

GLOBAL PROPERTY SURVEY

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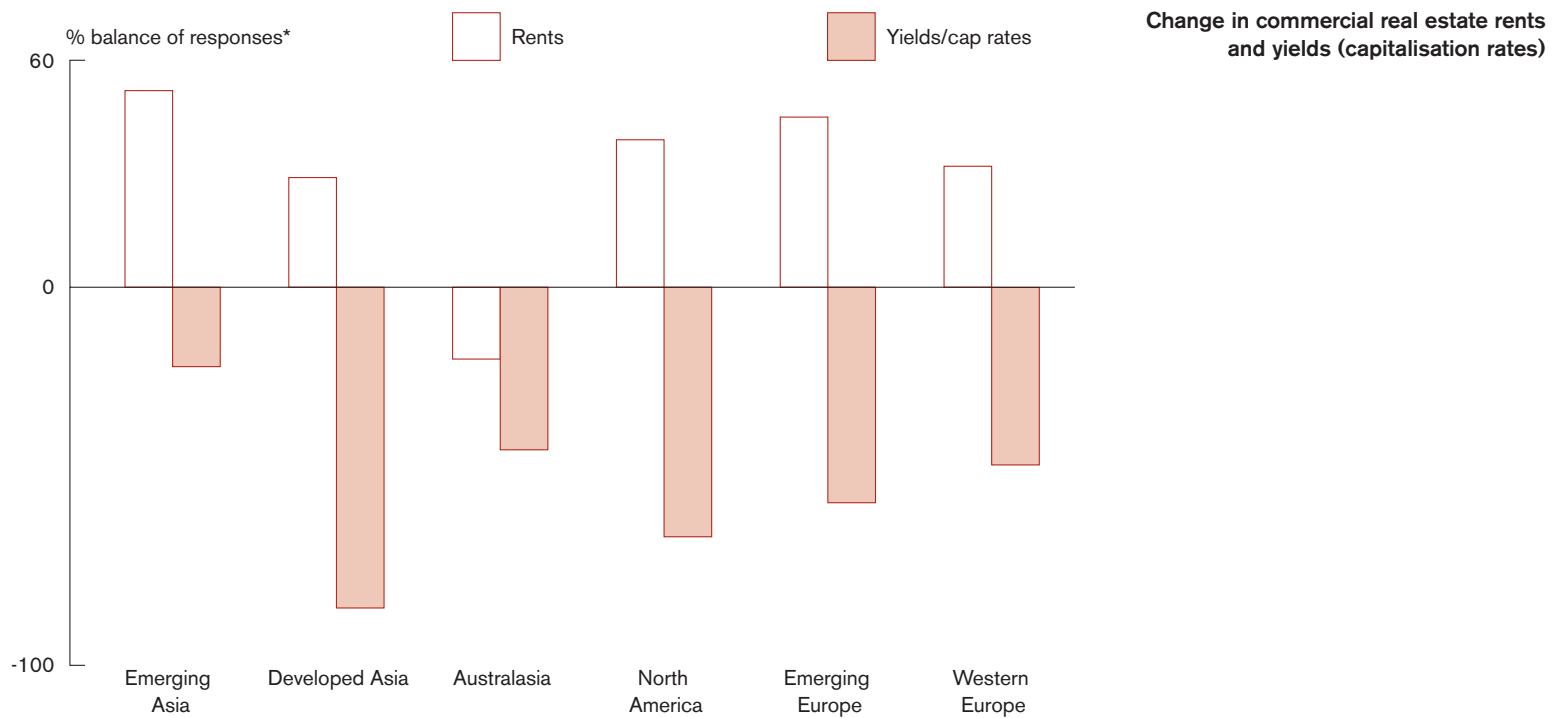
