

Global Economy

Global economy at a crossroads

Debt crisis dominates the economy

Although 2011 got off to a very optimistic start, the global economic climate has deteriorated sharply in the course of the year.

In the first half of the year very positive data for the so-called emerging markets as well as for large countries such as Germany initially encouraged hopes of strong global economic growth and a sustained, expansionary trend. The dramatic developments in the eurozone, the faltering US economy and the continuing problems of the banking sector, not least non-performing property loans, have darkened the outlook both for the rest of this year and for 2012. Uncertainty among investors and consumers is reflected in the rollercoaster ride in global stock markets, though in the last few months prices have on balance tended to plunge rather than soar. Most recently, the upward price trends in commodities and even precious metals have taken a knock.

In this atmosphere even the emerging markets have not been able to count on sustained growth as they face increasingly challenging markets in the floundering industrialized countries.

Debt management is the key

Much depends on whether the USA, the UK and the heavily indebted eurozone countries manage to get a grip on their budget problems and are able to prevent a cascade of bankruptcies in the banking sector.

Global: Key indicator and change from last year

Population (06 2011)	6,930,000,000	↗
Population: forecast (2050)	27.0%	↗
GDP growth (2011)	4.3%	↘
GDP: forecast (2012)	4.5%	↗
Inflation, end of period consumer prices (06 2011)	4.0%	↗
Trade volume of goods and services (2011)	8.2%	
Unemployment rate (2010)	6.2%	↘
Employment in services (2009)	43.0%	↗
Employment in agriculture (2009)	35.0%	↗
Employment in industries (2009)	22.0%	↗
Price of gold (y-o-y) *	1,281 EUR (30%)	
Price of platinum (y-o-y) *	1,1293 EUR (15%)	
Price of oil (Brent, y-o-y) *	82 EUR (32%)	
Price of oil (WTI, y-o-y) *	63 EUR (16%)	
Price of cotton (y-o-y) *	0,78 EUR (17%)	
Exchange rate USD/EUR *	0,71 (-11%)	
Exchange rate USD/YEN *	72,22 (-16%)	
Exchange rate USD/CHF *	0,86 (-17%)	
Dow Jones Global Index (y-o-y) *	231 (4%)	
MSCI World Index (y-o-y) *	1,173 (4%)	

* As at 30th September 2011

Global Real Estate

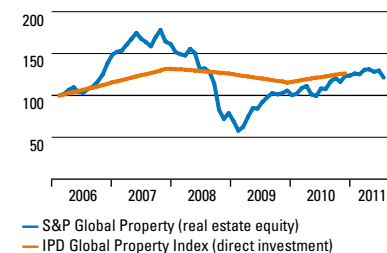
Global transaction volume up by 24% y-o-y

In contrast to the fairly gloomy outlook for the global economy, developments in the real estate markets are extremely gratifying. Investors' global flight into property has resulted in a sharp rise in global transaction volumes and falling yields, and hence increasing prices.

In general, this trend is reflected across the board, although investors still favour properties in traditionally popular countries, above all the USA and the UK, but also Germany and Singapore. As a result, the dominant position enjoyed by the Asian markets in the aftermath of the subprime crisis is starting to diminish again.

One unresolved problem is distressed assets on the balance sheets of many banks and investors. In Germany packets of these properties are finally reaching the market, and in the USA there has been a turnaround inasmuch as the volume of problem properties is falling for the first time in years.

Global property indices (01 2006 = 100)



Top 10 transactions in 2011

Festival Walk
Sector 25A and Sector 32 Olympic Village (free market units)
Starrett Lehigh Building
200 Fifth Avenue
Oil Street Dev Site
Mitsubishi Heavy Industries HQ
Helmsley Building
future Westfield Milan
Xiaotangshan Dev Site

Type	Rentable area (sqm)	Price (EUR)	Price (EUR/sqm)	Location	Buyer
Retail	1,209,000	1,677,079,823	1,387	Hong Kong, HK	Mapletree Investments Pte Ltd
Development	6,577,560	1,001,625,614	152	Noida, IN	Wave Inc
Residential	1,439	636,875,895	442,582	London, GB	Delancey
Office	2,309,739	634,888,547	275	New York, USA	RXR Realty
Office	878,035	567,835,307	647	New York, USA	JP Morgan Asset Management
Development	84,896	562,000,153	6,620	Hong Kong, HK	Cheung Kong Holdings
Office	613,320	547,407,506	893	Tokyo, JP	Nippon Building Fund
Office	1,212,576	533,886,922	440	New York, USA	Invesco Real Estate
Development	6,446,880	475,793,136	74	Milan, IT	Westfield Group
Development	13,993,200	432,088,553	31	Beijing, CN	Taiping Life Insurance Company

Western Europe

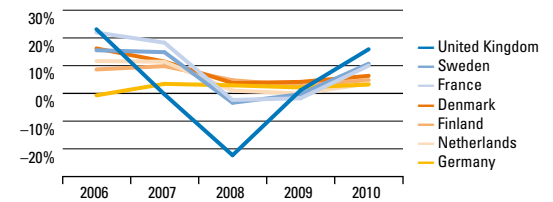
Debt crisis in Europe is spreading

Western Europe has been through some difficult months and almost certainly has more ahead of it. In the meantime the fiscal contagion has spread from Greece not only to Ireland and Portugal, but also to major economies such as Spain and even Italy. Rating agencies recently downgraded the paper of the last two. Meanwhile, French banks have also come under pressure, and even Germany's AAA credit rating is in question owing to its potential share in bail-outs that would be triggered if several states did indeed default on part of their debt.

