

Global real estate opportunities and risks

31 May 2012

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For a world in crisis the only certainty is ... uncertainty!

- Global financial crisis
 - Austerity measures
 - Weak labour markets
 - Reduced investment
 - Tax hikes
- Eurozone fragility
- Geopolitics
- Market instability
- Regulatory tightening
- Property "funding gap"



Where is Europe heading?



The academic

“Membership in the EMU [is likely to be] irreversible unless there is widespread economic dislocation or, more generally, a collapse of the peaceful coexistence within Europe”

Martin Feldstein, 1997



The analyst

“The growth consequences are awful in any break-up scenario. The risk of civil disorder questions the rule of law...and property rights. The only way to hedge against a Euro break-up scenario is to own no Euro assets at all.”

UBS Investment Research, September 2011



The (former) politician

“The crisis is finished. There is no more risk the eurozone will implode”

Nicolas Sarkozy, April 2012

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European politics: a long and winding road

Ireland		European Fiscal Compact referendum	Today!
Greece		Parliamentary Election re-run	June 2012
Netherlands		Parliamentary Election	September 2012
Italy		Parliamentary Election	April 2013
Italy		Presidential Election	May 2013
Germany		Parliamentary Election	2013
Scotland		Scottish independence referendum	Autumn 2014
Greece		Presidential Election	February 2015
UK		Parliamentary Election	June 2015
Portugal		Parliamentary Election (1 st round)	2015

Source: <http://www.electionguide.org>. Aberdeen Asset Management, May 12

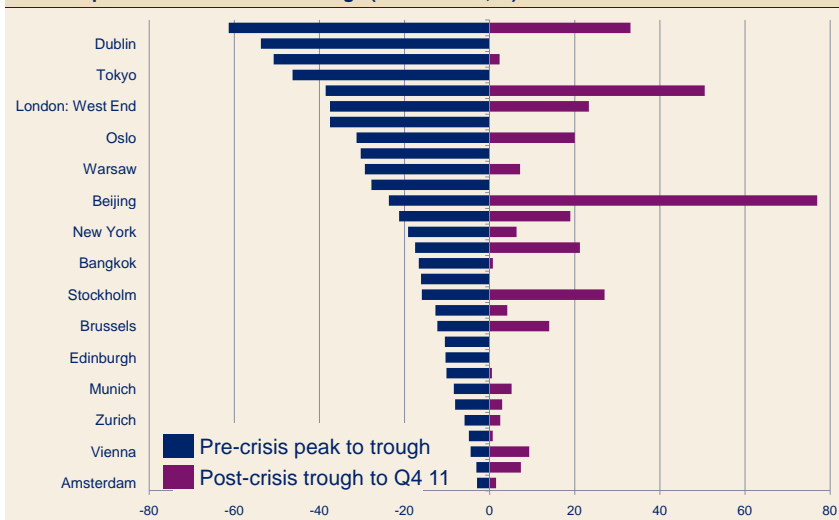
Some key real estate issues

- Income return looks attractive relative to low bond and cash yields
- Investors are refocusing on property's underlying characteristics
- Occupational markets are fragile
- Development is being squeezed
- Finance is scarce
- Many investors are trying to do the same thing
- Secondary markets are being shunned



How hard have world markets been hit?

