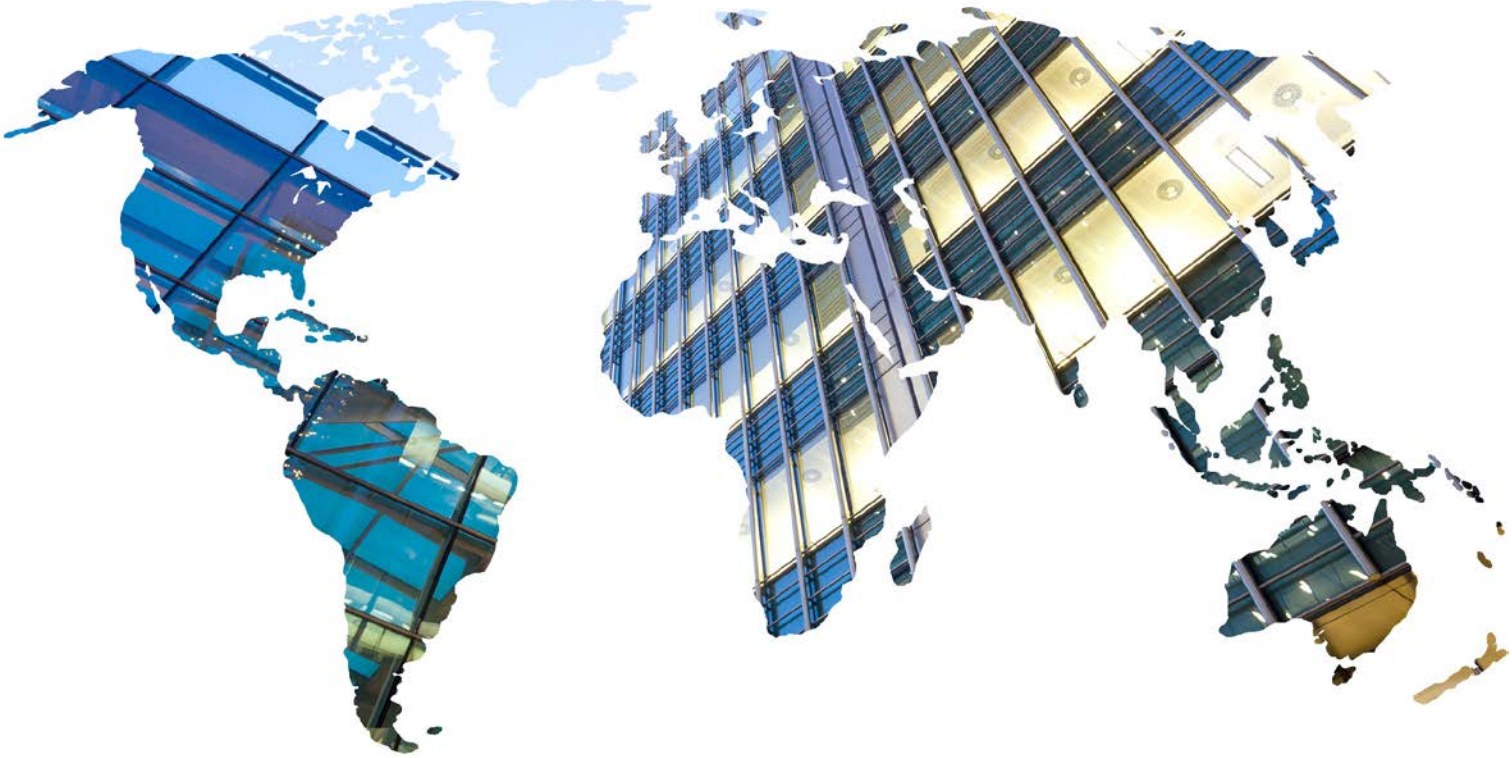
Encouraging Signs for 2014

Global Market Perspective | Q4 2013



Global Market Perspective
Fourth Quarter 2013

Encouraging Signs for 2014

There is good reason to be optimistic about the global real estate market in 2014, as the world economy regains some vigour, business confidence improves and strong corporate balance sheets encourage increasing capital expenditure.

The global real estate investment market continues to surprise on the upside. Virtually all major markets are recording sales volume growth - and the weight of money, combined with an improving lending environment and heightened risk appetite, point to further uplift over the coming year. Liquidity is improving across a broad spectrum of markets and sectors and, barring external shocks, we are looking at a scenario where 2014 global sales volumes are potentially only 20-25% lower than the boom years of 2006 / 2007.

The global leasing markets are less exuberant, however. While corporate occupier sentiment has improved markedly over the last quarter, companies remain vigilant and sentiment is still prone to external shocks. Nonetheless, momentum is building in the U.S, where the office leasing market has the potential to pick up substantial speed in 2014 and 2015. London, a bellwether market, is also showing renewed dynamism. Meanwhile, much of Continental Europe and Asia Pacific is still subdued, though leasing activity is expected to gradually improve in both regions. Following such a period of weak corporate activity, demand would typically be expected to bounce back by 20-30% - but this cycle is likely to be different. Commercial real estate is now being utilised more efficiently, leading us to the view that the upswing in occupier demand is likely to be less pronounced than in previous cycles. Even so, the majority of major leasing markets should be on a more solid footing in 2014.

The key highlights from the **Fourth Quarter 2013 Global Market Perspective** are:

- **Economy:** Strengthening economic growth and business sentiment bodes well for global real estate in 2014
- **Investor Activity:** Q3 volumes exceed expectations, up 41% year-on-year
- **Risk:** Investors move up the risk curve and liquidity improves in secondary markets
- **Investment Outlook:** On track to surpass US$500 billion for full-year 2013; with a further 10% growth in 2014
- **Cap. Values:** Values accelerating on the back of yield compression. 4.3% year-on-year growth for prime offices
- **Leasing:** Volumes slowly rising due to healthier U.S. and London markets. Europe and Asia Pacific remain subdued
- **Leasing Outlook:** Encouraging signs of uplift for 2014. 5-10% growth in volumes, with strongest upside in the U.S.
- **Corporate Sentiment:** Sentiment improving, but corporates continue to be vigilant
- **Supply:** Increasing shortages of quality stock; high structural vacancy to persist in the developed markets
- **Rents:** Office rental growth expected to gain momentum, increasing from 1% year-on-year currently to 3.5% in 2014
- **Top Performers:** Jakarta, Tokyo, San Francisco and Dubai projected to show strongest office rental growth in 2014
- **Retail:** Strong demand from the luxury retail sector boosts values in key international retail hubs
- **Industrial:** Construction increases - speculative development prevails in the U.S, non-speculative in Europe
- **Hotels:** Investment market is buoyant. Sound growth was registered in all regions in Q3
- **Residential:** U.S. apartment market holds strong. Restrictions slow sales in the main Asian markets
- **Key Investment Transactions:** Volumes in Singapore boosted by several large deals

Global Market Perspective

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Global Economy

U.S. concerns cloud improving global prospects

The latest U.S. budget crisis has provided an early test for the global recovery. The federal shutdown dominated headlines, but was eventually overshadowed by the much bigger concern of agreement on the public debt ceiling. With ratings agencies poised to downgrade, a last-minute agreement was reached by Congress, though this only pushed back the deadline to next February. Given that the underlying fiscal problems are not severe and that the disruption has been temporary, the economic consequences should not be too negative for U.S. growth. But, market reaction has so far been benign and it may be less forgiving if the wrangling continues in the New Year.

U.S. political upheaval appears to have had a modest impact on the global outlook so far. U.S. forecasts remain broadly unchanged on the quarter. By contrast, the UK and Japan, which both saw notable revisions last quarter, have seen their 2013 growth pushed up again. Most significant, however, are improvements in the Eurozone, which has recently emerged from the longest recession on record. There is increasing optimism about growth in the Eurozone core and that the fringe economies will exit from recession next year.

At the same time, expectations for emerging markets have been steadily downgraded since a shift in U.S. monetary policy was signalled in Q2, though the downward trend was less stark last quarter. China, for example, improved slightly on the basis of more reassuring data. By contrast, India, where there are more concerns about policy, has been hit by currency depreciation and higher interest rates.

GDP Projections 2013 in Major Economies – Recent Movements

	Australia	China	France	Germany	India	Japan	UK	USA
July 2013	2.4	7.5	-0.5	0.5	5.1	1.7	1.1	1.6
October 2013 (Latest)	2.4	7.8	0.2	0.6	4.4	1.9	1.4	1.5
Change (bps)	-	+30	+70	+10	-70	+20	+30	-10

Source: IHS Global Insight, October 2013

Delay in taper eases pressure on interest rates, but only temporarily

As fiscal consolidation becomes less of a concern, there is an increasing focus on the prospects for monetary policy. After much market upheaval following the announcement that it would wind down its asset purchases, the Federal Reserve decided not to taper its QE programme in September. Few expect that this will be anything except a temporary pause with indicators pointing to continued recovery. The consequences for the U.S. economy should not be disruptive – a self-sustaining private sector upturn is in place and higher bond rates are generally a precursor of higher growth. Moreover, the Fed is committed to keeping its policy rates low in the foreseeable future, which should help dampen fears about the pace of monetary tightening.

Elsewhere there are more concerns. In the Eurozone, the recovery is not as deeply rooted and any tightening will be a threat to the revival in activity. But perhaps most interesting is how the changes will impact on dynamic emerging markets. Since the credit crunch, these economies have sustained global demand as the West faltered. The news of the U.S. taper resulted in an abrupt reassessment of the risks in these markets and triggered outflows of capital, which translated into currency weakness and higher interest rates. This has led to a more polarised view of emerging world risks, with downgrades for vulnerable markets such as India, with others less affected, notably China. This risk is that as the developed economies withdraw Central Bank liquidity and raise borrowing rates, it will divert more capital from the developing world and could provide further setbacks.

Meanwhile, the inflation outlook is expected to reinforce a gradual monetary tightening. Underlying inflation rates are forecast to edge down further this year, though progress will be slower than in 2012, given continued pressure from fuel and energy prices. Further reductions are expected to be limited by the economic recovery rekindling demand. Over the medium term, global inflation at close to 3% and rates in the developed world closer to 2% a year are in prospect. This is consistent with government targets in the largest economies, suggesting that there will be no additional pressure to raise short rates once the global recovery gathers steam.

The two-speed world remains in place

While optimism is clearly building, expectations for the current year remain broadly similar to last quarter with global GDP set to increase by 2.4%. This compares poorly with the 10-year annual average of almost 3%, implying that 2013 is the weakest year for activity since 2009. From next year, however, output is projected to improve steadily. Recent comment has highlighted the risks in developing economies. But demand in emerging markets is forecast to pick up, albeit not quite to the highs of the recent past, with exports to the West an increasingly important driver. In the developed world, after growth of just over 1% this year, the acceleration next year is set to be led by a revived U.S. economy.

Optimism about the U.S. has been tempered by recent events, but the underlying outlook remains healthy. While there continue to be uncertainties about the impact of policy, private sector balance sheets are strong and growth is predicted to rise to 2.5% next year and to over 3% thereafter. In Canada, the recovery is similar to its U.S. neighbour, albeit slightly weaker, and Mexico is expected to shrug off recent concerns to post stronger growth over the medium term. Brazil's outlook has been downgraded along with other emerging markets as policy has been tightened, but commodity exports ensure that it will lead a solid Latin American expansion.

Conditions in the Eurozone are expected to have improved in H2 2013, although this will not be enough to prevent GDP falling for a second year running. More significant headwinds remain than in the rest of Europe, including on-going fiscal austerity and high levels of unemployment. Germany is expected to show an upturn in 2014, though medium-term growth of less than 2% a year is not spectacular. France's outlook has been upgraded, but it lags its larger neighbour, while recessions in Spain and Italy are forecast to continue into a third successive year, though the contraction is expected to be less severe.

Outside of the Eurozone, constraints on recovery are fewer. Strong sentiment in the UK has led to a further upward revision in expectations for this year and next. Eurozone weakness continues to hit exports and undermines performance in the Nordics, but, here too, growth expectations have edged higher.

Emerging Europe is still witnessing the continent's strongest growth, but the outlook remains uneven and has been downgraded since the summer. CEE economies have been hit by the weak Eurozone, notably Poland, though activity is expected to pick up over the next 12 months. While there are valid concerns over Russia's growth outlook, the country still benefits from a strong balance sheet. Meanwhile in Turkey, some political concerns have not prevented economic revival. An upturn in the Middle East and North Africa is anticipated, despite lower commodity prices.

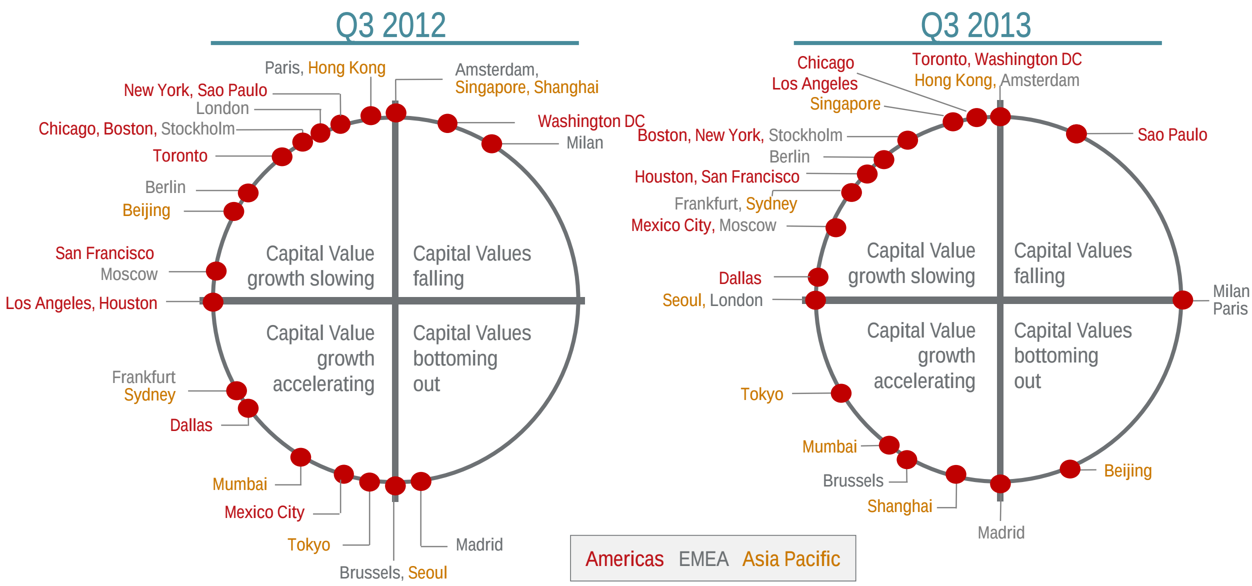
Asian markets continue to drive global growth this year and beyond, although the dynamism will not quite match past standards. In China, the short-term outlook has improved, but medium-term prospects will be constrained by the need to rebalance growth towards consumers and avoid asset price bubbles, so sub-8% growth rates may become the new norm. India faces even more challenges and any significant improvement is unlikely before next year's election. Japan's near-term prospects have improved with the 'Abenomics' stimulus, but there remains a question over the sustainability of the economic upturn beyond next year.

