GLOBAL PROPERTY SURVEY

LOCAL INSIGHTS – GLOBAL VISION

ISSUE 03 – APRIL 2006

RICS

RICS' Global Property Survey is a biannual guide to the developing trends in the commercial property investment and occupier market. This edition details market conditions for the second six months of 2005 based on information collected from leading international real estate organisations and local firms.

Methodology

Survey questionnaires were sent to real estate organisations in November 2005, with responses received up until the end of February 2006. Respondents were asked to compare conditions over the latest six months with the previous six months. A total of 290 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 **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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Introduction

Key findings

- **Corporate demand for business property up sharply**
- **Investor appetite for real estate booming in most regions**
- **Rising global interest rates to take steam out of the market later this year**

Growth in the corporate business property sector is the strongest for 18 months, this latest edition of RICS' Global Property Survey has revealed. Demand from occupiers accelerated across much of the developed and emerging economies, after a brief slowdown in the first half of 2005.

High oil prices have failed to prevent increased momentum in global activity and trade, making for a more favourable climate for the real estate sector. Also, low market interest rates have propelled investment demand higher again in most regions, particularly in emerging market locations, while a clear upward impetus to activity is apparent in Western Europe.

Occupier market

In the second half of 2005, the emerging markets of **Europe and Asia once again topped the growth league for business occupier demand**, with solid rises in activity recorded. Economic activity in the two heavyweights of China and India continued to rise sharply.

China has weathered administrative efforts to slow investment activity as export and domestic consumption have risen sharply. In India, a surge in manufacturing output has broadened the economic expansion, with property demand rising strongly in all areas.

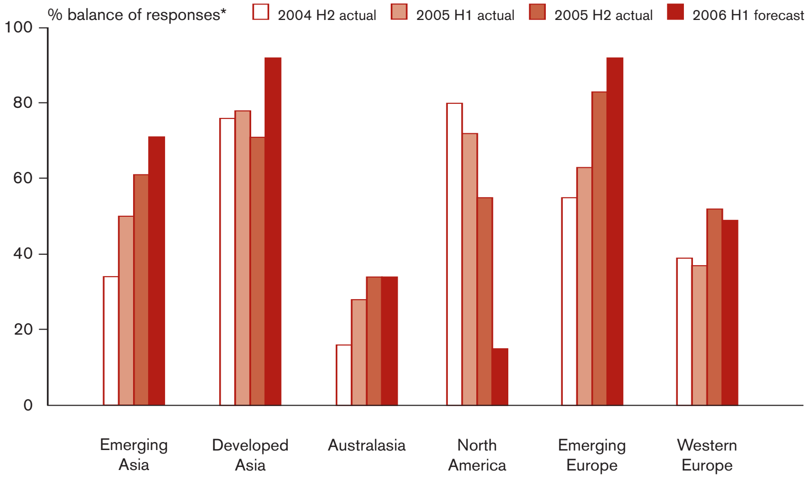
Property demand in Emerging Europe is being propelled higher on the back of the boost given by entrance or prospective entry into the EU.

Business demand for property in the United States of America is robust as the economy has overcome disruptions from hurricanes Katrina and Rita, and the detrimental impact of high oil prices. While the US Federal Reserve has continued to hike interest rates, low long-term market rates have supported rises in business investment and employment. As such, **business property demand is rising more quickly than in the previous survey**.

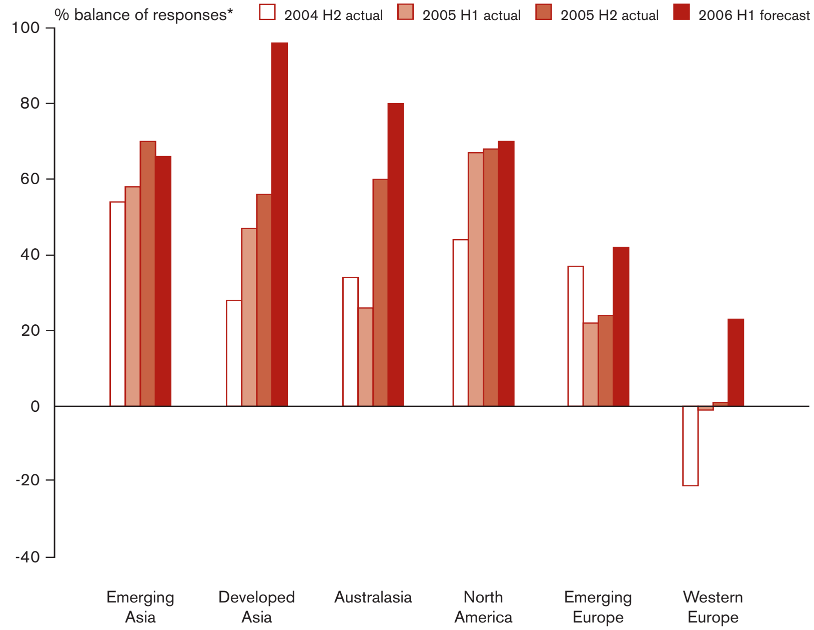
The industrialised economies of Asia are generally performing well, with stronger export activity, particularly to China, a driving factor in raising output. In Japan, there are clear signs of the domestic economy pulling out of the torpor of the previous 15 years, with unemployment falling to the lowest rate in eight years. A stronger labour market has given a firm lift to business property requirements across all sectors of the market in Tokyo.

A clear upturn in business property demand has also occurred in Western Europe, from a moderate base in the euro area. Most of the larger economies of the single currency area have seen occupier activity improve, with the only notable exception being Italy. Better euro area property activity mirrors a gradual tightening of the labour market. However, there are few concrete signs of a turnaround in consumer spending, with the euro area still lagging behind North America and Developed Asia.

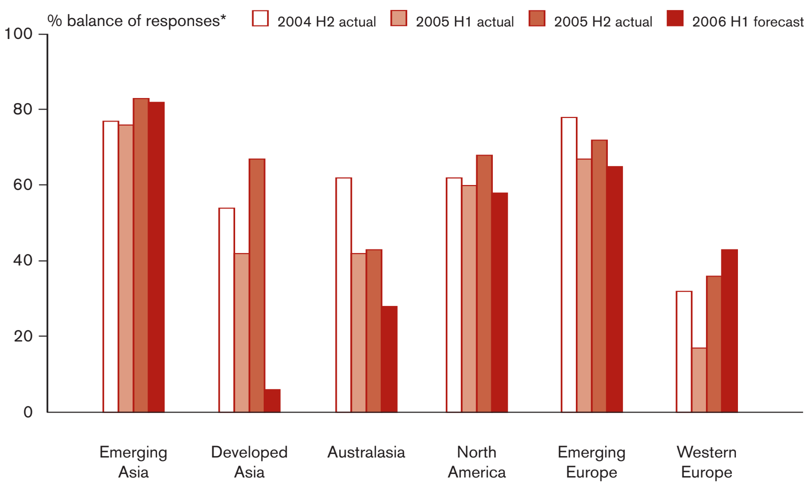
Investment demand for real estate



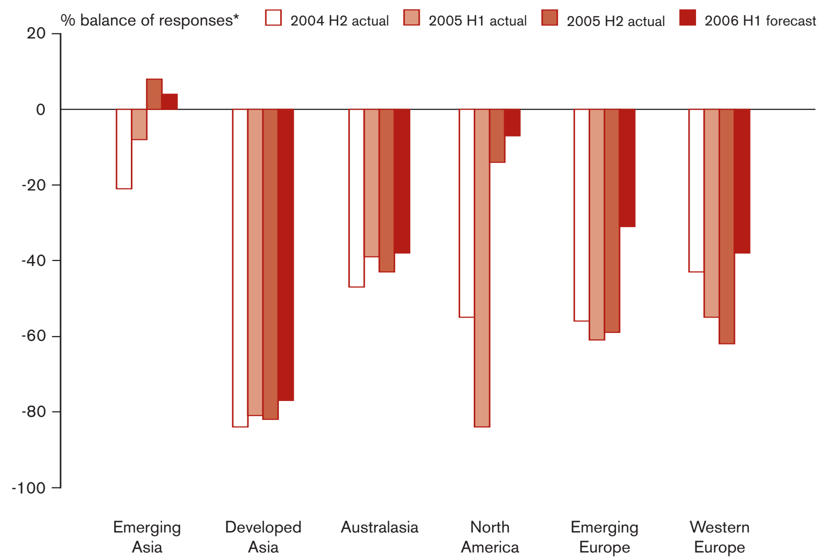
Change in real estate rents



Occupier demand for real estate



Real estate investment yields (capitalisation rates)



* Figures do not show percentage change, only the balance between respondents reporting a rise or fall
H1 – first half
H2 – second half

Introduction (continued)

Investment market

Low market interest rates have encouraged demand for real estate assets even as equity markets have surged. Investors have entered the market given that property market yields have in many markets been in excess of the cost of finance, while real estate has offered investors diversification of portfolio risks.

Investment turnover in emerging markets has accelerated strongly, to post the sharpest increase in 18 months. Emerging markets in both Asia and Europe have seen a build-up in tempo of investment demand as their economies have boomed. Low interest rates have helped to finance investment demand, with foreign investment particularly important for Emerging Europe.

