

RICS Global Commercial Property Survey

RICS Economics Q2 2009

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Rent expectations still gloomy despite improved economic data

- Capital values still falling but at a lesser pace
- Tenant demand remains in negative territory
- No expectation of near term improvement in rents
- Prices projected to fall further in most markets

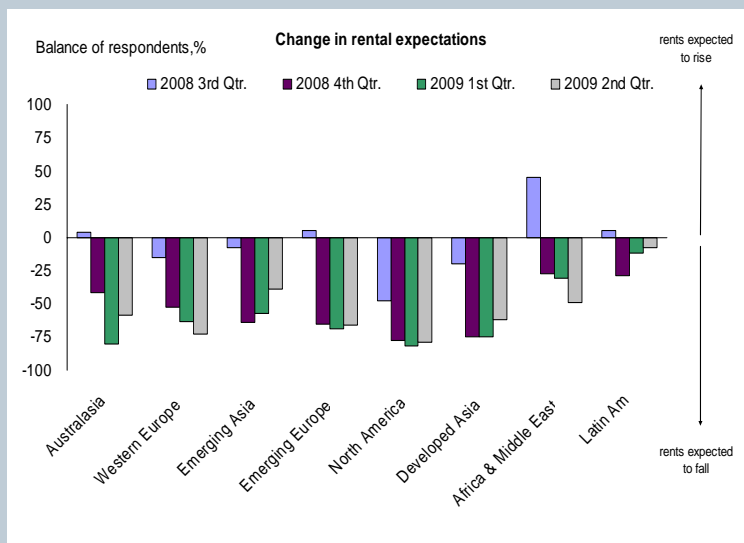
The latest global commercial property survey from RICS shows that the pace of decline in capital values eased during the second quarter. Similarly, transaction activity continued to drop over the period albeit at a more modest rate in comparison with the first quarter.

The rental picture remains particularly gloomy with the net balance of surveyors reporting declines in the second quarter slipping to its lowest point in the survey's five year history. The pace of rental declines was greatest in Singapore, Ukraine and Spain. Moreover, with available space continuing to rise in most parts of the globe, it is hardly surprising that the aggregate rental expectations series remains strongly in negative territory.

Confidence on future rents is bleakest in North America, with Western Europe, where it has deteriorated further, not far behind. By way of contrast, rent expectations have improved marginally in Asia, Australasia and Latin America; in the latter, rents are expected to stabilise. Lettings markets remain challenging forcing agents to continue raising inducements across all regions.

The pricing outlook broadly mirrors the rental picture with North America producing the most gloomy numbers. Meanwhile, in Latin America surveyors are anticipating little change in capital values.

In terms of individual countries, Ghana, Colombia, Nigeria and Brazil have the most positive net balances both in terms of the outlook for rents and the prospects for capital gains. At the bottom of the pile in terms of rents are Croatia, Singapore and Spain. For capital values, Scandinavia, Spain and US had the worst net balance readings.



The Middle East saw lettings activity decline at a slightly lesser pace although rental falls accelerated and expectations towards future rents remained gloomy. Available space rose further in the UAE although enquiries to occupy space and tenant demand, were much less negative compared to the first quarter.

In Western Europe, Cyprus, the Netherlands, Portugal and Germany were the outperforming markets with expectations towards property values less pessimistic than elsewhere. The UK was one of the most improved, seeing the steepest rise in investment bidders per property in the region, despite the expectation that capital values are still projected to fall further. The Japanese market has made some notable improvements with lettings enquiries turning positive for offices and no longer falling for industrial property.

Yields continued to move upwards but at a more moderate pace in most regions. However, in Emerging Asia they did edge lower in the second quarter. Yields are expected to remain stable in Latin America and North America over the next three months whilst declining further in Emerging Asia.

| | | Global commercial property | | | | | Expected next quarter | | |
|---|-------------------|----------------------------|----------------|----------------|----------------|-------------------------|-------------------------|---------------|---------------|
| | | Change during the quarter | | | Current Yields | Current Prices Adjusted | Investment transactions | Tenant Demand | Rental levels |
| Tenant Demand | Investment Demand | Current rents | Current Yields | Current Prices | | | | | |
| 2006 H1 | 57 | 55 | 48 | -40 | 63 | 49 | | | |
| H2 | 55 | 58 | 56 | -34 | 73 | 57 | | | |
| 2007 H1 | 39 | 41 | 58 | -23 | 59 | 15 | | | |
| H2 | 9 | -16 | 46 | 13 | 10 | -19 | | | |
| 2008 Q1 | -14 | -39 | 14 | 28 | -21 | -11 | -6 | 11 | |
| Q2 | -17 | -37 | 2 | 32 | -25 | -19 | -18 | -3 | |
| Q3 | -39 | -56 | -12 | 43 | -46 | -35 | -26 | -22 | |
| Q4 | -72 | -78 | -50 | 60 | -78 | -29 | -48 | -64 | |
| 2009 Q1 | -61 | -56 | -66 | 63 | -79 | 6 | -39 | -68 | |
| Q2 | -45 | -28 | -71 | 41 | -65 | 0 | -30 | -67 | |
| *Balance = Proportion of surveyors reporting a rise minus those reporting a fall (if 30% reported a rise and 5% reported a fall the unadjusted balance will be 25%) | | | | | | | 419 | | |
| Total number of survey contributor offices = | | | | | | | 419 | | |

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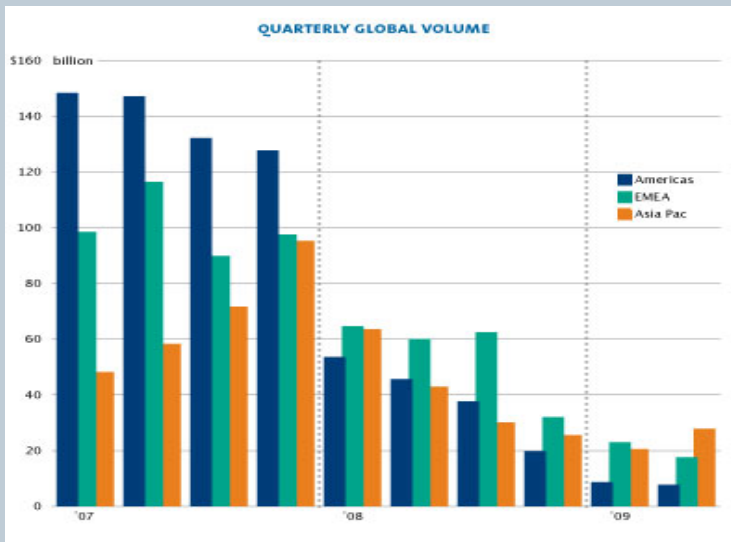
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Real Capital Analytics guest article: Global Sales Volume Edges Higher

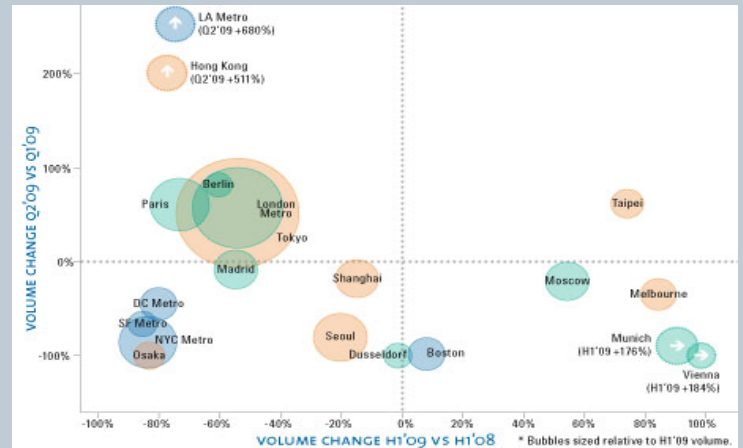
Global real estate investment nudged upward at least 2% in the second quarter after five consecutive down quarters. Just as remarkably, Q2 sales volume in Asia Pacific was greater than that for the Americas and EMEA combined, pushing the zone into the global lead ahead of EMEA, which displaced the Americas from the top spot in Q1'08. Asia Pac transactions accounted for 53% of global volume, vs. 33% for EMEA and just 14% for the Americas. This former global leader now languishes firmly behind the other global zones. While the data are preliminary, they are strongly indicative of final tallies for the quarter.

However, the sales uptick and Asia Pac's rise are inseparable, and come with significant cautionary signals. Both stem from a surge of land sales in China – to the tune of \$20 billion. Excluding these, global volume fell in Q2 from Q1. EMEA, the Q1 global leader, retained the top spot, while Asia Pac was on pace with the Americas in volume. The Chinese development-site sales have been enabled by newly relaxed lending. By the end of Q2, according to Chinese government records, Chinese banks had already extended almost 50% more credit than the Bank of China's minimum target for the year. June loan volumes were double those for May, and H1'09 loan volumes tripled year over year, prompting fears of a credit bubble.



Western Europe was the standout performer in EMEA, but volume still declined there from Q1 to Q2 by 21%. But sales totals there were double those of the UK, which saw a 32% decline. That still failed to tell the whole story: spurred by distress-adjusted pricing, London office sales jumped 57% in the second quarter over first quarter volume. A similar divergence between national and major market volumes took place in Japan, where overall sales declined 34% but Tokyo office sales shot up by 54%, fed by the near-record sale of AIG's headquarters there to Nippon Life.

Two other Asian markets, Hong Kong and Singapore, had positive sales growth in Q2 compared to Q1, although YOY totals for the second half were sharply lower. Singapore's volume began dropping early last year and had nearly disappeared by Q4'08, but was up slightly in the first quarter and nearly quadrupled in Q2. Hong Kong sales volume eroded steadily throughout 2008 and Q1'09, but posted a near threefold increase in Q2 on sales of both office and retail condominiums.



After deep decreases, global office sales fell just 8% from Q1 to Q2 in a faint sign of stabilization – although they were still off 70% on a yoy basis. By contrast, retail property sales plunged 55% from quarter to quarter in the steepest sequential quarterly drop for any property type and only mildly improved from a 64% yoy decline. However, apartment sales leaped 71% from Q1 to Q2 – but still fell nearly 80% in yoy volume in the first half of 2009. Highlighting the relative weakness of the US, office sales in Tokyo, Paris, and London rose from Q1 to Q2 and were higher than New York, San Francisco and Washington, DC; office sales declined in all three markets in Q2 over Q1.

Government-encouraged or even sponsored bank intervention in Asia Pac has kept acquisition yields there almost a full percentage point lower than in the Americas and EMEA, where cap rates have risen sharply throughout 2009 and are converging close to 8% – with no signs of leveling off. While cap rates in developed Asia Pac markets are up modestly, rates in comparable markets in EMEA and the Americas continue to rise rapidly. In sum, the marketplace is in transition with a historic but tenuous shift in leadership in global volume. Deal making is still frozen in the US by the bid/ask spread, but has begun to loosen in EMEA. Governments in Asia Pacific are bolstering lenders there, spurring some deal flow and keeping cap rates in check.

This article has been written Real Capital Analytics and represents the views of RCA only. Real Capital Analytics is a global research firm based in New York City. The firm's proprietary research is focused exclusively on the investment market for commercial real estate.