Global Property

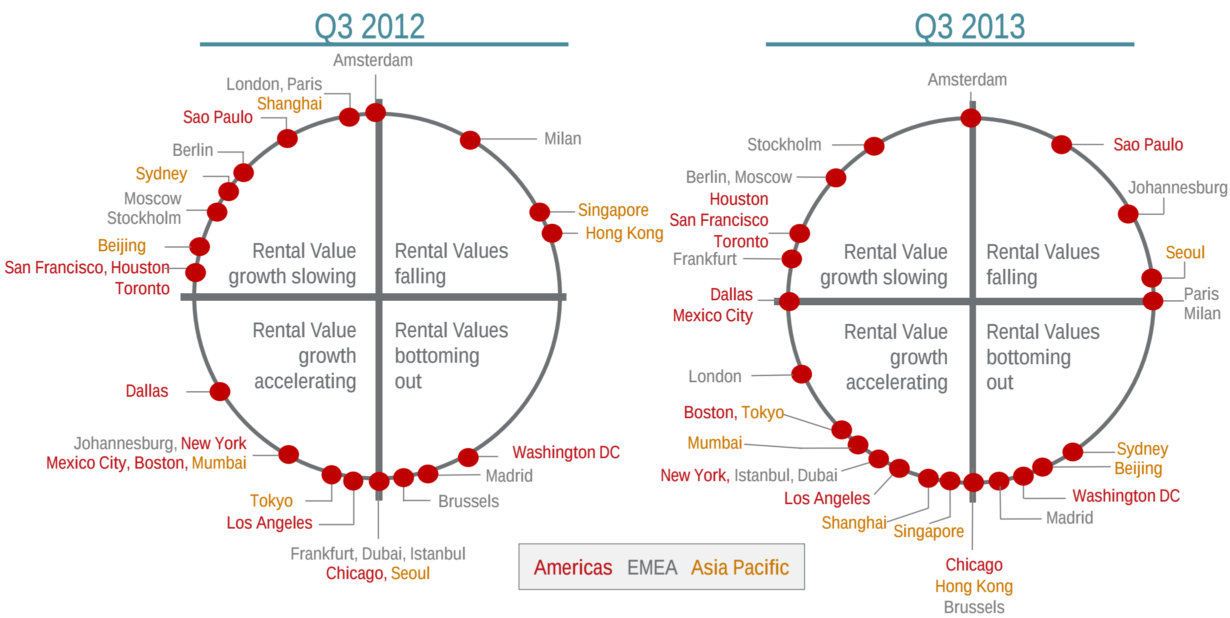
The investment v leasing markets disconnect

The 2014 outlook for the global real estate market is encouraging. Nonetheless, the disconnect between buoyant investment markets and more cautious leasing markets is likely to remain a feature of global real estate over the next 12 months, but the degree of disconnect will vary from market to market. The U.S. markets, for example, appear to be moving into greater sync, as corporate confidence builds. Likewise, **London** is also now seeing both strong leasing and investment markets. However, at the other end of the spectrum are **Paris** and the Australian cities, where very strong demand from domestic and cross-border investors is in stark contrast to weak market fundamentals. But, with the outlook improving in the majority of major leasing markets, we expect, in general, that disconnects will narrow during 2014.

Prime Offices - Capital Value Clock, Q3 2012 v Q3 2013



Prime Offices - Rental Clock, Q3 2012 v Q3 2013



Based on notional capital values and rents for Grade A space in CBD or equivalent. Source: Jones Lang LaSalle, October 2013

Capital Markets Outlook

US$500+ billion for 2013, with 10% growth in 2014

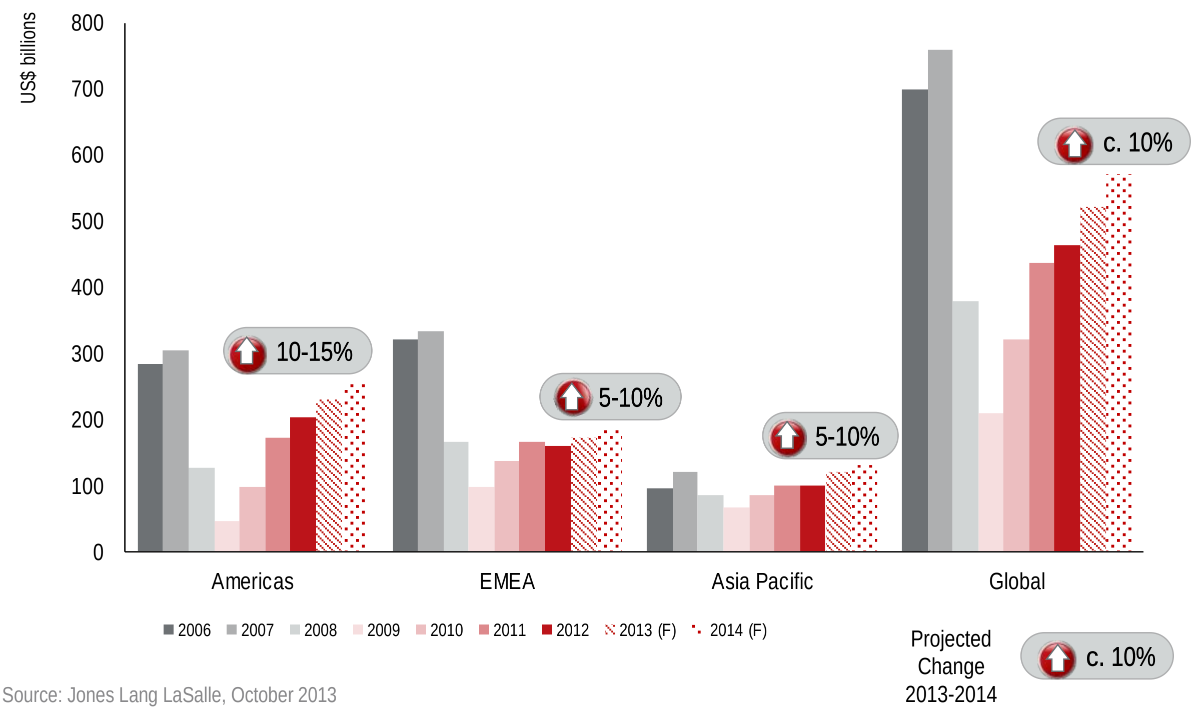
In what is traditionally a slightly slower time of the year, the US$140 billion in investment transactions recorded for the third quarter now puts the market firmly on track to exceed the upper end of our original full-year forecast of US$450-500 billion. Rising levels of investor confidence and greater competition for core assets in core locations are pushing down yields and driving investors up the risk curve. In the larger markets, investors are more willing to look at fringe locations and take on leasing risk. Meanwhile, good assets in good locations, but in smaller markets, are increasingly on investors' radars. As momentum builds and activity spreads to more secondary markets, we estimate that investment transactions in 2014 will range between US$525-575 billion, which, at the top end, is only 25% below the 2007 peak.

Prospects in the world's largest commercial real estate investment market, the U.S., are particularly favourable. With an expected acceleration in economic drivers, coupled with a still very attractive interest rate environment and abundant debt financing, both domestic and overseas demand is strong. We expect sales volumes for the Americas to have increased by 10-15% this year, with a similar growth rate projected for 2014.

In Asia Pacific, which has seen yet another strong quarter of transactional activity, we have revised upwardly our full-year 2013 forecast to US$120 billion. This result would see the Asia Pacific investment market on par with 2007, itself a record year; and there are prospects of further growth in 2014 to US$130 billion.

Europe also continues to surprise on the upside and we now anticipate full-year 2013 sales transaction volumes to be about 5-10% higher than last year. Market strength continues to be founded in the three largest markets – the UK, Germany and France – but we are now seeing transactions growth in smaller markets in Southern and Central Europe that, until recently, have seen limited liquidity.

Direct Commercial Real Estate Investment, 2006-2014



Source: Jones Lang LaSalle, October 2013

Leasing Markets Outlook

Leasing volumes slowly improving

Global office leasing activity is slowly improving from the lows of 2012 / early 2013 – volumes were up 3% during the last quarter, which follows on from a 4% increase in Q2. However, the improvement is almost entirely due to higher leasing turnover in the U.S., and across most of Europe and Asia Pacific corporate occupier activity remains muted, with the focus still firmly on consolidation and cost saving. As a consequence, full-year 2013 global leasing volumes are unlikely to be any higher than the disappointing levels of 2012.

Modest upswing in 2014

Nonetheless, a more substantial recovery in global leasing activity is expected in 2014 (subject to macroeconomic stability). Cash held on balance sheets by the major corporates is at record levels and, as business confidence improves, we anticipate a greater willingness to hire additional people, reinvest profits and commit to longer-term real estate. History has shown that after a slump in corporate occupier activity, leasing volumes rebound strongly (by up to 20-30%), but this upswing is likely to be different due to the continuing drive for workspace efficiencies. Gross leasing volumes in 2014 are therefore projected to be up a modest 5-10% on the expected outturn for 2013, with the U.S. showing greatest upside potential

Shortages of quality space, but high structural vacancy

The global office vacancy rate (across 98 markets) edged down in Q3 to 13.2%, having fluctuated within the 13.0-13.5% range for the last two years. Persistently high structural vacancy in the advanced markets, as corporates shed excess space, is preventing vacancies from declining at a rate that would be typical at this point in the cycle. Despite high vacancy, shortages of high-quality space will be an increasing feature of many markets over the coming year, with new construction remaining well below the historic average.

Rental growth momentum to return in 2014

While prime rental growth slowed to 1% year-on-year in Q3 2013 (according to Jones Lang LaSalle's Global Office Index), there are signs that momentum is beginning to build again, with about 3.5% uplift projected for 2014, as supply tightens and more markets shift in favour of landlords.

Global office hubs outperforming

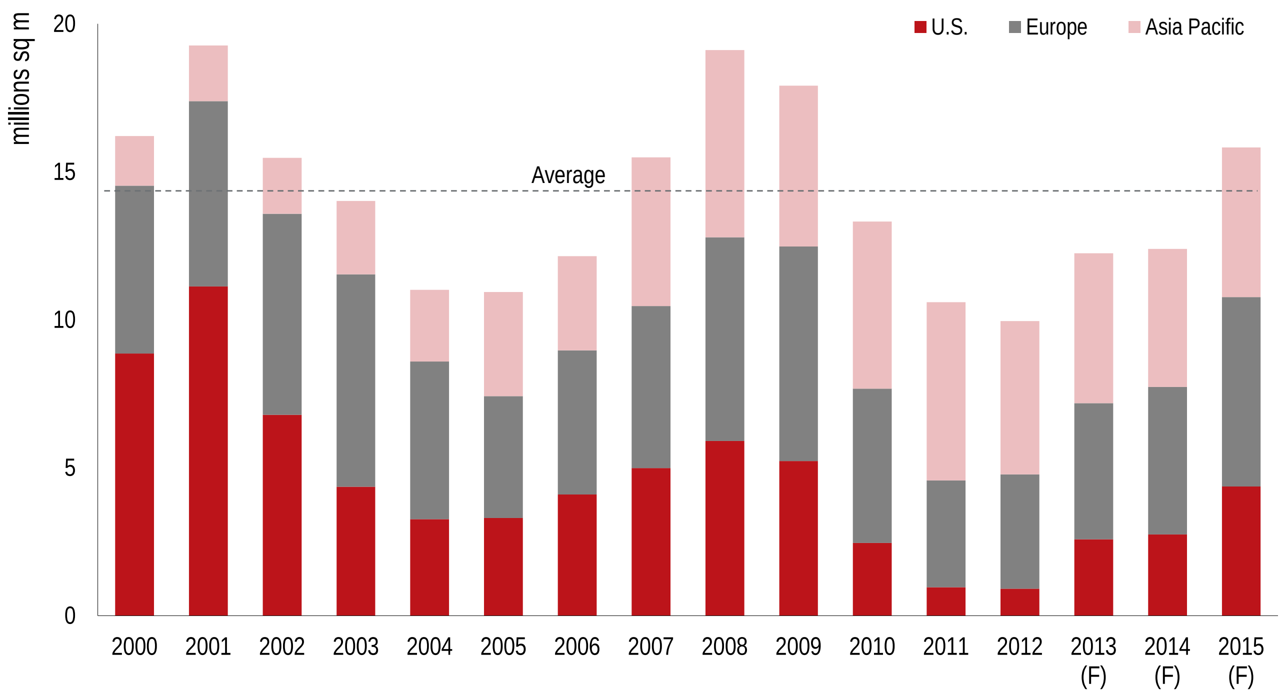
Top rental performers in 2014 are expected to be Jakarta, Tokyo, San Francisco and Dubai. In addition, the main global office hubs, such as London, New York, Hong Kong and Singapore, are forecast to outperform their regional averages. Most major office markets across the globe are likely to see some rental growth in 2014 – two notable regional exceptions are the Middle East (e.g. Riyadh) and Brazil (e.g. Sao Paulo and Rio de Janeiro).

