JONES LANG LASALLE

Real value in a changing world

Global Market Perspective
March 2010

A BRIC built recovery?

The BRICs or at least **India** and **China** have so far rather successfully negotiated the hazards of the downturn and now along with **Brazil** have generated substantial domestic-led expansion. Even the **Russian** market, the most severely impacted by the recession, is beginning to bounce back. In creating this impressive edifice of growth the BRICs have set themselves an interesting challenge - to make it both resilient to any further economic shocks and to ensure its architecture remains welcoming to the rest of the world.

This month's edition of Global Market Perspective focuses on the **BRIC** markets, their different positions in the real estate cycle and the approaches they are adopting to consolidating their roles as key influencers in the global real estate market.

Highlights

- **BRIC countries becoming a significant force in global real estate**
- **Capital markets building momentum**
- **Turnaround in leasing conditions in some core markets**
- **Corporate occupiers taking advantage of market conditions to upgrade**
- **A multi-speed economic recovery underpins real estate dynamics**
- **Watch for asset price bubbles**

Global Economy

A multi-speed recovery

Momentum is building in the global economy; international trade is recovering rapidly, manufacturers are replenishing stock, and critically, the service sector, an important pillar of a healthy and dynamic real estate market, is once again growing. But the landscape remains uneven and evidence is mounting of a multi-speed recovery:

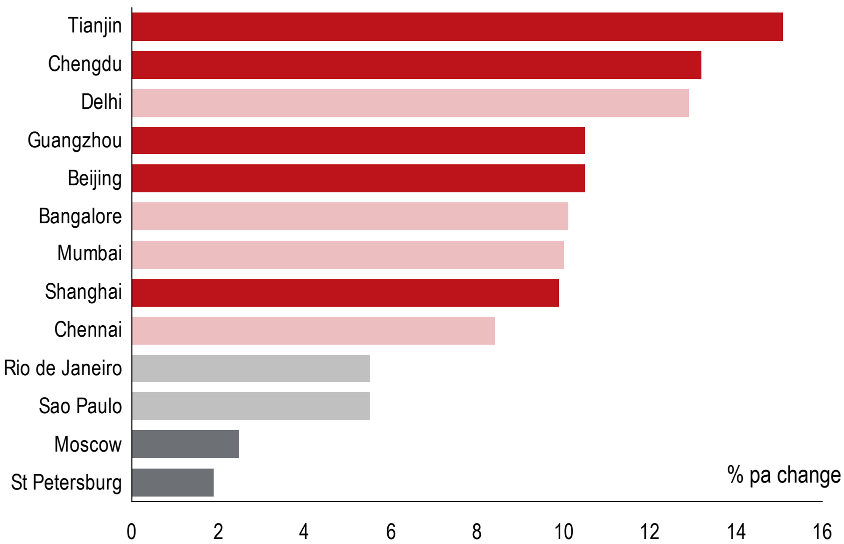
Most of **Asia, Australia** and **Latin America** are showing robust growth, and in the **United States** and even **Japan**, growth rates are now exceeding many economists' expectations. There are signs here that monetary policy is being tightened as the stimulus packages designed to promote economic activity are now encouraging financial risk taking, which in some markets, is likely to create asset price inflation. The **U.S**. Federal Reserve is signalling that it is ready to withdraw policy measures employed to curtail the crisis, and **Australia**'s central bank has again raised its benchmark interest rate. **China** is tightening monetary policy and taking control of real estate speculation, while **India**'s government has recently announced plans for a more prudent fiscal policy. These actions indicate that governments and central bankers are more confident that economic growth is on a more robust footing. This is a good sign for real estate leasing markets and provides further support for an improvement in real estate investor confidence.

Across much of **Europe**, in contrast, economic growth is still fragile. The **Eurozone** economy grew by just 0.1 percent in Q4 2009. Weak growth combined with expectations of aggressive fiscal tightening by Europe's debt-laden governments will make it unlikely that the ECB will raise policy interest rates before at least Q4 2010; *and* the ECB may accept a weak currency as a consequence of the need to cut deficits which will slow growth. While the low growth economic environment will delay a recovery in leasing markets, the combination of a weaker Euro, low policy interest rates and bottoming rental cycles could provide a compelling attraction for cross-border investors.

