RELATIONSHIPS BETWEEN THE FINANCIAL AND PROPERTY MARKETS IN THE ASIA-PACIFIC AREA

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ABSTRACT

This paper initially reviews literature in relation to global capital flows, financial markets and real estate investment in the Asia-Pacific area. The Asian crisis is discussed in terms of the financial sector and debt financed real estate. Focus is placed upon the reorganisation of financial markets, the restructuring of bank finance and the impact of non-performing loans. Thailand in general and more specifically, the property market in Bangkok is used as a case study example to analyse these linkages. It is argued that a combination of weak regulatory framework in the financial sector and severe deficiencies in the planning/development process resulted in a highly over-supplied office market. The paper concludes that a more liquid property market needs to be created.

Keywords: Financial markets, property markets, Asian crisis, Thailand

INTRODUCTION

Asia-Pacific was, until mid 1997, one of the most dynamic parts of the global economy. The dynamics of the region within the evolving global system was based on emerging economic structures, an extensive trading market, new political and social patterns and a measure of social coherence (Preston, 1999). The effects of globalisation were apparent in many capacities, but most notably in the high levels of investment and rapidly growing cities and urban areas. In this respect, flows of FDI trebled from $20bn in 1990 to $65bn in 1995. However, crisis in the currency markets throughout the region in 1997-98 has had major implications for economic growth, particularly in the emergent markets and on real estate investment and development prospects in the short to medium term. A key factor in this process was the speculative development and investment into real estate, dollar financed but without provision for hedging US dollar exposures.

Within the rapidly changing political and economic climate of the Asia-Pacific area, the inter-relationships between financial markets and property is a fundamental consideration. The paper initially addresses these issues in a globalisation context, with specific reference to the Asia-Pacific area. This is supported by a case study of Thailand, with the property market in Bangkok used to test these relationships. The analysis draws upon primary research with key market players in Bangkok and is supported by secondary data sources.

GLOBALISATION: A REVIEW OF FINANCIAL AND PROPERTY MARKETS

The last two decades of the twentieth century have witnessed fundamental changes in the world economy, with globalisation making economic activity and technological developments increasingly complex, interconnected and mobile (Dicken, 1992). Castells (1993) describes the global economy as one that works as a unit in real time at a planetary scale, and where capital flows, labour markets, raw materials, management and organisation are internationalised and fully interdependent.

Likewise, Petrella (1996) documents the components of globalisation as the integration of financial markets; the internationalisation of corporate strategies in generating wealth creation; the diffusion of technology, R&D and knowledge world-wide; the transformation of consumer patterns into cultural products with world wide consumer markets; the internationalisation of regulatory capabilities of national societies into global political and economic systems; and the diminishing role of national governments in designing the rules for global governance. The emergence of global markets for finance and specialised services, and the growth in international investment transactions have contributed to the expansion of transnational corporations and promoted the growth of foreign direct investment.

The free flow of capital funds can have both favourable and unfavourable impacts (Ratcliffe, 1998). Economic take-off can occur more rapidly, risks can be spread more widely, large-scale projects can be implemented, and expertise and accountability heightened. On the downside, there can be a loss of control over trade regulations, capital movements and economic self-determination. The occurrence of capital flows from one country to another depends on the health of the economy, not only in the country targeted for investment, but more importantly at the source of the capital. During times of slow economic growth or periods of uncertainty, investors will be reluctant to take risks and will prefer to allocate resources towards preserving stability at home, whereas during times of strong economic growth, investors will be more likely to expand their investment horizons and explore new markets. In Asia-Pacific, the financial crisis of 1997-98 dramatically reduced economic growth prospects and led to declining asset values across the region.

The challenge of globalisation is the development of competitive strategies. The degree to which city regions can successfully compete and the organisational basis of the competition is dependent on factors that include city size, localisation economies based on competition between cities, urbanisation economies such as the provision of infrastructure, development and investment opportunity, flexible planning regimes and the quality and availability of specialist labour (Budd, 1998). The significance of localisation and urbanisation economies implies some level of inter-urban competition in activating markets and encouraging the development of activities to enhance property value, the tax base, the circulation of revenue and employment growth.