Prime Offices – Projected Value Changes in Rents, 2013 v 2014

	FY 2013	FY 2014
+ 10-20%	Dubai, San Francisco	Tokyo
+ 5-10%	Tokyo, London* Frankfurt, Mexico City	San Francisco, Dubai, London* Hong Kong, Singapore, New York*
+ 0-5%	New York*, Los Angeles, Hong Kong Toronto, Washington DC, Boston Mumbai, Singapore, Stockholm Chicago, Shanghai, Brussels, Moscow	Mumbai, Beijing, Los Angeles Brussels, Shanghai, Moscow Washington DC, Mexico City, Toronto Seoul, Sydney, Chicago, Boston Madrid, Paris*, Stockholm, Frankfurt
- 0-5%	Seoul, Madrid	Sao Paulo
- 5-10%	Beijing, Sydney Sao Paulo, Paris*	

* New York – Midtown, London – West End, Paris - CBD. Nominal rates in local currency
Source: Jones Lang LaSalle, October 2013

Global Office Construction Trends, 2000-2015



24 markets in Europe; 25 markets in Asia Pacific; 44 markets in the U.S. Asia relates to Grade A space only
Source: Jones Lang LaSalle, October 2013

Global Real Estate Health Monitor

	Economy		Real Estate Investment Markets				Real Estate Occupier Markets			
	National GDP	OECD Leading Indicator	City Investment Volumes	Capital Value Change	Prime Yield	Yield Gap	Rental Change	Net Absorption	Vacancy Rate	Supply Pipeline
Dubai	3.5%	na	-39%	24.6%	7.5%	na	13.3%	na	30.0%	na
Frankfurt	1.8%	0.57	44%	5.6%	4.75%	355	4.5%	2.5%	11.3%	4.4%
Hong Kong	4.0%	na	-11%	3.7%	2.9%	78	-1.4%	0.5%	3.8%	4.0%
London	2.4%	0.86	15%	12.3%	3.75%	103	5.3%	0.8%	5.9%	6.2%
Moscow	3.3%	0.38	35%	-1.4%	8.75%	144	-4.2%	5.0%	13.1%	17.1%
Mumbai	5.6%	-0.79	-87%	4.1%	10.1%	135	3.4%	10.4%	23.2%	17.1%
New York	2.5%	0.22	37%	4.6%	4.5%	188	2.3%	-0.8%	11.8%	1.4%
Paris	0.6%	0.32	0%	-11.3%	4.5%	217	-11.3%	-1.9%	7.2%	5.7%
Sao Paulo	3.1%	-0.57	37%	4.3%	8.5%	na	-6.6%	4.2%	19.4%	32.9%
Shanghai	8.0%	-0.35	-7%	1.0%	5.9%	189	0.7%	10.1%	12.6%	34.5%
Singapore	3.6%	na	49%	8.2%	3.3%	93	-0.4%	3.4%	7.1%	4.4%
Sydney	2.4%	-0.16	3%	4.3%	6.75%	285	-5.7%	-0.9%	10.9%	3.3%
Tokyo	2.0%	0.17	54%	3.0%	3.8%	311	3.0%	4.0%	4.3%	11.2%

Real estate data as at end Q3 2013

Definitions and Sources

National GDP: Change in Real GDP. National Projection, 2014. Source: IHS Global Insight

OECD Leading Indicator: Composite Leading Indicator. Change in Index. Latest Month. Source: OECD

City Investment Volumes: Direct Commercial Real Estate Volumes. Metro Area Data. Rolling Annual Change. Source: Jones Lang LaSalle

Capital Value Change: Notional Prime Office Capital Values. Year-on-Year Change. Latest Quarter. Source: Jones Lang LaSalle

Prime Yield: Indicative Yield on Prime/Grade A Offices. Latest Quarter. Source: Jones Lang LaSalle

Yield Gap: Basis Points that Prime Office Yields are above or below 10-year Government Bond Yields. Latest Quarter. Source: Jones Lang LaSalle, Datastream

Rental Change: Prime Office Rents. Year-on-Year Change. Latest Quarter. Source: Jones Lang LaSalle

Net Absorption: Annual Net Absorption as % of Occupied Office Stock. Rolling Annual. Source: Jones Lang LaSalle

Vacancy Rate: Metro Area Office Vacancy Rate. Latest Quarter. Source: Jones Lang LaSalle

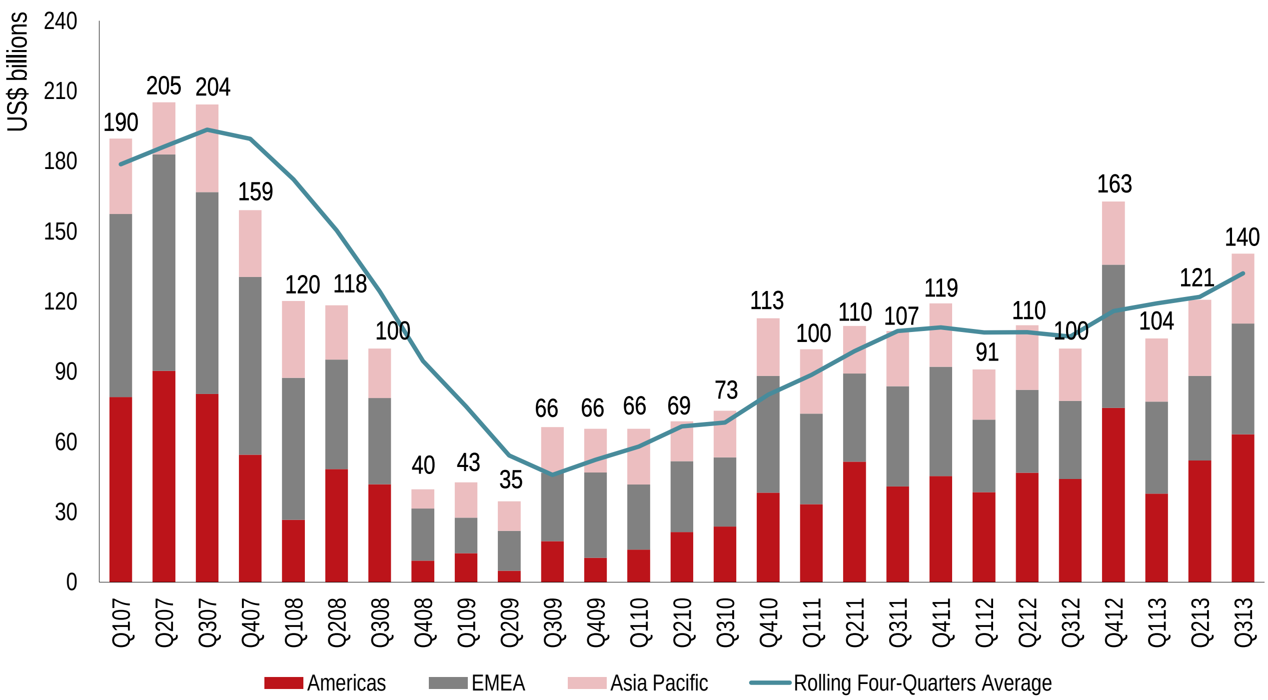
Supply Pipeline: Metro Area Office Completions (2014-2015) as % of Existing Stock. Source: Jones Lang LaSalle

Real Estate Capital

2013 volumes set to exceed US$500 billion

After months of speculation regarding the end of quantitative easing in the United States, the lack of action has provided further impetus for commercial transactional volumes. Third quarter results are 16% ahead of the second quarter, and year-to-date activity is 21% up on this time last year (US$366 billion v US$301 billion). While we don't necessarily expect Q4 2013 to match the exceptional final quarter of 2012 (at US$163 billion), we are confident that there is sufficient activity and deals in the pipeline for the full-year total to surpass US$500 billion.

Direct Commercial Real Estate Investment - Quarterly Trends, 2007-2013



Source: Jones Lang LaSalle, October 2013

Direct Commercial Real Estate Investment - Regional Volumes, 2012-2013

US$ Billions	Q2 13	Q3 13	% change Q2 13-Q3 13	Q3 12	% change Q3 12-Q3 13	YTD 2012	YTD 2013	% change YTD 2012-YTD 2013
Americas	52	63	21%	44	43%	129	153	18%
EMEA	36	47	31%	33	42%	100	123	23%
Asia Pacific	33	30	-8%	22	33%	72	90	25%
TOTAL	121	140	16%	100	41%	301	366	21%

Source: Jones Lang LaSalle, October 2013

Strong U.S. investment propels regional trading

The U.S. market reached an important milestone in Q3 2013 with investment volumes of US$55 billion, 49% higher than the third quarter of 2012. Ignoring the US$67 billion recorded in the final quarter of last year (which was driven by exceptional circumstances linked to changing tax rules for transactions), this was the first time since 2007 that we have seen volumes pass US$50 billion. This helped push the overall Americas volumes up to US$63 billion, an increase of 43% year-on-year. The Canadian market is more subdued due to a slowdown in REIT activity, while the ever volatile Latin American countries have been boosted this quarter by a number of industrial portfolio deals in Mexico.

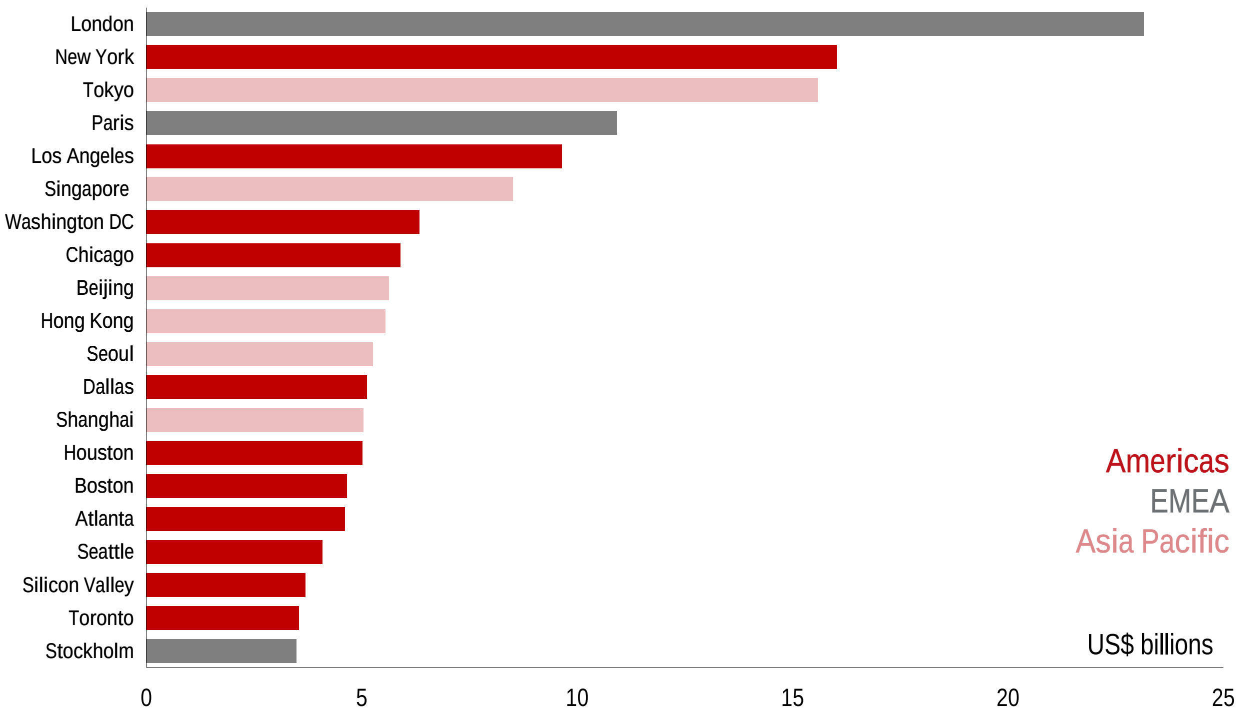
High activity in U.S. office sector

Investors in the United States appear to have taken recent increases in benchmark long-term interest rates in their stride. Investor demand remains sturdy, with wide yield spreads – even for most core product - continuing to prove attractive in an environment of still historically very low interest rates. Investment in the office sector has been particularly active of late, with year-to-date office sales volume growth up 32% annually. The hallmark 'desirable attributes' of this expansion cycle thus far – 'safety' and 'stability' – are still top of mind. As evidence, office assets traded during the third quarter continued to have significantly greater occupancy than for the overall market.

Investors widen their search

The U.S. investment sales market continues to broaden geographically. This has been most notable in Atlanta, where office investment volumes so far have surpassed each of the prior two years by more than 50%. As robust demand and, in some cases, limited supply have pushed up pricing across primary U.S. CBDs, we expect investors to continue to search for yield across suburban and secondary markets.

Direct Commercial Real Estate Investment – Top Cities in YTD 2013



Source: Jones Lang LaSalle, October 2013

New opportunities for U.S. balance sheet players

In the U.S. lending markets, the previous increases in benchmark long-term Treasury yields created new opportunities for balance sheet players to become more competitive in their lending. Yet highly-rated CMBS spreads remain near post-crisis lows and CMBS lenders have managed to increase their new issuance to US$61 billion year-to-date, with US$80 billion likely for the full-year, representing a new post-crisis high. Barring any new major disruptions, we expect the overall lending environment to remain healthy, highly competitive, and for it to provide continuing ample capital for real estate investment.

Europe's three largest markets perform well

Investment activity in Europe is strong, and last year's total of US$161 billion is likely to be exceeded. Just US$38 billion would be required in the final quarter to match 2012 volumes, compared to the US$61 billion recorded in Q4 2012. The strength of the European investment market is underpinned by its three largest markets – the UK saw its most robust quarter since Q3 2007, in spite of a shortage of core product in London, while volumes in Germany and France are also well up on a year-to-date comparison.

... and liquidity is increasing in its smaller markets

A key trend since the start of the year has been the growth in transactions outside of Europe's larger cities. Moreover, markets such as Poland, Spain and the Netherlands, which have seen limited liquidity over the last few years, are now seeing more investor focus.

Direct Commercial Real Estate Investment - Largest Markets, 2012-2013

US$ Billions	Q2 13	Q3 13	% change Q2 13-Q3 13	Q3 12	% change Q3 12-Q3 13	YTD 2012	YTD 2013	% change YTD 2012-YTD 2013
USA	45.4	55.0	21%	37.0	49%	110.7	134.4	21%
UK	11.2	18.5	66%	13.4	39%	36.8	42.8	16%
Japan	10.2	8.7	-15%	3.6	139%	17.5	29.5	69%
Germany	7.2	7.4	2%	6.2	19%	17.7	23.5	33%
China	6.0	7.0	17%	2.6	167%	12.4	16.6	34%
France	4.6	6.2	34%	4.2	47%	12.5	15.8	26%
Australia	7.3	4.9	-32%	4.2	17%	12.5	15.5	23%
Canada	4.9	4.5	-9%	3.8	16%	11.9	12.4	5%
Singapore	2.3	4.2	81%	2.0	106%	5.8	8.5	47%
Mexico	1.2	2.9	147%	2.5	18%	3.8	4.4	18%
Sweden	2.6	2.2	-15%	1.7	27%	6.3	6.7	6%
South Korea	2.3	1.9	-19%	3.3	-44%	6.4	6.0	-6%
Netherlands	0.9	1.8	93%	0.9	105%	3.0	3.2	9%
Russia	0.8	1.7	103%	1.4	19%	4.1	4.7	17%
Poland	0.5	1.4	172%	0.2	585%	1.3	2.6	91%
Switzerland	0.2	1.2	577%	0.4	224%	1.6	1.3	-19%
Spain	0.8	1.0	25%	0.2	322%	1.4	2.3	59%
Taiwan	0.7	1.0	45%	2.4	-58%	3.8	2.8	-26%

Source: Jones Lang LaSalle, October 2013

Records set to be broken in Asia Pacific

Following yet another quarter ahead of expectation at US$30 billion, 2013 is set to become a record year for investment volumes in Asia Pacific. Much of the growth is being driven by Japan, where a change in government and policy direction has improved sentiment considerably. Meanwhile, Australia and China are also performing well, boosted by increasing interest from offshore groups. The contrasting interest rate cycle in Australia is also offsetting some of the heightened interest rate risk being witnessed in other markets. Activity in Singapore has been buoyed by several large deals, but Hong Kong continues to see low volumes in the market following the cooling measures imposed earlier this year via tighter lending criteria and higher stamp duties. The investment market in India is passing through a challenging phase at the moment, although private equity investors are finding strategic entry points with attractive prices.