In the USA, investment activity continues to expand, though growth has slowed from the blistering pace set 18 months earlier. Rising short-term interest rates have not negatively impacted upon the market due to prevailing low long-term interest rates, though investment yields are not falling as quickly as in the previous two surveys.

For Japan, a picture of robust investment activity continues, with yields falling sharply once again. The end of deflation and the prospect of rising interest rates has yet to dampen the enthusiasm of domestic institutions, real estate companies and foreign buyers of real estate assets. In Western Europe, investment activity rose firmly as confidence in the economic outlook improved.

Forecasts

- **Occupier market: Rising business demand for real estate** is **expected across most geographic locations** for the first half of 2006, led by further sharp rises in Emerging Asia. In **Developed Asia,** respondents are expecting **a milder pace of growth,** partly reflecting limited availability of space. In Western Europe, activity is expected to build on recent rises in occupier demand

- **Investment market: Across most global regions, investment activity is** seen **rising at a similar or faster pace** in the first half of 2006. A notable **exception is the USA** where the market is expected to level out despite strong activity. The investment climate for property may change later this year as rising global interest rates have already led some investors to re-assess the level of risk they will tolerate, with a number of ‘high-yield’ currencies under pressure in the past month. However, with interest rates generally still at relatively low levels, property investment demand is more likely to slow in the year ahead than suffer any significant reversal.

Emerging Asia

Bangalore
Bangkok
Beijing
Guangzhou
Hangzhou
Hanoi
Ho Chi Minh City
Jakarta
Kuala Lumpur
Manila
Mumbai
New Delhi
Shanghai

Emerging Asia

Key findings

- **Giants of emerging Asia record robust rises in occupier demand**
- **Investment turnover up firmly but yields steady**

Occupier market

Occupier demand for commercial real estate accelerated further in the second half of the year as the economies of emerging Asia continued to expand at an extraordinary pace, with India and China recording growth of 8% and 9% respectively in 2005.

In **China**, economic growth continues to be driven by sharply rising exports, but a re-orientation towards domestic spending is underway. Easier monetary and fiscal policy are supporting greater private consumption and investment, with state-led investment spending slowing in the last 18 months.

Construction activity remains strong but has nevertheless slowed, although the Organisation for Economic Co-operation and Development report that activity may rebound due to easing of restrictions on the conversion of agricultural land into commercial and residential uses. **Occupier demand for commercial property remained very strong** in the second half of 2005, **particularly in the retail and office sectors,** where rents rose sharply.

Rising economic growth in **India,** which is the strongest since independence in 1947, has been accompanied by **rapid expansion to the industrial sector.** As such, export growth is picking up and has stimulated occupier activity in the industrial sector which had been the laggard in previous surveys. **Activity across both the retail and office sectors continued to increase** at a robust pace, in line with the last 18 months, with output rising in the distribution and business services sectors. The economy is reaping gains from global out-sourcing of business processes and back office functions.

In **Thailand,** the economy is growing strongly due to an expansionary fiscal policy as the government spends heavily on infrastructure. **Business demand for commercial property rose firmly** again in Bangkok. With availability of space also tightening, **rents are increasing.** Similar economic conditions are also evident in Indonesia, where strong economic growth is also boosting occupier demand for commercial property. In **Vietnam,** rapid expansion in credit is driving household and investment demand, leading to **rising occupier activity.**

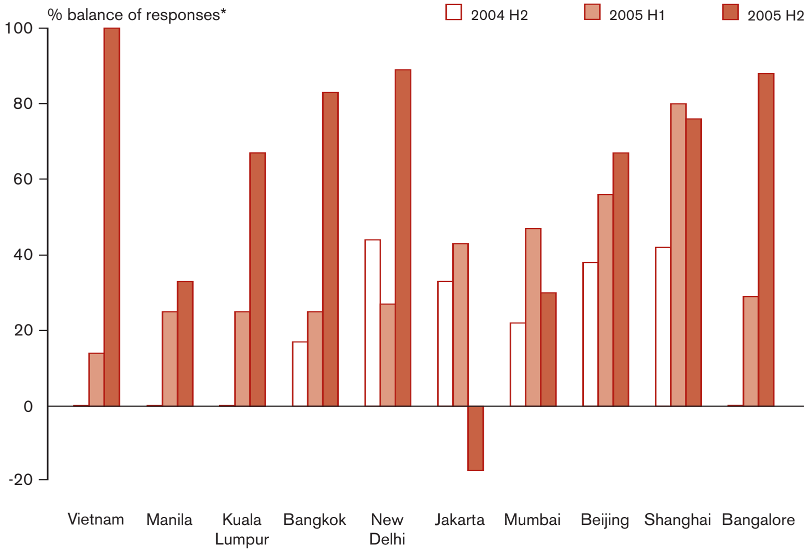
In the **Philippines,** the economy should be supported by rising cyclical demand for electronics output. **Occupier demand is rising firmly while the amount of available space has dropped** back. However, the strength of the currency is moderating economic growth and interest rates have slipped back to support the economy.

Strong economic growth in the Malaysian economy is being driven by rising exports, investment and household spending. **Business property demand** is, however, **rising at a slower pace** than recorded in the previous survey while rents are up at a modest space compared to other centres in the region. The central bank is beginning to tighten policy although the general stance remains accommodating.

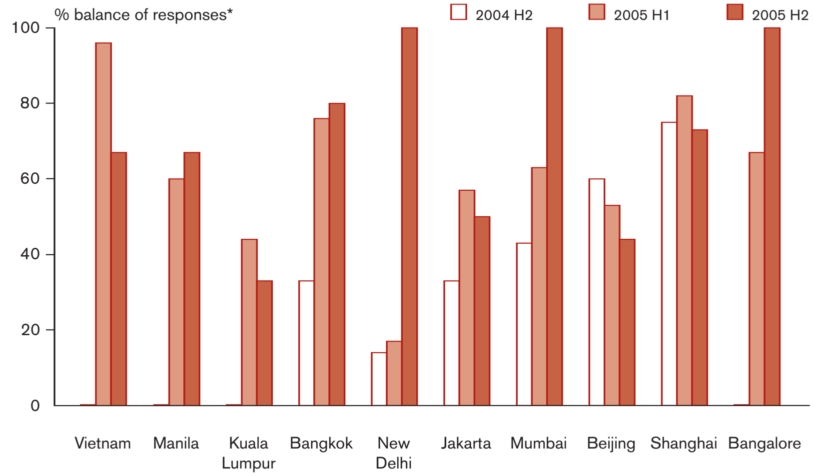
Investment market

Investment market turnover in the emerging markets of Asia showed a further firm rise, up more quickly than in the previous survey. In **China, investment demand for real estate assets continued to rise** in the second half of 2005, with the focus on the office and retail sectors. Nevertheless, investment yields were little changed once more, with investors only pushing capital values up in line with rising rental levels.

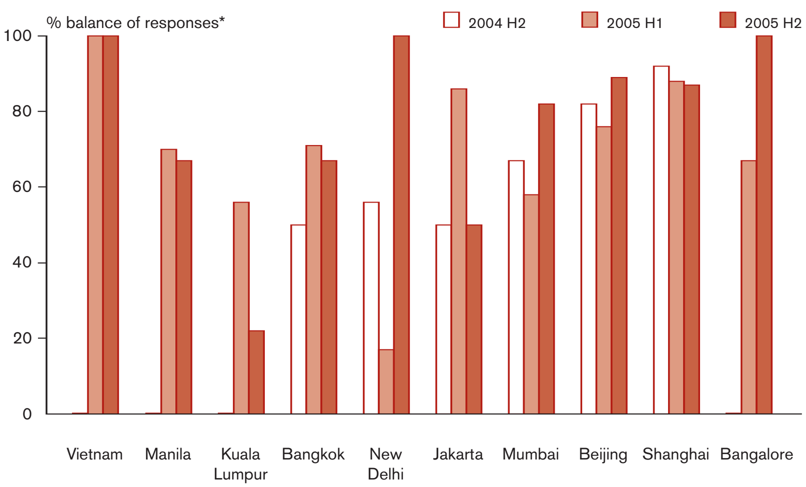
Investment demand for real estate



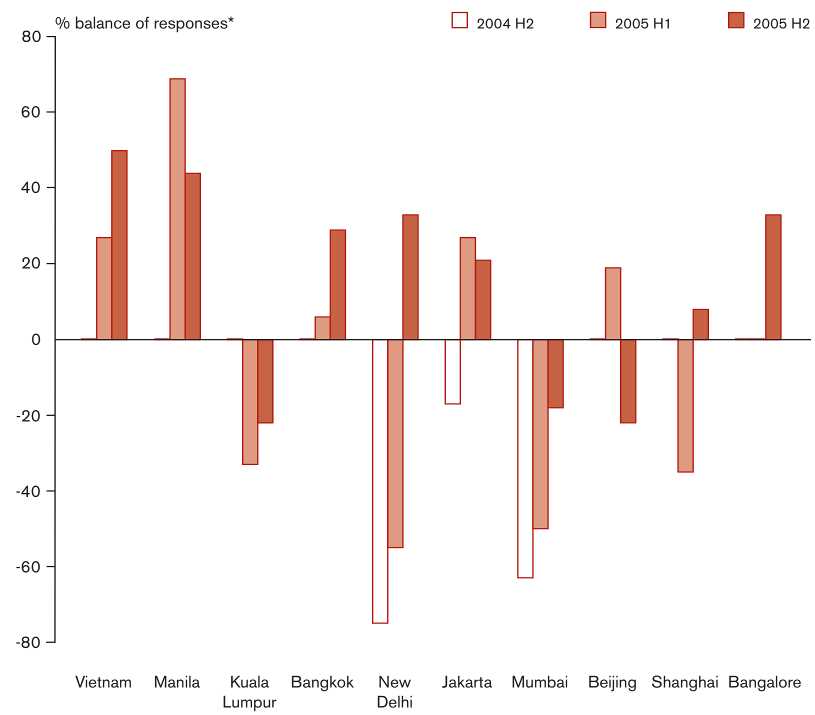
Change in real estate rents



Occupier demand for real estate



Real estate investment yields (capitalisation rates)



