



Asia-Pacific Quarterly Outlook

APRIL 2012

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Executive Summary

Macro Economic Themes

- Asia-Pacific's economic growth decelerated in the first quarter in line with the anemic global environment. Nonetheless, the global economic center of gravity will continue to shift to the region, supported by its vast foreign reserves, stable currencies, urbanization, favorable demographic trends and economic resiliency.
- Export growth will remain steady, outperforming regions such as North America and Western Europe, despite short-term weakness. Longer term, both public and private sector investments will have to increase meaningfully to re-balance.
- China's growth is expected to slow somewhat. The government forecasts GDP to drop to 7.5% in 2012, down from estimated annualized 8.4% rate in 1Q12, and 9.7% in 1Q11. Nevertheless, China remains a key growth market that will be powered by rising domestic consumption in the medium- to long-run.
- The region's inflation peaked last year and will soften this year. That should give Asian central banks more leeway to ease monetary policies going forward.

Implications and Outlook for Commercial Real Estate

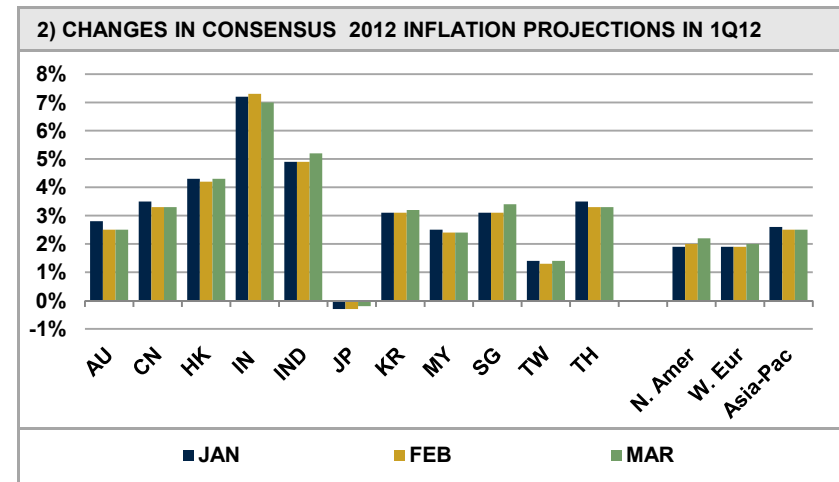
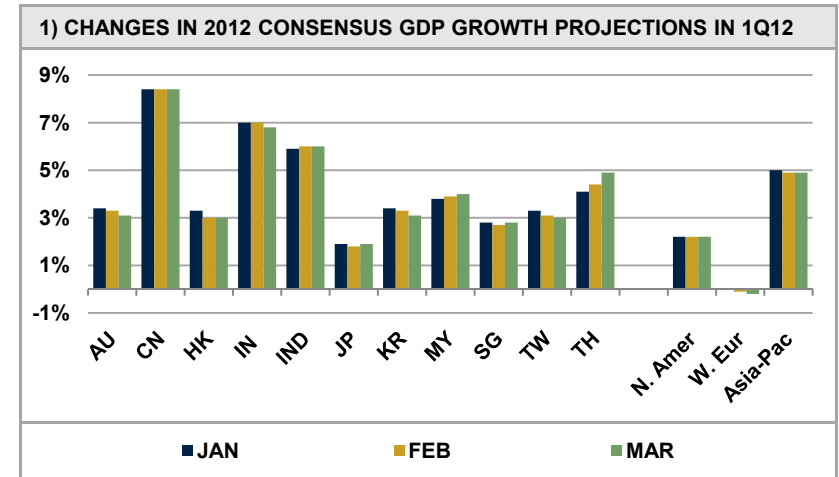
- Despite decelerating economic growth and thin transaction volumes, property values of prime commercial real estate in Asia-Pacific are stable. Investors may be concerned about potential downside amid global economic uncertainty, particularly in the eurozone.
- The region's office markets are growing increasingly bifurcated. Rents are likely to be resilient for class-A offices, despite some consolidations in the short-term, but they may drop for lower-quality properties. The disparity is especially evident in Singapore and Hong Kong, where rental rates have become very building specific.
- The region's retail sector remains an attractive play as prospects for consumer spending growth over the next few years is robust. In hindsight, retail sales were not severely impacted by the global financial crisis, a reflection of the defensiveness of the retail industry.