Structural and cyclical boosts to the BRIC markets

A key feature of the current recovery is the strength of the **BRIC** countries, most notably **China** and **India**, a trend that is reflected in their real estate markets. China and India, home to some of the world's most dynamic cities and real estate markets, are both motoring strongly with annual GDP growth rates of 11 and 7 percent respectively. Aggressive stimulus plans and easing of monetary policy have been highly effective in boosting domestic demand, although this is beginning to create distortions and concerns about potential real estate asset price bubbles. **Brazil**, previously always the lagging BRIC, is benefiting from structural reforms, which have led to macro-economic stability and improving sentiment among real estate investors. The BRIC governments are now beginning to withdraw stimulus measures to reduce overheating and ensure more sustainable growth paths. **Russia**, in contrast, has been deeply impacted by the recession (GDP was down nearly 8 percent in 2009), and with an over dependency on energy exports, it has struggled to regain its growth trajectory. But an upswing may come back swiftly and strongly, and an expected 3 to 4 percent growth rate will serve as a reassuring sign and underpin a real estate recovery.

BRICs Major Cities – Economic Growth, 2010-2011



Source: Jones Lang LaSalle, Global Insight, Experian, March 2010

Global Real Estate Health Monitor

March 2010	US	UK	Germany	France	Japan	China	Australia
Official Interest Rate	0 - 0.25%	0.5%	1.0%	1.0%	0.1%	5.3%	4.0%
GDP QOQ %	1.4%	0.3%	0.0%	0.7%	0.9%	10.7%*	0.9%
CPI YOY%	2.6%	3.4%	0.4%	1.1%	-1.7%	2.7%	2.1%
Consumer Confidence MOM %	-18.5%	8.1%	-3.0%	-10.0%	n/a	0.7%	0.2%
Employment YOY %	-2.1%	-1.5%	-0.4%	-1.8%	-0.6%	1.0%	1.7%
Retail Trade MOM %	0.5%	1.0%	0.1%	-0.1%	2.9%	12.4%	1.2%
Housing Starts YOY %	21.1%	16.0%	n/a	-3.0%	-8.2%	n/a	-6.0%
OECD Leading Indicator MOM%	0.9%	0.6%	0.8%	0.4%	1.3%	0.2%	0.6%
Manufacturing PMI, Index level	56.6	56.6	57.2	54.9	52.5	55.8	53.8
Stock Market, MOM to 26 Feb	2.9%	3.2%	-0.2%	-0.8%	-0.7%	2.1%	1.5%
REIT Market, MOM to 26 Feb	5.8%	0.5%	-1.7%	-3.1%	-2.2%	n/a	-0.4%
General Trend	Recovery	Recovery	Recovery	Recovery	Recovery	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

The latest **Global Real Estate Health Monitor** (GREHM) provides further evidence of the multi-speed recovery. Economic growth is solid in both **China** and **Australia**, and has rebounded in the **United States** and **Japan**, but **Europe** remains in neutral to negative territory. Hiring has re-commenced in the Asian economies including Japan which saw 540,000 new jobs created in January, the strongest monthly result since October 1973. Elsewhere, however, there is limited evidence of new employment creation which is restricting retail sales and consumer confidence. The month to month vacillation of these indicators highlights the enduring uncertainties in many economies.

More encouragingly, there are some signs of stabilisation in the housing markets in the **U.S.** and **U.K.** both in terms of prices and activity. Major stock markets are once again rising, following a pause in January and the Manufacturing Purchasers Managers Indices have risen above 50, indicating strong expansion. More significantly for real estate are the signs of economic growth in the service sector and the opportunities it will begin to open up in the leasing markets.

Global Property

Commercial real estate on the upswing

Recovery is tangible and sentiment in the world's major real estate markets is clearly more positive than a year ago. Investment markets are improving across the globe, with a significant weight of money chasing real estate opportunities. While the vast majority of investors remain focused on prime high quality assets, a few are now beginning to consider off-prime assets and locations. Leasing markets too, are showing signs of increased activity, not only in the **Asia Pacific** region, but in several core markets across **Europe** and the **United States**. Office markets such as **London** and **Shanghai**, which only a few months ago were recording a sharp decline in rents, are now projected to see double digit prime rental growth during 2010. Improving economic growth coupled with corporate occupiers taking advantage of the window of opportunity to upgrade or consolidate on favourable terms will create greater churn in the corporate occupier markets in 2010. However, even in the most buoyant markets, confidence is still being dampened by the persistent debt crisis, constrained lending and the trillions of dollars of property debt still reluctantly held by the banks.