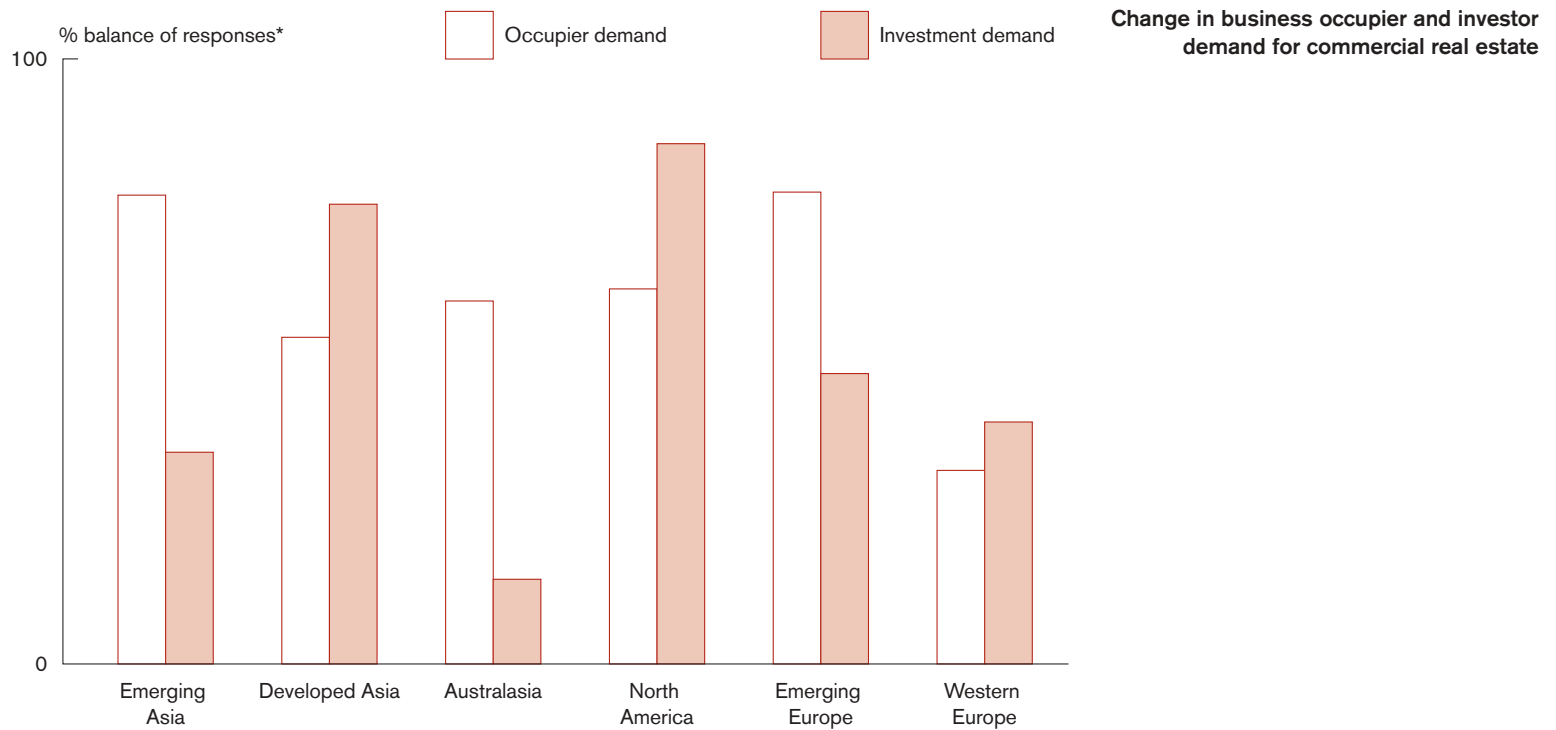
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Global commercial property market trends