Exchange rates adversely impact Switzerland and Scandinavia

Those states that could supposedly escape the financial crisis because of comparatively low levels of national debt, such as the Scandinavian countries and Switzerland, have been adversely impacted through their exchange rates. The Swiss franc and the Norwegian krone have appreciated sharply against the euro, with the corresponding consequences for these countries' export industries.

Office: total return

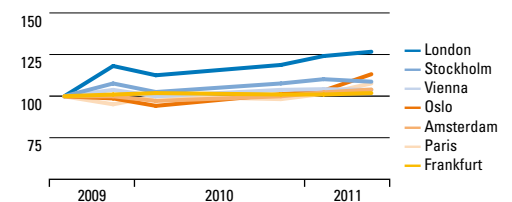


	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Sweden	9,327	1.81%	337	36,123	1.0 ↗	1.0 →	1.1 →
Finland	5,377	2.92%	176	32,881	1.1 →	1.3 ↗	1.3 ↗
Denmark	5,535	1.55%	229	41,498	1.1 ↗	1.3 ↗	1.4 ↗
United Kingdom	62,222	4.08%	1,660	26,696	1.3 →	1.0 →	1.4 ↗
Germany	81,603	-1.19%	2,450	30,030	1.3 →	1.2 ↘	1.4 ↗
Netherlands	16,605	1.58%	578	34,864	1.3 ↗	1.2 ↘	1.4 ↗
France	62,960	2.78%	1,909	30,317	1.5 →	1.1 ↘	1.7 ↗

Investors are looking for European properties

The two general trends in economic development are clearly apparent in Western Europe: on the one hand countries teetering on the edge of bankruptcy and in the process of wreaking havoc on the entire continent; and, on the other, property investors – often from other continents – who are able and willing to spend. At the top of the popularity league tables are the UK and Germany and the small Scandinavian markets. Their strongest selling point is stability, which also accounts for another sharp rise in our ratings of countries and metropolitan areas. Moreover, Switzerland is currently also experiencing a veritable real estate boom with steady increases in property values.

Office: prime rents (Q3 2009 = 100)



In most locations in northern and central Europe, rents for office and retail space are also rising as vacancies fall. The situation in Italy and Spain remains challenging.

Falling yields

Yields are falling across the board, whereby the gap between top locations and less-desirable locations continues to widen.

	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)		Retail: prime rent (EUR) (local curr.)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
London	7,775	67,795	1,200	1,040 GBP ↗	7,490	6,500 GBP →	4.7% ↘	3.5% ↘	1.0 →
Paris	2,186	65,500	780	780 EUR ↗	9,200	9,200 EUR ↘	4.7% ↘	4.5% ↘	1.2 ↘
Oslo	583	71,905	460	3,580 NOK ↗	2,040	16,000 NOK ↗	5.2% ↘	5.0% ↘	1.7 →
Vienna	1,698	56,499	280	280 EUR ↗	3,000	3,000 EUR ↗	5.3% ↗	5.5% →	1.7 →
Stockholm	826	66,148	470	4,350 SEK ↗	1,550	14,300 SEK ↗	4.8% ↘	4.8% ↘	1.7 ↗
Amsterdam	756	50,429	350	350 EUR →	2,800	2,800 EUR ↗	5.4% ↘	4.2% ↘	1.8 →
Frankfurt	659	73,255	460	460 EUR ↗	3,240	3,240 EUR →	5.1% ↘	4.4% ↘	1.8 →

Eastern / South-Eastern Europe

North-South divide in south-eastern Europe

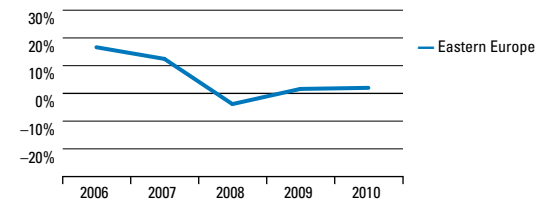
Developments in the countries of eastern and south-eastern Europe are not uniform. Here, too, there is a north-south divide. Whereas Poland in particular came through the financial crisis very well and has a very bright economic outlook, the development to date in south-eastern Europe has been much more difficult. Rumania and Bulgaria have very low economic growth rates, as do the Balkan states. The gap is not expected to narrow before 2012.

Turkey as Europe's growth engine

The one major exception to this picture is Turkey. At the moment Turkey can in fact be called the growth engine of Europe as a whole. Gross domestic product is forecast to grow by 6.6% in 2011. And this is down on last year's figure of 8.9%. That said, growth is expected to slow sharply to just 2.2% in 2012.

High unemployment remains a problem in the countries of south-eastern Europe.

Office: total return



	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Czech Republik	10,507	1.12%	141	13,516	2.2 ↗	2.0 ↘	2.5 ↗
Poland	38,092	-0.05%	346	30,017	2.2 →	1.8 ↘	2.5 ↗
Hungary	10,013	-0.95%	95	9,518	2.3 ↗	2.2 ↘	2.6 ↗
Slovakia	5,430	0.61%	64	11,902	2.4 ↗	2.5 ↗	2.9 ↗
Croatia	4,416	0,0%	45	10,140	2.7 ↘	3.5 ↗	3.0 ↗
Bulgaria	7,531	-2.96%	35	4,681	2.7 ↘	2.9 ↗	2.9 ↗
Latvia	2,248	-1.78%	17	7,904	2.9 →	5.0 ↗	2.8 ↗

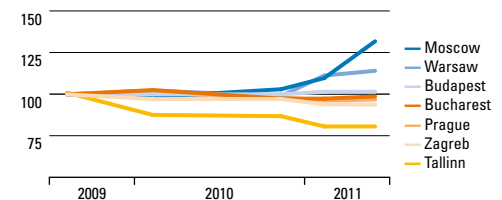
Turkey's credit rating upgraded

The recovery in the real estate markets of south-eastern Europe continues: transaction volumes have risen 13% year-on-year. Poland and Russia are still the most sought-after markets; the latter dominates, of course, on account of its size. The Czech Republic has also experienced a marked increase in the number of transactions – as, interestingly, has Ukraine. Turkey is still relatively low down the league table of transaction volumes, but recorded transactions rose in excess of 30%. At the same time, Turkey is the one country that has significantly improved its position in our country ratings in the past 18 months.

