Global Expertise for Globalized Markets

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Fellow Professionals, Ladies and Gentlemen,

Good morning.

I am honoured to have the opportunity to address this Conference among so many distinguished members of the landed professions from all parts of the world. To our visitors, I extend to you all a very warm welcome to Hong Kong.

The professional services sector has become a very important part of Hong Kong's economy. It is also an important interface between this city and other parts of the world. We are home to many Asia Pacific professional practices and are the .Asia Pacific head offices of many global practices. We are also the spring-board to the Mainland of China — today one of the largest markets for professional services. A Closer Economic Partnership Agreement was signed with the Mainland in 2003. In the agreement and in all its annual supplements, professional services has been a key feature. Hong Kong professionals are given easier access to Mainland China qualifications and to the Mainland markets, ahead of China's fulfillment of her WTO obligations.

Like many other professions, the landed professions have evolved over the long history of mankind, to respond to changes in our communities – economic growths, advancements in technologies, political, regulatory and social changes.

However, never before have our professions faced as many opportunities and challenges that this generation faces.

On the world agenda, globalization is the single most important issue that impacts on all aspects of life. Globalization is also an undeniable, established and irreversible trend, as a result of the lowering or outright removal of political and trade barriers, the advent of inexpensive, fast and safe air travels, the rapid developments in new technologies, in particular communication technologies, sustained world peace and the very high productivity of emerging economies such as China and India.

Trade and trade-related financial services emerged ahead of other activities in the globalization era. In the last 25 years, the volume of world trade has not only increased. The rate of increase has also accelerated from the average annual rate of below 4% in 1980 to about 8% in 2006. Increase in global trade and low global inflation have increased global liquidity and lifted demand, and indeed the need, for cross-border investments. Until recently, when large amounts of capital flowed across political borders, they nearly invariably ended up in the equity or government bond markets. Little did the world expect a fast and wholesale development of a global real estate investment market.

In 2006, cross-border direct investments in real estate amounted to USD 551 billion, excluding indirect investments such as those into stock and shares of property companies or REITS. USD 551 billion is equivalent to 550 buildings of 1 million sq ft each at a unit price of USD 1,000 per. sq ft. That was the volume of real estate that changed hands across borders in a year.

The Asia Pacific is an emerging but fast growing region for cross-border direct real estate investments. A study completed recently by DTZ of the 11 economies in the Region shows that the total value of commercial real estate stock stands at about USD 10 trillion. Mainland China accounted for over 40% of this stock, followed by Japan, India and South Korea.

Although China is the largest real estate market in Asia Pacific in terms of total stock, Japan has the largest investable stock at over USD 1.4 trillion (43% of the total Asia Pacific investable stock) followed by China (USD 800 billion), and South Korea (USD 300 billion).

Purchasing activity in Asia Pacific (excluding India) in 2005 reached approximately USD 40 billion. This was almost double the 2004 figure.

Western investors have increased, their presence in the region, with transactions more than trebling from USD 1.4 billion in 2004 to 4.4 billion in 2005.

In addition Singapore and Hong Kong investors were highly active in inter-regional transactions. Many Singaporean quoted property companies and Hong Kong developers are very active in other Asian property markets, such as Mainland China and South Korea. Indeed, the Mainland of China has become a very significant market for both Hong Kong and Singapore developers.

According to the DTZ Asia Pacific Investor Intentions survey of the 11 markets, more than half of the investors will target Mainland China in the next 12 months where some of the biggest, tallest and most modern buildings are being designed and built. They will also require the best marketing and management expertise the world has to offer. The other preferred markets are Japan, Singapore, South Korea, Hong Kong, Malaysia and Taiwan.

41% of the respondents said they would enter overseas markets by direct acquisition, 55% by forming joint-ventures and only 9% through an indirect vehicle. Most of these investors were attracted to overseas markets by “yield play”, namely the gap between property yields and the cost of fund. Others are driven by the need to expand portfolios, diversification and access to wider range of stock. All these indications point to more cross-border transactions.

Also relevant are the results of a survey released in September 2006 by the Urban Land Institute. This survey is a forecast report. The purpose is to provide a consensus outlook to reflect the views of more than 175 individuals who represent a wide range of experts in the industry – investors, developers, property companies, lenders, brokers and consultants.

The interviewees rated 19 cities in the Asia Pacific region according to their investment and development prospects. One interesting result of this survey was that with the exception of Jakarta and Manila, all the other 17 cities were rated to have "better-than-fair" development prospects.

The ULI report commented on this phenomenon:

"Development is now a preferred way to invest capital in the Asia Pacific region, and many investors believe that it offers better risk-adjusted returns than core; it also allows investors to acquire new, high-quality assets on their own terms, albeit with higher risks."

Investment of capital into overseas development projects will generate demand for international expertise needed in the entire development process.