BRIC's leading the recovery

The **BRIC's** are leading the global real estate markets into recovery. Their combined economies are projected to expand by 8 percent in 2010, reinforcing their position as the growing economic and real estate force. In **China, India** and **Brazil** domestic-led expansion is boosting real estate demand across all sectors, but particularly for residential. Even the **Russian** market, which has been severely impacted by the recession, is beginning to bounce back in some areas. Domestic players have continued to dominate the BRIC investment and leasing markets over the past year. A return of foreign activity is likely in 2010 as risk appetite grows, at least for BRIC's Tier 1 and 2 cities, with Tier 3 and 4 cities considered too high a risk at present. Longer term, the much discussed burgeoning middle classes will fuel further real estate expansion, particularly for residential, retail and warehousing.

BRIC Markets Compared

	China	India	Brazil	Russia
Economic Dynamism	High	High	Medium	Low
Stimulus Impact	High	High	High	Low
Real Estate Investment - Domestic Activity	High	Medium	Medium	Medium
Real Estate Investment - Foreign Activity	Medium	Low	Increasing	Low
Occupier Demand* - Domestic Activity	High	Medium	Medium	Medium
Occupier Demand* - New Foreign Activity	Medium	Medium	Medium	Medium
Vacancy*	High	High	Low	High
Supply Pipeline*	High	High	Medium	High
Rental Trend*	Increasing	Stabilizing	Increasing	Stabilizing
Yield Trend*	Compressing	Compressing	Compressing	Compressing

*Trend relates to prime offices

Source: Jones Lang LaSalle

China: Domestic-led growth

In **China**, the strong domestic-led nature of economic growth is reflected in current real estate market dynamics. Retail, primary residential housing sales and non-bonded logistics have been doing well, while Grade A office leasing and luxury residential leasing, as well as bonded logistics (i.e. markets dependent on foreign demand) have had a tougher time, although these sectors have also stabilised since Q4 2009. The investment market is strong; high liquidity has been heavily driven by domestic investors and there has been no sign of distressed assets. Yields have compressed sharply and are now at all time lows across all sectors. Corporate occupier demand, led by domestic firms. is strong and is pushing up rents in Tier 1 office markets; prime rents in **Shanghai** are projected to rise by as much as 15-20 percent in 2010. Retail sales continue to boom, driven by strong job creation, strong income growth and urbanisation, and supported by the development of more high quality and better managed shopping centre formats. In 2010, the return of foreign investors is anticipated, as well as the beginnings of an uptick in MNC business activity. China will be a highly policy driven market as the government looks to direct capital towards infrastructure and away from speculative property development and land price inflation. Overall, policy will be tightened due to a real risk of overheating and asset price inflation.

India: Welcoming a new wave of offshoring

Sentiment in the **Indian** real estate market is improving on the back of a buoyant economy. The country's recent economic performance has retained traction, even during the sharp global economic recession. As in China, there are mounting risks of overheating and asset price inflation, and the government has recently announced plans to pull back on spending. The residential sector has been the biggest beneficiary of recent stimulus packages, with an average of 30-40,000 units sold per quarter; prices have risen by 10-20 percent in both **Mumbai** and **Delhi**. In the commercial sectors, developers have been highly nimble over the past year and they have responded quickly to changing economic circumstances by creating new and different opportunities; this is particularly evident in the office and retail sectors where a number of schemes have been converted to residential uses, with others being delayed or shelved. A new wave of offshoring is expected to have a major impact on the Indian market. As the global business environment becomes more competitive, a new generation of companies are being forced to consider offshoring for the first time; several U.S. companies including Deloitte and NetApp have registered significant space requirements in India.