Risk-adjusted yields

As a result of growing interest, yields have continued to fall. However, the levels are still well below the peak achieved four years ago and are still a very good reflection of the risks as compared to the established markets.

Office: prime rents (Q3 2009 = 100)



	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)		Retail: prime rent (EUR) (local curr.)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
Prague	1,249	29,784	250	250 EUR →	2,040	2,040 EUR ↗	6.5% ↘	6.5% ↘	2.4 ↗
Moscow	10,544	19,431	840	840 EUR ↗	3,340	3,340 EUR ↗	9.0% ↘	9.5% ↘	2.4 ↗
Warsaw	1,710	26,879	310	310 EUR ↗	1,000	1,000 EUR →	6.5% ↘	6.4% ↘	2.5 →
Budapest	1,712	21,416	240	240 EUR ↘	1,200	1,200 EUR →	7.5% ↘	6.8% ↘	2.6 ↗
Tallinn	407	17,979	156	156 EUR →	300	300 EUR ↘	9.0% →	8.5% →	3.1 ↘
Bucharest	326	9,548	248	1,070 RON →	820	3,520 RON ↘	8.5% →	11.0% ↘	3.1 ↗
Zagreb	789	23,546	190	190 EUR →	790	790 EUR ↗	8.3% ↘	7.5% ↘	3.4 ↘

North America

USA loses its AAA credit rating

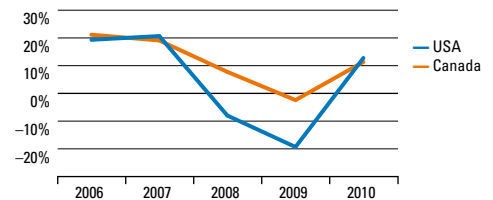
During the summer the economic headlines were dominated by the budget crisis in the USA and the danger of at least temporary insolvency if the debt ceiling were not increased. In the event, the political tug-of-war over the budget cost the USA its AAA credit rating from Standard & Poor's. The USA has still not managed to transform its improving economic performance into a sustainable job-creating upturn. The country is experiencing jobless growth. Besides public debt, private debt is also an extremely pressing problem – and one which is having a growing impact on the domestic economy.

Canada still positive

By contrast, Canada, the USA's quieter, smaller northern neighbour, continues to churn out stable data. On the other hand, given the close integration between the Canadian and the US economies, it will be difficult for Canada to maintain long-term growth at the same time as the American economy is faltering.

A lot will depend on whether the US economy is able to return to a stable growth path.

Office: total return



	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Canada	34,059	8.39%	1,163	34,157	1.0 ↗	1.0 →	1.5 ↗
USA	309,997	5.84%	10,833	34,947	1.1 ↗	1.0 →	1.4 ↗

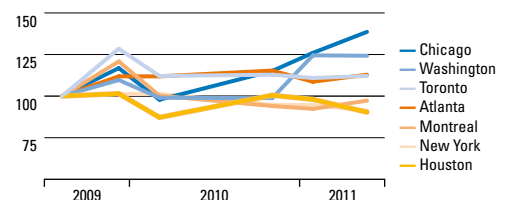
High investment activity in North America

China has replaced the USA as the No. 1 investment location. Nonetheless, the volume of investment in the USA far outstrips others in the locations league table. Once again, there has been a solid year-on-year increase. Canada is also still among the Top 10 locations by transaction volume – although in reality this market is relatively small.

On the other hand, precisely the smallness of the Canadian market and its popularity as an investment objective have resulted in steadily increasing property prices and declining yields.

Among the local markets, Toronto stands out once again, as so often in the past – and in turn exhibits falling yields. On the other side of the border, the situation in Washington has stabilised somewhat. Despite its economic difficulties and vacancies, the city has experienced a flood of capital, and, as a result, rapidly falling yields. This yield compression has now come to a standstill.

Office: prime rents (Q3 2009 = 100)



Slower yield compression in Washington

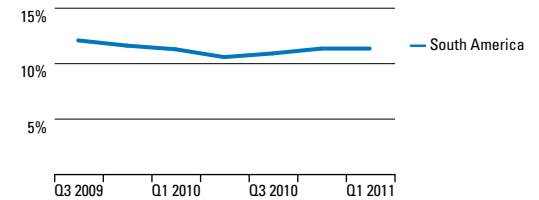
	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)		Retail: prime rent (EUR) (local curr.)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
New York	8,364	67,763	490	660 USD ↘	16,610	22,340 USD ↗	5.0% ↘	6.5% ↘	1.1 ↘
Chicago	2,853	56,854	276	370 USD ↗	2,248	3,030 USD →	7.3% ↘	7.0% ↘	1.7 →
Toronto	2,503	47,826	200	280 CAD →	2,520	3,500 CAD ↗	6.5% ↘	6.5% ↘	1.7 →
Washington	592	70,476	413	585 USD →	927	1,250 USD ↗	5.7% ↗	6.7% ↗	1.7 ↗
Montreal	1,621	39,654	421	585 CAD ↗	1,444	2,010 CAD →	5.8% ↘	6.6% ↘	1.9 →
Houston	2,242	59,578	200	270 USD ↘	296	400 USD ↘	7.6% ↘	7.3% ↘	2.0 →
Atlanta	538	48,390	180	245 USD →	333	450 USD ↗	7.5% ↘	7.3% ↘	2.0 →

Latin America

Economic growth expected to moderate

Economic growth in Latin America remains robust, due to high commodity prices and healthy domestic demand. However, the pace of growth moderated in the second quarter of 2011 as policies are being tightened and global demand is slowing down. Overall, the region is projected to see output grow by at least 4.5% over the course of 2011, compared with a 6% expansion in 2010. Peru and Argentina are expected to lead the table, with projected growth rates of 7.5% and 6% respectively.