Offshore buyers are more active across the region, with Global and Middle East investors accounting for a large share of inter-regional capital, while Chinese, Singaporean and Hong Kong groups dominate intra-regional cross-border buying. Private HNWI investors are also starting to make some noise, at times even competing with institutional investors on very large assets.

... but yield curves have steepened

Despite the positive growth in Asia Pacific's transaction volumes, the interest rate outlook and capital management strategies have once again come to the fore. Yield curves across the region have steepened as longer-dated bond rates have shifted higher. While the postponement of tapering asset purchases has offered some short-term respite, swap rates remain elevated, which is increasing interest rate fixing costs in a number of markets. As a result, investors are starting to underwrite interest rate rises in their acquisition due-diligence and continue to be cautious around the longer-term cap rate outlook.

Corporate Occupiers

Signs of corporate resilience

The third quarter of 2013 delivered further signs of corporate resilience, despite an inconsistent global recovery and some political headwinds.

Corporate leasing activity in the **U.S.** continues to increase steadily, with the recovery now evident in the majority of markets – not only those most heavily influenced by technology and energy tenants. Landlords are gaining confidence nationwide, and corporate occupiers are generally facing rising rents and reduced options in the North American markets.

New construction is beginning to pick up in response, but most of the projects underway will not come online until 2015 or later, meaning that the next year could be a period of increased landlord leverage and a time of rent rate growth for occupiers who are renewing or looking for large blocks of space. All of this positive improvement in market conditions has happened despite the challenges of stagnation in the U.S. government. With more certainty from the government, the economic and corporate real estate recovery could have significant momentum in 2014.

Europe – a tale of two cities

In Europe, sentiment is clearly improving, with **London** and **Germany** leading the region in leasing activity. However, the pace of growth in some Northern European markets has been offset by weak activity in Southern European markets. As an illustration of the contrast within Europe, London and **Paris** have displayed very different activity over the year. In London, take-up to end Q3 exceeded its entire 2012 total. Led by surging leasing activity in the City, the Central London market saw almost 290,000 square metres of space let in Q3, reflecting growth of 19% on an already strong Q2 result. However, across the English Channel, Paris is experiencing a much weaker year than 2012 with Q3 seeing occupier activity significantly down on last year's levels.

Shortages of available Grade A supply and a constrained speculative development pipeline will continue to limit options in Europe, driving occupiers to renew in situ or pre-lease; it will also reinforce prime rents going forward.

Across the Asian markets, there are mixed results. The slowing of the Chinese economy has reduced the previously aggressive expansion strategies of corporate occupiers. On the other hand, we are seeing positive gains in **India** and increased leasing activity in South East Asia.

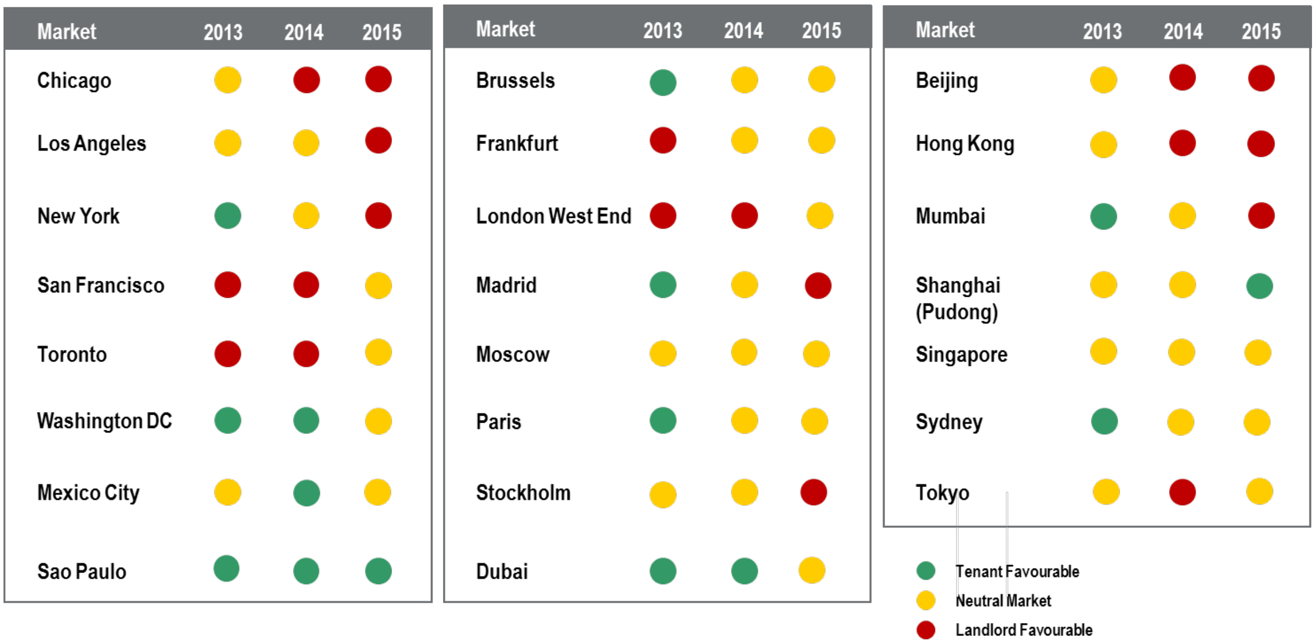
Workplace strategies and space optimisation

Globally, there remains very strong corporate interest in workplace strategy, space density and space optimisation. Even sectors and regions traditionally less focused on managing occupational costs (such as financial and legal) are now adopting portfolio optimisation studies and cost-reduction programmes.

There is still significant debate within many global corporations about how and where to invest to maximise growth. There is a clear deceleration in growth for some emerging markets (such as **Brazil**) which had previously been viewed as unvarnished opportunities. This has created challenges in identifying the best risk-adjusted investments for the large stockpiles of cash that many corporations still have on their balance sheets.

In general, occupier sentiment has improved markedly compared to the end of last year. But it is tempered in many markets and prone to external shocks. As such, the sentiment has still not yet translated into wholesale increases in corporate investment, expenditure or leasing activity.

Global Office Market Conditions Matrix, 2013-2015



Note: Relates to conditions in the overall office market of a city. Conditions for prime CBD space may differ from the above.
Source: Jones Lang LaSalle, October 2013

Office Markets

Office Demand Dynamics

Leasing volumes slowly improving

Global leasing activity is slowly improving from the lows of 2012 / early 2013 – volumes were up 3% during the last quarter, which follows a 4% increase in Q2. However, the improvement is almost entirely due to higher leasing turnover in the U.S., and across most of Europe and Asia Pacific corporate occupier activity remains muted, with the focus still firmly on consolidation and cost saving. As a consequence, full-year 2013 global leasing volumes are unlikely to be any higher than the disappointing levels of 2012.

Momentum builds in the U.S.

Business confidence in the U.S. has improved, which is feeding through to corporate occupier activity. The market has now seen positive net absorption for 14 consecutive quarters, leasing volumes in Q3 up by 11% year-on-year and touring velocity at its highest level since 2011. As momentum builds, overall leasing volumes for the full-year 2013 are expected to be about 5-10% higher than in 2012, with a further 5-10% growth slated for 2014.

Technology-centric markets – notably Silicon Valley, San Francisco, Seattle and Austin - and energy-rich markets like Houston, Dallas and Denver are still the drivers of recovery but, crucially, activity is now spreading to other more diversified markets – such as Atlanta and Philadelphia. Demand remains subdued in New York and Washington DC, due to the structural challenges in the banking, law and government sectors, although there is strong demand for super-trophy assets.

Growth in U.S. sale-and-leasebacks

Sale-and-leaseback activity in the U.S is rising, as the requirements of investors and corporates converge. With many corporates looking to dispose of their real estate assets while valuations are high, several REITs have been established that exclusively focus on single-tenant properties.

Quiet in Europe, but London bucks the trend

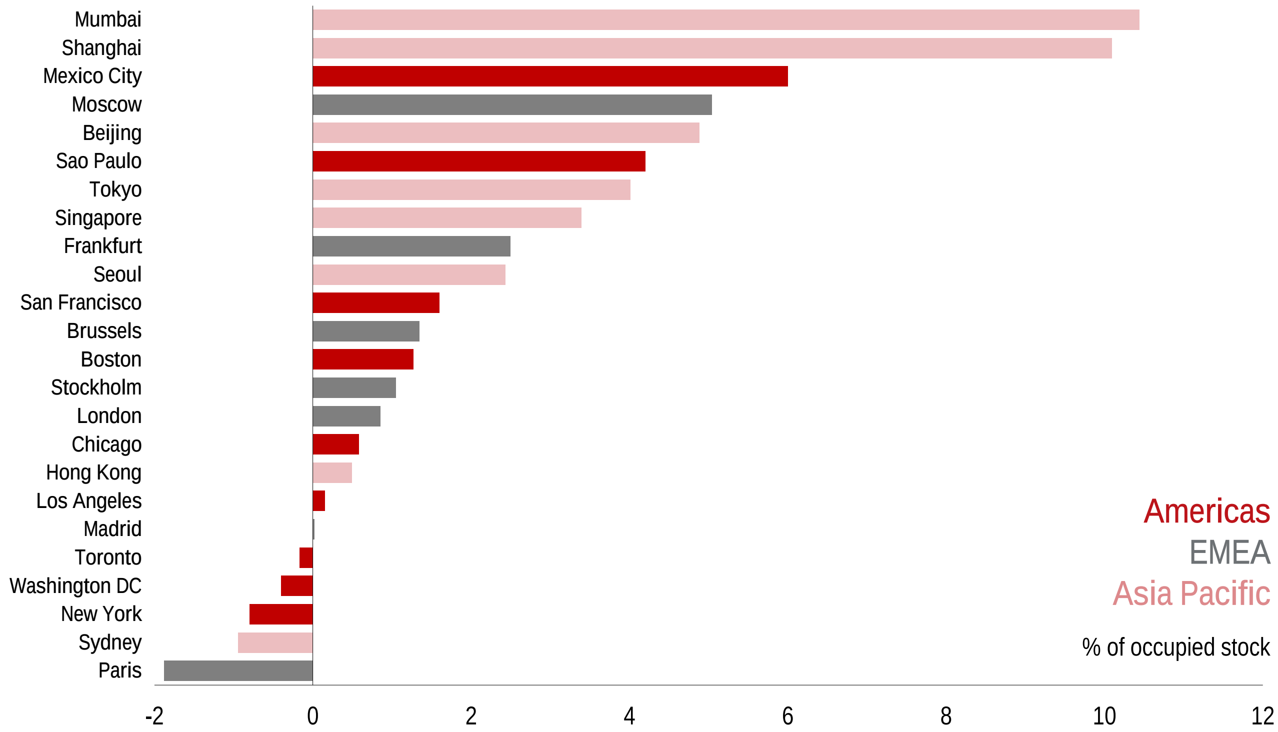
Leasing activity in Europe continues to be depressed, with volumes in Q3 down 9% year-on-year. Paris is particularly subdued amid economic headwinds, and volumes in Germany and the Nordics (though still healthy) are trending downwards. By contrast, demand is strengthening in London, where levels are at their highest for three years. Activity is robust in the CEE cities, with Moscow expected to show a strong finish to the year.

We anticipate a better Q4 2013 in Europe but, nonetheless, the full-year 2013 total is still likely to undershoot the muted level of 2012. A steady improvement is in prospect for 2014 however, with leasing volumes projected to rise by 5-10% over the year.

Asia Pacific corporates focus on consolidation and cost saving

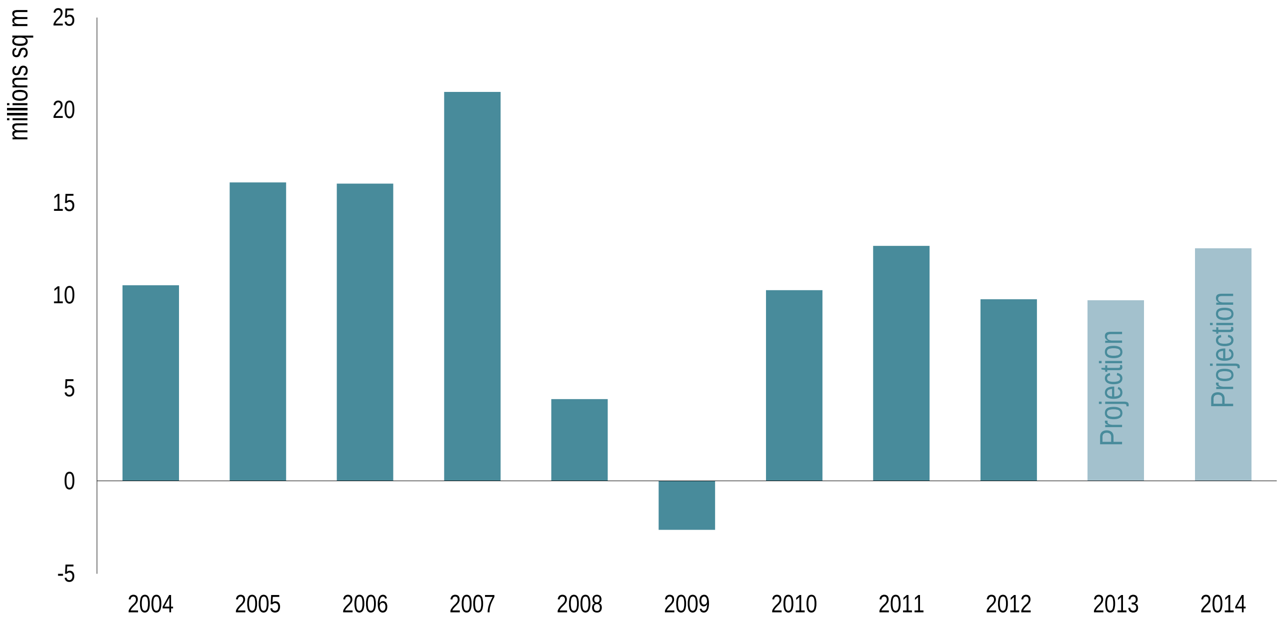
Corporates in Asia Pacific continue to be conservative, and full-year leasing volumes are likely to be 10-15% lower than 2012. Asia's financial centres remain weak, with Hong Kong recording negative net take-up and Singapore seeing limited demand from small non-financial occupiers. Nonetheless, we are seeing an uptick in India, the mood is better in China, and the South East Asian cities are contributing more to regional leasing volumes and have been the standout markets in 2013. The Australian markets have been subdued, but a new government commanding a parliamentary majority could have a positive impact. Growth in Asia Pacific leasing volumes of around 5% is expected for 2014, with better performance from India, China and the key BPO markets potentially lifting the region above the 5% growth threshold.