*Note: figures do not show actual percentage change in a variable, only the balance between respondents reporting a rise or fall. All variables relate to the change in the second half of 2004 compared to the first six months.

Welcome to the first RICS global survey of commercial property, a six-monthly guide to developing trends in the investment and occupier markets. This edition covers market conditions for the second half of 2004.

Information has been collected from over **60 cities**, with participants from the leading international real estate organisations as well as local firms.

The first survey covers **Europe, North America, Asia and Australasia**. RICS intends to widen this in future editions to include the Middle East, Latin America and Africa (Johannesburg is included in this edition).

Summary of results

Investor demand for real estate rose strongly in North America and Developed Asia, while emerging economies recorded the largest rises in occupier activity – meeting burgeoning business needs.

Business real estate requirements rose strongly in the emerging economies of Asia and Europe, reflecting significant growth in employment and economic activity. The regions are benefiting from low labour costs, increased business investment and rapid growth in demand for manufactured goods and business services.

Corporate requirements for real estate in North America also rose firmly as US job creation and business investment spending moved into a higher gear in 2004 after several false starts in recent years. Asia in general has witnessed rising occupier activity, helped by a robust rebound in exports in the aftermath of the conflict in Iraq.

In 2004, Japan witnessed the first significant rise in employment in seven years, which has supported a turnaround in real estate activity. Western Europe on the other hand, recorded subdued business appetite for property, though the picture is not at all uniform. Improvement in the European economic climate has been prevented by an appreciating currency and the negative impact of rising oil prices.

The property investment market tells a different story. Invested demand rose across most global centres, rising most strongly in industrialised countries and fuelled by historically low interest rates, and a migration of capital due to disappointing stock market returns.

Investor activity in North America and Developed Asia is driving investment yields (capitalisation rates) down. Despite several hikes by the Federal Reserve, interest rates in the capital market remain low, encouraging debt-driven buying of real estate. Low financing costs also continue to prevail in Developed Asia as many economies, most notably Japan, have only recently experienced more buoyant economic conditions with inflation pressures minimal or even absent.

In Western Europe, overall investment activity rose moderately due to lacklustre markets in Germany and Italy. However, London and Paris, and smaller EU markets like Dublin, are witnessing strong investment interest, in part supported by more dynamic occupier demand.

Investment demand in Emerging Europe is up firmly as investors anticipate a medium to long term catch-up in per capita income to Western European levels. Investment growth here though is not on par with that recorded for the occupier market, an indication that investors are finding it difficult to deploy cash into still undeveloped markets.

Likewise, investment activity in Emerging Asia is rising less strongly than the occupier market and caution is evident. The market may be being held back by a lack of transparency and possible fears over a hard landing for the Chinese economy, limiting the upward re-rating of asset values compared to other world regions.

If you are a practising property professional and would like to take part in future editions of this survey, please see the final page for more information.

Emerging Asia

Rising occupier and investment demand for commercial property across emerging Asia, led by China.

Occupier market

Economic activity is robust, most notably in the heavyweight economy of China. Oil price rises have led to a moderation in growth across emerging Asia and government attempts to reign in blistering investment spending in China have also been a slight drag on the region.

Occupier real estate demand is strong in Shanghai and Beijing, with financial market liberalisation (due to WTO entry) boosting business and financial services. The Chinese retail sector is also expanding, recording high levels of demand with foreign players becoming active in the occupier market. Fear of a hard-landing in the Chinese economy is a key concern though growth prospects remain good, particularly if oil prices stabilise or slip back.

India is experiencing rising occupier activity driven by IT and telecoms sectors with call centres and business out-sourcing operations also stoking corporate real estate demand in Mumbai and New Delhi. In both China and India available supply of real estate for occupation shows muted rises overall. Bangkok and Jakarta have also seen strong corporate demand with rents rising.

Investment market

In China, real estate investment demand is strong helped by the low cost of borrowing. However, the government has attempted to curb excessive investment through a clamp-down on bank lending to the real estate sector and by tightening monetary conditions. Fears of a significant slowdown in the Chinese economy has meant little or no positive repricing of real estate assets in Beijing or Shanghai.

Bangkok and Jakarta have seen some investor interest, mainly from local players, with a lack of market transparency tempering foreign demand and keeping yields static. Investment markets may also feel the negative effects of rising US interest rates, which will continue in 2005. In Vietnam, legal changes now mean foreign investors can build and sell residential property to Vietnamese citizens.

