

16TH ASEAN VALUERS PRE-CONGRESS

**INVESTMENT VALUATION
IN A TIME OF
GLOBAL FINANCIAL CRISIS**

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1. INTRODUCTION

Greetings to the Guest of Honour, Chairperson, Mr Thoa (MOF), Delegates and Distinguished Guests.

I wish to thank the Vietnam Ministry of Finance and the ASEAN Valuers Association for the invitation to present this paper today.

The 16th AVA Pre-Congress meeting is a timely meeting from a global perspective. We are in a season of volatility in the marketplace as a result of global banking issues and international recessionary pressures. This presents a significant challenge for Valuers around the world.

The valuation profession in the ASEAN region is now facing this global financial crisis and must continue to strive to provide best valuation practice consistent with globally accepted standards in this time of change. The objective of this paper is to consider valuation for investment purposes under the pressure of the global financial crisis. In particular, to consider what has changed in terms of measuring profit and risk so that appropriate yields and discount rates can be applied to valuations across the ASEAN region.

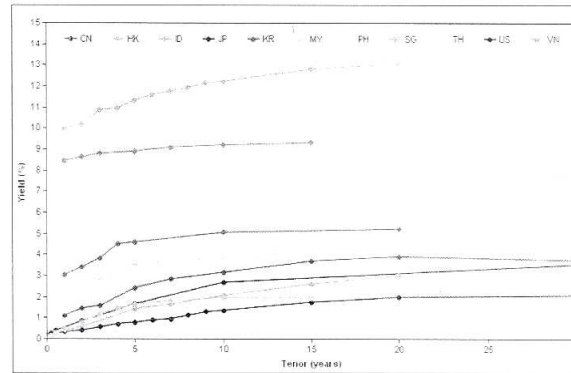
2. BACKGROUND TO THE CRISIS

The international media have reported extensively on the cause and consequences of the global financial crisis and the background is now widely understood. In simple terms, it may be possible to summarise the initial cause of the global financial crisis by saying that the demand to purchase real estate led to finance lending practices that were over exposed to the property market cycle. This then led in to a series of complicated issues within the global market economies which has resulted in the collapse of numerous banking and other corporate entities, reduced liquidity, and created global recessionary pressures.

3. IMPACT ON VALUATION

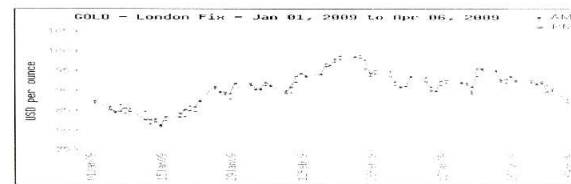
The impact on undertaking valuations in emerging markets has been significant, particularly in determining appropriate yields and discount rates. Historically, other forms of investment were considered to get an appreciation of the relationship between profit and risk. This included returns from Government Bonds, the stock market, foreign exchange, and commodities such as gold. However, all of these forms of investment have been affected by the global financial crisis and most have decreased dramatically. The following tables highlight some of these returns.

BENCHMARK DAILY GOVERNMENT BOND YIELDS



Source: AsianBondsOnline - April 8, 2009

GOLD 2009



Source: KITCO - April 8, 2009

Consequently, as traditional reference data for other forms of investment has become less relevant to the current ASEAN property market, it is now necessary for Valuers practicing in emerging markets to undertake a wider, and more detailed, analysis of sales information to determine appropriate yields and discount rates. However, the volume of property sales information available to Valuers is currently considerably less than previous years.

Sales volume worldwide, whether measured by money invested or number of properties traded, fell nearly 60% in 2008 over 2007.

Source: Real Capital Analytics – Global Capital Trends February 2009

2008 ANNUAL SALES VOLUMES BY REGION

Region	US\$ Bil	YOY % Change	No. of Properties	YOY % Change
Australia - NZ	8.6	-78%	262	-64%
United States	131.8	-74%	5,629	-64%
United Kingdom	47.2	-58%	1,242	-55%
East Asia	76.1	-44%	1,212	-31%
South East Asia	15.6	-37%	254	-13%

Source: Real Capital Analytics – Global Capital Trends February 2009

4. INVESTMENT VALUATION

Investment properties can generally be grouped in to three categories:

1. Properties held as investments for their performance as an asset for generating income and/or capital gains;
2. Properties which are in the course of development;
3. Properties held for future development.

