

Global Market Perspective

First Quarter 2011

Commercial Real Estate Resurgence

'Resurgence' is the watchword for 2011 with the market anticipating the strongest real estate trading and performance since 2007. Barring further financial shocks, we are expecting investment volumes to rise by a further 20-25% in 2011, which follows their 50% growth in 2010. With a significant weight of money targeting real estate across the globe, last year's robust capital value performance on prime assets in Tier I cities will spread further during 2011.

Corporate occupiers are again flexing their muscles and improvements in the leasing markets are helping to build investor confidence. Corporate cash balances and earnings are strong and major companies are poised to start spending again, just at the time when new supply in both North America and Europe is at a cyclical low. Shortages of quality space will emerge during 2011, limiting relocation options and causing a shift from tenant to landlord-favourable market conditions. This will be particularly visible across Asia Pacific, where there are likely to be few tenant-friendly markets left by year-end.

We believe the balance of risks in 2011 is set on the upside as global business optimism grows; a sentiment very much in evidence from political and business leaders at last week's annual meeting of the World Economic Forum in Davos. While there are inevitable background concerns over inflationary pressures, rising interest rates and, particularly in Europe, sovereign debt, the market is keen to move on from the difficulties of the last few years.

Highlights

- Business conditions are normalising
- Real estate markets post strongest performance for two years
- Surge in investment volumes; debt market movement
- Corporate occupier optimism returns, stimulating leasing activity
- 2011 – 'resurgence' is the watchword
- Landmark transactions in New York, Boston, London and Beijing

Global Economy

Sustained economic growth

The global economic outlook has brightened and anxieties over a 'double-dip recession' and a 'jobless recovery' in most developed economies have receded. The recovery fared better than expected during H2 2010 in North America and in some European countries (notably Germany), and this bodes well for sustained growth during 2011. North America is expected to accelerate modestly to 3.2%, while Western Europe is projected to achieve 1.7% growth, slightly lower than 2010. With an improving outlook, the IMF has recently raised its 2011 global growth forecast to 4.4%.

Asia Pacific, Latin America and some Central and Eastern European (CEE) economies have been motoring strongly, although growth is expected to moderate this year as monetary policy and other regulatory tools are employed to address increasing inflationary pressures. China, despite its recent moves to prevent overheating, will remain the world's fastest growing large economy, with a projected growth of 9.5%.

Inflationary pressures and policy tightening

Rising inflation and higher interest rates are likely to become a key concern for investors this year. Inflationary pressures will be a particular issue for the emerging markets of Asia Pacific and Latin America, and are also causing increasing unease in some developed economies. Most Asia Pacific central banks have begun to implement tightening measures to combat inflation and further policy interventions are likely in 2011. The probability in Europe of policy interest rates rises this year is also increasing. Although official rates in the developed economies will still remain near historical lows this year, markets are likely to start to 'price in' future increases. Likewise, institutional investors are starting to rebalance asset allocations, factoring in a higher inflation base case.

Balancing upside risk

For the first time since the Global Financial Crisis, downside risks are being outweighed by the upside risks of improving business optimism and spending, more hiring, and a boost to the income streams associated with real estate investment. However, while the global economy appears to have finally moved into a more sustainable growth phase, investors will be monitoring the downside risks of trade imbalances, government deficits, 'currency wars', commodity market volatility, inflation and the potential impacts of serial Eurozone bailouts. Real estate investors and lenders still have concerns over the Eurozone's sovereign debt issues and are also watching closely to see how emerging markets tackle rising inflation.

Global Real Estate Health Monitor

First Quarter 2011	US	UK	Germany	France	Japan	China	Australia
Official Interest Rate	0 - 0.25%	0.5%	1.0%	1.0%	0.1%	5.81%	4.75%
GDP QOQ %	0.8%	-0.5%	0.7%	0.4%	1.1%	9.8%*	0.2%
CPI YOY%	1.5%	3.7%	1.9%	1.8%	0.0%	4.6%	2.7%
Consumer Confidence MOM %	13.5%	17.8%	3.6%	1.2%	n/a	-0.8%	-1.1%
Employment YOY %	0.9%	0.6%	1.1%	0.7%	0.2%	4.9%	3.3%
Retail Trade MOM %	0.7%	-0.8%	-0.3%	-0.4%	-4.1%	10.1%	0.3%
Housing Starts YOY %	-8.2%	15.4%	n/a	33.7%	7.1%	n/a	12.4%
OECD Leading Indicator MOM%	0.2%	0.0%	0.0%	0.1%	0.1%	0.1%	-0.1%
Manufacturing PMI, Index level	58.5	58.3	60.5	54.9	51.4	54.5	46.3
Stock Market, MOM to 31 Jan	2.3%	-0.6%	2.4%	5.3%	0.1%	-0.6%	0.2%
REIT Market, MOM to 31 Jan	3.0%	-1.3%	-0.4%	-2.4%	1.5%	n/a	2.5%

General Trend: **Worsening**, Neutral, **Improving** * Chinese GDP YOY.

Sources: Global Insight, UK ONS, ABS, OECD, Markit Economics, Reserve Bank of Australia, Federal Reserve Bank of New York, Jones Lang LaSalle.
Data as at 1 February 2011

Leasing markets move into upswing

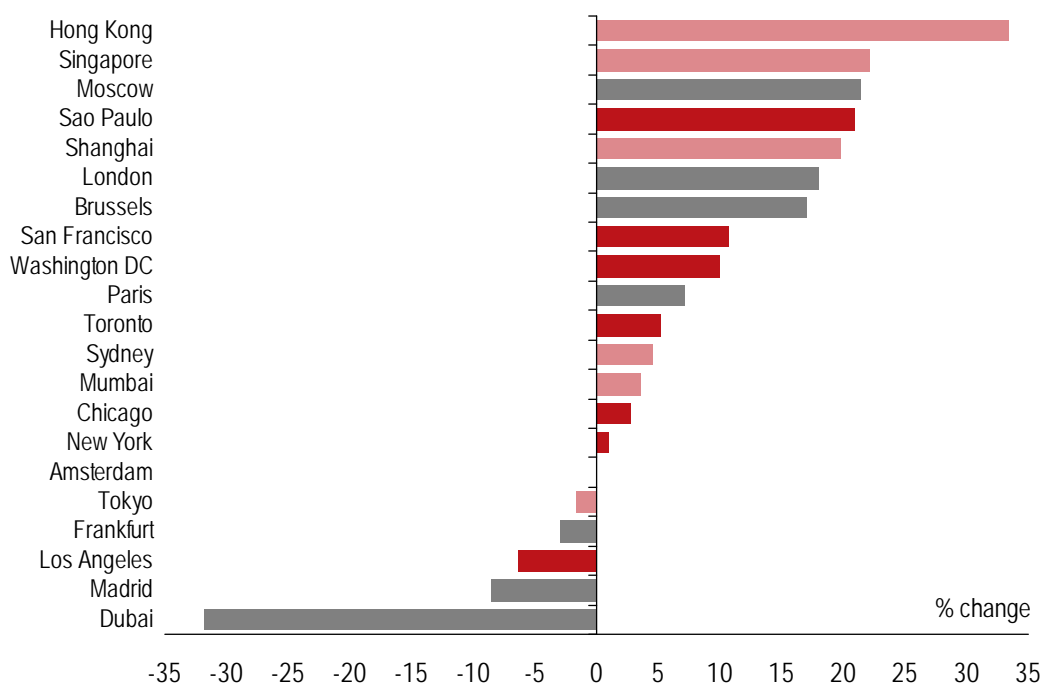
Positive business sentiment and stronger corporate balance sheets are boosting leasing market activity. Net office absorption has more than doubled in Asia Pacific's Tier I markets over the past year; leasing volumes in Europe are at their highest level since 2007; and, in the US, positive absorption has once again returned.

