PREQIN SPECIAL REPORT: REAL ESTATE IN ASIA

APRIL 2018

FOREWORD

Understandably when we look at global capital flows, there is a heavy focus on the activity that takes place within North America and Europe. While these developed regions represent the majority of both fundraising and deal activity globally – and house the highest concentrations of institutional real estate investors – the Asian market has begun to seep into the collective consciousness of GPs and LPs alike. Hit by a retraction in risk appetite in the aftermath of the Global Financial Crisis (GFC), Asia-focused real estate fundraising has since failed to recover to its pre-crisis highs as international managers pulled out to focus on raising funds closer to home. However, this gap created opportunities for local players to come to the fore, and we have now reached a stage where, for most post-crisis years, the majority of capital raised for Asia-focused funds is managed by Asia-headquartered firms.

Despite the lack of growth in the amount of capital secured year on year, the deal market has experienced significant growth, with 2017 representing a new record for investment activity. With Asian economies expanding at a faster rate than their North American or European counterparts, alongside increasing urbanization and positive demographic trends, there are significant opportunities for further private investment. However, while presenting investors with significant diversification and potential for high returns, it remains a challenge to convince institutions that the risks are worth the reward, particularly when concerns arising from high pricing are rearing their head in the Asian market as well.

Where has the epicentre of Asian deal flow been? Who has had the most success in raising capital? What are the challenges facing participants in the Asian market? Which institutions are active in the space today and where will activity likely be over 2018? Where are the potential opportunities for your firm? These are the questions that we will seek to answer in the following pages. Helping to bring further insight to Preqin's real estate data are ARA Asset Management, headquartered in and focused purely on the Asian market, and TH Real Estate, one of the largest real estate firms in the world, challenged with balancing its Asian portfolio alongside a broader global remit. Both firms believe that the best way to navigate Asia is to have boots on the ground that hold a deep knowledge of local markets.

We hope you find this report useful, and welcome any feedback you may have. For more information about Preqin and our services please visit www.preqin.com or contact info@preqin.com.

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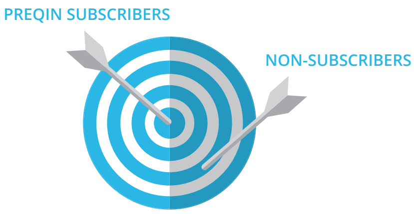
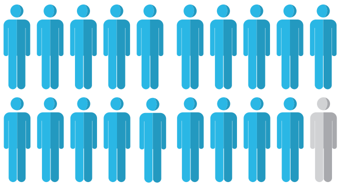
HOW PREQIN CAN HELP YOU FUNDRAISE

The real estate fundraising landscape is as competitive as ever: more than 600 funds are on the road seeking more than $200bn in aggregate capital commitments. If you are in the market now or looking to raise a fund in 2018, it may be a challenge to make your vehicle stand out from the crowd.

There are opportunities to grow your fund and reach a final close by the end of the year – with industry-leading data and tools, Preqin will help in finding those investors that are the best match for your vehicle.

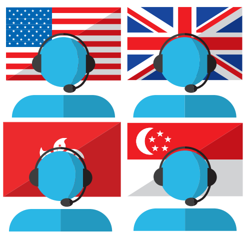


58%
of private real estate funds managed by Preqin subscribers met or exceeded their target in 2017, compared to 51% of all other funds.



19
out of the
20
fund managers that have raised the most private real estate capital in the past 10 years rely on Preqin data.

2.8x
Preqin clients raised nearly three times as much private real estate capital in 2017 as all other fund managers.



We have
250+
multilingual research analysts based in the US, London, Hong Kong, Singapore and China.

Each month our team has thousands of conversations with investors to find out more about their alternative investments.

With researchers on the ground, Preqin is the first to find out the latest real estate fund searches among the
6,200+
institutions actively investing in real estate funds globally.

Our fully searchable database allows you to target those investors interested in your fund and to find contact details for more than
13,000
key decision makers at these institutions.

Preqin's real estate data has helped thousands of real estate professionals raise capital, identify investment opportunities, develop new business and form new partnerships. Constantly updated by a team of dedicated analysts, this comprehensive resource provides the most up-to-date information on all areas of real estate.

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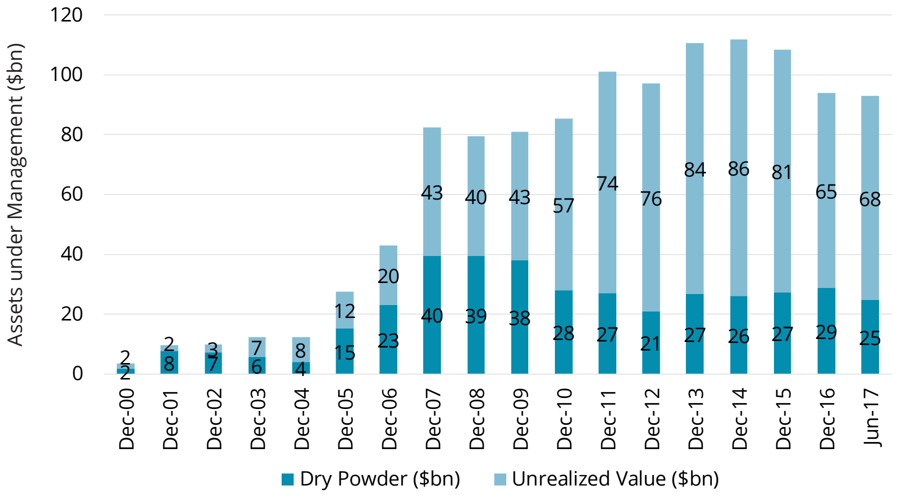
THE GROWTH OF ASIAN REAL ESTATE

Fig. 1: Asia-Focused Closed-End Private Real Estate Assets under Management, 2000 - 2017



Source: Preqin

STRONG PERFORMANCE DESPITE DECREASING MARKET SHARE

Asia-focused assets under management (AUM) have seen significant growth since the early years of the closed-end real estate industry (Fig. 1). Although investors were far more cautious following the GFC, leading to relatively slow growth in AUM between 2008 and 2010, Asian industry assets grew rapidly thereafter to reach a peak of $112bn in 2014. In 2016, however, the industry contracted significantly following a 20% fall in unrealized value compared to the previous year, although dry powder in 2016 reached a seven-year high of $29bn. The reverse is true for the first half of 2017, for unrealized value accounts for a larger proportion of industry AUM, signifying that fund managers have been successful in putting investor capital to work in the Asian real estate market.

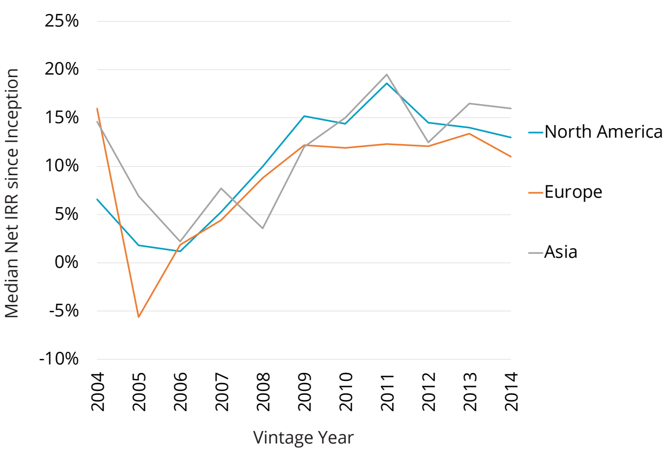
However, the growth in Asia-focused AUM has not outpaced the wider market: the Asian market represented over a fifth (21%) of global real estate assets in 2009, which has since fallen to 11% as at the end of H1 2017 – a 13-year low – a result of the post-crisis recovery in more traditional markets. Despite this, Asia-focused closed-end private real estate funds have demonstrated strong performance in recent years, surpassing the median net IRRs of North America- and Europe-focused funds in seven of the 11 vintages examined (Fig. 2). Asia-focused 2013 and 2014 vintage funds have posted median net IRRs of 16% or more, with 2011 vintage funds returning 19.5%.

As a result of this strong performance, Asia-focused fund managers have been more successful at distributing capital back to their LPs than at any other point in their history. Since 2013, distributions have far surpassed capital calls, and delivered more capital back to investors than has been called up, with 2016 figures (the latest full-year data available) showing net cash flows back to LPs at a record +$20bn (Fig. 3).

LACK OF RECOVERY IN FUNDRAISING MARKETS

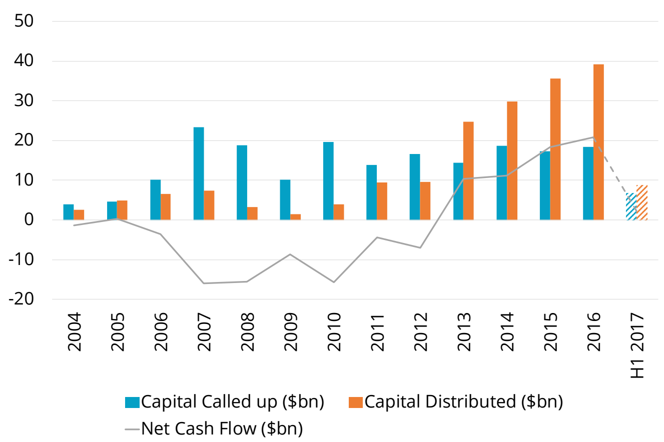
Fundraising in Asia has remained relatively consistent over the past five years in terms of both the number of funds closed and aggregate capital secured (Fig. 4). However, this is a significant decline on pre-GFC totals (see page 8 for more information on the drivers of this change). Due to the rapid development of the Asian real estate

Fig. 2: Closed-End Private Real Estate Funds: Median Net IRRs by Primary Geographic Focus and Vintage Year



Source: Preqin

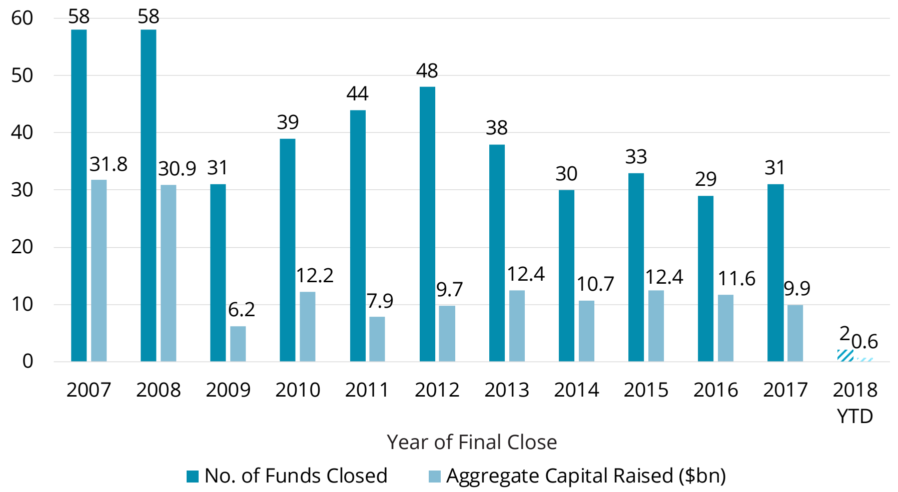
Fig. 3: Annual Capital Called up and Distributed by Asia-Focused Closed-End Private Real Estate Fund Managers, 2004 - H1 2017



Source: Preqin

market and the infrastructure behind these changes, the preferred strategy among Asia-focused funds is opportunistic, with these vehicles representing 58% and 74% of the number of funds closed and aggregate capital raised respectively. With Asia-focused funds now distributing capital back to investors at significant levels, institutions are looking to re-invest this capital back into the asset class. However, it is where this capital will be deployed that will dictate the future growth of the Asian fundraising market, and also how alternatives – in particular real estate – are taken up by local institutions. Page 14 explores the locations that investors in Asia believe are presenting the best opportunities in current conditions.