Office: cap rates



Continued growth in Brazil

Market fundamentals in Brazil, until now the region's strongest performing economy, remain favourable: employment continues to grow, and thus income and consumption levels are on an upward trend. While the economic growth forecast for 2011 remains positive at around 4%, this represents a slowdown compared to the strong expansion of more than 7% recorded last year.

Inflationary pressure remains

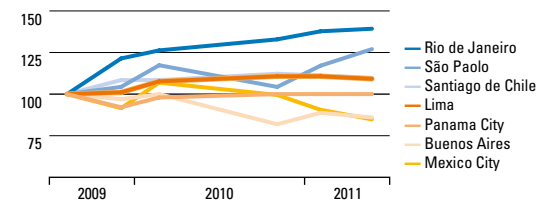
Nonetheless, Latin America is still showing signs of overheating as inflation levels keep rising and credit growth is accelerating.

	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Chile	17,190	6.50%	150	8,742	2.0 →	2.6 ↗	2.2 ↗
Mexico	108,627	6.15%	767	7,070	2.6 ↗	3.0 ↗	2.7 ↗
Brazil	193,253	3.23%	1,544	7,994	2.9 →	2.8 ↘	2.7 ↗
Peru	29,552	9.65%	113	3,822	2.9 →	3.9 ↗	2.8 ↗
Colombia	45,512	7.33%	210	4,636	3.0 ↘	3.9 ↗	2.8 ↗
Uruguay	3,357	2.11%	29	8,867	3.1 ↘	3.9 ↗	2.8 ↘
Costa Rica	4,562	10.98%	26	5,796	3.2 →	3.2 →	2.8 ↘

Strong rental growth in São Paulo

Fuelled by strong demand for office space, Sao Paulo experienced another surge in rental levels in the second quarter of 2011, while office rents remain under pressure in Mexico City. Moreover, given the strong economic link between Mexico and the United States, the medium-term growth outlook is uncertain owing to the current concerns about US public finances and the associated risks to the economy.

Office: prime rents (Q3 2009 = 100)



Healthy retail spending

Most Latin American retail markets are performing well as retail spending continues to grow amid improved consumer confidence. As vacancy rates remain low in most prime locations, this is likely to put upward pressure on rental levels in the coming months.

Demand outlook remains positive

Given the overall favourable economic outlook for the region, demand for prime commercial space is expected to continue in the coming quarters, particularly in countries such as Brazil, Chile and Argentina.

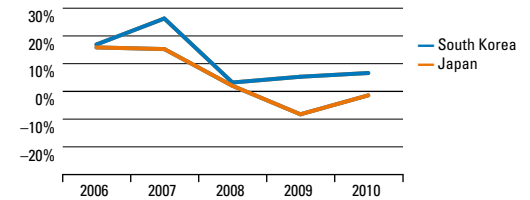
	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)		Retail: prime rent (EUR) (local curr.)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
Mexico City	8,842	19,396	210	280 USD ↘	400	540 USD →	11.4% →	9.5% →	2.6 ↗
Santiago	5,197	12,484	200	139,420 CLP ↗	750	522,825 CLP ↗	9.6% →	6.7% ↘	2.6 →
São Paulo	11,038	13,946	580	1,440 BRL ↗	830	2,050 BRL →	11.5% →	9.5% ↘	2.7 →
Rio de Janeiro	6,187	11,589	654	1,640 BRL ↗	1,730	4,335 BRL ↗	11.5% →	10.0% ↘	3.0 →
Buenos Aires	3,043	13,712	280	380 USD ↘	750	1,010 USD →	7.8% →	9.7% →	3.1 ↗
Lima	8,000	6,017	164	598 PEN →	435	1,587 PEN ↗	13.8% →	12.0% →	3.2 →
Panama City	825	6,957	156	208 PAB →	221	295 PAB ↗	9.0% ↗	9.0% ↗	3.6 →

Asia

Growth momentum expected to moderate

The upturn in Asia's emerging economies continues, but due to lower demand from the major advanced economies the growth momentum moderated in the second quarter of 2011. Nonetheless, Chinese output growth is projected to average around 9% in both 2011 and 2012, and the economic situation remains favourable in the newly industrialised economies of South Korea, Taiwan, Hong Kong and Singapore. The Japanese economy contracted in the first half of 2011 following the devastating effects of the recent earthquake and tsunami, but is expected to be buoyed by the ongoing reconstruction efforts and return to positive growth levels in 2012.

Office: total return



Inflation continues to pose a risk

However, inflationary pressure continues to pose a risk to parts of the region. In China, inflation rose to 6.4% in June 2011, its highest level for three years, despite a series of interest rate increases and curbs on bank lending. South Korea's inflation rate, too, is currently above the 4% target, which caused the central bank to raise its benchmark interest rate for the third time in 2011.

