust—and low vacancy rates across the region suggest that it is—REIT yields can remain attractive relative to government bond yields even during periods of interest rate increases. In addition, if REITs can continue to find yield-accretive acquisitions, investors may remain happy.

What Next?

We expect investors to subject REITs to greater scrutiny as they generally are becoming more discerning about REITs and should begin to see through the financial engineering techniques designed to boost initial yields. Market pricing will be refined accordingly and a blind herd mentality from the retail sector is unlikely to be rewarded.

With many Hong Kong developers preparing to launch their own REITs, the universe of properties available for purchase by REITs will be more limited. In addition, given the small size of the individual investable Asian real estate markets (other than Japan) and increased competition among REITs, we are likely to see more cross-border acquisitions by Singapore- and Hong Kong-listed REITs.

In the medium to longer term, as the number of REITs proliferates and competition for good properties intensifies, poor-performing REITs will become attractive acquisition targets and there is likely to be some industry consolidation (as has already happened in Australia). Both Japan and Singapore have made preparations for this phase of the market's development: Japan's Financial Services Agency now requires investors to disclose when their interest in a REIT exceeds 5.0% and, in Singapore, recent amendments extend the scope of the Code on Takeovers and Mergers to include interests in Collective Investment Schemes (REITs).

Although there is only one REIT consisting of properties in mainland China so far (it is listed in Hong Kong), other Chinese entities are looking to list REITs. Among the names mentioned are Beijing Huarong Investment, Beijing Northstar, and China Vanke (a leading Chinese real estate developer).

[10] India's real estate market is rated semi-transparent, while China's real estate market is rated as having low transparency by Jones Lang LaSalle's 2006 Real Estate Transparency Index (RETI). The RETI tracks transparency in commercial real estate in 56 markets and classifies markets into five categories: opaque, low transparency, semi-transparent, transparent, and high transparency.

Singapore's Capitaland has also announced its intention to list a China Retail REIT (as well as longer term plans to list a Japan Retail REIT). However, the recent Chinese government ruling that all real estate in China purchased by foreign investors for purposes other than owner occupation must be held through a Chinese entity could make it more difficult to include Chinese properties in REITs listed outside the mainland. REITs with plans to have Chinese properties in their portfolio are likely to require the use of special purpose vehicles or some other indirect means to hold the interests in the assets.

Meanwhile, the spectrum of REITs in the market will widen (Exhibit 8). Singapore recently launched its first hotel REIT, several health care REITs are in the pipeline, and there is talk of an Islamic (shariah-compliant) REIT projected to hit the Malaysian market later this year.

There are also other budding REIT markets in Asia. India is currently drafting REIT legislation to be introduced before the end of 2006. The introduction of REITs will raise the participation of local equity in real estate development in India, which has historically been funded mostly through debt. However, stamp duties of as much as 15% of real estate transaction values, depending on the state, constitute a major impediment. The Indian government is attempting to get all states to apply a uniform stamp duty rate that is closer to 5%. There have also been proposals to exempt sales to REITs from stamp duty or, alternatively, allow the duty to be recouped in some form. Another major impediment is the prevalence of rent controlled buildings in the heart of the central business district in New Delhi. These buildings must be replaced by new developments before the REIT market can take root.

A Pakistan draft of REIT regulations was scheduled for completion in September 2006. However, given Pakistan's poorly regulated and opaque real estate market, there is some skepticism concerning whether a vibrant REIT market can be developed there. The REIT fever has apparently reached Indonesia as well, which reportedly is considering enacting REIT legislation soon.

There is still no REIT legislation in place in China or the Philippines.

Implementing an Allocation to Asian REITs

Since, outside of Australia and Japan, REITs are a fairly new investment vehicle in the Asia Pacific, it is not surprising that there are only a few dedicated REIT funds (Exhibits 9 and 10). Investors interested in investing in Asian REITs listed outside of Japan and Australia should note, however, that many Asian equity funds do hold REITs in their portfolios, as do many global real estate securities managers.

Most dedicated Asia Pacific (as opposed to single-country focused) REIT funds have been in existence for only a short time. Among those with longer histories are Morgan Stanley Investment Management's Asian Property Fund and E.I.I. Realty Securities' Asian Real Estate Securities Fund, which began in September 1997 and September 2000, respectively. The rest have less than four years of history. Given the bull market in Asian real estate of the past few years, investors should be careful not to assess these relatively young funds based on their short performance histories. It is instructive to note that Morgan

Stanley's Asian Property Fund has ridden the highs and lows of the Asian property markets, registering a 14.6% average annual compound return (AACR) over the last five years, but a meagre 4.5% AACR since the fund's inception.

Benchmarking options for an Asian REIT allocation are limited: there are three main Asia public real estate indices (FTSE EPRA/NAREIT Asia, GPR 250 Asia, and S&P/Citigroup BMI Asia Pacific), but no dedicated Asian REIT index other than the Tokyo Stock Exchange's REIT index. Even this index, which only encompasses J-REITs, has only been around since April 2003.

Conclusion

Investors and fund managers alike have cheered the emergence of a vibrant REIT market in Asia. Such a market widens real estate participation, increases the capital market for real estate, and promotes transparency and improved corporate governance in the management of Asian real estate. This in turn boosts investor confidence and reduces the risk premium investors require. The liquidity of the public REIT market has also boosted the real estate private equity market by offering private real estate fund investors an additional viable exit. In addition, Asian REITs offer a relatively cheap inflation hedging alternative to Asian investors who fear that non-Asian REITs may be less correlated with inflation in the their country. As a portfolio diversifier, however, the effectiveness of REITs will likely wane over time as they are increasingly absorbed into Asian public equity indices.