Fig. 4: Annual Asia-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

DEALS

Private equity real estate (PERE) deal flow for Asian assets has generally increased since 2013, with 2017 recording an all-time high in aggregate deal value ($27bn, Fig. 5). Since 2013, Northeast Asia has been the main driver of deal flow in the region, with the largest number (187) of deals completed, representing $23bn in total value. However, deals in Greater China have been conducted for larger sizes, with just 95 transactions completed for an aggregate $39bn.

INVESTOR APPETITE

Despite the returns on offer, institutional investors globally remain cautious of the Asian market. In December 2017, Preqin interviewed over 240 investors to understand their changing appetite and attitude for real estate investment. When asked which regions they felt presented the best opportunities in the market, Asia was only third on this list (cited by 19%), behind North America (63%) and Europe (49%, Fig. 6). The Asian market has matured since its early years and can now offer institutional investors both the diversification benefits and returns they have come to expect from real estate portfolios. Furthermore, rapid urbanization is creating more opportunities for managers that may have been stifled amid intense competition for assets. For fund managers looking to raise an Asia-focused vehicle, convincing investors – both domestic and international – of the benefits of investment in the continent remains a challenge, particularly when there are a wealth of funds seeking capital.

ASIA-FOCUSED AUM AS A PROPORTION OF GLOBAL AUM

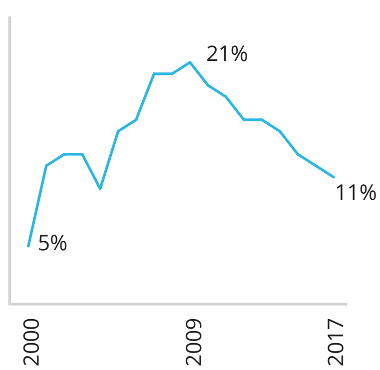
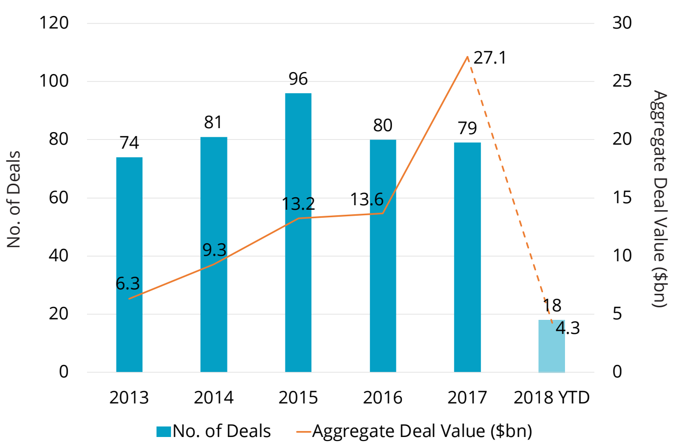
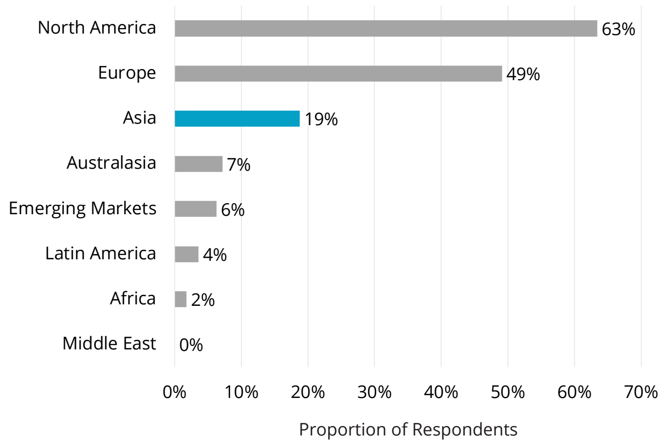


Fig. 5: PERE Deals Completed in Asia, 2013 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 6: Regions that Investors View as Presenting the Best Opportunities



Source: Preqin Investor Interviews, December 2017

THE CASE FOR INVESTING IN ASIA-PACIFIC

- Louise Kavanagh, TH Real Estate

Over the next few decades, the weight of economic power and structural megatrends will lean heavily towards the Asia-Pacific region. By 2030, Asia-Pacific, led by China, will account for nearly half of the world's output, more than 50% of the world's urban population growth and almost all of the top 50 global cities, with the largest forecasted change in wealthy households. Therefore, the case for global institutional investors entering Asia-Pacific, in order to build a sizeable core real estate portfolio, remains highly compelling, even more so in recent years in light of heightened worldwide uncertainty following the Global Financial Crisis (GFC) in 2008. The region's more sturdy economic, demographic and political landscape provides risk-mitigating and diversification benefits, and a strong anchor to real asset values over the longer term.

Preqin's Head of Real Estate Products, Oliver Senchal, sat down with Louise Kavanagh, Real Estate Manager for TH Real Estate's Asia Pacific Business, to discuss the factors making Asia attractive for investment and why she recommends a cities approach to selection:

Oliver Senchal: How can investors benefit from investing in the Asia-Pacific real estate market?
Louise Kavanagh: An allocation to Asia-Pacific allows investors to add value to their global portfolio through intra-regional growth diversification and also benefit from the variances across economies within the region. The more attractive secular growth prospects for the region vis-a-vis many OECD countries – lower structural unemployment rate, well-buffered fiscal and FX reserve position, quality infrastructure and transportation networks, among others – offer a compelling opportunity to diversify core real estate exposure in order to enhance risk-adjusted returns within a global portfolio.

Furthermore, there are additional benefits to diversifying the inter-region allocation. For example, adding Australia into a portfolio that includes Japan, South Korea and Singapore may help to enhance risk-adjusted returns meaningfully.

Choosing a balanced and diverse portfolio, backed by economic growth cycles, across Asia-Pacific is vital, as strong and resilient growth pulls income and capital value higher over the long term. Equally important, the more varied differences across global and regional markets, such as investable size, transparency, liquidity, tax and currency, can further help mitigate overall portfolio risk and enhance total returns.

OS: Why does TH Real Estate prefer city-level vs. country-level strategies?
LK: Megatrends – notably urbanization, rising middle classes, ageing populations, technology and the shift of economic power from the West – are having a major impact on the built environment and will have big implications on demand for real estate. While short-term performance of real estate will continue to be determined by economic cycles, investors looking for long-term value growth need to look at structural drivers of demand. The impact of these megatrends is much more notable at the city level, as opposed to nationally. Therefore, our business feels it makes more sense to develop strategies centred on cities, not countries. This approach is consistent with the way occupiers think about their requirements and representation. It means that compelling opportunities should not get missed due to negative country-level perception, and vice versa.

OS: Does this philosophy apply to the Asia-Pacific region?
LK: Yes, it is the smart selection of cities that are considered secularly resilient and sustainable from both an economic and environmental perspective that can help deliver attractive long-term and stable returns. Many Asia-Pacific cities are built along the same lines, and multiple regional capital cities also happen to be gateway and financial centres of their respective economies. For example, Seoul, Sydney and Tokyo account for slightly less than 30% of their respective national economies, and contribute even more to growth.

Every city has its own DNA geographically, culturally, economically and socially. This variance in the DNA of each city is what provides investors with investment choices and justification through economics-driven diversification. Investing in Hong Kong and Singapore is largely a bet on financial services growth. Hong Kong serves as a conduit for China's relatively closed capital market, whereas Singapore is the banking hub for private banking and Southeast Asia. Beijing and Tokyo may appear dissimilar in outlook, but they both provide density dividends underpinned by strong business concentration. Beyond the capital cities, there are strong investment prospects in other key secondary cities. For example, Melbourne is considered the sporting and cultural capital of Australia, drawing tourists as well as a strong cohort of international students, due to its quality of life and affordability.

In the coming decades, the real economic power centres of the world economy are cities and metro areas. Cities are the platforms for innovation, entrepreneurship and economic growth. Seoul's economy is bigger than Malaysia, Shanghai outranks the Philippines, and as a nation, Tokyo would rank among the top 20 largest economies in the world. Furthermore, cities evolve: 20 years ago, backwater Shenzhen was a fishing village; however, it has transformed into China's first special economic zone and key manufacturing hub, and is slowly becoming the Silicon Valley of China. Against the current late-stage property cycle, investors still have many options to choose from. Picking cities with the right DNA that are secularly positive will continue to drive income and value creation.

OS: How do you decide which cities to invest in?

LK: Our investment philosophy has always been guided, first and foremost, by our cities approach. Our proprietary global in-house filtering framework enables us to pick out the most attractive cities to invest in, in order to ride the megatrends that will underpin Tomorrow's World investment landscape. Through a combination of hard, soft and growth drivers, we have selected 17 top Asia-Pacific cities that core institutional investors should focus on, cities that will rank among the world's top urban economic success stories. These are cities where we believe income and values will continue to grow beyond short-term market fluctuations: the rise of the middle class and population growth driving consumption or technological innovation driving business conditions, all of which will create new occupier demand in differing real estate sectors.

Indeed, understanding structural trends such as urbanization, technology, ageing populations, migration and interconnectedness is the key to preserving values and unlocking growth in cities over the long term. And many Asia-Pacific cities are at the forefront of this mega-shift. By 2030, 11 of the biggest 25 cities globally (by output) will reside in the region, and Asia-Pacific cities will account for 46 of the top 50 cities, with the largest changes in household wealth expected between 2010 and 2030. By 2030, Suzhou, Chongqing and Jakarta will replace Osaka, Nagoya and Seoul among the biggest Asia-Pacific cities by economic output. During the same period, Asia-Pacific cities will account for the top six spots globally with the highest number of middle-class ($35,000-70,000 annual) households: Tokyo, Jakarta, Osaka, Shanghai, Chongqing and Beijing. Many rapidly developing secondary cities in Asia-Pacific today will also complement existing core markets to provide institutional investors with a deeper and broader universe of good-quality investable assets for Tomorrow's World.