	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Singapore	5,165	10.9%	164	31,867	1.0 →	1.5 ↗	1.1 →
Japan	127,483	-1.09%	4,056	31,648	1.5 ↗	2.1 ↗	1.4 ↗
Korea	48,909	1.88%	744	15,218	2.0 ↘	3.0 ↗	1.9 ↗
Malaysia	28,251	10.64%	175	6,225	2.1 →	2.1 →	1.8 ↗
Taiwan	23,328	5.52%	318	13,642	2.4 ↘	2.6 ↗	1.6 →
China	1,341,414	3.04%	4,344	3,238	2.6 ↘	3.3 ↗	2.0 ↗
India	1,215,939	8.26%	1,136	934	3.2 ↘	3.1 ↘	2.7 →

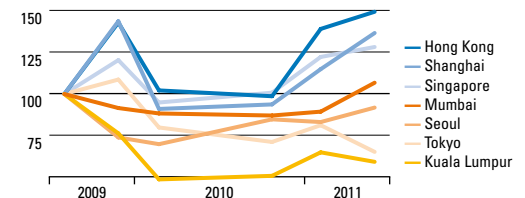
Strong demand for office space

In most office markets across Asia, strong demand is pushing down vacancy rates despite a substantial development pipeline in the commercial sector.

Prime rents rising in Shanghai and Hong Kong

Several high-quality buildings were recently completed in Shanghai (IFC Phase II, Taioing Finance Tower and One ICC Tower), adding 267,000 sqm of office space to the market. Nonetheless, an active leasing market saw the average vacancy rate for Grade-A office space drop by nearly two percentage points, causing prime rents to rise to 4,200 CNY per sqm per year. The Hong Kong office market is benefiting from strong relocation and expansion activity, particularly in the finance and insurance sector. Currently, prime rents of up to 13,800 HKD per sqm per year are observed in Central. Overall, Hong Kong prime rents have risen significantly in the first half of 2011.

Office: prime rents (Q3 2009 = 100)



Pace of rental growth might slow

With Asia representing a key market for international corporations, demand for office space is likely to remain strong in the coming months. However, given the uncertain global economic outlook, the pace of rental growth may slow somewhat.

	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR)		Retail: prime rent (EUR)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
Singapore	3,734	31,511	620	1,090 SGD ↗	2,806	4,910 SGD ↗	3.5% →	3.9% →	1.5 →
Tokyo	12,907	39,937	1,010	103,670 JPY ↘	7,700	791,970 JPY ↗	4.7% →	5.8% ↘	1.5 ↗
Hongkong	7,055	20,719	1,320	13,800 HKD ↗	13,350	139,568 HKD ↘	3.2% →	3.5% ↘	1.5 →
Seoul	10,464	17,543	350	558,100 KRW ↗	2,960	4,750,000 KRW →	5.5% →	6.0% →	2.3 ↘
Shanghai	18,885	7,253	490	4,200 CNY ↗	2,480	21,360 CNY ↗	5.8% →	5.0% →	2.6 ↘
Kuala Lumpur	1,475	13,875	373	1,590 MYR ↘	809	3,450 MYR ↘	6.8% →	6.0% →	2.7 ↘
Mumbai	13,831	3,444	730	44,400 INR ↗	890	59,500 INR →	10.0% →	8.0% →	3.0 ↘

Australia/New Zealand

Economic upturn likely to continue

After the disruptions caused by major natural disasters in early 2011, current economic indicators point to a continued upturn in the Australian economy. According to OECD forecasts, output growth is expected to accelerate from 3% in 2011 to 4.5% in 2012, driven by business investment and commodity exports as the region benefits from robust growth in emerging Asia. However, while the resources sector is growing strongly, the strength of the Australian dollar is weighing on the manufacturing industry.

The New Zealand economy is set to rebound in the second half of this year and into 2012, due to reconstruction activity after the Christchurch earthquake in February 2011 and soaring trade with Asia. However, the level of foreign debt poses a concern and caused leading rating agencies to downgrade New Zealand's credit rating from AA+ to AA at the end of September 2011.

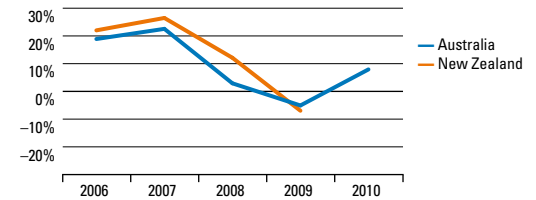
Solid employment growth

Consistent with the overall favourable economic outlook, employment growth is expected to remain solid in both Australia and New Zealand.

Global economy represents a risk

Current uncertainties in the global economy represent a key risk. Fiscal problems in several European economies and the US could result in negative flow-on effects on global financial markets and disrupt economies elsewhere.

Office: total return

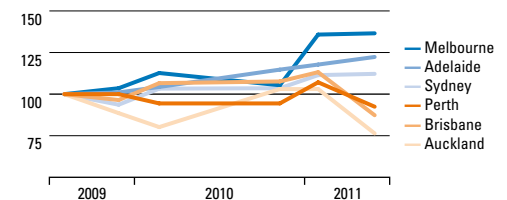


	Population (in 1,000)	Population growth (2010–2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0–5.0)	JLL transparency index (1.0–5.0)	Legal Certainty (1.0–5.0)
Australia	22,226	7.74%	913	41,085	1.1 →	1.0 →	1.7 ↗
New Zealand	4,369	6.34%	103	23,758	1.1 →	1.0 →	2.0 →

Sydney and Melbourne prime rents are rising

Strong demand continues to put upward pressure on office rents in the CBD areas of Sydney and Melbourne. In Sydney, prime office space is expanding and currently represents almost half of total stock. However, as tenant demand is shifting towards high-quality space, the vacancy rate at the top end of the market has dropped to 2.5%, its lowest level since 2000. As a result, incentives on office leases - which at times reached up to 30% of prime rents - have largely been reduced.