Economic Trends

Growth Expected, At a Slower Pace

- The region’s resilience and defensive characteristics make it likely to outperform other regions such as North America and Western Europe this year (CHART 1).
- Asia’s exports will moderate due to the softening demand from other regions. Both public and private sector investments will have to increase meaningfully to rebalance. More importantly, domestic consumption must also rise to ensure that the economy remains on the growth track.
- Consumer prices are expected to ease this year after peaking in 2011 (CHART 2). We believe that lower inflation will give Asian central banks more leeway to ease their monetary policies going forward. Lower interest rates will help businesses weather an economic slowdown.
- Asia-Pacific’s growth could be affected by external headwinds, although there are signs that the US economy is poised to recover and the European debt crisis is on the mend. Stability in those regions would help Asia to achieve more sustainable growth beyond this year.
- Relatively high oil prices remain a downside risk. Asian countries that import oil could be impacted by political instability in the Middle East.

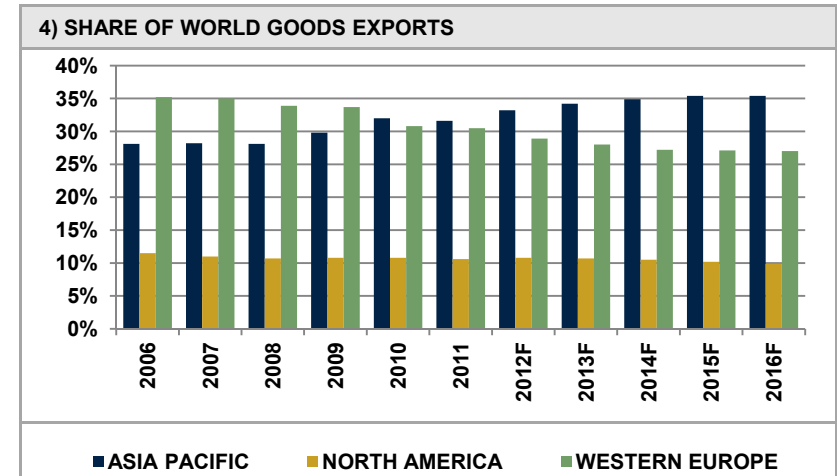
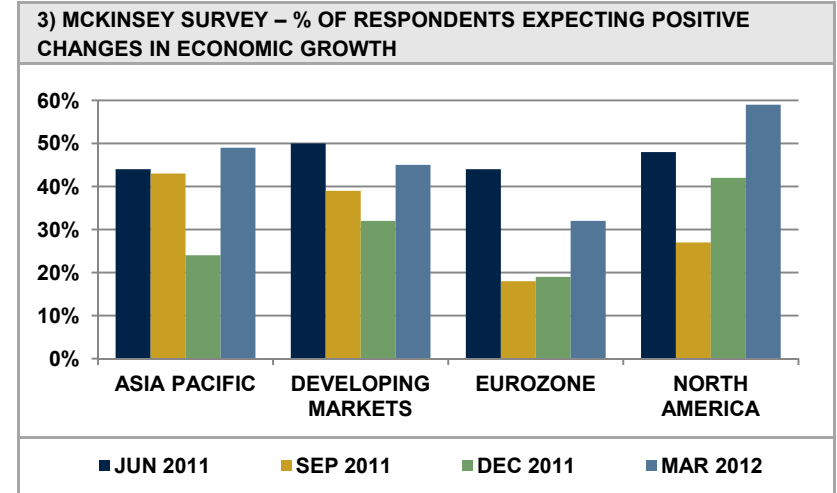




Economic Trends

More Confidence on Asia, Exports To Grow Steadily

- McKinsey’s global survey in March 2012 shows a rise in respondents in the Asia-Pacific region who were more optimistic about the region’s economy compared to three months ago (CHART 3).
- Asia-Pacific’s export market will gain traction in 2012 and beyond, accounting for slightly more than 35% of the world’s total exports by 2016 (CHART 4). The region will eat into the shares of Western Europe and North America.
- Economic growth will have to come from domestic consumption. China, for example, will see consumption overtake investment as the nation’s biggest driver of economic growth in 2012 for the first time since 2001, according to the Ministry of Commerce.
- Another country in which consumption has the potential to rise is Singapore, which, at 46%, has the highest savings rate in the region. The overall personal savings rate in Asia-Pacific is about 33%. If Singapore’s savings rate were to move closer to its peers – such as Hong Kong (29%) and South Korea (30%) – it could unleash a sharp increase in consumption that would boost economic activity.