This is not to say that we do not look at where we are in the cycle. In this current environment of low interest rates and elevated pricing, we believe it is also important to be tactically nimble: acquiring high-quality assets with globally acceptable core characteristics in markets with rental reversion and income uplift for instance will help mitigate the risks of a cyclical downturn impact on valuation. The Seoul, Singapore and Tokyo office markets come to mind. All said, we underlay our cities strategy with a tactical understanding of the markets to help our investors generate the best risk-adjusted portfolio returns over time. And our track record is testament to that.

OS: What investment opportunities are being seen across Asia-Pacific?

LK: The Asia-Pacific region is still forecast to remain the world's fastest growth regional economy with domestic demand underpinned by tight labour market conditions, low commodity prices, resilient disposable income and private consumption – key contributors to growth in the core markets. Selective markets will maintain accommodative lending environments that will remain supportive of domestic growth.

Favourable city specific dynamics are currently driving investors to focus their regional allocations towards Seoul, Singapore and selective Australian east coast markets.

Seoul is Korea's established political, economic and cultural hub. It is one of the region's most technologically advanced cities with a solid economic outlook, and consumer and business sentiment driven by a new government implementing a targeted stimulus package. Despite solid city-specific fundamentals, its core property assets trade at higher yields than comparable properties in other established regional markets. However, granular asset and locational assessment remains particularly important in this market when seeking to benefit from strong underlying tenant demand in addition to insulating against the potential supply threat.

Singapore is one of the wealthiest and most business-friendly global cities; it is a cultural melting pot that will benefit from long-term, structurally attractive qualities. Its office market appears to have turned the corner with improving net absorption, solid pre-commitment levels and modest rental growth. Tenants in Singapore are committing to space faster than expected to lock in rents ahead of an anticipated pick-up in rental growth.

Sentiment regarding investment in Australia's east coast office markets remains positive given expectations of ongoing rental growth, with Brisbane anticipated to offer the strongest near-term growth prospects. Dynamics linked to its desirability as a location to live, work and play favour this city as a location to prosper in the long term. Despite strong city-specific drivers, Brisbane core office continues to offer a positive yield spread over Sydney and Melbourne.

TH REAL ESTATE

TH Real Estate, an affiliate of Nuveen, is one of the largest real estate investment managers in the world with $109bn in AUM. Managing a suite of funds and mandates spanning both debt and equity across diverse geographies, sectors, investment styles and vehicle types, we provide access to every aspect of real estate investing. With over 80 years of investing experience, and more than 520 real estate professionals located across 22 cities throughout the US, Europe and Asia Pacific, the platform offers unparalleled geographic reach, which is married with deep sector expertise.

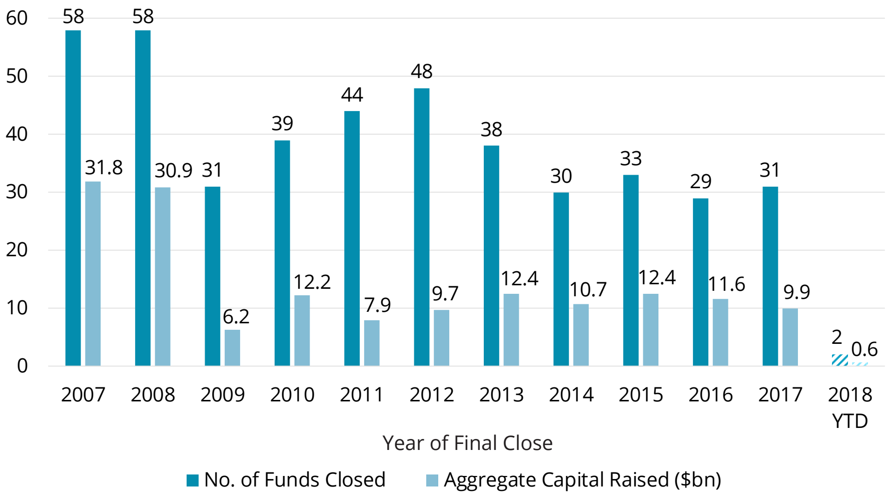
www.threalestate.com

Real estate investments are subject to various risks, including fluctuations in property values, higher expenses or lower income than expected, currency movement risks and potential environmental problems and liability. 441575-G-MED-03/19

THE ASIAN FUNDRAISING MARKET

Asia-focused real estate fundraising has been relatively consistent following the GFC, with aggregate capital raised annually remaining in the $10-13bn range (Fig. 7). However, the Asian market is significantly depressed from pre-crisis highs, unlike other markets, where capital raised has largely recovered close to 2007-2008 totals. It is this stunted growth that has led to the Asian private real estate fundraising market representing a diminishing proportion of global fundraising activity over the past decade, with Asia-focused funds accounting for 8% of all capital secured globally in 2017, down from 21% in 2008.

Fig. 7: Annual Asia-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

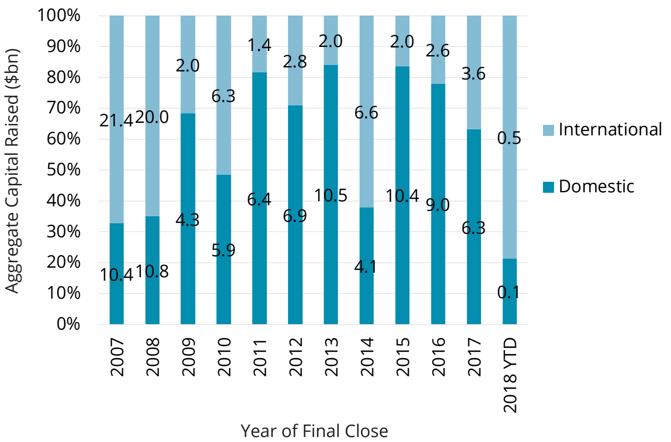
CAPITAL FLOWS

While Asia-based fund managers have been responsible for the majority of products offering investors exposure to Asian property over the years, the retraction in international capital post-crisis is apparent in Fig. 8. In the aftermath of the GFC, the level of participation in the Asian market by internationally located managers declined, and with that, their proportion of total capital raised decreased from approximately two-thirds in 2007/2008 to an average of a third since then. However, there have been exceptions where internationally based firms have had more success than domestic firms, mostly through US-based firms raising large vehicles – notably Morgan Stanley Real Estate Investing's North Haven Real Estate Fund VII Global (closed on $4bn in 2010) and Blackstone's Real Estate Partners Asia ($5bn in 2014).

More recently (2015-2017) there has been a gradual resurgence in participation from international managers in the Asian real estate market. Both the proportion of the number of funds closed and aggregate capital secured by managers based outside Asia for investment within Asia are on an upward trend; however, in absolute terms, fundraising is yet to come close to the $20bn raised by international managers in 2007/2008. Of the total capital raised by managers based outside Asia, US-based managers represent the vast majority (84%), followed by managers in the UK (8%) and Australia (3%, Fig. 9).

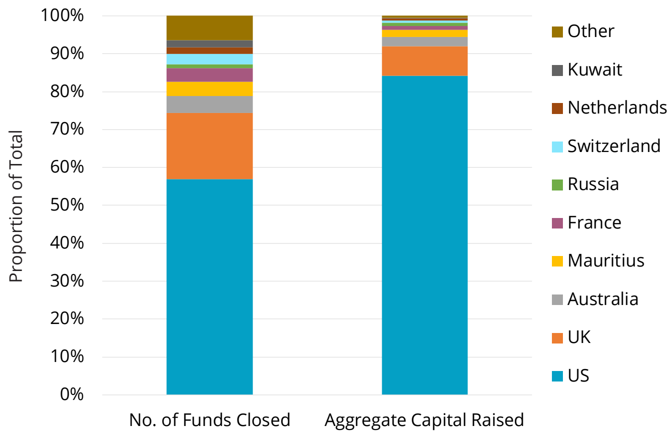
In terms of capital raised domestically for investment in Asia since 2007, there is a significant trend for funds targeting their local market. The majority of funds focused on investment in the ASEAN, Northeast Asia and South Asia regions

Fig. 8: Aggregate Capital Raised by Asia-Focused Closed-End Private Real Estate Funds: International vs. Domestic Managers, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 9: Asia-Focused Closed-End Private Real Estate Fundraising by International Managers by Firm Location, 2007 - 2018 YTD (As at March 2018)

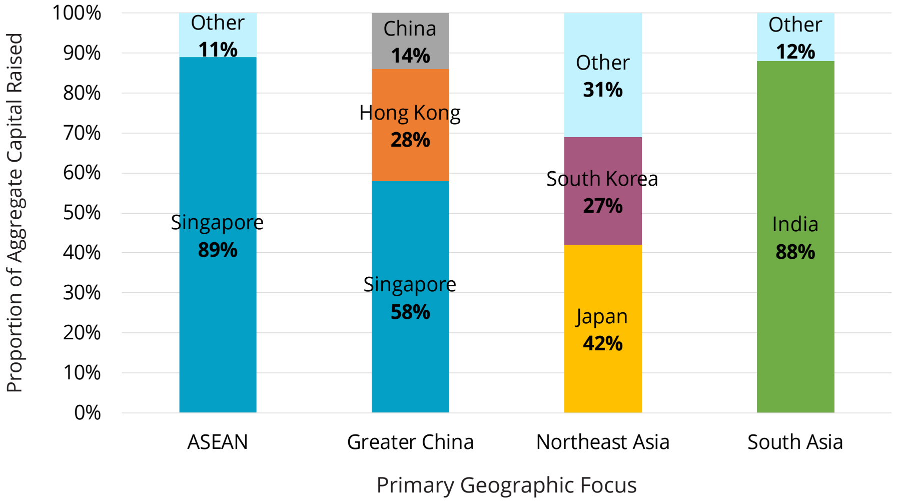


Source: Preqin

are raised by managers located in those regions, with Singapore, South Korea and Japan, and India dominating the fundraising landscape in their respective regions (Fig. 10). While domestic managers account for a significant proportion (42%) of Greater China-focused capital raised since 2007, Singapore-based fund managers represent the majority (58%), driven by the closure of several large funds including CLF II ($3.7bn) and ARA Harmony Fund VI ($1.76bn).

Within Asia, Greater China-focused vehicles account for 49% of all capital secured since 2007 (excluding Pan-Asia-focused funds), with these vehicles also representing the greatest proportion of capital secured in the past three years (Fig. 11). South Asia-focused funds constituted the greatest proportion of funds closed in both 2016 and 2017, with this fundraising activity likely driving the uptake in PERE deals in South Asia in recent years (see page 19).