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H1 – first half
H2 – second half

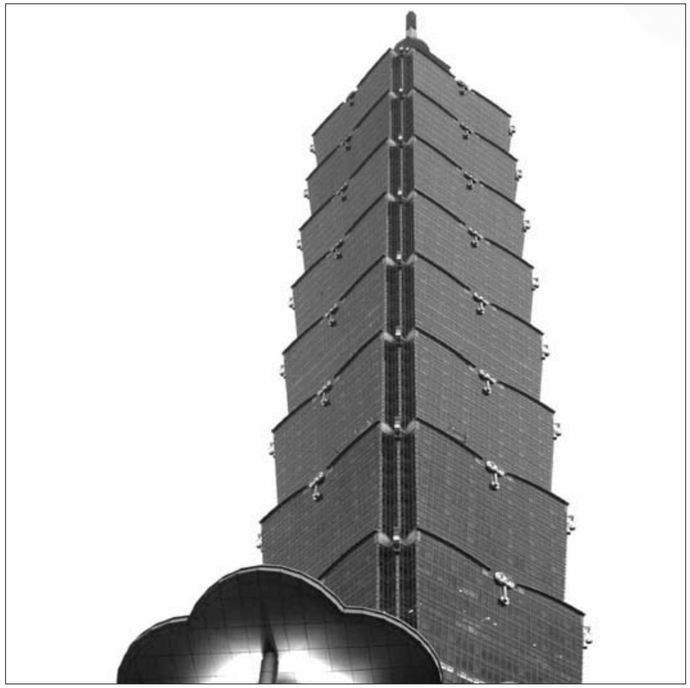
Emerging Asia (continued)

The only area of the Chinese market **to record a drop** in yields **was the office sector.** Moderate levels of purchase activity have been recorded by domestic owner-occupiers and foreign investors with interest more limited from other types of investors. Renminbi revaluation speculation may have encouraged foreign investor interest in China's commercial property market.

In **India,** investment turnover in the **commercial property market showed a significant acceleration** in the second half of 2005. The **rise** in investment demand is **also** particularly **evident in the retail sector.**

Investment yields have generally stopped falling (except for slight falls in Mumbai). Rises in capital values are strong, though now only matching that of rental increases, as investors take notice of interest rate rises by the central bank. But interest rates remain at historically low levels and investor demand is expected to remain firm. The main buyers of real estate assets are domestic real estate companies and private individuals, while interest from foreign investors is gradually increasing.

In the rest of emerging Asia, commercial property investment turnover is generally rising except for Jakarta where turnover fell back in the latest survey period. Investment yields are also on a gradually rising trend, reflecting the tightening in interest rates. However yields are still slipping back in Kuala Lumpur because of the strengthening real estate investment trust market. Domestic financial institutions and real estate companies are the most active buyers of property in emerging Asia though foreign investors are more active in Bangkok and Kuala Lumpur.



Developed Asia and Australasia

Adelaide	Seoul
Auckland	Singapore
Brisbane	Sydney
Hong Kong	Taipei
Melbourne	Tokyo
Perth	

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Developed Asia and Australasia

Key findings

- **Business property demand firm across industrialised Asia, while low interest rates spark investment boom**
- **Higher interest rates in Australasia cool occupier markets but investment interest still strong**

Occupier market

The **Japanese** economy showed increased vigour in 2005, with the domestic economy increasingly taking over from exports as the main driver of growth. The much improved balance sheet position of firms has led to rising employment and the largest jump in investment spending since the 'bubble' period of the late 1980s. This positive growth has also been reflected in the **property market.**

Business demand for space rose strongly in the latest survey period, **up across all sectors,** as opposed to only office space in the previous survey. However, **rents are only up in the office sector** and little changed for the retail and industrial sectors.

The **Korean** economy is rebounding from the household credit crisis of 2002, with consumer spending rising firmly in 2005, while business investment has been strong. The economy has also been supported by rising exports, though interest rates have risen as the central bank seeks to cool activity and limit growth in house prices. **Property demand rose moderately** in Seoul, although predominately focused in the office sector, while rents are also on the rise.

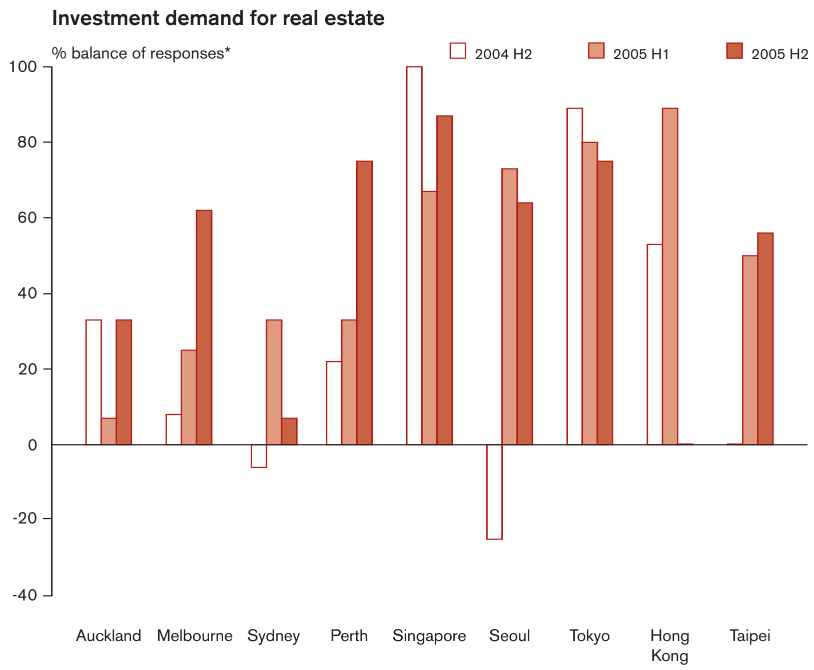
In **Hong Kong economic growth was very strong** in 2005 with unemployment falling to a four-year low. However, the housing market has moderated as interest rates have risen, which may temper the domestic economy. **Occupier demand for commercial property is still rising firmly,** led by the office and industrial sectors, while tightening supply is propelling rents higher.

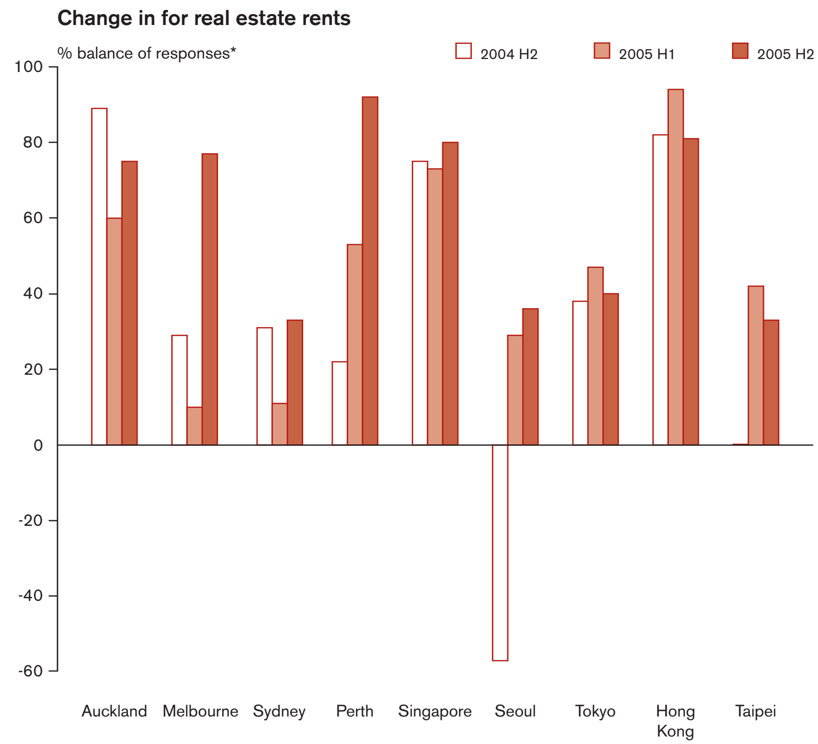
The **Singapore** economy grew rapidly in 2005 with a pick-up in momentum seen in the manufacturing sector, helped by a further strengthening in exports. Unemployment hit a four-year low by the end of the year, though inflation pressures are now emerging. **Occupier demand for space is rising firmly** still as are business rents.