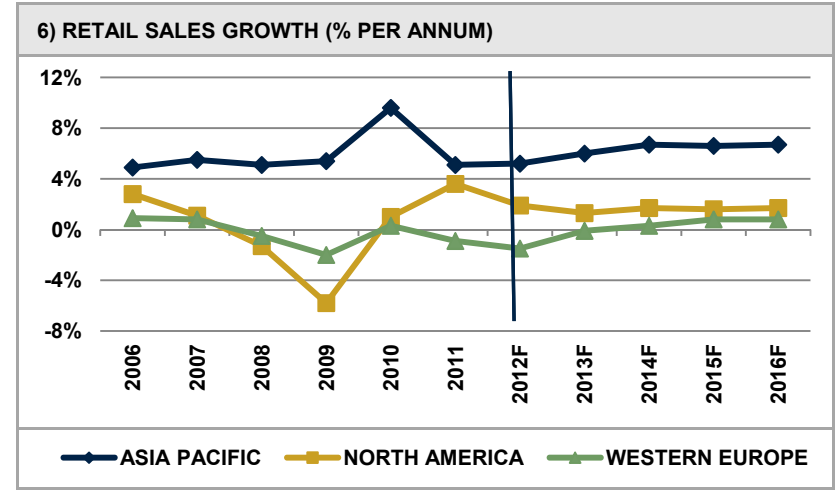
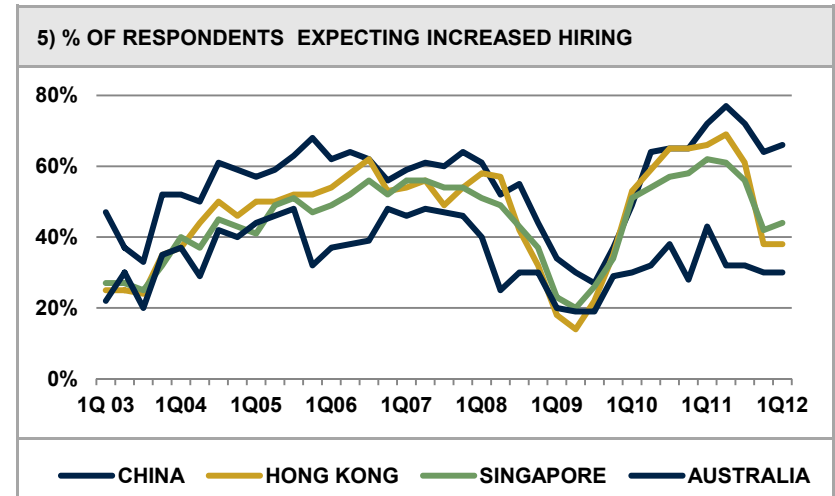




Real Estate Markets

Positive Employment and Retail Sales Outlook

- After seeing consolidations for a few quarters, hiring expectations in the first quarter posted some improvements, or at least remained stable (CHART 5).
- In Australia, 35.9% of surveyed employers intend to increase headcounts in the first quarter. This is despite Europe’s problems and slower growth in China, which could put pressure on Australia’s mining industry. The professional services industry is expected to increase hiring, which should have a positive impact on demand for office space.
- In Hong Kong, the uncertainty in financial markets has dampened potential hiring in the special administrative region (SAR). On the other hand, hiring in the consumer sector should rise, implying a potential increase in demand for retail space.
- China’s employment market expanded in the first quarter, especially in the technology and media/advertising sectors.
- Prospects for retail sales growth in Asia-Pacific is robust over the next few years (CHART 6). Retail sales in the region were not severely impacted by the global financial crisis. We believe that retail properties are an attractive play in the medium- and long-run.