Within this debate, the locational characteristics offered by urban areas are becoming increasingly important with regard to the competition for development, investment and employment opportunity. In such circumstances the institutional, regulatory, physical and infrastructural framework offered by urban localities determines the success or otherwise in attracting the free movement of capital (Berry and McGreal, 1995). The degree of regulation provides but one element in defining property market maturity (Berry and McGreal, 1999). Keogh and D'Arcy (1994) and D'Arcy and Keogh (1997) in taking this theme forward, proposed a property market maturity paradigm as the ability of cities to accommodate a full range of use and investment objectives and to tailor property rights to specific individual requirements.

Several authors have advocated the potential advantages of pursuing a global property investment strategy (Sweeney, 1993; Worzala, 1994; Newell and Worzala, 1995; Geurts and Jaffe, 1996). Removal of barriers to capital flow, increasing information, IT developments and liberalism in financial markets have made it easier and more attractive to diversify internationally, with global investment strategies frequently seeking to target countries in different phases of the economic cycle. Institutional and corporate buying of property and the wish to diversify portfolio structure has led investors to target opportunities internationally, particularly city locations and specific market sectors which are at different phases of the cycle. Ball et al (1998) in reviewing the merits and risks involved in cross-border investment in commercial property markets conclude that in spite of many difficulties, the size of commercial property markets make it likely that further growth will occur in international investment. They see the process as having been facilitated by differing mechanisms, including direct foreign investment in property markets, indirect investment in public-traded vehicles, the funding and financing of property projects, and purchase of securitised debt.

The increase in cross-border cash flows that inevitably occurs as a consequence of globalisation gives rise to a demand for foreign exchange, intensifying the competition between international financial institutions, which in turn amplifies the pressure for the deregulation of markets. Such effects have contributed to a large degree to the Asian financial crisis. As a consequence of the crisis and the resultant IMF bail-out packages, many states are restructuring their international policies on trade and foreign investment (Short and Kim, 1999). The conditions attached to the 1998 IMF rescue packages for Indonesia, South Korea and Thailand require the opening of their economies to international capital and competition, with restrictions on foreign ownership reduced. In South Korea, for example, foreign banks are allowed to establish subsidiaries and brokerage houses with assess to domestic money and corporate bond markets (Dixon, 1999).

The message from Asian-Pacific cities is that globalisation effects through investment flows and the demand created can have beneficial outcomes in terms of development activity, increasing employment levels, rising GDP, growth in consumerism and the development of service sector based economies. The downside however can be sharp, particularly where property investment/development has been achieved through high levels of debt, where there has been a lack of regulation leading to over-supply and where there is a close inter-linkage between a debt-financed property market and the macro-economy. The relationships between these issues are developed more fully in the following sections of the paper.

THE ASIAN CRISIS

"The East Asian financial crisis is remarkable in several ways. The crisis hit the most rapidly growing economies in the world, and prompted the largest bailouts in history. It is the sharpest financial crisis to hit the developing world since the 1982 debt crisis. It is the least anticipated financial crisis in years" (Radelet and Sachs, 1998). Whether the crisis was a credit panic, associated with a scramble for liquidity or was associated with more fundamental structural flaws, including problems with asset prices and resource allocation underlying the Asian miracle, is yet unanswered.

However, it is apparent that the roots of the crisis differed between countries and groups of countries. For Thailand, the Philippines and Malaysia, real estate was the key, whereas in Korea, overproduction was the central factor. The *ex post* explanations of the crisis of 1997 wrought fundamental disagreement between the International Monetary Fund (IMF) and the World Bank and their respective prescriptions for resolving and avoiding a repeat of the crisis. These differences of opinion could not disguise the principal components of the crisis; namely over-accumulation financed through foreign low cost capital loans tied to fixed exchange rates, speculative property ventures and weak financial architecture. The 20-20 hindsight of financial market participants and analysts suggests more prosaically that Asian governments attempted to control both price and exchange rate stability objectives simultaneously.