Across Asia Pacific, MNCs are becoming more visible and are driving large requirements in markets such as Greater China, Singapore and India. The Asian domestic corporate sector is also coming to the fore and competing for Grade A space, particularly in India and China. The Q4 2010 Hudson Report, a quarterly survey of employer hiring intentions, indicates that relatively strong jobs growth should continue in the region. Consistent with this trend, regional net absorption is expected to increase further in 2011.

In Europe, overall take-up for 2010 reached 10.6 million square metres, an increase of one-third on 2009 and 5% ahead of the 10-year average, a level few expected at the start of the year. Expansion demand is an increasing feature of Germany, the Nordics and Central and Eastern Europe, but elsewhere corporate occupiers remain cautious with lease events and consolidation being the key drivers. Although business sentiment in Europe is at its highest level since 2007, fiscal tightening threatens to undermine confidence and could moderate demand. Office take-up across Europe is forecast to stabilise at around 10 million square metres in 2011.

The overall office market in the United States is still in the process of bottoming out. Corporate demand continues to gradually return, with three consecutive quarters of net absorption gains. New York and Washington DC are the leading markets; however the nascent recovery is now broadening. Across the majority of office markets in Latin America, strong economic growth is translating into healthy office demand. In Brazil's major office markets, tenant demand is outstripping new supply, resulting in robust rental growth in São Paulo and Rio de Janeiro.

Prime Offices - Rental Change, 2010



Based on rents for Grade A space in CBD or equivalent. In local currency.
Source: Jones Lang LaSalle, January 2011.

Americas EMEA Asia Pacific

Rental growth accelerating

Rental growth on prime assets in the world's top-tier office markets is at its highest level since Q1 2008. Growth is being led by cities in Asia Pacific – Hong Kong, Singapore and Shanghai have achieved 20%+ prime rental uplift over the past year. In Europe, prime offices in London, Moscow, Paris and Stockholm are registering the strongest growth. Signs of rental uplift are also returning to some core CBD office markets in North America, such as Washington DC and San Francisco.

Growth is expected to accelerate further in Tier I markets as the supply of quality space dwindles and corporate occupier demand strengthens. We expect Hong Kong (Central) to top the global rental growth league at close to 30% in 2011. Significant growth is also projected for Singapore, Shanghai and Tokyo, and the BRIC markets of Moscow and São Paulo.

In Europe and North America, a strong rental uplift is anticipated for many core office locations, where shortages of 'trophy' high-quality space will increasingly emerge. They include London's City and West End, Moscow CBD, Paris La Défense, Washington DC's CBD and Capitol Hill, Midtown New York, SOMA in San Francisco, and Boston's Back Bay and Financial District. Elsewhere we believe rental stability will be the main theme for 2011, with the majority of markets in North America still a couple of quarters from reaching the bottom.

In a minority of markets where tenant demand remains weak, or there is severe oversupply or continued economic uncertainty, rents will continue to drift down and incentives rise. This is likely to characterise cities such as Seoul, Osaka, Kuala Lumpur, Madrid, Barcelona, Dublin, Dubai and Abu Dhabi, which will be among the few tenant-friendly major markets left by the end of 2011. In both Dubai and Abu Dhabi the availability of higher-quality space at much more competitive rents will help to boost leasing volumes as companies consolidate and upgrade.

Vacancy rates edging down

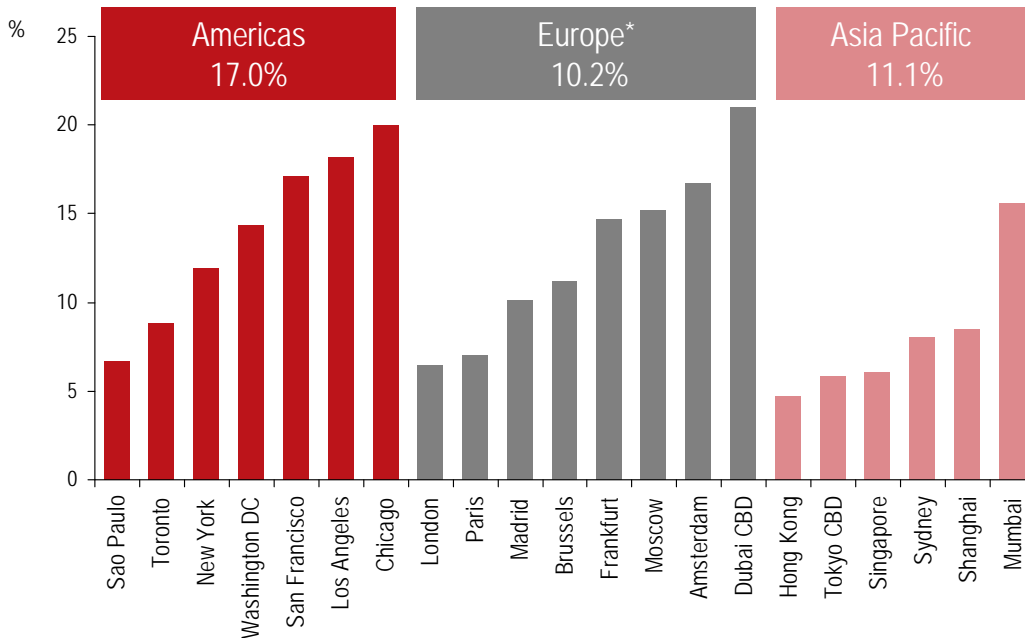
Office vacancy rates have reached a plateau and are now edging down across all three regions – they average 14.1% across 104 markets globally. Rates in Asia Pacific are falling fastest despite a high supply pipeline, and falls in vacancy are particularly large in some China cities (e.g. Beijing and Guangzhou) due to strong demand from domestic end-users. Among the tightest markets globally are Hong Kong Central (with 3.0% vacancy), Melbourne CBD (4.4%), London West End (6.5%), Paris CBD (5.5%) and Downtown Toronto (6.6%). Vacancy rates are also sub-7% in São Paulo and Rio de Janeiro.

While vacancy has started to fall in most major markets, a few office markets will buck the trend. Mexico City, Singapore, Seoul and some Indian markets are in the middle of a heavy supply delivery cycle and are expected to see a rise in vacancy rates during 2011.

New supply at a cyclical low

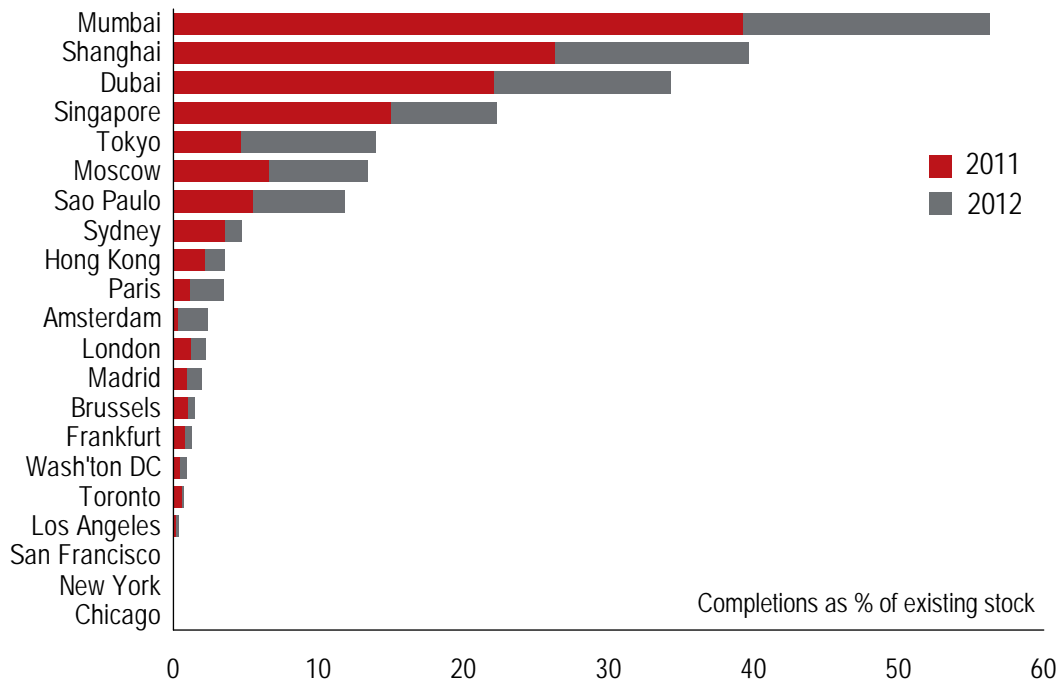
New office supply is trending down, which will help to reduce vacancy rates in 2011. Office construction has virtually dried up in North America and office completions in Europe this year will be at their lowest level since 1998. In contrast, most of Asia Pacific is approaching the peak of its development cycle in 2011, with developers emboldened by a strong regional economy and improving occupancy levels for quality office space, though supply should start to moderate in 2012.

