Real value in a changing world

Global Market Perspective

June 2010

Mid-year momentum: Global real estate recovery on track

As the first half of 2010 comes to a close, global property markets at the prime end have shown some improvement in response to the gradual healing of both the world economy and the credit markets. In the US the story remains one of steady improvement, increasing availability of capital and a continuing flow of deals to market. In Asia Pacific, economic performance is likely to outstrip the rest of the world, but watch out for further interest rate rises. In Europe, while trading has been relatively strong, austerity measures will keep confidence and activity in check. With tough choices ahead for global policymakers, can the second half of the year usher in further positive momentum?

This edition of Global Market Perspective provides a real-time mid-year outlook on property market conditions around the world and a perspective on some of the factors - including potential upside surprises and downside risks - that will shape the markets for the balance of the year.

Furthermore, Jones Lang LaSalle's global experts give an in-depth view of trends in the occupier market, and specifically how increased profitability has put strategic thinking back on the corporate agenda and how this will affect companies' real estate decisions.

Highlights

- **Global economic recovery remains on growth track despite significant risks**
- **Differing pace of real estate recovery**
- **Global real estate transparency gains stall**
- **CMBS market reveals pricing reference points**
- **Rise in occupier activity expected as corporate occupiers adapt portfolio plans**
- **Global hotel investment transaction volumes rise significantly**

Global Economy

At the mid-year mark, the global economic recovery remains on track despite significant risks and lingering concerns over the fiscal challenges in the Eurozone, Chinese governmental measures to cool its overheated property markets and another possible global financial market correction. Nevertheless global expansion continues, largely driven by sturdy internal demand in emerging markets in Asia Pacific, as well as solid growth in the United States.

The Eurozone may teeter back towards shallow recession as austerity measures are implemented and impact through 2011. Growth could slow in other regions during the second half of 2010, but the impact should be relatively modest for most large economies outside of Europe. The key to avoiding a sharper pullback will be in containing government debt worries and preventing these fears from spilling over into the global financial system. To date, European policymakers have taken steps to address fiscal imbalances and, while this is welcome from a sovereign debt perspective, if all governments cut at the same time then they risk triggering a renewed recession.

Although closely-watched financial market indicators such as the London Interbank Offered Rate (LIBOR) and the TED Spread have been more elevated in recent weeks, the spreads are a small fraction of where they stood leading up to and during the financial panic of late 2008. Around the world, policymakers face substantial challenges as they attempt to walk a fine line between reigniting sustainable private demand and restoring discipline to public sector finances.

Moreover, governments and central banks in some countries may need to address issues of broad inflation and frothy asset prices. In this complicated macroeconomic environment, with property markets making initial steps in recovery or moving closer to market bottom, there are many moving puzzle pieces with a higher than typical degree of associated policy-related risk.

Global Real Estate Health Monitor

June 2010	US	UK	Germany	France	Japan	China	Australia
Official Interest Rate	0 - 0.25%	0.5%	1.0%	1.0%	0.1%	5.3%	4.5%
GDP QOQ %	0.8%	0.3%	0.2%	0.2%	1.2%	11.9%	0.5%
CPI YOY%	2.2%	3.3%	1.2%	1.6%	-2.0%	3.1%	2.9%
Consumer Confidence MOM %	9.6%	1.4%	-5.4%	-2.7%	n/a	-1.2%	-5.7%
Employment YOY %	-0.7%	-1.2%	-0.2%	-0.7%	-0.2%	3.8%	2.6%
Retail Trade MOM %	-1.4%	1.0%	1.5%	0.1%	0.5%	8.4%	0.6%
Housing Starts YOY %	40.9%	61.7%	n/a	23.3%	0.5%	n/a	26.0%
OECD Leading Indicator MOM%	0.7%	0.1%	0.9%	-0.3%	0.5%	-0.4%	0.3%
Manufacturing PMI, Index level	59.7	58.0	58.4	55.8	54.7	52.7	56.3
Stock Market, MOM to 31 May	-8.2%	-6.6%	-2.8%	-8.1%	-11.7%	-9.7%	-7.9%
REIT Market, MOM to 31 May	-5.8%	-7.2%	-4.1%	-10.4%	-15.6%	n/a	-3.9%
General Trend	Growth	Recovery	Recovery	Recovery	Growth	Growth	Growth