Office: prime rents (Q3 2009 = 100)



Relocation activity in Auckland

The Auckland office market is going through a period of increased relocation activity, which is freeing up considerable space within the CBD. As a result, the first half of 2011 saw a downward correction in office prime rents.

Positive outlook for office space demand

Overall, positive trends in the region's commercial property markets are expected to continue given the favourable economic outlook. With unemployment forecast to decline gradually, floor space demand is likely to grow and sustain rental growth in both the office and retail sectors.

	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)		Retail: prime rent (EUR) (local curr.)		Prime yield (office)	Prime yield (retail)	W&P rating (1.0–5.0)
Sydney	3,750	53,355	520	720 AUD ↗	7,380	10,180 AUD ↗	7.1% →	7.5% →	1.7 ↘
Melbourne	3,552	50,008	394	545 AUD →	3,483	4,800 AUD ↗	7.4% →	6.5% →	2.0 →
Brisbane	1,826	45,951	445	610 AUD →	3,285	4,500 AUD ↘	7.0% →	6.8% →	2.1 →
Perth	1,318	45,354	548	750 AUD →	2,373	3,250 AUD ↗	7.3% →	7.6% →	2.1 →
Auckland	405	41,860	152	265 NZD ↘	1,054	1,830 NZD ↘	8.6% ↘	7.4% →	2.2 →
Adelaide	1,065	47,250	292	400 AUD ↗	2,190	3,000 AUD ↗	7.3% ↘	6.5% ↗	2.3 →

Africa/Middle East

Economies suffer from political unrest

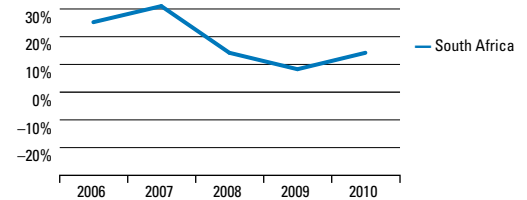
North Africa's economies have been hit hard as a result of recent political events that caused major output losses, a dramatic fall in oil production in Libya and declines in tourism. Economic growth is currently forecast to slow to less than 1% in 2011, compared to 4.7% in 2010.

While Middle Eastern economies are also affected by political instabilities, countries such as Saudi Arabia and Kuwait have recently benefited from lower oil output in Libya and seen production levels soar. In addition, several countries in the Gulf region have introduced fiscal stimulus measures in response to the current unrest, which provided a boost to consumer spending and economic activity.

Improved outlook for Egypt

The political situation in Egypt continues to calm. Given its strategic position as a business hub within the region, the Egyptian economy is expected to return to a growth path, provided that further serious unrest can be avoided. As such, the overall outlook for the Cairo office market has improved significantly over the last few months. However, the current development pipeline is set to add 70,000 sqm of Grade A office space to the market over the coming months, which could lead to further rental declines.

Office: total return

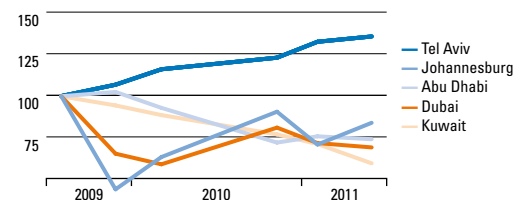


	Population (in 1,000)	Population growth (2010-2016)	GDP (EUR bn.)	GDP per capita (EUR)	W&P rating (1.0-5.0)	JLL transparency index (1.0-5.0)	Legal Certainty (1.0-5.0)
United Arab Emirates	5,055	19.17%	223	44,136	2.1 ↘	1.3 ↘	2.0 ↘
Saudi Arabia	26,106	13.39%	328	12,561	2.1 ↗	3.6 ↗	1.7 ↘
Israel	7,430	13.96%	157	21,201	2.3 →	2.2 ↘	1.8 ↗
South Africa	49,912	7.42%	263	5,290	2.4 ↗	1.9 ↘	2.7 ↗
Kuwait	3,606	12.62%	96	26,912	2.4 →	3.8 ↗	2.3 ↗

Office rents under pressure in Dubai and Abu Dhabi

The Dubai office market remains under pressure against a background of dwindling business activity and persistent oversupply. In the second quarter of 2011, office rents reportedly fell by almost 5% compared to the previous quarter, and the overall vacancy rate remained at almost 45%. Similar market conditions prevail in Abu Dhabi, where office rents are under pressure. The situation is unlikely to improve in the medium term: the Abu Dhabi real estate market is set to experience a supply of 100,000 sqm of new office space in 2012, while considerable space is due to be added to Dubai's office markets in 2011 and into 2012.

Office: prime rents (Q3 2009 = 100)



Positive developments in South Africa

By contrast, South African commercial property markets are performing strongly. Nationally, office rentals increased significantly in the second quarter of 2011, with Johannesburg experiencing a 15% rental rise and Cape Town reporting a more moderate appreciation of around 5%. In Durban, on the other hand, recent additions of commercial space pushed average office rents down somewhat.