Fig. 10: Aggregate Capital Raised by Domestic Managers for Asia-Focused Private Real Estate Funds by Firm Location, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

DIVERSIFIED APPROACH

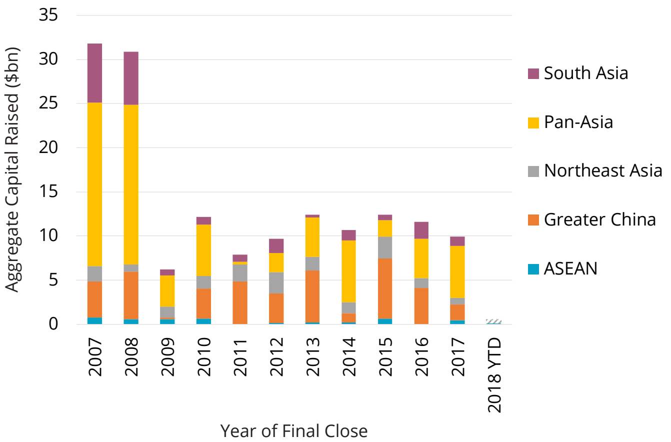
Pan-Asia-focused funds represent nearly half (46%) of Asia-focused capital raised since 2007. However, more recently, funds targeting specific regions (ASEAN, Greater China, Northeast Asia, South Asia) have represented a greater proportion of Asia-focused fundraising activity, with the exception of 2014 and 2017 when several large Pan-Asia-focused funds reached a final close, including Blackstone Real Estate Partners Asia ($5bn, Dec-14), Gateway Real Estate Fund V ($1.3bn, Mar-17) and Secured Capital Real Estate Partners VI ($1.9bn, Sep-17).

OUTLOOK

Over the past three years, there has been a steady increase in both the number of Asia-focused private real estate funds in market and the amount of capital they are targeting (Fig. 12). In a similar trend to the recent fundraising environment, the greatest number (38) of Asia-focused funds in market are targeting investment in South Asia; however, Pan-Asia-focused funds account for half of all targeted capital, driven by Blackstone Group's latest offering, Blackstone Real Estate Partners Asia II, which is targeting $5bn.

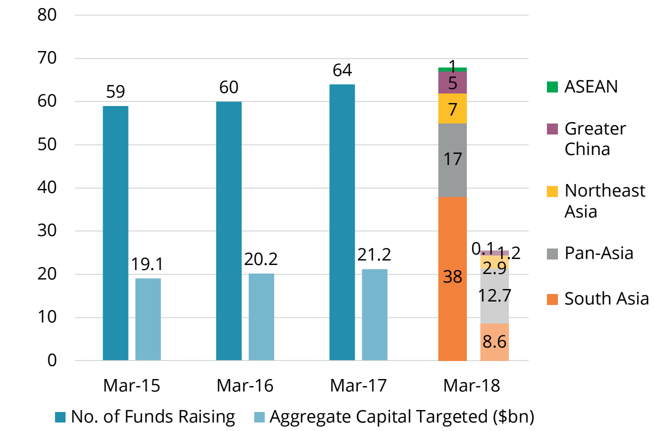
Furthermore, in Preqin's November 2017 survey of Asia-based fund managers, four in five respondents indicated plans to invest more capital in the coming year than in the past 12 months, with no managers intending to scale back their level of real estate investment. The main challenge for fund managers, if fundraising in the region is to grow back to pre-crisis levels, is to convince investors of the value of Asian investment in a portfolio. This will take time as the region matures its own set of local managers to pull capital away from traditional markets, as well as wider economic growth to develop a new supply of institutional-grade real estate.

Fig. 11: Aggregate Capital Raised for Asia-Focused Closed-End Private Real Estate Funds by Geographic Focus, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 12: Closed-End Asia-Focused Private Real Estate Funds in Market over Time, 2015 - 2018



Source: Preqin

VALUE CREATION IN ASIA-PACIFIC PROPERTY MARKETS

- Beng Tiong Ng, ARA Asset Management

With the yield-compression era within many Asia-Pacific markets coming to an end, income growth is set to become a major driver of capital value appreciation. Investors will need to adopt strategies that both tap into upward rental cycles in select markets and reaffirm a focused value creation strategy to increase rental income. Research by Hodes Weill and Cornell University show that value-add strategies remain the strong preference for institutions, followed by opportunistic and core. Similarly, Preqin findings demonstrate a consistent preference for value-add strategies, chosen by 75% of investors surveyed in 2017.

Preqin's Head of Real Estate Products, Oliver Senchal, sat down with Beng Tiong Ng, Assistant Group CEO of ARA Asset Management and CEO of ARA Private Funds, to discuss the local knowledge necessary to create value in Asia-Pacific property:

Oliver Senchal: **What is the appeal of value-add investments to organizations like ARA Private Funds (APF)?**
Beng Tiong Ng: APF believes a key element of the firm's success is its investor-operator, 'boots-on-the-ground' philosophy. We have acquired approximately $9bn in AUM with most of the portfolio requiring some form of asset enhancement initiatives (AEI). We have always rolled up our sleeves to upgrade or reposition the asset and improve operational efficiency. APF has a long-standing commitment to having its staff on the ground in all the markets where we invest. Without strong local knowledge and in-house expertise, it is easy to get repositioning or AEI wrong. It is this local market experience and strong historical track record that make value-add investments our forte.

OS: **Tell us more about the work that typically goes into a property over the course of its investment life cycle?**
BT: The process starts with good asset selection and evaluation. We begin with a top-down analysis by our in-house research team, considering factors like local economy, masterplan, macro trends, market supply-demand and competition. While our investment team focuses on underwriting, structuring and negotiating the deal, asset management colleagues will identify potential for property upgrade, revenue expansion, cost savings and ESG initiatives. An asset strategy plan is mapped out for the duration of the investment and updated annually to account for changing market conditions. These plans can be as mundane as changing mechanical systems to enhance operational efficiencies, or as transformative as re-configuring the property layout and changing uses and tenant mix. Understanding which AEI works in various markets is critical to success. Being able to learn from previous experiences is also invaluable.

OS: **What are some of the more interesting value-add projects APF has worked on through the years?**
BT: Two projects come to mind. One involves a prime office building in Shanghai which we acquired directly from a local developer in 2015. Under our oversight, we upgraded the retail podium with contemporary finishes and landscaping. In addition, we increased the NLA and brought in complementary retail tenants. After just two years, office tenant quality improved, the building hit full occupancy, average passing rent rose 41% and property value increased 24%.

Another example was when we acquired an office building in Hong Kong. With our intimate knowledge of local masterplan and market conditions, APF successfully executed on an upgrading program. The AEI included modernizing the lobbies, entrance, podium façade, lift cars, public spaces, signage and lighting. As the office market was recovering, we also subdivided an existing anchor tenant space for multiple tenant use. Ultimately, we achieved a 39% increase in average passing rent and exited the investment with an IRR of approximately 30%.

OS: **Given the current low-yield environment, is it more difficult to create value?**
BT: The current environment makes it more challenging to find attractively priced opportunities. That said, we continue to see potential within the Asia-Pacific value-add space. As capital chasing opportunities grows, it becomes more critical for investor-operators to understand market trends and stay ahead of market changes. APF is fortunate to have multiple local touch-points to curate a pipeline of diversified and proprietary opportunities through our internal network and long-standing relationships. Some strategies we currently favour include repositioning assets for highest and best use, and taking on leasing risk in a re-tenanting exercise. There are also compelling opportunities to capitalize on the demographic demands within the alternatives space, in line with changing lifestyle choices such as co-living or student housing. It boils down to pounding the streets in those markets we invest in to uncover hidden gems.

ARA ASSET MANAGEMENT
Established in 2002, ARA Asset Management Limited is a premier integrated real estate fund manager focused on the management of REITs and private funds. It is present in 21 cities in eight countries, with a total AUM of SG$40bn and currently manages 11 REITs and nine private real estate funds. Mr Beng Tiong Ng is Assistant Group CEO cum CEO of ARA Private Funds, responsible for overseeing the private real assets funds division. He is also a director of ARA China, ARA Australia, ARA Korea and APM, the property management subsidiary of ARA.

www.ara-asia.com

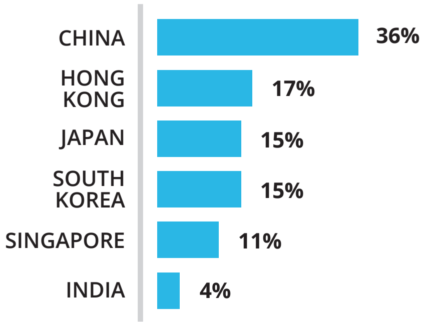
ASIAN DEAL FLOW

Since 2013, the aggregate value of private equity real estate (PERE) deals for Asian property has increased each year, reaching a record $27bn in 2017 (Fig. 13). While PERE deal value has increased on a global basis over the same period, the rate of growth within the Asian market (3.3x) significantly eclipses that of the global market (1.2x) as a growing base of investors seeks exposure to Asian property (see page 13). Furthermore, the increase in deal value in 2017 was significant, doubling from 2016, driven by the $8.1bn (CNY 55.1bn) acquisition of a portfolio of 16 land development sites by Vanke from Guangdong International Trust and Investment in June. This being said, even without this deal, Asian PERE investment value would have increased 40% in 2017.

> ***Since 2013, the aggregate value of PERE deals for Asian property has increased each year, reaching a record $27bn in 2017***

THE SIX NATIONS

The Asian market boasts significant diversity, offering investors lower-risk property in core markets such as Tokyo and Hong Kong, as well as the opportunity for stronger yields in growing provinces or developing regions. Within Asia, several key markets emerge in terms of PERE deals: six nations constitute 98% of total PERE deal value since 2013:



Greater China and Northeast Asia have represented the vast majority of Asian PERE deal flow since 2013 (Fig. 14). In 2013 and 2014, Northeast Asia dominated regional PERE deal activity; however, Greater China has seen an uptake in activity from 2015, with this region representing nearly three-quarters of aggregate Asian deal value in 2017. There are three key markets driving activity: Shanghai represents over 22% of total Greater China PERE deal value since 2013, while Northeast Asian deal value is dominated by the markets in Seoul (37%) and Tokyo (23%).

South Asia has experienced growth in deal activity over the past three years. While aggregate deal value has remained relatively low, more PERE deals are being completed for South Asian assets, with the region representing one-fifth of deals completed in Asia in 2017, and one-third in 2018 so far (as at March).