Office Vacancy Rates - Major Markets, Q4 2010



Regional vacancy rates based on 56 markets in Americas, 24 markets in Europe and 24 markets in Asia Pacific *Excludes Dubai. Source: Jones Lang LaSalle, January 2011. Covers all office sub-markets in each city. All grades except Asia (Grade A only). Relates to CBD only in Tokyo and Dubai

Office Supply Pipeline - Major Markets, 2011-2012



Source: Jones Lang LaSalle, January 2011. Covers all office sub-markets in each city. Tokyo - CBD-3 kus

Real Estate Capital

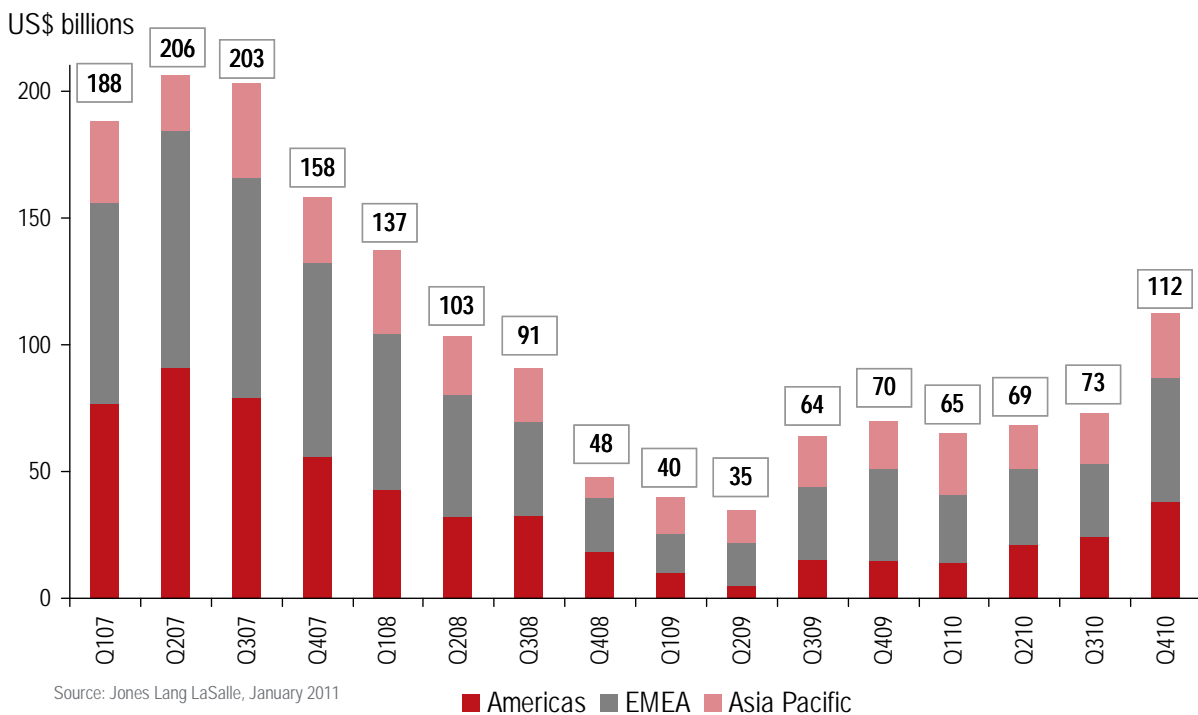
A trading volume surge

With improving market fundamentals and heightened investor confidence, there has been a powerful surge in real estate investment activity during the final quarter of 2010. Global investment volumes in Q4 exceeded US\$100 billion for the first time since the Global Financial Crisis. This helped full-year 2010 volumes reach US\$319 billion, which is more than 50% higher than 2009 levels, and above Jones Lang LaSalle’s projections at the beginning of the year of US\$300 billion. All three regions have had a solid final quarter, with the Americas and Europe showing the most vigorous growth.

Among the larger markets, the star performers are China and Brazil, where volumes hit record levels in Q4. The United States, the Nordics and Germany have also seen a strong surge in the final quarter compared to a year ago. For the full-year 2010, Brazil, Singapore, Sweden and the US have shown the healthiest growth, with volumes more than doubling on 2009 levels. Only Japan, South Korea and Spain failed to record growth in volumes in 2010.

Offices remain the dominant sector choice, but its proportion of total investment activity is reducing due to the growing popularity of retail assets in Europe and Asia Pacific. Industrial and mixed-use assets are also increasingly sought after by investors, while in the US the multi-family residential asset class is enjoying a favoured status as the sector embarks on a robust recovery.

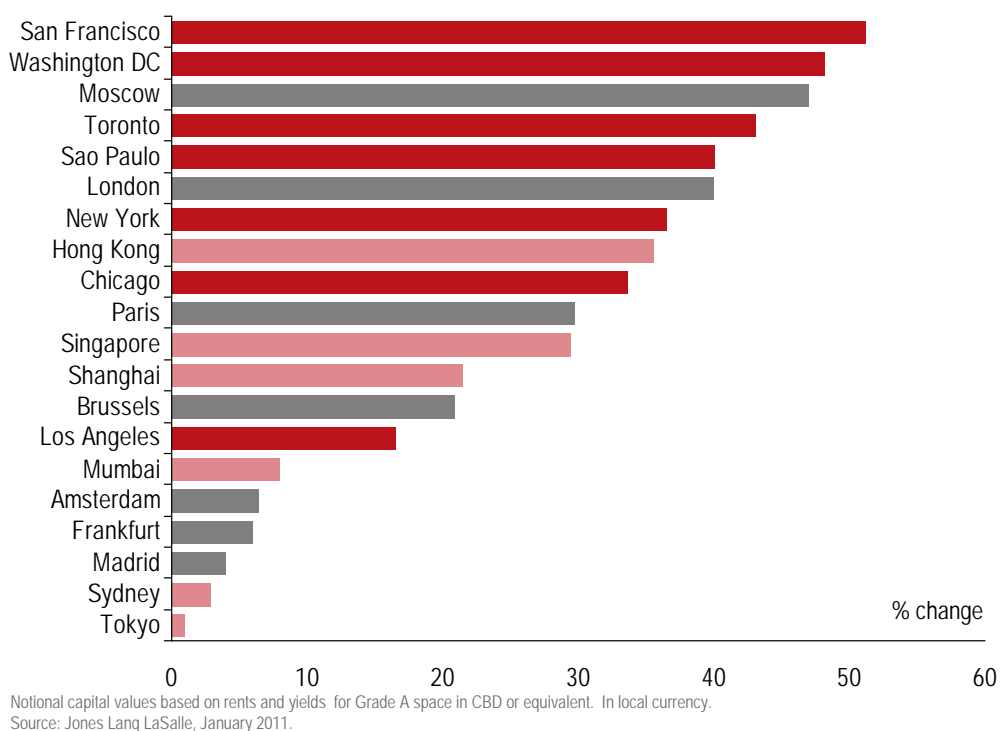
Direct Commercial Real Estate Investment – Quarterly Trends, 2007-2010



Double-digit capital value growth

Capital values on prime offices assets are growing robustly, reflecting strong yield compression over the past 12 months and accelerating rental growth. Capital growth for prime assets in Tier I office markets has been typically between 20-30% over the past year. Some markets have achieved well over 30%, such as Hong Kong, London, Paris and Moscow. In the major US and Canadian gateway office markets, estimated prime yields have plunged by 200 basis points or more while notional prime capital values in certain cases (San Francisco and Washington DC) have rebounded by more than 50% from the market's trough.