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

Sources: Global Insight, UK ONS, ABS, OECD, Markit Economics, Reserve Bank of Australia, Federal Reserve Bank of New York, Jones Lang LaSalle

Global Property

Right-sizing Asia Pacific growth

Asia Pacific's performance is expected to outstrip that of the global economy in 2010 on the back of broad-based growth in both its domestic and external sectors. According to Global Insight's May forecasts, aggregate regional growth is expected to pick up from an estimated 1.6% y-o-y in 2009 to 6.2% this year, above the 2003–2007 average growth of 5.2% and significantly above the global forecast of 3.7%.

Strengthening economic growth is feeding through to inflationary pressures in some Asia Pacific countries. For example, in China the CPI inflation rate has edged above the government's 3% target for 2010, and in India headline wholesale price inflation is running at more than 10%. Some central banks within the region have started raising interest rates and more are expected to follow. Australia has raised rates by a total of 150 basis points (bps) since October, while the policy interest rate in India has risen by 50 bps in recent months. At the same time, China's government has raised banks' reserve requirements by 100 bps since January, and in mid April introduced further tightening measures in the residential sector.

There are some early signs that these measures are starting to take effect. The Purchasing Managers' Index fell from 55.7 to 53.9 in May, the lowest since February and although residential and commercial property prices continued to rise across 70 cities in China, increasing annually by 12.4% in May, they were down marginally from the record 12.8% growth recorded in April. However, government policies have had a more significant impact to date on transaction volumes, which reportedly fell during May by 60-70% in first-tier cities. Meanwhile, the Eurozone debt crisis has yet to negatively impact China's exports which in May soared by 48.5% on a year ago, with volumes being the highest since September 2008.

Asia Pacific

Upside Surprises	Downside Risks
• Stronger business conditions could drive employment growth, assuming that fiscal stabilisation in Europe and further economic recovery will flow through to higher take-up of space by expanding corporates. • Asia Pacific may attract more corporates looking to capitalise on the region's economic outperformance and its cost saving potential (e.g. business process outsourcing firms in the Philippines and IT/ITES firms in India). More financial services firms could be drawn to the relative 'ease of doing business' in regional financial centres (e.g. Hong Kong and Singapore). • Activity in some of the region's more buoyant real estate investment markets may quickly return to strength if concerns over higher prices, financial market volatility and China's overheating taper off.	• A prolonged period of nervousness about the global economic recovery would impact the region's financial markets, confidence levels and the real economy. Occupational demand and investment activity could both suffer. • With increasing inflationary pressures and overheating risks in some parts of the region, governments need to carefully manage the speed of stimulus withdrawal without compromising sustainable economic recovery. • Many commercial properties are technically in default, with loans due in late 2010. If regional banks take a more aggressive stance, many more assets will come to the market, and available liquidity would be insufficient to absorb the additional volume and potentially depress prices. .

The pace of European economic recovery

The macro-outlook for Europe is a challenging one. The recovery is proceeding at a different pace across the region and while business confidence has returned, it is fragile and outside of a few sectors – notably core financial markets – hiring will be slow to return as will the demand for office space. This will have a significant knock-on effect for consumer spending and consequently for retail and industrial property. Although corporate profit growth and job creation will gradually speed up, the pace will be modest over the next six to nine months. With a bounce-back underway in some investment markets, there is a question whether the pricing of property has got ahead of fundamentals and, in a world where every asset class carries risks, the argument is in favour of the best prime property.

There are two principal macro challenges that will be present for the remainder of the year and into 2011: the ongoing concerns over government debt and the removal of economic stimulus. They both have a direct impact on the region's economy and consequently on corporate occupational demand, but also influence property through the cost of debt and property's pricing relative to other asset classes.

The risk of default in Southern Europe has abated and focus has shifted to long-term fiscal austerity plans which, with government spending cuts across the region, will act as a long-term dampener on economic growth. Furthermore, interest rates will have to rise in the next 12 months, if not sooner. A rising risk-free rate, higher inflation and soft economic growth imply an uncertain outlook for property, both occupationally and as an investment class.