CAPITAL FLOWS

There exists a strong domestic bias in Asian PERE deal flow, with the vast majority of Asian PERE deals each year since 2013 completed by fund managers based in the region, and international fund managers representing roughly one-fifth of deals (Fig. 16). This activity mimics the

AVERAGE SIZE OF ASIAN PERE DEALS BY BUYER LOCATION ($mn)

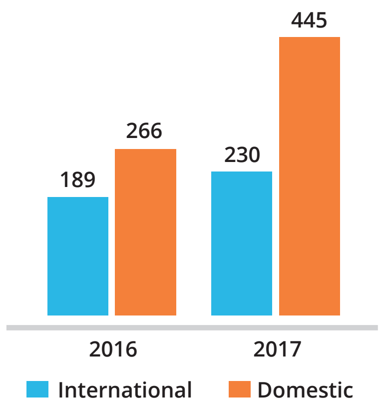
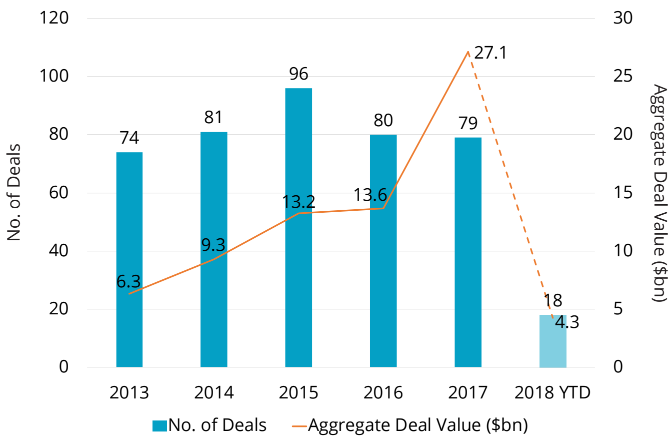
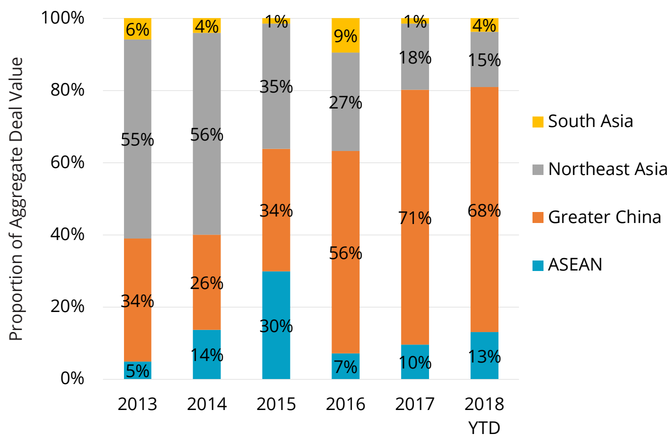


Fig. 13: PERE Deals Completed in Asia, 2013 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 14: Aggregate Value of PERE Deals Completed in Asia by Location, 2013 - 2018 YTD (As at March 2018)



Source: Preqin

Asia-focused fundraising market, with domestic managers filling the gaps when capital raised internationally dried up post-crisis (see page 8).

Furthermore, the data shows that, since 2016, Asia-based managers have generally completed larger deals for Asian assets than managers based outside the region, perhaps as local knowledge and networks allow Asia-based managers access to high-profile property. One such deal was Samsung SRA Asset Management's acquisition of The K-Twin Towers from Vestas Investment Management for KRW 713bn – this is the largest single-asset PERE deal completed so far in 2018 (as at March) and represents a record price per square metre for a commercial building in Seoul.

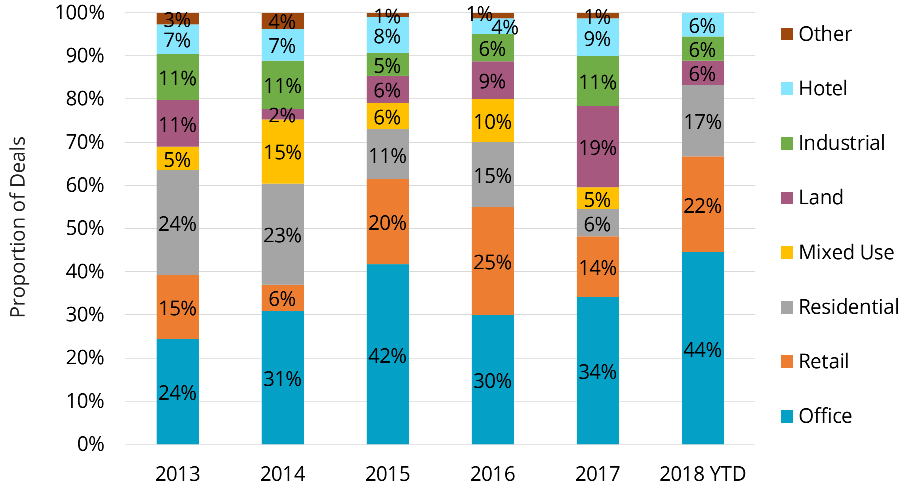
PROPERTY TYPE

Historically, transactions for office and retail assets account for roughly half of Asian PERE deal flow, in terms of both the number of deals and aggregate deal value (Fig. 15). Mixed-use assets represent a greater proportion of deal value than of the number of deals, driven by the typically higher prices of Asian mixed-use property given the larger size and applications of the assets.

TRANSACTION TYPE

Portfolio transactions, such as the aforementioned Vanke/Guangdong International Trust deal, historically account for a greater proportion of aggregate deal value than of deals by number: since 2013, portfolio deals have represented 11% of all Asian PERE deals, but 36% of aggregate value. Recently, large portfolio deals, namely in the Greater China region, have dominated Asian PERE investment volume with several large deals completed since the beginning of 2017.

Fig. 15: Number of PERE Deals Completed in Asia by Property Type, 2013 - 2018 YTD (As at March 2018)



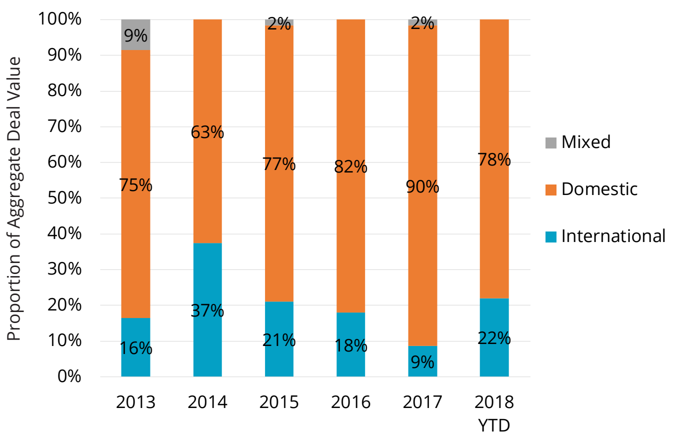
Source: Preqin

> ***"Historically, transactions for office and retail assets account for roughly half of Asian PERE deal flow***

EXITS

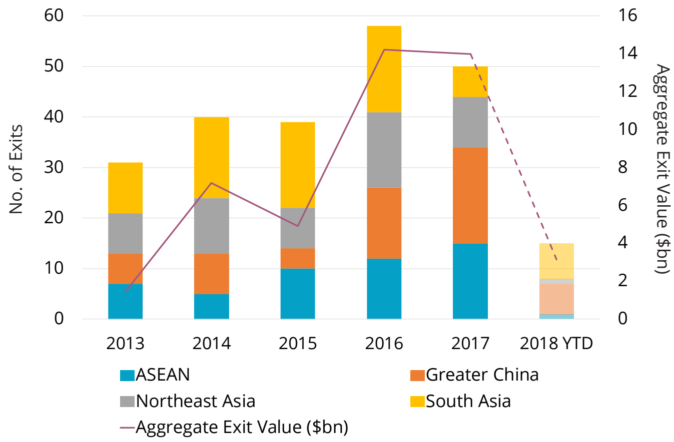
2016 marked a record year for PERE exits in Asia, with 58 assets divested by fund managers for an aggregate $14bn (Fig. 17). While the total value of exits in 2017 was relatively level with that of the previous year, the number of exits decreased, with the average value therefore increasing in a seller-friendly market, in line with global trends and highlighting the impact of higher valuations in the market. There were three assets exited for over $1bn in 2017.

Fig. 16: Aggregate Value of PERE Deals Completed in Asia by Buyer Location, 2013 - 2018 YTD (As at March 2018)



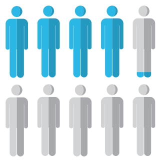
Source: Preqin

Fig. 17: PERE Exits in Asia by Location, 2013 - 2018 YTD (As at March 2018)

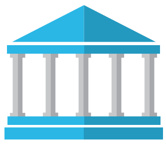


Source: Preqin

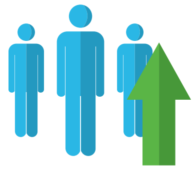
THE ASIAN INVESTOR UNIVERSE AND APPETITE FOR REAL ESTATE



41%
of Asia-based LPs invest in real estate.



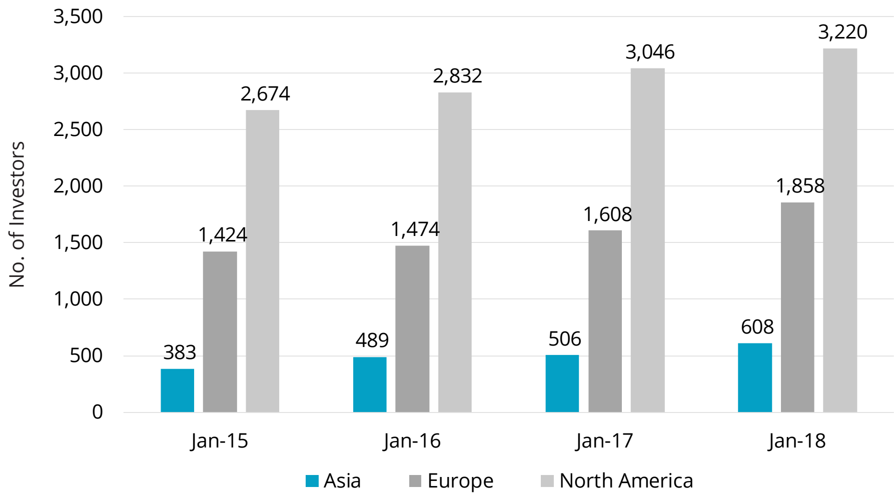
608
Number of active Asia-based real estate investors.



59%
Growth in number of active Asia-based real estate investors since 2015.

The institutional real estate investor universe in Asia has witnessed strong growth in recent years, as more institutions are not only set up, but beginning to access real estate investment for the first time. Since March 2015, the number of active real estate investors has grown 59% to 608 (Fig. 18). While still significantly behind the most developed markets in terms of number, there is room to grow, with just 41% of the known institutional population currently maintaining a real estate allocation, behind North America (66%), Europe (56%) and less developed institutional markets (average 55%).

Fig. 18: Number of Institutional Real Estate Investors by Region, 2015 - 2018



Source: Preqin

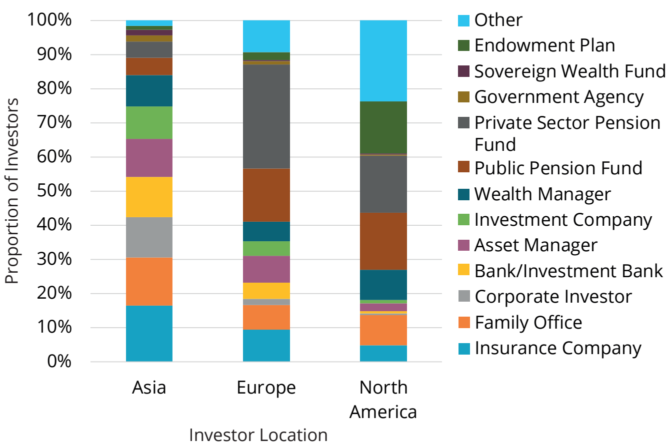
A VARIED MARKETPLACE

Northeast Asia is home to the largest proportion (34%) of real estate investors in Asia, closely followed by Greater China (31%). Understandably, the highest concentrations of investors can be found in the major Asian cities, namely Tokyo, Seoul, Beijing, Mumbai and Kuala Lumpur.