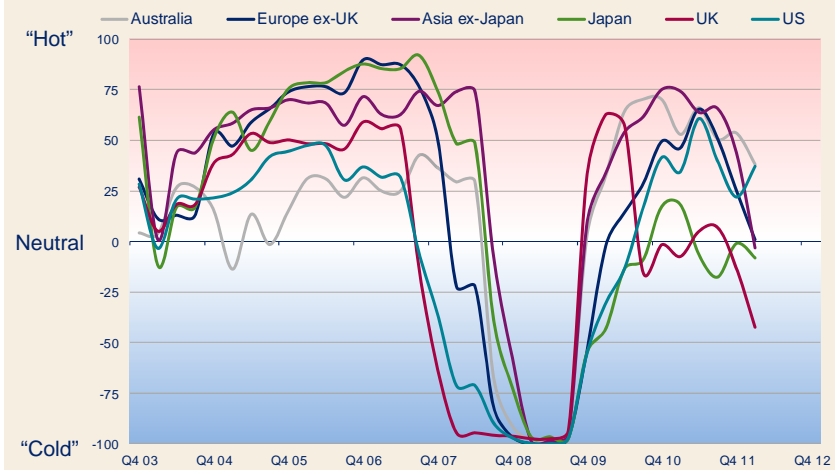
Pre- and post-crisis rental value change (office sector, %)



Source: Aberdeen Asset Management, May 12
Past performance is not a guide to the future

Market sentiment: a mixed picture

Capital value expectations for the next 12 months, % balance of respondents



Source: IPE, May12
Past performance is not a guide to the future. Projections are offered as strategy goals and are not referenced to past performance. Projections are not guaranteed and actual events or results may differ materially.

How has the crisis changed property investors' behaviour?

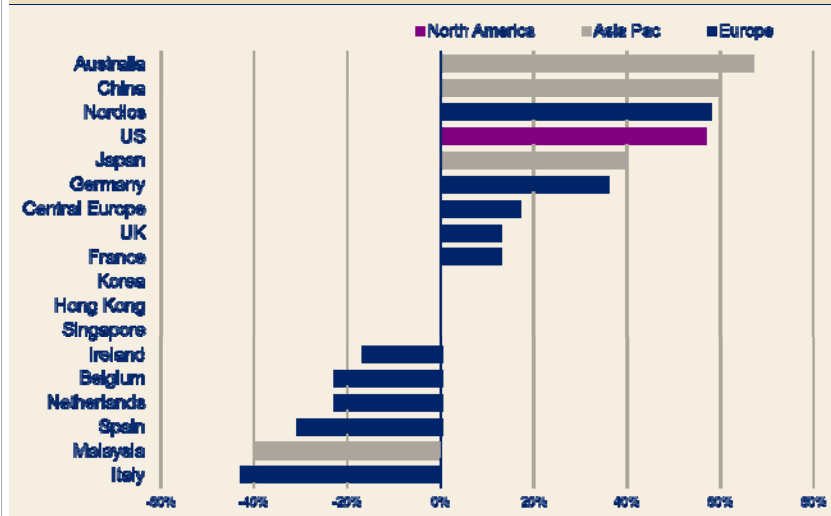
- Reduced risk appetite
 - More restricted use of debt
 - Core funds "in"; opportunity funds "out"
 - Review of geographical preferences
 - Shift from specialist to diversified funds
- Search for greater control
 - Increased participation in fund governance
 - Increased regulation
 - JVs and segregated mandates
- Search for greater alignment of interest
 - Fees and remuneration structures

Structural or cyclical changes?

- Reduced risk appetite
 - More restricted use of debt **Structural**
 - Core funds “in”; opportunity funds “out” **Cyclical**
 - Review of geographical preferences **Cyclical**
 - Shift from specialist to diversified funds **Cyclical**
- Search for greater control
 - Increased participation in fund governance **Structural**
 - Increased regulation **Structural**
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- Search for greater alignment of interest
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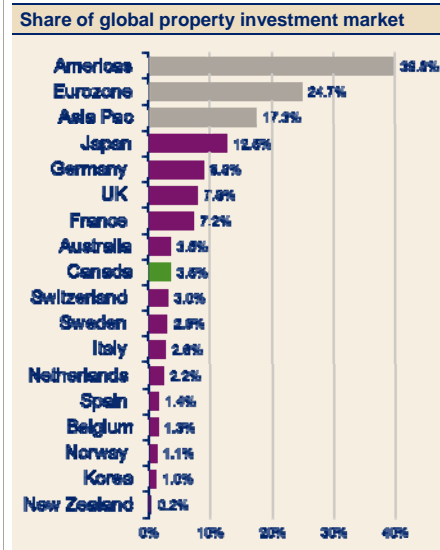
Where are investors putting their money?