Offices – Net Absorption, Q3 2012-Q3 2013



Covers all office submarkets in each city. Tokyo CBD - 5 kus
Source: Jones Lang LaSalle, October 2013.

Offices – Global Net Absorption Trends, 2004-2014



24 markets in Europe; 25 markets in Asia Pacific; 46 markets in the U.S. Asia related to Grade A space only
Source: Jones Lang LaSalle, October 2013

Office Supply Trends

Persistently high structural vacancy

The global office vacancy rate (across 98 markets) edged down during Q3 to 13.2%, having fluctuated within the 13.0-13.5% range for the last two years. Persistently high structural vacancy in the advanced markets, as corporates shed excess space, is preventing a more rapid decline in rates, despite low levels of new supply. As a consequence, the global vacancy rate is unlikely to fall below the 13% threshold until later in 2014. Nonetheless, shortages of high-quality space will be an increasing feature of many markets over the next 12 months, with new construction remaining well below the historic average.

Shortages of quality space in the U.S. until at least 2015

The Americas vacancy rate continues its steady decline, sitting at 15.8% in Q3 2013. In the U.S. it has fallen to 16.8%, the lowest rate since Q1 2009 – and for CBD space it is even lower at 14.2%. Construction levels remain below historic norms, but are now escalating as demand levels increase and quality space options shrink. But even with the uptick in development, most markets will not see new supply until 2015, presenting challenges for mid-sized and large tenants, especially in America's CBDs.

Europe's vacancy rate sticks at 9.7%

The European office vacancy rate has remained unchanged at 9.7% throughout 2013 and is unlikely to move much over the next 12 months. While it's probable that new space will be quickly absorbed, the release of second-hand space will keep vacancy rates close to 10%. New completions are rising from the historic low of early 2013, as investors move into development in order to secure assets. Nonetheless, construction will remain below the long-term average until at least 2015. Moreover, half the space to be completed in 2014 has already been pre-leased.

Asia Pacific approaches peak in vacancy cycle

The sharp rise in the regional vacancy rate over the past year has slowed during Q3 2013. The Asia Pacific rate now stands at 11.8% and is expected to peak at about 12% over the short term. New completions are projected to fall by about 10% in 2014 which, together with a modest uplift in demand, is likely to support a stable regional vacancy rate during the next 12 months. Significantly, vacancy rates in Asia's main business hubs - Tokyo, Hong Kong and Beijing – remain low at 3.5-4.5%.

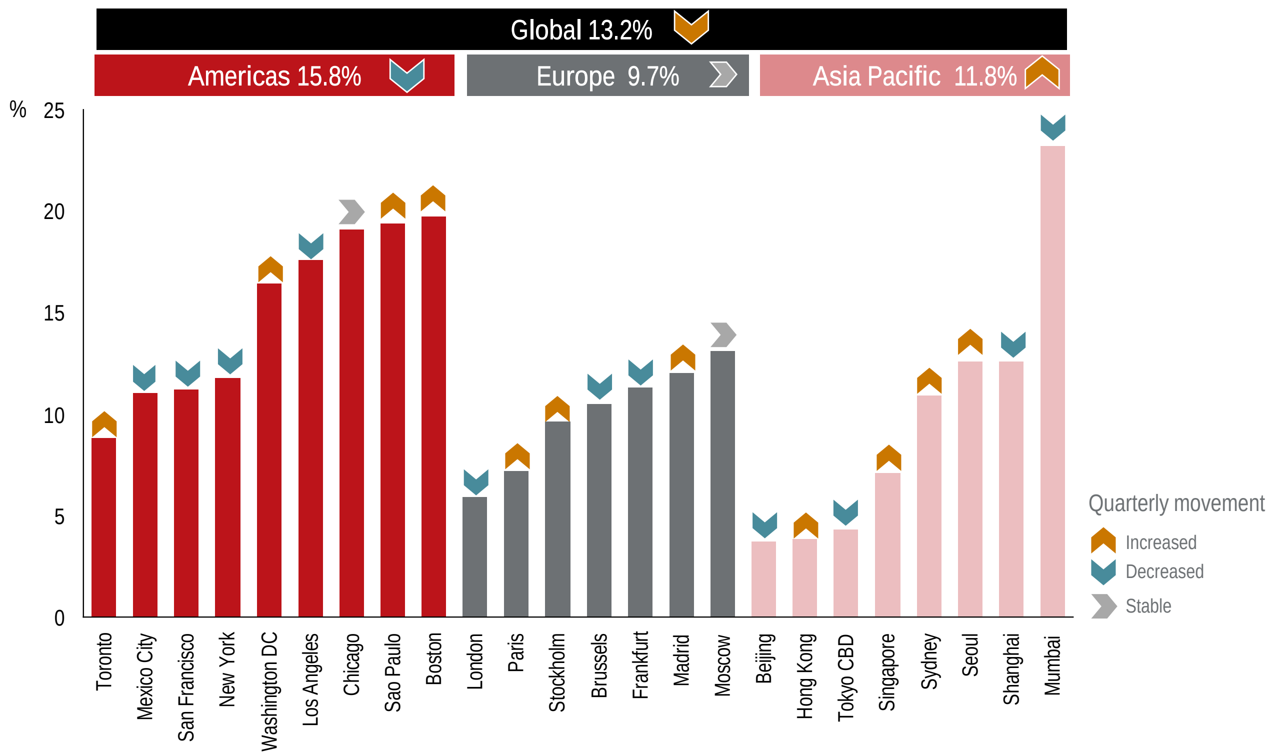
Large development pipelines test Latin American markets

In Mexico City, the overall vacancy rate for the high-end office market continues to hover in the 11-12% range, with strong absorption rates managing to keep pace with the high supply pipeline. Absorption is also strong in Bogota, one of the region's healthiest office markets, where the vacancy rate is only 4%, despite continued robust levels of new construction. In Sao Paulo, however, new office supply has become a significant challenge; during Q3 more than five-times as much new space was delivered than was recorded in net absorption, leading to the overall market vacancy rate climbing to 19.4%. Likewise, in Santiago, record levels of new supply in 2013 and 2014 will test the market, and overall market vacancy (while still quite low at 4.3%) is likely to move upwards over the next 12 months.

High vacancy rates across MENA

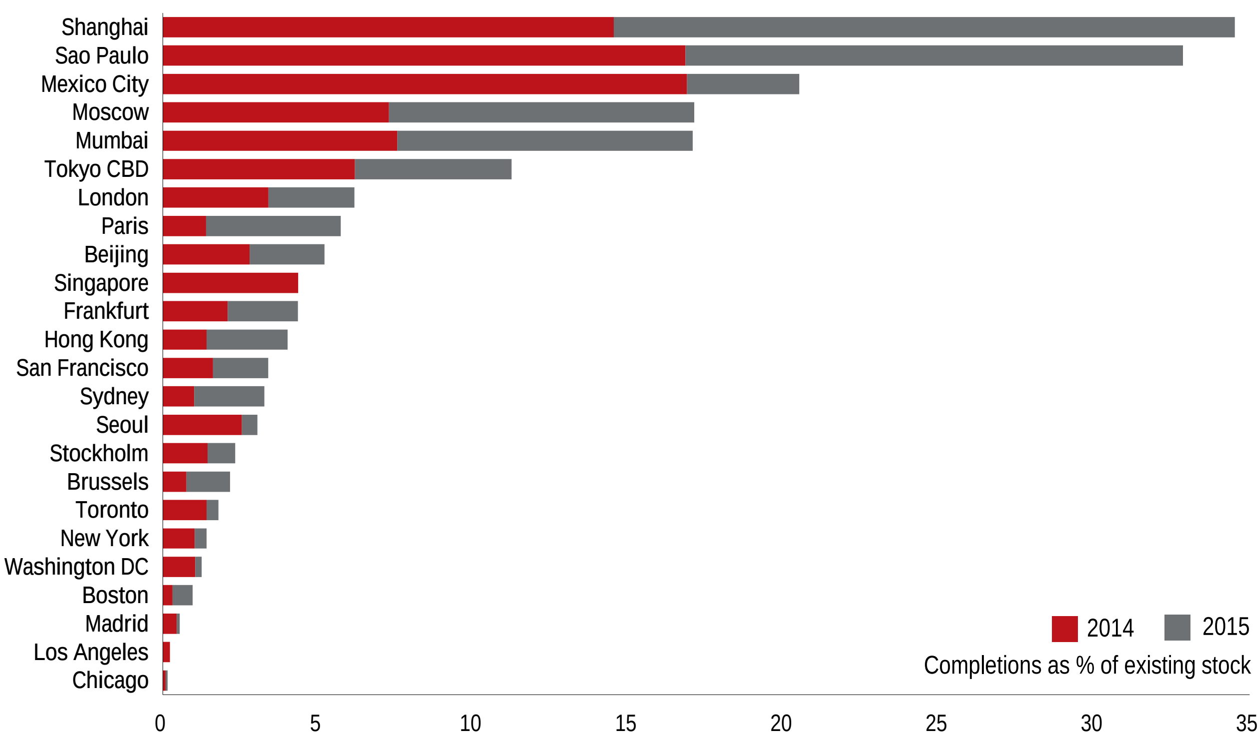
Vacancy levels remain generally high across the MENA region, with Jeddah the only market to have a rate below 20%. While vacancies are trending down in Dubai, they are trending higher in Abu Dhabi, Riyadh and Cairo in the face of significant new supply.

Office Vacancy Rates - Major Markets, Q3 2013



Regional vacancy rates based on 46 markets in the Americas, 24 markets in Europe and 24 markets in Asia Pacific
Covers all office submarkets in each city. All grades except Asia and Latin America (Grade A only). Tokyo relates to CBD only
Source: Jones Lang LaSalle, October 2013

Office Supply Pipeline - Major Markets, 2014-2015



Covers all office submarkets in each city. Tokyo CBD - 5 kus
Source: Jones Lang LaSalle, October 2013

Office Rental Trends

Momentum beginning to build in 2014

While prime rental growth has slowed to 1% year-on-year in Q3 2013 (according to Jones Lang LaSalle's Global Office Index, there are signs that momentum is beginning to build again, with circa 3.5% projected for 2014 as supply tightens and more markets shift in favour of landlords.

U.S. rents strengthen

In the U.S., CBD office asking rents are up 1.5% during the quarter, with cities such as Boston, San Francisco and Seattle outperforming. Concession packages, including tenant improvement allowances and rent frees, have dipped to 2009 levels. The majority of CBD tenants will face tighter conditions ahead, and rental growth is projected through to 2015; this trend will be exaggerated for larger tenants.

London defies the European trend

The European Office Rental Index fell by 1.1% in Q3 (down 1.4% year-on-year), but this masks significant divergence. Prime rents are increasing in London, Frankfurt and Munich, but have fallen sharply in Paris and Milan. London is expected to continue to outperform, underpinned by strong demand for high-quality space. The German markets, as well as select Nordic capitals, such as Oslo and Stockholm, could see further growth, but the momentum is slowing. Southern European cities and supply-challenged markets, such as Warsaw, could experience further rental reductions, although the bottom of the cycle for these markets appears close.

Asia Pacific is subdued

Rental growth across Asia Pacific is slowing and, on aggregate, rents fell by 0.2% during the quarter. Net effective rents are rising in fewer markets than in previous quarters. They are edging up in Tokyo and the main South East Asian hubs (e.g. Manila, Bangkok), but are easing in the Australian markets, Beijing and Seoul. Rental growth in the world's star performer over the past 12 months, Jakarta, fell sharply (to 4.4% quarter-on-quarter) due to greater occupier caution.

Over the short term, rental growth is likely to be limited in most Asia Pacific markets, while Beijing should witness small declines and the major Australian cities (e.g. Sydney and Melbourne) a fall in effective rents as incentives rise. Single-digit rental growth is generally expected for 2014 and the strongest uplift is likely to be seen in Jakarta (but significantly below our earlier expectations).

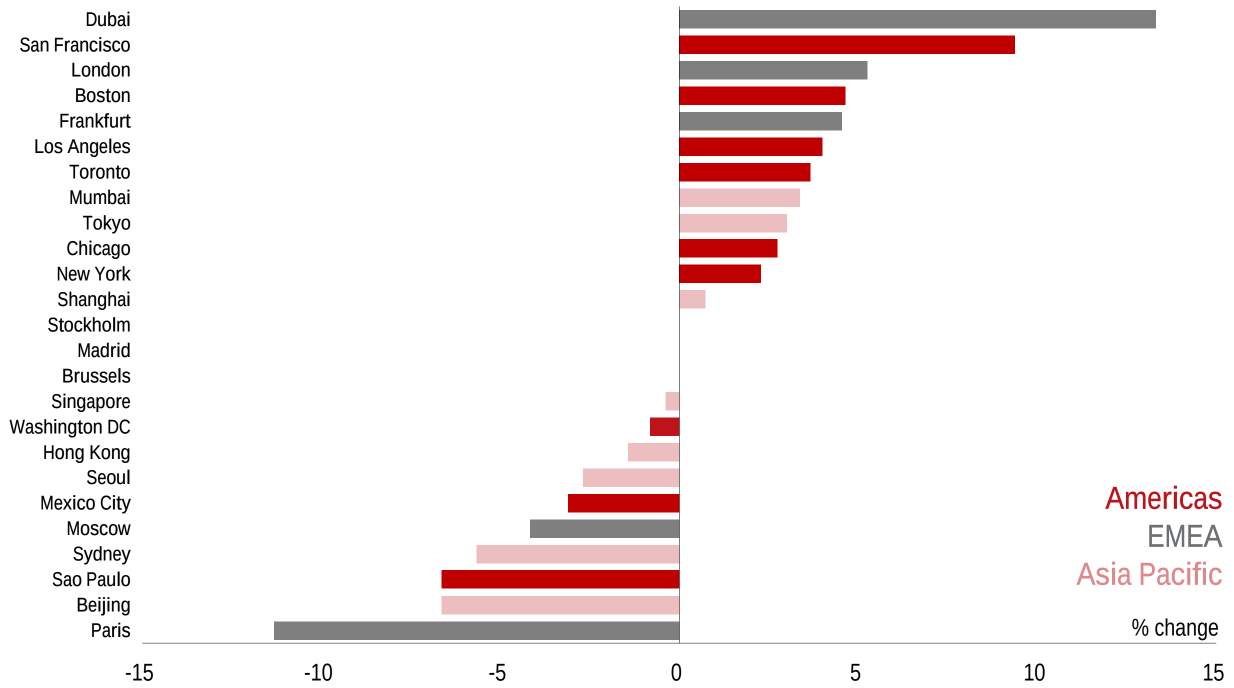
Latin American rents diverge

In Mexico City, the office market continues to confound expectations, with top rents now expected to increase next year. By sharp contrast, the Sao Paulo office market, following a several-year stretch of rising rents, is now clearly cooling, with prime rents falling by 7% so far this year and further downward movements to come in 2014.