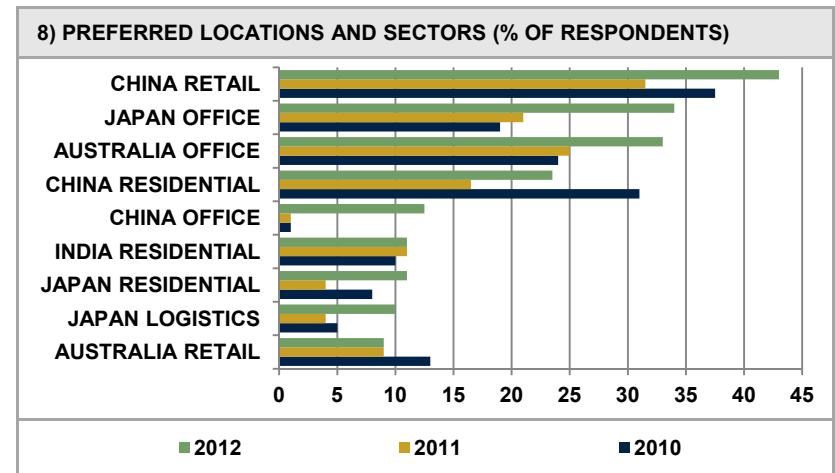
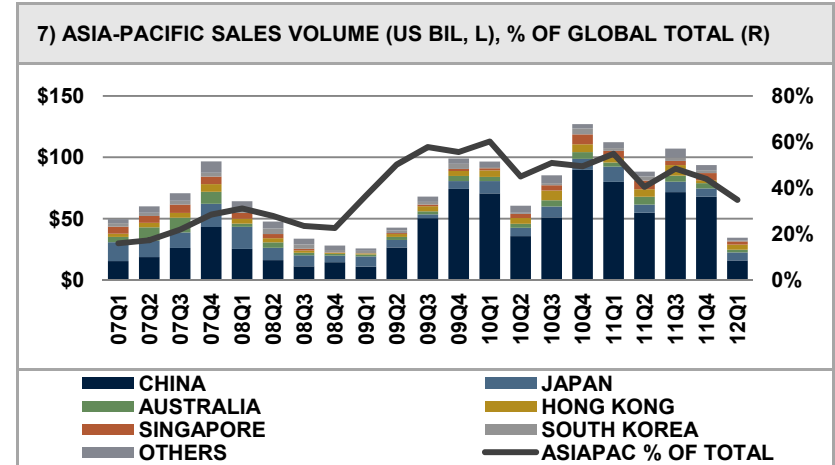
Source: EIU, Hudson Reports, Prudential Real Estate Investors



Transaction Volume

1Q12 Volume Affected By Higher Risk Aversion

- Transaction volume in the Asia-Pacific region dropped sharply in 1Q12 (CHART 7). Investment sales fell to US\$34.5 billion in 1Q12, from US\$93.6 billion in the preceding quarter and US\$112.3 billion a year ago.
- The lackluster performance reflected cautious market sentiment, compounded by global economic uncertainty.
- Investment sales in China fell by nearly 77% quarter-over-quarter. The cyclical downward price adjustments in the residential market continues to impact investors' sentiment. The "wait-and-see" attitude is likely to prevail in the short term, until there are signs that housing prices are close to bottoming.
- Hong Kong was the only market with an increase in sales in the first quarter. The investment environment remains robust and the probability of a significant price correction is low.
- Despite the decline in property sales, the long-term prospects for the region remain robust. A recent survey by the Asian Association of Investors in Non-listed Real Estate Vehicle (ANREV) found that investors are increasingly focusing on China retail, followed by the Japan and Australian office markets (CHART 8).