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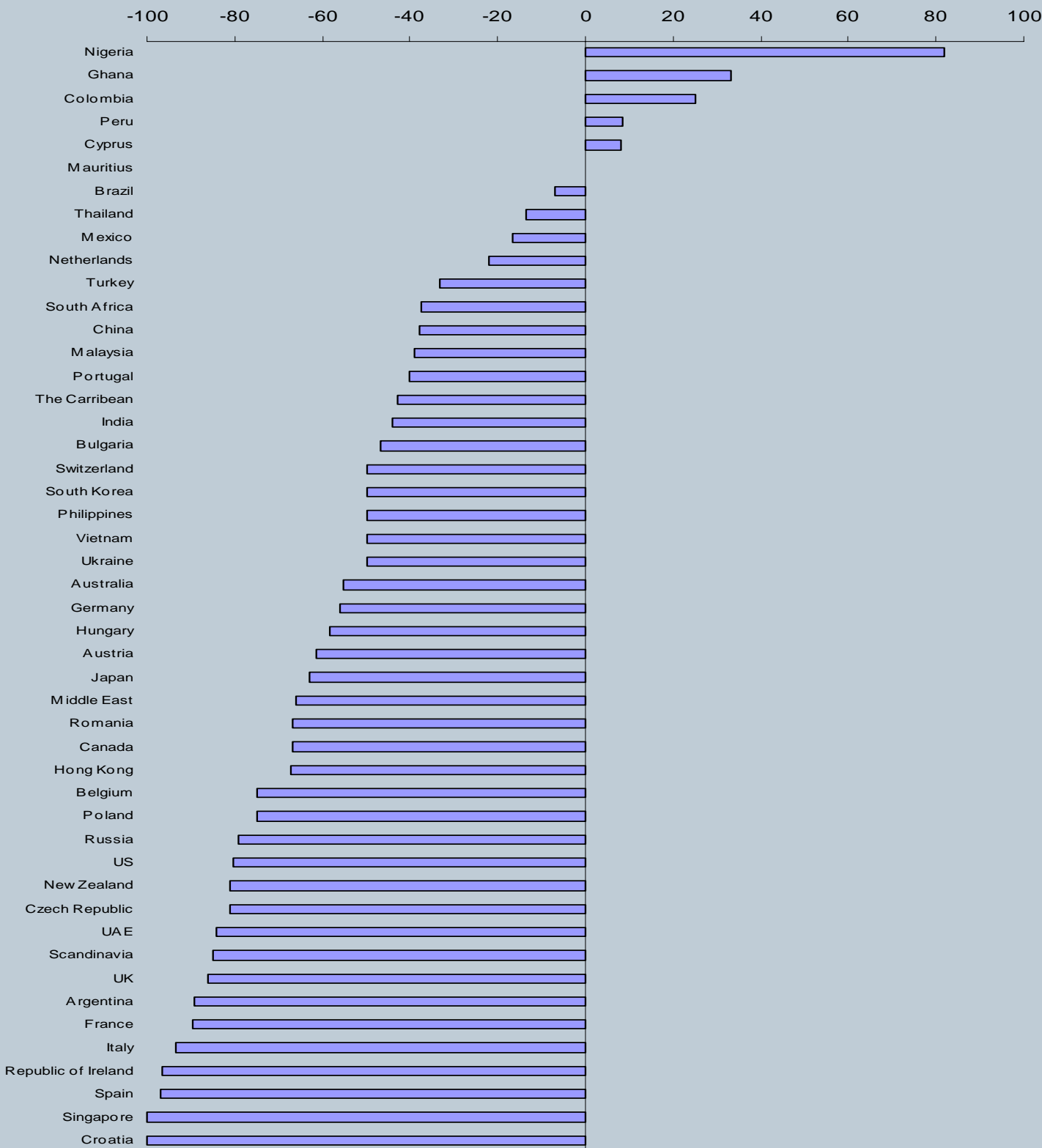
To participate in this survey four times a year please email globalproperty@rics.org to register your email address.



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Country statistics - Expectations for Q3 2009

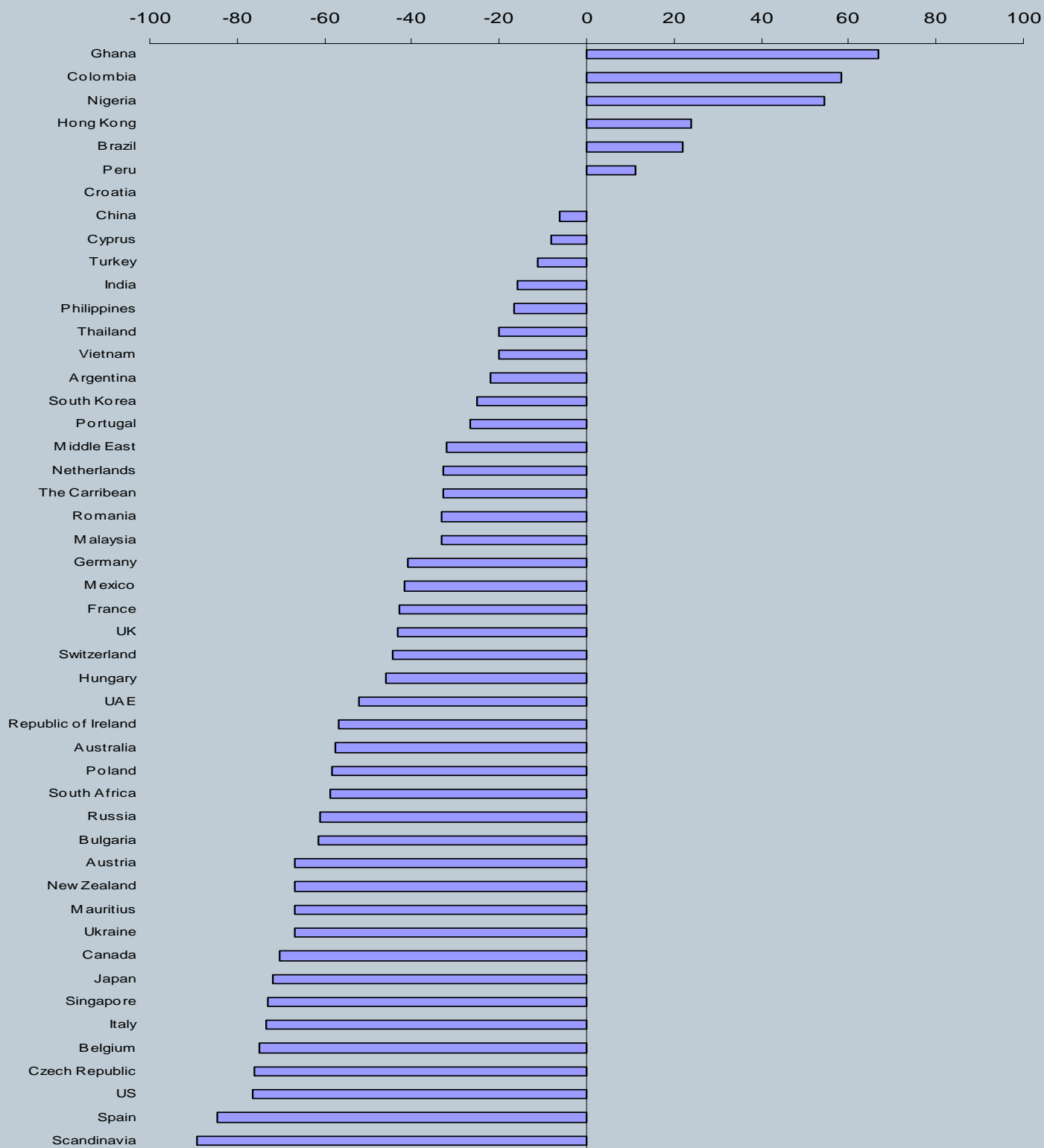
Confidence towards rents in Q3 ranked by net balance scores



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Country statistics - Expectations for Q3 2009

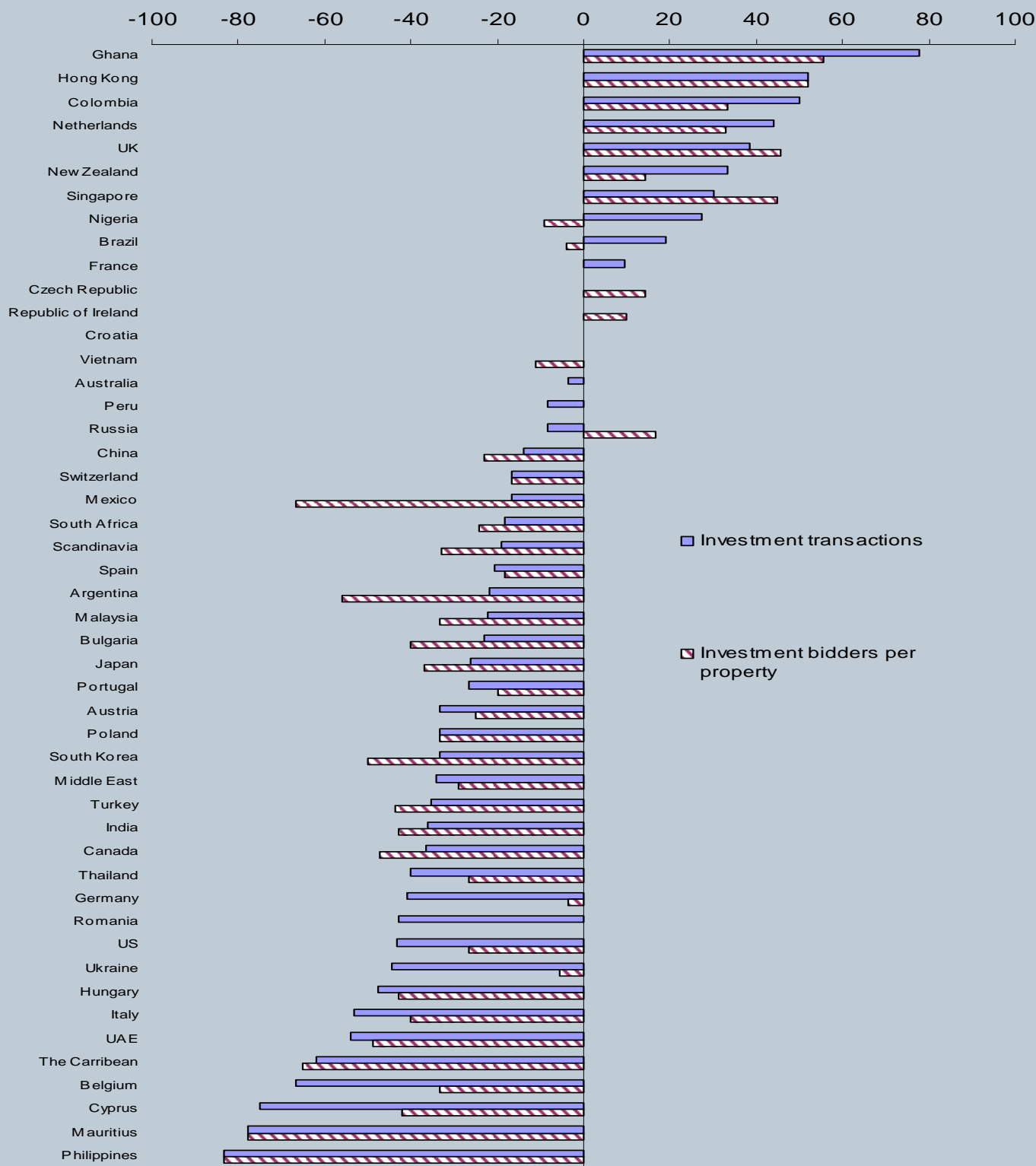
Confidence towards capital values in Q3 ranked by net balance scores



