BUILDING, CONSTRUCTION & REAL ESTATE

Taking the long term view

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Despite the current slowdown, global demand for real estate should be sustained by the continued growth in emerging markets.

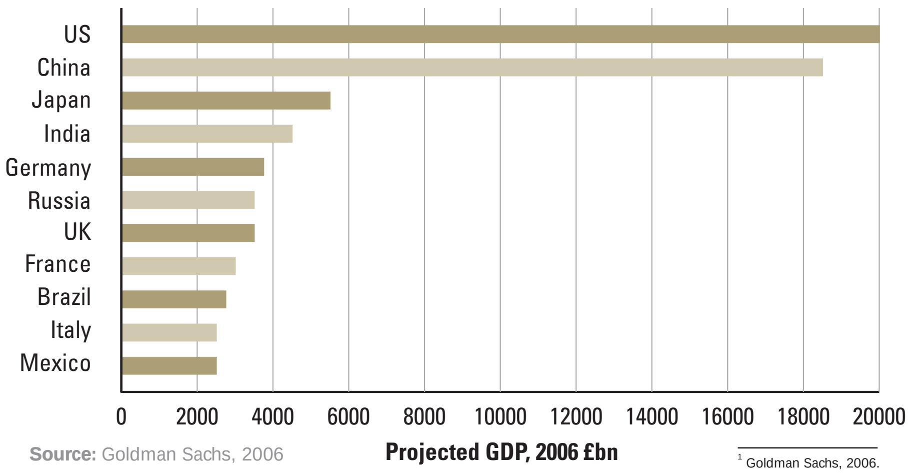
There is justified concern over the dramatic impact of the credit crisis on the real estate sector. However, those with a vested interest in the industry would do well to consider the medium to long-term prospects, according to Hamish McRae, Associate Editor, *The Independent* and acknowledged 'Futurist.'

"The average age in most developed countries is gradually rising and this largely cash rich group is putting its wealth into savings and protection, with these funds inevitably ending up in the capital markets," Hamish explains. "And demographics also dictate the pace of growth: most Western nations have lower birth rates and many are experiencing a drop in total population – particularly amongst the working segment - which is speeding up the shift in economic power towards younger, faster growing countries in the East."

Unsurprisingly the two rising giants in this brave new world will be China and India. China is already the world's fourth largest economy and is predicted to become a close second to the US by 2025.[1]

The incessant thirst for oil, gas and coal will place considerable power in the hands of the energy producers, a trend that is already manifested in the rise of sovereign wealth funds, which are expected to at least double in value by 2011 – and could reach as high as US$8 trillion. These funds, along with pensions and other savings funds, should ensure that the availability of capital will remain high, with much of this ending up in real estate.

The world's larget economies in 2025?



Source: Goldman Sachs, 2006

[1] Goldman Sachs, 2006.

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Hamish also feels that a further, significant change will be the declining role of government: "Steadily falling tax rates, along with the continued rise of the global corporation, is likely to make the state relatively less influential. Consequently the demand for infrastructure will massively exceed the ability of governments to fund it, creating a need for financial instruments for Public Private Partnerships (PPPs)."

This current downturn, whilst serious, is unlikely to be as damaging or long lasting as the recessions of the 1970s and early 1980s, Hamish believes.

"And global demand should be sustained by the continued growth of the BRICs (Brazil, Russia and CIS,India and China), who will be less affected by the credit crunch. Indeed, IMF figures suggest that we are effectively heading for a 'two speed world,' where the emerging nations constitute an ever growing share of global wealth."[2]

Real estate is experiencing a painful correction after a lengthy boom, but Hamish is convinced that by understanding the underlying global economic trends, stakeholders can make measured investment decisions.

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[2] IMF, 2007.

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