Source: Real Capital Analytics, ANREV, Prudential Real Estate Investors

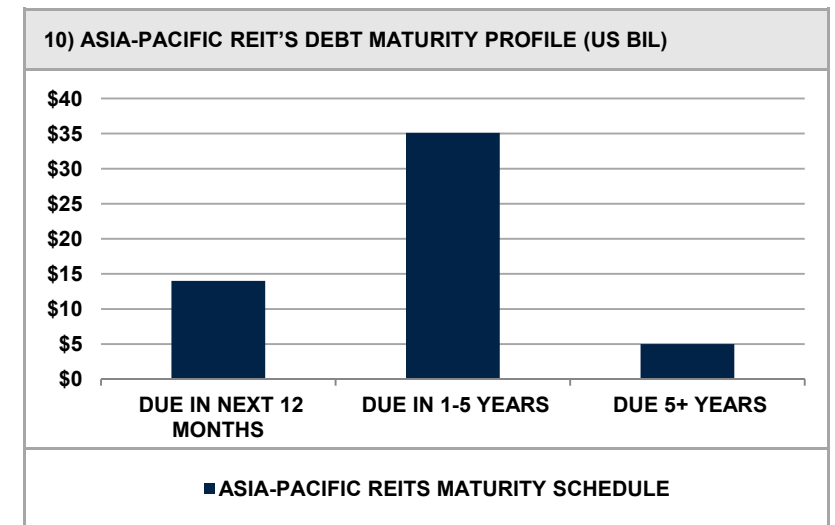


Debt Markets

Bank Financing Remains Accessible, Bond Issuance Also In Vogue

- Asian listed developers actively issued unsecured debt in 1Q12 (CHART 9), a sign that borrowers were expanding their fund raising options rather than relying on secured loans from banks.
- Taking a cue from the low interest rates expected in the US over the next couple of years, Asia’s cost of financing will likely remain low. Still, Asian central banks may have to walk a tightrope between low interest rates and fueling cheap credit, which could create unwanted speculation in the real estate market.
- The People’s Bank Of China (PBOC) cut the reserve requirement ratio (RRR) by 50 bps in February, after a cut of the same amount last November. More reductions are in the cards, especially when there are signs that the inflationary environment in China is subsiding.
- Asia-Pacific REITs have a relatively small amount of debt maturing over the next 12 months, which means they have little short-term refinancing pressure (CHART 10). Given the current low interest-rate environment, we expect REITs to be active issuers of debt and equity this year to raise funds for future capital investments. Most of the debt and equity offerings in 1Q12 were by Japanese REITs.

9) FUND RAISING ACTIVITIES OF HK-LISTED DEVELOPERS IN 1Q12					
Name	Type	Currency	Amount (mn)	Maturity Date	Coupon Rate (%)
COGO	Guaranteed convertible bonds	HKD	2,200	21 Mar 17	2.00
Agile	Senior Notes	USD	700	20 Mar 17	9.88
COLI	Guaranteed Notes (Further issue)	USD	250	25 Feb 17	4.88
COLI	Guaranteed Notes	USD	500	15 Feb 17	4.88
Shui On Land	Senior Notes (Further issue)	USD	75	22 Feb 15	9.75
Shui On Land	Senior Notes	USD	400	16 Feb 15	9.75
Shui On Land	Senior Notes	SGD	250	25 Jan 15	8.00



Source: Bloomberg, Prudential Real Estate Investors, APREA, SNL



Public Markets

Public Real Estate Witnessed Meaningful Rebounds in 1Q12

- Stock prices of REITs and development firms rebounded in 1Q12 in Japan and Singapore (CHART 11). Despite the challenging economic environment, Japanese REITs and property stocks rose more than 20% in the first three months of the year.
- Singapore property firms posted a 21.5% gain in the quarter, as private housing prices remained firm. The government remains committed to introduce more new supply in the public housing market so prices can stabilize or moderate.
- Asian REITs remain an attractive investment proxy to the physical property markets, in part because REITs' multi-sector coverage provides diversification benefits. What's more, REIT dividend yields are attractive relative to risk-free rates (CHART 12).
- IPOs in Asia totaled US\$6.7 billion in 1Q12, topping the US (US\$4.8 billion) and Europe (US\$2.5 billion). However, Asia's IPO total declined 74% from 1Q11.
- Globally, IPO activity fell to its lowest level since 2Q09, reflecting the cautious market sentiment that has been exacerbated by economic uncertainty.

11) TOTAL RETURNS, REITS , PROPERTY EQUITIES IN ASIA					
	1Q12	2011	2010	2009	2008
REITs					
Hong Kong	4.0%	10.7%	33.6%	67.3%	-28.9%
Japan	20.0%	-22.3%	34.0%	6.1%	-49.0%
Malaysia	-0.1%	27.3%	6.9%	30.7%	-14.8%
Singapore	12.2%	-11.1%	17.3%	82.2%	-56.1%
Property					
Hong Kong	11.5%	-22.8%	18.1%	73.2%	-53.9%
Japan	28.0%	-21.2%	15.4%	5.6%	-46.6%
Malaysia	2.1%	0.7%	34.4%	37.5%	-38.5%
Singapore	21.5%	-22.9%	6.7%	85.9%	-57.3%