	Population (in 1,000)	GDP per capita (EUR)	Office: prime rent (EUR) (local curr.)	Retail: prime rent (EUR) (local curr.)	Prime yield (office)	Prime yield (retail)	W&P rating (1.0-5.0)
Dubai	2,501	51,729	562 2,780 AED ↘	680 3,370 AED ↘	9.8% ↘	10.0% ↘	2.3 ↘
Abu Dhabi	860	53,550	562 2,050 AED ↘	740 2,700 AED ↘	9.5% →	12.5% →	2.5 ↘
Johannesburg	3,790	15,348	130 1,440 ZAR ↗	460 5,070 ZAR →	9.0% ↘	10.5% ↘	2.8 →
Tel Aviv	393	33,246	312 1,560 ILS ↗	2,400 12,000 ILS ↗	7.5% →	7.0% →	2.9 →
Kuwait	96	46,838	354 130 KWD ↘	965 360 KWD →	9.0% ↗	9.0% ↗	2.9 ↗

Rating of real estate metropolises worldwide

Rating as risk measurement for institutional investors

Wüest & Partner produces a city rating for 401 worldwide cities. In addition, a separate country rating is also provided as an integral part of this study. These ratings reflect the structural risk of a location for real estate investment.

The analysed data reflected in the rating targets both national and local perspectives, thereby including key indicators of country-level business conditions and risks as well as indicators important for the local real estate market. Data sources for the data are international organisations, national statistics, broker reports as well as our own resources.

With this structure it is not surprising that the best-rated locations are found in the rich and very stable countries of Western- and Northern-Europe as well as in North America and the major Asian economies. The map on the previous page shows the evaluated cities and countries ranked on scale from "Excellent" to "Lowest".

It should be noted that the overall rating of individual cities and countries is a result of the relative position within the respective dataset. It is therefore possible that the rating of a country may differ from the rating of the individual cities therein. For example, France has the rating "Good" where as Paris, its only rated city, has the rating "Excellent" being one of the most important markets worldwide. The other way round we can observe for example in South Africa which as an investment country gets the result "Good", but no city could be classified better than "Questionable".

Wüest & Partner will publish factsheets providing general and real estate information for each rated location. This tool aims to help international investors to optimise their asset allocation from a risk and return perspective. Furthermore, it provides users with the possibility of analysing extreme scenarios. For example, if London were to lose its status as a major financial centre.

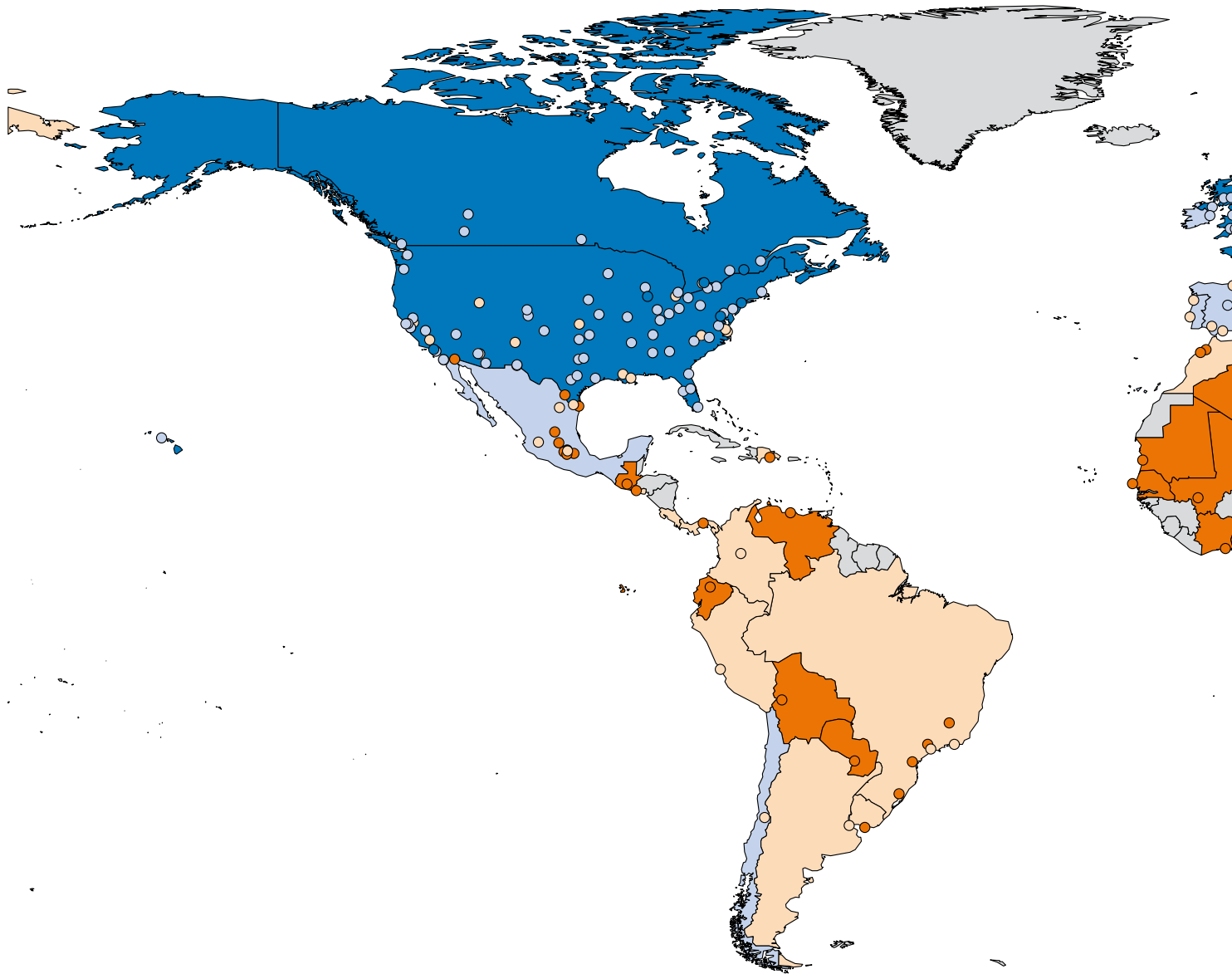
Metropole rating: weighting	
Country rating	30%
Real estate market	30%
Demography city	14%
Economy city	10%
Infrastructure	6%
Fundamental risks	5%
Accessibility	5%
Total	100%