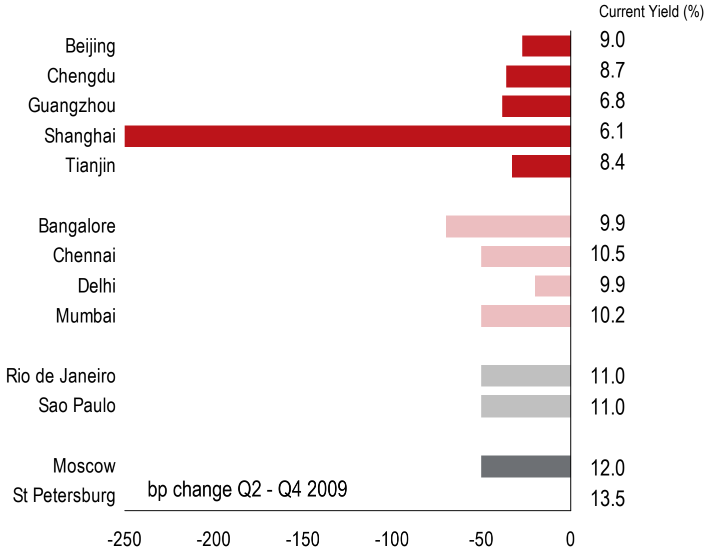
Russia: Markets are stabilising

The **Russian** real estate market has been deeply affected by the recession. An 8 percent contraction in the economy during 2009 severely affected corporate occupier demand and also dented confidence among investors who were used to double-digit returns. Developers and owners became increasingly flexible, initiating a very sharp contraction in real estate prices to reflect the new market reality; prime office values fell by over 70 percent in Moscow between mid 2008 and mid 2009, among the highest corrections in the world. However, the market has stabilised remarkably quickly in 2010, as have GDP levels; an expected recovery to 3-4 percent economic growth will serve as a reassuring sign and will underpin real estate demand. Despite the improvements, the markets remain vulnerable, and any faltering in economic growth could derail the recovery.

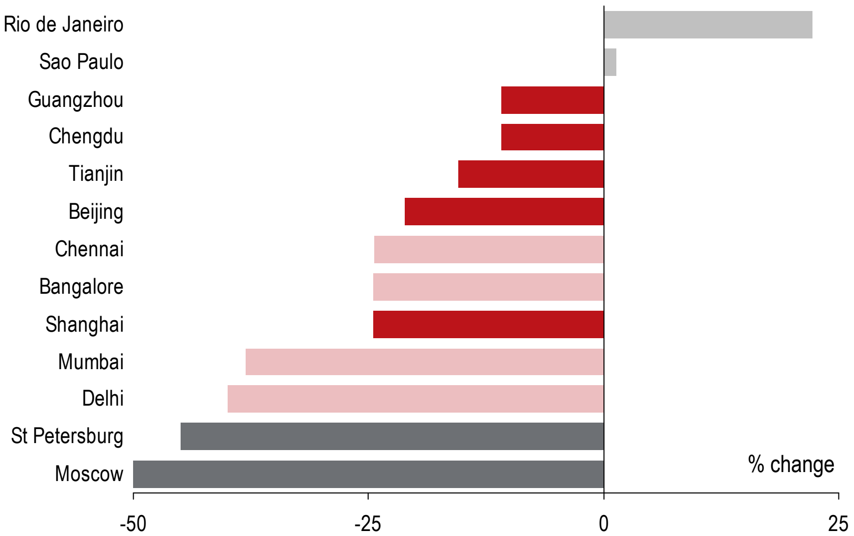
Brazil: A rising international profile

Brazil continues to be a focus for investors, as one of the few countries outside the Asia Pacific region exhibiting strong economic growth. With a predicted 5 percent growth for 2010, its economy is now benefiting from several years of structural reforms. The recent discovery of substantial oil reserves and the future hosting of two major international sports events (FIFA World Cup 2014 and Olympics 2016) will further boost the country’s profile and benefit the long term potential of the real estate markets. As in China and India, the residential sector is booming, and the growing middle class will boost demand for mass housing, retail and warehousing. Both domestic and foreign investors are striving to acquire Brazilian properties or to invest in funds, although overall investment volumes are still low due to lack of existing assets for sale. In the office markets, vacancy rates are low by current international standards and rental values are rising. Rio de Janeiro was one the few major office markets worldwide to record double-digit prime rental growth in 2009.