Prime Offices – Changes in Capital Values, 2010



Americas Europe Asia Pacific

China dominating Asia Pacific activity

Asia Pacific investment volumes in Q4 2010 totalled US\$25 billion, up 32% on Q4 2009, while full-year 2010 volumes amounted to US\$85 billion, up 29% on 2009. Most major markets have seen significant growth, led by Australia, China, Singapore and Hong Kong. While Japan remains the largest market, accounting for almost 30% of total volumes, it bucked the growth trend and saw a fall in investment activity in 2010, though this largely reflected a lack of available assets on the market rather than weak investor sentiment. Indeed in Q4 2010, China was the number one Asia Pacific market and for the full year achieved volumes equal to two-thirds of those of Japan.

Australia – a favoured destination

Australia is a favoured destination in Asia Pacific, reflecting the availability of deal flow, which is in sharp contrast to some other regional markets. Strong interest from both offshore investors and domestic funds, which are repatriating funds from overseas, has boosted transaction volumes in 2010 to the fourth highest on record. Significant portfolio repositioning is underway by domestic funds, including A-REITs, and an uptick in M&A activity is likely during 2011 supported by a divergence between fund valuations and underlying asset values. There are early signs that Australian investors are once again starting to look offshore, taking advantage of a strong domestic currency.

EMEA volumes highest since Q1 2008

Direct investment into commercial real estate in EMEA totalled €102 billion in 2010. The fourth quarter was particularly impressive which, at €36 billion, was at its highest level by a significant margin since Q1 2008. Germany and the Nordics are registering the strongest improvements, driven by broad-based economic recovery alongside strengthening market fundamentals.

The large and liquid markets of the UK, Germany and France accounted for more than half of EMEA activity, confirming investor appetite for core product in mature and transparent markets. London continues to be the main global target for overseas investors. However, there is evidence of investors being prepared to look further afield. Central Europe, specifically Poland, has seen volumes rebound strongly and Turkey has also witnessed a marked rise in activity. In the MENA region, there were the first notable transactions in the UAE and Egypt during the latter part of 2010.

Americas – liquidity improving

The recovery in the Americas capital markets accelerated in Q4 2010. Investment volumes of hotel, industrial, office and retail properties throughout the region totalled US\$38 billion in Q4, the highest level since Q1 2008 and a 150% increase from Q4 2009. For the full year, volumes in the Americas more than doubled to US\$97 billion from the cyclical low of US\$45 billion during 2009.

The US has recorded a particularly sharp increase in activity, with a flurry of deals closing in December which boosted annual volumes. Full-year 2010 levels rose from US\$37 billion in 2009 to \$80 billion in 2010. Investors, particularly public and private REITs (as well as some institutional buyers), dramatically increased their acquisition activity over the course of 2010 as confidence grew in the economic recovery and liquidity increased in the debt markets.

Brazil – the star performer

Brazil is the standout market in the Americas as well as globally, as transaction volumes reached a record high in 2010. Total volumes surpassed US\$6 billion, more than tripling 2009 levels, as the fundamental Brazilian economic growth story and higher returns continued to attract both domestic and cross-border investors.

Direct Commercial Real Estate Investment - Regional Trends, 2009-2010

\$US Billions	Q4 10	Q3 10	% change	
			Q3-Q4 10	Q4 09- Q4 10
Americas	38.4	23.9	61%	149%
EMEA	49.2	29.1	69%	35%
Asia Pacific	24.6	19.9	24%	32%
TOTAL	112.2	72.8	54%	59%

% change expressed in USD terms which may differ from % change expressed in local currency
Source: Jones Lang LaSalle, January 2011

Direct Commercial Real Estate Investment - Largest Markets, 2009-2010

\$US Billions			% change			% change
	Q4 10	Q3 10	Q3-Q4 10	Q4 09	Q4 09- Q4 10	Q4 09- Q4 10
USA	32.3	20.2	60%	11.5	182%	
UK	16.2	12.2	33%	12.2	33%	
Germany	8.0	4.2	90%	4.3	86%	
China	7.0	2.5	183%	5.2	34%	
France	6.5	3.6	78%	5.5	18%	
Sweden	4.3	1.6	175%	1.3	222%	
Australia	4.3	3.4	24%	2.5	69%	
Japan	3.9	5.0	-21%	4.9	-20%	
Brazil	3.4	1.2	189%	0.8	343%	
Singapore	2.5	3.1	-20%	1.4	81%	
Canada	2.4	1.9	26%	2.2	9%	
South Korea	2.3	0.8	177%	0.9	154%	
Netherlands	2.3	1.3	81%	2.6	-10%	
Norway	2.2	0.6	284%	1.1	109%	
Hong Kong	2.2	2.4	-9%	1.4	52%	

% change expressed in USD terms which may differ from % change expressed in local currency
Source: Jones Lang LaSalle, January 2011

Debt market movement

The US debt markets are continuing to open up. Many lenders - large and diverse national banks, insurance companies, international banks and even the CMBS market - see 2011 production levels increasing as core property values rebound, market fundamentals stabilise and the economy improves which, combined with accommodative monetary policy, is sparking renewed lender interest in commercial real estate.

The US CMBS market is also displaying increased signs of resurgence. In 2010, total new CMBS issuance in the United States rose to US\$10.9 billion, up fivefold from the US\$2.1 billion overall issuance in 2009. Investors of US CMBS have driven prices on bonds to their highest level in more than two years as they wager that the worst is over for commercial real estate. Total issuance in 2011 is expected to top US\$40 billion, providing added liquidity to owners with maturing loans to refinance. The first quarter of 2011 is already off to a strong start with upwards of US\$10 billion in the pipeline.

In Asia Pacific, the debt markets are functioning well and in 2011 there are likely to be many more financing options and a greater choice of parties from whom to obtain debt. Banks have fresh debt budgets available to lend, which are not just a reshuffling and refinancing of existing loans. Lending is now also stepping up from non banks, such as insurance companies and mortgage lenders. LTV ratios are moving from around 50% back towards a 60% to 65% range as competition increases.

Across Europe, there are sign of nervousness amongst senior lenders, which is having an impact on the size and number of transactions taking place, with general concerns around Basel III regulations. Meanwhile, the German government is pursuing banking reform, which is resulting in many Landesbanks looking to dispose of, or consolidate, their real estate lending arms.

However, there is promise of new sources of capital in Europe in 2011, with a number of non-bank lenders, mainly life companies keen to enter the market. In addition, Solvency II, a revised regulatory framework for the European insurance sector, may also unlock a new source of capital, by allowing insurance companies to lend more on commercial properties.

Corporate Occupiers

Confidence returns, stimulating market activity

Returning corporate confidence will be a further stimulus to real estate markets during 2011. European confidence is now at levels last seen in December 2007. Corporate America is generally in very good health, with cash balances up 49% from three years ago¹ and US corporate profits up 26% y-o-y, the highest in four years.

