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PRESENTATION

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Operator

Ladies and gentlemen, thank you for holding and welcome to the Global Logistic Properties conference call. Participants will be in a listen-only mode during the Company's presentation. After the speeches and remarks, there will be a question-and-answer session. Please ask a maximum of two questions and please ask them together.

I would now like to turn our call over to Ms. Ambika Goel, Senior Vice President of Capital Markets and Investor Relations. Please go ahead.

Ambika Goel *- Global Logistic Properties - SVP, Capital Markets and Investor Relations*

Welcome to GLP's third quarter FY17 earnings briefing. Thanks, everyone, for joining us today. Our presentation material and webcast are both available on our website. Today we will hear from our COO, Steve Schutte, who will provide an overview of our results, as well as an update on the independent strategic review. Steve will be followed by Heather Xie, our CFO, who will run through our financials, and finally Ming Mei, our CEO, will touch on our strategy and outlook.

We will have a Q-and-A session following our presentation. Please ask your questions via phone or through our webcast. Our numbers today are expressed in US dollars and area is referenced in square meters unless otherwise stated. Please understand that we are unable to answer any questions on the strategic review on today's earnings call.

Thank you, and I will now hand it over to Steve.

Stephen Schutte *- Global Logistic Properties - COO*

Thank you, Ambika, and good morning everyone. Thanks for joining us today. We were pleased to report a good set of financial results for the quarter. Core earnings increased 22% year-on-year to $172 million, driven by higher asset values from NOI growth, solid operational performance, and growth in our fund management platform.

Operationally, we had another good quarter across all our markets, where high leasing volume and strong rental rate growth reflect outstanding execution by the team and favorable market conditions.

On the development front, our new developments are proceeding at a healthy pace, in line with our projections, as we continue to maintain sound investment discipline while growing our portfolio, and our fund management business continues to grow in AUM and fees, in a steady and recurring manner. There remains consistent demand for new and existing investors, and we expect this platform to be a key driver of growth going forward.

Now I'd like to spend some time discussing each piece of our business and what we are seeing on the ground.

I'll start with operations on slide four.

On the leasing front, we continue to see strong customer demand. For the quarter, we signed 3.3 million square meters of new and renewal leases, which is up 42% year-on-year. To put this in perspective, this is leasing the 127-story Shanghai tower 10 times over, and we did it in the third quarter alone. This volume of leasing actually highlights the strength of our network and how we can leverage it to serve our customers well. It also highlights the key drivers of our growth, namely, domestic consumption and the rise of organized retail.

These positive market fundamentals translated into a high global lease ratio of 92%, rent growth on renewal leases of 6.8%, customer retention of 73%. All of these, led by the efforts of our teams on the ground, resulted in a 6.9% growth in same-property net operating income.

Taking a closer look at operations in China, our lease ratio was stable quarter-on-quarter at 87% after signing 1.9 million square meters of new and renewal leases. We continue to focus on growing NOI and capitalized on positive market conditions to achieve 5.3% rent growth on renewal leases for the quarter.

We see growing demand from the organized retail, auto parts, and cold storage sectors, and remain extremely positive on China's mid- to long-term outlook, with our lease ratio in China expected to remain stable near-term and gradually trend up in the next 12 to 18 months.

In Japan, operating fundamentals remain strong, with rents on renewal leases up 6.6%. Our lease ratio remains high at 97%, despite a short-term spike in market supply. We expect absorption to remain strong and will continue to focus on the core markets of Tokyo and Osaka, which have vacancy rates of less than 5%.

In the US, we continue to see double-digit rental rate growth while maintaining a 94% lease ratio, and in Brazil, we continue our strategy of proactively keeping strong customers, with our portfolio lease ratio unchanged quarter-on-quarter at 89%.

Moving to our development business on slide five.

Customer demand drives our development program. During the quarter, we started $300 million of new developments, while completing roughly the same amount, and capital discipline remains paramount for us throughout the development cycle. Specifically, we look at developing in submarkets with lease ratios of at least 85% and a leasing pipeline of at least 1.5 times. And within these guidelines, we remain on track to meet our FY17 global development starts target of $2.1 billion and completions target of $1.5 billion.