12) CAPITALIZATION AND DIVIDEND YIELDS OF ASIAN REITS					
	No. of REITs	Market Cap (US\$ Bil.)	Average Dividend Yield	Risk Free Rate*	Spread (bps)
Japan	33	\$43.51	5.21%	0.99%	422
Singapore	25	\$30.80	6.60%	1.66%	494
Hong Kong	8	\$16.07	5.10%	1.24%	386
Malaysia	14	\$5.46	7.40%	3.68%	372
Korea	1	\$0.04	8.50%	3.96%	454
Total	81	\$95.88	5.76%**		

* Risk-free rate refers to long-term government bond yields
 ** Weighted average based on market cap

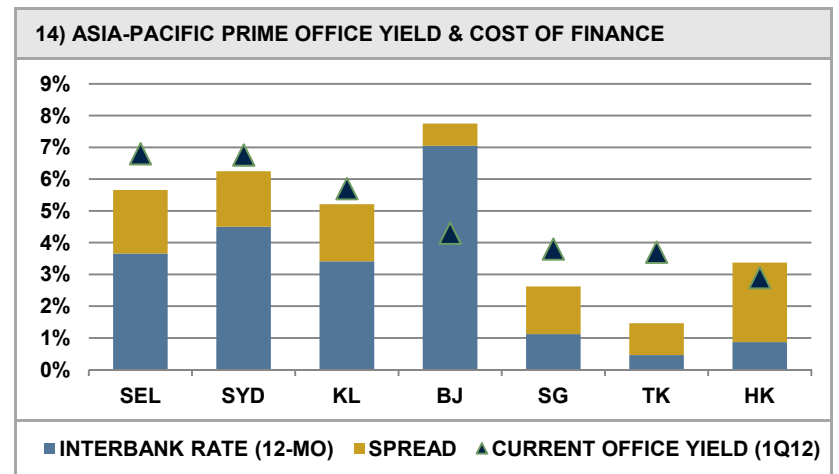
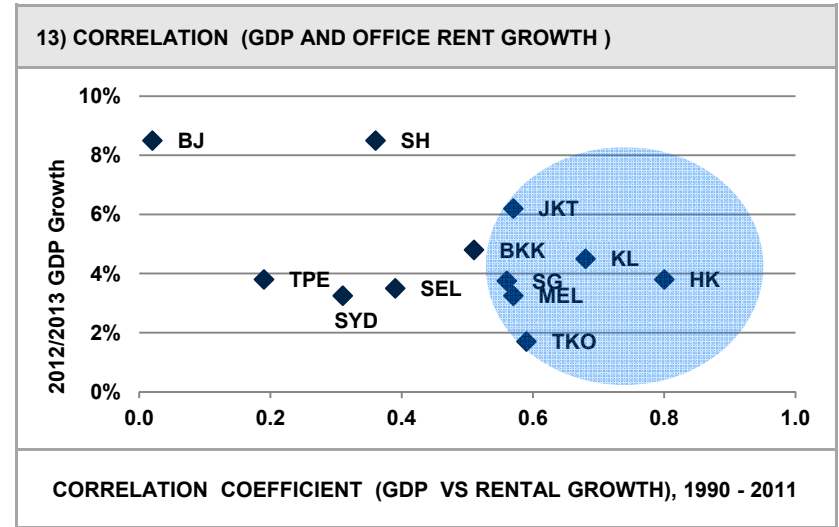
Source: Ernst & Young, Standard & Poor's Index Services (local currency), Prudential Real Estate Investors



Office Markets

Office Markets Awaiting More Positive Signs

- Most office markets in the region are correlated to GDP. After strong growth in 2011, we expect rent growth to moderate in some markets in 2012 and resume in 2013 (CHART 13).
- Demand for office space was quiet in 1Q12 after weakening in the second half of 2011. Overall rents in financial centers such as Hong Kong and Singapore are moderating due to the reluctance of businesses to expand. However, rent levels are very building-specific.
- Office markets in both Tokyo and Seoul are vulnerable to supply shocks. Vacancy rates in Tokyo stood at 9% due to the level of new supply and weaker economic conditions. Demand for modern office space remains healthy for tenants.
- In Seoul, CBD rents will continue to drop, but the Gangnam and Yoido submarkets will be stable.
- The evidence of a two-speed Australia economy also appears in the office markets. Cities in states with rich natural resources are performing better than traditional financial hubs. Little new supply is coming online, which will help given the weak demand from the financial sector.
- Yields, which remained stable in 1Q12, are still above the cost of capital in most markets. Tokyo office offers the widest yield gap (2.2%), followed by Singapore (1.2%) and Seoul (1.1%).
- With acquisition yields in many markets at or close to historical lows, further compression is unlikely. Markets like Beijing and Shanghai appear to be expensive (CHART 14).