Renewed optimism will translate into increased corporate spending. Much of this spending will be on M&A activity and will serve as a catalyst to the real estate markets as corporate real estate (CRE) teams seek to manage growth and duplication within revised portfolios. Companies will also invest capital to upgrade IT infrastructure; to implement workplace strategies aimed at enhancing utilisation and productivity rates; and to facilitate the upgrading of space

Headcount growth

In Asia Pacific headcount growth has been a feature of several quarters, but selective hiring is returning to the Americas and Europe. Attention is now turning markedly towards generating footprints capable of accommodating future growth. We anticipate that corporate occupiers will make additional market moves in line with anticipated increases in hiring; the need to access new workers amid a renewed 'war for talent'; and a necessity to make workspace more productive.

Asian MNCs come to the fore

We see Asian corporations dominating as key players in Asia Pacific, with Indian and Chinese companies now competing with MNCs for Grade A space in Tier I cities. There will be more intra-regional activity with corporate occupiers investing in a new wave of near-shore markets. We are beginning to see MNCs looking again at opportunities in developing markets especially Indonesia and Vietnam, which were quiet even before the Global Financial Crisis.

In the US, areas of growth will be in high-tech, clustered around Silicon Valley, as well as in some traditional manufacturing. Oil and gas exploration, along with petrochemical processing, are growing again. Other services, such as legal, banking, accounting and consulting, are on the uptick. Areas of stress will include defence and government, both at the federal, state and local levels.

In Europe, demand has been underpinned by a resurgent banking and finance sector as well as the public sector. However, the former is becoming less active, while the latter will obviously be constrained going forward.

Corporations aligning portfolios

CRE teams will continue to focus intently upon resetting their portfolios to align with the new operational realities and selective growth opportunities, notably in the emerging markets.

We will continue to see corporate occupiers releasing lower-quality surplus space back to the market, thus keeping overall vacancy rates inflated.

In the US, corporate tenants are considering locking into longer-term obligations on core properties, a move driven by lower rents and their increased confidence in the business environment.

A 'flight to quality' will become more of a challenge throughout 2011 given the paucity of new high-quality supply coming to most of the world's major markets. This dearth will also drive rental costs upwards with markets starting to favour landlords.

Lease accounting changes weighing on decision making

Potential lease accounting changes are beginning to weigh on companies decision-making and ownership is back on the agenda again. For some corporations, these changes may tip the balance back in favour of owner occupation of strategic assets, particularly in those markets facing steep rental increases. Companies may decide to buy as a method for locking in their costs and avoiding the potential hikes in rents.

¹ 419 non-financial companies in the S&P 500

Hotels

Transaction volumes to rise by 15-25% in 2011

2010 proved to be a buoyant year for the global hotels market with transaction volumes increasing 140% year-on-year to total US\$24.3 billion. The Americas registered the most dramatic rise, with a fivefold increase to US\$11.1 billion. EMEA was the second most liquid region, experiencing a 110% boost to US\$9.3 billion. Activity across Asia Pacific edged upwards at a more moderate pace with total sales of US\$3.9 billion, a 17% increase.

This upward movement is expected to continue in 2011 with an anticipated growth in volumes of around 15-25 % globally, totalling US\$28-30 billion. Overall, the pace of recovery is mostly driven by the rebound of operating fundamentals, upbeat investor confidence and the broad cross-section of equity capital in the market.

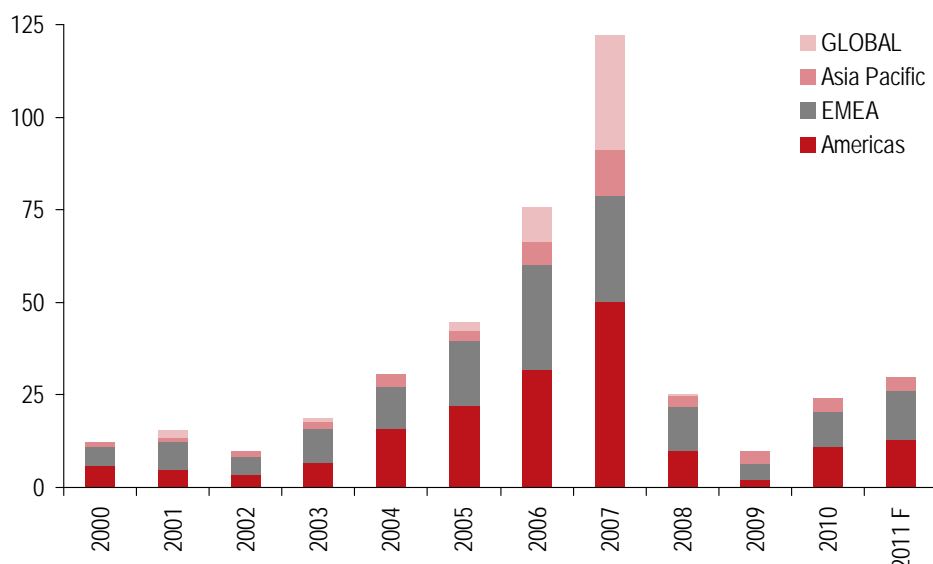
Until liquidity improves significantly, the most acquisitive hotel investors are likely to be those that make all-equity purchases or undertake acquisitions with low leverage levels. The dominant acquirers of hotel assets in 2011 will include REITs, due to recent successful additional capital raising, and high net worth individuals with opportunistic capital. On the sell-side, banks, lenders and special servicers will be motivated players this year in an attempt to clean up their balance sheets. Private equity funds are also projected to start emerging as more dominant sellers globally, as funds reach their liquidation dates. Moreover, owners and operators will continue to selectively divest and focus more on lower capital modes of ownership in order to reduce volatility of results.

Compared to 2010, there will be an increased depth and breadth of investment opportunities with more assets being brought to market in 2011. On a global scale, competition for prime assets in gateway cities and some major urban centres where levels of available stock are limited has intensified. As a result, second-tier assets are anticipated to win more favour in mature markets. In addition, acquisition opportunities are growing in the emerging markets of China, India, Central and Eastern Europe, Latin America and the Middle East, although investment in these regions often requires local expertise.

There is no doubt that cross-border investments will notch up further this year. However, foreign capital will continue to be highly selective, and is often driven by non-economic factors such as familiarity with markets and geography. Groups that will continue to be active include those from Asia and the Middle East; Russia, India and Latin America may also emerge as offshore investors. US-based REITs are also likely to target hotels in Europe and Latin America in 2011.

Hotels – Global Investment Transactions, 2000-2011

US\$ billions



Source: Jones Lang LaSalle Hotels, January 2011.

Retail

Buoyant retail markets in Asia Pacific

Asia Pacific is likely to be one of the world's most buoyant retail markets in 2011. According to the latest Nielsen Global Consumer Confidence Survey released in January, nine of the 14 most optimistic nations globally in Q4 2010 came from Asia Pacific, including Australia, China, India and most South East Asian countries. China's retail sector is performing particularly well with strong retail sales growth and net absorption. The Greater China markets are leading the globe in terms of retail rental growth, with Beijing and Shanghai already seeing rents return to their previous peaks. The recovery in leasing demand in India continues, but it remains gradual. In Australia, retailer demand continues to improve across most states and retail categories. Completions of shopping malls across Asia were up 48% y-o-y in 2010 to just over two million square metres, but they fell short of earlier expectations as delays were common, particularly in India where there is a large supply overhang. In 2011, supply is expected to increase to around three million square metres.

Europe – a 'flight to prime'

In Europe, retailers continue to employ a 'flight to prime' strategy, expanding generally to the best high streets and shopping malls. Geography is not a major limiter and most strong locations with healthy fundamentals, are being considered. The successful fashion brands of 2010, such as Superdry and Hollister, will continue to expand this year. The rise in pricing of prime shopping centre assets during 2010 has highlighted the supply shortage of prime space and this will be a key driver of the market in 2011, given the development market remains subdued (although we strongly anticipate a dusting-off of previously postponed schemes).