We continue to see development profit as a regular and recurring part of our earnings stream, and we target to generate 20% to 25% margins on development projects upon stabilization. Thus far, we have achieved a 29% margin year to date, and we are ahead of schedule in meeting our full-year development profit target of $200 million. We have recorded $181 million of development profit year to date, which represents 91% of our FY17 target.

Finally, I will touch on fund management on slide six. Our fee generating capital base continues to grow, delivering higher recurring income from management fees. For the quarter, we recognized $45 million of fees from invested capital, which is up 20% year-on-year. Of that, $32 million came from asset management fees, and $13 million were from development and acquisition fees.

As part of GLP's capital recycling policy, we continue to explore all options to expand our fund management platform in new and existing markets. This includes the monetization of stabilized assets.

Today, roughly 67% of GLP's assets are managed in funds, and we expect this percentage to steadily increase as we gravitate further towards an asset-light model.

So all told, it was a great quarter operationally, with growing recurring income from our development and fund management business, and strong leasing with solid NOI growth.

Before I hand it over to Heather to run through the financials, I wanted to address the independent Strategic Review and provide an update on where we are today. In line with our commitment to enhance shareholder value, and as disclosed previously, we are undertaking an independent strategic review of options available. A Special Committee, consisting of four independent directors, is overseeing the Strategic Review, and we have received various non-binding proposals.

As we disclosed last week, Ming is one of the parties which has submitted a proposal, and he has recused himself from all Board discussions and decisions relating to the review. But rest assured, he continues to lead and run GLP's businesses as usual.

I want to stress that no definitive transaction has been entered into, and there is no assurance that any transaction will materialize. We will keep you updated in the event of any material developments and seek your understanding that maintaining confidentiality is key to ensuring that the review is managed fairly and efficiently. We therefore cannot disclose any more details.

While the Special Committee oversees this process, I cannot overstate how focused we are in running the day-to-day business. Our growth plans for the future remain unchanged, and we have more than 1,000 team members, who are some of the best in the business, working hard each day to execute our strategy of being the best operator, creating value through development, and expanding our fund management platform. And I think our results this quarter demonstrate exactly that.

With that, I'll turn it over to Heather.

Heather Xie *- Global Logistic Properties - CFO*

Thanks, Steve. Please turn to slide eight for the financial highlights.

3Q FY17 earnings were $171 million, or 7% lower year-on-year, due to two key factors. Firstly, last year's results included a one-time syndication gain of $35 million related to GLP's first US portfolio. The second reason is that we had a higher foreign exchange losses this quarter, due to intercompany loans to China. These are non-cash accounting losses. We are looking to issue more RMB-denominated debt in China to reduce foreign exchange exposure.

Adjusting for those one-time items, 3Q FY17 core earnings were up 22% year-on-year. The increase was driven by higher asset values from NOI growth, growth in operations, and the continued expansion of our fund management platform.

China and Japan continue to contribute the majority of our earnings and we provide deeper analysis on country performance on slides nine to eleven.

In December, we established our third US income fund. The fund is fully committed to six leading global investors for a 90% stake. Subsequent to quarter end, we completed the transfer of 26% interest and received cash proceeds of about $85 million cash.

The other capital investors are expected to fund their share in stages between February and April this year.

During the quarter we saw average cap rates in China compress by 11 basis points to 6.3%. This was driven by cap rate compression in Tier One cities in China. And in Brazil, cap rates compressed by 29 basis points to 10.5%.

Now, turn to slide 12 for capital management highlights.

GLP held $1.2 billion cash at the end of December. This should increase to $1.5 billion once we complete the syndication of our third US income fund. This brings net debt to assets to 30% on a look through basis. Our target is to keep it below 40%.

56% of total debt is fixed, and the cost of debt remains low at 3%. Our policy is to naturally hedge foreign exchange exposure by financing operations in local currency. We are also looking into redeeming our perpetual securities of SGD750 million in April.

With that, I will turn over to Ming.

Ming Mei *- Global Logistic Properties - CEO*

Thank you, Heather, and thank you all for joining this morning.