A number of factors make the macro outlook for the Asia Pacific REIT market appear promising over the medium term:

- Most Asian countries, led by China, India, and Singapore, are experiencing strong economic growth, driving up the demand for real estate across most sectors.
- China and India are seeing unprecedented growth in personal income, leading to increased domestic consumption and pent-up demand for retail space. Indeed, China is now the world's third largest consumer of luxury goods, behind the United States and Japan, accounting for 12% of global sales.[11]
- Increasing urbanization and the growth and internationalization of the service sector continue to spur demand for good-quality real estate in Asian cities, particularly in the office and residential sectors.
- Many Asian institutional investors are heavily underweight in real estate. The liquidity that REITs bring to the real estate asset class is a compelling feature given the generally risk-averse institutional investor landscape in Asia, which is dominated by conservative government-sponsored agencies.
- There is also a growing retail investor base for REITs in Asia, and an increasingly aging population in Asia will heighten the appeal of REITs as a higher-yielding fixed income substitute.[12]

[11] Ernst & Young survey (2005).
[12] Japan recently officially overtook Italy as the world's oldest nation with 21% of the total population over the age of 65. China also has a rapidly aging population as a result of its one-child policy. A major exception is India where more than 50% of the population is below the age of 35.

- With the success of the Link REIT in Hong Kong, there are also suggestions in Singapore that its numerous government entities should offload their non-core buildings to REITs and a few candidates have already been identified. This trend could take off in the other Asian countries as well.
- More and more non-real estate companies are beginning to realize the potential benefits of offloading their non-core real estate holdings to REITs and leasing them back.

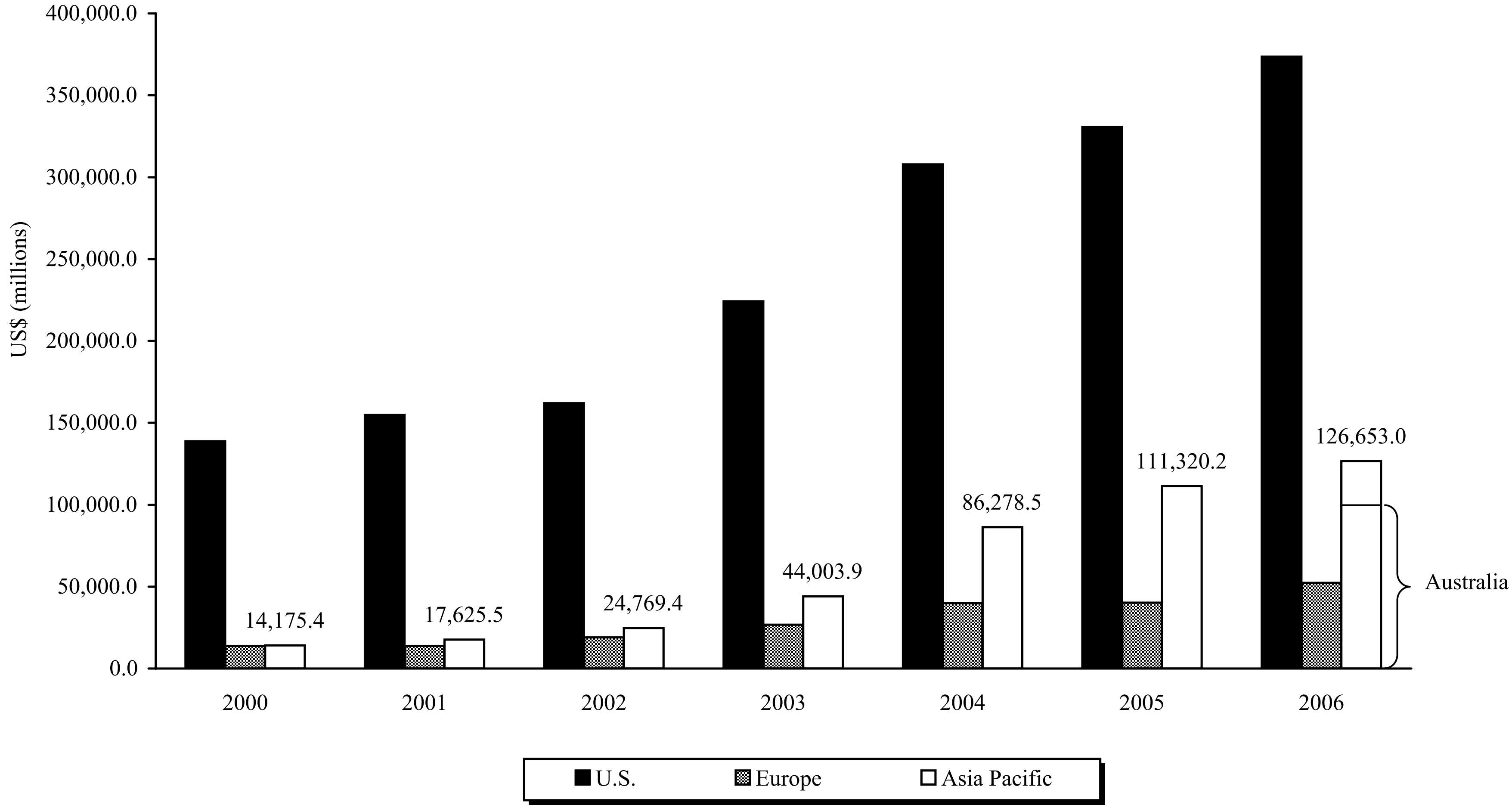
In short, there are many factors supporting the continued growth of the Asian REIT market. Investors can expect that there will be momentary hiccups, as in any market, and must remain vigilant against financial engineering tools that obscure the true value of REITs. But barring any major unforeseen catastrophe the growth story of the Asian REIT market appears to have just begun.