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Country statistics - Investment transactions in Q2

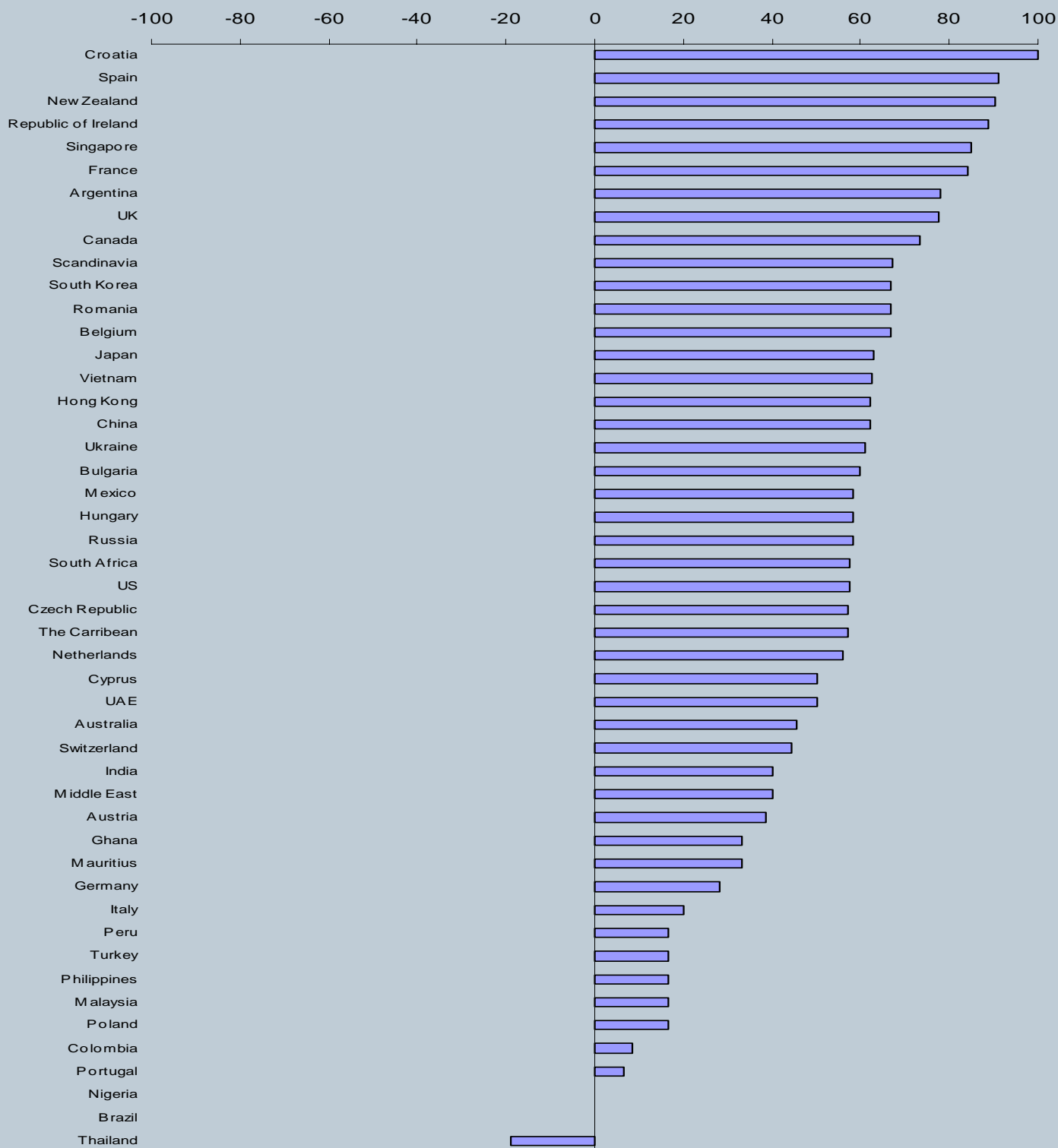
Investment transaction activity in Q2 ranked by net balance scores



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Country statistics - Reported available space Q2

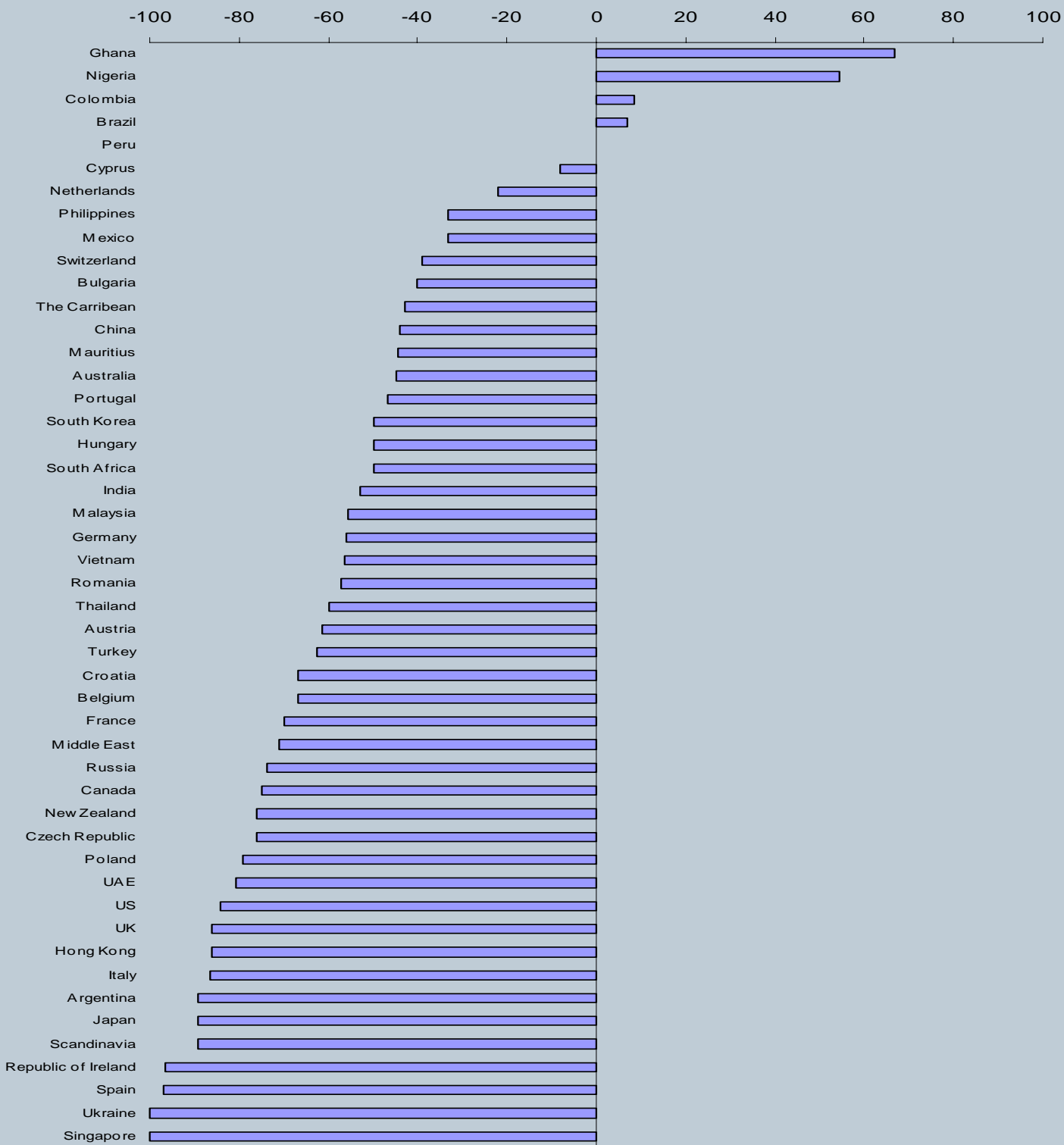
Available space in Q2 ranked by net balance scores



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Country statistics - Change in rents Q2

Change in rents in Q2 ranked by net balance scores



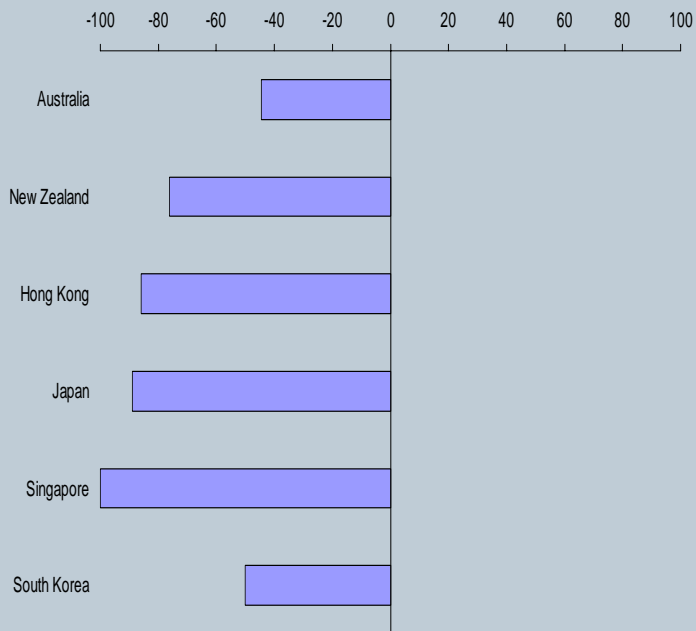
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Regional statistics - Developed Asia / Australasia