According to Jones Lang LaSalle's UK Real Estate Investor Confidence Survey, investment sentiment remains positive although it has tailed off slightly during Q2 2010 compared to the previous quarter. This is partly due to the perception that prices have risen too sharply against the weak economic and occupational backdrop. Retail funds that were bidding aggressively at the end of 2009 and beginning of 2010 are now being more selective. What is more, much of the price correction in the commercial real estate investment market has already occurred and there is growing concern as to where performance will come from in the absence of further inward yield shift and weak occupational demand.

As the supply of available assets has risen, institutional investors have reined in their appetite for real estate, and fund flows from individual investors have slowed. However, the demand for high-quality assets with secure long-term cashflow in the major markets in the UK, France and Germany is still very strong. In the UK the market is starting to polarise between London and regional centres, with concerns that public spending cuts will have a greater impact on the regional economies and real estate markets.

Europe

Upside Surprises	Downside Risks
• Sustained financial services strength could spread to other business service sectors and drive greater-than-anticipated take-up, narrowing the gap between property fundamentals and the asset markets. • Austerity plans could proceed as planned, softening economic growth but bringing greater confidence and dependability to asset markets, and boosting inflows of capital to European property. • Deflation is a risk on the back of the debt crisis and cutbacks in fiscal spending. While this carries other risks, it would weaken the currency and boost exports, supporting demand for some categories of property.	• The potential need for debt restructuring in Southern Europe could severely weaken the Euro and cause turbulence in asset markets, including property. • Fragile business confidence could depress occupational demand and widen the gap between the investment market and fundamentals, and thereby undermine values. • As governments seek to cut spending while demand is still weak, a renewed and deeper economic recession could occur.

Momentum rises in the Americas

Commercial property markets in the Americas have broadly passed their greatest point of decline, but are currently looking for much greater clarity on several fronts. Investment markets largely appear healthier than they were at mid-2009, however a general lack of available supply in the most targeted market segments continues to frustrate investors that have raised capital but remain in extended holding patterns in their pursuit of attractive opportunities.

Overall sales transaction volume in the United States is running at a pace 45-50% above comparable 2009 levels. As deal pipelines continue to grow, the pace is expected to accelerate in the second half of the year. Full-year 2010 transaction volumes may increase by two-thirds over 2009's very depressed level.

Yields have compressed for core product in first-tier markets, leading to increases in capital values, and in distressed asset sales there are modest signs of growth as some lenders lose patience with the most severely delinquent and overleveraged borrowers. Leasing markets are still generally working their way towards absolute market bottom and continue to trail the capital markets into the recovery phase. In the leading gateway markets, a noticeable rental 'bounce off' of cyclical lows may be developing for prime product, however rents in the majority of markets are likely to come under continued slight to modest downward pressure as the recovery proves fitful. The extent to which the early stages of economic recovery are 'jobful' or mimic the relative joblessness of the previous two recessions is still to be seen.

Although the economic recovery in the region appears increasingly self-sustaining while transitioning to a private sector-driven one, current indicators offer a mixed picture on the probability of robust and lasting private sector gains in US employment. At this point in the recovery, demand fundamentals in the majority of Canadian and Latin America markets appear more sustainable and internally driven, with any near-term risks more likely to be supply related.

The outlook for real estate fundamentals into 2011 will be largely dependent on the trajectory of employment growth, particularly in the United States. Should the private sector begin producing broad-based and consistently strong job gains, then all major sectors will benefit. However, should growth stall or come at a much slower pace, then markets will continue to weaken or, at best, languish at the cycle's bottom. What is certain is that low interest rates, at least into early 2011, will be of short-term benefit to the capital markets, as investor interest deepens and begins to widen, and the lending markets continue to loosen. Nevertheless there remains a tremendous amount of distressed property that casts a shadow over much of the industry and poses risks depending on how lender behaviour evolves with respect to overleveraged property on their books. Finally, without corresponding improvements in underlying demand for space, the investment markets for top-tier real estate run the potential risk of having rebounded too far, too fast.