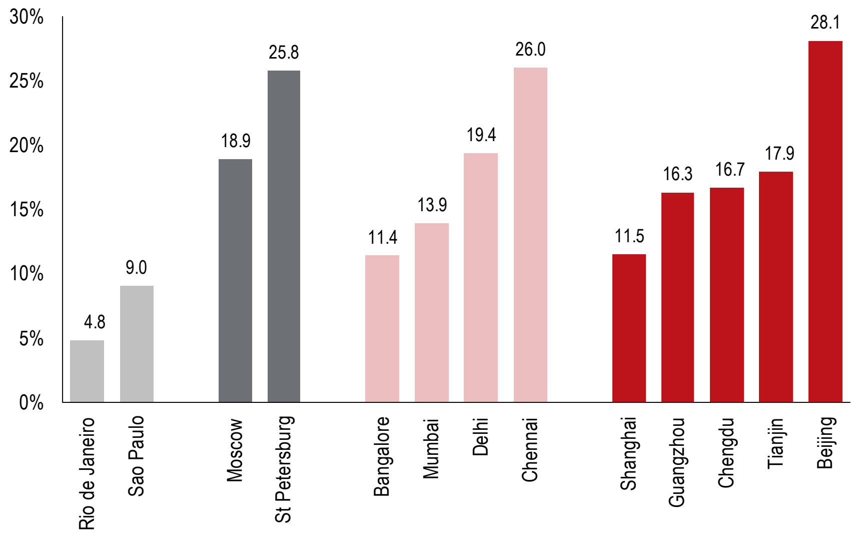
Prime Grade A Office Yields



Prime Offices - Rental Change, 2009



Office Vacancy Rates in Major Metros, Q4 2009



Charts Sources: Jones Lang LaSalle

Real Estate Capital

China's strength ripples across Asia-Pacific

In **Asia Pacific**, investment market sentiment continues to improve and is supported by a strong rebound in the region's economies and mounting evidence that the occupational markets are beginning to turn a corner. **China** is leading the recovery, with direct commercial property investment volumes up by nearly 40 percent since 2008. The on-shore capital and liquidity situation in China has been the strongest in the world, and unlike most other major markets, there are few 'distressed' assets. High liquidity levels are boosting commercial real estate prices in mainland China, and strong capital value appreciation is rippling into **Hong Kong,** while other markets across the region have seen prices stabilize or begin to trend up. Governments in China, Hong Kong and Singapore have started to implement measures to cool their real estate markets, particularly in the residential sector which has seen the greatest growth. Furthermore, the gradual withdrawal of stimulus measures across the region (including **China, India, Australia, Malaysia** and **Vietnam**) will also help to take the heat out of the markets.

In **China,** domestic investors continue to dominate the market, but looking forward, a greater balance between domestic and foreign investors is expected. Foreign investors are focused on Tier 1 office markets, particularly **Shanghai**, as well as retail assets in both Tier 1 and 2 cities. They are also targeting residential JVs across China but this market has been virtually closed since early 2008 given that domestic developers have not needed foreign capital. Tier 2 office markets are still not on the radar of foreign investors, but they will start to attract more domestic investor interest over time. Yields in all sectors compressed massively as the investor community recognized that the bottom of the rental cycle had been reached. The fact that all sectors are now trading at all time lows is partly explained by domestic investors focus on capital growth rather than on yield levels, and also by the market's anticipation of a recovery on the income side. Further yield compression is expected in both **Beijing** and **Shanghai.**

In **India**, investment has been largely opportunistic, dominated by private equity funds and domestic financial institutions. The last couple of months have also witnessed the emergence of HNWI (High Net Worth Individuals) as new investors active in the Indian real estate market. The current trends in investment are for brownfield projects, 'last mile' funding in structured deals and pre-IPO placements. Currently, preferred asset classes are residential and commercial 'in-fill' locations. Indian realty requires an estimated US$ 24 billion for construction of announced projects over the next 3 years. Unlike China, 2009 saw reduced interest in land aggregation and developers are not actively looking to increase their land banks. Yields have compressed across most markets since Q2 2009, down by between 20 and 70 basis points. Further yield compression is expected.

Yield compression extending beyond Europe's core markets

In **Europe**, there is strong demand from listed property companies, pension funds and insurance companies, who are all targeting similar product – high quality well-let assets in core markets. However, opportunities are scarce and some investors are increasingly prepared to look beyond core markets and assets. The average deal size is picking up and €100-200 million lot sizes are no longer a rarity. Prime yields are hardening in office markets such **London**, **Paris**, **Frankfurt** and **Hamburg**, the focus of cross-border investor interest, but this trend is starting to extend to second tier UK, French and German cities, as well as Central European cities such as Prague and Warsaw. There is also more activity by corporate occupiers, who are taking advantage of current market conditions to negotiate sale and leasebacks.

Some German open ended funds are selling, and a number of property companies and REITs continue to restructure their portfolios, bringing some assets onto the market. How and when banks and new government entities (such as Ireland's National Asset Management Agency) release sizeable assets across Europe remains to be seen. A number of portfolio deals of a size not seen since the onset of the crisis have recently been completed and give an indication of improving market sentiment and activity. This is particularly apparent in the shopping centre sector. A lack of supply of core assets looks set to continue to put downward pressure on prime yields.