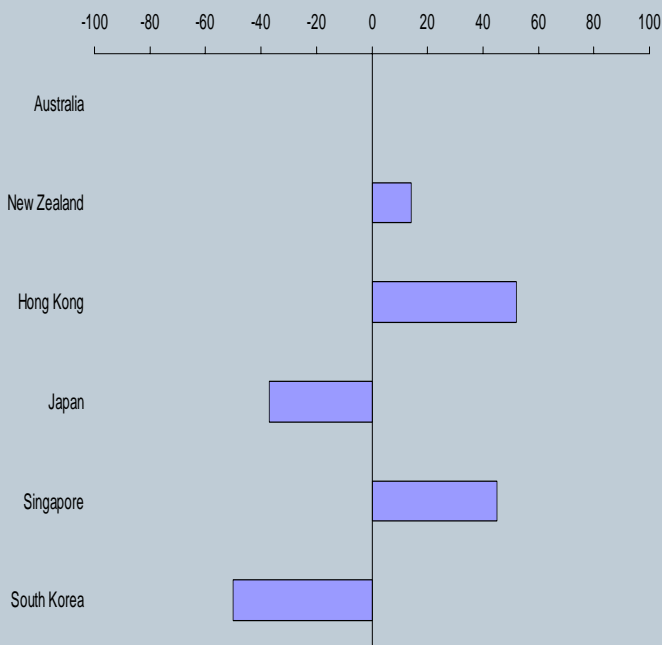
Tenant Demand



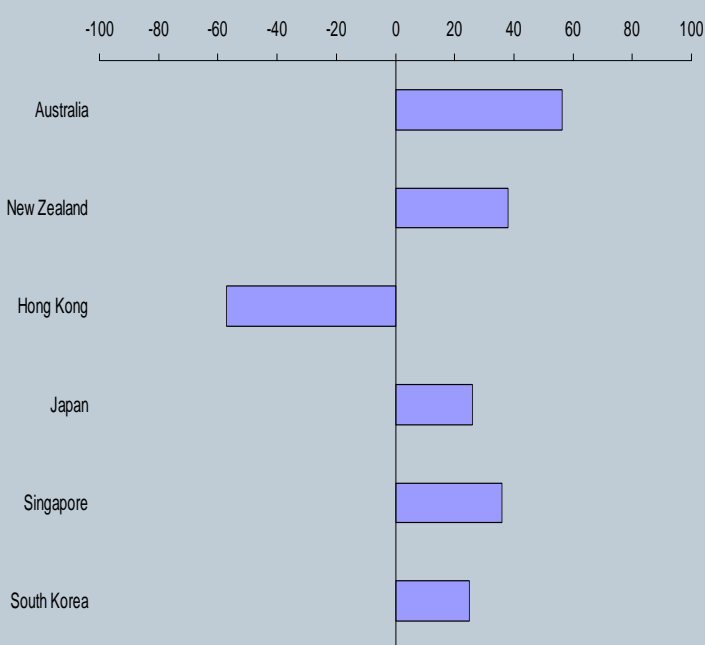
Change in Rents



Investment Bidders



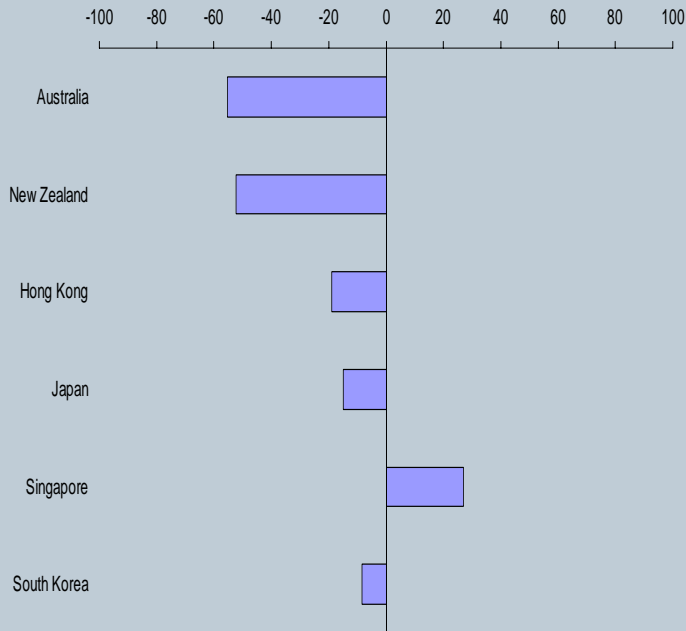
Yields



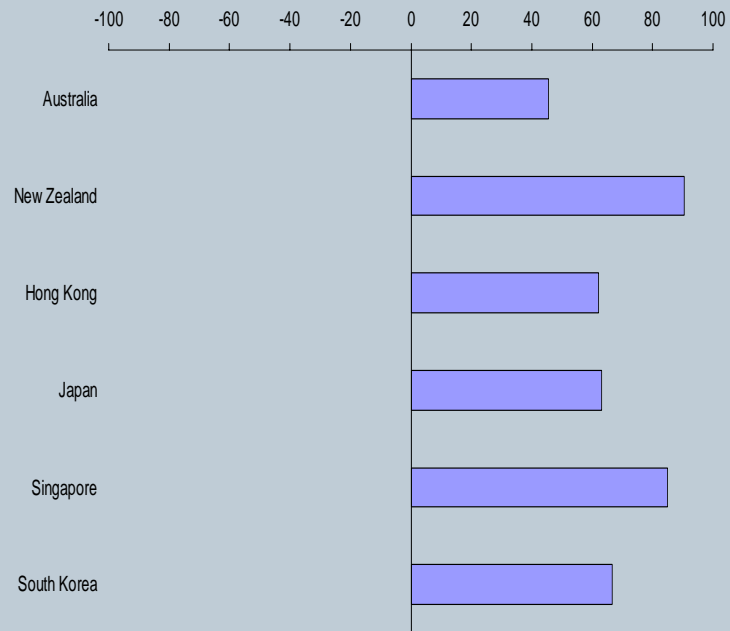
RICS Global Commercial Property Survey

Regional statistics - Developed Asia / Australasia

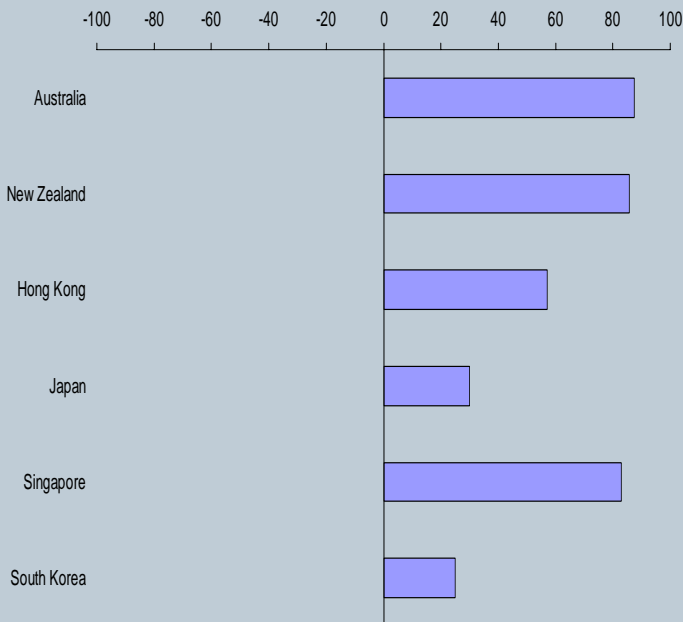
Pipeline Development



Available space



Inducements



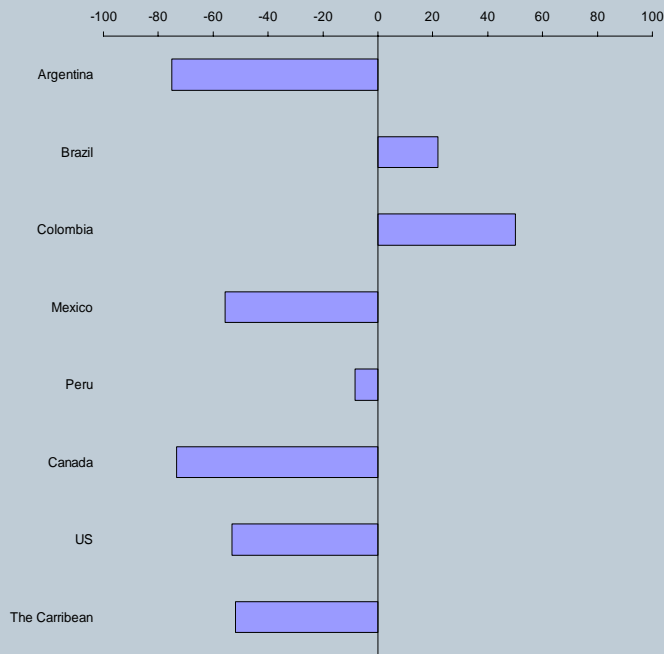
Rental Expectations



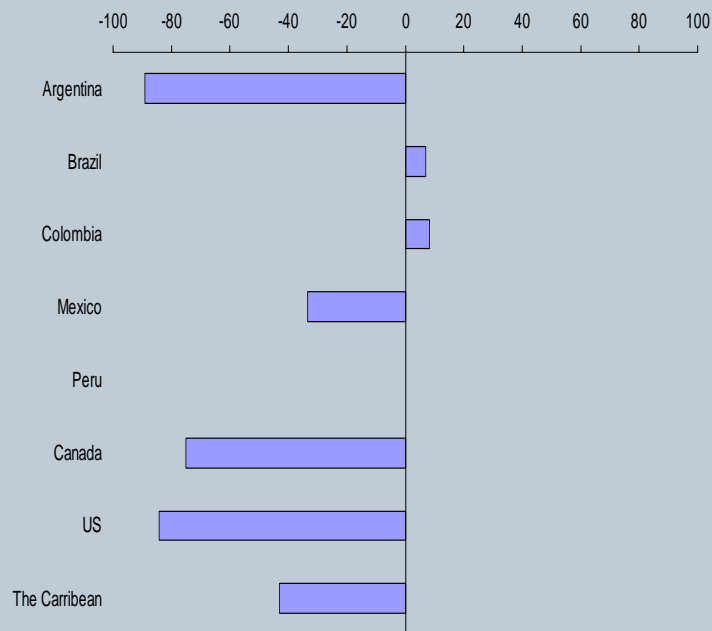
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Regional statistics - Americas