EXHIBITS

Exhibit 1

MARKET CAPITALIZATION OF REITS

2000-06



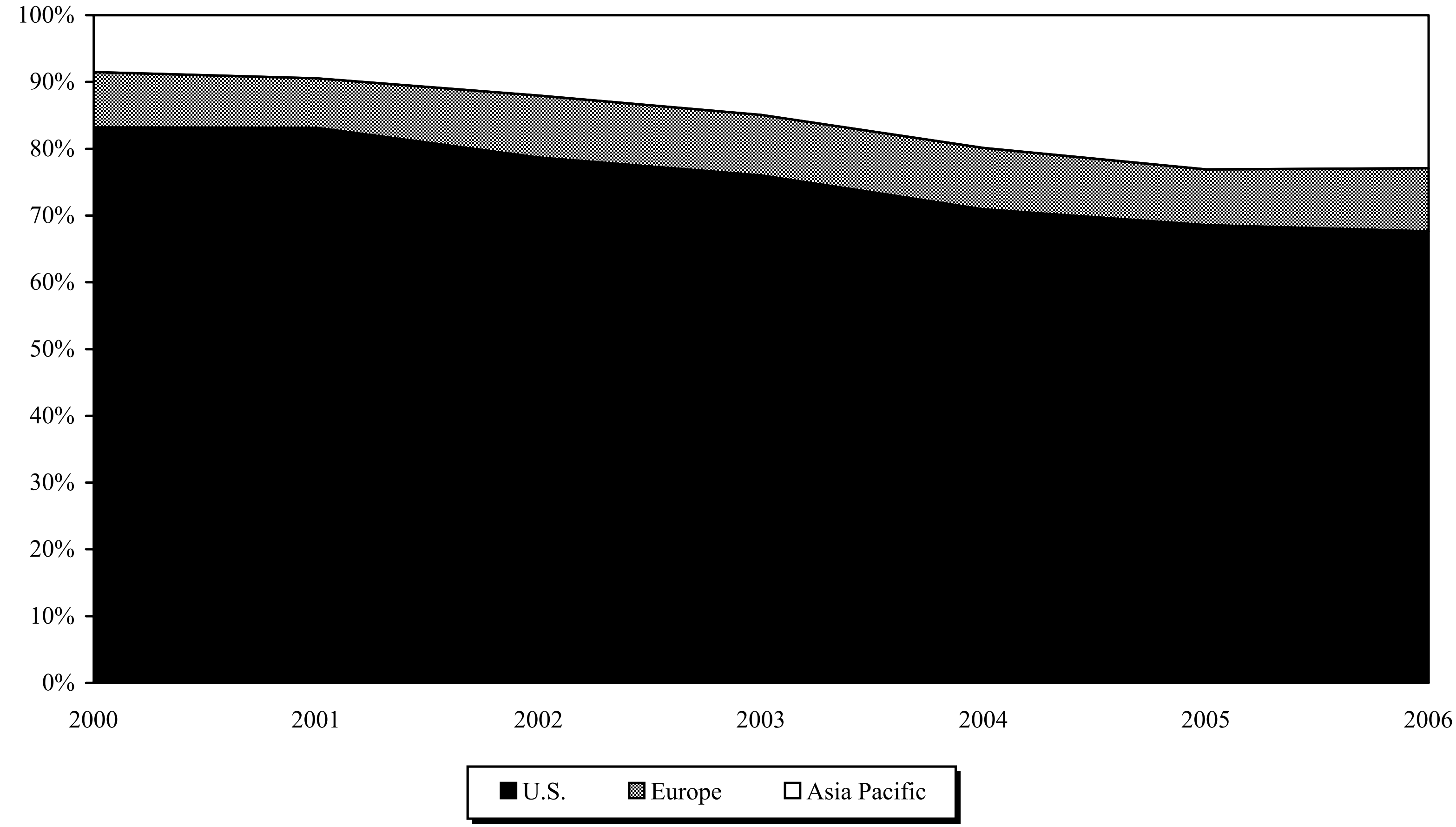
Sources: National Association of Real Estate Investment Trusts, European Public Real Estate Association, and Thomson Datastream.

Note: Data for 2006 are through June 30.

Exhibit 2

CHANGING COMPOSITION OF GLOBAL REITS

2000-06



Sources: National Association of Real Estate Investment Trusts, European Public Real Estate Association, and Thomson Datastream.

Note: Data for 2006 are through June 30.