Yields in India have fallen as a robust service economy is expected to support growth in the office and retail sectors. However, government reforms may stall due to the restraints of political coalition (which includes communist parties) which may limit expansion in the manufacturing sector, an area that has seen little new occupier demand.

Bangkok

Marcus Burtenshaw, Knight Frank.
'Uncertainty stemming from unusual events such as terrorism and SARS, but had little effect on occupier demand. Biggest concern is probably increased raw material costs stemming from a rapidly growing Chinese economy.'

Beijing

Lydia Wang, DTZ.
'Market liberation and rapid GDP growth are driving strong real estate demand. Many companies have postponed their relocation plan as availability of Grade A office in the east remains very low.'

Ho Chi Min City

Brett Ashton, Chesterton Petty Vietnam Ltd.
'Retailers historically have been local but the new trend is for foreign retailer brands to set up and operate stores themselves.'

Jakarta

Ferry Salanto, Colliers International.
'Recent elections have resulted in an increased optimism. The new president demonstrated his commitment toward a clean government.'

Mumbai

Chankaya Chakravarti, Cushman and Wakefield India Pvt. Ltd.
'Decline in commercial real estate risks due to deregulation of markets, increased depths of real estate offerings, greater institutional participation, and rising occupier interest.'

New Delhi

Anshuman Magazine, CB Richard Ellis.
'Majority of real estate demand is from the IT/ITES companies, both domestic and foreign. Suburbs are witnessing majority of the real estate activity.'

Shanghai

Kitty Tan, Savills.
'Expected appreciation of the RMB currency has attracted overseas investors to Shanghai. WTO entry is opening up the retail market to overseas retailers.'

Trends in commercial real estate centres

| | Occupier demand | Availability of space | Rents | Investment demand | Yields/cap rates |
|-----------|-----------------|-----------------------|-------|-------------------|------------------|
| Bangkok | ^ | > | ^ | > | > |
| Beijing | ^ | ^ | ^ | ^ | > |
| Jakarta | ^ | ^ | ^ | ^ | > |
| Mumbai | ^ | > | ^ | > | ∨ |
| New Delhi | ^ | > | > | ^ | ∨ |
| Shanghai | ^ | ∨ | ^ | ^ | > |

Key for arrows

^ = up
> = unchanged
∨ = down

Developed Asia and Australasia

Corporate demand for real estate shows firm upturn in Tokyo – rest of Asia and Australia show a rising trend. Investor appetite for real estate generally strong due to favorable financing costs.

Occupier market

Softer growth in the IT sector has contributed to a slight slowing of economies in developed Asia in the latter half of 2004. Nevertheless, corporate real estate demand is rising across the region. A key feature is Tokyo's recovery as the domestic economy sparks into life after a prolonged period in the doldrums.

Rising corporate profits in Japan have fed higher investment activity and employment (for the first time since the mid-1990s), lifting real estate demand in Tokyo. The Hong Kong retail property sector is being galvanised by surging consumer spending from tourism, especially from mainland China, while an end to deflation and rising residential property prices have lifted domestic confidence and spending. The Seoul occupier market is notably weak as strong export activity has not yet offset very poor domestic economic conditions and the fall-out from the household debt/credit-card crisis.

Australia and New Zealand have shown similar trends in the past year, with strong growth in their domestic economies. However, central banks in both countries have progressively tightened monetary policy to ease inflation pressures. This has contributed to some slowdown in domestic growth and more subdued residential property markets. Occupier demand for commercial real estate was strong in the second half of 2004, rising convincingly in the main commercial centres in Australia as well as in Auckland. The market in Perth has benefited from a boom in commodity prices as mining companies expand operations. Some upward pressure on rents is evident in Australia but much more apparent in Auckland.

