NAI Global®

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Economic Woes Take Toll On Global Property Markets

Weakening economies in major cities and countries, led by turmoil in the U.S. financial markets, are beginning to take a visible toll on commercial real estate markets around the world. Commercial real estate fundamentals are beginning to show signs of stress as corporate space users pull back or defer decisions on expansion plans, and investors wait on the sidelines. With some exceptions, the result is slightly higher vacancy rates and flat to weakening rental rates in most major markets worldwide.

The leasing market is faring better than the investment market in most regions as tenants/occupiers have leases expiring and have to make decisions. However, investors are still waiting for the perceived "bottom" of this down cycle. Investment activity is off by 30 percent or more in markets that set records for both activity and pricing only a year ago. Financing remains scarce, but considerable equity is amassing for commercial real estate investment, indicating the bottom may

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Major Banks Ponder Refinancing Questions

With the world's largest banks facing uncertainty over their level of exposure to commercial real estate debt, the industry has been forced to confront some difficult questions in recent months.

One recent study from the De Montford University in the UK estimated that global banks are exposed to as much as £250 billion of UK commercial real estate debt, with £121 billion of it needing to be refinanced by 2013. "The banks need to be pretty active in the second half of 2008," stated Alan Carter, head of European real estate at Citigroup.

"I would be surprised if more than 15 percent of that figure has been refinanced in 2008." The level of exposure could exceed the banks' equity, putting

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German Property Funds Are Back In Action

Jürgen Troissner
Head of Research
NAI apollo

After a couple of years of inactivity, where they registered a net outflow of capital, the large German open-ended property funds are now firmly back, investing in major commercial property assets from Helsinki to Lisbon.

"In 2006 the funds were selling assets," remarked Jüergen Troissner, head of research at NAI apollo in Frankfurt. "This allowed them to accumulate capital and has put them in a very strong position now that other buyers are out of the market. German investors have found themselves in demand, both domestically and internationally."

Net inflows of €6.68 billion in 2007, with more in 2008, have allowed the

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As Economic Ripples Continue Outward, Funds Amass to Move At First Sign of Upturn

A Letter from the President

When the USA credit market buckled in August of 2007 it was difficult to foresee just how far and wide the ripples would be felt. But now, one year later, it is clear that the ripple would touch the world. Even the most buoyant markets have not been immune to the great credit strike of 2008. While the construction lending spigot has shut off and the terms for investment grade debt have become much more expensive in the Western world, the emerging East is beginning to feel the pinch. Even the booming BRIC countries are starting to slow due to the combined reduction in Western demand and the higher cost of capital. But with the cycle opportunities are created. To seize this unique moment, billions are now being amassed in funds ready to pounce once the perceived bottom has been reached.

Interestingly, in this cycle the problem was primarily one of structure and not one of fundamentals. Going into the downturn with a relatively tight supply-demand ratio, the economic slowdown and the layoffs in the construction and financial services sector are not expected to create as severe an overbuilding as has occurred in past cycles or in the current residential market sector. Indeed, with the halt of new construction and the slowed but still growing global economy, we anticipate markets to accelerate with surprising vigor when the credit markets normalize late in 2009 and early 2010. For now we see the first markets into the downturn to be the first to recover, while those still buoyant but slower growing emerging markets will find the wind at their backs once again as the West gets back on its feet.

It is always a challenge to call the bottom of a market cycle; we believe that we will be in a bottoming phase during the next 12 months, creating outstanding mid- and long-term investment opportunities for aggressive, well-capitalized investors. During this phase, the pressure of the credit markets will bring “Ask” prices in line with “Bids” and force increased liquidity at appropriate levels given current sentiment. And as the sentiment begins to move away from Fear and back toward Greed, handsome returns will be realized by those investors with the risk tolerance to make early moves.

In this issue you will find numerous profiles of exciting long term growth markets and valuable services to tap as you pursue global corporate and investment real estate strategies. Thank you for taking the time to review this edition of Property Advisor. As you pursue your real estate strategies, locally and globally, we stand ready to help you navigate the course.

Regards,

Jeffrey M. Finn
President & CEO
NAI Global

Look For NAI Global At These Upcoming Events

Expo Real	October 6-8, 2008	Munich, Germany
SIOR	October 30 - November 1, 2008	Minneapolis, Minnesota USA
CoreNet Global	November 9-11, 2008	Orlando, Florida USA
MAPIC	November 19-21, 2008	Cannes, France
ICSC	December 8-10, 2008	New York, New York USA
SIMI	December 3-5, 2008	Paris, France

Sovereign Wealth Funds Find Bargains in Office Investment Market

At a time when the office markets of New York and London are suffering from a dearth of investment activity, a handful of high profile acquisitions by sovereign wealth funds have stood out in recent months as reasons to be cheerful.