Americas

Upside Surprises	Downside Risks
• A sustained low risk-free interest rate should cause investors to renew their search for yield. Competition will rise and put downward pressure on yields, causing a rebound in capital values. • Cost-cutting induced productivity growth could significantly slow, leaving corporations with no other choice than to begin expanding their payrolls. The resulting robust job gains lead to a much quicker and more vigorous recovery in property fundamentals than currently envisaged. • If central banks keep highly-expansionary monetary policy in place through mid-2011, consumers could stop saving and return to high rates of discretionary spending. This will spur the property markets and increase investor confidence in the short run.	• A shift in lender strategy towards foreclosure en masse could flood the market with tens of billions of dollars worth of distressed property in a relatively short period, outstripping current demand from investors. As a result there would be a renewed acceleration in overall value declines. • The move from a stimulus-driven recovery to private sector demand could fail, causing the housing markets to again stumble badly and businesses to remain highly cautious with respect to hiring plans. The recovery in fundamentals would be delayed. • Once sovereign debt issues in other regions subside, global investors could turn their attention to the United States and its formidable and growing current account deficit. These investors would demand higher returns for government bonds and, as a consequence, higher risk-free rates combined with relatively soft recovery would cause both leasing and investment markets to falter.

Real Estate Capital

Global real estate transparency gains stall

One of the chief concerns facing cross-border real estate investors is where to safely place capital, while for corporate occupiers it is to clearly understand the different real estate operating conditions across the globe. To address these considerations, Jones Lang LaSalle has recently published the latest version of its Global Real Estate Transparency Index, which helps assess the relative risk of investing in or occupying real estate in 81 markets across the globe.

The 2010 Transparency Index has identified a notable slowdown in the progress of real estate transparency during the past two years and suggests that the recent turmoil in global financial, economic and real estate markets has impacted market behaviour, with real estate players focusing on survival rather than market advancement.

Overall, the average improvement in real estate transparency has halved during the past two years, when compared to both the 2006-2008 and 2004-2006 periods. Among five transparency categories - performance measurement, market fundamentals, listed vehicles, legal and regulatory environment, and transaction process - the latter appears to have been compromised the most. A slowdown of progress in the transparency of real estate regulatory and legal environments has occurred but, in an important long-term positive sign, the quality and depth of information on market fundamentals continues to improve, helping to boost this dimension of transparency in most markets across the globe.

Modest improvements in transparency have occurred in the majority of markets. Of the top 15 improvers, nine are in Europe and six are in Asia Pacific. Australia pushed Canada into second place and the UK into third. The traditional leading pack - Australia, New Zealand, the United Kingdom, the United States and Canada - have now been caught up by a number of European markets.

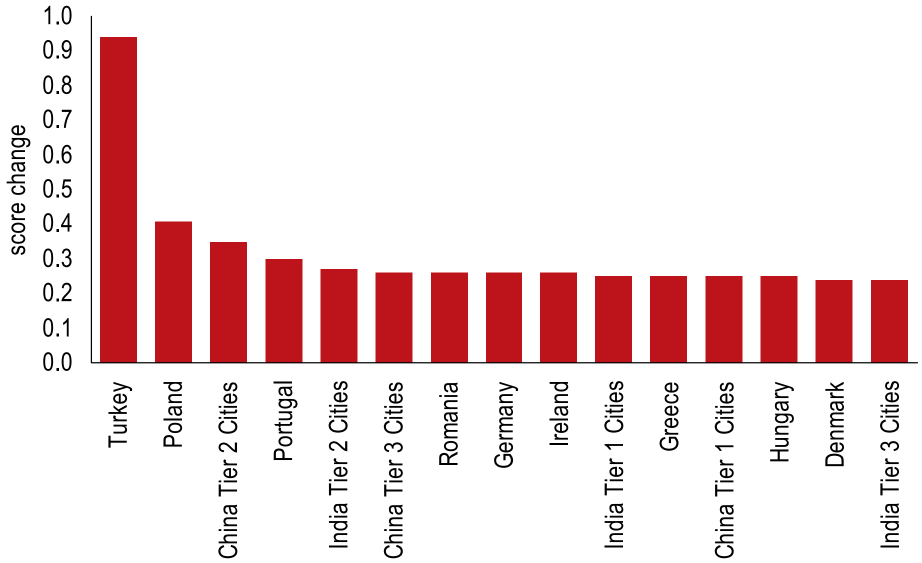
Significant improvers include Turkey, up 27 slots due to progress in aligning its legal and regulatory systems with developed countries as part of its EU accession process. However, one-third of markets have recorded either no improvement or deterioration in transparency and notable declines have occurred in Dubai, Pakistan, Kuwait and Venezuela.