Globalization of direct investment real estate markets, and in particular the opening up of the emerging markets such as the Mainland of China, Vietnam and Russia, have generated new demand for professional services, ranging from planning, landscape architecture, architectural design, engineering, construction management, valuation and appraisal, research and consulting, and marketing services, It has also generated demand for new skill-sets of the new generation of land-related professionals. Members of the landed professions today are required to understand the requirements of clients not only in one, but in multiple locations across political borders. This new generation of professionals are also required to have the skills that transcend the cultural divide. Mobility to move from one location to another either on short-term assignments or long-term contracts has also become an essential attribute.

Professional practices will have to have international, regional or even global outreach. Their owners and managers will have to have similar mind-set to match. This would mean not just the willingness to move out of home markets with existing clients, but to invest for brand recognition outside of their home markets, to win assignments from clients overseas, and to be willing to maintain, and grow both personal and business relationships in a foreign business environment. Marketing outside of home markets to achieve brand exposure has become an. important element in extending the global outreach and establishing a larger geographical footprint for professional practices. In many new markets, government relations are often a crucial ingredient in a successful practice.

Global clients that award multi-location assignments to consultants will expect consistency, to the last detail such as the size and style of stationery. Quality staff will expect seamless relocation policies and strong Human Resources support functions. IT software between overseas branch offices and the head office will have to be compatible. Operational management within professional practices will be as important as the core professional expertise.

Not all overseas assignments and indeed not all overseas branches of practices are profitable from day one. Therefore on the financial side, professional practices that reach out to the vast global market will have to have the financial resources to support and sustain the expansion, either by organic growth, using the profit and loss account, or by acquisition of other practices, using the balance sheet. At the same time they have to have sufficient cash flow to continue rewarding their partners or directors. Owners of professional practices that recognize the prospects of overseas expansion have to re-assess and adjust their risk profile. They will have to be less risk-averse. This I would imagine is part of the reason behind the separation, or at least partial separation, of ownership from the management of professional practices. Partnerships have become limited liability companies, and limited liability companies are accepting outside investors. The real estate consulting profession is probably the most advanced in this regard. All the largest global consultancies are now listed on the stock exchanges and are majority owned by investment institutions and the general public. Ownership is entirely separate from management. Senior management could still be shareholders, but only by choice and not by default. This separation of ownership and management also provides easy exit of existing managers and easier recruitment of new managers. This trend is now spreading to the architectural design and engineering professions.

Land and buildings are immobile. Not long ago, the occupational and investment markets were domestic. So were the markets for professional services. The future will be very different, and the future is nearly here. The weight of money will continue to bear on the investment markets. Multi-national companies will continue to roam the occupational markets in all parts of the world. China will open its flood gate to allow its corporates and capital to leave for foreign land. A small percentage of these investments translated into professional fees will change the landscape of our industries.

One inevitable result of globalization is global competition. Globalization of professional services is no exception. Global competition tends to favour the bigger practices, who benefit from global cost synergy and revenue synergy There is of course the economy of scale. Nearly as inevitable is consolidation of the professional industries. There are four global accounting firms, the 5th largest in the world is so much smaller that its name escapes public attention. Will this happen to the landed professions? What do the small and medium-sized firms have to do to compete and survive? The ability to deal with these commercial questions are arguably as important as the technical and professional expertise that we acquired in the endless hours of training. These are questions that the professions did not expect 20 years ago. The answers may well be unpalatable. The prospects may well, be the unacceptable face of globalization. But the questions will not go away because we ignore them.

BIOGRAPHICAL NOTES

Dr. The Honorable **LEUNG Chun Ying**, GBS, JP is Convenor of the Non-official Members of the Executive Council of the Hong Kong SAR. Mr. Chun-ying (CY) Leung is Chairman of Asia Pacific and Executive Director of DTZ Holdings plc, a leading property services company. The Company has 200 offices in 40 countries, employing an office staff of over 10,000 people worldwide. He is a past Chairman of the Royal Institution of Chartered Surveyors and past President of the Institute of Surveyors in Hong Kong. He is also a trustee, Executive Committee member and Chairman of Asia of the Urban Land Institute of the United States.

In 1997, he was awarded the degree of Hon Doctor of Business Administration by University of the West of England. In 1998, he was awarded a similar degree by the Hong Kong Polytechnic University.

Mr. Leung actively contributed to the development of a framework for and-use policies and real estate development in the mainland of China since 1978. In 1980, he was officially appointed as an adviser to the land and housing reform committees of the governments in Shanghai, Tianjin and Shenzhen. In 1988, shortly after the amendment of the Chinese Constitution, he assisted the Shanghai Government in selling the first land use right since 1949.

Mr. Leung was extensively involved in the establishment of Hong Kong as a Special Administrative Region. He was Secretary General of the Basic Law Consultative Committee (1988-90), Leader of the Political Sub-Group of the Preliminary Working Committee (1993-95), Vice Chairman of the Preparatory Committee for HKSAR (1996-97) and Member of the Provisional Legislative Council (1997-98).

Since 1997, Mr. Leung has been a member of the Executive Council of Hong Kong and is currently the Convenor. In 2003, he was elected a member of the National Standing Committee of the Chinese People's Political Consultative Conference. He is a founder and the Chairman of the Hong Kong Coalition of Professional Services and Chairman of the One Country Two Systems Research Institute.