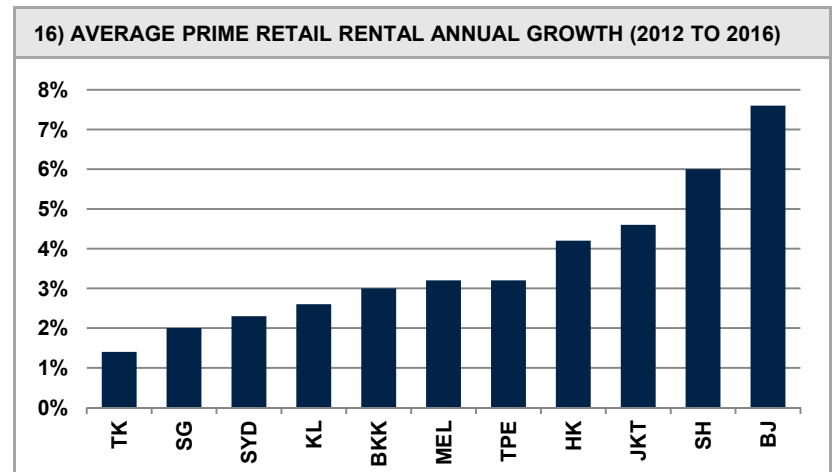
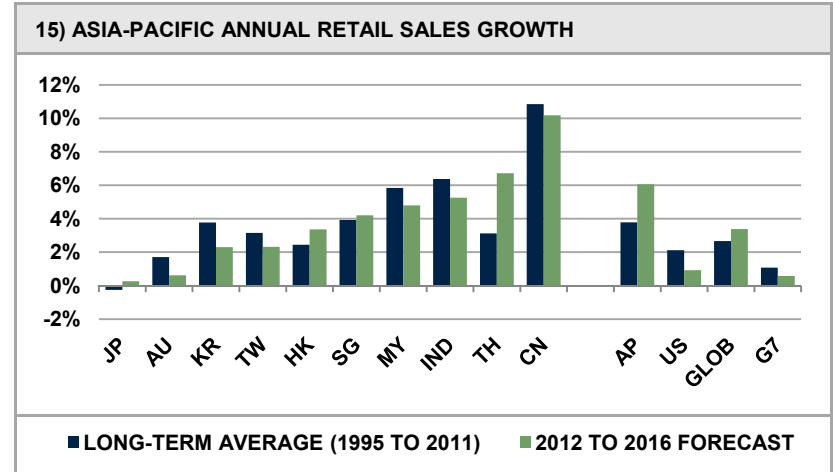




Retail Markets

Positive Rental Growth To Fuel Rise in Rents

- Over the next five years, retail sales in Asia-Pacific are expected to expand meaningfully and outperform the rest of the world. China is leading the pack, followed by Thailand and Indonesia (CHART 15).
- Consumer confidence, a key driver of the retail outlook, is currently under pressure in some markets, such as Japan, and Korea.
- Asia is becoming a key profit center for international retailers, prompting many to expand their footprints in the region. High rents for prime retail locations can be justified by solid revenues.
- Prime retail rents are projected to grow in the next few years (CHART 16), with Beijing, Shanghai, Jakarta and Hong Kong the top performers. Strong rental growth will likely enhance the values of retail properties in these markets. Potential investors are expected to pay a significant premium for quality retail assets in those markets.
- Demand in Greater China remains strong and retailers show no signs of slowing down. Prime spaces in major cities have been quickly snapped up by international brands.
- Strong tourist arrivals and the lack of retail supply in Hong Kong support further yield compression.