See pages 16-19 for a detailed breakdown of institutional investors by country.

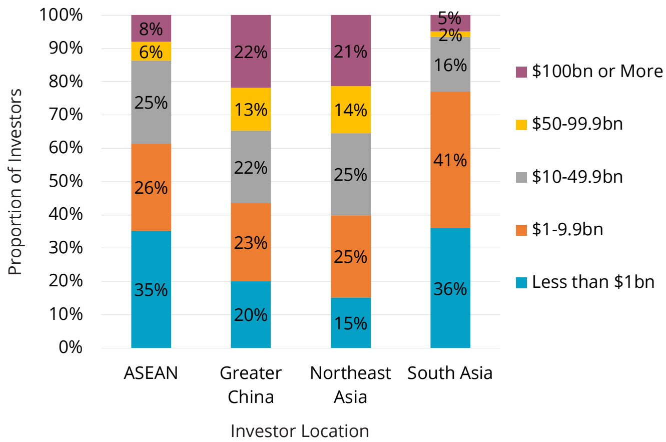
Firms that are used to targeting investors in North America and Europe may find they have to adapt their offering to suit the different constituents of the Asian market. Insurance companies and private wealth make up a larger proportion of Asia-based real estate investors than in the traditional markets, where pension funds, endowment plans and foundations generally dominate (Fig. 19).

Fig. 19: Institutional Real Estate Investors by Type and Location



Source: Preqin

Fig. 20: Asia-Based Institutional Real Estate Investors by Assets under Management and Location



Source: Preqin

As seen in Fig. 20, larger investors (those with $50bn or more in AUM) are mostly found in Greater China and Northeast Asia as these two regions are responsible for 87 of the 100 largest Asia-based investors in the asset class. In total, investors in Asia hold $42.07tn in AUM and allocate an average of 8.2% of their total assets to real estate investment, below a 9.5% average target allocation.

ACCESSING REAL ESTATE

Direct investment in assets is the predominant route by which Asia-based institutional investors gain access to real estate (64%, Fig. 21), in contrast with both North America- and Europe-based LPs which generally prefer to invest through private real estate vehicles. Northeast Asia-based investors' route to market preferences are more closely aligned with institutions located in North America than with the rest of the Asian market, reflective of the length of time these institutions have been involved in the asset class relative to other parts of Asia.

APPETITE FOR DEBT?

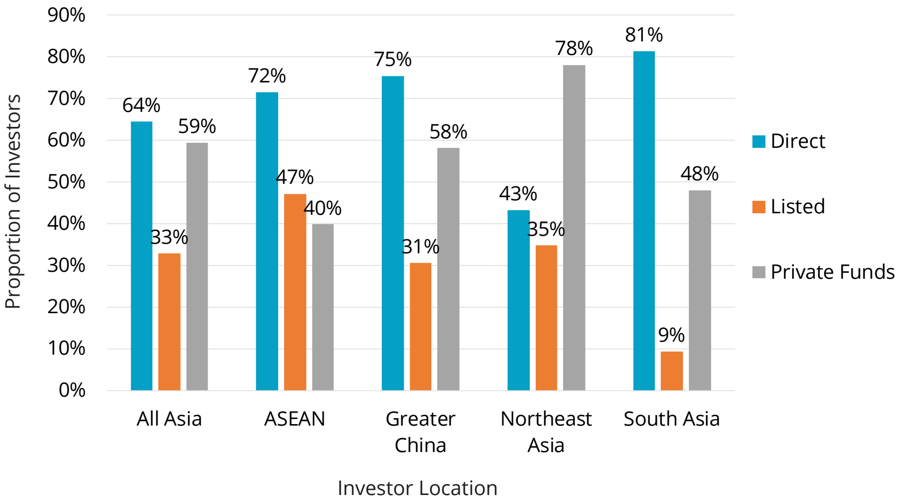
Examining the strategy preferences of Asia-based institutions can indicate where the fundraising market is likely to move in the near future. Interestingly, nearly half of institutions target real estate debt investment, above that of both North America- and Europe-based LPs (Fig. 22). However, the greatest proportion of Asia-based investors look to core real estate, far above any other top-level strategy. Excluding preferences for debt investment, the institutional landscape in Asia appears to be developing in a more similar way to the European market than North America, where there appears to be greater risk appetite.

There is a strong preference for domestic real estate investment among Asia-based institutional investors: 86% have cited a preference for Asia-focused investments (Fig. 23), far above the proportions targeting developed markets or global exposure. In terms of specific regional markets in Asia, the trend is correlated to investor location: greater proportions of investors are specifically targeting domestic investment in those areas with the highest concentration of institutions (Far East and Greater China).

THE YEAR AHEAD

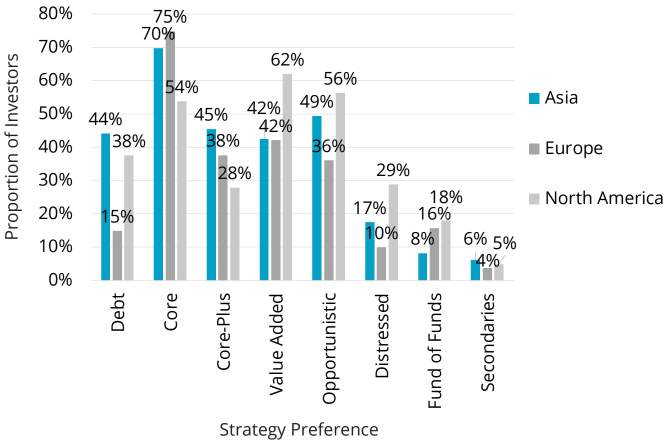
Where do Asia-based institutions feel the best opportunities are in the current market? Preqin interviewed 244 institutional real estate investors around the globe at the end of 2017, and higher-returning strategies such as value added and opportunistic were in the minds of most Asia-based investors. Furthermore, despite their general preferences aligning with the European institutional market, Asia-based institutions' views on the best opportunities are more in line with those of North America-based investors. In terms of property type, office and residential properties were cited by 63% of Asia-based respondents, followed by industrial, mimicking the global view. Asia-based investors are more diverse in their opinion of the best geographic markets – citing Asia and North America followed by Europe – while generally holding a strong domestic bias.

Fig. 21: Asia-Based Institutional Real Estate Investors by Route to Market and Location



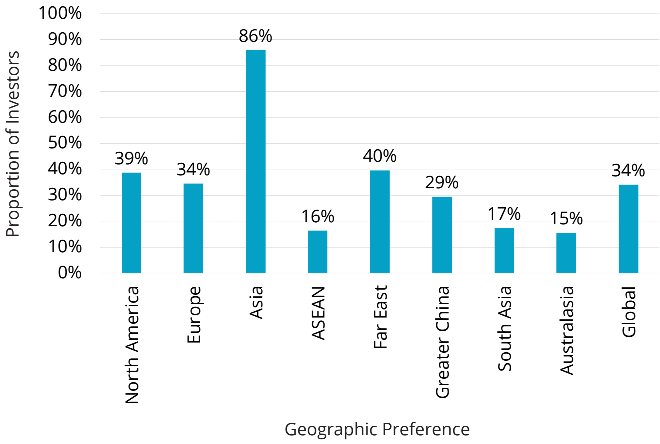
Source: Preqin

Fig. 22: Institutional Real Estate Investors by Strategy Preference and Location



Source: Preqin

Fig. 23: Asia-Based Institutional Real Estate Investors by Geographic Preference



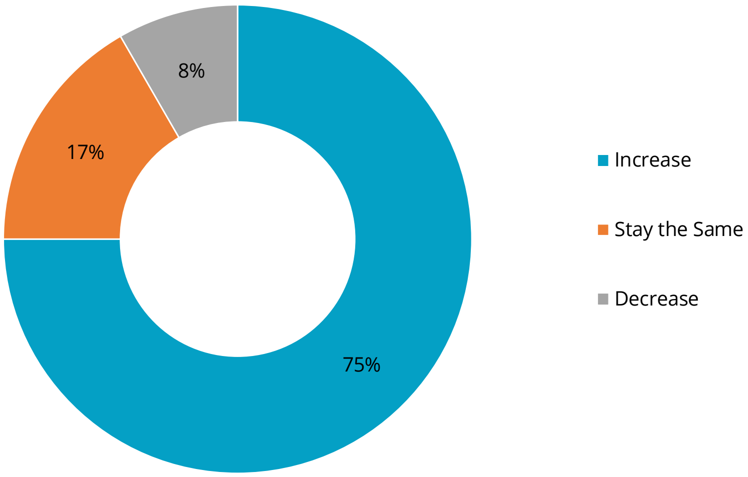
Source: Preqin

OUTLOOK FOR 2018

Fundraising remains the main challenge for real estate firms headquartered in Asia, as cited by 42% of those surveyed at the end of 2017, followed by regulation and valuations. Securing capital for vehicles, particularly when the global investor network is focused on reducing risk amid challenging conditions, remains a significant difficulty for Asia-based managers. However, there are signs of a more positive future, with 41% of managers surveyed witnessing an increase in investor appetite over the past year, compared with a quarter that feel appetite has decreased.

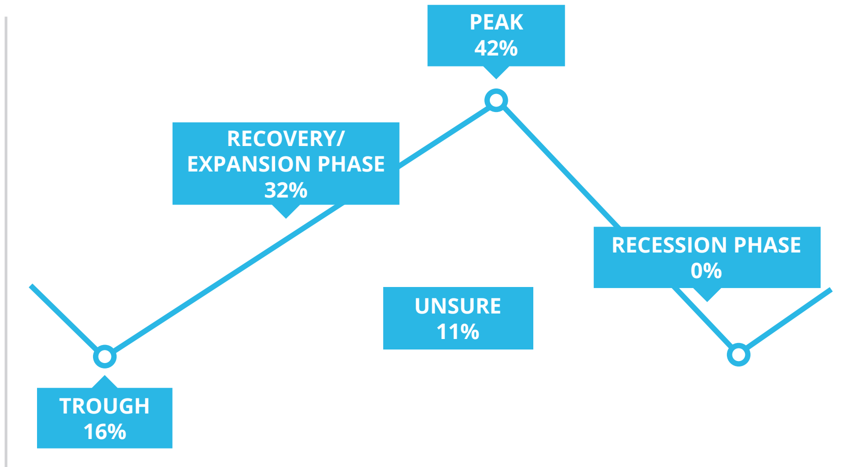
The difficulties for institutional investors targeting Asian markets are the different levels of development and the varied economic, social and regulatory environments which can make long-term investment challenging. However, there is also strength in this diversity, which fulfils institutions' desire for portfolio diversification, and there is a chance for outsized returns due to the strong economic growth which has been stunted in more developed markets in recent years. However, competition for investor capital is increasing: 67% of Asia-based fund managers feel there is now more competition for commitments than 12 months ago, while no respondents feel there is less. Furthermore, managers are trying to stand out from the crowd in an environment where investors are generally more risk averse, believing the best opportunities lie in North America and Europe.