Chart 1: Highly Transparent Markets

2010 Composite Rank	Market	2010 Composite Score	2010 Composite Tier
1	Australia	1.22	1
2	Canada	1.23	1
3	United Kingdom	1.24	1
4	New Zealand	1.25	1
4	Sweden	1.25	1
6	United States	1.25	1
7	Ireland	1.27	1
8	France	1.28	1
9	Netherlands	1.38	1
10	Germany	1.38	1
11	Belgium	1.46	1
12	Denmark	1.50	1

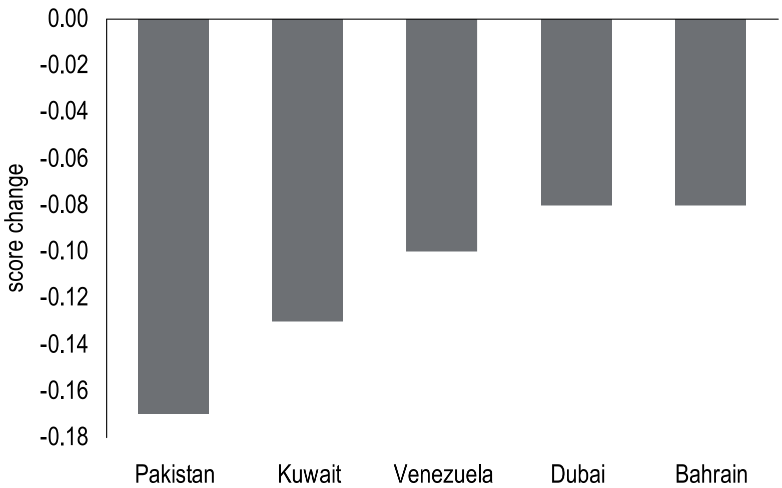
Note: Scores shown rounded to two decimal places; rankings are based on unrounded scores.
Sources: Jones Lang LaSalle, LaSalle Investment Management

Chart 2: Largest Improvements, 2008-2010



Note: Scores shown rounded to two decimal places; rankings are based on unrounded scores.
Sources: Jones Lang LaSalle, LaSalle Investment Management

Chart 3: Largest Declines, 2008-2010



Sources: Jones Lang LaSalle, LaSalle Investment Management

CMBS market yields pricing reference points

The US CMBS market is expected to expand the world of 'financeable' real estate product, with life insurance companies and domestic banks emerging at the main players and targeting core assets. In a recent and noteworthy development, RBS, and more recently, JP Morgan have sold the only such deals this year, representing the fourth and fifth CMBS transactions since the market's low point in 2008. JP Morgan's US$716.3 million CBMS security contains 36 loans secured by first liens on 96 commercial properties, about three-quarters of which are retail stores. The AAA-rated slice has a weighted average life of 4.5 years and is priced to yield 3.60%. The BBB-rated portion is priced to yield approximately 7.76%.

Both deals were oversubscribed by investors, so the issue for banks does not seem to be the demand side, but rather the difficultly of aggregating new loans in today's underwriting environment. Banks are now entering the market together to increase transaction flow and reduce balance sheet risk.

CDOs may emerge as the next best lender

In 2010 and 2011, a surprising source for new lending may be collateralized debt obligations (CDOs). Although the term 'CDO' has become something of a taboo subject given the negative media attention in the US surrounding residential CDOs, many managers of commercial real estate CDOs are actively looking to deploy capital. While seemingly counterintuitive, the managers of these vehicles are finding ways to stay alive, and per CDO bylaws, have a reinvestment period in which they can deploy capital from assets in the CDOs that have been repaid or liquidated.

For illustration purposes, assume a US$500 million CDO was issued in 2006 and consisted primarily of commercial real estate loans sold to the public at a locked-in cost of capital of 6%. Four years later, several loans totalling US$100 million have been liquidated or repaid. The CDO manager now can deploy that capital into new investments while retaining the original cost of capital, which represents a very attractive borrowing rate.

Approximately US$50 billion of commercial real estate CDOs were issued in 2006 and 2007 and approximately US$20 billion of this consisted of mortgage loans that could be reinvested. While new CDOs may never come back to the market, a potential US$20 billion deployment of capital by existing CDOs is a fairly sizeable number that may fill a much needed void as the lending markets regain their footing.