The World Bank (1999) summarised the key elements of the crisis under three main considerations. Firstly, short-term financing of large current account deficits made the east Asian economies vulnerable to any volatile change. Secondly, the growth of domestic financial markets and their integration with world markets was beyond the regulatory capacity of the domestic authorities. Mismatches between assets and liabilities and the maturities of assets were compounded by large foreign borrowing positions that were not hedged, exposing banks to currency fluctuations. Thirdly, heavy bank borrowing by the corporate sector, in the absence of alternatives, increased vulnerability to rapid interest rate changes and produced highly leveraged positions. The structural problems associated with rapid growth, urbanisation and industrialisation meant that the corporate sector relied on long-term investment being financed by short-term debt-capital, with the very conditions for the "Asian miracle" — work ethic, familial support mechanisms and high savings ratios undermined by the growth miracle itself. Furthermore, over-exploitation of local resources resulted in environmental damage. In summary the crisis arose out of private sector failure and inadequate state response.

The respective performance of the economies, and in particular, the strongly negative growth rates for most countries in the Asia-Pacific region during 1998 highlights the extent and depth of the crisis (Table 1). Indeed, four of the five most affected economies of Indonesia (-13.1%), Thailand (-11.8%), Malaysia (-7.4%) and Korea (-6.7%) experienced severe negative rates of GDP at the peak of the crisis, though most of these countries showed significant rates of recovery in 1999 and 2000. The

Phillipines experienced a negative growth of 0.6% in 1998, but subsequent GDP growth has been slow. Taipei and the People's Republic of China weathered the crisis better, with the former dependent on its strong financial architecture, whereas the latter showed less exposure to external regional shocks. Thailand on the other hand was affected earlier, the impact was of longer duration and recovery rates have been more modest than for example, Korea and Malaysia.

Table 1: Growth rate of GDP and (GDP per capita) percent per year

Country	1995	1996	1997	1998	1999	2000	Per capita GNP 1999
Hong Kong , China	3.9 (6.1)	4.5 (1.9)	5.0 (2.1)	-5.3 -(6.5)	3.1 (1.9)	10.5 (9.2)	$24280
Indonesia	8.2 (6.8	7.8 (5.9)	4.7 (3.1)	-13.1 (-14.4)	0.8 (-0.6)	4.8 (3.2)	$260
Korea	8.9 (7.8)	6.8 (5.7)	5.0 (4.0)	-6.7 (-7.6)	10.9 (9.7)	8.8 (6.3)	$8490
Malaysia	9.8 (6.8)	10.0 (7.5)	7.3 (4.9)	-7.4 (-9.5)	5.8 (3.3)	8.5 (6.0)	$3400
People's Republic, China	10.5 (9.3)	9.6 (8.4)	8.8 (7.7)	7.8 (6.1)	7.1 (6.1)	8.0 (7.0)	$780
Phillipines	4.7 (2.2)	5.8 (3.4)	5.2 (2.9)	-0.6 (-2.7)	3.3 (1.1)	3.9 (1.8)	$1020
Taipei, China	6.4 (5.5)	6.1 (5.3)	6.7 (5.8)	4.6 (3.5)	5.4 (4.3)	6.0 (5.2)	$13310
Thailand	9.3 (8.0)	9.3 (4.8)	-1.4 (-2.2)	-11.8 (-10.8)	4.2 (3.2)	4.2 (3.3)	$1960

Source: Asian Development Bank (2001)

Miller and Luagaram (1998) identify four key issues in terms of the collapse of the Asian miracle, namely external factors and macroeconomic imbalances; net capital inflows; the role of financial mediation; and the behaviour of asset prices. In relation to external factors and macroeconomic imbalances between 1990 and 1996, Korea, Indonesia and Thailand grew by an impressive 8-9% per annum. In Korea, a savings ratio of about 35% by domestic residents allowed rapid capital accumulation, while for Thailand, the savings ratio was about one third of GDP. The main source of macroeconomic management was to peg the exchange rate against the dollar. By 1995, trade competitiveness decreased as the dollar appreciated against the yen, rising by about 50% from mid-1995 to the end of 1997. This was compounded by the poor performance of the regions' largest economy, Japan, and a cyclical downturn in world trade. As a result, export-led growth ended for Korea and Thailand as their current account deficits widened.