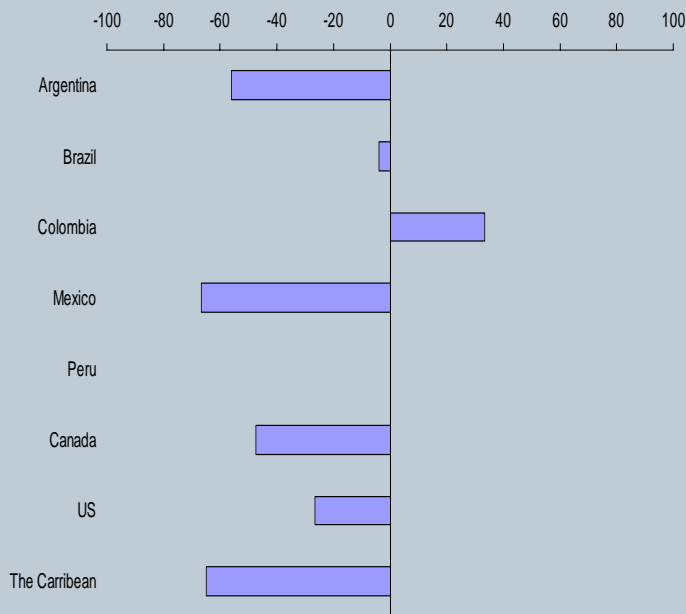
Tenant Demand



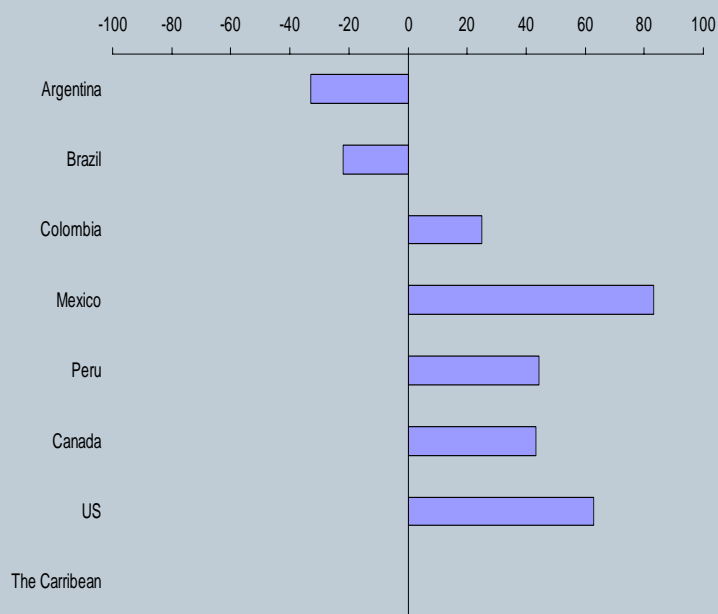
Change in Rents



Investment Bidders



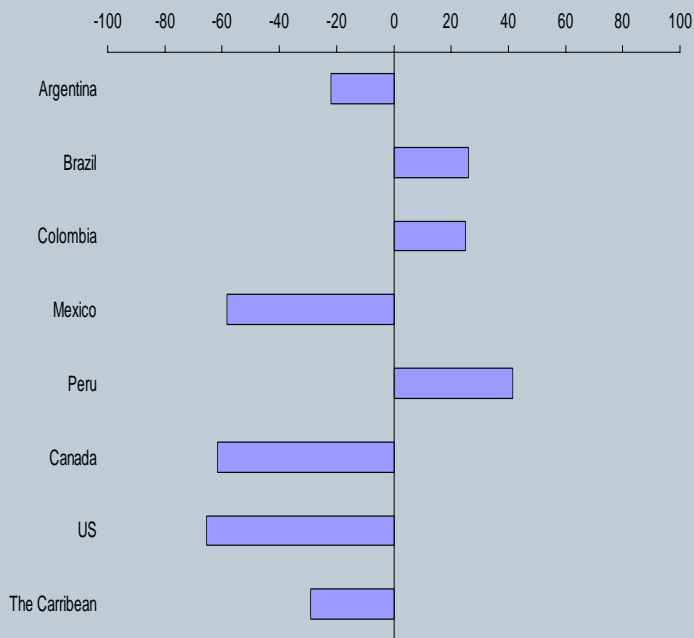
Yields



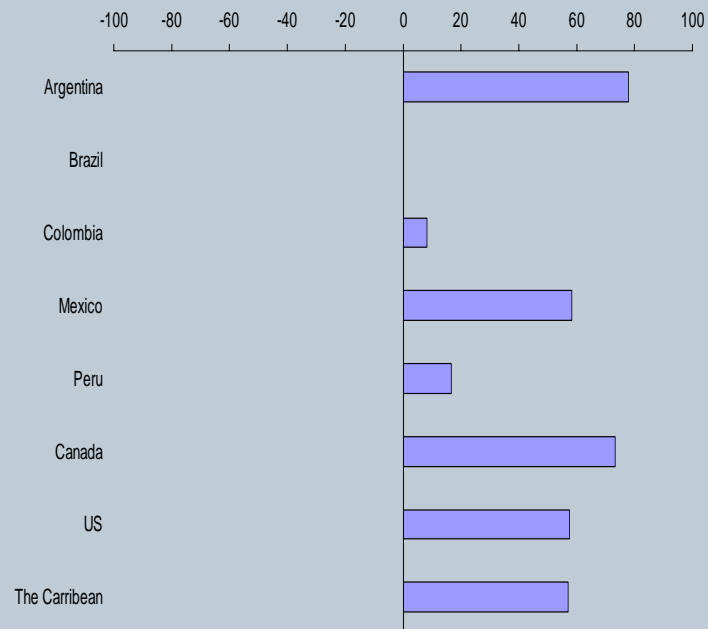
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Regional statistics - Americas

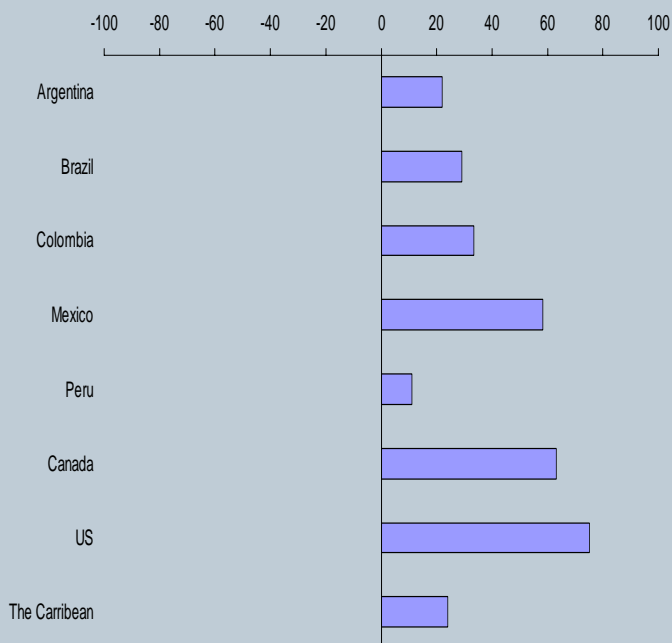
Pipeline Development



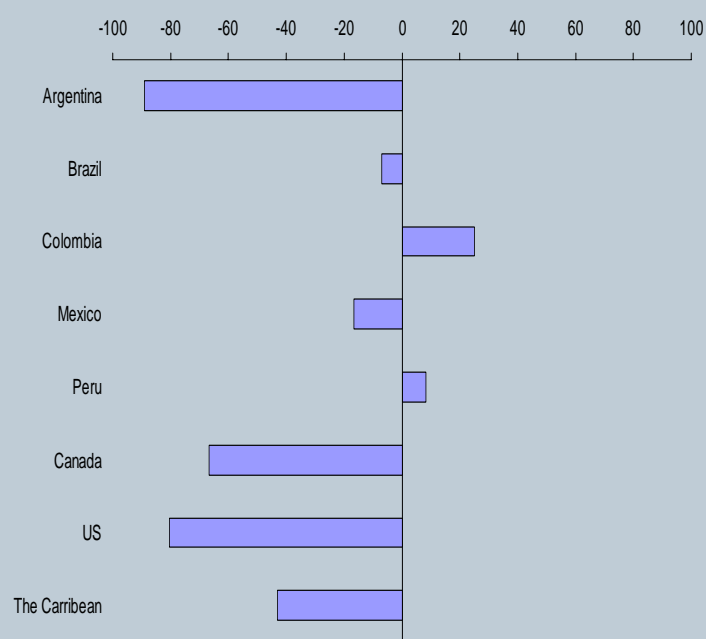
Available space



Inducements



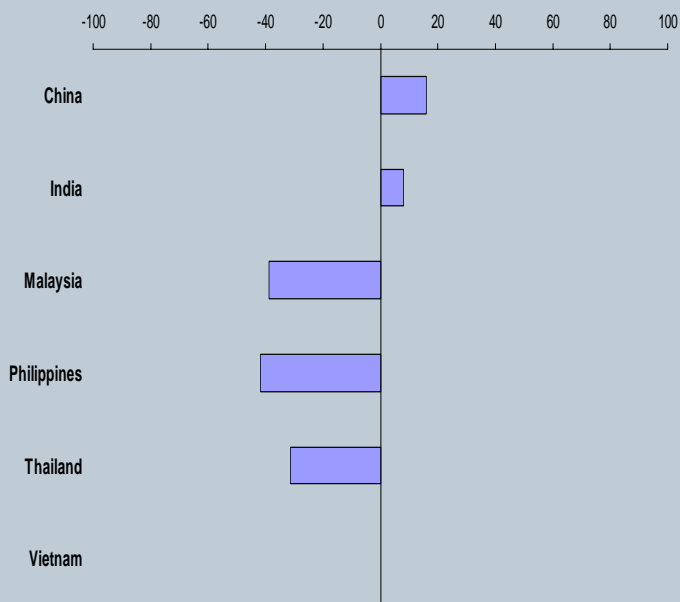
Rental Expectations



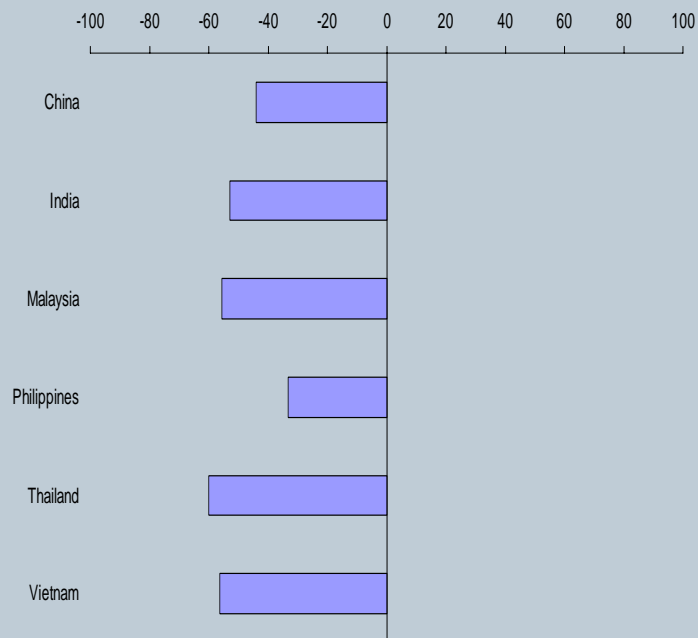
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Regional statistics - Emerging Asia