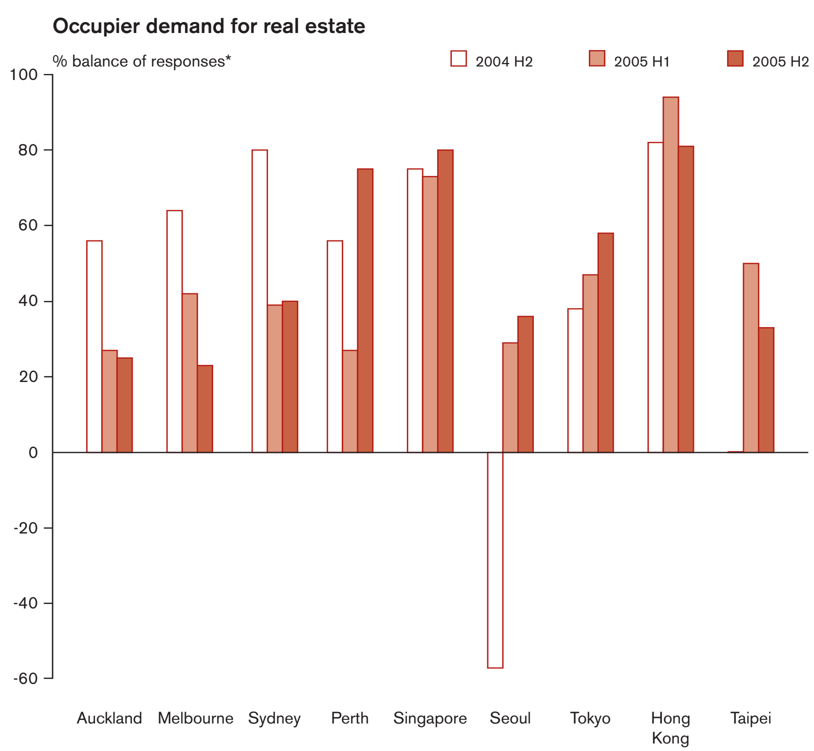
The **Taiwan** economy has been picking up speed through 2005, driven by rising consumer spending and exports. However, household confidence is fragile due to rising interest rates and higher debt levels, and business sector investment is soft. **Business property demand is rising at a slightly slower pace** than the previous survey, as are rents, though notable strength is evident in the office sector.

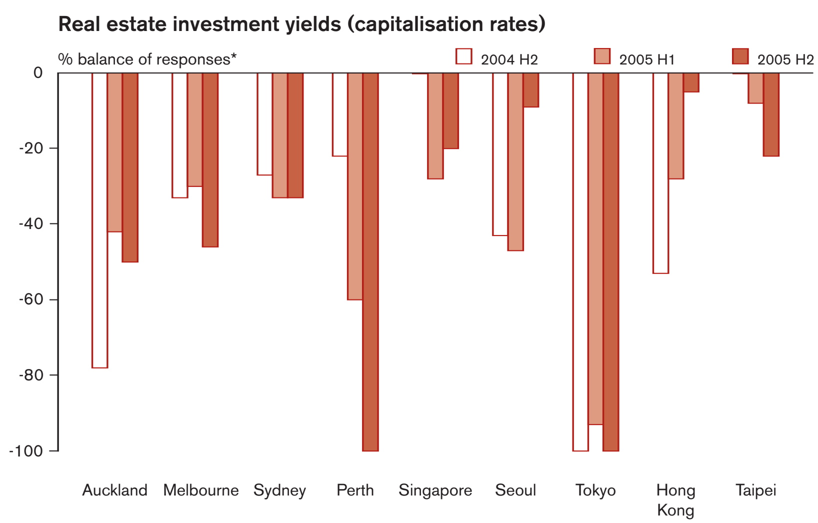
The **Australian** economy has been slowing in 2005 due to a slowdown in consumer spending. Households have become more cautious of the negative impact of higher interest rates, though the housing market has achieved a soft landing. **Business investment is robust** and the labour market remains in a good state even though job creation has slipped. Overall, **business demand for commercial real estate is rising moderately,** with office demand strong but a flatter market apparent in the retail sector. With available space falling, rents are generally rising. Occupier property demand is rising at a slower pace in Sydney and Melbourne than in Adelaide, with the resource boom fuelling demand in Perth.

The **New Zealand** economy responded to a series of interest rate rises during the past two years, with moderating business investment and housing demand. The domestic economy has retained some strength with consumer spending still firm and unemployment at a near 20-year low. The more subdued economic climate has led **business property demand** to show **only moderate rises** in the past 12 months, though **tight availability of space** is still **pushing rents higher.**









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H1 – first half
H2 – second half

Developed Asia and Australasia (continued)

Investment market

Investment activity in the commercial property market is rising strongly in the countries of developed Asia, with the **only exception** being **Hong Kong** where activity has shown some signs of levelling as interest rate hikes have taken some momentum of the market. Elsewhere interest rates generally remain at low levels (despite some tightening of policy across the region). Investment yields are still falling strongly in the Tokyo market, where domestic institutions, real estate companies and foreign buyers are very active.

In most other locations there have been modest falls in yields though in Hong Kong rising interest rates have led to a stabilisation, having fallen in the previous six month period. In **Seoul,** the **investment market** is still **firm** despite attempts by the government to cool speculative activity, while **the Taipei market is being supported by the** introduction of **real estate investment trusts.**

In Australia, investment activity showed a further moderate rise in the latter half of 2005, and overall demand conditions are still very firm. Most centres are showing rising investment turnover with the exception of **Sydney** where **activity has stabilised.** However, investment yields are falling across all cities as investors continue to re-rate the market, with domestic financial institutions and real estate companies the most active buyers. High interest **rates have not dented** investor **demand** for real estate assets in **Auckland,** though looking ahead, investment activity is expected to plateau.

North America

Atlanta	Miami
Austin	Montreal
Baltimore	New York
Chicago	Philadelphia
Fort Lauderdale	San Francisco
Houston	Toronto
Jacksonville	Vancouver
Los Angeles	Washington DC

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North America

Key findings

- **Occupier markets take hurricanes and high oil prices in their stride**
- **Investment demand strong but market activity may feel impact of rising interest rates**

Occupier market

Occupier demand in the commercial real estate markets increased in the second half of last year as the **United States** economy weathered the disruption from hurricanes Katrina and Rita as well as higher energy prices. A pick up in the pace of growth in all real estate sectors on the east coast offset a mild slowdown in the west. Nevertheless, **overall occupier demand conditions** are still **improving across the country.**

The US economy has shown solid expansion, underpinning occupier demand for real estate. The unemployment rate is holding at below 5%, with employment growth returning to a brisk pace after the hurricane disruption of last year. The dominance of private sector job creation in the past 18 months is especially encouraging.

Business investment also **remains strong** with **robust growth rates in non-residential investment.** However, there are signs that business investment growth is weakening somewhat which will contribute to slower economic growth in the second half of 2006. Also, the Federal Reserve campaign to 'normalise' interest rates is likely to cool the housing market and consumer spending.

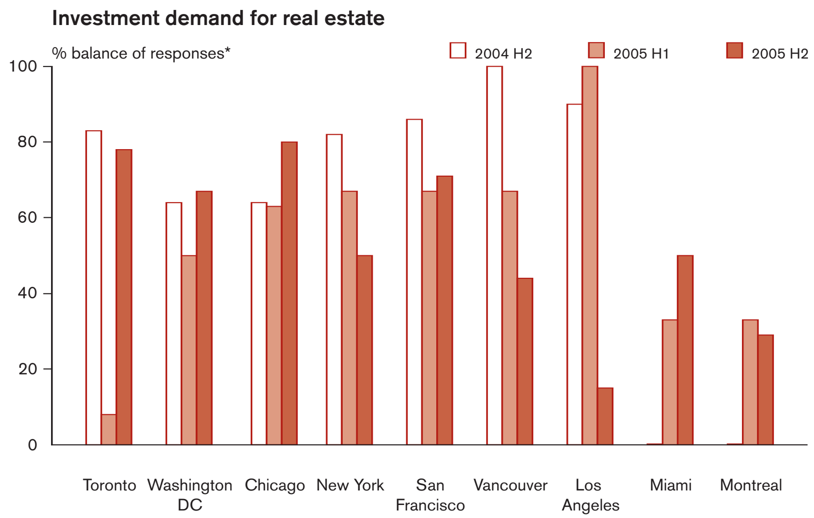
With a strong take up of space by occupiers, the **availability of real estate continued to fall** across the country, which has boosted rental growth compared to 18 months earlier. The falls in available industrial space accelerated across the country, giving a noticeable lift to rents as demand has firmed. A similar picture is evident in the office sector too.