In **Russia**, the past year has been a challenging time for the investment market. Limited financing and uncertainty regarding prices and rents have continued to curtail investor activity, keeping lot sizes and transaction volumes down. But as the leasing market shows signs of stabilisation, we expect investment activity to increase gradually in 2010. Domestic investors are likely to be the major force as the market is still perceived to have too high a risk by foreign investors. Portfolio adjustment will continue across Russian cities, with developers and investors preferring to deal in the more mature **Moscow** market, rather than the '**Millionniki**', Russia's regional cities. While investors continue to be hesitant, tenants have started to buy assets for their own occupation as they perceive that markets have reached the bottom of the cycle. Currently, the majority of banks are adopting a wait-and-see approach in anticipation of asset price recovery, with only a few having brought some product to market at the end of 2009. Yields have stabilised since mid-2009 and tightened slightly in recent months for Moscow offices and shopping centres. Further yield compression across all sectors is anticipated over the medium term.

Americas – an uneven recovery

Investors in the **United States** are cautiously dipping their toes in the water. There is substantial interest in high quality properties in core markets, where multiple bids and an inadequate supply are driving down capitalisation rates. While transaction activity seasonally rose in December as landlords strived to close before year-end, the uptick has not been sustained during the first two months of 2010. Whereas transactions in 2009 were driven by opportunistic buying at the bottom of the market cycle, in 2010 investors are now purchasing on the expectation of modest rental growth in some sectors. Still, the recovery in the investment market is likely to be very uneven, as the majority of the huge inventory of distressed properties is not likely to trade at market-clearing prices. Thus, supply of properties available for sale will remain low, while the overhang of troubled maturing mortgages continues to cast a worrisome shadow on the overall market. The opportunity to recapitalise impaired owners may usher a reinvigorated interest from foreign rescue buyers in 2010.

In **Brazil**, both domestic and foreign investors are keen to acquire properties or invest in funds. Investment management companies such as Tishman Speyer, Vision and Prosperitas, among others, are undertaking foreign fund raising. Local pension funds are actively acquiring development projects or existing buildings. Investment volumes are still low mainly due to lack of existing assets for sale. Most office buildings are condominiums with multiple owners, so investors are opting for the development route. Capitalisation rates are 10.5 to 11.5 percent for Class AA offices, compared to local interest rates at 8.75 percent. A lack of high quality properties on the market may contribute to some compression in capitalisation rates over the short term.

Transactions

China leads BRIC's transactions

Overall real estate transactions volumes in BRIC's have held up well during the 2008-2009 global downturn in investment activity. In fact the BRIC's markets actually recorded a rise in transactions, up by 10 percent between 2007 and 2009, all the more impressive when set against a fall in global volumes of over 70 percent. The BRIC's contribution to global transactions has doubled each year from 2 percent in 2007, to 4 percent in 2008 and to 8 percent in 2009. The fact that this is still a relatively low proportion of global activity is explained by lower real estate transparency, and specifically in India and China, continued constraints on foreign investment.

China has accounted for most of the growth in transactions in the BRIC's. Here, the investment market has picked up strongly since H2 2009, and based on Jones Lang LaSalle's figures, China is placed sixth globally in a ranking of investment volumes, just behind **Germany** and **France**. Much of the activity has been in land sales however, and according to RCA (whose figures include land sales), China is now the world's most active investment market.

The potential of the BRIC economies as a source of capital for cross-border real estate investment is high, although it is early days yet as BRIC investors still have substantial opportunities in their domestic markets. Currently they are still minor players, accounting for less than 3 percent of cross border activity in 2009. The largest BRIC investor to date is the China Investment Corporation (CIC), the Chinese sovereign wealth fund, which has placed sizeable funds into Blackrock, the Goodman Group and reportedly into Morgan Stanley's latest Global Real Estate Fund, MSREFVII.

Corporate Occupier Markets

Turnaround in market conditions in Asia-Pacific

Real estate market conditions are changing rapidly across the **Asia Pacific** region. In 2009, the global financial crisis gave tenants at an advantage, but in 2010 many countries are moving from the downturn to a more balanced environment, and in some markets, landlords are regaining the upper hand. The opportunities for tenants to upgrade their space and locations at zero or little cost are diminishing as rental rates bottom. Financially strong corporations are using their leverage to enhance non-economic lease provisions, which will drive an improvement in leasing volumes in 2010. However, such activity will be tempered by a continuing sustained attack on occupiers' core space as better 'line of sight' regarding real estate costs and ambitious saving targets are put in place.