Corporate Occupiers

Uptick in occupier activity pending as corporates implement portfolio plans

Around the world, companies are having more room to manoeuvre in the real estate markets as corporate 'health and wealth' recovers. Improved profits and loosened control on capital expenditures will enable occupiers to seek and secure value from the market through relocations, 'flight-to-quality' space and other methods.

Medium-term strategic thinking is back on the corporate agenda and will influence real estate decisions. For example, sustainability is re-emerging as a key consideration in decision making after a period when it sometimes took a clear back seat to short-term cost control.

Leasing activity is set to rise across the globe in H2 2010 as occupiers take advantage in markets where the window of opportunity is closing due to supply constraints, although volumes will remain short of those seen at market peaks.

Chart 4: Window of opportunity, varied but closing in most markets

Source: Jones Lang LaSalle, March 2010. Conditions relate to the prime end of real estate markets. Secondary product and locations will show a different and generally softer future profile.

Corporate capital markets will experience greater and more varied deal flow as occupiers increasingly recognise real estate as a financial instrument. Sale and leasebacks, buying of core assets and the sale of bundled lease liabilities to investors will be evident as corporates engage with investors to find innovative solutions to their revised real estate needs.

The drivers for occupier action will be different from what has gone before with a clear shift from a defensive stance to carefully planned and coordinated opportunism. Cost considerations will continue front and centre, but the emphasis will be on cost avoidance rather than pure cost cutting. Meanwhile, 'a perfect storm' is brewing for the implementation of alternative workplace strategies. The exponential increase in mobile and collaborative technology capabilities over the last five years has spawned the need for revised real estate and human resources strategies to leverage the new reality. These technology improvements, combined with organisations' desire to be more sustainable, more productivity (human capital and building assets) and more attractive to existing and new talent, have raised the complexity of workplace solutions. 'Own' versus 'lease' decisions and enhanced flexibility through lease structures will also move to the forefront given pending changes to lease accounting rules.

In Europe, supply constraints are becoming evident and the window on the current 'tenants' market' may close within the next 18 months. In more mature markets such as London, the time frame is shorter with rents already putting financial pressure on tenants. Elsewhere in the EMEA region, emerging markets are seeing more risk and activity. Global corporates are increasingly focused on Africa, where economic growth has neared 5% annually during the past decade, twice the pace of the 1980s and 1990s and equal to that of Brazil and Russia. Cairo, where there is a massive need for commercial space, is also attracting corporates' interest and could well emulate the trends that occurred in Delhi and Mumbai five years ago.

In Asia, which has been the focus of international buyers and significant merger and acquisition activity in recent years, regional banks are rolling out large numbers of new branches to take advantage of the new found wealth in the region and, where possible, to take advantage of attractive real estate pricing. As markets start to bottom out, the 'flight to quality' continues apace, creating interesting anomalies. In Singapore take-up has been so dramatic that the market is seeing the bottom far ahead of usual supply/demand dynamics. In Shanghai, domestic bank demand is seeing a tale of two cities emerge as Pudong rents rise and Puxi rents stay flat. And although demand for property in South Korea and India is among the most competitive in the region, the overall trend for corporate occupiers in Asia is to upgrade rather than to expand their space.

In the United States, cautious optimism is the prevailing sentiment among occupiers, particularly those who enjoy strong cash positions. Companies who are able to make longer-term decisions are doing so, but typically this means no more than three years, and those who are not, realise that they are missing an opportunity. Cost remains the critical influence of real estate presently. Where significant cost savings can be achieved via locking into rental rates below existing obligations, relocations will be the consequence. However, for new deals contraction options are mandatory and a key route to providing the corporate occupier with much need agility and flexibility. Corporate merger and acquisition activity, sustainability and the trend towards alternative workplace strategies also are prevalent. Shadow space remains a concern because there is virtually no demand for sublease space except from marginal tenants and, moreover, corporations are struggling to overcome the fear of subleasing to tenants with questionable credit status. In addition, proposed changes to lease accounting standards are creating uncertainty among corporate occupiers.