Our strategy remain the same. We are focused on being the best operator, creating value through development, and growing our fund management platform. We continued to execute throughout the quarter, and let me share some business highlights.

In China, we continue to see healthy demand. Growth of organized retail continues to be a key driver of demand. Our leasing with this sector has grown 50% annually over the last three years and today it makes up roughly one-third of our leased portfolio. The fragmented nature of the Chinese logistic market offers significant growth opportunities.

We see new customers emerging. One such example is Yimidida, an online logistics platform providing crowd-sourced delivery services. They target the e-commerce market in China's rural areas. This is a new and significant customer relationship for GLP. In December they signed 60,000 square meters of leases with GLP across seven locations.

As the competitive landscape in China continues to evolve, GLP is continuing to create an ecosystem for our customers and provide integrated solutions. This enhances our competitive edge. One of our new solutions in this ecosystem approach is financial services. We are excited about this new business, as it allows us to capture demand from key growing industries.

A trend we are seeing is that more customers are investing in automation to improve the efficiency of their operations. We also see cold chain operators upgrading their facilities to serve increasing demand for perishable goods.

Many small- and medium-sized customers in China can't get financing due to the underdeveloped credit system. To meet this need in the market. GLP provides financing to our customers, to help them fund their expansion.

It has great synergies with our warehouse business and leverages our network effect to serve the market more competitively. We have just started building this platform and we look forward to sharing more information as we ramp up over the next two to three years.

Over the past three months, we were opportunistic across all our markets. In Japan, we secured a highly desirable land parcel. GLP Sagamihara is a large-scale project located 30 minutes from central Tokyo. This sub-market is very strong. Two of our recent developments in the area were 100% pre-leased prior to completion. We intend to undertake this $1.1 billion development within our fund management platform.

We continued our capital recycling strategy and sold a non-core asset in Greater Tokyo. The achieved sale price was 12% higher than our book value.

We have been looking at Brazil opportunities for a while. Recently, we acquired an excellent sale and leaseback property in one of Sao Paulo's best submarkets. This property is extremely well-located and 100% leased to a major food supplier in Brazil.

Brazil have cut interest rates by 75 basis points to 13%. The market expectation is for it to hit single digits by the end of the year, so we think there is upside on asset valuations. We are also seeing a lot of investor interest in core income-producing products.

Finally, we continue growing our fund management platform. We formed our third US income fund in December. The $1.5 billion fund was fully committed at day one during closing. The fund was upsized to include a $400 million mandate for additional acquisitions. This demonstrates strong investor demand and it firms our strength as a fund manager.

We are actively looking at opportunities to grow our platform. Over the last six years we have grown the business from zero to $38 billion of assets under management. Two thirds of our funds management platform is invested and fee generating, and we have a further $12 billion of uncalled capital which will generate additional fees as it invests.

Fund fees make up 15% to 20% of overall revenue today, and we expect it to grow to over 30% in the future. In China, domestic demand for core income products remains strong. We expect to launch a China vehicle for stabilized assets in 2017.

Our priority is to balance the need for cash and the potential further cap rate compression. We also see more room to expand our fund management platform in existing and new markets. This includes US, Brazil, and potentially Europe and UK.

In summary, it is business as usual for GLP. We continue to execute on our strategy.

With that, I will now hand it over to Valerie to open for questions.

Operator

Thank you. We will now begin the question-and-answer session.

QUESTION AND ANSWER

Operator

(Operator instructions). Thank you, and our first question comes from the line of Donald Chua from Bank of America. Please go ahead.

Donald Chua *- Bank of America - Merrill Lynch - Analyst*

Hi, guys, good morning. Happy New Year. Two questions from me. First, Ming, could you elaborate on the financing business that you mentioned just now, for your customers? What sort of rate are you getting and how important, how big would it be going forward? That's the first question.

The second question, I know we can't ask about anything about the strategic review, but is there any time frame that investors can work on for this thing to resolve? Thanks.