Investment market

Investment demand for commercial property is very strong across developed Asia. Established commercial property centres have benefited most from a rising appetite for real estate, driven by low finance costs – due in part to REIT structures. Moreover, the lacklustre performance of the equity market in recent years continues to drive investors into property. Yields are declining across Asia, with rising interest rates in Hong Kong yet having little negative impact. Lower yields are also evident in Seoul due to falls in interest rates counteracting weaker rents.

Real estate investment demand in Australia is being weighed down by a flat market in Sydney. A new real estate tax imposed upon vendors of 2.25% in the state of New South Wales has meant to little new movement in the Sydney investment market. Elsewhere in Australia and Auckland, investment demand is holding up even though interest rates have been rising, with the force of demand nudging yields slightly downwards.

Auckland

Gerald Rundle, Bayleys.
'Businesses have enjoyed the best economic conditions for over a decade. Retail and industrial markets are experiencing rental growth in prime and some secondary locations.'

Hong Kong

John Su, Cushman & Wakefield Healey & Baker.
'Following significant rent decline over 2001-03, occupier demand has been dominated by companies upgrading to newer and better quality buildings.'

Johannesburg

Patience Luxomo, RMB Properties.
'Mergers of financial institutions, especially banking sector and pharmaceutical industry have had impact on occupancy levels.'

Melbourne

Andrew Stern, DTZ Australia.
'Market characterised by strong demand from high net worth private investors, syndication groups and institutional investors.'

Seoul

Christopher Kimm, LaSalle Investment Management.

'The lowering interest rates and the introduction of indirect investment vehicles for real estate have created more demand for investment properties. The government's policy of cooling the overheated residential sector has caused private investors to seek properties in the commercial sector.'

Singapore

Wallace Chu, Savills.

'An improved economy generating rising take-up from financial institutions, lawyers and accounting firms in the office sector. Retail space has benefited from improved retail sales after SARS along with a lack of new supply.'

Sydney

Michael Kingcott, Knight Frank.

'Compulsory superannuation creating strong appetite for direct property assets. NSW Government exit tax on property investment – impacted on sub Aus\$5m investment market in particular.'

Tokyo

Christopher Fossick, CB Richard Ellis.

'Strong growth in the Japanese economy, creating demand for office space – vacancy fallen to about 4% in central Tokyo office, rents up about 10%.'

Trends in commercial real estate centres

| | Occupier demand | Availability of space | Rents | Investment demand | Yields/cap rates |
|-----------|-----------------|-----------------------|-------|-------------------|------------------|
| Auckland | ^ | ^ | ^ | ^ | v |
| Hong Kong | ^ | v | ^ | ^ | v |
| Jo'burg | ^ | > | ^ | ^ | v |
| Melbourne | ^ | > | ^ | > | v |
| Perth | ^ | > | > | > | > |
| Seoul | v | ^ | v | v | v |
| Sydney | ^ | ^ | ^ | > | v |
| Singapore | ^ | v | ^ | ^ | > |
| Tokyo | ^ | v | ^ | ^ | v |

North America

Economic recovery and low interest rates are aiding corporate sector real estate demand and encouraging investors to search for higher returns in the sector.

Occupier market

After a 'soft patch' the US economy in mid 2004, healthy growth has resumed. Occupier demand for real estate is rising across the US, led by financial and legal sectors, with positive performance in San Francisco, New York, LA and Washington DC. Corporate investment picked up significantly in 2004, supported by healthy profits, low long term interest rates and temporarily accelerated depreciation allowances. Strengthening occupier real estate demand has underpinned rent rises. The only exception is Chicago, where the survey records rent falls.

Availability of real estate for occupation was little changed across the US. The exception to this trend is the West Coast, where the availability of real estate is in decline, reflecting sturdy growth in demand in the region. The Los Angeles industrial real estate market has seen a firm uplift in demand, driven by a boom in foreign trade. Port infrastructure in LA is at full stretch, and companies in need of increased storage capacity require additional industrial real estate.

In Canada, rising real estate demand and declining availability have put upward pressure on rents in Toronto and Vancouver. Growing demand is a reflection of a healthy economy with unemployment falling. The natural resource sector (timber and oil industries), provided a large chunk of the demand in both Calgary and Vancouver, while law firms dominate in Toronto. Preparation for the 2010 Winter Olympics is providing support to the Vancouver market.