Exhibit 3

ANNUALIZED REIT RETURNS FOR PAST TEN YEARS

Regional (%)

	2Q 2006	YTD	1 Year	3 Years	5 Years	10 Years
World	-3.22	8.90	14.39	24.39	20.01	14.81
North America	-5.18	8.98	15.18	24.70	18.77	15.06
United States	-5.21	9.20	15.09	24.68	18.69	15.15
Europe	-4.70	17.38	18.36	30.58	30.95	15.14
Asia Pacific	4.26	6.14	10.50	20.85	24.36	13.95

Asia Pacific (%)

	2Q 2006	YTD	1 Year	3 Years	5 Years	10 Years
Australia	8.81	7.52	15.06	21.39	25.00	14.26
Japan	0.41	8.50	1.91	20.96	N/A	N/A
Hong Kong	-7.99	4.97	1.24	N/A	N/A	N/A
New Zealand	8.45	-1.95	5.48	16.80	27.56	N/A
Singapore	-6.42	10.92	4.13	36.56	N/A	N/A

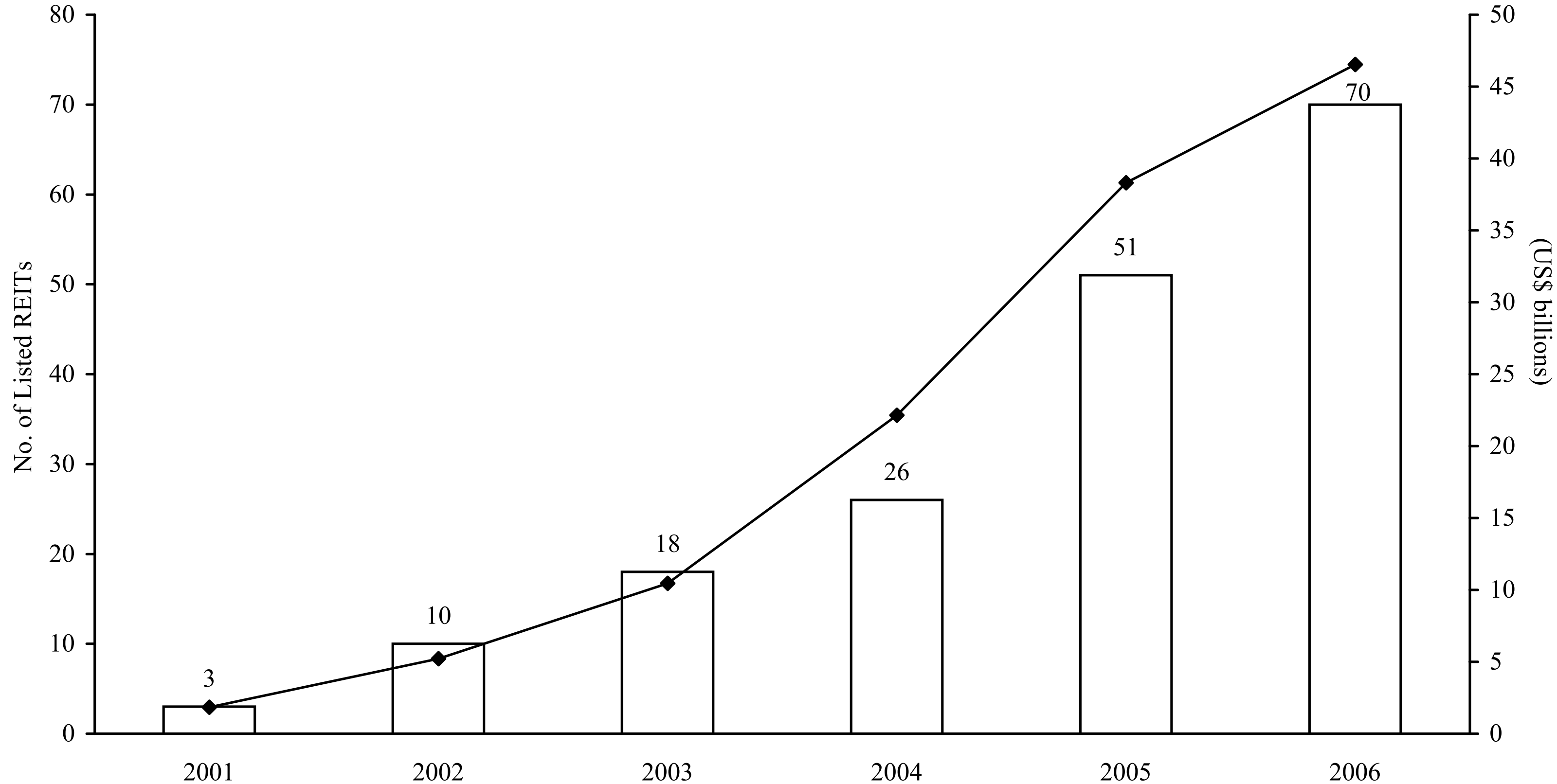
Ex Asia Pacific (%)

	2Q 2006	YTD	1 Year	3 Years	5 Years	10 Years
Belgium	3.76	10.31	13.98	17.90	24.32	10.24
Canada	3.01	9.59	28.12	28.98	24.98	16.25
France	-0.58	29.73	33.70	N/A	N/A	N/A
The Netherlands	-0.51	19.71	17.64	28.33	29.37	14.62
United States	-1.52	13.45	19.57	26.27	19.60	15.59

Source: S&P/Citigroup World REIT Index.

Exhibit 4

ASIA REIT LISTINGS AND MARKET CAPITALIZATION



Sources: Tokyo Stock Exchange, Korea Stock Exchange, Singapore Exchange, Hong Kong Exchange, Bursa Malaysia, and Taiwan Stock Exchange.

Note: Data for 2006 are through June 30.