Fig. 24: Asia-Based Fund Manager Predictions for the Size of the Private Real Estate Industry in the Next 12 Months



Source: Preqin Fund Manager Survey, November 2017

Fig. 25: Asia-Based Investor Views on Where the Current Real Estate Market Is in the Cycle



Source: Preqin Investor Interviews, December 2017

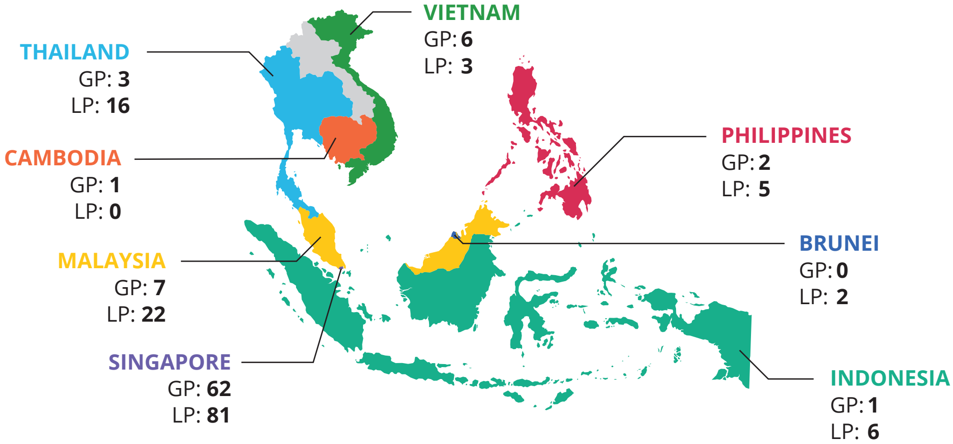
Pricing is having greater impact in more traditional markets: it is the number one concern among firms based in North America and Europe. However, the issue does appear high on Asia-based fund managers' list of concerns, reflective of the concentrated nature of the Asian real estate industry at present. As such, 40% of fund managers experienced more competition for assets over 2017 than they did over the previous year. For firms bringing funds to market in an environment where it is harder to extract value, two-thirds are having to reduce their targeted IRRs from what they would otherwise have set if conditions remained the same.

Despite these concerns, three-quarters of Asia-based fund managers surveyed at the end of 2017 believe the industry will continue to grow over 2018, and only 8% believe it will contract (Fig. 24), reflective of the scale of growth opportunity in the region and the positive economic and demographic indicators. Additionally, global trends point towards the continued uptake of alternatives into investment portfolios, and Asia – where 59% of the institutional investor population do not currently hold a real estate allocation – represents opportunity for the continued growth of the asset class over the longer term.

IN FOCUS: ASEAN

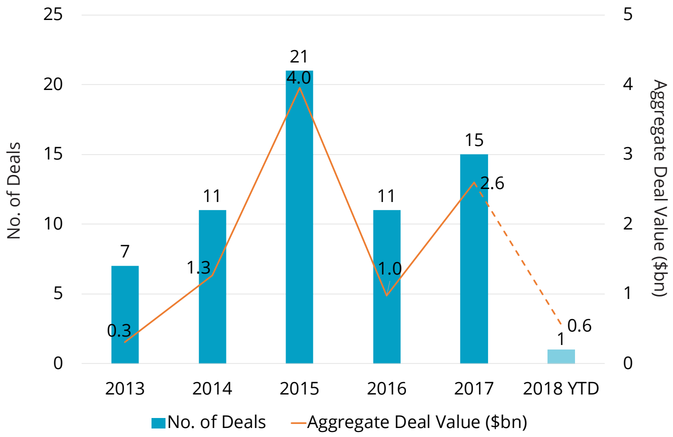
INDONESIA, MALAYSIA, PHILIPPINES, SINGAPORE, THAILAND, VIETNAM, BRUNEI, CAMBODIA, MYANMAR AND LAOS

Fig. 26: Location of ASEAN-Based Private Real Estate Fund Managers and Institutional Investors



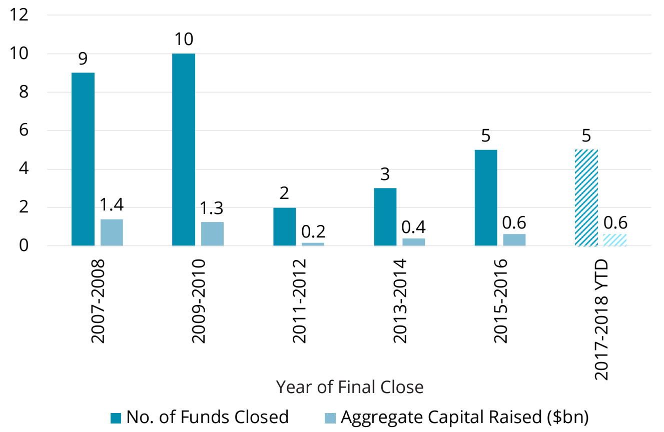
Source: Preqin

Fig. 27: PERE Deals Completed in ASEAN, 2013 - 2018 YTD (As at March 2018)



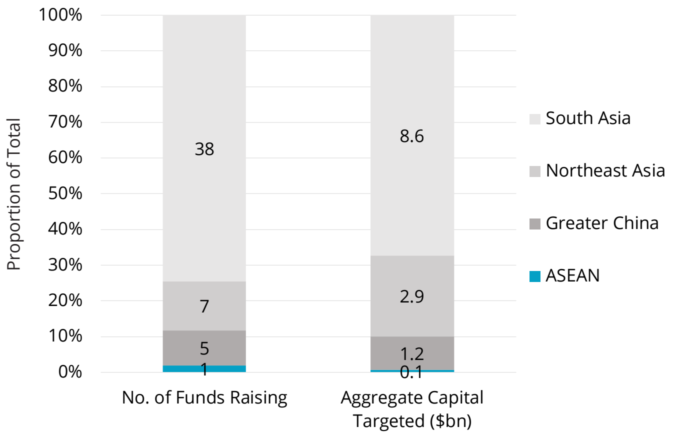
Source: Preqin

Fig. 28: Annual ASEAN-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 29: Asia-Focused Closed-End Private Real Estate Funds in Market by Region Targeted (As at March 2018)



Source: Preqin

Fig. 30: Sample ASEAN-Focused Private Real Estate Fund Managers (As at March 2018)

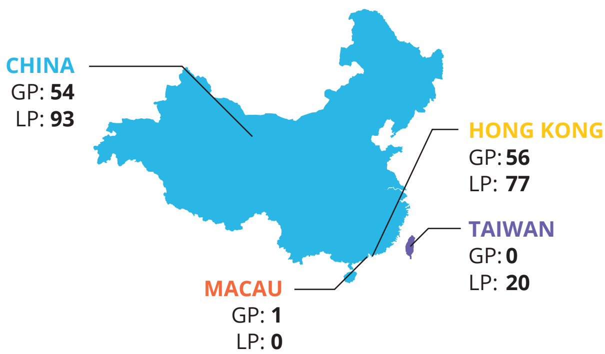
Firm	Location	No. of Funds Closed since 2007	Aggregate Capital Raised since 2007 ($mn)
CapitaLand	Singapore	4	900
ARA Asset Management	Singapore	3	486
Lucrum Capital	Singapore	3	238

Source: Preqin

IN FOCUS: GREATER CHINA

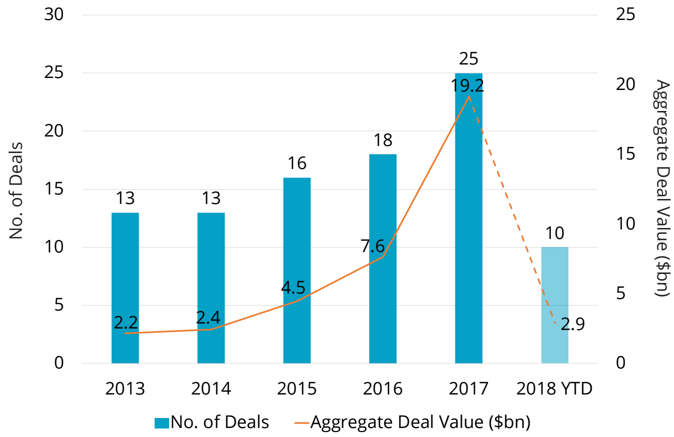
CHINA, HONG KONG, MACAU AND TAIWAN

Fig. 31: Location of Greater China-Based Private Real Estate Fund Managers and Institutional Investors



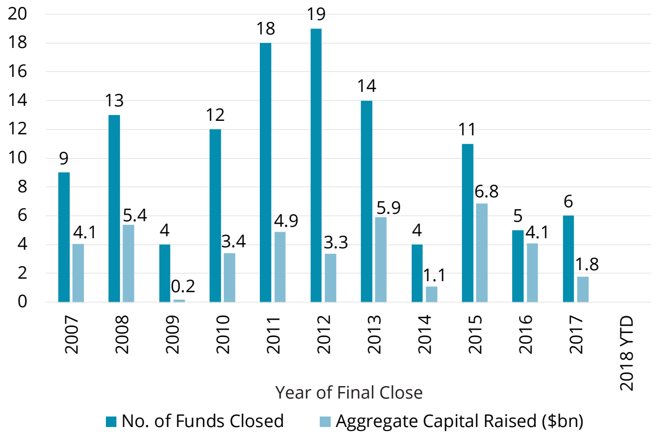
Source: Preqin

Fig. 32: PERE Deals Completed in Greater China, 2013 - 2018 YTD (As at March 2018)



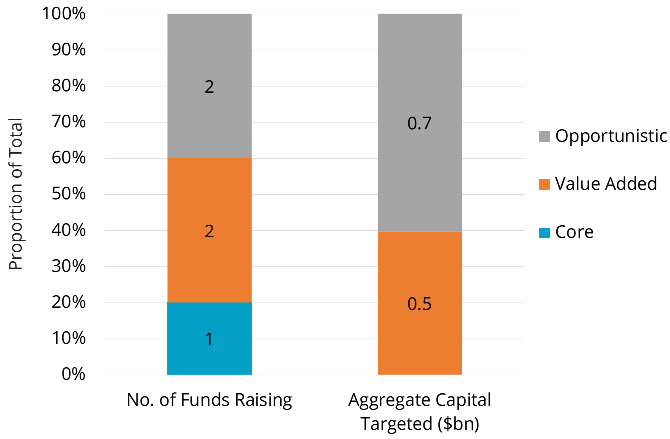
Source: Preqin

Fig. 33: Greater China-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 34: Greater China-Focused Closed-End Private Real Estate Funds in Market by Primary Strategy (As at March 2018)