Investment market

Private and institutional investors (REITS and pension funds) have been very active in the US investment market. Low expected returns on other asset classes, such as US Treasuries and equities, continuing to make the real estate sector attractive to investors. Investment yields (cap rates) are declining across the board. Yields are declining most on the West Coast where employment and income growth is well above the national average. Canadian investors are showing signs of confidence. Respondents report a rise in investment demand, with REITS making their presence felt.

Calgary

Drew Gilbertson, Staubach.
'Rising crude prices has created a strong economic outlook. Demand for office space has risen as large tenants such as Imperial Oil relocate to Calgary.'

Chicago

Kelly Badhwar, CB Richard Ellis.
'The combination of high unemployment, new construction, lack of job growth and merging companies is creating a market, favoring tenants. Landlords becoming more aggressive, competing over the few sizeable deals that exist in the market.'

Los Angeles

Nicola Tuseo, Cushman & Wakefield.
'Logistics firms continue to grow to meet the import/export demands of the nation. Although California faces a tough business environment due to high electricity, insurance and health care costs, companies continue to view Los Angeles as a desirable location.'

New York

Andrew Osborne, Trammell Crow.
'Investment demand strong across all sectors. Institutions unable to compete with leveraged buyers for core assets. Local economy strong and improving – financial services companies cut real estate space to the bone but are rapidly attempting to bulk up to meet business demand.'

San Francisco

Colin Yasukochi, Grubb & Ellis.
'Investor's appetite for commercial real estate has been voracious this year and it led to record breaking sales volume. Persistently low interest rates, a poorly performing stock market and improving real estate fundamentals induced a surge of capital inflows.'

Toronto

Robin White, Avison Young.
'Foreign investors, especially from Germany and Israel, have been active in the office, industrial, apartment and retail sectors. The Canadian economy remains strong. Forecasters are predicting a 4% Toronto GDP growth rate in 2005.'

Washington D.C

Maria Sicola, Cushman & Wakefield.
'Leasing activity has been on the rise in both office and industrial property segments. Capital remains abundant and real estate as an asset class continues to out perform the equity and bond markets.'

Vancouver

Chris Clibbon, CB Richard Ellis.
'Staggering \$16.2 billion worth of prospective construction projects to complete leading up to 2010 – related partly to the Olympics, rapid transit and port expansion.'

Trends in commercial real estate centres

| | Occupier demand | Availability of space | Rents | Investment demand | Yields/cap rates |
|--------------|-----------------|-----------------------|-------|-------------------|------------------|
| Boston | > | ^ | > | ^ | > |
| Chicago | > | ^ | > | ^ | √ |
| Los Angeles | ^ | √ | ^ | ^ | √ |
| New York | ^ | > | ^ | ^ | √ |
| S. Francisco | ^ | √ | ^ | ^ | √ |
| Toronto | ^ | > | > | ^ | √ |
| Vancouver | ^ | √ | ^ | ^ | √ |
| Washington | ^ | √ | ^ | ^ | √ |

Emerging Europe

European Union entry spurs growth in occupier and investment demand for real estate. Strong economic growth driving property demand in the Russian Federation.

Occupier market

Economic activity in Emerging Europe continued to strengthen in 2004, with GDP growth in the largest EU Accession countries at just under 5%, the fastest rate since 1997. Export-led growth has been the cornerstone of the region's performance since 2002, supported by resurgent global activity and improved export demand from Russia.

Commercial real estate markets have been very active in both occupier and investment sectors. Occupier activity is generally strong across recent and expected entrants to the EU. The larger markets have seen steady increases in demand, such as Budapest and Warsaw. In Prague the market has flattened due to relatively high real estate costs.

Occupier demand in smaller markets of emerging Europe is robust. However, demand has not translated into any significant rise in rents, with falls apparent in Warsaw and rents flat in Prague, Budapest and Sofia.