In July, the news that the Abu Dhabi Investment Council had taken a 90 percent stake in the Chrysler Building–the 77-story Art Deco office tower in New York City—for $800 million, added further impetus to the market after the GM Building, at the southeast corner of Central Park, had sold a month earlier to a consortium of investors including Dubai private equity fund Meraas for $2.8 billion.

Despite sluggish activity in the U.S. office investment market, this was the highest price ever paid for an American building and helped to confirm Middle Eastern investors as a significant force in U.S. real estate ownership, despite general market conditions being turbulent. "We anticipate another 12-18 months before the market stabilizes again," stated Andrew Simon, Executive Managing Director in NAI Global’s New York City office.

Sovereign wealth funds from the region had already played a pivotal role in rescuing a number of U.S. banks in the wake of the sub-prime mortgage collapse, investing billions of dollars in companies including Merrill Lynch and Standard Chartered, which sold a 12 percent stake to Singapore's Temasek Holdings for $4 billion. Temasek has also acquired shares in the UK-based Barclays Bank.

The most important and best capitalized sovereign wealth funds are the Saudi Arabian Monetary Agency, with reported assets in excess of $300 billion, the Kuwait Investment Authority ($250 billion) and the Qatar Investment Authority ($60 billion), while the Norwegian and Iranian governments both control large investment vehicles.

In London, the most recent major acquisition is the 465,000-square-foot Willis Building in the City of London, bought by the Kuwait Investment Authority in May of this year for $783 million from British Land. This company is developing several large-scale London projects including the 612,000-square-foot Leadenhall building and has seen its share price fall in the wake of the credit crunch. The sale of the Willis Building once again provided welcome respite from tough conditions.

Qatari-based sovereign wealth funds are financing the development of the so-called Shard of Glass building in London, as well as the redevelopment of Chelsea Barracks. They are also understood to be pursuing British listed property companies, including Gazeley and Minerva.

Although some in the finance industry have expressed concerns over the emergence of sovereign wealth funds in New York and London, one UK lawyer argues that there is no reason to fear them. "Rights for occupiers are enshrined in leases, and it does not really make a difference who the owner of the building is," said Simon Price, a partner at Herbert Smith. "They are not dependent on high levels of debt and have strong sentiments for the UK market and the opportunities that falls in value have to offer." Price believes that traditional investors in UK commercial property may re-enter the market in mid-2009, but "the impact felt by sovereign wealth funds is likely to be a significant driving force in the market for some time to come."

Photo Courtesy of CoStar Group

Chrysler Building, New York City

NAI Global Forms International Advisory Group in NYC

NAI Global has created a new International Advisory Group in its New York City office to provide specialized services to international companies, governments and investors with activities in the U.S.

Gil Robinov
Executive
Managing Director
NAI Global New York City

The group is led by Executive Managing Director Gil Robinov, a New York City commercial real estate veteran with extensive experience representing international companies and governments in New York City over the past 35 years. Robinov has represented over 45 foreign governments and international organizations in New York while building a resume that includes over 25 million square feet of leased space for Fortune 500 corporations and major institutions, as well as exclusive leasing agencies of more than 100 Manhattan office buildings. He is uniquely qualified in dealing with the intricacies of commercial condominium transactions involving security, U.S. State Department approvals, construction, real estate tax exemptions, financing, diplomatic immunity and other complex issues.

In addition, Philip Silverstein and Shigeru Matsui, two of New York's most prominent real estate advisors to Japanese corporations and investors, have joined NAI Global as Directors of a new Japan Desk that is being formed within NAI's International Advisory Group.

"Japan is the second-largest economy in the world, and the new Japan Desk is a natural growth and extension of the international properties expertise in our New York City office," said Jeffrey M. Finn, NAI Global President & CEO. "Silverstein and Matsui offer clients an insider's perspective, deep relationships with property owners and developers across the market, and the reputation and sensibilities critical to bridging the gap between Japanese and American culture." The New York City Japan Desk will act as a gateway for Japanese clients entering the United States as well as U.S. clients wanting to access Japan. The team will work closely with NAI Japan and other U.S. offices with Japanese-oriented business development activities.

