

India the new hotspot for world's real estate investors

BY ANDY MUKHERJEE

Smart money may have found a new home in India's underdeveloped property market. PricewaterhouseCoopers LLP recently estimated that as much as \$8 billion US of private equity will flow into Indian real estate funds over the next 18 to 30 months.

Real estate funds are still new to the country; the nation's securities regulator allowed them in April 2004.

Investors are flocking to them because these could be a more rewarding vehicle to bet on India's computer software and back-office businesses than owning pricey stocks. Morgan Stanley Capital International's India information technology index has quadrupled in a little more than 2½ years.

In the past few years, software and call-center companies have underpinned demand for commercial property in India.

The entire country has a little more than 70-million-square feet of A-grade office space, less than Shanghai and Beijing put together. Technology services account for as much as 85 per cent of India's office space demand, says Anshuman Magazine, India managing director of real estate broker CB Richard Ellis Group Inc.

An undersupplied market means that the net yield on office property in India is 11 per cent, says London-based brokerage Knight Frank LLP. That yield is among the highest in Asia.

Add to that a 20-per-cent to 40-per-cent price appreciation in the past 15 months, and office space in Mumbai, New Delhi and Bangalore starts to look like a very attractive asset class.

Supply is expanding, though demand is rising at a faster pace. By 2010, technology-related work that will get "off-shored" from developed countries to India may jump more than fourfold to \$60 billion, according to consulting firm McKinsey & Co.

It's reasonable to expect that in the next year or two, the government in New Delhi will allow overseas retailers such as Wal-Mart Stores Inc. and Carrefour SA to enter the Indian market. As supermarkets and shopping malls jostle for a slice of the country's total non-residential property stock, office space will get scarcer and more expensive.

The Indian property market may get a further boost when the regulator allows real estate investment trusts, or REITs.

A committee set up by the Securities and Exchange Board of India, or Sebi, has recommended that REITs should be allowed to be set up as mutual funds. While that suggestion is still under consideration, Sebi has allowed high net-worth individuals — both local and foreign — to participate in the market through the private equity route.

The HDFC India Real Estate Fund, which in July 2005 gave local investors their first chance to own multiple properties with a single investment, was open to individuals with at least 50 million rupees (\$1.1 million US) to spare. The seven-year, close-ended fund, jointly offered by Housing Development Finance Corp., India's No. 1 mortgage financier, and State Bank of India, the country's largest commercial lender, will allocate as much as 45 per cent of its \$230 million kitty to office space for technology companies, which will require 66 million square feet in the next five years.

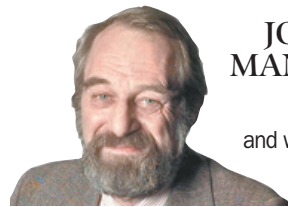
Overseas money, too, has begun trickling in. In June 2005, GE Commercial Finance Real Estate, a unit of General Electric Co., announced a \$63-million investment in a private-equity fund sponsored by Singapore-based commercial and industrial developer, Ascendas Pte. The fund will, over a period of seven years, acquire and develop office space worth \$500 million for computer software and back-office companies across India.

Ascendas, too, has experience in the Indian property market. It's the leading partner in the consortium that was formed in 1994 to build the 1.9-million-square-foot International Tech Park in Bangalore, where tenants include Lucent Technologies Inc., International Business Machines Corp. and SAP AG.

India has understood that big-ticket foreign investment in real estate will follow internationally established developers. In February last year, the government significantly relaxed investment norms for overseas developers.

"Foreign investment," says Magazine of CB Richard Ellis, "will change the face of the Indian real estate industry."

Bloomberg



JONATHAN MANTHORPE

is on vacation, and will return to this page Jan. 23.



SHOE WARS

CHINA IN FOCUS: A Chinese shoe vendor waits for customers at a Beijing market Friday. European Union governments have refused to recognize that 13 Chinese shoemakers operate in market economy conditions, a move that will make it more difficult for them to prove that they are not selling footwear below cost. The EU is investigating claims that imports of below-cost shoes from China and Vietnam are undercutting European shoemakers, and may introduce extra charges on imports.

ASSOCIATED PRESS

Hedge fund benefits from being on the spot in China

BY DARREN BOEY and ZHANG SHIDONG

INVESTING | When Greenwood's Asset Management's George Jiang set up his China hedge fund in July 2004, he joined 25 other funds focused on the world's most populous nation. Now, he's the top performer.

The \$44-million US Golden China Fund gained 32 per cent in 2005, the biggest advance among China-focused hedge funds. Jiang's fund has almost quadrupled in value since its inception in July 2004, helped by companies such as Weichai Power Co. Shanghai-based Jiang, 38, never buys shares of a company he or his five analysts haven't visited personally.