The Russian Federation experienced continued strong growth in 2004, fuelled in the main by rising domestic consumption expenditure. But growth has begun to slow as output among large private oil producers falls. High commodity prices (for metals and oil) have supported the fiscal position. Rapid growth has fed into occupier demand in Moscow and rising rental levels.

Investment market

Despite little change in rents, investor demand in emerging Europe is booming across the board. The primary driver is expectations for convergence in incomes over the medium and longer term to Western European levels, which will facilitate growth in rents. Investment yields have declined, though falls in Budapest were relatively small. Any concerns over private sector property rights in the aftermath of Yukos, is yet to have a negative impact on investment interest in the Moscow real estate market.

Bucharest

Peter Murphy, DTZ.

'Relatively high yields driving investment demand from overseas institutions but a lack of suitable product.'

Budapest

Peter Számely, Eurohypo.

'New market entrants in retail will enhance quality shopping rather than rental growth. Supply is limited by planning measures.'

Istanbul

Itir Esen, DTZ.

'Property values starting to recover after the 2001 recession. No new office supply in 2004 and demand is rising, resulting in higher office rents; new supply expected in 2005.'

Moscow

Primakova Olesia, Knight Frank.

'Majority of investors are Russian companies. Evolution of destination shopping centers and the penetration of foreign operators: Metro, IKEA, Auchan, Real, OBI, Leroy Merlin, Kingfisher.'

Prague

Colin Waddell, CB Richard Ellis.

'Emergence of Czech institutional money investing in real estate. Despite high tax levels, corporate occupier interest high. Foreign direct investment has to remain the cornerstone for capital growth to catch up with western EU members.'

Sofia

L Tabachki, Colliers International Bulgaria.

'Demand for better office premises is growing due to a better political and economic climate – the growing economy and easier access to financing at lower price. Most active investors are private and local development companies.'

Warsaw

Marcin Stolarski, GVA Immoconsult Polska Sp.

'Occupier demand from the hi-tech, insurance and finance sector. EU membership is expected to have a positive impact on overall economic performance and gradually lead to improvement in volume of investment and development conditions.'

Trends in commercial real estate centres

| | Occupier demand | Availability of space | Rents | Investment demand | Yields/cap rates |
|----------|-----------------|-----------------------|-------|-------------------|------------------|
| Moscow | ^ | > | ^ | ^ | ∨ |
| Budapest | ^ | > | > | ^ | ∨ |
| Prague | > | ^ | > | ^ | ∨ |
| Sofia | ^ | ^ | > | ^ | ∨ |
| Warsaw | ^ | ∨ | ∨ | ^ | ∨ |

Western Europe

Euro area real estate markets see strength in occupier and investment sectors; wide variations apparent across cities.

Other Western Europe markets, most notably London, record clear upturn in activity as financial market shows recovery.

Occupier market

Corporate real estate demand is subdued across the euro area, with activity slipping back in Frankfurt and Milan, while conditions are flat in Berlin, Lisbon, Brussels and Athens. The euro area economy is showing only modest expansion as higher oil prices reign back activity. Consumer spending has been lacklustre, and business investment has been disappointing despite the background of the strongest increase in world trade in 30 years. Labour market reform will support growth in domestic activity, though in the short term may have negative repercussions. The European Central Bank has little need to raise borrowing costs in the next six months.

Strong domestic growth has led to rising occupier demand in Barcelona and Madrid, with a change in the Spanish government having no sustained impact on confidence. Activity is rising in Amsterdam, but being driven by rationalisation rather than representing net new demand for space. Here, rents are under some downward pressure. Dublin is also enjoying firm demand but the relocation of activities to lower cost Eastern Europe and Asia is having a negative impact on the industrial sector. In Athens the summer Olympics put real estate activity on hold but companies are expected to relocate as newly built offices used for the games come onto the open market.