Matsui brings more than 50 years of commercial real estate knowledge and expertise to NAI Global. Born in Japan, he has extensive client relationships across the New York City and Tokyo markets, including companies like Nissay, Mitsukoshi, Fuji Television and Sushiden. Prior to joining NAI Global, Matsui was President of Kowa, a major Japanese real estate investment company in New York City, and was a director at Murray Hill Properties. As Director of the new Japan Desk, Matsui focuses on client development, customer service and relocation services.

Shigeru Matsui
Director - Japan Desk
NAI Global New York City

Silverstein brings seven years of experience in commercial real estate to his new role, building on more than 15 years in international business. Previously serving with Murray Hill Properties and fluent in Japanese, Silverstein has completed more than 750,000 square feet in transactions. He holds a bachelor's degree from Colgate University and is a member of the Real Estate Board of New York. As Director of the new Japan Desk, Silverstein focuses on business development, lease negotiation, tenant representation and general brokerage services.

"Silverstein and Matsui are truly the best of both worlds, complementing each other's strengths in terms of working with clients, and NAI Global strengths in international real estate," said Gil Robinov, Executive Managing Director and head of the International Advisory Group in NAI Global's New York City operation. "Bringing this new team aboard strengthens our presence in New York, but also, through NAI's global network, positions them to work with clients throughout the U.S. and Tokyo. Their diverse and extensive backgrounds and dedication to client service help raise our Japanese practice to an elite echelon."

Philip Silverstein
Director - Japan Desk
NAI Global New York City

NAI Asset Optimization Team Helps Lenders Maximize Value of Problem Properties, Loans

Today's difficult capital markets and down economy have turned a number of lenders into de facto property owners and managers as they hold non-performing loans or recaptured properties. Instead of focusing on their core competencies, lending institutions are spending time and money managing, repositioning or disposing these real estate assets, often without the tools or staff necessary to do so. As more properties are reclaimed by lenders and banking institutions, there is an urgent need for a strong partner with the appropriate skills and resources to effectively and efficiently manage the situation.

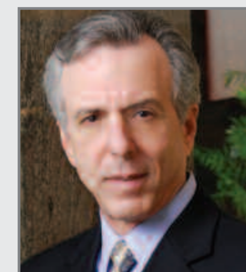
NAI Global has aligned its worldwide member network, investment services and market analytics teams to create Asset Optimization, a new, specialized service offering within its Asset Services group. "Leveraging the diverse experience and capabilities of our international network, as well as our expertise in asset management, work-outs, leasing and disposition, NAI Global is creating new solutions to help distressed lenders find value in their underperforming assets," said Rick Kimball, NAI Global Executive Vice President.

Working with companies of all sizes, from local, community and regional banks to large financial institutions, the success of the Asset Optimization process is based on NAI Global's ability to rapidly research and investigate a lender's current portfolio to evaluate each asset's individual needs. "With this knowledge we are able to begin the diligence necessary to create a unique plan that assesses a property's current and potential value, analyzes local market conditions and trends and defines the long-term strategy for the lender," said Kimball.

Rick Kimball
Executive Vice President
NAI Global

NAI Global's team of experts works with clients from the moment the distressed property or loan hits the watch list, to establish goals, assess risks and objectives and create a customized reporting process. After a thorough physical inspection and discovery, the dedicated Asset Optimization team, with a single point of contact for the lender, conducts structural and environmental studies, produces financial audits and relationship (tenant and vendor) reports, establishes receivership (if necessary) and creates a go-to-market strategy. Key decisions, like buy vs. hold, loan sale vs. property sale, value-add actions and market positioning are made in tandem with the lender and the Asset Optimization team, ultimately resulting in the stabilization of the loan, or disposition or repositioning of the property. The Asset Optimization process is fast, coordinated and confidential, helping lenders to resolve underperforming assets before they become a serious issue.

"The value we provide comes from the combined service offerings available through our global network, our local experts that provide in-depth perspective on more markets around the globe than any other competitor, and our customized approach," said Jerry Monash, NAI Global's Executive Director of Investment Services. "We work closely with our clients to discreetly go through the process of triage management, providing a comprehensive service that allows the lender to return to its core competencies."