'Flight to quality' boosts rental growth in Dubai

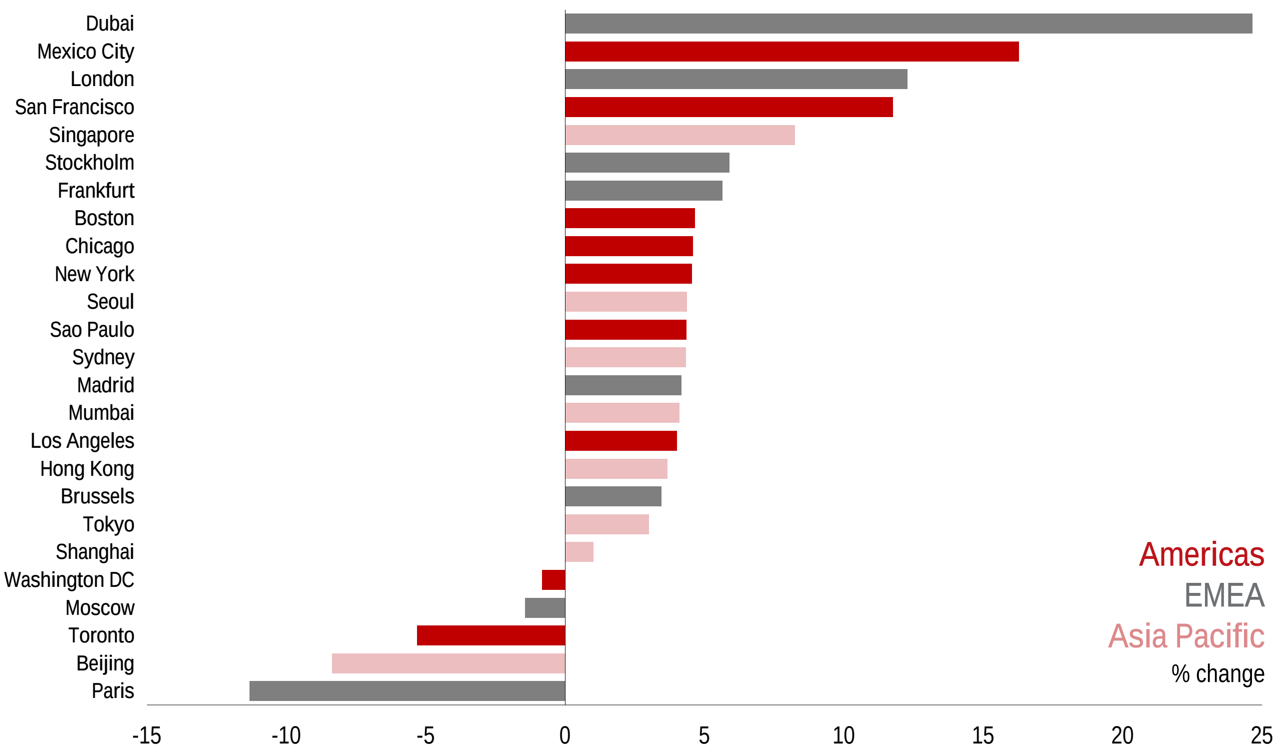
Dubai is currently showing relatively robust rental growth, with headline quoting rents for quality office buildings in select areas recording a rise of 13% since the beginning of the year. Rental growth is being maintained, despite continuing high levels of vacancy, as the poor quality of many projects make them unattractive to the majority of tenants. Conversion to other uses of these already-obsolete projects is the most likely route.

Prime Offices - Rental Change, Q3 2012-Q3 2013



Based on rents for Grade A space in CBD or equivalent. In local currency
Source: Jones Lang LaSalle, October 2013

Prime Offices – Capital Value Change, Q3 2012-Q3 2013



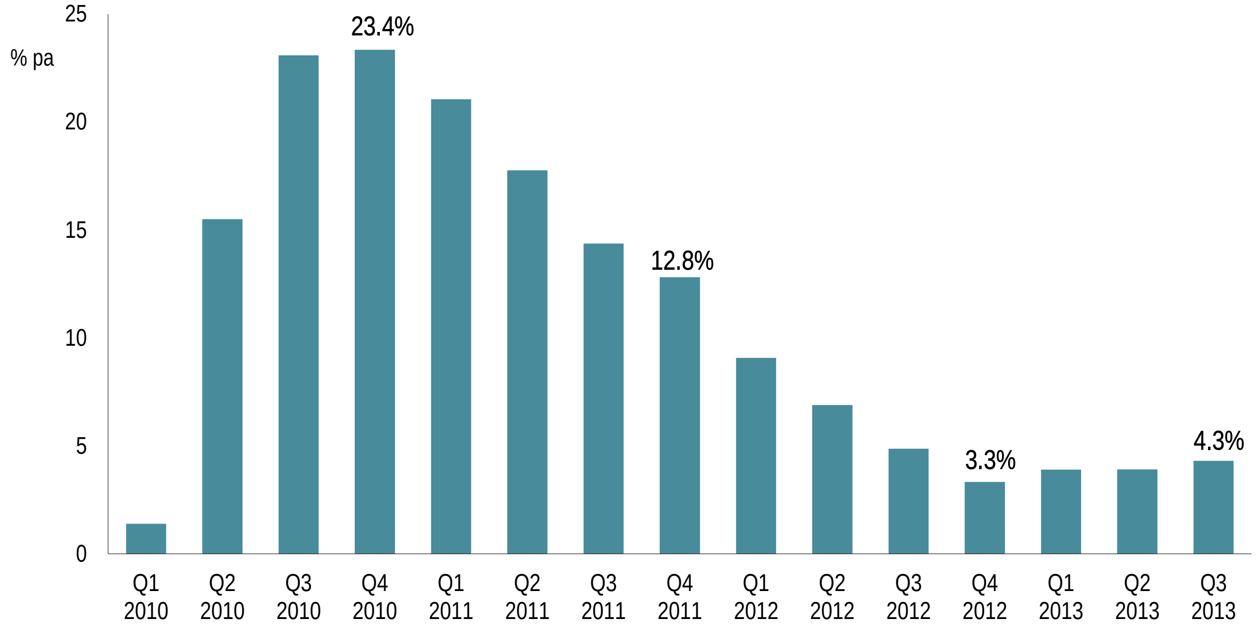
Notional capital values based on rents and yields for Grade A space in CBD or equivalent. In local currency
Source: Jones Lang LaSalle, October 2013

Office Capital Values and Yield Trends

Capital value growth builds

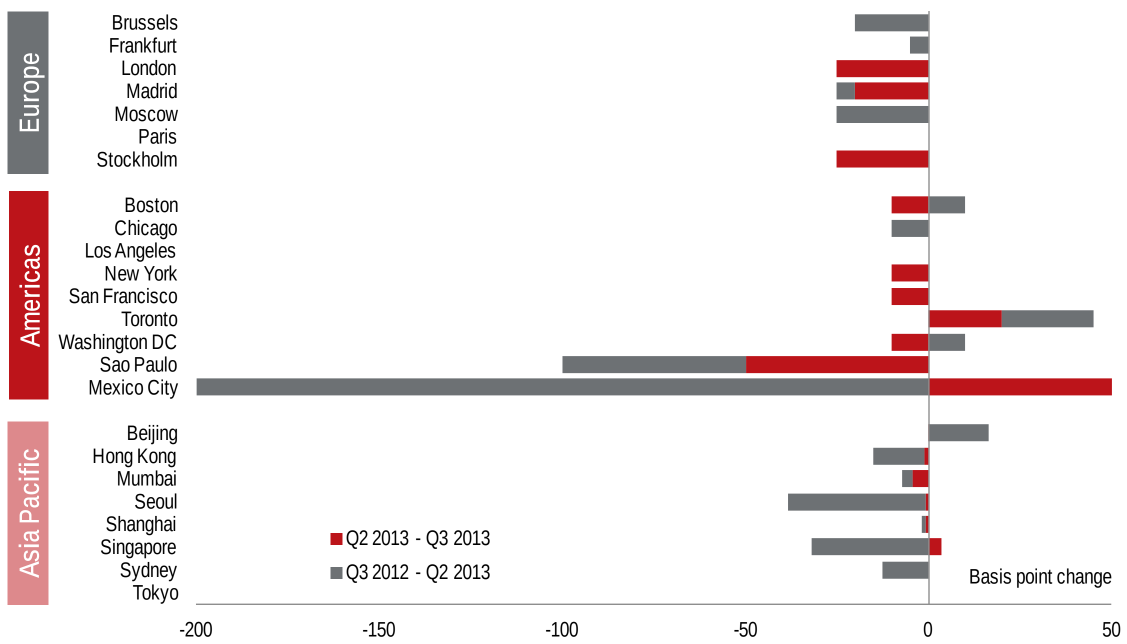
Following a steady deceleration in capital value growth during 2011 and 2012, capital values have once again started to pick up momentum. Values on prime office assets across 25 major markets were up 4.3% year-on-year in Q3 2013, compared to 3.3% for the full-year 2012. Strong demand for core assets in core locations is pushing prime office yields to near record lows, e.g. 3.75% in London and 4.5% in New York

Prime Offices – Capital Value Change, 2010-2013



Unweighted average of 25 major office markets. Source: Jones Lang LaSalle, October 2013

Prime Offices – Yield Shift, Q3 2012-Q3 2013



Source: Jones Lang LaSalle, October 2013

Retail Markets

Modest rental growth across Asia Pacific

In China, expansion by luxury brands has slowed, although some mid-tier retailers, F&B operators and new-to-market foreign brands are still expanding. Demand is also healthy in most South East Asian cities, where international brands continue to open stores and/or grow their presence – in Jakarta, for example, retail rents have grown by 8.2% year-on-year. In India, however, retail leasing continues to be slow and vacancy rates are above 20%. Retailer profit margins in Australia are under pressure, although anecdotal evidence suggests that leasing activity is slowly improving. For the next 12 months, retailer demand for space in most major Asian locations is likely to remain relatively healthy, helping to boost rental growth, albeit moderately.

Grinding U.S. recovery continues

The sector's recovery in the U.S. continues to drag on at a slower pace than the other major property types, as relatively cautious consumers, changing shopping patterns and e-commerce combine to prevent a faster expansion of tenant demand. One continuing positive is that new construction remains historically low, with the majority of the development pipeline limited to big box single-tenant, urban infill, outlet centres and redevelopment of existing centres. Rents inched up 0.3% during the quarter, and over the past year have risen 0.8%.

Among U.S. shopping centre types, power centres are now seeing the tightest overall market conditions, with total vacancy of 5.4%. Several standout markets, like Miami, New York, Houston, Dallas, Fort Lauderdale and San Francisco, are experiencing a rising market, with rents improving and vacancy heading downwards.

European consumer confidence on the rise

Consumer confidence across Europe has picked up significantly and is back at its long-term average. Retail sales across the region are also witnessing signs of recovery, with a moderate 1.1% growth predicted for 2014. Russia and Turkey continue to lead the sales growth league, while conditions in the UK are also notably improving.

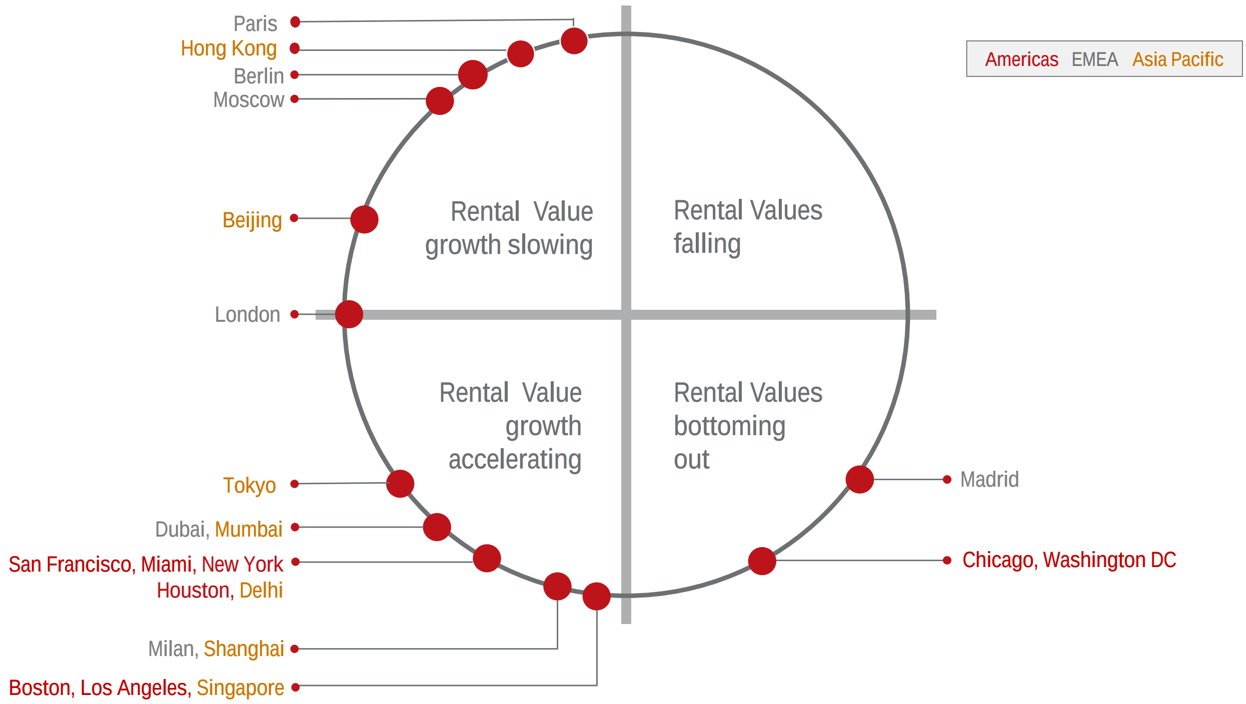
London's luxury retail sees double-digit rental growth

Prime high street rents are stable in most major European cities – the prominent exception is London. Fuelled by a fast developing global luxury sector, London's prime rents grew by a further 13% over the quarter, after recording a 21% rise in Q2. By contrast, rents fell in UK regional cities, such as Manchester (-7.4%) and Leeds (-6.3%). Strongest rental growth for prime unit shops during 2014 is predicted for London, Moscow, Helsinki and Cologne.