Investor preferences by country, office sector, Q4 2011 (% balance)



Source: Property Market Analysis survey: Jan 12. US and Asia data are for Q3 11.
Past performance is not an indication of future results.

A national, regional or global strategy?



Source: IPD 2010 estimates, Aberdeen Asset Management

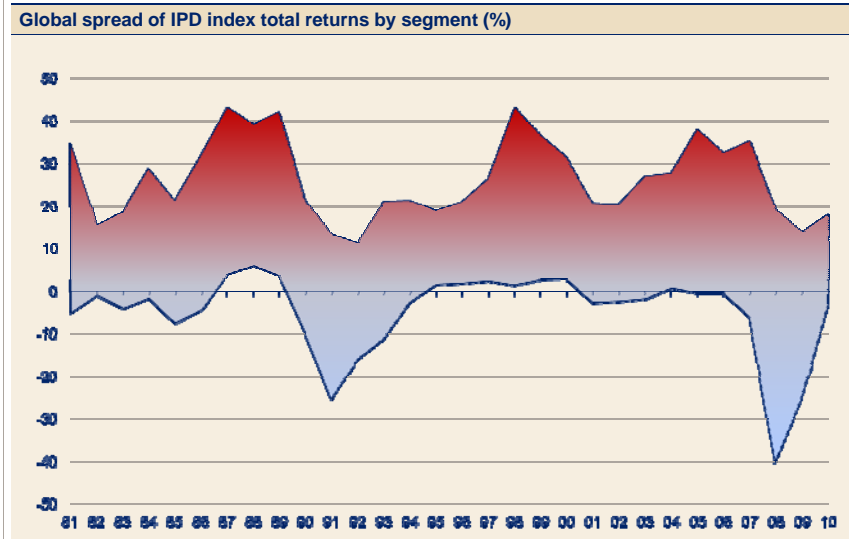
- Most investors start with a domestic portfolio, then think about diversification
- Better to consider global first, then fix home bias
- Different “entry points” lead to different strategies
 - Relative risks and returns
 - Correlations

But

- Theoretical benefits may not be available in practice

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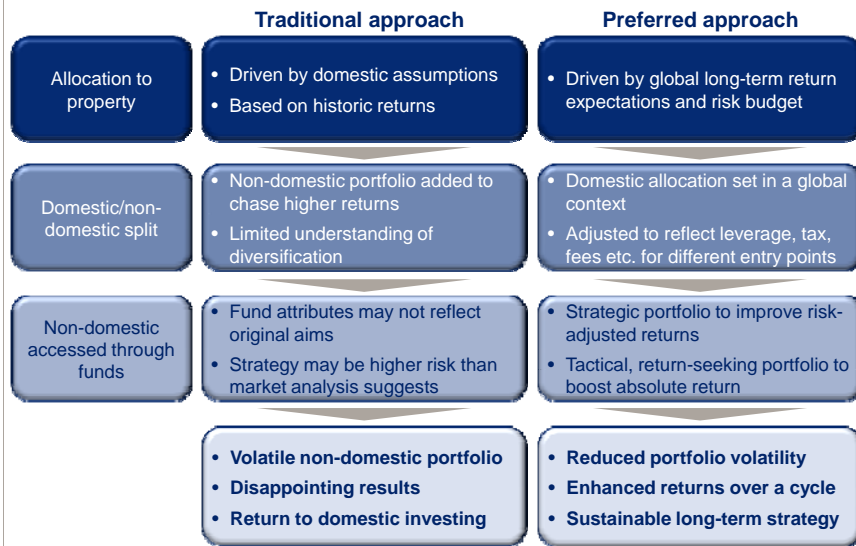
The global opportunity set: broad range of returns



Source: Aberdeen Asset Management, IPD, NCREIF: 2011
 Note: All returns are unleveraged, in local currencies. Past performance is not an indication of future results.