Exhibit 5

LIST OF REITS IN ASIA

As of July 31, 2006

Japan
Japan Excellent, Inc.
re-plus residential investment inc.
Nippon Hotel Fund Investment Corporation
LCP Investment Corporation
BLife Investment Corporation
Creed Office Investment Corporation
Top REIT, Inc.
Japan Hotel and Resort, Inc.
Advance Residence Investment Corporation
Hankyu REIT, Inc.
DA Office Investment Corporation
Fc Residential Investment Corporation
eAsset Investment Corporation
Joint REIT Investment Corporation
Kenedix Realty Investment Corporation
Japan Single-Residence REIT Inc.
Prospect Residential Investment Corporation
Fukuoka REIT Corporation
Japan Logistics Fund, Inc.
Crescendo Investment Corporation
New City Residence Investment Corporation
Frontier Real Estate Investment Corporation
Nippon Residential Investment Corporation
MORI TRUST Sogo Reit, Inc.
United Urban Investment Corporation
Nomura Real Estate Office Fund, Inc.
Global One Real Estate Investment Corporation
TOKYU REIT, Inc.
Premier Investment Company
Japan Prime Realty Investment Corporation
ORIX JREIT Inc.
Japan Retail Fund Investment Corporation
Japan Real Estate Investment Corporation
Nippon Building Fund Inc.

Singapore
Ascendas REIT
CapitaCommercial Trust
CapitaMall
Fortune REIT
Macquarie MEAG Prime REIT
Mapletree Logistics Trust
Suntec REIT
Ascott Residential Trust
Allco Commercial REIT
Keppel REIT Asia
Fraser Centrepoint Trusts
CDL Hospitality Trusts
Cambridge Industrial Trust

Korea
KOCREF VIII - K-REIT
KOCREF REIT-7
KOCREF III CR-REIT
KOCREF1 CR-REIT
Kyobo - Mertiz 1 CR-REIT
Macquarie Central Office CR-REIT
Realty Korea 1 CR-REIT
Ures-Mertiz 1 CR-REIT

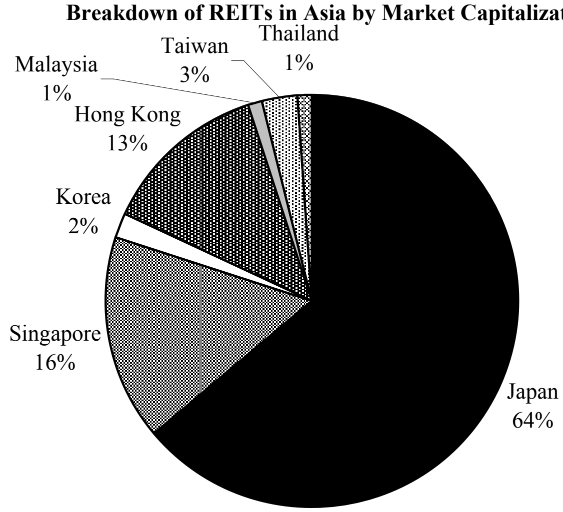
Taiwan
Cathay No. 1 REIT
Fubon No. 1 REIT
Shinkong No. 1 REIT
Fubon No. 2 REIT

Hong Kong
GZI REIT
Link REIT
Prosperity REIT
Champion REIT

Malaysia
Axis REIT
Starhill REIT
UOA REIT
Tower REIT
AmFirst Property Trust
Amanah Harta Tanah PnB
Amanah Harta Tanah PnB 2

Thailand
Bangkok Commercial Property Fund
UOB Apartment Property Fund I
Millionaire Property Fund
Ticon Property Fund
Thai Industrial Property Fund
MFC-Nichada Thani Property Fund
CPN Retail Growth Property Fund
Baan Sansiri Property Fund

Breakdown of REITs in Asia by Market Capitalization

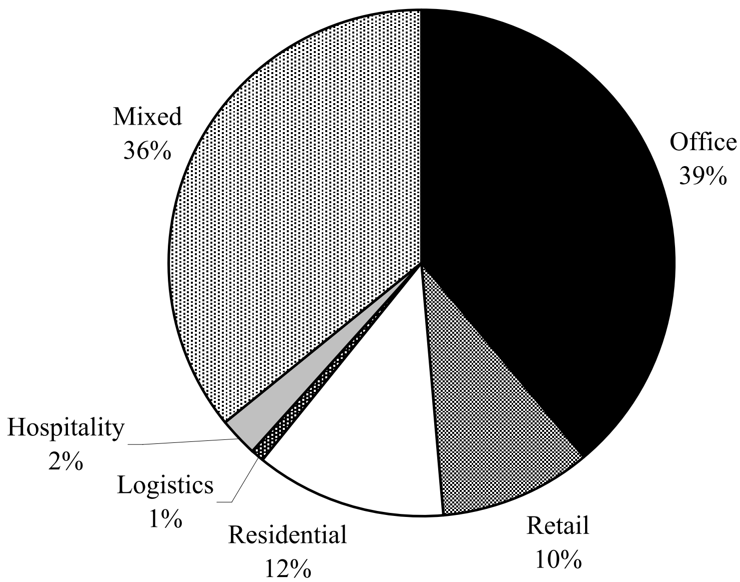


Sources: Tokyo Stock Exchange, Singapore Exchange, Korea Stock Exchange, Hong Kong Exchange, Stock Exchange of Thailand, Bursa Malaysia, and Taiwan Stock Exchange.