China: Upgrading and expanding

In **China**, domestic firms are driving the market, and upgrades and expansion are a significant feature as domestic tenants move from Grade B to Grade A space. Since the beginning of 2010 there is also evidence of an uptick in MNC business activity, but the majority of MNCs continue to renew existing space rather than expand into larger offices. Purchases of office space by financial firms are a growing trend, and in **Shanghai,** a significant portion of newly built space has been taken out of the market by sales to owner occupiers. New supply is emerging in all major cities across China, much of which is of high quality, encouraging the movement from older to new buildings. The role of decentralised offices will also rapidly grow in Tier 1 cities. The window of opportunity for occupiers to upgrade at favourable terms in Tier 1 markets is now reducing; both the **Shanghai** and **Beijing** rental markets are bottoming out and are expected to rebound in 2010. A 15 to 20 percent rise is forecast for Grade A office rents in Shanghai's Pudong district. Office rents will stabilize in Tier 2 cities though vacancy will remain high. Developers of Grade A office space in Tier 2 cities will be forced to explore strata title sales, given the relatively slow pace of take up against a significant amount of supply.

India: A new generation of offshoring

In **India**, office absorption rates have gradually improved from 7 percent in early 2009 to 17 percent by year end, but are still well below 2005-2007 rates. Commercial leasing activity is increasing, led by telecommunications, pharmaceuticals and healthcare industries. Demand from the IT sector is gradually recovering and should regain its position as the main demand driver by 2011-12. A significant trend which will impact on the India market is a new wave of offshoring, as cost-cutting pressures among MNCs mount; several U.S. companies including Deloitte and NetApp have posted significant space requirements. Office rental values in the main Indian cities have corrected by up to 40 percent and have now returned to 2005-2006 levels, presenting good opportunities for corporate occupiers. However rents are now stabilising, and are expected to start rising by end 2010. **Mumbai, Bangalore** and **Delhi** will lead the rental recovery.

Indian office vacancy rates which currently stand at 17 percent will continue to increase sharply due to a massive supply injection. Vacancy rates in suburban markets are expected to breach 30 percent in the near term, while in CBD locations, they will hover below 10 percent. A supply overhang will remain a feature of the market over the medium term. Nonetheless, the supply pipeline is being turned off; of the 200 million square feet of offices planned between 2009 and 2011 (which would have doubled the existing stock), one-third (or 60 million square feet) has been shelved or delayed. Developers are now focusing on the execution of existing projects.

Divergent opportunities across Europe

The similar market conditions seen across Europe's office markets over the last 18 months are now diverging. The majority of markets present a window of opportunity for corporate occupiers over the coming months, but conditions are tightening in a few key segments, with rental growth anticipated during 2010 in **London, Moscow, Warsaw, Oslo** and **Copenhagen.** Occupiers are reacting to the window of opportunity to upgrade space, but this is tempered by continued caution and controls on corporate capital expenditure. Decentralisation is apparent and is driven by supply and cost considerations, but smaller requirements have led to some CBD focus.

Russian market stabilising

The start of the economic recovery in **Russia** has brought the market back to life. Rents have stabilised across the board in **Moscow**, which has proved to be a reliable reference point for occupiers, many of whom were sitting on the sidelines since the beginning of the crisis. Average transaction size has fallen sharply and pre-lets, which accounted for a large part of take-up during the boom times, have almost disappeared. Many projects at the construction stage have been postponed, mostly due to problems with financing and expectations of market oversupply. Nevertheless, we expect a high level of completions in 2010. The demand recovery is expected to favour higher quality properties in Moscow, allowing landlords to lift rates for prime properties.

U.S. corporate real estate market seeking new solutions

In the **United States** landlords have dropped asking rents for six consecutive quarters, in order to drum up demand among the growing competition for available space. Asking rents fell by 2.2 percent in the fourth quarter and by 10.4 percent in 2009 overall, marking the largest annual decline for two decades. The fall in peak to trough asking rents is expected to be in excess of 15 percent in 2010, while net effective rent declines will come close to 20 percent. With the current market discount, tenants are now starting to evaluate new space moves to lock in long-term deals.

U.S. corporate occupiers are also turning to sale-leasebacks to fund new equipment, inventory, acquire competitors or fund new business lines, and investors are lining up to purchase stabilised properties in core markets. The high level of interest is driving down capitalisation rates with bids in the mid-to-high 6 percent range today. Even the government is participating in the sale-leaseback action. The state of California announced a plan in February to sell 11 state office properties and lease them back for 20 years, in order to retire more than $1 billion in debt and stave off further cuts in state programmes and services. California's move is likely to be followed by several other U.S. states seeking to raise capital as a result of record budget deficits.