The vibrancy and indeed volatility of the region is highlighted by net capital inflows which averaged between 1% and 3% of GDP in the 1980s, rising to 5% for Korea and 10% for Philippines by 1996. Malaysia and Thailand received inflows averaging 9% to 10%, between 1989 and 1995. The major components of the $221bn inflows for 1994-96 was portfolio investment and commercial bank lending, amounting to $129bn in the latter case for the five economies of South Korea, Indonesia, Malaysia, Thailand and the Philippines (Henderson, 1998). However, little insurance was made for a reversal of these inflows, with official foreign currency reserves increasing only by $23bn. The unanticipated reversal of inflows was dramatic in 1996 and 1997. The total inflows of $93bn in 1996 became outflows of $12bn in 1997, of which commercial bank lending inflows of $55.5bn became outflows of $21.3bn (Institute of International Finance, 1998).

The comparative state of capital inflows into the five most affected economies (Indonesia, Thailand, Malaysia, Korea and the Phillipines) emphasises the depth of the crisis, with capital inflows in excess of $100bn in 1996 turned into a capital outflow of $36.4bn in 1998 (Table 2). Arguably, such a dramatic turnaround in net capital flows over a very short period would be difficult to manage for even the most advanced economy with the most optimal financial architecture. The overhang of real estate development and fixed capital investment in industrial building projects, in economies such as Thailand and Korea, point to the integration of real estate and financial markets, through negative feedback of this investment into the financial sector.

Table 2: Net Private Capital Flows to Developing Asia ($bn)

	1996	1997	1998	1999
Five most affected econonomies	108.1	-0.2	-36.4	-3.7
People's Republic, China	50.1	60.0	34.0	34.0
Other Asian economies	18.1	8.1	8.2	9.0

Source: Asian Development Bank (2000)

Clearly, the epicentre of the Asian crisis was the financial sector. Financial firms, particularly banks, displayed an incentive to "gamble for resurrection" in the face of declining net equity, in an environment where moral hazard was encouraged (Miller and Luagaram, 1998), with a growing dependence of the banking sector on property loans. By the end of 1996, financial claims on the private sector were above 100% of GDP in the cases of Korea and Thailand. Indeed, the growing dependence of the banking sector on property lending was an integral part of the crisis. In Thailand, growth of lending to property companies by financial corporations averaged 41% per annum between 1990 and 1995, compared with total lending growth of 33% per annum (Miller and Luagaram, 1998). Similar figures are apparent for Korea, where finance corporations' loan books showed a growth from 15% to 24% for property and a decline from 22% to 15% for manufacturing.

The over-lending hypothesis as a core factor behind the crisis is also persuasive in terms of non-performing loans held by the banks. Exposure to the property sector at around 20% was highest in Indonesia, Thailand and Malaysia - countries that experienced the biggest real estate fluctuations in the 1990s (Berry and McGreal, 1999). Korea had a significantly lower property exposure of around 5%. Furthermore, the banks exposure to bonds and other securities was significant, peaking at 20% in 1995. At the time of the crisis, holding a significant proportion of non-liquid assets and non-performing loans in their asset portfolio undermined the banks ability to manage the financial system. Perhaps more important was the risky relationship between real estate and lending in the region by Japanese banks, hoping to rebuild balance sheets that had been significantly weakened in domestic markets in the early

1990s. For example, Japanese banks accounted for most of the non-performing property loans in Hong Kong. The other mostly unreported factor in the crisis was the use of highly leveraged financial derivative instruments, whose risk magnitude soared as the crisis progressed.