Source: Preqin

Fig. 35: Sample Greater China-Focused Private Real Estate Fund Managers (As at March 2018)

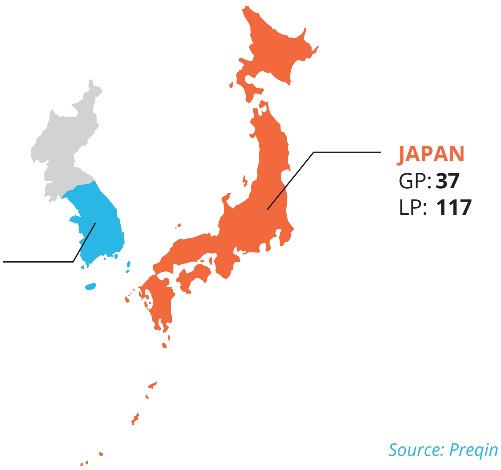
Firm	Location	No. of Funds Closed since 2007	Aggregate Capital Raised since 2007 ($mn)
CapitaLand	Singapore	14	8,324
CR Capital Real Estate Partners	Hong Kong	6	1,813
Forte Capital	Shanghai, China	6	293

Source: Preqin

IN FOCUS: NORTHEAST ASIA

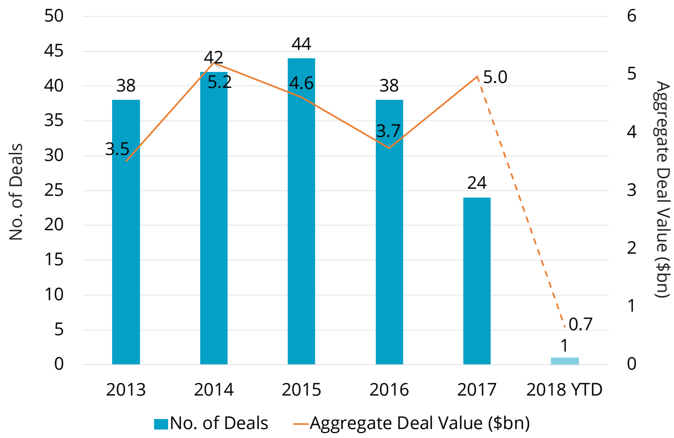
JAPAN AND SOUTH KOREA

Fig. 36: Location of Northeast Asia-Based Private Real Estate Fund Managers and Institutional Investors



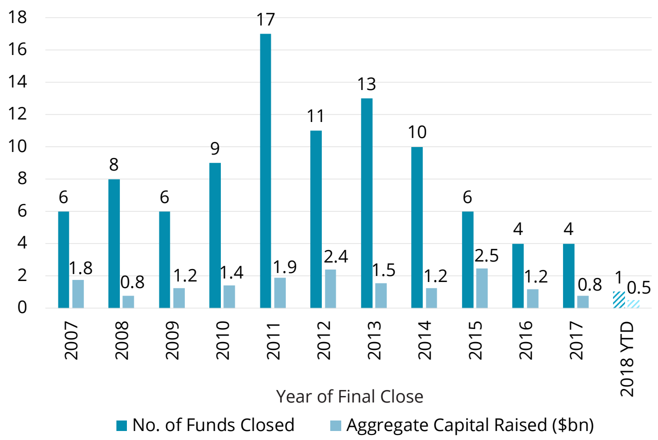
Source: Preqin

Fig. 37: PERE Deals Completed in Northeast Asia, 2013 - 2018 YTD (As at March 2018)



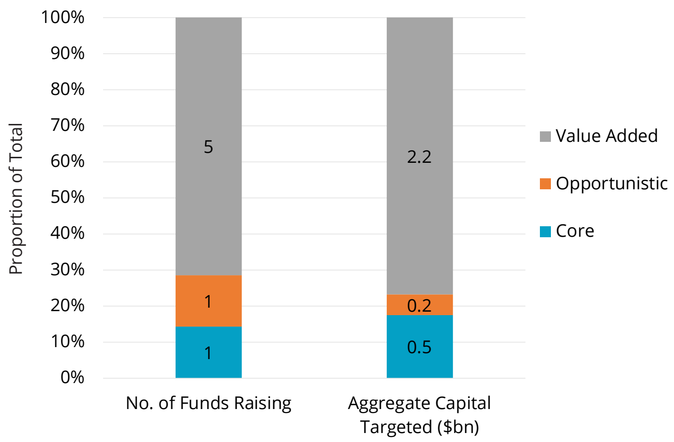
Source: Preqin

Fig. 38: Annual Northeast Asia-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 39: Northeast Asia-Focused Closed-End Private Real Estate Funds in Market by Primary Strategy (As at March 2018)



Source: Preqin

Fig. 40: Sample Northeast Asia-Focused Private Real Estate Fund Managers (As at March 2018)

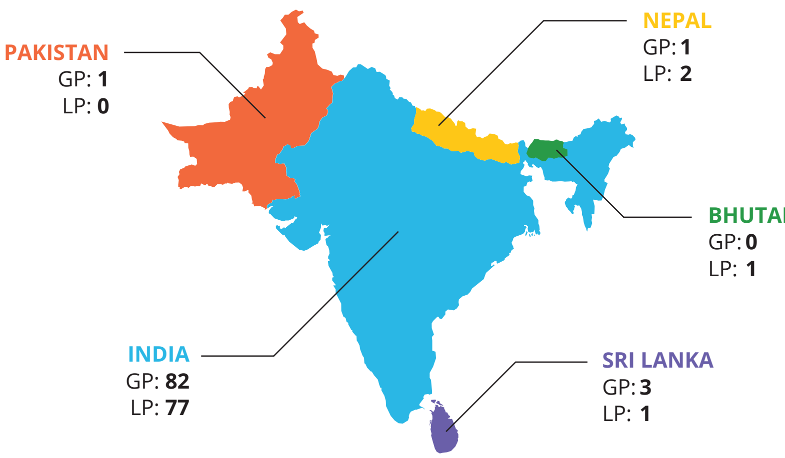
Firm	Location	No. of Funds Closed since 2007	Aggregate Capital Raised since 2007 ($mn)
Richmond Asset Management	Seoul, South Korea	18	1,179
Diamond Realty Management (DREAM)	Tokyo, Japan	9	959
Mitsui & Co Realty Management	Tokyo, Japan	6	328

Source: Preqin

IN FOCUS: SOUTH ASIA

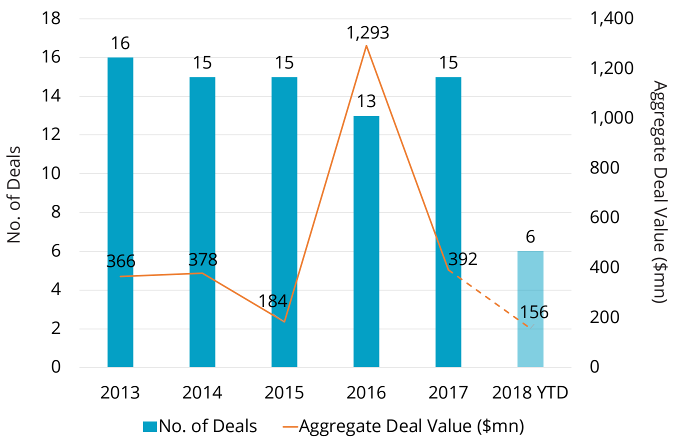
BANGLADESH, INDIA, PAKISTAN, NEPAL AND SRI LANKA

Fig. 41: Location of South Asia-Based Private Real Estate Fund Managers and Institutional Investors



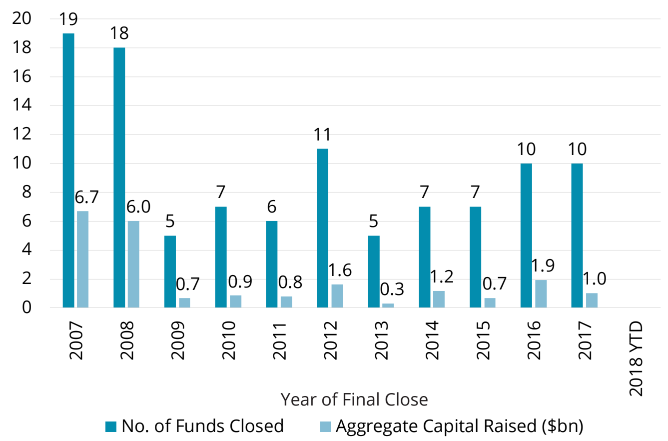
Source: Preqin

Fig. 42: PERE Deals Completed in South Asia, 2013 - 2018 YTD (As at March 2018)



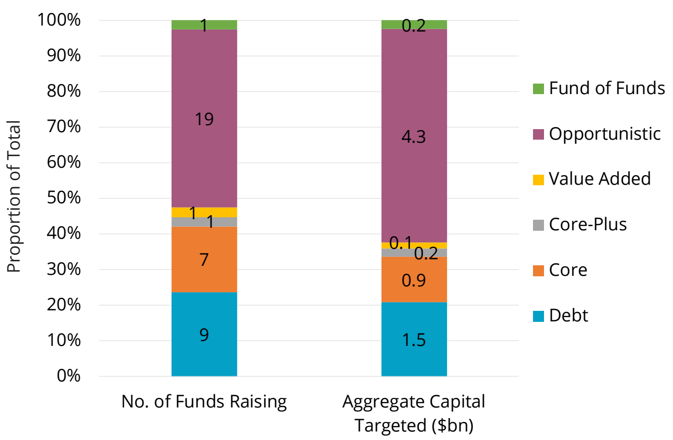
Source: Preqin

Fig. 43: Annual South Asia-Focused Closed-End Private Real Estate Fundraising, 2007 - 2018 YTD (As at March 2018)



Source: Preqin

Fig. 44: South Asia-Focused Closed-End Private Real Estate Funds in Market by Primary Strategy (As at March 2018)



Source: Preqin

Fig. 45: Sample South Asia-Focused Private Real Estate Fund Managers (As at March 2018)

Firm	Location	No. of Funds Closed since 2007	Aggregate Capital Raised since 2007 ($mn)
Milestone Capital Advisors	Mumbai, India	8	538
IIFL Asset Management	Mumbai, India	5	533
Kotak Realty Fund	Mumbai, India	5	1,354
Piramal Funds Management	Mumbai, India	5	701

Source: Preqin

PREQIN SPECIAL REPORT: REAL ESTATE IN ASIA

APRIL 2018

PREQIN

More than 60,000 alternative assets professionals rely on our global data, tools, insights and intelligence to achieve their objectives:

- **Investors:** asset allocation, manager selection and portfolio management
- **Fund managers:** fundraising, portfolio monitoring and investor relations
- **Service providers and advisors:** business development and in-depth market knowledge
- **The wider alternative assets industry:** insight, understanding and information

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