Ming Mei *- Global Logistic Properties - CEO*

Good morning, Donald, and happy New Year to you as well. On the financial business, it's basically further growth of our customers - share the wallet. Basically, I'll give an example. If a customer, a cold chain customer comes to us, typically in the past they will lease just the warehouse, the shell from us, but because - in the cold storage, there is a lot of insulation, cold, create a lot of equipment to make the temperature, so there's a lot of investment related to the equipment for the cold chain. Also within that there is potentially also automation of equipment.

Typically in the past our customer would have to go to a bank or go to some other financial institutions, and because these are very specialized equipment, typically they get charged a pretty high interest rate. It could be anywhere from 12% to 15%, So what we do is that we typically lend to our customers and embed it in the rent at about 10%, and then our cost is about 4%, so we create a spread, about a 6% spread.

The unique difference about us doing that versus other financial institutions is that once the customer, if they leave the facility or if they go bankrupt, for other financial institutions, that equipment becomes worthless because it's embedded into the building, but for us, we can lease it to other customers. Typically we ask the customer to give us a 30% deposit from day one, so we're covered from that standpoint.

So that's just a typical example of the financial service we provide to our customers. It creates more integrated solutions to our business and makes it more sticky. Overall, we believe that we find ways to create a bundling service to our customers and also create a little bit of a higher margin for our business. This is just something that we started last year.

Another highlight for that is that if we were investing this equipment, in the past, into our buildings, without separating it into a financial service with a separate business license, we would be tagged with an additional 12% property tax on that equipment, because it would be viewed as part of the real estate, and because we're able to separate the two businesses, we don't have to pay the property tax on the equipment side.

So with that, I'd turn to Steve on the second part of the question.

Stephen Schutte ***- Global Logistic Properties - COO***

Hi, Donald, it's Steve. Happy New Year to you. We have not set out any deadline for the strategic review. All viable options, of course, are being explored to enhance shareholder value, but we're very mindful of balancing between an expeditious process and the need to still run the business.

So that's really the balance, it's really running a thorough, independent and transparent process, but without disruption in our day-to-day business. So that's really our target.

Operator

Thank you. Our next question comes from the line of Joy Wang from Deutsche Bank. Please go ahead.

Joy Wang ***- Deutsche Bank - Analyst***

Morning, guys. Happy New Year. Two questions from me. First on China business or China tenants. We've seen a fair bit of change in the top 10, and we are now seeing Three Squirrels as one of the top 10 tenants. How quickly do you think that the new business will replace your traditional tenants, and is this why the retention ratio has been around about 65% to 70% for the last few quarters? When do you think this retention ratio will actually improve to a more normalized level?

Second question on Japan. Just want to get a sense in terms of the decrease in occupancy. Is that a reflection of supply in the market? How long do you think that that will be? Thank you.

Ming Mei ***- Global Logistic Properties - CEO***

Good morning, Joy. Maybe I'll just give some highlight on the market dynamics on your first question and Steve can touch more on the second part.

That's a pretty good observation, yes. A company like Three Squirrels, in the past, never appeared on the top 10 list. For the benefit of other listeners, Three Squirrels is a very simple - it's a company that sells nuts online, and it's amazing the amount of nuts they sell. It requires so many warehouse spaces that it made our top 10 list. This is a company that they just sell nuts on Alibaba initially, and then it now became a national operator.

So it just shows you that e-commerce is an aggregator of organized retail that we're seeing continue to change, and the benefit of our business model is to have a very diverse set of customers with focus in different sectors, that any one sector that gets impacted doesn't impact our business too dramatically.

One of the things we look at, on average our retention rate is above 70% for the Company as a whole, but in China typically it's around 65% for retention rate, and if you look at the reason why customers move out, more than half -- the majority of them move out are due to some of their businesses -- their business is not doing as well so they move out of the facility when it expires.

China is going through a pretty dramatic shift of moving towards a different higher value add. I think we're going to see, if it continues, to see new business coming to replace some of the older businesses, and even some of the companies you've never heard of before now are becoming large customers for us. As I mentioned, in the past, the company Yimidida was just formed two years ago. They're basically leveraging all the excess capacity in the transportation sector and aggregate them and doing a shared economy, and they are able to roll out on a national basis.