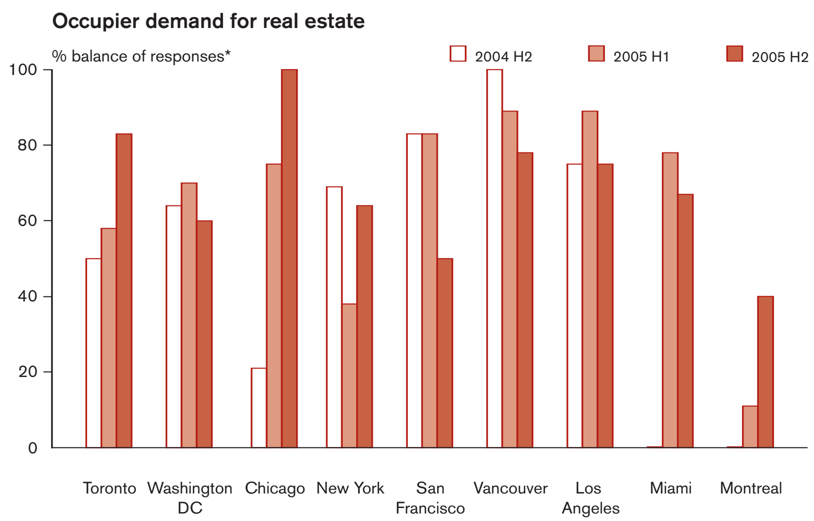
In the retail market, occupier demand is strong though available space slipped slightly compared to the previous survey period. Looking ahead respondents expect a robust climate for occupier demand and rents to be maintained over the spring and summer months.

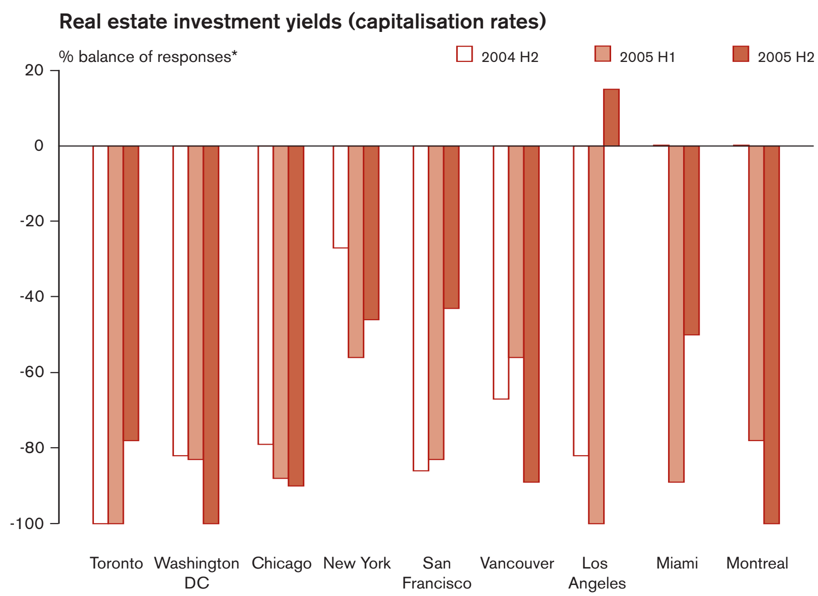
The **Canadian commercial property market underwent an improvement** in the second half of 2005. **Occupier demand** was **rising strongly** in all cities surveyed. **Rents** also **picked up significantly,** building on previous gains in Vancouver and Toronto and reversing previous modest declines in Montreal.

The property market has been helped by the continued strength of the Canadian economy. High commodity prices and brisk US economic growth have allowed the economy to cope with a very strong Canadian dollar, with Vancouver benefiting from resource based demand.

The central bank has kept inflation under control and the fiscal position of the country is sound. Activity is expected to remain close to potential as a very open economy benefits from strong global growth. Indeed, **respondents are positive about occupier demand and expect rents to continue rising firmly.**







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H1 – first half
H2 – second half

North America (continued)

Investment market

Investment market turnover continued to rise in **the US**, though the pace of expansion fell for the second six-month period in a row for both offices and retail property. In the **industrial sector, demand increased at the same pace as the previous survey.** Investment interest remains good though respondents report that yields (capitalisation rates) are not falling as quickly as in the previous two surveys, and have stabilised in the Los Angeles market. **Capital values continue to rise** robustly across all cities surveyed. Domestic financial institutions, real estate companies and private individuals have all been active buyers of real estate assets, with foreign purchase interest also good.

Future investment demand is likely to be tempered by rising long-term interest rates, which are now starting to respond to the ongoing monetary tightening cycle instigated by the Federal Reserve. With economic growth solid, capacity utilisation above its long run average and energy prices still high, further interest rate rises are likely. Respondents are expecting milder rises in investment activity during the next six months, while the growth rate of capital values is also expected to slow.

In **Canada, investment turnover picked up** after a period of slower growth in the first half of 2005. Investment yields are still falling rapidly, with capital values up at a strong pace. The strength of the domestic economy is displayed by the dominance of purchasing activity by domestic real estate companies and financial institutions during the second half of last year. **Capital values are expected to continue rising** at a firm pace over the spring and summer months, though **investment turnover is expected to rise at a more modest rate.**

Emerging Europe

Bucharest	Podgonica
Budapest	Prague
Istanbul	Sofia
Kiev	St Petersburg
Moscow	Warsaw

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Emerging Europe

Key findings

- **New and prospective EU entrants report solid occupier market activity**
- **Investment market still hot as yields plunge**

Occupier market

Commercial property markets across the new entrants to the EU continue to perform very well. Occupier demand in Budapest is rising having fallen in the first half of 2005, while rents are rising modestly after a year of stasis. **Hungary** is benefiting from rising economic growth and lower inflation. Inflation is falling due to large reductions in indirect taxes, which in turn is raising real incomes. **Demand is rising** after a series of interest rate reductions during 2004/05 which has led to a revival in exports and investment.

Inflation in the **Czech Republic** has been subdued by the strength of its currency. The central bank has indicated its discomfort with the present exchange rate, increasing the likelihood of further interest rate reductions. Despite recent strength in the exchange rate, reductions in personal-income tax should sustain economic growth, as should rising exports. **Occupier demand for space is rising** very firmly in **Prague,** particularly in the office sector, although **rising availability of space is preventing rents from picking up.**

The **Polish** economy is expanding with economic growth primarily driven by increased investment now that uncertainty about last year's elections has receded. Inflation and wage pressures remain subdued with concern about the strong currency leading to a reduction in interest rates after a long pause. **Occupier demand for property is rising firmly in Warsaw** but **rents remain under** some **downward pressure** in the office and industrial sectors as space for occupation rises.

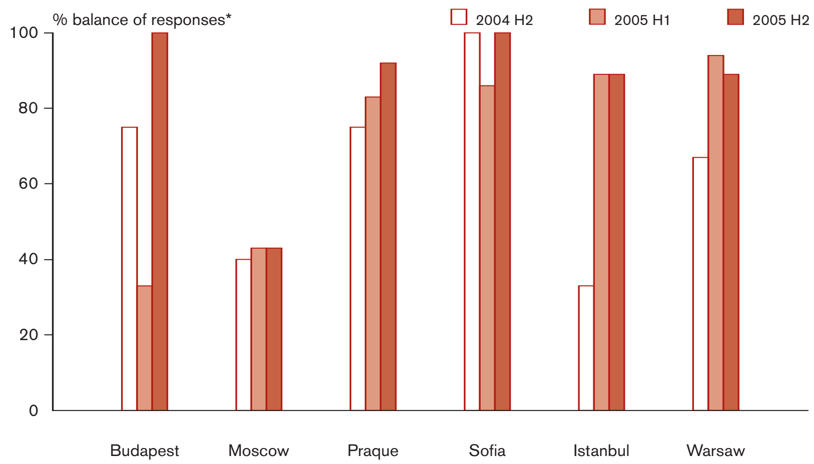
The countries of **Emerging Europe** which are **not in the EU** are also **benefiting from strong commercial property markets.** Russia's strong economic growth has continued in recent quarters, reaching an annual rate of 7% in the third quarter of 2005, though overall growth is down from 2004. **Russia** has used the funds generated by high energy prices to pay down external debt and has established a stabilisation fund. Respondents **reported firming occupier demand for space in Moscow** which is **steadily raising rental levels** amid **rising availability of space** in the market.