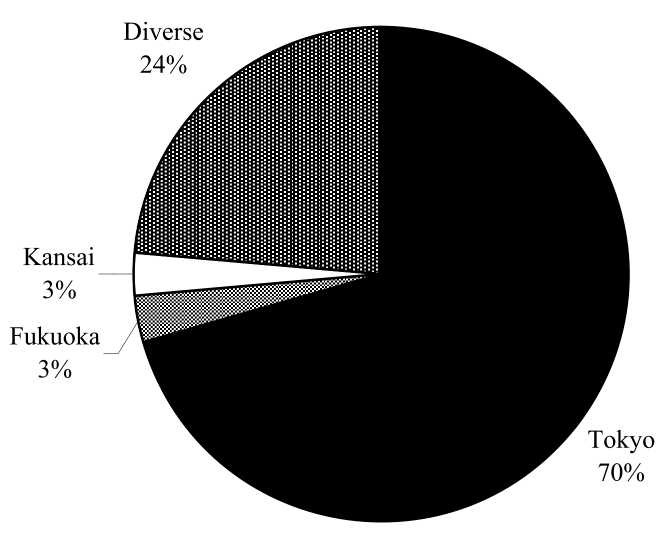
Exhibit 6

J-REITS BY PROPERTY TYPE

As of June 30, 2006



J-REITs - Geography of Managed Assets

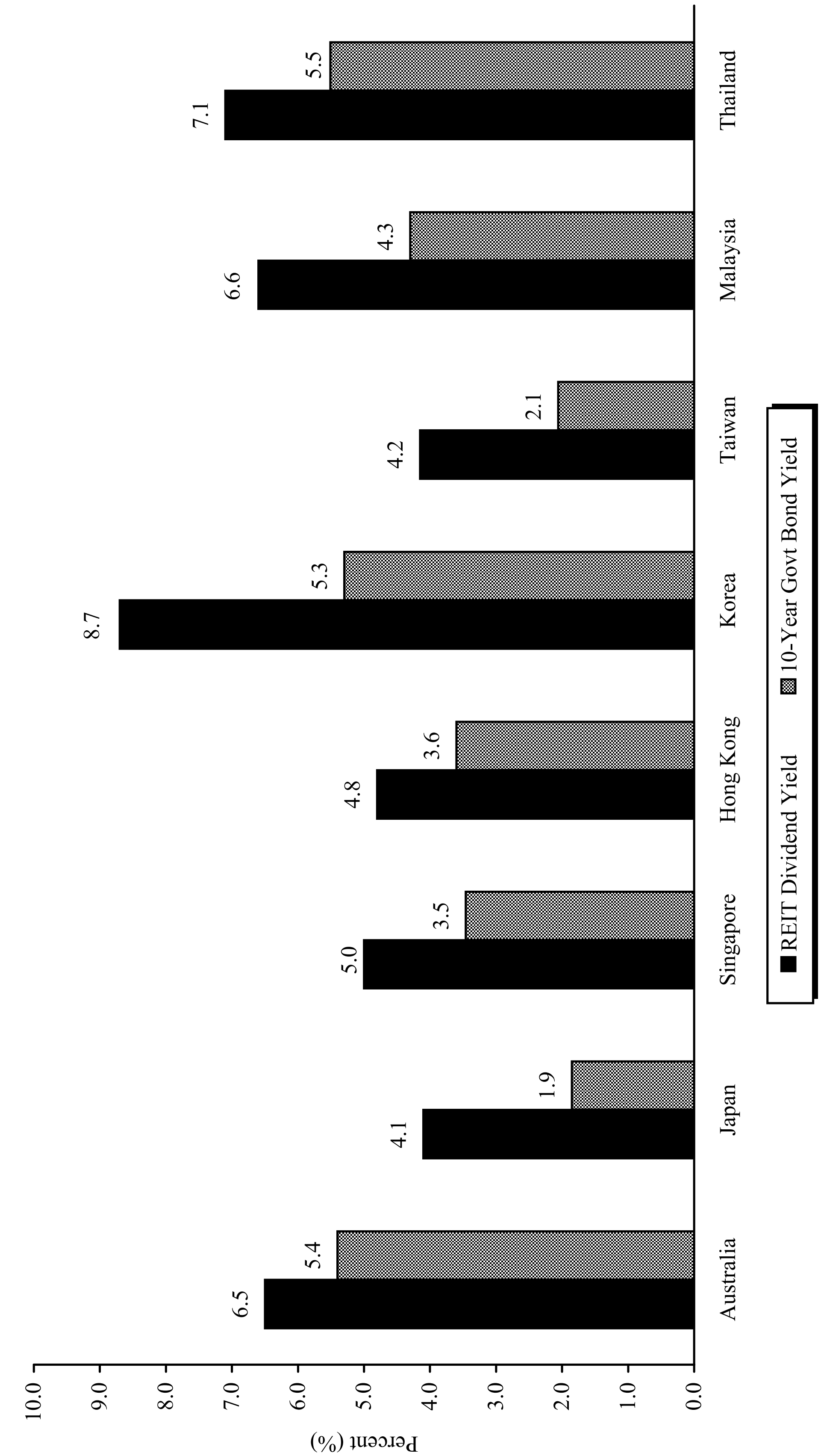


Source: The Association of Real Estate Securitization.

Exhibit 7

YIELD COMPARISON - REITS VS GOVERNMENT BONDS

As of April 30, 2006



Sources: S&P/Citigroup and CBRE Research.