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Approaches to global property investment

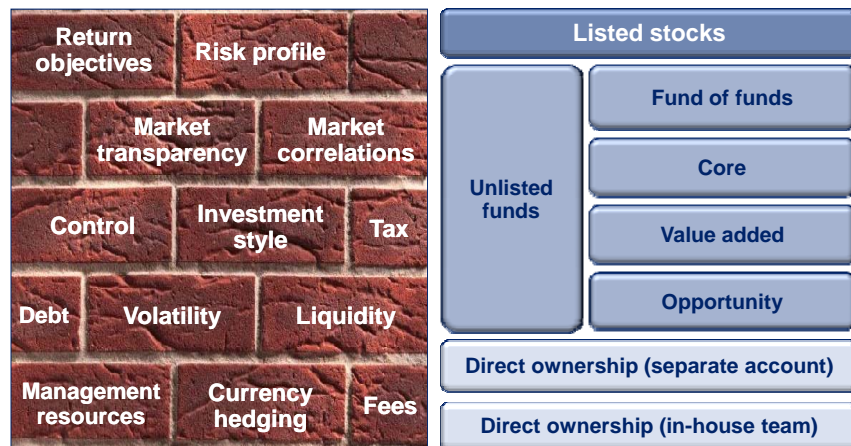


Source: Aberdeen Asset Management, Apr 12

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Global portfolio building blocks

Trade-offs influence the optimal structure and entry point

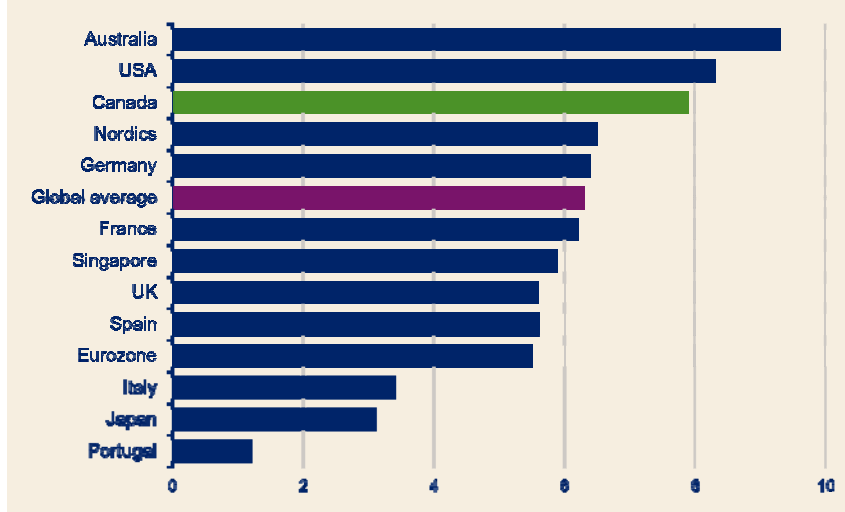


Source: Aberdeen Asset Management, May 12

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Market performance prospects

Five year "all property" total return forecasts 2012-16 (% p.a.)