Economic growth in **Turkey** remained strong in 2005 but is down from the blistering pace in 2004. High energy prices have not been a blessing for Turkey, which has one of the most oil dependent economies in the world. These have helped widen Turkey's current account deficit which some see as a threat to stability. However, much of this deficit is explained by large increases in investment. **Occupier demand for property continues to rise rapidly** with **rents** also **showing sharp rises.**

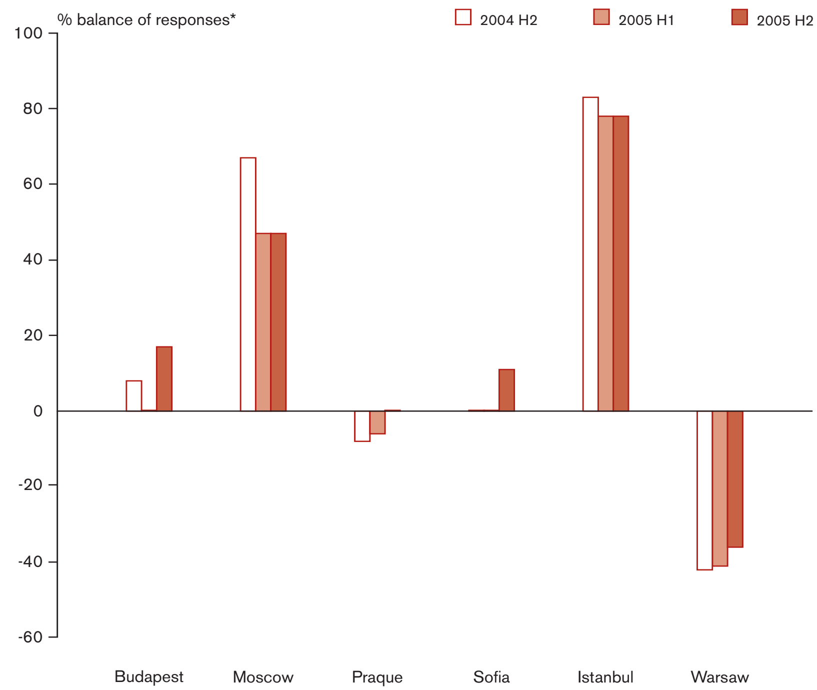
Investment market

Investment turnover activity continued to surge upward for **the new members of the EU.** For **Warsaw, Budapest and Prague, investment activity accelerated** in the latest survey period, up from already strong levels in the previous survey. With investment demand climbing, prices are also rocketing across the region. EU entry seems to have been the catalyst for these booming markets as **foreign purchasers of commercial property in all these countries** are **fighting for limited available product.** Respondents expect the pattern of rising demand and capital values to continue, with rising interest rates in the euro area not expected to impact significantly on the investment market.

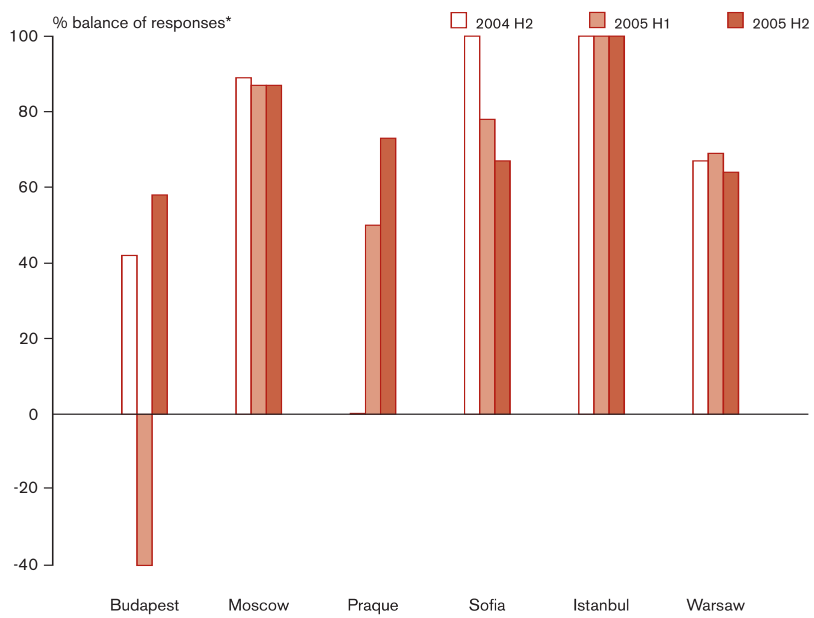
Investment demand for real estate



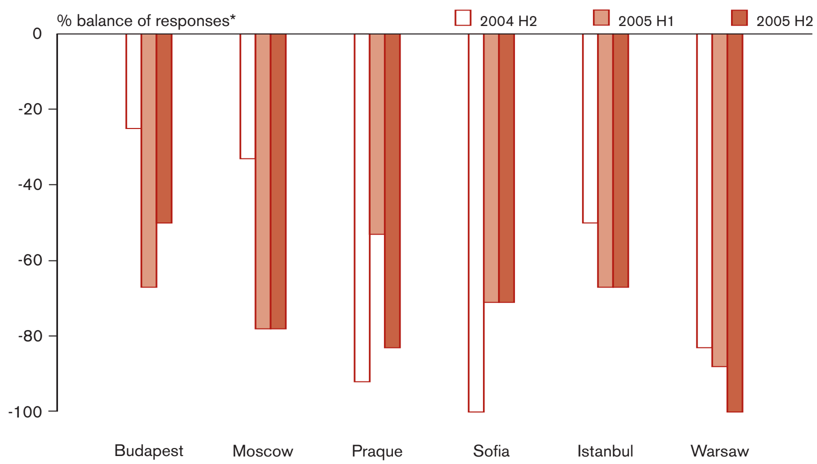
Change in real estate rents



Occupier demand for real estate



Real estate investment yields (capitalisation rates)



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H1 – first half
H2 – second half

Emerging Europe (continued)

Investment demand in the non-EU European countries remains good, though growth in investment turnover was not as strong in Turkey as the previous survey. Nevertheless, investors continue to push-up commercial property values with investment yields tumbling across all markets.

Foreign entities and organisations are the **dominant buyers in Istanbul,** with confidence underpinned by the prospect of eventual entry into the European Union, but also economic stability. In Moscow, moderate rises in investment turnover has been reported, though yields are coming down still steadily. The **main buyers of Moscow real estate** continue to be **domestic private individuals and owner-occupiers.**

Western Europe

Amsterdam	Helsinki
Athens	Lisbon
Barcelona	London
Berlin	Luxembourg
Brussels	Madrid
Cardiff	Milan
Copenhagen	Munich
Dublin	Nicosia
Dusseldorf	Paris
Edinburgh	Rome
Frankfurt	Stockholm
Geneva	Vienna
Hamburg	Zurich

Western Europe

Key findings

- **Steady upturn in occupier markets as business confidence improves**
- **Investors remain positive on investment market, sustained by low market interest rates**

Occupier market

For the **Euro area,** business demand for commercial property showed a moderate upturn in autumn and winter, putting behind a slowdown apparent during the previous six months. Nevertheless, **demand conditions are generally more subdued than other major industrialised regions** such as North America and Developed Asia.

The increase in property demand in the latter half of 2005 mirrors the better labour market climate, with unemployment at the turn of the year at its lowest in three years. There are few concrete signs of a turnaround in consumer spending, however, as income growth remains muted and firms attempt to improve competitiveness. The main impetus to growth is the export sector and rising business investment, supported by still low interest rates

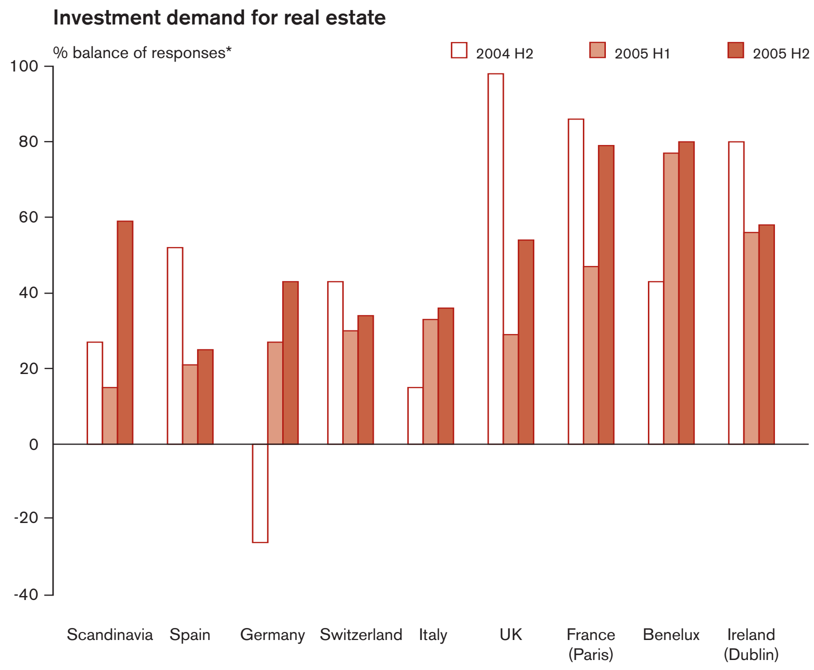
In **Germany,** a further **strengthening in property demand** has been evident **as optimism in the business sector has accelerated.** The **office and retail sectors** have **led the way,** but relatively high vacancy rates mean that rental levels are steady. Moreover, with the turnaround in the domestic economy still slow as witnessed by falling employment levels, confidence in real estate market prospects has cooled since the previous survey.