Hotels are ahead of the game. First in, first out

The first half of 2010 has seen a solid recovery in global hotel investment volumes. As of 15 June 2010, volumes have totalled US$4.5 billion – a 26% increase over the same period in 2009.

Fuelled by increasing investor confidence in the recovery of the lodging sector and substantial weight of capital in the marketplace, recovery in transactional activity has been greatest in the Americas. Hotel sales in the region have increased 97% annually to total US$1.9 billion, of which almost 95% were undertaken in the United States. This marks the first time since 4Q 2007 that transaction volumes in the **Americas** have surpassed those of EMEA, which registered US$1.6 billion of sales in the same period (+14%). Leased assets have dominated sale activity in **EMEA**, accounting for almost US$500 million of hotel sales in the region. Although **Asia Pacific** volumes were down 19% compared to the same period in 2009, hotel sales at US$973 million continued to be brisk in the region, particularly in Japan and Australia.

While there are lingering concerns over the continued pace of recovery in the world economy, particularly in Europe, the outlook for the hotel real estate market continues to be buoyant. In the May 2010 edition of the Hotel Investor Sentiment Survey (HISS) produced by Jones Lang LaSalle Hotels, expectations for global short-term trading have recorded their most marked increase since the survey's inception (up 31.8%). Yield requirements have firmed up over the past six months, with capitalisation rates (initial yield) falling 100 bps to 8.7% and leveraged IRRs falling 120 bps to 18.1%. Market optimism is also reflected in changes in global investment intentions with a notable increase in 'buy' sentiment (+5.6% to 41.2%) and a concurrent decrease in 'hold' sentiment (-6.1% to 35.8%). All things considered, transaction activity is on pace to total US$11-13 billion globally by year-end 2010, in line with the forecast levels that the firm projected at the beginning of the year

Outlook

At mid-year 2010, the real estate markets are healing, yet there are several signs on the horizon that market participants should have regard to:

- **Different recovery speeds**: The recovery is unbalanced with growth in Asia Pacific, a recovery in North America and continued challenges in Europe. While property markets are faced with this uneven economic growth profile its own sustainable and balanced recovery will remain challenged.

- **Reference points in CMBS market**: On the heels of a major US CMBS sale in mid-June, this market is expected to produce additional pricing reference points in coming months. There is likely to be strong investor appetite for these securities given their handsome yield advantage over US government securities and corporate bonds. Although growing, continued historically low overall transaction volumes will be an ongoing challenge for issuers as they search for appropriate supply of deals to securitise.

- **Proposed increase on carried interest profits may weigh on prices**: In May, the US House of Representatives approved an increase in taxes on carried interest profits by investment partnerships. If the proposal is approved by the US Senate, real estate partnerships could reduce the prices they are willing to pay on commercial properties, which could ultimately lead to an increase in defaults on commercial mortgages.

- **Sovereign debt solutions:** Europeans are concerned about whether the region's €750 billion (US$930 billion) support package, including €440 billion (US$546 billion) from the European Financial Stability Facility, will have the desired impact on confidence, the pricing of debt and financial sector stability. Until that happens, a weak Euro can be expected together with further volatility in the markets.

- **When will German funds resume their buying?** In July 2010, the German federal government is expected to announce its final reforms for open-ended property funds. If the reforms include the most draconian of proposed measures - including a 10% valuation haircut and a minimum notice for redemptions of up to two years - the German funds could continue to curtail their investments. However, recent media reports suggest that government is considering replacing the 10% devaluation measure with a quarterly appraisal of the fair market value of properties. Collectively the funds have approximately €90 billion (US$110 billion) invested in property assets under management around the world and, so far in 2010, they have remained 'net buyers', purchasing on balance €110 million, compared to €370 million for all of 2009 and €850 million during 2008. However, 10 funds representing approximately €25 billion under management have temporarily closed. Forecasts call for more and more funds to be net sellers, particularly those that are temporarily closed. Potentially filling the buyer void could be other closed-end funds, some of whom have recently raised equity; insurance companies, who have indicated an intention to increase their share of real estate investments; and pension funds.

Transactions

Mumbai, India

In one of the largest transactions in India in recent times, Bombay Dyeing has sold a 400,000 square feet office building in Worli (Mumbai) to Axis Bank for Rs7.82 billion (US$169 million). The bank plans to relocate its corporate headquarters from Cuffe Parade to this eight-storey tower located within the Bombay Dyeing mills compound. This deal provides evidence that demand for commercial property is picking up again in India with average capital values looking to be close to the trough of the cycle.