In **Brazil**, office vacancy rates at 5 to 10 percent are low by current international standards and rental values are rising. **Rio de Janeiro** was one the few major office markets worldwide to record double-digit prime rental growth in 2009 (up by 22 percent), boosted in particular by demand from the energy sector; Petrobras, for example, is taking 60,000 square metres in downtown Rio de Janeiro.   Brazil's financial services sector is also undergoing significant consolidation, with the merger of Itau and Unibanco (the largest and third largest Brazilian private financial institutions respectively) which should generate significant churn.

Outlook

Points to watch:

Asset price inflation in BRIC markets – The risk of asset price inflation should not be ignored due to a wall of money chasing a limited supply of quality assets. The greatest challenges are in **China**, where virtually indiscriminate lending in 2009 is coupled with rapid economic growth, limited investment alternatives and a booming housing market. These factors could lead to a repeat risk of the 2006-2007 stock market bubble. This could be exacerbated by a robust global economic recovery and an export rebound. Nonetheless, the Chinese government is taking this issue seriously; it is reducing stimulus packages, using quotas to control the flow of lending by sector and introducing specific measures to curb property speculation and control further price rises to 'reasonable' levels.

Infrastructure constraining BRIC growth – In **India**, **Brazil** and **Russia**, poor quality infrastructure (notably in transport and utilities) will increasingly hinder economic and real estate development. Unlike in China, infrastructure improvements have been largely made on a piecemeal basis and successive governments have failed to strategically tackle the problem. Both the Brazilian and Indian governments have increased their investment in infrastructure.

Presidential elections in Brazil – Brazil will hold presidential elections in October 2010; even though both candidates are pro-business, the elections may interrupt government-driven growth initiatives and may put pressure on the currency in H2 2010.

Withdrawal of stimulus measures across Asia Pacific – Governments across the Asia Pacific region are now withdrawing stimulus packages as the region's economies move into more sustainable growth paths. They face a difficult balancing act between controlling inflation without jeopardising economic growth.

Strong early-stage economic recovery in North America – Watch for the **U.S** economy growing at a sturdy rate early in 2010, as the continuing swing in inventories boosts growth and the positive impact of fiscal stimulus reaches its peak. However, all eyes will be on the potential for a downshift in GDP from mid-year on, as the private sector reacts to the withdrawal of the fiscal stimulus. A combination of business investment, technological innovation and export growth will be needed to underpin sustainable economic growth. While political necessity may prompt fiscal tightening at some point in 2010, monetary policy will continue to be highly accommodating.

Fiscal tightening in Europe – The fiscal tightening and austerity measures that will need to be introduced over the next couple of years to tackle huge budget deficits in some European countries could dampen real estate activity. Lower government spending will mean that European economies will grow more slowly, while higher taxes and elevated government borrowing will weigh on growth by depressing consumer spending and discouraging private investment.

Sovereign debt weighing down on Europe – Both the Euro and Sterling have fallen by 5 percent against the U.S. Dollar in 2010 reflecting concerns about the impact of fiscal tightening on Europe's indebted nations – **Greece, Portugal** and **Spain.** There are also concerns that the **UK** may struggle to elect a government that will succeed in tackling the budget deficit. The shift underscores a turnaround in the Euro v US Dollar performance, and futures traders are signalling that the Euro's slump will continue. In real estate, a combination of a weaker Euro, low policy interest rates and markets approaching the bottom of their rental cycles could provide a compelling attraction for cross-border investors.

For advice on how Jones Lang LaSalle can assist in making real estate decisions in the BRIC markets, contact our country heads:

BRAZIL

Fabio Maceira
Jones Lang LaSalle Brazil
Av. das Nações Unidas, 12551
23rd Floor, 04578-903 São Paulo, Brazil
Tel: +55 11 3043 6900
Fax: +55 11 3043 6999

GREATER CHINA

Kin Keung Fung
Jones Lang LaSalle Hong Kong
28th Floor One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2846 5000
Fax: +852 2845 9117

INDIA

Anuj Puri
Jones Lang LaSalle Meghraj
1st Floor 2 Brady Glady's Plaza
1/447 Senapati Bapat Marg Lower Parel
Mumbai 400 013 India
Tel: +91 22 2482 8400
Fax: +91 22 2494 1321

RUSSIA

Charles Boudet
Jones Lang LaSalle Russia
Kosmodamianskaya Nab., 52/3
115054 Moscow Russia
Tel: +7 495 737 8000
Fax: +7 495 737 8011