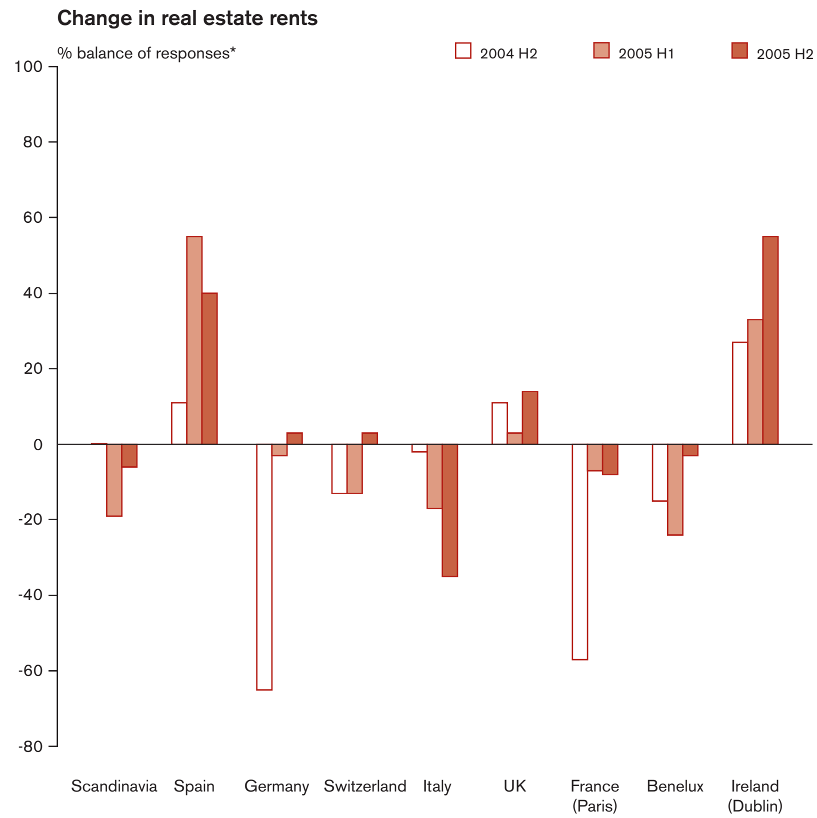
Property demand has **accelerated** further in **Spain,** sustaining very robust market conditions as the economy and the labour market power ahead. Despite rising interest rates posing a threat to the domestic economy, there are promising signs of re-balancing as business investment and manufacturing activity pick-up.

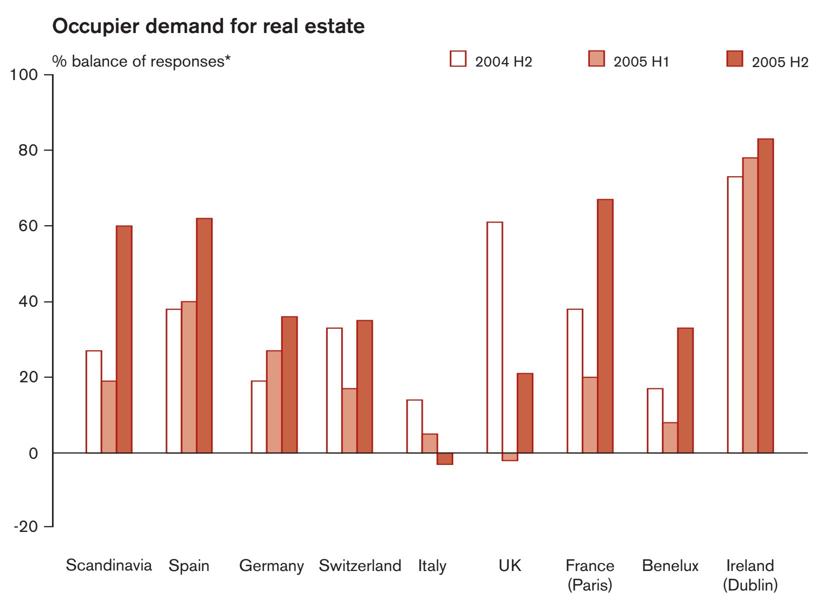
The **labour market** is generally **improving in France,** and this **has** been **reflected in better property demand in Paris,** particularly in the office sector. Strong competitive pressures have meant imports from Asia are rising strongly but low interest rates are fuelling borrowing and supporting domestic consumption.

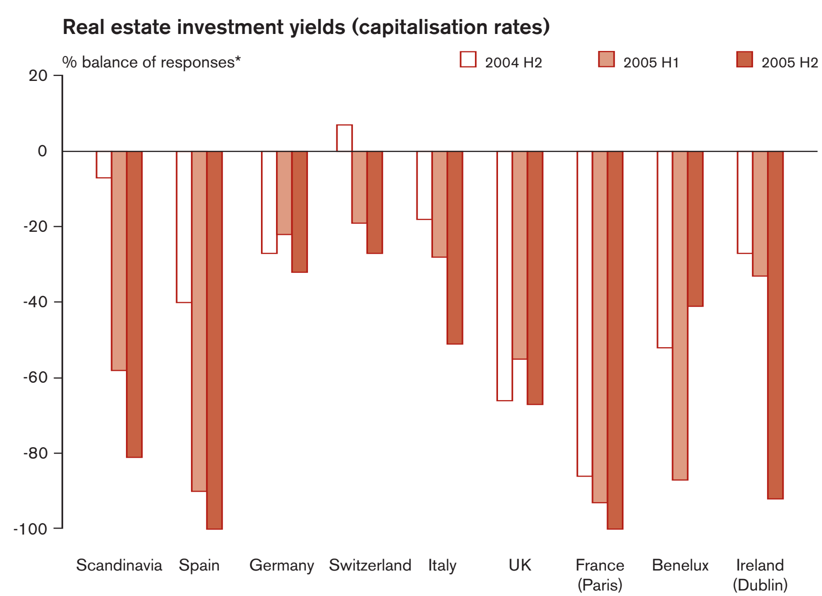
Rents are rising in the office and retail markets but still in **decline for the industrial market.** Ahead of general elections in **Italy, business property demand has been static** and **rents falling.** The economy remains mired in stagnation though corporate confidence is now rising. Signs of better economic conditions are apparent in recent months but in the long-term higher competitiveness requires that costs pressures be contained.

The **Irish** economy continues to grow strongly supported by pre-election spending likely to result in small budget deficits during the next two years. **Property demand in Dublin continued to rise,** with constrained availability of space pushing up rents. Economic growth in **Belgium** is likely to be moderated by rising euro area interest rates. **Property market conditions are generally flat** in Brussels with the exception of a rising retail market. In **Holland,** the economy is strengthening as private consumption and investment recover, with **occupier property demand in Amsterdam improving** after several years of weakness.









* Figures do not show percentage change, only the balance between respondents reporting a rise or fall
H1 – first half
H2 – second half

Western Europe (continued)

In the **UK, demand for business property and rental levels picked up moderately,** helped by a turnaround in the economy. The upturn was led by the office sector which benefited from strengthened service based activities as financial markets leapt in the past year.

A **similar trend** for business property is also **evident in Switzerland** though rents are static after showing falls previously. The Swiss economy is benefiting from rising exports and low interest rates. In Stockholm business property demand has accelerated across most sectors as the domestic economy shows solid growth, including consumer spending and business investment.

Investment market

Investment activity in the **Western European** property market rose across all locations in the latest survey period, **matching growth** in **North America,** having lagged behind in the previous survey.

Sustained low interest rates in the past year have fuelled rising demand for commercial real estate, with asset values being re-priced firmly upwards. Most markets have seen increased dynamism in the latest survey period despite rising short-term interest rates in the euro area. Purchase activity is strongest from foreign investors while financial institutions continue to show firm interest.

Investment activity in **Spain** has sustained **very strong levels, though** is **not rising as quickly** as elsewhere in the euro area **due to a lack of buildings on the market. Market activity** is more **dominated by institutional investors** with activity from real estate companies not as strong as in the previous survey.

Investment activity in **Germany** is rising, but **domestic players are still cautious** (particularly institutional investors) while **foreign purchase activity is firm.** The **Paris investment** market has accelerated sharply, **led by foreign investors.** In **Italy, investment demand** is **picking-up,** with greater purchase activity from foreign investors and domestic financial institutions. The **UK market** is once more **showing a strong rise in investment demand by domestic institutions and real estate companies.**

Latin America

Buenos Aires
Lima
Mexico City
Santiago
Sao Paulo

RICS

Latin America

Key findings

- **Business demand for commercial property rising**
- **Investment yields remain static**

Occupier market

Business demand for commercial property rose in the major economies of **Latin America** in the second half of 2005 though the pace of growth has slowed. **Tighter availability of real estate on the market,** however, is still **helping to lift rental levels.**

After a strong start to 2005, the Brazilian economy has been slowing throughout the year. The currency has risen to historic levels due to tight fiscal policy and high interest rates which have reigned in business and household spending. However, employment is rising briskly which has sustained demand for commercial property from occupiers and resulted in raised rents. Central bank worries that a strong currency is beginning to slow the economy have prompted a recent interest rate cut. This should exert downward pressure on the currency and partly shift economic activity towards domestic consumption.

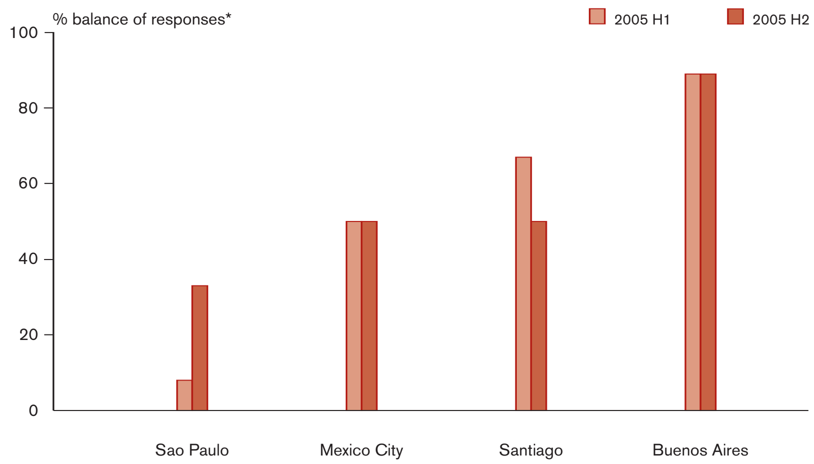
The Mexican economy also performed well during 2005, though the economy slowed through the year as relatively high interest rates have curtailed demand despite a cut in the second half of the year. Business occupier demand showed a muted rise and rents were little changed, slowing from slightly from the previous survey. The economy is expected to grow more strongly during 2006 buoyed by rising exports to the United States and further interest rate cuts.