The degree to which the regional economies recover from the crisis is reflected in their position in a hierarchy, rather than abstracted notion of differentiation. Krugman (1994) argued that growth in east Asia was due more to an increase in inputs rather than an increase in the efficient use of those inputs. As such, the Asian economies were "paper tigers" whose growth rates were bound to decline as diminishing returns set in, though the diminishing returns had little relevance for the collapse in growth. The crucial point is that the exogenous source of growth contributed to structural weaknesses that could not be overcome once the crisis started to intensify. The financial weaknesses of the corporate sector were intensified by an inflexible system of management and corporate governance that could not cope with the laws of economic gravity/business cycle. These weaknesses were accentuated by the illiquidity and indivisibility in the property sector, arguably the most favoured investment vehicle at that time.

The crucial issue in the recovery from the crisis is how over-accumulation in property, supported by over-lending of the financial sector, can be managed. As part of the imposed recovery process in East Asia, limits have been imposed on the amount of Tier II capital (supplementary capital) generated and higher risk weights given to the assets to be supported. However, a mixture of collapsing stock markets, weak and less tradable local currencies and excessive non-performing property loans makes rebuilding the financial architecture based on international and transparent standards difficult to achieve. The essential problem for East Asia is that much of the local banks' capital was Tier II. Once the crisis started, the lack of liquidity undermined investment in property, one of the least liquid assets.

In a portfolio asset allocation model like the Capital Asset pricing Model (CAPM), the allocation benchmark is that of a risk-free rate asset, usually Treasury Bills in economies like the US and UK. In the absence of an effective risk-free rate of interest, strong and transparent financial architecture stands as a proxy. The risk adjusted return for property could therefore not be easily assessed in the case of Thailand, resulting in a poor fit between the credit risk of the country's financial environment and the market risk of lending. It is apparent that both the cause and potential long term solution to the effects of the crisis is the integration of property and financial markets. Property is both part of the problem and the solution to financial fragility.

THAILAND CASE STUDY

The effects of regional economic turmoil and the domestic pressures in Thailand provide an interesting case study in the wake of the Asian crisis which brought to an end a decade of unprecedented growth, during which foreign funds poured into the market. The combination of low interest rates and high inflation encouraged massive dollar-financed speculative investment in equities and property, without in most cases any provision for hedging US dollar exposure. When the pegging of the dollar and Thai baht became unstuck, the result was catastrophic for indigenous investors, the local value of their US dollar debt soared and the value of their assets plummeted

(Berry & McGreal, 1999). The event sequence underpinning the crisis spans a three year period starting in March 1995 with the rise of the dollar and culminating in the deep recession of mid 1998 with the down pricing of property markets at the core (Table 3).

The Asian financial crisis of collapsing currencies and plunging stock markets has had a dramatic effect on the Thai economy. The fundamental cause of the problem is debt as companies borrowed vast sums of money in the early to mid-1990s in US dollars. With exchange rates pegged against the US dollar, this reduced the need to earn money in local currencies to pay back loans in dollars, a situation which is obviously advantageous so long as the local economy is booming. From the middle of 1995, the US dollar started to rise against most of the world's other currencies. The baht pegged against the US dollar rose with it, with the result that Thailand's exports became more expensive and less competitive on world markets. The appreciation of the baht caused Thai exports to lose market share steadily against regional trading competitors (Henderson, 1998). Rising labour costs, domestic interest rates and other expenses also eroded Thailand's price edge in global markets, culminating in exports shrinking by 1.3% in 1996, compared to 24% growth in the previous year.