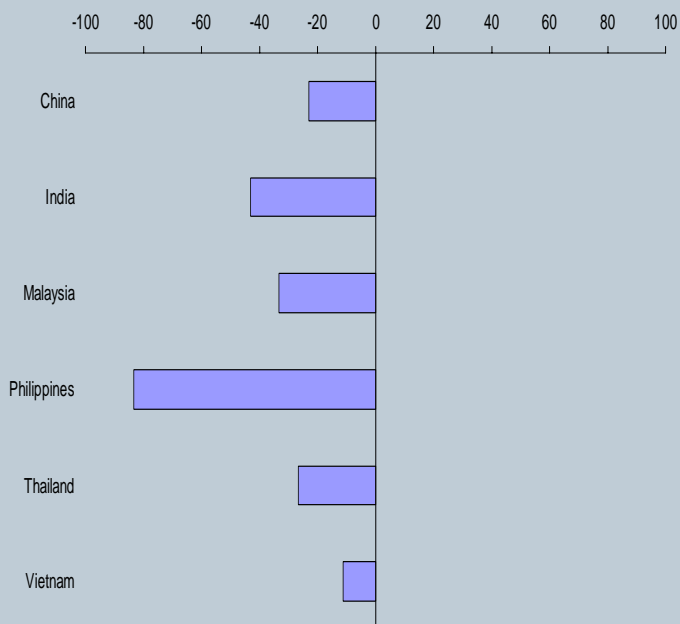
Tenant Demand



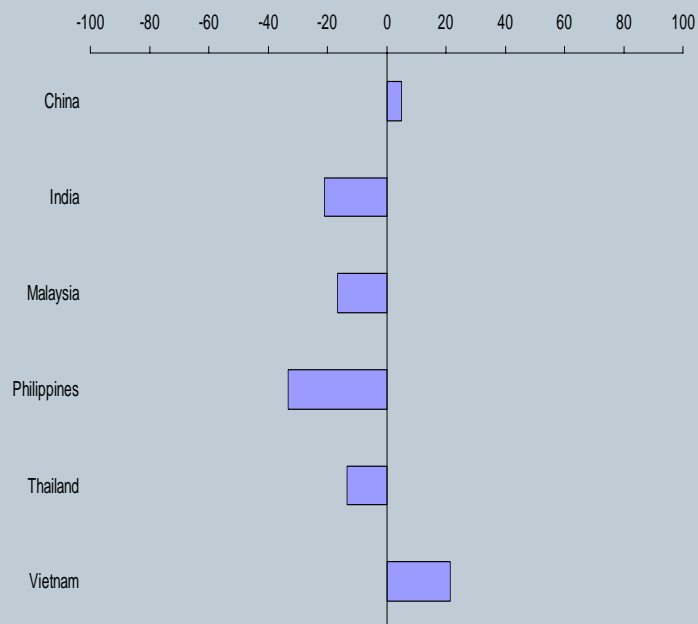
Change in Rents



Investment Bidders



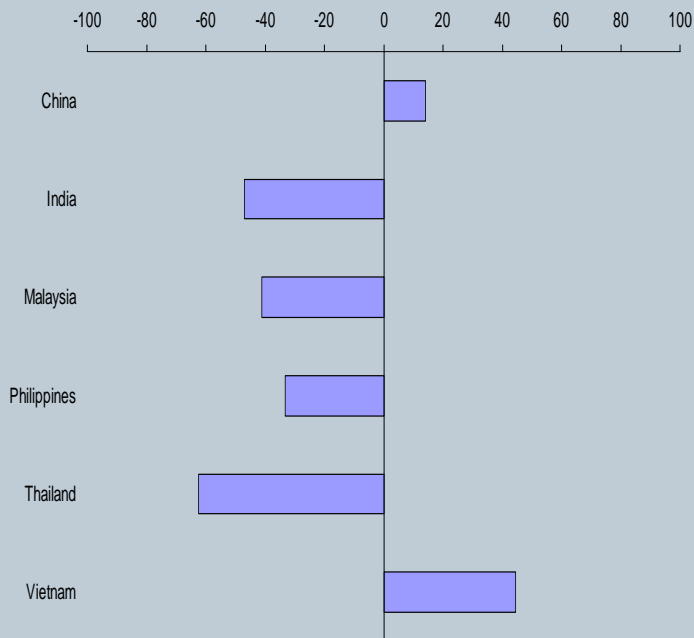
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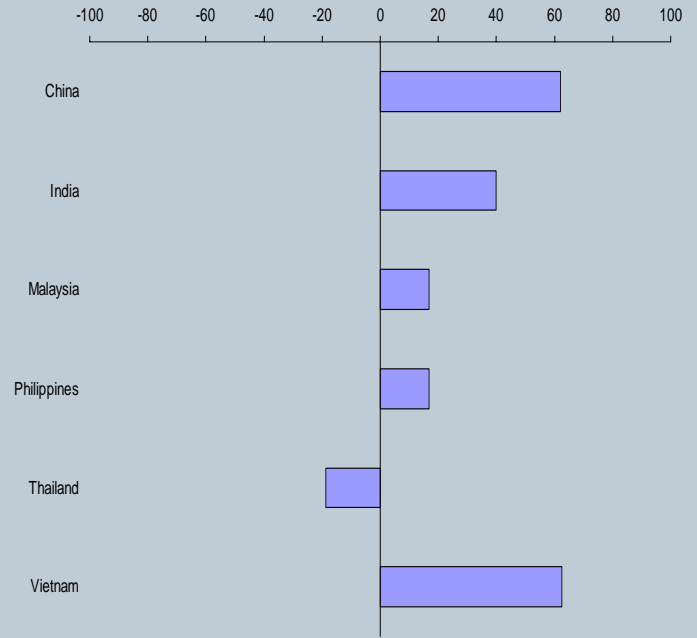
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Regional statistics - Emerging Asia

Pipeline Development



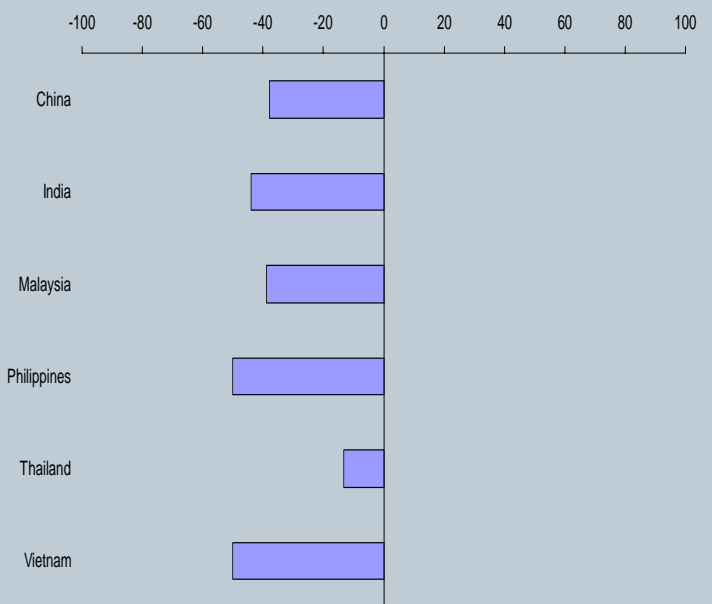
Available Space



Inducements



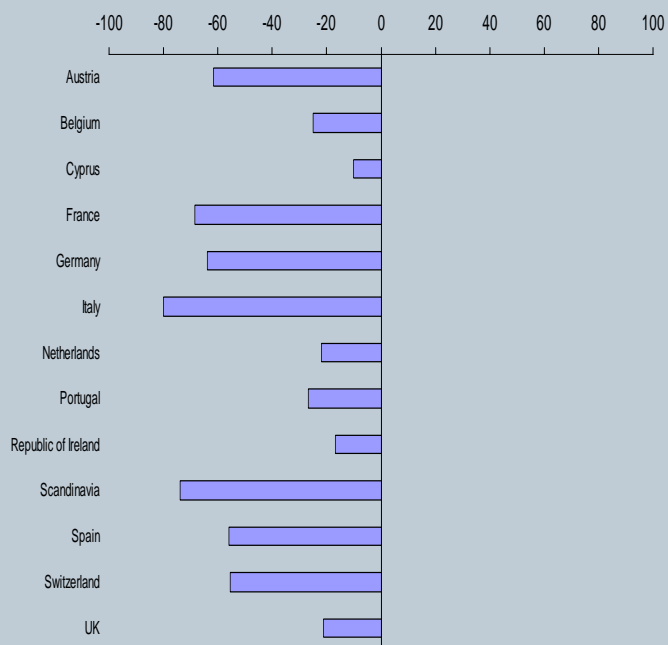
Rental Expectations



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Regional statistics - Western Europe

Tenant Demand



Change in Rents



Investment Bidders



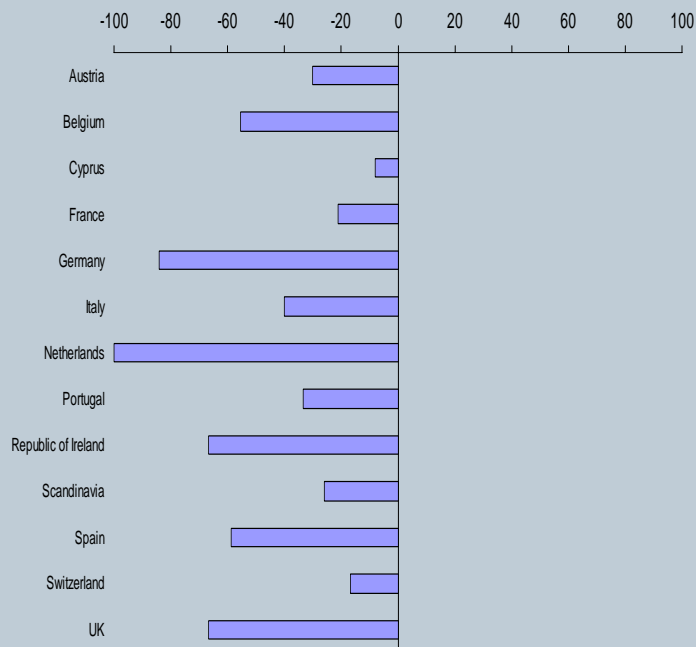
Yields



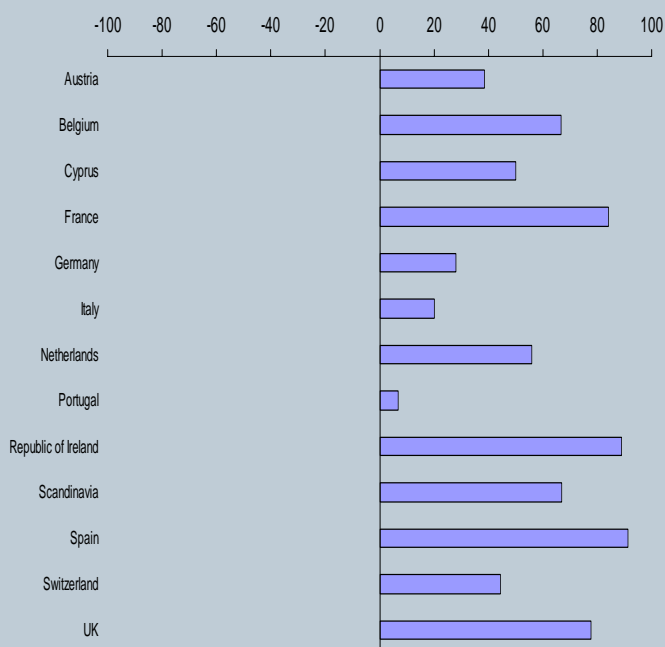
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Regional statistics - Western Europe

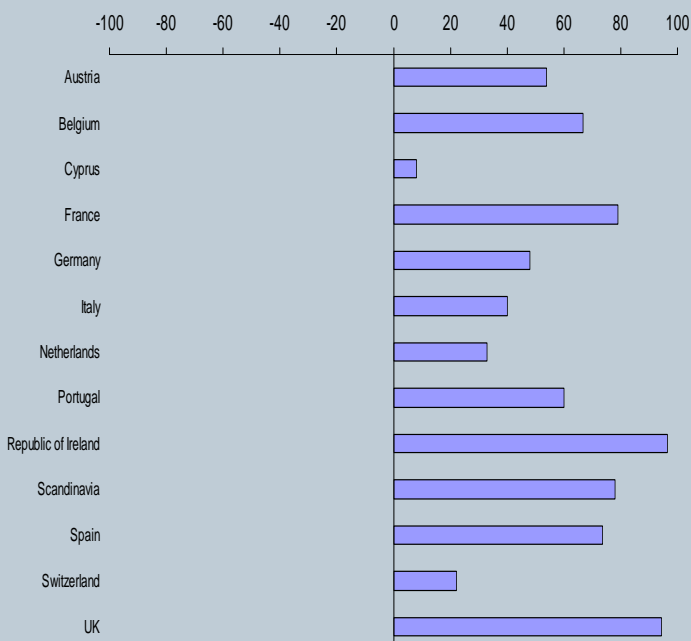
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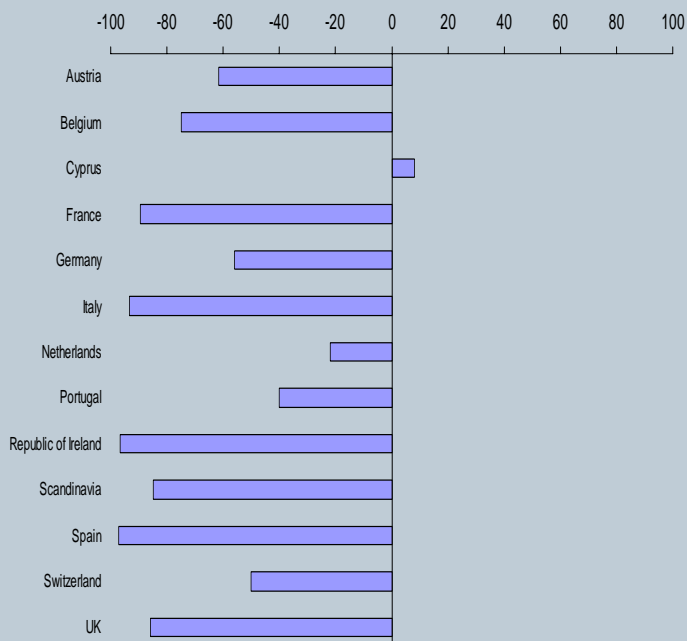
Available Space