That's another example of that replacing some of the traditional players. So we are not betting on any particular sector. We just want to see what are some of the new trends, and then we have category directors set up to focus on those categories and then cultivate them. So you will see it evolving. Every three or four years there's a new sector that comes on.

Steve, do you want to touch on it?

Stephen Schutte *- Global Logistic Properties - COO*

Joy, hi, it's Steve. The one thing I would add on to what Ming is saying is there will be some movements from time to time, obviously, in our top 10 customers, but I think what we really focus on is a little bit more of a macro view, which is how they're moving overall. So for example, this quarter they increased, our top 10 customers increased 39,000 square meters, along with increasing our total portfolio, and they continue to comprise about 20% of our leased area.

So there's going to be some movement, maybe some things will be seasonality or for whatever reason, but on the whole, they tend to move fairly much in lockstep, and that's what we focus on.

I think just touching on Japan, we did have a little bit of a slow-down in occupancy, and that was driven by some lower leasing stabilizations that we had come online at GLP Soja and Zama. However, we're very confident that's going to go back up to 98% next quarter.

Operator

Thank you. (Operator instructions).

Our next question comes from the line of Michael Lim from UBS. Please go ahead.

Michael Lim *- UBS - Analyst*

Good morning, Ming.

Ming Mei *- Global Logistic Properties - CEO*

Good morning, Michael.

Michael Lim *- UBS - Analyst*

Hi. I've got a question on the weighted lease expiry in China. It's currently at 2.4 years. I realize it's been coming down over the years, so in 2014 it was 2.7, 2015 2.6. Has that been a deliberate strategy to move towards shorter leases and what has changed over this period?

Ming Mei *- Global Logistic Properties - CEO*

Okay, basically the trend had not changed much. The typical lease in China is about three years, so the majority of leases are three years and then they renew. The reason why you see a movement from 2.7 to 2.4 is because early on, we had a few international large customers that signed up 10-year build-to-suits and over time, as they expire, then I think that's also the average coming down a little bit.

Operator

Thank you. Our next question comes from the line of Brandon Lee from JP Morgan. Please go ahead.

Brandon Lee *- JP Morgan - Analyst*

Morning, Ming. Just a couple of questions from my end. Basically, I think you're now hitting the third quarter of FY17 and you've met about 71% of your development starts. Are you now comfortable enough to share with us your development starts growth for the next two years? That's my first question.

The second question would be can you give us a sense of your capital allocation between the four countries which you mentioned, US, Brazil, as well as Europe, and is the buying of the US properties outside of the fund business signaling your intent to go into owning these properties directly on your balance sheet? Thanks.

Ming Mei *- Global Logistic Properties - CEO*

Thank you. There's two parts of the business. One part is the capital balance sheet investment and then the second part is our fund management business. Our philosophy is that if we're not willing to invest into that market with our own money, we will not invest it with our fund capital, so we are not a fee-hunger-driven investment philosophy.

So in general, the development market - so we have basically two types of activity. There is the development aspect and there's the asset acquisition and management. You get two different risk profiles and two different types of returns. The market that justifies development- right now we're seeing is still China, Japan and Brazil. For the US market, the margins and then also replacement costs, at this point, I think we still see some more opportunity buying more stabilized assets in that market.

For the return with the risk, just the returns, we still see Japan give us a higher, better return on development for the risk adjusted. So we continue to want to put more capital into Japan for development. That's going to be determined by our ability to secure high quality sites there.

China is still in an early stage of the whole cycle. Despite we're seeing a lot of supply in some of the cities, but overall if you look at more mid to long term, it's still a good market to do development. So these are the two markets that we want to put more capital into development.

I would say we're also exploring with our fund management platform, to grow in all the market mentioned and potentially we're also looking at Europe as well.

Operator

Great thank you. (Operator instructions). Next we also have a question from the webcast. Question is, what is the synergy between your fund management and leasing business?

Stephen Schutte ***- Global Logistic Properties - COO***

Hi this is Steve. I think there are two answers to that. There's a synergy in two ways. One has to do with what I'll call our network effect and I think the other is the success of one breeds kind of success in the other and I think first on the network effect, really having access to capital allows us to increase the scale of our platform which provides us with greater capabilities in terms of leasing. Obviously with a lot more space gives you a lot more opportunities for leasing and for upside and for run rate growth etcetera. So I think just in terms of scale, they're very synergistic which is growing your capital base means growing your portfolio which means greater leasing opportunities.