Table 3: Thailand crisis: event sequence

Event Date	Description
March 1995	Dollar begins to rise against the yen
June 1996	IMF warns Thai government of the vulnerability caused by the increase in its current account deficit
May 1997	Massive speculation attack on Thai bath
July 1997	Thai baht enters free float
August 1997	Thai government enters into the IMF bailout package worth 14.5 million dollars
October 1997	Financial Restructuring Agency established to oversee the repackaging of loans on 58 suspended companies
October 1997	Standard and Poor downgrades Thailand's credit rating
November 1997	Foreign creditors cut their credit lines and call back out-standing loans from Thai institutions
March 1998	Asset Management Corporation to oversee the liquidation of assets held by suspended finance companies
July 1998	Deepening recession impacts on the property market

The immediate aftermath of the collapse of the Thai baht was one of general denial, particularly amongst Thai political and business leaders. However, once the impact of the contagion spread throughout the region, the full extent of the financial crisis became increasingly apparent (Henderson, 1998). The fragile baht, rising interest rates and the general economic downturn created havoc for banks and finance companies and lead to a sustained period where the entire economic process ground to a halt. Export-oriented businesses which should have gained competitive advantage from the devaluation could not capitalise on the situation due to the credit restraints. Stagnation of export activity simply exacerbated the problem. High domestic interest rates also depressed the property and equity markets, affecting the loan quality of the banks and finance company portfolios. Thai banks were forced to become asset management companies. They were largely undercapitalised, with considerable energy devoted to recovering bad debt and ensuring that there was enough capital to absorb the inevitable capital write-downs. With nearly 50% non-performing loans, the banks were using major resources including management time to clean up their portfolios.

The IMF prescription for Thailand demanded that fiscal action be taken to raise taxes and cut spending. In addition, structural reforms including the closure of some banks and the opening up of economies to foreign investment were recommended. In response to the need to recapitalise, the banking and financial sectors restriction on foreign ownership has been waived for 10 years after which any new capital increases would have to be sold to local investors. The IMF also encouraged high interest rates to protect the baht from further volatility. In entering into a 34-month IMF programme, the Thai government received a standby credit line to supplement reserves and alleviate pressure on the balance of payments. Structural adjustment funds were also made available by the World Bank and Asian Development Bank to help restructure the financial and industrial sectors and to deal with social disruption over the lifespan of the programme. A condition of the programme emphasised the need to tighten fiscal and monetary policy.

However, the IMF rescue package had only a marginal effect on stabilising the value of the baht, primarily because of the instability particularly in the banking and financial sectors. The outcome being that beleaguered finance companies were shut down and their loans were packaged and sold to international investors through the Financial Restructuring Agency (FRA). In addition the Thai authorities established the Asset Management Corporation (AMC) which purchased a large amount of the debt from the FRA. Much of this debt was property related. Subsequently many of the property developers have entered into negotiation with the AMC to purchase their halted projects with the support of the foreign investors.

The situation with the banks is somewhat more complicated. Under new financial regulations introduced in 1997, the Central Bank required that all financial institutions maintain 100% reserve provisions for doubtful and bad debts and 20% of their reserve for substandard debt. In the case of commercial banks, non-performing loans averaged 20 - 30% as doubtful debt, 70% - 80% as substandard loans and a small percentage as bad loans. In 1999, non-performing loans accounted for 46% of total outstanding loans. However, the normalisation of bank lending is dependent on a successful restructuring of problem asset portfolios. Asset recovery in Thailand has been hindered for a variety of reasons, including poor information disclosure by borrowers, limited experience, deficiencies in the skills base within the industry, and inherent cultural factors. Consequently, the government is encouraging banks to set up asset management companies which would take over responsibilities for problem loans, leaving the bank to focus on the making of new loans.

Bangkok, as the capital city and prime focus for investment activity, has experienced phenomenal growth, but in a largely unplanned manner. In this respect, the pattern and distribution of land uses reflect the operation of free market forces rather than following a pre-determined strategic planning framework (Plumb, 1999). In his critique of the planning system and property markets in Bangkok, Plumb identifies a number of problems. These include the lack of effective enforcement on planning consent; the absence of development control procedures to regulate pressures on growth areas; the fragmentation of responsibility between government agencies, and the administrative bureaucracy in the approval and implementation of the comprehensive plan for the Bangkok Metropolitan Administration (BMA).