"You live in China and you consume in China, which gives you an edge on the knowledge of what industries are good and the economic scenario here," Jiang said in an interview last month. "You respond to these things more quickly." Only five China-focused hedge funds are based in the country.

The amount of money managed by the funds located both inside and outside the mainland has grown more than eightfold in the past five years to about \$1.5 billion. The number has grown to 38 from three in the same period, according to Singapore-based consulting firm EurekaHedge. The amount is 1.9 per cent of the \$80 billion held by Asia Pacific hedge funds, EurekaHedge says.

China's fund-management industry has grown rapidly as well. It was valued at 330 billion yuan (\$41 billion US) at the end of 2004, according to *Securities Times*, a publication run by the government-owned *People's Daily*. The comparable figure in 1999 was 57.7 billion yuan.

China's mainland now has 52 fund-management companies, including 20 joint ventures. They have raised a total of 500.8 billion yuan, according to statistics from the China Securities Reg-



QILAI SHEN/BLOOMBERG NEWS

Greenwood's Asset Management president George Jiang in his office in Shanghai's Pudong district.

ulatory Commission.

Money managers are lured to China by an economy that has grown at an annual rate of more than nine per cent for nine straight quarters and by government measures to expand the amount of money that foreign institutions can invest in the nation's \$337 billion stock markets.

Golden China's performance beat the Hang Seng China Enterprises Index, which tracks 40 Hong Kong-listed shares of mainland companies, so-called H shares. It gained 12 per cent last year.

The Shanghai Composite Index, which tracks the bigger of China's two stock markets, lost 8.3 per cent in 2005 amid mismanagement scandals at brokerages and at companies such as Guangdong Kelon Electrical Holdings Co., the biggest refrigerator maker.

Bloomberg

The government started a program last year to convert more than \$200 billion of non-tradable, mostly state-held holdings into shares that can be bought and sold on exchanges. China's stock markets slumped to five-year lows last year in part because investors were concerned about possible share dilution.

"It's not easy to make money in China," said Cathy Chang, who helps manage \$5 billion of Asian assets at ABN Amro Asset Management (Asia) Ltd. in Hong Kong. "You really need local capabilities. You always feel like you can't see what's happening there very clearly."

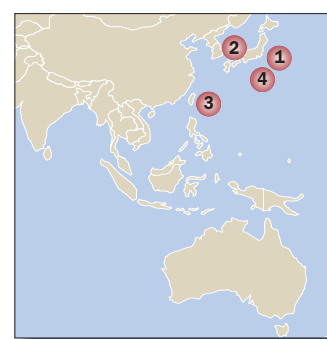
Local knowledge may have given Jiang the edge over his international rivals. Golden China has posted gains more than four times those of its nearest competitor, GAM Holding AG's GAM Multi-China fund, run by London-based Kier Boley. Boley's fund gained 6.9 per cent last year.

Jiang and his five analysts make an average of 100 company visits each year. This approach has led to investments in the foreign-currency shares, known as Class B shares, of Yantai Changyu Pioneer Wine Co., and in Jiangsu Expressway Co.'s stock.

Golden China in March and April sold shares of Shandong province-based Weichai Power, which makes diesel engines for trucks, for about double what it paid. The shares have dropped 48 per cent since peaking on April 8.

The B shares of Shandong province-based Changyu Wine, China's biggest wine producer, surged 73 per cent last year. Jiangsu province-based Jiangsu Expressway, the biggest Hong Kong-listed Chinese toll-road operator by value, rose 28 per cent.

Jiang is also prepared to take short positions on a stock, allowing him to profit from its decline by selling shares he doesn't yet own.



ASIA IN BRIEF

JAPANESE FIRMS EYE SANDS

1 Japanese energy companies are contemplating investment in Alberta's oil sands, or buying crude from existing projects, according to the country's Calgary consulate. A delegation of government officials and energy firms are touring Alberta this week, spending a day in Edmonton and three days in Calgary, where they will meet with Canadian energy and pipeline firms. They will not visit Fort McMurray in the north, in the heart of the oilsands industry. The delegation includes representatives from Japan's natural resources ministry, and executives from Cosmo Oil Co. Ltd., Idemitsu Kosan Co. Ltd., Nippon Oil Corp., Japan Energy Corp., Mitsubishi Co. Ltd. and Mitsui Co. Ltd. Japanese companies have been hesitant to look at Canada as a new source of supply because of the Japan's long-term relationship with Middle Eastern oil producers.