Outside of the euro area, conditions have been firmer, with notable strength in business investment activity in London and Stockholm and even a modest improvement apparent in the previously moribund Swiss economy thanks to positive real estate activity in Zurich. Business demand for real estate has displayed a clear upturn in London following several years of weakness, underpinned by a more active financial sector.

Investment market

Investment demand for real estate has risen modestly in the euro area though the picture is mixed. Lacklustre markets prevail in Germany and Italy. Elsewhere, investment demand for real estate is strong. The weight of money chasing relatively few investment opportunities, together with a lack of confidence in alternatives (such as the equity market), has resulted in noticeable declines in yields. Falls in yields have been quite stark in London and Paris and in the main centres of Spain. In Germany, a poor occupier market has limited investment interest, though investors are seeking opportunities arising from non-performing loan portfolios for a short term turnaround.

Barcelona

Clive Millar, Aguirre Newman.
‘Greater supply of quality modern space has led to some large companies taking space at comparatively low rents. Large companies have also located in Barcelona as their headquarters, rather than Madrid.’

Frankfurt

Ursula-Beate Neisser, DTZ.
‘Lack of good product and low yields do not match investor preferences. Uncertainty over economy and the future of Frankfurt's banks.’

Lisbon

Pedro Pimentel, Knight Frank.
‘More active investors include UK, German and Spanish based property funds, with the main target being shopping centres and retail parks or (almost) fully occupied prestigious office buildings.’

London

Digby Flower, CB Richard Ellis.
‘High volume capital from all sources – HK, overseas, institutional and private. Rise in borrowing costs not a deterrent for debt-backed investors.’

Milan

Patrick M Parkinson, Jones Lang LaSalle.
‘Down-sizing in office sector. Out-of-town retail market strong, but softer trading putting pressure on what have been strongly growing rents.’

Paris

Jérôme Berrue, Colliers CLS.
‘The weight of public sector demand is significant for the third consecutive year, though demand for office space reflects rationalisation/costs reduction, without jobs creation.’

Stockholm

Stephen Norris, Cushman & Wakefield Healey & Baker.
‘German funds are having trouble finding stock and the opportunity funds are now selling as they were first in. Office market has bottomed but clear recovery not visible.’

Trends in commercial real estate centres

| | Occupier demand | Availability of space | Rents | Investment demand | Yields/cap rates |
|------------|-----------------|-----------------------|-------|-------------------|------------------|
| Amsterdam | ∧ | ∧ | ∨ | ∧ | ∨ |
| Athens | > | ∧ | > | > | > |
| Barcelona | ∧ | ∧ | ∧ | ∧ | ∨ |
| Berlin | > | ∧ | ∨ | — | ∨ |
| Brussels | > | > | > | ∧ | ∨ |
| Dublin | ∧ | > | ∧ | ∧ | ∨ |
| Frankfurt | ∨ | ∧ | ∨ | > | > |
| Lisbon | > | ∧ | ∨ | > | > |
| Madrid | ∧ | ∨ | > | ∧ | ∨ |
| Milan | ∨ | ∧ | > | > | ∨ |
| Munich | ∧ | ∧ | ∨ | > | > |
| Paris | ∧ | > | ∨ | ∧ | ∨ |
| Rome | ∧ | > | > | > | > |
| Cardiff | ∧ | ∨ | ∧ | ∧ | ∨ |
| Copenhagen | > | ∧ | > | ∧ | > |
| Edinburgh | ∧ | ∨ | > | ∧ | ∨ |
| London | ∧ | > | > | ∧ | ∨ |
| Stockholm | ∧ | > | > | > | > |
| Zurich | ∧ | ∧ | > | ∧ | > |

Other information

Survey method

Survey questionnaires were sent to real estate organisations in October 2004, with responses received up until the end of December 2004. Respondents asked to compare conditions over the latest six months with the previous six months. A total of 197 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 five world regional groupings have been derived through the weighting of city level diffusion data using city population and country gross domestic product statistics.

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Taking part in the RICS global property survey

If you wish to participate in the six-monthly survey, please email us at: globalproperty@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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