In India's biggest land deal to date, Lodha Developers recently bought a 25,000 square metre plot in Wadala, Mumbai for Rs40.53 billion (US$872.3 million) from the Mumbai Metropolitan Region Development Authority (MMRDA). The developable space works out to Rs495,000 per square metre and, with an unprecedentedly high FSI (Floor Space Index) of 19.8, the developer could build a tower of over 80 storeys.

Seoul, South Korea

Deka Immobilien GmbH, represented by Jones Lang LaSalle Korea, has sold the fully-let Eugene Investment & Securities Building in Seoul for around €123 million (US$151 million) to the Korean Public Officials Benefit Association, a semi-governmental fund company which manages benefits for civil servants. The sale price on this office building represents a strong gain for the vendor and is well above market expectations. The total floorspace of around 40,000 square metres is let almost entirely to Eugene Investment & Securities on the basis of a long-term agreement.

Hangzhou, China

UTStarcom Inc (UTSI), a Nasdaq-listed Chinese company specialising in internet protocol-based network solutions, has sold its facility in Hangzhou to the Zhongnan Group for Rmb950 million (US$140 million). This is the largest business park sale in China to date and was brokered by Jones Lang LaSalle. The facility includes a research, development and production building covering a floor area of 2.6 million square feet. UTSI has leased back some space and continues business operations in Hangzhou.

Berlin, Germany

The South Korean National Pension Service (NPS) has carried out its first acquisition in continental Europe with the purchase of the Sony Center complex located at Potsdamer Platz in Berlin. The vendors are Corpus Sireo, The John Buck Company and Morgan Stanley's MSREF VI international. Market sources have suggested that the price was €572 million (US$709 million) for the 115,000 square metre complex.

Nice, France

A three-way consortium comprising the pension fund ABP, the life insurer Predica and the French retail specialist Altera has acquired the Cap 3000 shopping centre in Nice from retailer Galeries Lafayette for around €450 million (US$558 million).

Milan, Italy

The developer, Risanamento, has sold the Falck development site in Milan for €405 million (US$502 million) to Bi & Di Real Estate on behalf of a consortium including the Korean group Honua Investment Management, Consorzio Cooperative Costruzioni, Le Copains' Bandiera Group and a group of banks.

Sao Paulo, Brazil

Brookfield has sold a 49% stake in a Class A development of approximately 34,000 square metres on Faria Lima Avenue to Maragogipe Investimentos e Participacoes for R$601 million (US$341 million).

Rio de Janeiro, Brazil

Publicly-traded BR Properties has acquired 20 floors of a refurbished office tower on Rio Branco Avenue from national developer BN Corp for approximately R$94 million (US$53 million).

Vancouver, Canada
Artis REIT has purchased Production Court, a three-building office complex in suburban Burnaby from GWL Realty Advisors. With next year's income equating to a reported 8.0% yield, the approximately 298,000 square feet property sold for C$64 million (US$63 million).

Suburban Virginia, USA
In Stafford, Virginia, Silver Companies has sold two office buildings in the Quantico Corporate Center to Washington REIT for US$68 million and a reported 8.8% yield. The fully-occupied 271,000 square feet low-rise property has a heavy defence contractor tenant roster.

Durham, North Carolina, USA
ISPT has sold 10 industrial buildings in the Research Tri-Center to Northwood Investors for approximately US$77 million. The buildings, comprising mainly warehouse and distribution facilities, total over 1.5 million square feet and were 88% occupied at the time of sale.

Hotels
Notable transactions completed in Q2 2010 include the A$130 million (US$115 million) sale of the Sofitel Wentworth Sydney by Tourism Asset Holdings Limited to LaSalle Investment Management and, in the Americas, Lone Star Funds acquisition of Lodgian, Inc. for US$270 million. Lodgian currently owns and manages a portfolio of 27 hotels with 5,230 rooms located in 18 states. The largest transaction to take place in EMEA during the same period was the sale of two Husa hotels in Madrid by Metrovacesa to Continental Property Investments for €122 million (US$151 million).