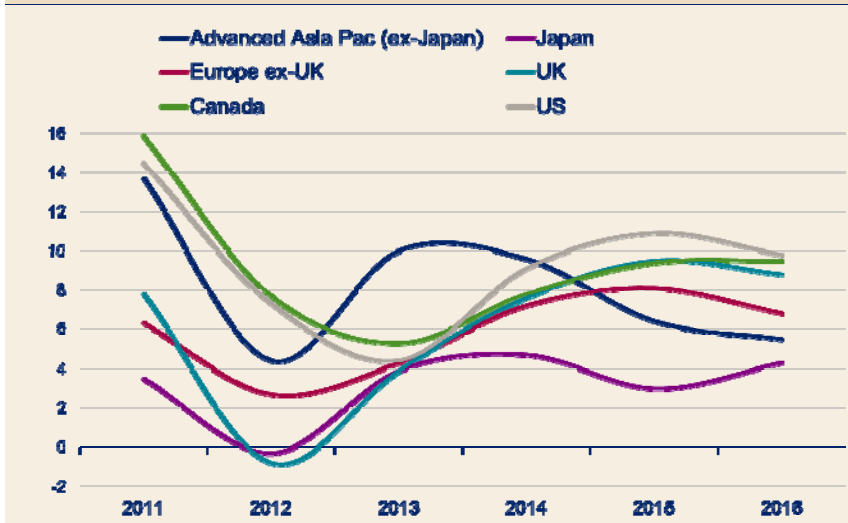


Source: Aberdeen Asset Management, Mar 12. All property refers to retail, office and industrial property. Forecasts are prepared based upon our views for the economic outlook, interest rates, as well as projections for new development activity sourced from external providers. Forecasts are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially.

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Market cycle comparisons

"All property" total return forecasts (%)

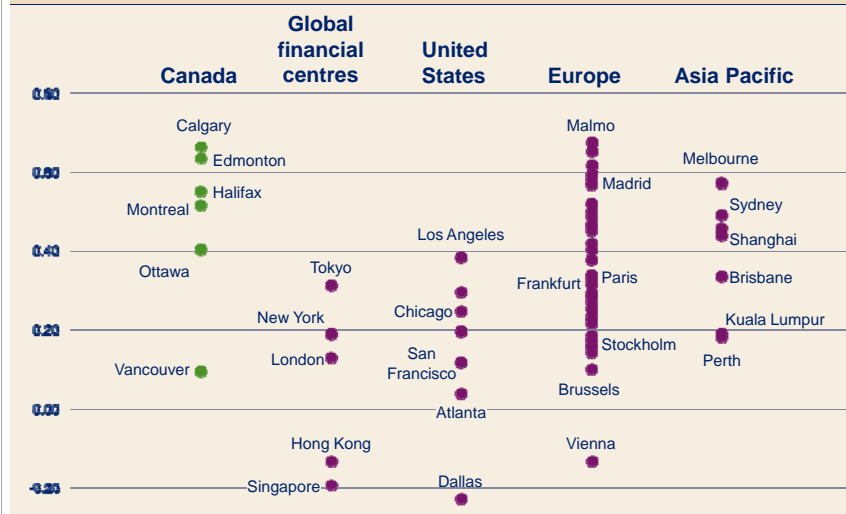


Source: IPD (2011 results); Aberdeen Asset Management forecasts, Mar 12. All property refers to retail, office and industrial property. Forecasts are prepared based upon our views for the economic outlook, interest rates, as well as projections for new development activity sourced from external providers. Forecasts are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially.

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Global diversification benefits: case not proven?

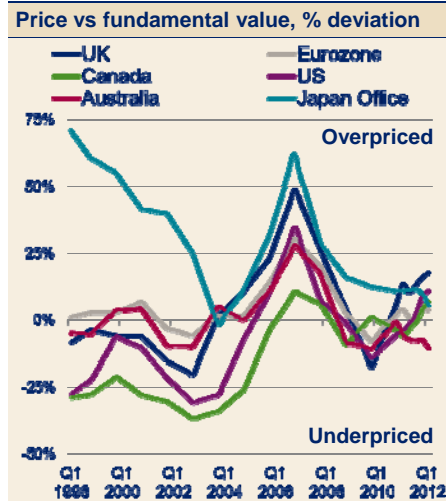
Office market return correlations with Toronto since 1997



Note: Correlation coefficients between Toronto and other markets for Grade A offices Q4 1997 to Q4 2010
 Source: Aberdeen Asset Management, May 2012
 Past performance is not a guide to the future

