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global

PERSPECTIVES IN REAL ESTATE

Asia Pacific Economy & Property Market

Sailing Ahead with Strong Tailwinds

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A Vibrant Regional Economy…

The world economy continues to expand at a healthy rate, with 2007 growth forecasts ranging from 3.4 to 4.9 percent. A major contribution to this growth will come from the Asia Pacific region, led by China, India and a resurgent Japan. In China, real GDP should grow by about 10 percent this year as a pick up in consumer demand will help offset a slowdown in investment and export growth. Weaker exports from China should see a moderation in Hong Kong economic growth. The Indian economy is expected to remain on its growth trajectory but at a slower rate, as consumer demand is likely to retreat from its rapid pace in 2006.

Growth in North Asia is likely to accelerate, as continued expansion in Japan will compensate for a slowdown in Korea. In Japan, a tightening labor market and rising household income should firm the upward trend in private consumption. In Korea, a slowdown in external demand will coincide with weaker investment growth and private consumption. The near-term outlook for growth in South East Asia remains positive. Strong intra-regional trade should help offset softer global demand for exports. The Singapore economy is likely to grow more moderately but continue to benefit from solid consumer and business sentiment.

The Australian economy should continue to expand at a healthy rate this year on the back of strong global growth and high commodity prices. Rising terms of trade have boosted demand for the Australian currency, which is now running at historically high levels against the U.S. dollar.

… Generating Strong Demand for Commercial Property

Robust economic growth is driving demand for office space. The bulk of recent office leasing transactions have been those in FIREBUS—finance, insurance, real estate and business support services. Demand from banking and fund management firms is particularly strong in the financial centers of Hong Kong, Singapore, Sydney and Tokyo, resulting in some markets posting the best rents in 20 years.

Rents are likely to stay buoyant with new supply low in the short term, encouraging some companies to move their noncore operations to more affordable locations, particularly in Hong Kong and Singapore. This in turn has spurred leasing activity in the industrial sector. Strong exports from Japan, Korea, China and many of the South East Asian nations have also contributed to a revival in this segment of the market, particularly for high-tech space and logistics centers. Low unemployment and rising wages have benefited the booming retail sector. The growing middle classes in China and India are also supporting the development of more shopping malls that will require professional management.

Some Downside Risks…

These include a deeper-than-projected downturn in the U.S. property market, as illustrated by rising stress in the sub-prime sector of the mortgage market. Difficulties in

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By Thomas Wight, HiFX Intelligent Currency Services

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More and more people are buying real estate internationally, a significant investment that, for many of your clients, may be the first time they will buy large amounts of foreign currency. As a result, most will be unaware of the impact fluctuating exchange rates can have on the final cost of their purchase. What guidance should you give your clients to help them protect from currency risk?

Let's assume, for example, that your U.S. clients are purchasing a three-bedroom property in the South of France for €250,000. At the beginning of October 2006, the property would have cost $312,075. By early December, however because of a weakening U.S. dollar, that same property would have cost $334,200—an increase of $22,125, or 7.28 percent, in just two months.

In addition, using a personal bank to transfer funds can cost an additional one to three percent because of poor exchange rates and bank fees. History shows that currencies can fluctuate as much as four percent a month. There is no way to forecast this inevitable volatility with absolute certainty. So, international buyers are frequently at risk.

What advice should you give your clients?

1. Shop around.
When it comes to transferring funds, currency specialists typically provide much better exchange rates than banks, resulting in a tangible savings of a few hundred, or even a few thousand dollars. In addition to providing better exchange rates, currency specialists can talk your clients through the various currency strategies available to them in order to make the overseas payment process as easy as possible.

2. Know your options.
One factor for your clients to consider is whether they have access to all or part of the required funds at the outset. If they have full funds available they have two choices: one high-risk, and one risk-free.

- The high-risk choice would be to wait to buy the foreign currency until each payment is required. The inevitable currency fluctuations in the market mean that your clients will have no idea what the property is going to cost because they will receive a different exchange rate every time they transact, and the final cost could be far higher than originally expected.

- The risk-free solution would be to buy all of the foreign currency with a "spot" transaction, thus fixing the cost of the property today. The purchased currency can be deposited in an overseas account, earning interest. Payments can be sent to the developer or agent as needed. This solution protects clients from adverse movements in exchange rates, fixing the exact cost of the property.

Play it safe with a "forward" contract

What if your clients want to play it safe but do not have all of the money right now? They can still protect themselves from currency risk by purchasing currency with a forward contract.

A forward contract allows clients to lock in a rate of exchange until some point in the future without requiring full payment initially. It allows clients to secure a rate for up to two years in advance with only a 10 percent deposit up front. The 90 percent balance is not due until the full amount of purchased currency is transferred at the end of the contract period. With a forward contract your client can buy the currency now and pay for it later. If the exchange rate moves at all during the contract period your client will not be affected.

Choose the right currency partner

Your clients will have many things to consider when choosing a currency specialist. Here are some of the questions they should ask:

- Are there any fees associated with the currency services the company offers?
- Does the company offer highly competitive exchange rates?
- Will the company have a trusted brand name in the industry?
- Does the company offer the right basket of currency services for the client's situation?

Encourage your clients to speak with a currency specialist. Save them time and money on their currency transfers, by giving them access to an expert who will help them make well-informed decisions.

Tom Wight, a Business Development Consultant for HiFX, wrote this article. If you have a specific currency related question or would like more information about the services provided by HiFX, go to **www.HiFX.com**.

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