Inducements



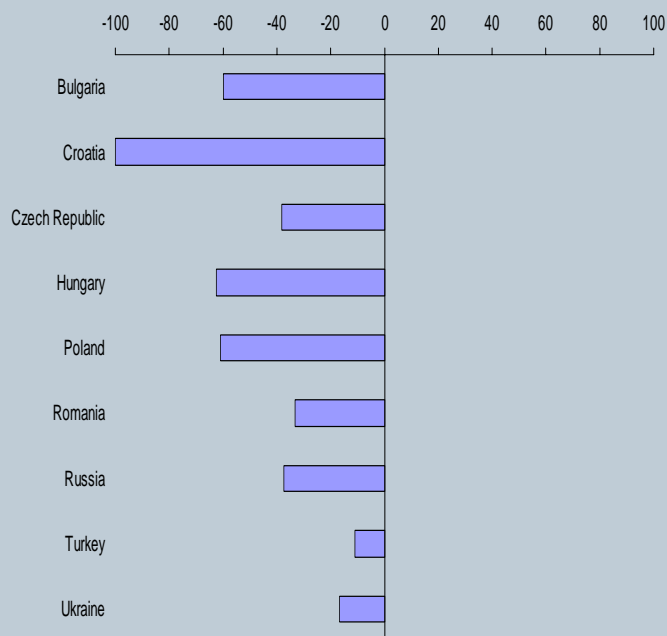
Rental Expectations



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Regional statistics - Emerging Europe

Tenant Demand



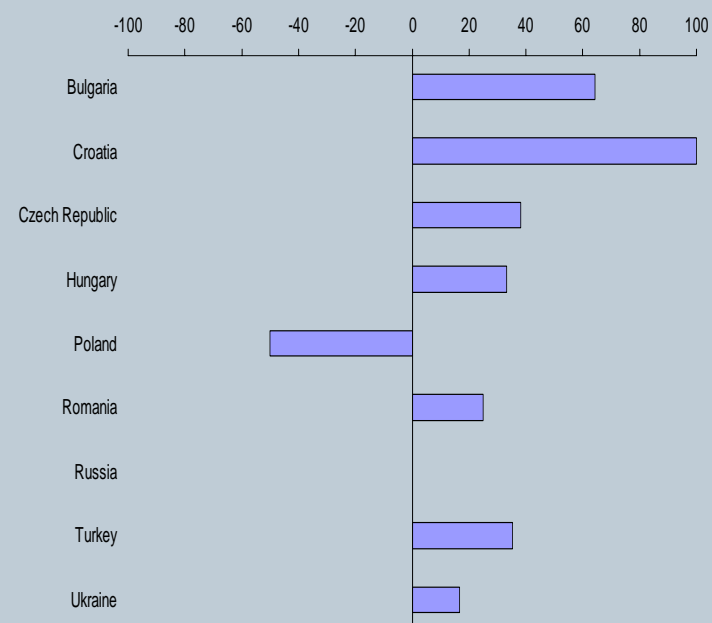
Change in Rents



Investment Bidders



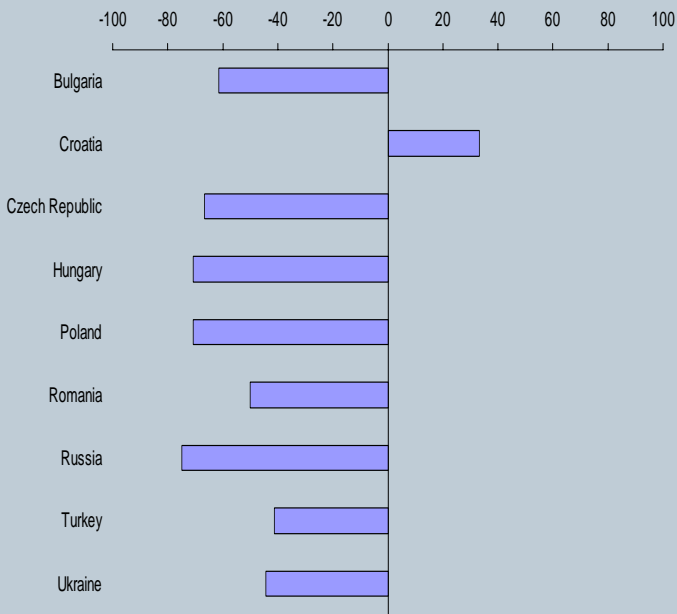
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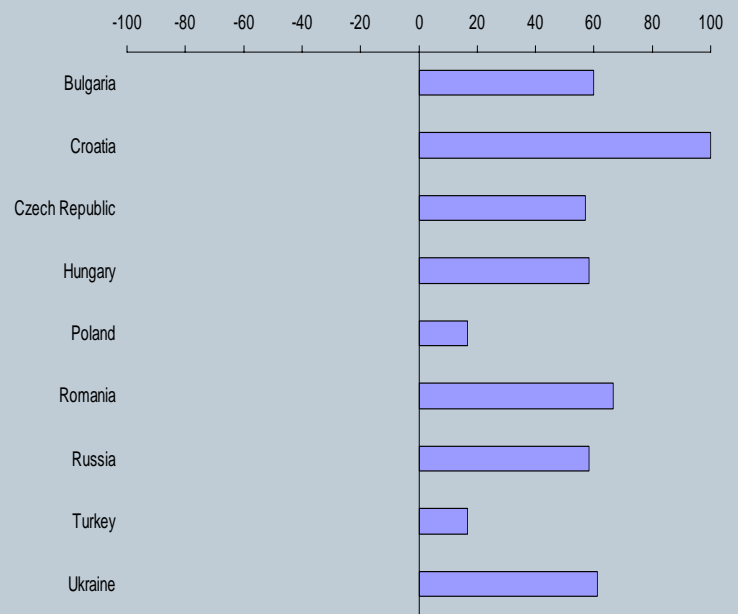
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Regional statistics - Emerging Europe

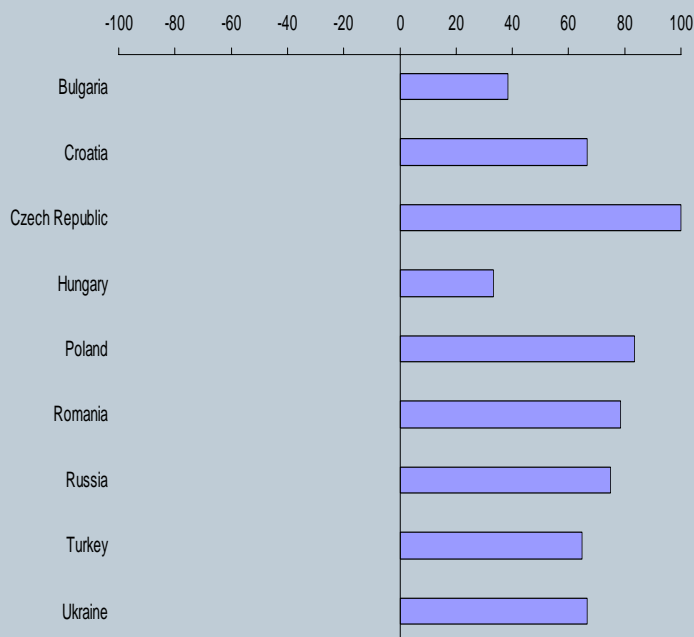
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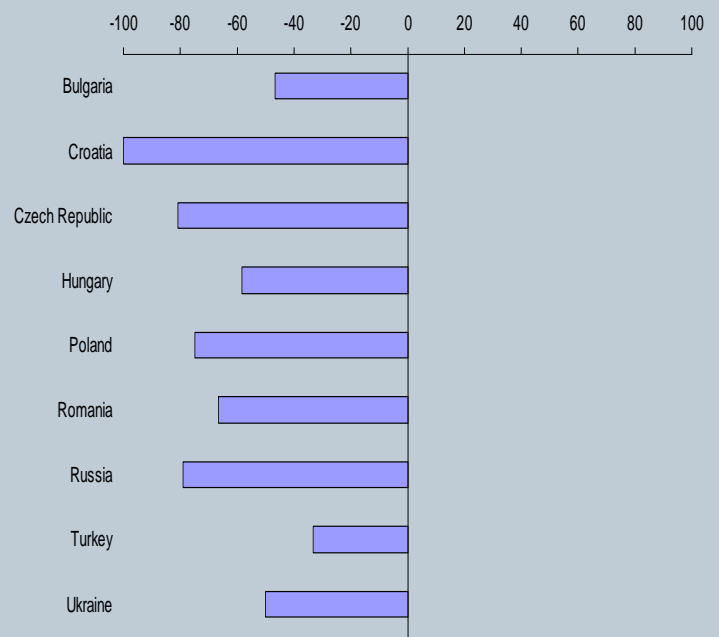
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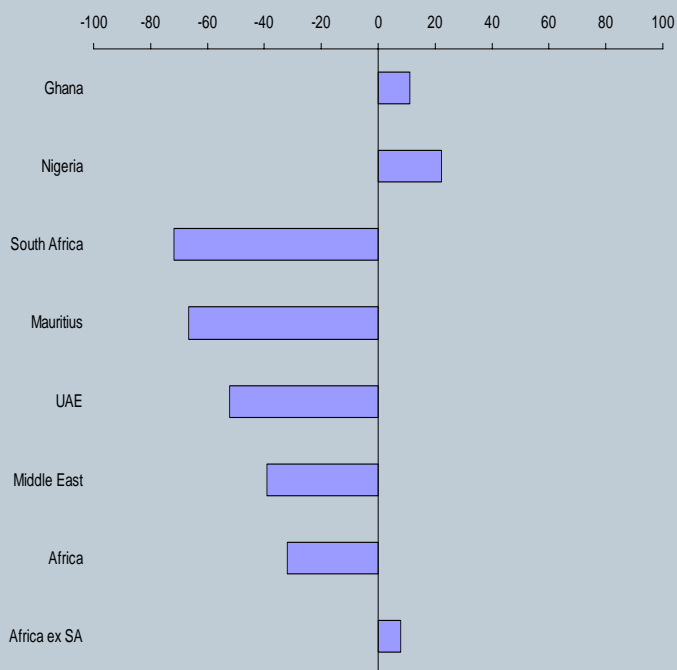
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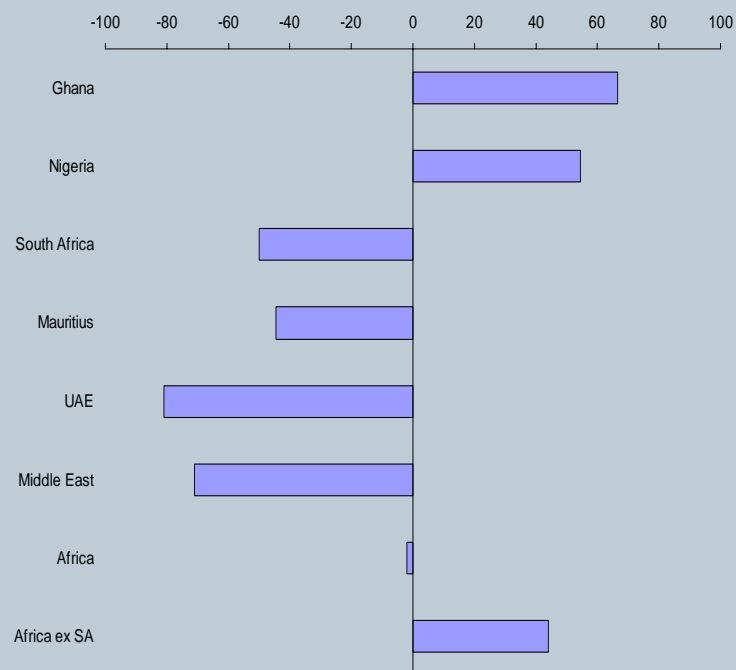
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Regional statistics - Africa and Middle East