KOREA EASES BEEF BAN

2 South Korea has agreed to resume imports of some American beef, banned two years ago over fears of mad cow disease, the government said. South Korea will start importing U.S. meat from calves under 30 months old by the end of March, the government said in a statement. But the agreement excludes the import of beef ribs, a key U.S. demand in negotiations, South Korea said. Beef ribs accounted for more than 60 per cent of American beef shipments here before the ban. South Korea shut its doors to U.S. beef imports in December 2003 after the first U.S. case of mad cow disease. At the time, it was the third-largest foreign market for American beef, after Japan and Mexico.

GREEN PIGS CAN'T FLY

3 Pigs may not be able to fly just yet, but at least three of them glow. Taiwanese researchers say they have bred the pigs with a fluorescent material in a move they hope will benefit the island's stem cell research effort. The fluorescent pigs are green from inside out, including their hearts and internal organs, said Wu Shinn-Chih, assistant professor of animal science at the prestigious National Taiwan University. From the outside, the pigs appear to be bathed in a light green tint, particularly their eyes, mouths and knuckles. Wu said the pigs are bred by injecting their embryos with fluorescent green protein taken from jelly fish. When researching tissue samples, fluorescent cells would show up during stem cell treatment of diseased organs, allowing physicians to monitor the healing progress.

DEFLATION ALMOST OVER

4 Japanese Finance Minister Sadakazu Tanigaki says his government may not object to a change in the Bank of Japan's zero-rate policy as more than seven years of deflation come to an end. "There are various price indicators the Bank of Japan needs to examine carefully to make the policy decision," Tanigaki said in an interview in Washington. "We are of course not assuming at this point in the situation that we would need to object" to a change in policy. Tanigaki repeated that he hopes deflation in Japan will end in 2006. Sustained gains in consumer prices would allow Bank of Japan Governor Toshihiko Fukui to reduce the amount of money the bank pumps into the world's second-largest economy, a precursor to raising interest rates from zero. Tanigaki said he wasn't sure when the policy might change. An increase in interest rates might raise the yield on government bonds, increasing the costs of servicing Japan's national debt, which is the highest in the industrialized world at about 150 per cent of gross domestic product.

Long road ahead to clean up China's environmental problems

From EI

ing to see the regulations being enforced."

China has been trying to promote a greener image in recent years and has ramped up its efforts ahead of the 2008 Olympic Games in Beijing, which has adopted a "Green Olympics" theme.

But the Chinese government came under fire in November after a massive toxic benzene spill from a chemical plant in the northern part of the country contaminated the Songhua River, affecting the water supply of millions of people and threatening neighboring Russia. Authorities were accused of trying

to hide the disaster.

Another large spill occurred earlier this month, polluting the water in Hunan province with cadmium. And a third major spill days later spread diesel into a tributary of the Yellow River.

Chinese officials have estimated that 70 per cent of the country's lakes and waterways are polluted, and some 350 million people lack safe drinking water, according to a report from the *New York Times*.

Marchant acknowledged that his experience in China was limited to the operations in Jiangxi province, but he said Beijing appears serious about cleaning up industrial waste. The country has already shut down

several major polluters, he said. "That tells me they not only have the regulations in place, but they also have the enforcement in place."

Marchant added, however, it will take some time for the country to reach its objectives.

"It's a tough problem because it's a big country," he said. "There's a lot of water to treat, so you can't do it overnight. People maybe have unrealistic expectations about what they can and can't do."

Joe Zhao, CEO of Vancouver-based waste water treatment company Tri-Y Technologies Inc., said concern over environmental protection in China has grown in the last five to six years, as living stan-

dards improve and the government has more money to invest in green projects.

Beijing is expected to spend at least \$6 billion US on the construction of waste water treatment facilities in the next few years, Zhao said. By 2010, it plans to build some 500 municipal waste water treatment plants. That, Zhao said, is a good sign for environmental technology companies like his own, which conducts 30 to 40 per cent of its business with China. "I think the market is huge."

In another encouraging sign for homegrown environmental firms looking to branch into China, President Hu Jintao urged for more cooperation with Canada on the issue of

environmental protection during his trip here last year, said Yuen Pau Woo, president and CEO of the Asia Pacific Foundation.

"Canada has expertise in environmental protection that the Chinese must tap into," Woo said.

The demand for Canadian environmental specialists will not be short-lived, either, Woo predicted. Currently, China needs experts to identify, test and document environmental problems, as well as to provide equipment, conduct cleanup operations, and train public policy officials. Later on, the country will also have a growing need for recycling technologies and consumer environmental products

to improve the quality of water and air in people's homes.

"Environmental protection is an industry that has multiple phases and Canada has expertise in all of the phases," Woo said.

"As [Chinese] consumers get richer, they will look for more exotic and sophisticated products," he added.

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