US retail market stabilising in 2011

In the US, national retail vacancy rates have probably peaked. While the increase in occupied space is now exceeding the low level of new deliveries, rental rates are still falling. Retail rents are expected to find a bottom this year, and the outlook for US retail is improving with the brightening macroeconomic outlook and increased consumer spending. With an expected acceleration in employment growth over the next 12 months, retail market conditions should continue to stabilise throughout 2011.

As far as trends among retail store categories are concerned, many 'frugal fashion' chains which experienced growth in 2010, despite the challenging broader retail climate, should continue to perform well in 2011. Among categories facing challenges this year, the traditional grocery segment is fighting to maintain its market share, as both general merchandise discounters and upscale niche-oriented grocers are aggressively growing their food sales.

Industrial/Warehousing

Key drivers point to stronger demand in 2011

With improvements across the globe in the key drivers of industrial warehousing demand – i.e. international trade, retail sales and industrial production – a steady real estate recovery in the sector is underway, albeit at different speeds.

In Asia Pacific, rental levels in the major hubs are rising, with the largest increases registered in Singapore (+18% in Q4) as demand picks up on the back of exceptionally strong GDP and manufacturing output growth. Robust domestic consumption and exports are bolstering demand for logistics space in China's Tier 1 cities. Limited supply has come on stream across Asia Pacific during 2010 although more supply is expected in Shanghai, Beijing and Australia during 2011.

In Europe, industrial markets across the board recorded increased take-up during 2010 with Germany and the UK at a 10-year high. However, occupier activity is being driven by consolidation and upgrading to modern stock as tenants take advantage of favourable lease terms, which will prevent noteworthy net absorption over the medium term. Limited development has eroded modern supply and in Western Europe there is a growing shortage of modern space. Nonetheless we do not anticipate speculative development to return soon, as funding remains difficult. Consequently, occupiers are increasingly pushed down the build-to-suit route. Limited modern supply is applying upward rental pressure in many markets.

In the US, net absorption has now moved into positive territory. While major distribution and port-centric markets continue to lead the upturn, more markets are beginning to move through the bottoms of their real estate cycles. Leasing activity is still being driven by demand for large prime blocks of logistics space. Although rental growth is expected to be stubborn into early 2011, there should be no further declines in average rates as supply slowly diminishes at the upper end of the sector.

Residential

Strong recovery in US rental apartment market

The rental apartment market in the United States is in the middle of a strong recovery and rental rates are now displaying solid, steady gains. National average vacancy rates are trending down, having already declined by nearly 150 basis points since their cyclical peak in late 2009.

The rebound in the multifamily sector reflects the recovering labour market and, as the economy improves, household formation is once again accelerating with many re-entering the rental market. Moreover, with the 'for sale' housing market yet to find a pricing bottom and lending standards tighter than in the 'bubble years', the propensity to rent is much greater than it has been for many years. Furthermore, 'Generation Y' is now in its prime rental years, so demographics are also supportive of strong rental unit demand continuing over the medium term. Finally, the apartment sector will be the first US property type to see a return of substantial levels of new construction, with development starts already trending up, leading to an increase in deliveries in 2012 and 2013.

A rebound in high-end residential in Asia

Sales activity across Asia's high-end residential market has cooled after the string of anti-speculative measures implemented in H2 2010. However, there are signs that sales in Singapore and China are picking up again. Leasing activity continues to improve with growing demand from expatriates in cities such as Hong Kong, Beijing and Singapore. Positive absorption has been recorded and vacancies have fallen in most monitored markets except Shanghai, where the conclusion of the World Expo in October saw a decline in leasing demand. Growing demand is bolstering landlords' confidence, as evidenced by the increase in rents in most cities during Q4 2010.

Mainstream European housing volumes remain low, but prime proves a good prospect

Price growth in most mainstream housing markets across Europe is subdued. Growth in 2011 will be location-specific, with new-build prices performing well in areas of high demand. Central London and particularly prime Central London continues to attract both domestic and international capital. Rental values are on a rising trajectory, thus the appeal of buying new-build developments and off-plan purchasing is gaining favour. London continues to benefit from global wealth and demand from cash-rich investors inflating the price of trophy assets, development land plots and new-build schemes.

Global Outlook

Business conditions are normalising

Momentum is expected to build during 2011 in the world's dominant real estate markets, with this year likely to be the strongest for real estate since 2007, both in terms of volumes and performance. A combination of more upbeat economic data, positive business sentiment, stronger corporate profitability and the selective return of corporate hiring will contribute to higher leasing volumes, improving market fundamentals and heightened investor confidence.

Shift to landlord-favourable market conditions

Leasing activity will gain steam in 2011, which will help to further erode vacancy rates from a global average of 14.1% today to below 13.5% by year-end; still high by historic standards. Nonetheless shortages of quality space will emerge and, in some core markets, the shift from tenant to landlord-favourable market conditions will happen quickly as new supply dries up. In particular, corporate occupiers looking for large blocks of offices in the global hubs will increasingly be at a disadvantage as new space over 10,000 square metres becomes rare, giving owners the opportunity to raise rents and decrease concessions. The supply of poorer-quality second-hand space will remain high and at significant discounts to prime.

Prime Offices – Projected Change in Values, 2011

	Rental Values	Capital Values
+ 20%	Hong Kong	Hong Kong
+ 10-20%	Shanghai, Singapore, Tokyo, Moscow, Sao Paulo, New York*, San Francisco, Toronto, Washington DC	Shanghai, Singapore, Tokyo, New York*, San Francisco, Sao Paulo, Moscow, Paris, Toronto, Washington DC
+ 5-10%	London*, Paris Sydney	London* Chicago, Los Angeles
+ 0-5%	Amsterdam, Brussels, Frankfurt Chicago, Los Angeles, Mumbai	Amsterdam, Brussels Frankfurt, Mumbai, Sydney
- 0-5%		
- 5-10%	Madrid	Madrid
- 10-20%	Dubai	Dubai

*New York – Midtown, London – West End. Nominal rates in local currency.
Source: Jones Lang LaSalle, January 2011

Investor momentum continues

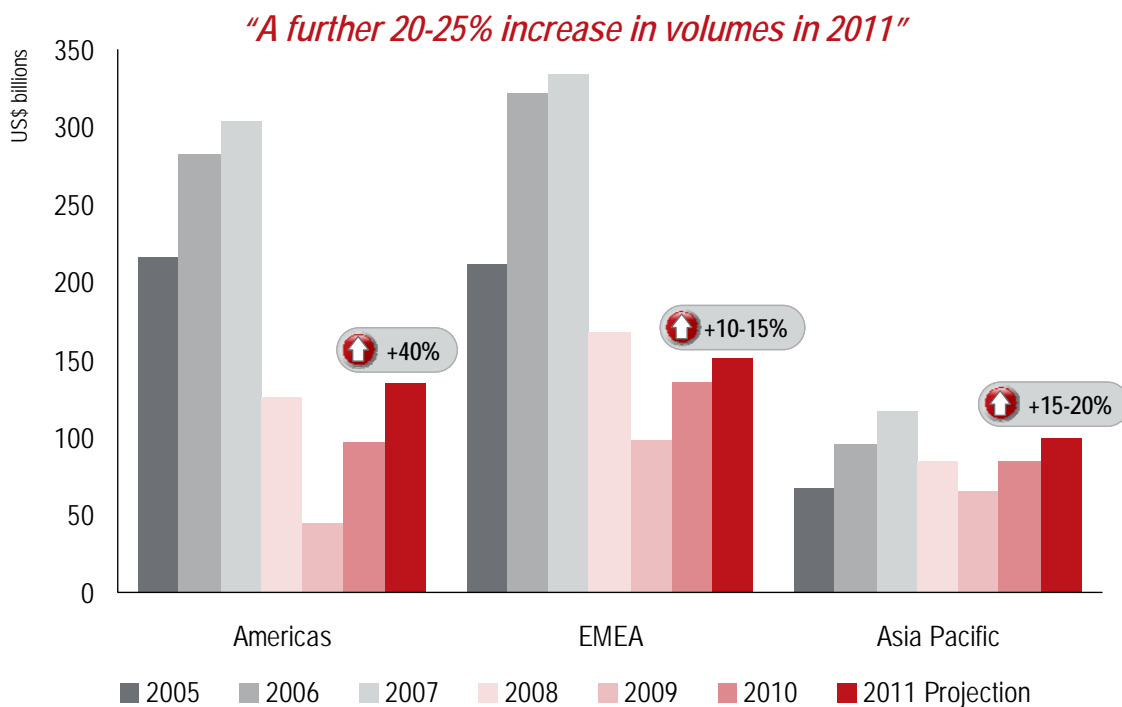
Further increases in investment activity are anticipated over the next 12 months, with global direct investment into commercial real estate growing by 20-25% to over US\$380 billion, which follows the 50%+ growth recorded in 2010 over 2009 levels. Downside risks, particularly inflation and interest rates, may act to dampen investor sentiment, but we believe the balance will be on the upside as business confidence grows.