Added to these administrative inadequacies and the weak regulatory framework, easy availability of development/investment funding through banks, finance companies and the equity markets resulted in a period of frenetic construction activity. The low contribution of land costs at circa 2-3% of total development costs is a key indicator of the relaxed planning regime in which developments were brought forward. The cocktail of events incorporating the planning system, the financial system and the property market (Exhibit 1) created the conditions in which major new construction occurred, leading to a highly oversupplied office market. Indeed, Bangkok witnessed a prolonged construction boom throughout the greater part of the 1990s which saw the stock of modern purpose-built office space increase from 1.5 million sqm in 1989 to circa 6.9 million sqm in 2000 (Jones Lang LaSalle, 2000).

Exhibit 1: Factors influencing the Bangkok property market

Property markets in general can be slow to react to changes in the cycle, with new supply started in the up-cycle continuing to be brought unto the market for some time after the turning point (Muller, 1999). Over-supplied markets can result in a sharp down cycle. In Bangkok, during the boom years of 1993-1995, the demand for office space fuelled by free market forces, the ready availability of finance and high levels of debt funding reached 500,000 and 600,000 sqm per annum. On the supply-side the weak planning system, absence of a strategic framework, poor or non-existent development control systems, fragmentation of responsibility and administrative bureaucracy failed to exert effective control on the quantity of new development coming unto the market. Hence in Bangkok, the cultures which underpinned the financial system and the planning system were mutually reinforcing of each other and produced a cocktail or combination of events (Exhibit 1) with respect to the provision of new office development. Whilst high growth scenarios have existed in other cities (western or eastern), the distinguishing characteristic of Bangkok was the lack of effective control by either the private or public sectors.

The down-cycle in Bangkok was particularly sharp, the event sequence in mid 1997 (Table 3) had a devastating impact on the demand for office space. During the first half of 1998, Bangkok experienced negative net demand and the level of occupied office space in the CBD area fell by some 32,000 sqm due the forced closure of companies, particularly in the finance sector and the downsizing of other companies (Plumb, 1999). The response of the property market has been quantified by the statistics published in agents' market reports with capital and rental values in US dollar terms down by 63% and major impact upon investment returns. As the supply-side was almost entirely finance driven, the crisis and the immediate removal of lending led to the abandonment of projects at various stages of completion. Indeed, with some of the delayed projects coming through in 1999, a sharp rise in the level of vacancy occurred in the first half of 2000 with estimates placing this as high as 33% of the available CBD stock (Jones Lang LaSalle, 2000).

CONCLUSION

The forces that have driven the globalisation of property include the perception of diversification benefits and the treatment of property as a financial asset tradable in a global economy. Global investment flows have had an undoubted influence upon the development of local markets, though the experience of east Asian cities has highlighted the risk of economies becoming over-exposed to debt financed real estate. The existence of initially under-supplied markets fuelled major property developments notably in the office sector. In the Asia-Pacific region, the close inter-linkage between capital market inflows and highly leveraged speculative development in the absence of effective planning systems, as in the case of Bangkok, was a trigger point for the wider financial collapse. However reforms in the financial sector are at best superficial, banks are continuing to prevaricate over their non-performing loans and credit risk management strategies remain poorly developed.

Re-building the financial architecture in east Asian countries, according to best practice for prudential regulation and engendering greater liquidity in the property sector, may lead to a self-reinforcing virtual circle. Potential investment vehicles include debt-for-equity swaps, property-backed bonds and loan sales. Securistisation allows greater liquidity and allows risk to be shared among more market participants and promotes a better distribution of risk among existing and new investors (Lewis, 1994). A more liquid property market is one that can help prevent a repetition of financial crisis, though the historic problem of property rights in the region remains an important constraining parameter. Arguably greater liquidity could constrain the amplitude of the property sector and allow more efficient information flows about the supply and demand of property to market participants. As such, a property/real estate route to resolving a real estate engendered financial crisis, in the main, is one that holds many attractions, if not ironic ones.

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