I think the other reason they're synergistic though is - you are a good operator is why you become a good fund manager. In other words, I think we are attractive as a fund manager because we are a good operator. In fact that's what we focus on first and foremost and so the synergy is because we're very good at leasing and we're very good at operating our portfolio, that's why we're very attractive to investors from around the world.

Operator

Right, thank you. Our next question comes from the line of Paul Lian from Goldman Sachs. Please go ahead.

Paul Lian ***- Goldman Sachs - Analyst***

Evening Steve, Happy New Year.

Stephen Schutte ***- Global Logistic Properties - COO***

Happy New Year.

Paul Lian ***- Goldman Sachs - Analyst***

Just wanted to get your thoughts on the opportunities from land conversion across your China portfolio. Appreciate it if you can perhaps maybe share whether some projects have been earmarked and the economics from that.

Ming Mei ***- Global Logistic Properties - CEO***

Okay. Well I can just give a couple updates on some of the projects that are under development in some of the pipelines. So our first project we developed more of a suburban office business park was in Xi'an on one of our sites. We developed that phase one -- phase one was completed about 80,000 square meters and we are 99% leased, 99.4% leased. So we started our phase two -- and phase two is still technically not complete yet but it's already 70% leased. So the demand continues to be quite strong.

Our second project was in Beijing on an industrial site towards the airport and BMW, which is a customer of ours on the logistics side, decided to look for a location to build their hub for the Asia design center and we were able to work with them and assign a build-to-suit with BMW to host their Asia design center. That is under construction. Then we decided last week to start the phase two on that.

There's a couple more projects, one in Beijing and another one in Shanghai that are under early stages of planning. So the team has done a good job over the last two to three years with existing projects and we are excited to grow that part of the business.

Operator

Thank you. (Operator instructions). Our next question comes from the line of Donald Chua from Bank of America. Please go ahead.

Donald Chua ***- Bank of America - Merrill Lynch - Analyst***

Hi Ming. Following up on the financing business question earlier, could you let us know which line item and how is this business, income from this business being reflected in the segmentals and as a portion of income now, what is it? Going forward, what should we be expecting in terms of how big this business will be? Thanks.

Heather Xie ***- Global Logistic Properties - CFO***

Yes. In terms of the details, disclosure, you actually can see a lot more in the supplementals, either in the pro forma income statement or consolidated income statement. You will see on the revenue line we separate out the financial services and other revenue and you will see corresponding cost goods sold and other expenses in the other expenses line. So there's a lot more transparency going forward as we add in more disclosure.

In terms of the future of the business, as Ming mentioned, we really just started. So in the next two, three years, you will see more growth naturally from the bigger platform and asset base that we manage.

Ming Mei ***- Global Logistic Properties - CEO***

If you look at right now, we're basically rolling this out only in China.

So this year, you're going to see a lot of expenses to build the team, build the systems. So actually total expenses in China went up, but-- if you strip out the financial service teams, the overall expense actually went down on China business but we are committed to build for the future, so over the next one or two years, you're going to start seeing we'll continue to increase headcount and the team in this sector and we start seeing probably some meaningful financial returns in about two years from now.

Operator

Thank you. Our next question comes from the line of Wilson Ng from Morgan Stanley. Please go ahead.

Wilson Ng *- Morgan Stanley - Analyst*

Hi guys. Good morning and Happy New Year. Just two questions from me. Frist is on cap rate compression. So I think in the last quarter Ming mentioned that you expected to see some cap rate compression across China, Japan, Brazil to the next six months. We've seen a bit this quarter. Do you see further cap rate compression?

The second question would be on, also in last quarter, Ming I think you mentioned that we should expect an update on potentially setting up an income fund and asset recycling in China. Are we still on track to that timeline?