Global investors, who are armed with ample equity and a low cost of debt capital, are in many cases still frustrated by a relatively small supply of available core product. However, strengthening economic and property market recoveries will encourage them to broaden their search.

In 2011 we expect to see:

- investors targeting more properties with a value-add component;
- an expansion in the geographic spread of investment activity, as investors move up the risk curve;
- an acceleration in the pace of assets coming onto the market;
- more product being offered for sale from banks seeking to reduce their exposure to real estate;
- an increase in 'big ticket' disposals; and
- a decline in the amount of time in which delinquent loans are allowed to languish, indicating that banks and servicers feel that the market has adequately recovered and that they can achieve fair pricing.

Direct Commercial Real Estate Investment, 2005-2011



Source: Jones Lang LaSalle, January 2011

Asian funds active

Investment volumes in 2011 in Asia Pacific are likely to reach about US\$100 billion, a 15-20% increase on 2010. Money is on the move and is increasingly cross-border, but it will mostly be Asian money seeking cross-border Asian deals. Familiar players from Korea and China will be joined by new Asian players in the market. Nonetheless, the substantial basis of investment in Asia Pacific will be domestic sources of capital. We are also likely to see more platform deals over the next 12 months. The cost of currency hedging will be a major factor in the decision-making of Asia Pacific investors this year, with currency risk dictating the choice of markets as much as real estate market fundamentals.

Europe - funds underweight in property

In Europe, investor activity is expected to rise further in 2011 and the region is on track for a strong second quarter. Volumes are projected to increase by 10-15% on 2010, although this estimate may yet prove conservative. The focus will be on the core markets of the UK, Germany and France, but investors will widen their geographical search into the Nordics and selected CEE markets. Russia is expected to register increased trading in the second half of the year and could turn out to be the fourth most active European investment market in 2011.

Many funds are underweight in property and will want to do deals. Key buyers will be insurance companies and the leading German open-ended funds. We will also see more joint ventures between asset managers/specialists and sovereign wealth funds.

United States – a broader-based recovery

In the Americas, we expect total transaction volumes to reach at least US\$135 billion in 2011, representing a further 40% increase on 2010 levels. Investment activity will be more broadly based, with investors looking beyond core US gateways. Multifamily residential assets will be in favour, with the sector experiencing strong recovery in rental rates. The attraction of the office sector will grow as vacancy levels begin a sustained downward trend across the US. The overall vacancy rate is projected to decline by around 100 basis points in 2011. Rental growth will tend to be modest, but will accelerate as 2011 progresses, and will be strongest – double-digit percentages in some cases – on prime CBD space located in gateway markets.

Capital growth freeing up product

In 2011, the strong performance in pricing trends that has been experienced at the prime end of the market will begin to spread, both by asset quality/risk level and by geography. Capital values are expected to increase further in nearly all major global office markets this year, as market fundamentals continue to improve. However in some markets, such as London and Hong Kong, the pace of growth may slow from the very strong 2010 levels as prime yields stabilise. The strength of capital growth may start to free up more product.

Recent Key Transactions

North America

Google in world's largest single-property transaction of 2010

US, New York

In the largest single-property transaction globally of 2010, Google closed on its purchase of 111 Eighth Avenue in Manhattan in late December for nearly US\$1.8 billion. Google, which already occupies nearly 50,000 square metres of office space within the building, acquired the approximately 270,000 square metre property from a joint venture of Jamestown Properties, the New York State Common Retirement Fund and Taconic Investment Partners. The building is the home of several large data centre operations.

US, Boston

In the downtown Back Bay sub-market, locally-based REIT Boston Properties purchased the iconic 160,000 square metre John Hancock Tower in December from a joint venture of Normandy Real Estate Partners and Five Mile Capital Partners for US\$930 million. The sale yielded a significant return for the joint venture, which bought the structure just 20 months earlier for US\$661 million.

US, Chicago

Florida-based retail REIT Regency Centers has acquired Willow Festival, an approximately 38,000 square metre grocery-anchored shopping centre in the city's northern suburbs. Regency purchased the 96%-leased, three-year old centre from its developer, Hamilton Partners, for a price in the region of US\$64 million.

US, Los Angeles

Shenzhen New World, a Chinese real estate firm, has closed on a deal to buy the Sheraton Universal Hotel in Los Angeles for US\$90 million. The property was sold by Prudential Asset Resources and will continue to be operated as a Sheraton.

Canada, Toronto

In suburban Mississauga, the Ontario Pension Board purchased Erin Mills Town Centre, an 85,000 square metre retail centre from a joint venture of Cadillac Fairview and The Erin Mills Development Corporation. The purchase price was in the region of C\$370 million (US\$365 million).

Canada, Toronto

In the North York sub-market, Concorde Corporate Centre traded in December for about C\$87 million (US\$86 million). Artis REIT purchased the three-building office park from Crown Realty Partners.

Latin America

Brazil, São Paulo and Rio de Janeiro

San Francisco-based AMB Property Corporation has closed a US\$422 million logistics co-investment fund with a major university endowment. At closing the fund purchased 59,400 square metres of development properties, of which 88% are pre-leased. In addition, 205 acres of developable land have been purchased in São Paulo and Rio de Janeiro with an estimated build-out potential of 339,000 square metres.

Brazil, São Paulo

Private equity fund Prosperitas Investimentos has completed the sale of the 32,000 square metre 32-storey ECO Berrini office tower to PREVI – the pension fund for employees of Brazil's Central Bank – for a reported R\$560 million (US\$330 million). The LEED Platinum-certified building is considered to be one of Brazil's most advanced and efficient properties.

Brazil, São Paulo

São Carlos, a commercial property owner and operator, has recently sold the Class A 'Jauaperi' office building in the Centro Administrativo Rio Negro. The 11,960 square metre 15-storey tower is currently under construction. The transaction is valued at R\$69.3 million (US\$41 million).

Brazil

Sonae Sierra Brasil, a shopping centre owner, operator and developer plans to raise between US\$277 and \$341 million in an IPO listed on the BM&FBOVESPA in São Paulo. The proceeds of the sale will be invested in shopping centre operations as well as land purchases and further real estate asset purchases.

Mexico, Mexico City

In the Reforma sub-market, Spanish insurer MAPFRE has purchased the Reforma 243 office building from a private seller for a reported sum of nearly US\$34 million.

Asia Pacific

Australia, Brisbane

Westscheme, a US\$3.2 billion superannuation fund, has disposed of its ownership interests in Brisbane Square for A\$300 million (US\$297 million) to the Charter Hall Core Plus Office Fund and Telstra Super.