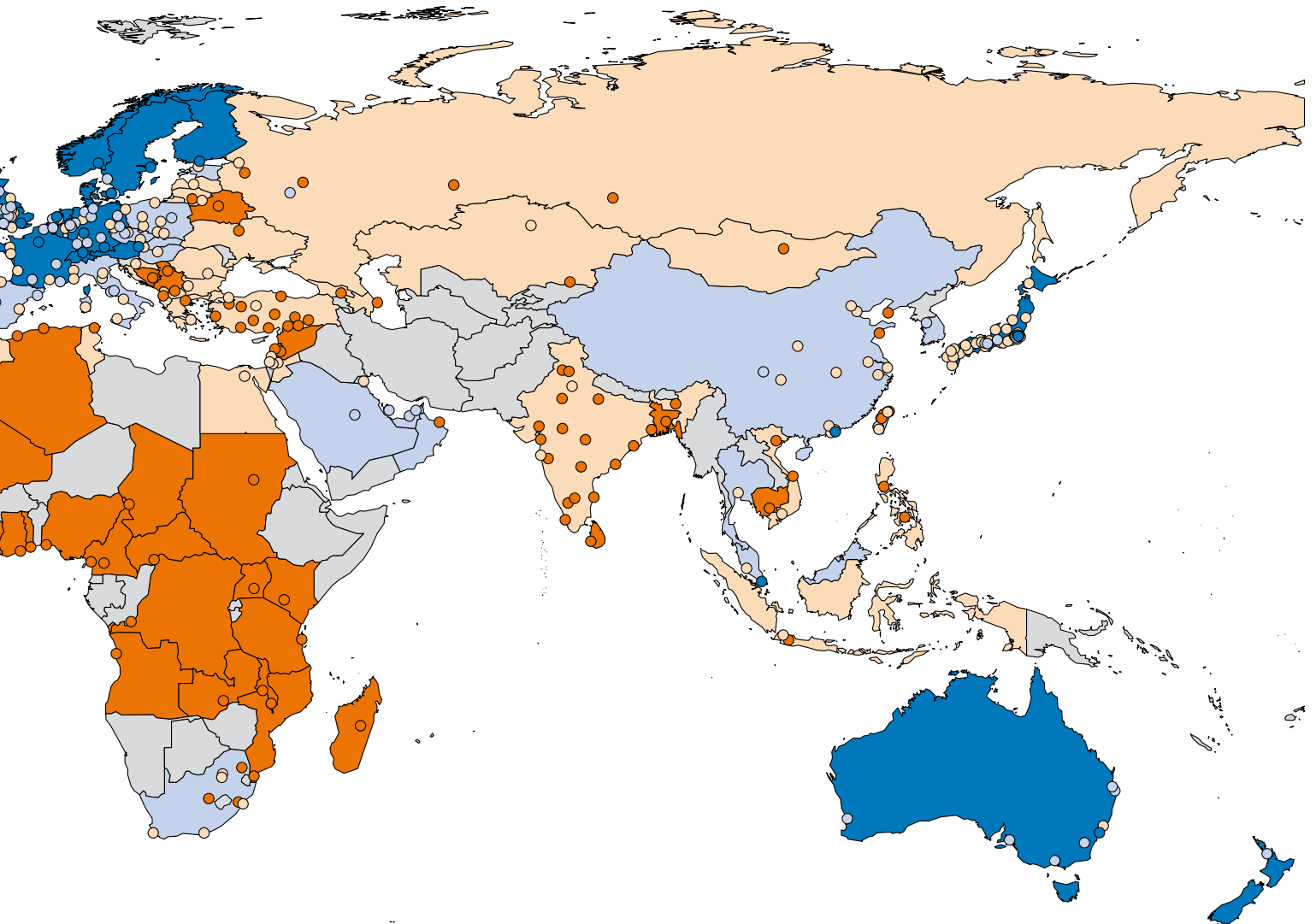
Country rating: weighting	
Business conditions	21%
State and social environment	18%
Transparency	17%
Economy	15%
Risk ratings	15%
Interest rates and credit	8%
Demography	6%
Total	100%



Rating of real estate metropolises worldwide

- Excellent
- Good
- Questionable
- Poor
- Lowest
- Not rated





Sources This market survey is based on a broad internal data pool. It also draws on data provided by the following international institutions: various statistical offices, United Nations Organisation, International Monetary Fund, International Labour Organisation, Wallstreet Online, World Bank Group, «finance.net», Real Capital Analytics, as well as market reports of the following brokers: PriceWaterhouseCoopers, CB Richard Ellis, Jones Lang LaSalle, Knight Frank, NAI Apollo and Cushman & Wakefield. All total return data is supplied by IPD.

Notes Grading system (W&P Rating, JLL Transparency Index and World Bank Ease of Registering Property): Grade 1.0 = excellent, Grade 5.0 = deficient.
Prime rents (2010): EUR per square metre and year, local currency per square metre and year.
Prime yields (2010): net initial yield (cash flow before capex/price).
Population and GDP figures are from 2009.
Arrows indicate the year-on-year change (throughout the whole document).
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Since its foundation in 1985, Wüest & Partner has stood for quality, innovation and real benefits for its customers. By concentrating exclusively on consultancy services, it can deliver fully professional, and at the same time, neutral solutions.

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