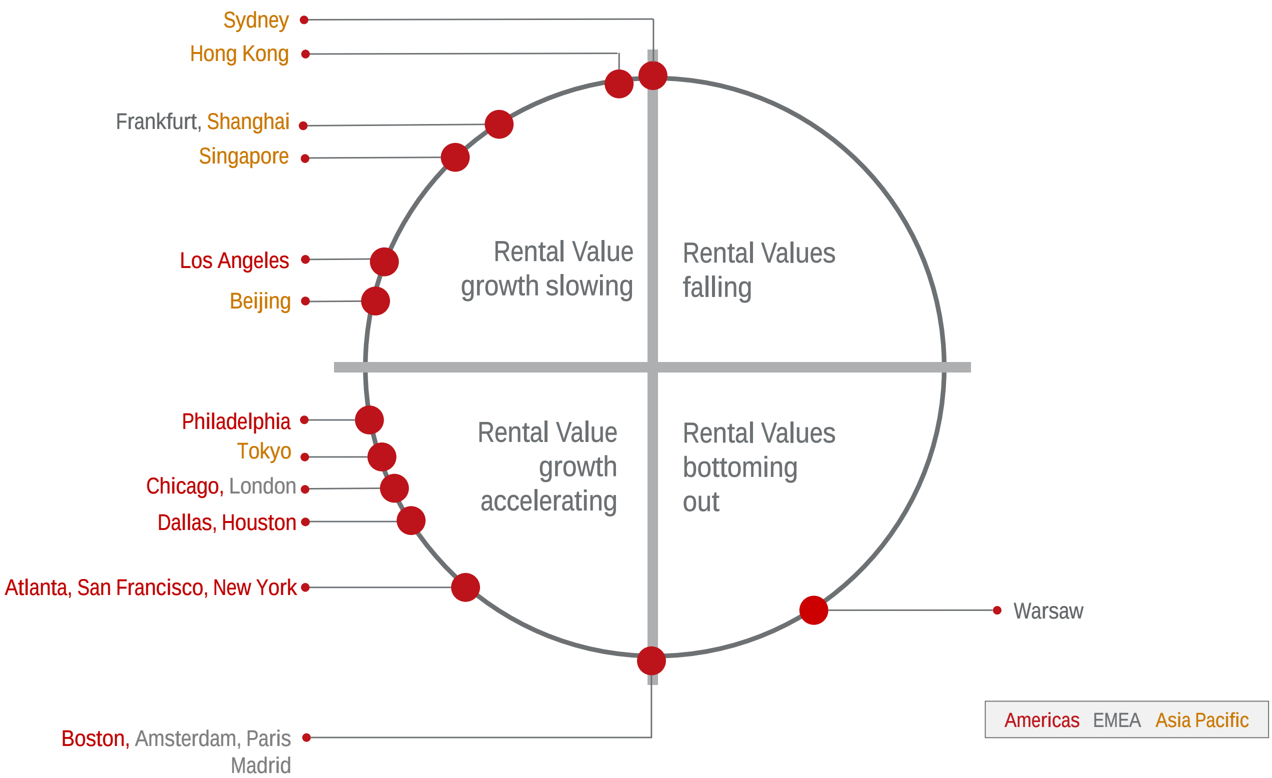
Cairo retail struggles with the political unrest

In the MENA region, Abu Dhabi is the only market to have seen significant levels of new retail supply in the third quarter. Meanwhile the Cairo retail market is suffering from the continued political unrest - average mall rents have declined by 7-15% in Q3 while mall vacancy rates have risen marginally to 26%.

Prime Retail – Rental Clock, Q3 2013



Prime Industrial – Rental Clock, Q3 2013



Relates to prime space. U.S. positions relate to the overall market
Source: Jones Lang LaSalle, October 2013

Industrial Warehousing Markets

Strong tenant preference for modern space

There is a strong focus on space functionality as tenants seek modern facilities to accommodate their evolving distribution strategies and material handling processes. This hints at maximising operational efficiencies while mitigating costs in an environment where the World Trade Organisation has cut its 2013 global trade growth forecast from 4.5% to 3.3%. Given relatively slow global economic growth, industrial users are striving for supply chain optimisation and access to population centres in order to position themselves to compete for market share when true momentum occurs in the global economy.

Speculative construction mounts in the U.S.

Speculative construction is this quarter's central story for the U.S. industrial market. What originally began on the West Coast in late 2011 is now steadily increasing across the nation, notably in the Midwest and Northeast – regions where the majority of tenant requirements are presently concentrated. Nearly 100 million square feet is now under construction across the U.S., half of which is speculative. Small- to mid-size distributors remain especially active, and this is echoed in the size composition of projects underway: more than half is for facilities smaller than 500,000 square feet.

Widespread demand across size segments has caused the U.S. vacancy rate to decrease to 8.2%, down 10 basis points from three months prior, while warehousing rents continue their gradual ascent. The rate at which new speculative inventory is being introduced is a concern, however, and some markets are at risk of overheating.

Retail underpins Asia Pacific warehousing demand

E-commerce and logistics companies continue to drive leasing demand in China (where traditional retailers are more subdued), although occupiers are increasingly looking for options outside of metropolitan areas due to rising rents. Hong Kong has seen the region's highest warehousing rental growth (11.4% year-on-year) due to limited options for tenants. Rents for bonded space in Shanghai rose by 1.8% during the quarter after the government announced plans to pilot a Free Trade Zone.

Healthy European logistics real estate demand

Europe's logistics market remains dynamic, with supply chain reconfiguration still topping retailers' and logistics service providers' agendas. Demand is being driven by new distribution models to support e-commerce and omni-channel retailing. Locating facilities closer to customers to service growing same-day delivery requirements is propelling demand for large facilities as well as small- to medium-sized cross-dock units.

Strong non-speculative construction in Europe

Due to the strong demand for modern warehousing space, construction is back to its highest level since activity plummeted in 2008. However, while headline construction numbers have been rising, the composition of current development is very different to that of the previous cycle, when strong speculative development pushed a stream of new space onto the market. In sharp contrast to the U.S. market, activity in Europe is now being driven by build-to-suit and owner-occupation, which make up 90% of construction volume.

The combination of healthy demand, limited speculative supply and robust non-speculative development has helped prime rents to stabilise over recent quarters. While the European Warehousing Rental Index has fallen by 0.2% year-on-year, this trend is expected to reverse, with rental growth returning to several markets over the next 12 months.

Hotel Markets

Hotel investment volumes continue to rally

The global hotel investment market continues to exceed expectations with transaction volumes in the first three quarters of 2013 reaching US$32.2 billion, the highest year-to-date total since 2007 and a 51% increase on the same period last year.

At the start of 2013, we expected hotel market liquidity to total US$33 billion for the full-year. Global hotel investment volumes have therefore almost reached our initial forecast and growth is expected to continue into the traditionally strong fourth quarter. As a result, the final outcome for the full-year 2013 is set to be higher than previously anticipated.

Hotel Sector – Real Estate Transactions 2012-2013

US$ billions	YTD Q1-Q3 2012	YTD Q1-Q3 2013	% YTD Change	Q3 2012	Q3 2013	% Change
Americas	11.4	16.5	45%	4.2	4.9	18%
EMEA	6.9	10.7	54%	1.7	3	72%
Asia Pacific	3	5.1	71%	1.2	2	61%
TOTAL	21.2	32.2	51%	7.2	9.9	39%

Source: Jones Lang LaSalle, October 2013

Sound growth was registered in all regions in Q3 with continued strong appetite for established markets as well as deepening interest in more opportunistic regional locations and secondary assets in larger cities, which is supported by greater risk appetite.

In the first three quarters of 2013, investors traditionally concentrated on established markets including the United States, the UK, France, Japan and Germany. At the same time, some new, particularly Asian, destinations appeared on the radar, achieving record highs in terms of both absolute numbers and growth rates.

Activity in the Americas driven by private equity

In Q3 the Americas continued to dominate the market in terms of total volumes; however, after an impressive 60% increase in transactions in the first half of the year, the year-on-year growth moderated to 18% in Q3.

From a buy-side perspective, activity was primarily driven by private equity which accounted for approximately half of all Q3 transaction volumes. REITs were the second largest player with a 30% share. On the sell-side, private equity (53%) and hotel operators (15%) were most active.

The majority of transactions were single-asset deals which accounted for almost 77% of all hotel trades. The acquisition of select service hotel portfolios continues to feature as a notable trend, led by private equity investors.

Select service hotel market grows rapidly in the U.S.

The United States remains at the forefront of activity globally, and the select service hotel sector is among the most dynamic and sought-after investment segments. The sector reached US$5.3 billion (about 30% of all transactions) in the first nine months of 2013, up 130% on the US$2.3 billion achieved in the same period in 2012. The growth in select service hotel trades has been stimulated by a solid rise in demand for accommodation from budget-conscious vacationers, as well as attractive yields in this segment, which have ranged from a high 7% cap rate for large portfolios to a low 8% for individual properties. Among the top markets for select service hotel transactions are Boston, Chicago, Denver, Houston and Los Angeles.

Volumes double in Latin America

Activity is accelerating in Latin America, with year-to-date transaction volumes more than double the same period last year. Mexico and Chile have proved to be the most dynamic regional markets, collectively accounting for 77% of all deals completed in the first three quarters of 2013. A strengthening economy, fundamental economic transformation and improving risk perception are setting the stage for favourable investment prospects and further growth in investment activity in the region.

Investor activity in UK and France boosts EMEA volumes

In EMEA, momentum continues to build as Q3 volumes were 72% up compared to the same period last year, with the UK and France driving the increase. Average deal size in EMEA has significantly increased by 37% year-on-year supported by strengthening market fundamentals and greater availability of debt.

On the buy-side, various hotel operators, such as Derby Hotels Collection, Dorchester Collection and Vienna International, are very acquisitive, accounting for 32% of total Q3 volume. On the sell-side, private equity and investment funds continued to feature strongly (with 40% share). Hotel operators have also been divesting assets through selective disposals of individual properties.

Spain and Portugal aim to increase foreign investment

Although the overall economic situation remains complex, 2013 has already proved to be an encouraging year for Spain, with investment volumes more than doubling. This increase in activity is expected to be supported by the adoption of the long-awaited ‘Golden Visa’ law. This legislative act grants non-EU citizens Spanish residency via property acquisitions over €500,000, making this market attractive, particularly for investors from Russia and mainland China. A similar law was adopted in Portugal in late 2012 and has already resulted in a number of deals.

Robust activity in Asia Pacific

Robust year-to-date investment volumes of US$5.1 billion have already been recorded in Asia Pacific which represents 61% year-on-year growth. The region is experiencing its strongest year since the Global Financial Crisis.

Such impressive dynamics have been propelled by increased activity in Japan, China and Singapore which have collectively accounted for more than half of the regional total. The vigour of the region's tourism markets is contributing to an overall sense of optimism across Asia Pacific, pushing price benchmarks above their 2007 peaks.

Australia is set to regain its dominant position after a slowdown in investment activity. Two high-profile deals, which already exchanged contracts in Q3, will complete in Q4 - the 31-property TAHL Australian Portfolio and the trophy Four Seasons Hotel Sydney.

The availability of investment grade hotels in Asia Pacific is becoming scarce and, with few alternative opportunities, investors are holding onto their assets. As a result, buyers are starting to turn their attention towards more opportunistic locations such as the Seychelles and the Maldives.

Residential Markets

U.S. apartment market holds strong

The U.S. rental residential market continues to enjoy positive momentum, as it has for the past several years, although the pace of expansion has slowed in recent months. Part of the reason for this deceleration is the significant amount of new construction that has begun to be delivered, with a very active pipeline for at least the next two-three years. Raleigh, Austin, Charlotte and Washington DC are currently seeing the greatest numbers of new units being built, but the list of markets with very active pipelines continues to expand. There are currently 311,000 units under construction nationally, representing a 41% year-on-year increase. The national vacancy rate is beginning to bottom out at near 4%. Although the new supply presents a challenge, strong structural demographic changes and lifestyle preferences are underpinning the longer-term demand for rental product and will help to sustain rental growth.

Restrictions slow residential sales in Asia

Slower high-end residential sales activity is a feature of most major Asian markets, with policy restrictions remaining in place across the region (e.g. home purchase restrictions in China, additional stamp duties in Singapore and Hong Kong, and tighter regulations on bank credit in Singapore). High-end sales in China, Hong Kong and Singapore weakened, while sales activity in emerging South East Asian markets was quiet, although Manila continues to record healthy sales supported by strong local investor demand.

For the next 12 months, sales in the high-end residential segment in Greater China and Singapore are likely to stay similar to levels seen so far this year. Nonetheless, continued low interest rates should help to limit any downside in prices.

In the Asian residential leasing market, demand remains subdued in China, Hong Kong and Singapore. It is steady in Manila and Bangkok, but in Jakarta and Kuala Lumpur landlords are facing more difficulty in securing tenants.

UK sentiment improves; London outperforms

The UK Government's housing market stimulus package is having a demonstrable impact on housing demand. The second phase of 'Help to Buy', providing guarantees for high loan-to-value mortgage lenders, was drawn forward to commence in October 2013. Combined with first phase equity support for new-build purchasers, the scheme has driven a step-change in demand; notably from first-time buyers.

This has coincided with sentiment improvements due to the stronger economic and employment backdrop, resulting in upward price pressure across all UK regions. London house prices continue to lead the way, now up 7% year-on-year and ahead of previous peak levels. These factors are also driving a surge in development activity, with new home completions likely to be up circa 10% nationally in 2013. However, perennial supply constraints blamed on UK planning laws and land availability will prevent the market from rebalancing for the foreseeable future.