Australia, Melbourne

REST Industry Super has bought a new A\$230 million (US\$ 227 million) Docklands building in the city's largest office deal in 2010. The 37,000 square metre building was purchased from a joint venture between Babcock & Brown and Melbourne Civic City.

Australia, Melbourne

ASIA Property Fund has sold its 25% stake in Westfield Doncaster Shopping Centre to unlisted property fund ISPT for A\$350 million (US\$346 million).

Australia, Melbourne

Mulpha Australia Limited has sold the 276-room Hilton Melbourne Airport hotel to Pan Pacific Hotels Group for a reported A\$109 million (US\$108 million). The purchaser is Pan Pacific Hotels Group, a subsidiary of one of Singapore's largest hotel and property companies - UOL Group Limited.

China, Beijing

Hong Kong Charter Group, which owns the Charter Mall luxury shopping centres in Shenyang and Changchun, has purchased Le Mall, a large-scale shopping centre located on West Chang'an Avenue, from Huaxi Real Estate Investment Company for approximately RMB6.0 billion (US\$900 million).

China, Beijing

The People's Insurance Company of China Group (PICC Group) has acquired Capital Times Square, a retail and office complex for RMB 3.7 billion (US\$556 million).

China, Shanghai

Grosvenor has completed the en bloc acquisition of an incomplete mall in the Changfeng Park area for RMB 1.7 billion (US\$255 million). Grosvenor Fund Management and Vega Wharlock Properties, a retail property investment and fund management group, have bought 'The North' retail development for its Grosvenor Vega China Retail Fund.

China, Shanghai

CapitaMalls Asia Limited has purchased a 66% share of a mixed-use development site in Luwan District, which will contain a six-storey shopping mall, for RMB 2.5 billion (US\$375 million).

Japan, Osaka

RREEF Investment has acquired a retail building (Shinsaibashi SI Building) located in Shinsaibashi for ¥19.5 billion (US\$236 million) from AIG.

Japan, Tokyo

A consortium of investors including Secured Capital Japan, Orix and Trinity Investment, has acquired the equity of a special purpose company owning Espoir Omotesando, a prime retail asset, for ¥31 billion (US\$375 million) in one of Japan's biggest real estate transactions of 2010.

Japan, Tokyo

Nomura Real Estate Holdings' subsidiary NREG Toshiba Building has sold the Ginza Seven Building in Ginza Chuo-ku, for ¥18 billion (US\$218 million) to GK GZ Capital.

Korea, Seoul

Merrill Lynch has sold its 50% stake in the Center 1 building to co-investor Mirae Asset MAPS for KRW 550 billion (US\$490 million). The asset will be placed into the Mirae Asset MAPS Frontier Private Equity Real Estate Trust No. 28.

Korea, Seoul

The Hana Daetoo Securities Building has been acquired by Hana Daol Land Chip REIT No. 1 for KRW 287 billion (US\$ 260 million) from Hana Financial Group.

New Zealand

Pacifica Partners, a joint venture between Host (US) and GIC (Singapore), has acquired a New Zealand hotel portfolio for A\$115million (US\$114 million). The portfolio was sold by TAHL, an Australia-based investment company specialising in hotel assets. The portfolio consists of five full-service mid-scale assets totalling 1,011 rooms.

Singapore

City Developments Limited (CDL) has sold The Corporate Office, a 21-storey 10,200 square metre freehold office building to a consortium led by Oxley Holdings group for S\$215 million (US\$165 million).

Singapore

Singapore listed K-REIT Asia has sold Keppel Towers and GE Tower to Keppel Land for S\$579 million (US\$444million).

Thailand

The 226-room Dusit Thani Laguna Phuket has been acquired by Dusit Thani Public Company Limited, a Thai hotel owner/operator. The asset was sold for THB 2.6 billion (US\$87 million) by Laguna Resort and Hotels.

Europe

France, Paris

SIIC de Paris has acquired two office buildings in La Défense (Coface and Les Miroirs) from SFL for €286 million (US\$388 million).

France, Paris

Klépierre has sold an office and retail complex in the 8th arrondissement to Invesco Real Estate for a reported €134.5 million (US\$183 million). The complex totals over 12,000 square metres and hosts the headquarters of Linklaters.

Germany, Frankfurt

A joint venture from Government of Singapore and JP Morgan (acting for China Investment Corp.) has purchased Opernturm, a 67,000 square metre trophy office building, for €580 million (US\$787 million) from developer Tishman Speyer.

Italy, Milan

Milano Assicurazioni has sold an office building in Piazza Cordusio (CBD) to Sorgente SGR (Donatello Fund) for €105 million (US\$143 million).

Italy, Rome

DEGI (Europe Fund and Global Fund) has sold the Ministero della Salute office to Generali for €120 million (US\$163 million).

Netherlands, Rotterdam

The Government Buildings Agency (GBA) has purchased the Wilhelminahof offices and courts complex in Rotterdam from a consortium of owners, marking the largest single-asset transaction in the Dutch market for 2010. The consortium comprises ING Real Estate Development, MAB Development Nederland B.V. and the pension funds of KPN and TNT, represented by TKP Investments. The complex was purchased for approximately €220 million (circa US\$300 million). The total floor area is more than 81,000 square metres. GBA was advised by Jones Lang LaSalle.

Sweden, Stockholm

Vasakronan has acquired the entire Blåmannen 20 city block, known as 'Klara Zenit', for SEK 4.35 billion (US\$641 million) from HausInvest, the German open-ended property fund managed by Commerz Real. This is the largest ever single-asset real estate investment in Sweden. Blåmannen 20 is located in the heart of the CBD and comprises approximately 70,000 square metres of offices and high street retail. Jones Lang LaSalle advised Vasakronan.

Russia, Moscow

Horus Capital has sold five class B business centres to Otkritie Finance Corporation for around US\$800 million, including company liabilities (US\$600 million). The assets are the Gamma, Avion, Fabrika Stanislavskogo, Krugozor and LeFORT Business Centres.

UK, London

JP Morgan Asset Management has agreed to buy the Bishops Square office site in the City of London for a reported £557 million (US\$880 million) from a joint venture comprising Hammerson and the Oman Investment Fund.

UK London

JP Morgan has acquired 25 Bank Street in Canary Wharf for its European investment bank headquarters. The bank bought the 33-storey office tower, vacated by Lehman Brothers, for £495 million (US\$782 million). It plans to occupy the building in 2012.

UK, London

Norges Bank, which manages the Norwegian Government Pension Fund Global, has exchanged contracts on the purchase of a 150-year lease on a 25% stake in The Crown Estate's Regent Street properties. Advised by Jones Lang LaSalle, this £452 million (US\$ 714 million) purchase is the fund's first real estate investment. The Regent Street portfolio consists of 113 buildings spread over 39 blocks.

UK, London

Sahara India Pariwar, the Indian multi-business conglomerate, has purchased the Grosvenor House Hotel in Mayfair. The hotel was acquired from The Royal Bank of Scotland for a reported £470 million (US 742 million).

MENA

Egypt, Cairo

Dubai-based real estate developer Sweid & Sweid has sold its newly-constructed 11,600 square metre office building in the New Cairo business district. The building was purchased for US\$31 million by investment bank Abraaj Capital from Dubai, which has added the asset to its MENA real estate fund. Known as The 47th, the building is 90% leased to tenants including Red Bull, Tesco, Fujitsu and GlaxoSmithKline. Jones Lang LaSalle acted for the vendor.

UAE, Dubai

The newly completed Ritz-Carlton Hotel within the Dubai International Financial Centre (DIFC) has been sold by its developer, Union Properties, for a reported price of AED 1.1 billion (US\$300 million). This represents the biggest single asset sale in the region for several years and was one of the largest hotel transactions globally in 2010.