The Argentine economy grew very strongly during 2005 as it continues to recover from the 2002 financial crises. The economy is being supported by extremely loose fiscal and monetary policy, with unemployment sustaining a clear downward trend though still at relatively high levels. As such, occupier demand for real estate is rising and generating higher rents amid declines in available space on the market. The combination of an artificially low exchange rate and loose fiscal policy is causing inflation to rise into double digits as private consumption and exports soar.

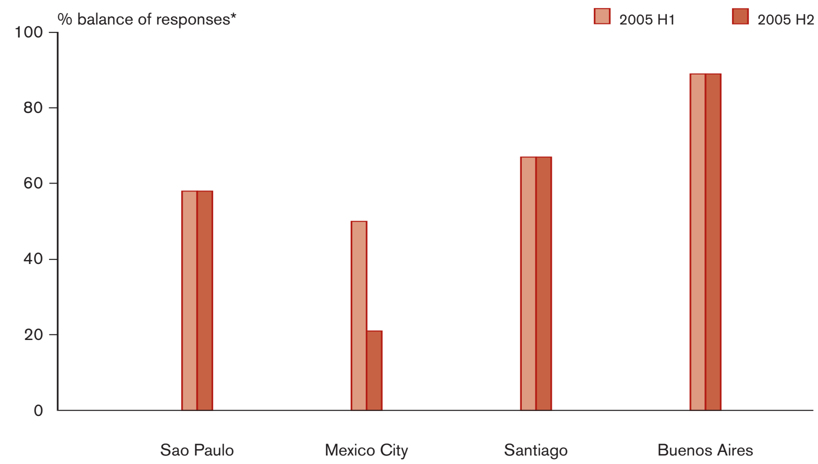
Investment market

Investment activity in the major economies of Latin America picked-up speed though investment yields generally remain little changed. In Sao Paulo investment turnover rose slightly, improving from the previous survey, but investment yields were static. Investment buying is dominated by domestic real estate companies and private individuals, with only luke-warm interest from foreigner investors. In Mexico City, investment demand is firm and yields have slipped back slightly. Investor demand rose considerably in Buenos Aires across all areas and all types of investors, pushing up capital values. Nevertheless, investment yields are also rising indicating that investors are cautious of the economic rebound amid a high inflation climate.

Investment demand for real estate



Occupier demand for real estate



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H1 – first half
H2 – second half

Africa and Middle East

Cape Town
Dar es Salaam
Dubai
Durban
Gaborone
Harare
Johannesburg
Manama
Nairobi

Africa and Middle East

Key findings

- **Growth in occupier demand remains strong**
- **Investment activity rising moderately**

Occupier market

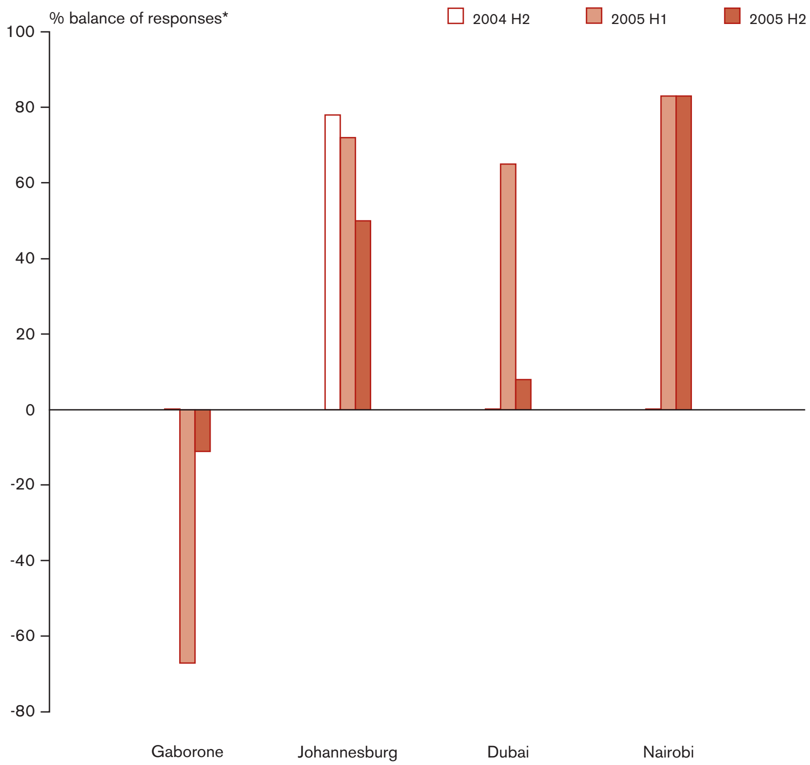
Following a prolonged expansion since 1999 the South African economy is beginning to moderate although inflation continues to rise. Economic growth during 2005 was mildly lower than in the previous year primarily due to a slowdown in the housing market, but nevertheless is still solid. The rate of growth in occupier demand for office and industrial space continued to rise during the second half of 2005 from already high levels, supported by a buoyant labour market. There are tentative signs that demand for retail space picked up in the second half having been flat in the previous survey.

Dubai has grown impressively during the last four years buoyed by high oil prices and a solid macroeconomic framework. Sustained liberalisation of key services and financial sectors continue to attract foreign investment and have reinforced Dubai's position as a regional financial hub in the Gulf. Growth in occupier demand remains strong across all sectors, contributing to strong upward pressure on rents. Moreover, available space is becoming increasingly scarce, particularly in the office sector. However, respondents have commented that the pipeline of development is large, with space coming onto the market expected to rise.

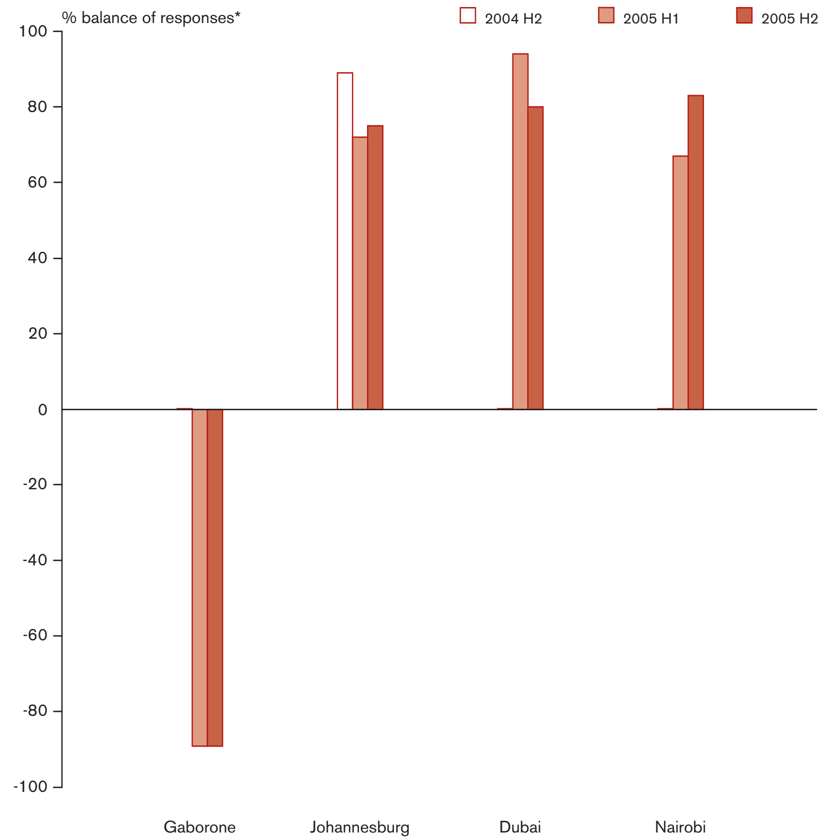
Investment market

In Johannesburg, commercial property investment turnover rose moderately in the latest survey period while capital values increased strongly as yields fell. Demand from domestic real estate companies and private individuals is strong. Investment turnover in Dubai has stabilised after a strong rise in the previous survey. Yields are generally nudging higher, though capital growth is very firm due to the support of rising rents. Respondents are expecting investment activity to rise moderately in the next six months. High levels of liquidity generated by oil wealth has led to some concerns that the real estate market is overheating, while a recent slump in the stock market may further temper demand.

Investment demand for real estate



Occupier demand for real estate



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H1 – first half
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Page 11 – Taipei 101, Taipei

Page 15 – Chrysler Building, New York

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Page 23 – Guggenheim Museum, Bilbao

Page 27 – Torre Mayor, Mexico City

Page 31 – Burj Al Arab, Dubai.

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