Investment management: focusing on risk

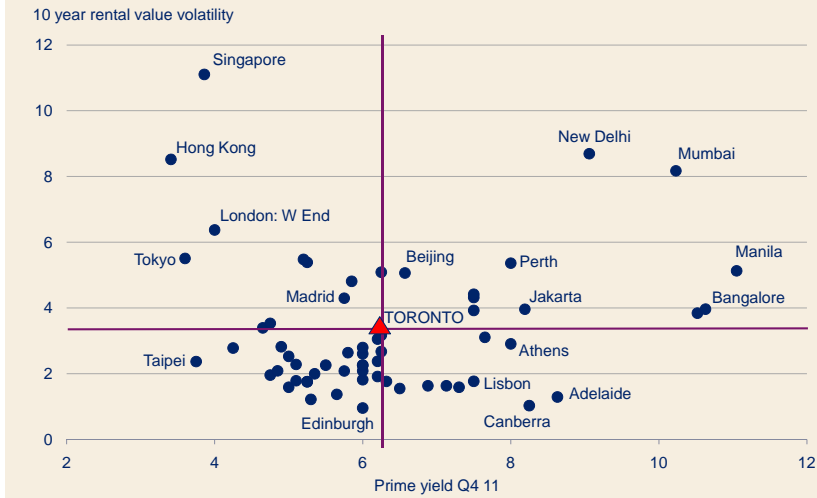
- Identify market mispricings
 - Leading indicators
- Identify market momentum
 - Short term forecasts
 - Business surveys
 - "On the ground" evidence
- Match strategy to risk tolerance
 - Agree appropriate risk profile
 - Set control limits
 - Recognize market characteristics



Note: Indicates the difference between the current market prices and the fundamental value of property (what investors should pay for a portfolio of assets). Calculation is based upon a number of assumptions, including expected income streams, which are subject to change
 Source: Aberdeen Asset Management, Apr 12

Is there such a thing as a safe haven?

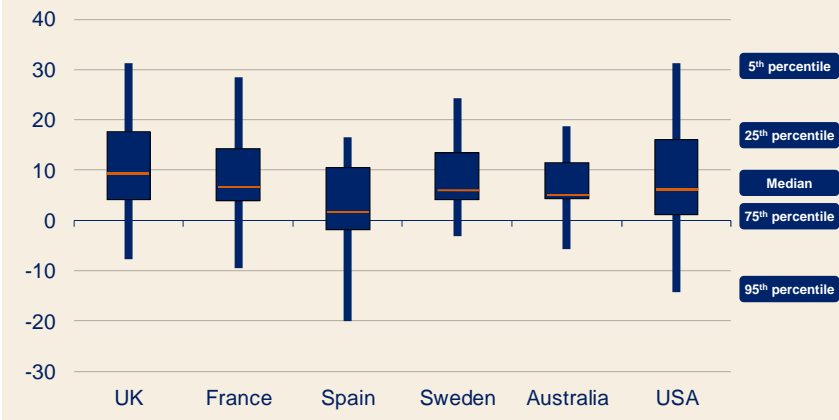
Office sector rental value volatility and pricing (%)



Source: Aberdeen Asset Management, May 12
 Note: Rental value volatility is the std. deviation of quarterly growth rates for the 10 years to Q4 11

Ultimately, good stock selection is critical in every market

Range of asset total returns 2010 (%)



Source: Aberdeen Asset Management: IPD, Dec 11
 Past performance is not a guide to the future

Conclusions: steering through the storm

- Continuing turmoil means recovery of western markets will be slow and patchy
- Flight to core and niche strategies is bringing new risks and opportunities
- Domestic and global solutions can both be viable



Strategic themes

- Focus on mature, transparent markets
- Many regional markets offer better value than “gateway” and capital cities
- Retail property is often better value than offices
- Focus on income growth
- Protect against capital losses
- Use debt selectively

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Thank you

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