Exhibit 8

ASIAN REIT PIPELINE

Country	Issuer	Sector	Amount (US$m)	Timing
Singapore	CapitaRetail China Trust	Retail	150 - 200	4Q06
Singapore	Singapore Healthcare REIT	Health Care	150 - 200	2H06
Indonesia	Lippo Healthcare REIT*	Health Care	~ 100	2H06
Hong Kong	Regal Hotels International	Hospitality	~ 600	3Q06
Hong Kong	Chinese Estates	Commercial	~ 450	2H06
Hong Kong	Sun Millenium	Commercial	~ 430	Delayed
Hong Kong	Sunlight REIT	Commercial	~ 500	Delayed
Malaysia	KPJ Healthcare	Health Care	~55	2H06
Malaysia	Amanah Raya	Commercial	~ 190	2H06
Malaysia	Sungei Wang REIT	Commercial	~ 136	3Q06
Malaysia	Permodalan	Commercial	~ 200	2H06
India	Embassy REIT*	Commercial	---	4Q06
Taiwan	Cathay No. 2 REIT	Commercial	~ 210	4Q06

Source: Press releases.

* Expected to be listed on the Singapore Exchange.

Exhibit 9

REPRESENTATIVE ASIAN REAL ESTATE SECURITIES MANAGERS

Summary Information

Manager	Alpha Investment Partners	Cohen & Steers Capital Management	E.I.I. Realty Securities
Product	Alpha Real Estate Securities Fund	Asia Pacific Realty Total Return	Asian Real Estate Securities
Inception	February 1, 2004	December 31, 2005	September 30, 2000
Product AUM ($m) as of June 30, 2006	840.7	3.3	153.0
Investment Objectives and Approach	The objective is to maximize the total return to investors by investing in a broad selection of securities of real estate investment trusts and companies primarily in Asia that own, develop, or manage real estate. The core investments are in equity securities issued by Real Estate Investment Trusts, listed property trusts, and corporate entities whose core business is holding investment properties and derive more than 70% of their total income (average in the last two financial years) from property rental. The fund may invest up to 50% of assets in listed securities issued by entities that are in the business of dealing in real estate, including real estate development, which does not fall within the scope of the core investments.	The fund is designed to capitalize on inefficiencies in the Asia Pacific real estate securities market. The manager uses a proprietary valuation and portfolio construction model driven by price-to-net-asset values. In addition to the net asset value model, portfolio managers may use secondary valuation models including multiple/cash flow growth or DCF. Country weights are a residual of the bottom-up stock selection process.	The fund seeks to capitalize on the expansion of the Asian market economies. In addition, the investment manager views Asian property markets as inefficient relative to other markets and seeks to take advantage of pricing anomalies that are discovered through its fundamental approach to valuing companies. The strategy invests primarily in companies that are active owners of real estate in the major Asian markets. In the case of Asian emerging markets, investments are limited to companies that have strong management teams and are well-positioned in their respective markets. Investments may be made in emerging Asian markets such as Thailand, Malaysia, Indonesia, India, and New Zealand.
Geography Allocation (%) as of June 30, 2006	Japan – 27.7 Australia – 2.9 Hong Kong – 15.8 Singapore – 27.7 Malaysia – 9.5 U.S. – 7.9 U.K. – 11.5	Japan – 34.1 Australia – 26.0 Hong Kong – 27.0 Singapore – 12.1	Japan – 36.1 Australia – 6.1 Hong Kong – 26.6 Singapore – 17.8 Thailand – 2.4 Malaysia – 1.0

Exhibit 9 (continued)

REPRESENTATIVE ASIAN REAL ESTATE SECURITIES MANAGERS

Summary Information

Manager	Henderson Global Investors	Morgan Stanley Investment Management	SG Asset Management
Product	Horizon Asia Pacific Property Equities Fund	Asian Property Fund	SGAM Asian Real Estate Dividend Fund
Inception	October 3, 2005	September 1, 1997	April 1, 2005
Product AUM ($m) as of June 30, 2006	117.0	1,160.0	199.3
Investment Objectives and Approach	The investment objective is long-term capital appreciation by investing at least 75% of assets in the quoted equities of companies or Real Estate Investment Trusts (or their equivalents) that derive the predominant part of their revenue from the ownership, management, or development of real estate in the Asia Pacific Region. The investment universe is made up of the following countries: China, Australia, South Korea, Indonesia, Japan, Singapore, Taiwan, Malaysia, Hong Kong, India, the Philippines, Thailand, and New Zealand.	The strategy seeks long-term capital appreciation through investment in the equity securities of companies in the Asian real estate industry. The fund invests in established markets of the region, such as Singapore, Malaysia, Hong Kong, Thailand, Japan, Australia, and New Zealand, as well as South Korea and Taiwan and in any of the emerging markets in Asia, provided that the markets of these countries are considered to be recognized exchanges. Companies in the real estate industry may include property development companies, companies principally engaged in the ownership of income-producing property, and specialized ownership vehicles, such as publicly quoted property unit trusts.	The investment objective is to achieve long-term capital growth and to make regular income distribution during the investment period by investing primarily in equity securities of companies that (1) derive a substantial part of their revenue from the ownership, management, and/or development of real estate situated in the Asia Pacific ex Japan region, and are (2) listed on Regulated Markets in the Asia Pacific ex Japan region or in any OECD countries. The investment approach will be based on a disciplined quantitative approach with an embedded qualitative overlay.
Geography Allocation (%) as of June 30, 2006	Japan – 32.3 Australia – 27.3 Hong Kong – 26.0 Singapore – 9.1 U.K. – 3.1 China – 1.0 Malaysia – 0.2	Japan – 39.4 Australia – 11.4 Hong Kong – 33.4 Singapore – 14.3 Other – 0.3	Australia – 38.8 Hong Kong – 45.9 Singapore – 9.8 The Philippines – 2.0 Malaysia – 1.7 Thailand – 1.6 China – 0.4