Ming Mei *- Global Logistic Properties - CEO*

Yes, so to answer your last part of the question on the income fund and the setup funds in China, yes, we are in initial discussions already with a potential partner on formation of funds and as far as cap rate goes, we're seeing reduction in the interest rate in Brazil recently and we expect that to continue to go down and so with the cap rate, we expect further cap rate compression in Brazil.

We're also seeing some cap rate compression in China recently, overall portfolio compressed about 11 basis points. We expect it to probably somewhat stabilize in the near future due to uncertainty about interest rates movements. For US, I think we are seeing more stabilizing of the cap rate at this point.

Stephen Schutte *- Global Logistic Properties - COO*

One this I would add on -- this is Steve -- is the -- we feel like in the US the cap rate is going to stay stable even though you're seeing interest rates move a bit, primarily because there's such strong runaway growth which is really offsetting a lot of that and I think in Japan we may see a little bit of cap rate compression but not much.

Operator

Thank you. (Operator instructions). Next question comes from the line of Louis Chua from Credit Suisse.

Louis Chua *- Credit Suisse - Analyst*

Hello and good morning and happy New Year. First question is on FX. There's been quite a bit of FX losses over the past couple of quarters, so I wanted to get a sense of what's Management's strategy to mitigate this further going forward?

Secondly perhaps you can share with us some color on the outlook and supply dynamics for the different tier cities in China and is the cap rate compression that you're seeing, you mentioned that this is largely driven by the Tier One cities. What about for the other tier cities? Thank you.

Heather Xie *- Global Logistic Properties - CFO*

On FX, that's really driven by an intercompany loan from Listco to China, to finance China expansion. If you take out the FX, the business actually grew very healthily. Ex FX, ex revaluation, China has been up about 24%. We are in the process of issuing more local debt in China. As you recall, last quarter we have issued a Panda bond which is one of the first corporations that actually issued the bond. For those that don't know, Panda bond is really a listed entity outside of China issuing RMB denominated bond, which can finance China expansion.

We're looking to do more to naturally reduce the foreign exchange exposure going forward.

Ming Mei *- Global Logistic Properties - CEO*

On the question about cap rate, I think given the currency movement and also recent supply and demand situation, we probably see cap rate in the first tier cities to maybe have a slight upside on the cap rate compression and the second tier cities, we're going to see it probably staying flat for this period of time.

Operator

Thank you. Our next question comes from the line of Brandon Lee from JP Morgan. Please go ahead.

Brandon Lee *- JP Morgan - Analyst*

Yes hi Ming. I just want to ask again on my first question just now on are you comfortable with sharing with us the growth in development starts in China for FY18 as well as FY19? The second question would be, could you give us some color on a potential income fund in Brazil? Yes, thanks.

Ming Mei *- Global Logistic Properties - CEO*

Okay, so in the previous quarters, I mentioned that we develop based on demand and we have a pretty good visibility talking to our customers where the future demand is, and that's why two-thirds of our pipeline, new development are leased to our existing customers. We take a pretty disciplined on development. All new development that we're developing in China are in markets that are already close to 90% lease up ratio before we start development.

So based on what we see right now, we want to hold pretty much a steady approach. As I mentioned and said before, a good indicator of when we will ramp up development is when we start seeing lease ratio north of 90% in China. On -- maybe Steve, you can touch on--

Stephen Schutte *- Global Logistic Properties - COO*

Yes in Brazil we actually -- that is how we own our assets currently. We own everything, almost everything in both development and stabilized income funds and one of the things that we are looking at is a possibility in Brazil at some point in the future, maybe a Brazil REIT, but that's still very early stages.

Right now, we do own just about everything in a fund already.

Operator

Thank you. (Operator instructions). Thank you. I will hand the call over to Ming for closing remarks. Thank you.

Ming Mei *- Global Logistic Properties - CEO*

Well thank you all for joining us today. In summary, we have a strong set of results achieved by the team this quarter. Our business strategy has not changed and we are on track to meet the full year targets. Customer demand remains healthy globally, driven by secular trends and we are in a strong financial position and we will continue to maintain strong investment discipline. We remain very focused on opportunistic expansion in existing and new markets and will continue to leverage the fund management platform to raise capital for both development and core funds.

With that, I want to thank you all for joining us today.

Operator

Thank you ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.