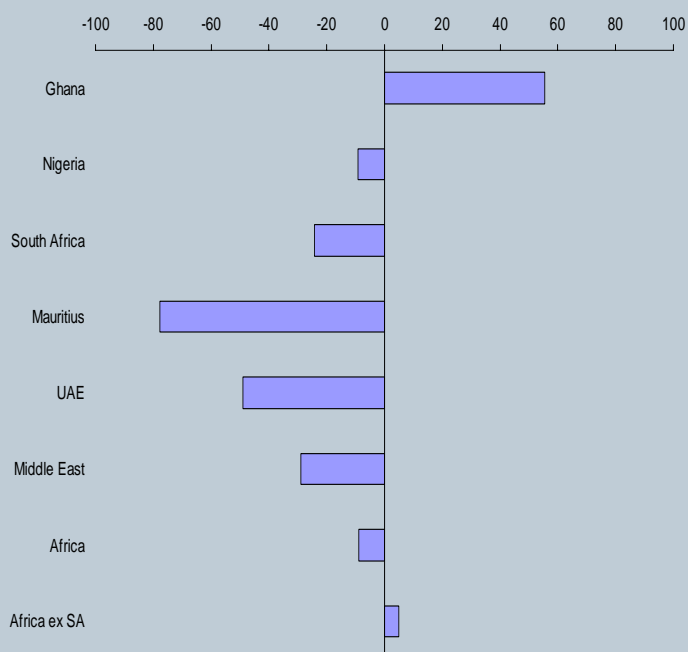
Tenant Demand



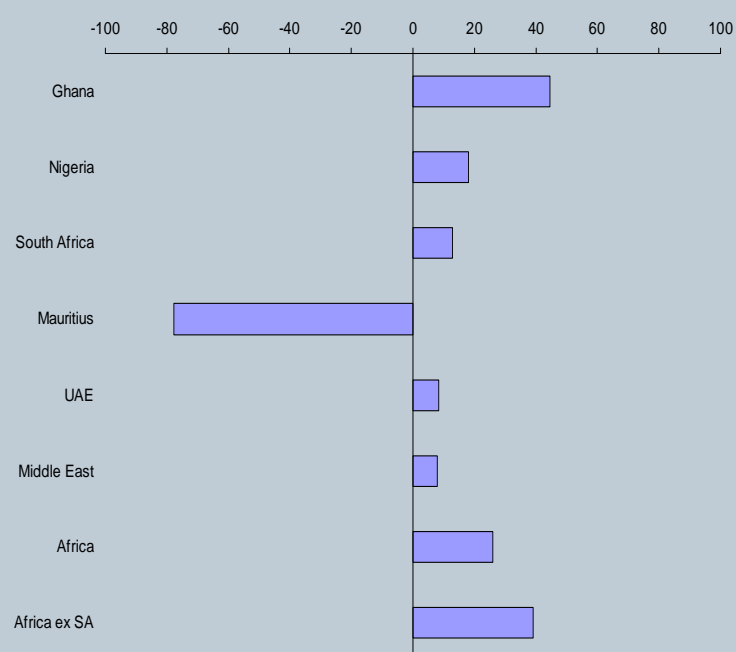
Change in Rents



Investment Bidders



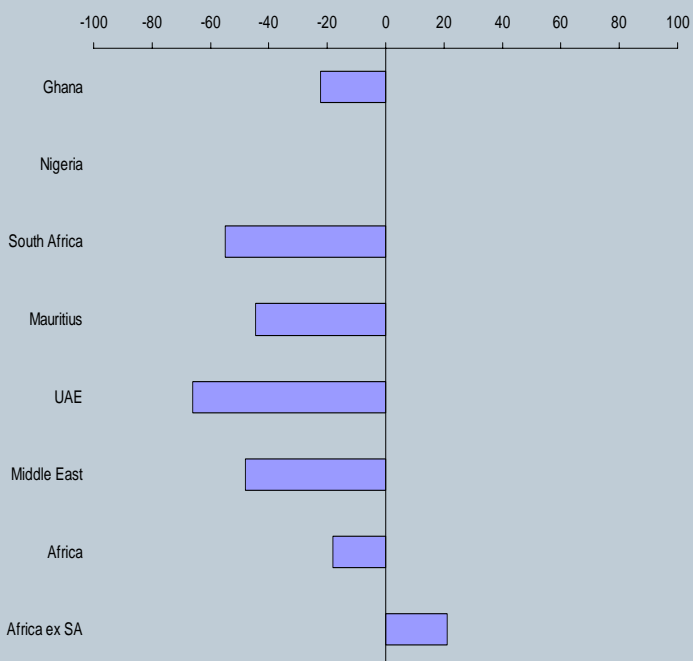
Yields



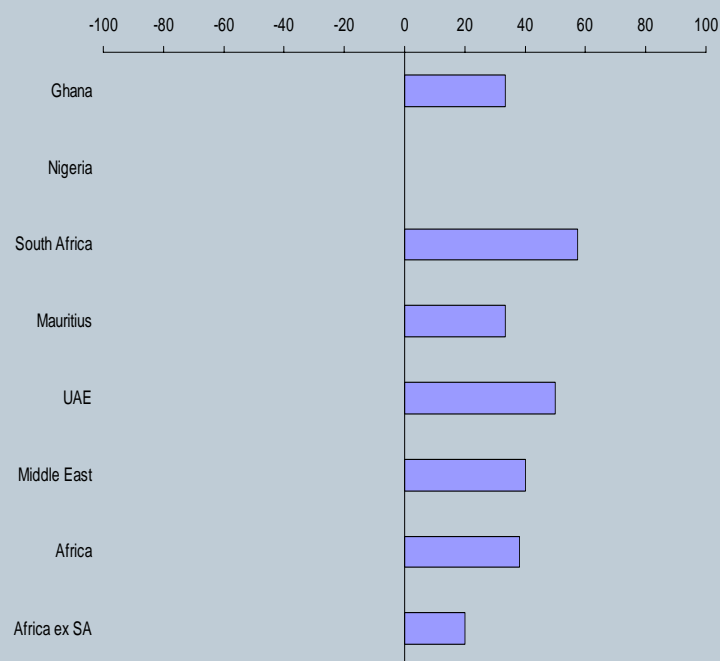
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Regional statistics - Africa and Middle East

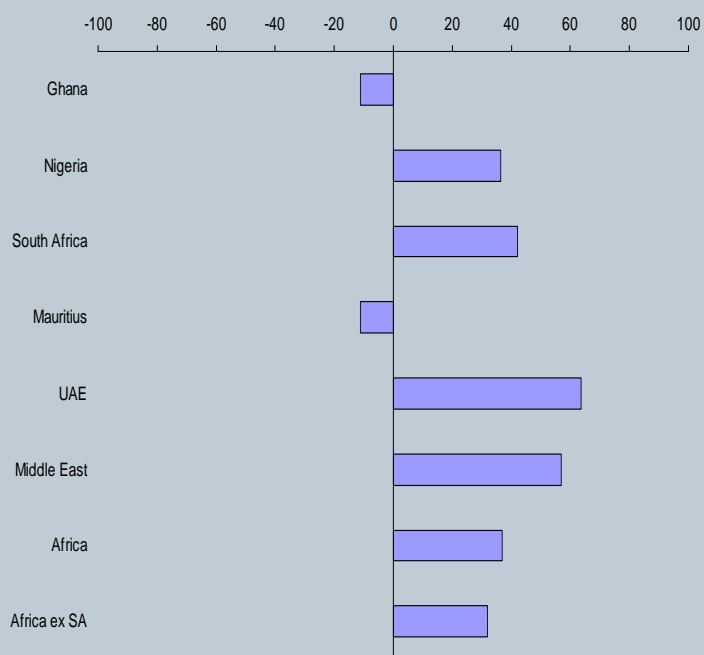
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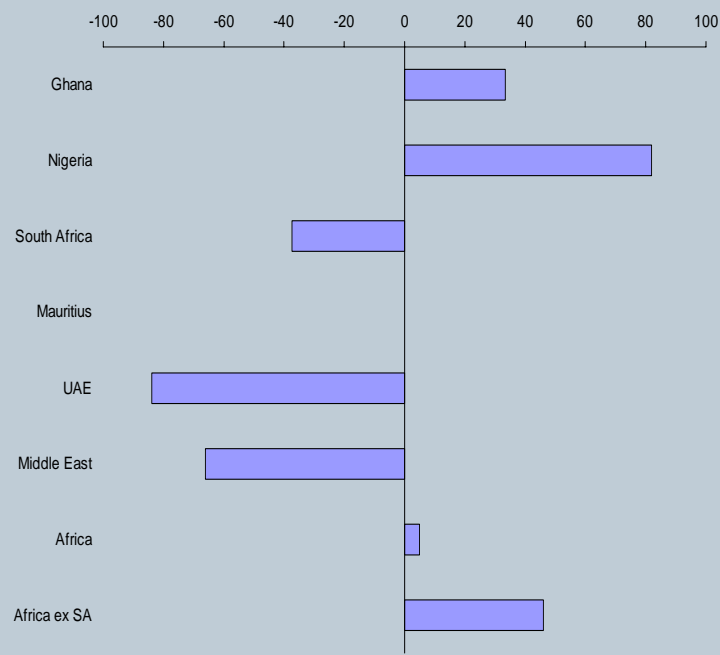
Available Space



Inducements



Rental Expectations



RICS Global Commercial Property Survey

Survey Methodology

RICS Global Commercial Property Survey

RICS' Global Commercial Property Survey is a quarterly guide to the developing trends in the commercial property investment and occupier market. This edition details market conditions for the second quarter of 2009 based on information collected from leading international real estate organisations and local firms.

419 surveyor offices responded to the questionnaire conducted between 19/06/2009 and 20/07/2009.

Methodology

Survey questionnaires were sent to real estate organisations in June 2009, with responses received up until the 20th of July 2009. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 419 responses were received.

Responses have been amalgamated across the three real estate sub-sectors of offices, retail and industrial property at a city level, to form diffusion indices for the commercial market as a whole. The eight world regional groupings have been derived through the weighting of city level diffusion data using city population and country gross domestic product statistics.

Contact details

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If you wish to participate in the quarterly survey, please email jguilfoyle@rics.org to register your details. Please provide your name, company details and the location(s) you wish to cover within the email or register online at www.rics.org/globalproperty

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This publication has been produced by RICS Economics. For economic and statistical enquiries regarding this publication, please contact.

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www.rics.org/GPScomments2009q2

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