Source: JLL, CBRE, EIU, Prudential Real Estate Investors



Asia-Pacific Outlook

Leaders and Laggards

- Global economic uncertainty is clouding the outlook in the Asia Pacific region. We believe investment returns are likely to soften in 2012.
- Beijing, Shanghai, and Jakarta are still projected to outperform the rest of the region in all sectors due to robust fundamentals and the strong upside of income and capital values (CHART 17).
- Australian offices offer high initial yield, positive rental growth and attractive yield spreads relative to other countries in the region. The sector is particularly attractive to income-oriented investors.
- The highly cyclical office markets in Singapore and Hong Kong might have a small window of opportunity in 2012 as sentiments for both markets could potentially reverse in a very short period of time.
- Led by greater China cities, the retail sector is attractive due to factors that include rising disposable income and improving infrastructure. Assets located in suburban locations with good catchments will be stable and have strong upside potential.
- The outlook for logistics remains favorable. Although some indicators point to moderating economic growth and trade, demand is strong for major Chinese transportation hubs and Australia’s key mining/export centres. Growth may be weaker in markets that are exposed to the global economy, such as Hong Kong and Singapore. In Japan, the need for modern logistics space has been strong since the earthquake.
- Opportunities in the Seoul office sector are limited at the moment, due in part to concerns over surplus supply. This concern should ease over the next 18 months, as the market is expected to bottom out.

17) MARKET OUTLOOK FOR 2012							
	Offices			Prime Shopping Centres			Logistics
	Rental Growth	Capital Value	Overall	Rental Growth	Capital Value	Overall	Overall
TKO	◆	◆	◆	◆	◆	◆	◆◆
TPE	◆	◆	◆	◆	◆	◆	◆
KL	◆	◆	◆	◆	◆	◆	◆
BKK	◆	◆	◆	◆	◆	◆	◆
HK	◆	◆	◆	◆◆	◆	◆◆	◆◆
SYD	◆◆	◆◆	◆◆	◆◆	◆	◆	◆◆
MEL	◆◆	◆◆	◆◆	◆◆	◆◆	◆	◆◆
BJ	◆◆◆	◆◆◆	◆◆	◆◆◆	◆◆◆	◆◆◆	◆◆◆
SH	◆◆◆	◆◆◆	◆◆	◆◆◆	◆◆◆	◆◆	◆◆◆
JKT	◆◆◆	◆◆◆	◆◆◆	◆◆◆	◆◆	◆◆	NA
SG	◆	◆	◆	◆◆	◆	◆◆	◆◆
SEO	●	●	●	NA	NA	NA	◆◆

- ◆◆◆ EXCELLENT OUTLOOK
- ◆◆ GOOD POTENTIAL
- ◆ LIMITED OPPORTUNITIES
- NOT ATTRACTIVE



Attractive Risk-Adjusted Investment Opportunities — Asia

THEME	INVESTMENT IMPLICATIONS
Sustainable Economic Growth	<ul style="list-style-type: none"> • Suburban malls in well-established neighborhoods in highly transparent markets, i.e. Singapore and Hong Kong. • High-quality office buildings with solid macro economic fundamentals: China Tier I Cities and Jakarta. • High-quality shopping malls located in good catchment areas of major cities in China.
Defensive Investments	<ul style="list-style-type: none"> • High-quality shopping malls located in prime areas of major cities (i.e. capital or provincial cities) in China. • Strong macro-economic growth, the regional tourism industry and increasing wealth underpin demand for regional retail real estate, i.e. Singapore and Hong Kong. • Modern logistic investments in selective hubs, such as Tokyo Bay and Key China transportation hubs.
Demand for Core Investments	<ul style="list-style-type: none"> • Good quality office buildings with strong macro economic fundamentals and good tenant profiles: major Australian cities. • Less-volatile markets, possibly with higher yields and stable rental growth, e.g. Singapore retail and China logistics sector. • Prime retail with quality tenants in key areas within Tokyo Central 5 wards. • Retail sector in major cities with growing urban population in Japan (i.e. Osaka, Nagoya, Fukuoka). • Suburban retails in good catchment areas in Hong Kong, Singapore and Malaysia.
Demographic and Urbanization Trends	<ul style="list-style-type: none"> • Growing urbanization trends and the low level of dependency ratio underpin the demand for residential units in the region: partnering with local developers, such as China Tier I, II, III cities, Indonesia and Vietnam. • Retail development: China retail mall development in a good catchment areas of upper tier cities and Jakarta retail market. • Office developments in Shanghai and Beijing.
Cyclical Investments	<ul style="list-style-type: none"> • Office markets in key financial centers - Hong Kong and Singapore - will see rental downside risk in 2012 but are expected to bounce back thereafter. • Acquiring/partnering with distressed developers in China. • Assets with difficulties to obtain new financing in developed markets, i.e. Japan and Australia.



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