To assess the value of the investment property in the ASEAN region the Valuer would in most cases use the Capitalisation (Income) Method for properties that generate an income, and the Discounted Cash Flow method for properties that are in the course of development. For properties that are being held for future development it may be possible to use the Direct (Sales) Comparison approach if sufficient, reliable sales information is available, otherwise it would be necessary to use the Discounted Cash Flow method.

It is important to advise the investor that when using the Discounted Cash Flow method it is possible to value the Entity by taking in to consideration finance and taxation issues, or it is possible to provide the market value by excluding finance and taxation issues.

Investors may require a range of advice including the Internal Rate of Return, the Return on Equity and the Net Present Value. It is prudent valuation practice to provide the investor with a Sensitivity Analysis showing the impact on the Internal Rate of Return of variables such as sale prices, rental levels, occupancy rates and construction costs.

Savills Vietnam takes a global view of yields and discount rates when undertaking investment valuations because in many cases the profile of clients which are interested in property investment in the ASEAN region will also be comparing the investment risk and return to countries not in the ASEAN region. Global yields and discount rates will be compared to domestic yields and discount rates.

5. APPROACH TO ANALYSING GLOBAL YIELDS

Older established economies generally have mature property markets. In other countries, including some of the ASEAN nations, the property markets are still in their infancy. Therefore, in some countries sales information is often not available or is not reliable. In this circumstance the Valuer may need to consider sales evidence from other countries.

To make an accurate assessment of the yield to be adopted in the valuation report a wide range of factors must be considered when analysing international sales evidence and comparing that evidence internationally. Country and property specific data that should be considered includes the following:

Comparable Evidence – including location, type, age, condition	Land Tenure – freehold vs leasehold
Special Features – including views, heritage, site goodwill	Town Planning Laws – well developed or developing
Tenancy Mix	Inflation
Lease Structure	Currency Stability
Capital Growth Potential	Political Stability
Infrastructure	Country Risk Rating

EXAMPLES OF INTERNATIONAL SALES EVIDENCE

COUNTRY	CITY	PROPERTY TYPE	LAND TENURE	DATE	PRICE (MIL.)	YIELD	COMMENT
Vietnam	Hai Phong	Shopping Centre	Leasehold ▪ 67 years	December 2008	US\$23.90	N/A	▪ 6-level building ▪ 96% occupancy
Thailand	Bangkok	Shopping Centre	Leasehold	December 2008	US\$434	N/A	▪ 8-level building ▪ 100% occupancy
Malaysia	Kuala Lumpur	Office Building	Freehold	January 2009	US\$20	10.00%	▪ 9 floors of a 13-level building
Philippines	Cebu	Mixed use	N/A	February 2009	US\$32.3	N/A	▪ Development Site
Singapore	Singapore	Office Building	N/A	March 2009	US\$10.7	N/A	1-level of a multi level building Previous sale US\$9.5m, 2006
Australia	Sydney	Office & Retail Building	Freehold	December 2008	US\$67.2	7.00%	▪ 8-level building ▪ 100% occupancy ▪ CBD location
Australia	Sydney	Office Building	Freehold	February 2009	US\$8.6	10.70%	▪ 7-level building ▪ 100% occupancy ▪ CBD location
England	London	Office Building	Freehold	January 2009	US\$154	7.75%	▪ 11-level building ▪ CBD location
England	London	Office Building	Freehold	February 2009	US\$110	9.50%	▪ 9-level building ▪ CBD location

6. CONCLUSION

Cross border property investment, and globalisation of companies, has established the need for consistent standards under which the valuation profession should operate. The reason for having a set of standards for Valuers comes from a demand from investors for valuation reports which are consistent with international standards and a quality that can be relied upon as a common benchmark.

The ASEAN Valuers Association is in a position to offer all ASEAN Valuers a common approach to investment valuation reports that can give the end users of the valuations confidence in locally produced valuation reports that are of an international standard in a time of global financial crisis.

Thank you.