German investment market remains strong

In the first nine months of 2013, residential property portfolios to the value of €9.5 billion (US$13 billion) totalling 140,000 units changed hands in Germany. As well as the mega portfolio sale of Bavarian housing association GBW for €2.5 billion (US$3.4 billion), an increasing number of forward deals have taken place. During 2014, we expect a growing number of portfolio reassessments, large transactions of nonperforming portfolios and a further increase in forward development deals.

Conditions improve in the Gulf

Market conditions are improving in all the region's major residential markets. Dubai is seeing the greatest increases, with prices and rents up by 18% and 15% respectively, year-on-year. However, these rates of price increases are unsustainable, and we expect future growth to be at lower more supportable rate. Meanwhile, the Abu Dhabi residential market appears to have bottomed out, with landlords now seeking to increase sale prices and rents.

Recent Key Investment Transactions

Europe

Country	City	Property	Sector	Sales price US$ m	Comments
Czech Republic	Prague	The Park, V Parku 2308	Office	400	Jones Lang LaSalle has advised Starwood Capital Group on the purchase of The Park which, at circa €300m, represents the largest single transaction in the Czech Republic since 2011. The vendor was Aberdeen DEGI. The Park was built between 2003 and 2011 and comprises 12 office buildings. It is virtually fully let, with tenants including DHL, IBM, Sony and Accenture.
France	Paris	Tour Sequana, 82 rue Henri Farman, Issy-les-Moulineaux	Office	400	Jones Lang LaSalle has advised Les Docks Lyonnais on the sale of the Sequana office tower to Hines, who was acting on behalf of the Korean pension fund, NPS. This 43,000 sq m office tower is located in Issy-les-Moulineaux in the south-west of Paris and is fully leased to Bouygues Telecom as its French headquarters. The price paid was circa €300m but the yield remains confidential.
France	Val d'Isère	Portfolio Club Med Gecina	Hotels	366	The portfolio includes four holiday villages operated under the Club Méditerranée brand (Val d'Isère, LaPlagne, Peisey Vallandry and Opio sites) which were sold to Assurances du Crédit Mutuel. The sale is in line with Gecina's strategy to realign itself around its core business assets.
Germany	Munich	Siemens-Forum, Oskar-von-Miller-Ring 20	Office	212	Siemens has sold the Siemens-Forum office building in a sale-and-leaseback transaction to Hines, acting on behalf of the South Korean pension fund, NPS. Siemens is expected to leave the premises in three years' time, at which point the building will be fully redeveloped. The price paid was circa €160m, with the net initial yield estimated to be around 4.5%.
Italy	Rome	Da Vinci Market Central, Via Alexandre Gustave Eiffel	Retail	172	GWM Group has completed the acquisition of the retail park from AIG/Lincoln for €130m; the yield remains confidential. Located in the Rome airport area, Da Vinci is the largest retail park in Italy with over 56,000 sq m of lettable area and in excess of 10 million visitors per year.
Poland	Katowice	Silesia City Center	Retail	530	Jones Lang LaSalle has advised Allianz on the acquisition of one of Poland's biggest shopping centres from Immofinanz Group for circa €400m. With a GLA of circa 86,000 sq m this is the biggest project of its kind in the Silesia region. The property, which has claimed numerous international and Polish awards, accommodates over 300 retail stores of local and global brands and services. The centre is a good example of a successful revitalisation project as it was built on the premises of the former Gottwald mine.
Spain	Various	Banco Sabadell bank branches' portfolio	Retail	400	Moor Park Capital Partners has sold a portfolio of 278 Sabadell bank branches to the Mexican group Fibra Uno for €300m. The portfolio, spread mainly across Madrid and Barcelona, generates an annual rent of €25m.
Sweden	Various	Brinova Logistik AB portfolio	Industrial	580	Catena has acquired a portfolio of 43 logistics and warehouse properties from Brinova Logistik AB for SEK 3.8bn. The properties have a lettable area of 655,000 sq m and rental income totals approximately SEK 346m. There is a remaining average lease term on each property of approximately five years.
UK	London City	30 Gresham Street	Office	519	Deutsche Asset & Wealth Management (formerly RREEF Real Estate) has acquired 30 Gresham Street on behalf of Samsung Asset Management for a figure in the region of £335m, reflecting a net initial yield of circa 5.0%. The 400,000 sq ft office, which is the current Commerzbank headquarters, is fully leased to Germany's second-largest bank until 2028 with an option to lease back three floors this year. This space will be refurbished and marketed to new tenants in late 2013.
UK	London West End	Shell-Mex House, 80 Strand	Office	946	Sirosa, on behalf of the Conley family, has acquired Shell-Mex House from private equity firm Westbrook Partners. It is understood to have paid £610m, reflecting a net initial yield of circa 4.5%. The 550,000 sq ft building, which occupies a prominent spot on the north bank of the Thames, offers some of the largest floorplates in London's West End. The 12 floors of office space are let to tenants including Pearson, Shell, Vodafone and Omnicom, generating an annual rent roll in excess of £25m a year. Pearson accounts for around 60% of the rent on a 27-year RPI-linked lease.
UK	Reading	IQ Winnersh	Mixed	380	Jones Lang LaSalle has advised SEGRO on the sale of the business park for £245m to Winnersh Holdings, a joint venture between Oaktree Capital Management and Patrizia. IQ Winnersh is a 118,200 sq m mixed-use office and light industrial business park close to junction 10 of the M4 motorway, near Reading; the sale also includes four hectares of development land. The sale price represents a net initial yield of 5.8% which rises to 7.4% when the benefits of rental guarantees and top-ups in relation to lease incentives are included.

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UK, France	London, Paris	Caesar Hotel and Banke Hotel Portfolio	Hotels	322	This sale represents a partnership buyout by the Derby Hotels Collection, a Spanish-based hotel operator, which acquired the group's 50% share in Hotel Banke in Paris and the Caesar in London from its partner the Metrópolis group.

Asia Pacific

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Australia	Perth	Karrinyup Shopping Centre	Retail	220	Westfield Retail Trust and Westfield Group have sold their combined one-third share to the two-thirds owner, superannuation fund UniSuper. The price reflects a capitalisation rate of approximately 5% on passing income.
Australia	Sydney	190-200 George Street	Office	290	Mirvac Group has disposed of its half share in the 38-storey office tower to unlisted AMP Capital Wholesale Office Fund (AWOF). Scheduled to complete in mid-2016, the development has secured Ernst & Young as an anchor tenant and has approximately 74% pre-commitments.
Australia	Various	TAHL hotel portfolio	Hotel	na	Abu Dhabi Investment Authority has acquired a hotel portfolio from Australia's largest owner of hotels, Tourism Asset Holdings Limited (TAHL), gaining control of 31 assets.
Australia	Sydney	1 Martin Place, General Post Office	Office	202	Following the buyout of the Charter Hall office REIT, Singapore's GIC and Canada's PSP have taken full control of 1 Martin Place after acquiring the remaining 50% stake in the asset from Charter Hall's unlisted 1MPF fund.
China	Beijing	Grand Canyon Mall	Retail	284	CapitaRetail China Trust, a Singapore-listed REIT, has purchased this mall via exercising its first right of refusal from CapitaMalls Asia who in turn successfully acquired the asset through a tender exercise from the Capital Airport Real Estate Group. The six-storey mall, which was completed in 2010, includes tenants such as Carrefour, H&M and Gap.
China	Beijing	The Exchange	Office	261	Taiping Insurance Group has acquired the 100% equity interest in The Exchange. The 21-storey Grade A office building, with a NLA of 441,200 sq ft, was completed in 2011.
China	Various	17 warehouses, countrywide	Industrial	200	The Carlyle Group and The Townsend Group have teamed up to invest in a strategic partnership with Shanghai Yupei Group to own 17 warehouses. An initial five warehouses have been acquired by the partnership from Shanghai Yupei Group while the rest will be built over the next two years. Upon completion, the entire portfolio owned by the partnership will manage more than 1.8 million sq m of logistics warehouse space.
China	Shanghai	Shanghai Phoenix Waigaoqiao Bonded Logistics Centre	Industrial	225	Hong Kong-listed Beijing Properties has acquired the logistics centre through the purchase of the entire share capital of Phoenix Real Estate Fund Wai Gao Qiao Holdings from CBRE Global Investors. The assets, situated within the customs warehouse facility, comprise 23 warehouse units with a total GFA of 211,918 sq m.
China	Shanghai	Cross Tower	Office	269	Cross Tower is a 24-storey commercial tower, with a NLA of 42,000 sq m, located in the Huangpu district within distance of the Bund commercial area. The seller, Ascendas China Commercial Fund, has sold the asset (as its fund nears maturity) to Hong Kong-based Gaw Capital.
Japan	Tokyo	Tiffany & Co, Ginza	Retail	323	Reported by Forbes as Japan's second wealthiest person, Masayoshi Son has acquired a 10-storey retail asset for ¥32 billion from Asia Pacific Land. Under bidders were reported to include various institutional investors and a sovereign wealth fund.
Japan	Tokyo	TEPCO Ginza Branch Office Building	Office	240	TEPCO, the nuclear-plant-crisis hit utilities operator, has sold its six-storey building to local media group Yomiuri Shimbun, as it garners financial resources to deal with the disaster. TEPCO will lease back the building until 2016
Japan	Tokyo	Shiba Park Building	Office	1,183	The Shiba Park Building has been sold by DaVinci Advisors under the liquidation of Shinsei Bank and Commerzbank who provided mezzanine financing during the purchase in 2006. The 31-year-old office tower has been purchased by a joint venture comprising Asia Pacific Land, ADIC, Secured Capital Japan and CV Starr. The sale highlights growing interest from offshore groups and marks the largest acquisition to include foreign investors since the Global Financial Crisis.
Japan	Tokyo	Sheraton Grande Tokyo Bay Hotel	Hotel	425	U.S.-based Fortress Real Estate has acquired the 802-room hotel, located in the Tokyo Disney Resort area, from a joint venture of MSREF and Starwood.

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Singapore	Singapore	Grand Park Orchard	Hotel	920	Acting on behalf of Park Hotel Group, Jones Lang LaSalle has negotiated the sale of the 308-room hotel to Bright Ruby Resources. The hotel has a four-storey retail podium and sits at a cross-junction in the heart of the prime Orchard Road shopping belt.
Singapore	Singapore	UE Bizhub East	Mixed	408	Singapore-listed United Engineers has sold the mixed-used development to aspiring REIT, Viva Industrial Trust Management. The development which comprises warehouse, retail and convention space, as well as a 251-room hotel, will continue to be managed by the vendor for a five-year term.
Singapore	Singapore	Paragon and The Clementi Mall	Retail	397	SPH has injected its wholly-owned Paragon shopping centre and 70%-owned The Clementi Mall into the newly-listed SPH REIT. SPH will continue to have a deemed interest of 70% in the SPH REIT. Paragon is a retail development in the prime Orchard Road shopping belt, while The Clementi Mall is situated adjacent to a train station in a mature residential estate.
Singapore	Singapore	Rendezvous Grand Hotel & Gallery	Hotel	225	Far East Hospitality Trust has made its first acquisition since its IPO with the purchase of the 298-room hotel. The vendor, Straits Trading Co, has a 20% interest in the hospitality management company.
South Korea	Seoul	101 Pine Avenue Tower B	Office	429	Koramco has acquired the 64,425 sq m office from Kim's I&D

Americas

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Brazil	Novo Hamburgo	Platinum Outlet	Retail	20	Iguatemi Empresa de Shopping Centers has acquired a 41% stake in the approximately 8,200 sq m shopping centre from São José Desenvolvimento Imobiliário.
Brazil	Sao Paulo	Pátio Malzoni - Torre	Office	193	FII Pateo Bandeirantes has purchased five floors of the tower, totalling nearly 17,500 sq m, from BR Properties. This is at a reported 8.4% initial yield.
Canada	Calgary	IBM Corporate Park	Office	120	German fund IVG Immobilien has sold a 67% interest in the 33,000 sq m office asset to Dundee REIT.
Canada	Calgary	10 Smed Lane SE	Industrial	59	Hungerford Properties has purchased from Haworth Inc. the 71,000 sq m warehouse property.
Canada	Sherbrooke, Quebec	Carrefour de l'Estrie	Retail	205	Caisse de dépôt et placement du Québec has acquired a 50% interest in the over 111,000 sq m mall from CPP Investment Board.
Chile	Santiago	Santiago Portfolio	Hotels	230	The hotel portfolio comprising three properties - Ritz-Carlton, Crowne Plaza and Intercontinental – has been acquired by the Hotel Investment Fund set up by Larrain Vial.
Mexico	Mexico City	City Shops del Valle	Retail	138	Grupo Inmobiliario Carr has sold the approximately 44,000 sq m retail asset to MMREIT.
Mexico	Various	Industrial portolio	Industrial	604	Terrafina has purchased the 1.02 million sq m portfolio of industrial assets from Kimco Realty/American Industries.
US	Boston	Boston Park Plaza Hotel & Towers	Hotels	250	The property has been acquired by the Sunstone Hotel Investors, a southern California-based lodging real estate investment trust. The acquisition was structured as a tax-deferred exchange and was funded with a combination of proceeds received from the sale of non-core assets earlier this year.
US	Denver	Denver Service Center	Office	217	U.S. REIT Franklin Street Properties has purchased the 61,000 sq ft downtown office centre from Miller Global Properties at a 6% yield.
US	Honolulu - Oahu	Hyatt Regency Waikiki Resort & Spa	Hotels	450	The Blackstone has acquired a leasehold interest in the 1,230-room Hyatt Regency Waikiki Resort & Spa. The Blackstone plans to spend about $80 million on renovation works. The property will continue to be operated by the Hyatt Hotels Corporation.
US	Los Angeles	Lantana Media Campus	Office	314	German investor Jamestown Properties has bought the 43,000 sq m Santa Monica office asset from The Lionstone Group at a reported 6% initial yield.

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US	Nashville	The Avenue Murfreesboro	Retail	163	Hines has bought the nearly 70,000 sq m suburban Murfreesboro shopping centre from REIT Cousins Properties at a reported 6.75% initial yield.
US	New York	101 Murray Street	Office	223	St John's University New York has sold the 13,500 sq m office building in Manhattan to Fisher Brothers.
US	Seattle	Northwest Corporate Park	Industrial	170	Principal Financial Group has sold the 260,000 sq m flex asset located in suburban Kent to KTR Capital Partners.
US	Washington DC	One Metro Center	Office	308	Jamestown Properties has purchased the 48,000 sq m downtown office building from Clarion Partners at a reported 5.5% initial yield.