Exhibit 9 (continued)

REPRESENTATIVE ASIAN REAL ESTATE SECURITIES MANAGERS

Summary Information

Manager	Nomura Asset Management	Principal Global Investors
Product	J-REIT Mother Fund	Australia Listed Property Trust Fund
Inception	April 1, 2004	April 1, 2003
Product AUM ($m) as of June 30, 2006	195.0	50.1
Investment Objectives and Approach	The philosophy is to seek REITs that offer liquidity, profitability, and growth potential. The portfolio is expected to have a high level of dividend income and medium- to long-term capital appreciation. The investment process is initiated with a top-down macro overview of the capital markets as well as interest rates movement. Economists from the economic research department would assess investment conditions, expected rate of returns, and risk for each asset. The views are filtered down to the various members of the J-REIT team, which include the fixed income, credit research, and the corporate research department. The team would then analyze the business conditions, individual real estate properties, future cash flow projections, and the movement of capital and new listings. They also analyze the individual J-REITs based on liquidity, investor sentiments, and price volatility. The portfolio is then constructed by over- or underweight positions in individual J-REITs relative to the benchmark weight based on judgment of liquidity and profitability.	The fund invests primarily in Australian listed property securities across the retail, residential, commercial, industrial, and hotel sectors. The fund is actively managed against the S&P/ASX300 Property Accumulation Index (Index). The majority of the fund's investments are in stocks within this Index. However, subject to strict risk controls, the fund can also invest in carefully selected stocks that fall outside this Index, including international listed property securities. The starting point of the investment process is original quantitative and qualitative research at the sector and security levels. The manager's research covers all the securities in the Index, Australian property securities not included in the Index and selected international securities that are largely chosen to diversify risk. The research is focused on the three factors that the manager believes drives property securities returns—management franchise, physical property environment, and valuation.
Geography Allocation (%) as of June 30, 2006	Japan – 100	Australia – 93.6 Outside Australia/New Zealand – 5.6

Exhibit 10

REPRESENTATIVE ASIAN REAL ESTATE SECURITIES MANAGERS

Annual Total Returns (%)

Periods Ended June 30, 2006

Firm	Fund	Date of Inception	2001	2002	2003	2004	2005	6 Mos 2006
Alpha Investment Partners Limited	Alpha Real Estate Securities Fund	Feb 01 2004	--	--	--	20.0	35.2	7.5
Cohen & Steers Capital Management	Asia Pacific Realty Total Return	Dec 31 2005	--	--	--	--	--	8.5
E.I.I. Realty Securities	Asian Real Estate Securities	Sep 30 2000	0.7	-12.4	42.1	34.8	41.8	7.5
Henderson Global Investors	Henderson Horizon Asia Pacific Real Estate Securities Fund*	Oct 03 2005	--	--	--	--	--	7.4
Morgan Stanley Investment Management (n)	Asian Property Fund	Sep 01 1997	-14.2	-13.3	41.6	33.1	22.5	7.8
SG Asset Management (Singapore) Ltd.	SGAM Asian Real Estate Dividend Fund*	Apr 01 2005	--	--	--	--	5.3	11.1
Nomura Asset Management	J-REIT Mother Fund	Apr 01 2004	--	--	--	18.7	18.9	6.1
Principal Global Investors	Australia Listed Property Trust Fund	Apr 01 2003	--	--	49.2	39.8	9.3	9.1
FTSE EPRA/NAREIT Asia			-17.2	-7.1	44.8	36.8	23.4	8.2

* For non-U.S. investors only.
(n) Net of fees.

Exhibit 10 (continued)

REPRESENTATIVE ASIAN REAL ESTATE SECURITIES MANAGERS

Average Annual Compound Returns (%)

Periods Ended June 30, 2006

Firm	Fund	Date of Inception	Since Inception	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Alpha Investment Partners Limited	Alpha Real Estate Securities Fund	Feb 01 2004	25.4	--	--	--	30.4	32.1
Cohen & Steers Capital Management	Asia Pacific Realty Total Return	Dec 31 2005	8.5	--	--	--	--	--
E.I.I. Realty Securities	Asian Real Estate Securities	Sep 30 2000	17.5	21.4	24.6	42.3	39.2	50.1
Henderson Global Investors	Henderson Horizon Asia Pacific Real Estate Securities Fund*	Oct 03 2005	28.3	--	--	--	--	--
Morgan Stanley Investment Management (n)	Asian Property Fund	Sep 01 1997	4.5	14.6	20.0	33.3	27.5	34.2
SG Asset Management (Singapore) Ltd.	SGAM Asian Real Estate Dividend Fund*	Apr 01 2005	15.2	--	--	--	--	17.0
Nomura Asset Management	J-REIT Mother Fund	Apr 01 2004	20.5	--	--	--	22.5	10.0
Principal Global Investors	Australia Listed Property Trust Fund	Apr 01 2003	28.4	--	--	24.4	22.3	19.3
FTSE EPRA/NAREIT Asia			--	17.5	24.3	34.4	28.6	33.2

* For non-U.S. investors only.
(n) Net of fees.