Gerald S. Monash
Executive Director
Investment Services
NAI Global

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The Great Capital Strike: Assessing the Impact on Europe & Asia

Markets Across the Globe Feeling Economic Strain

By Dr. Peter Linneman, Ph.D.
Chief Economist, NAI Global
Principal, Linneman Associates

Five years ago we compared the Japanese and German economies to the U.S. and concluded that due to the lack of reforms and inflexibility, both Japan and Germany would face major economic problems, particularly during a large-scale economic downturn. On Germany (the world's third largest economy), we stated that, "In the presence of a government that comprises almost half of the economy, with high taxes, an overvalued currency, rigid markets, and a weak financial system, the outlook is not good for the German economy…." On Japan (the world's second largest economy), we wrote, "The government accounts for almost 50% of the economy directly, Japan continues to bail out bubble mistakes from 13 years ago, making it difficult for entrepreneurial entrants. While Japan offers some investment opportunities, it is a risky place to invest because it lacks fundamental growth drivers."

Unfortunately, in the face of the Great Capital Strike, our prescience has played out. Recent data for both Japan and Germany are very weak. This is in large part because they failed to implement structural reforms during "good times," and now are suffering much more than the U.S. due to their continued economic rigidity.

Europe

Negative repercussions from the Great Capital Strike in the U.S. have spread across the Atlantic. Second quarter 2008 GDP growth rates in major EU nations, including Italy, France and Germany, were negative. The UK eked out positive second quarter growth of a mere 0.037% (0.15% annually). In addition, the EU-15, the EU and the Euro Area all experienced negative quarter-over-quarter growth in the second quarter of 2008, in the face of substantial losses taken by financial institutions.

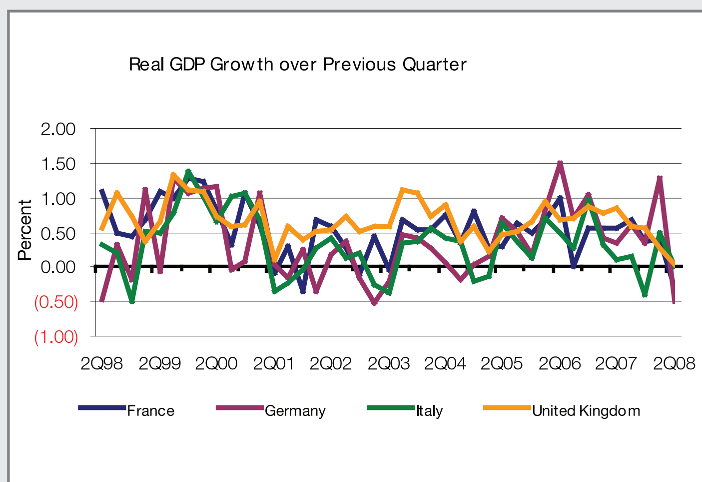
Inflation in Europe is on the rise, driven by abnormal increases in food and energy prices. Annual inflation (all goods) for European countries tracked by the OECD was 4.1% in the second quarter of 2008. However, core inflation, which excludes food and energy prices, was 2.1% for the same period. The same phenomenon also holds for France, Germany, Italy and the UK. Yet the European Central Bank remains fearful of inflation, and maintains its deposit facility rate at 3.25%.

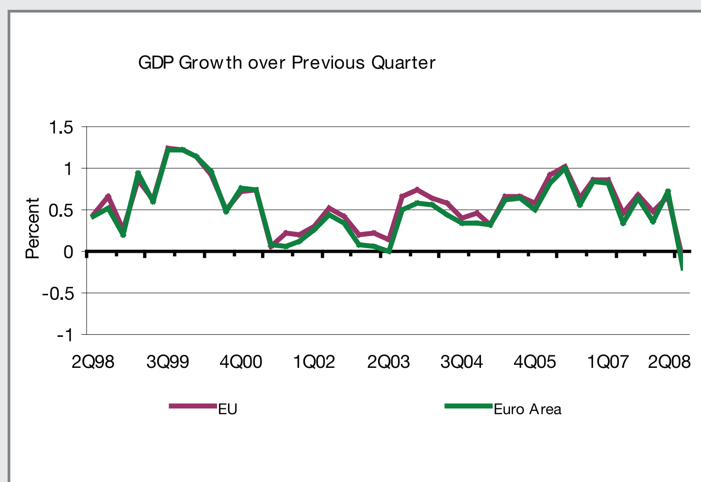
United Kingdom. The Great Capital Strike, burgeoning government spending and inflation are rapidly eroding the UK economy. Real annual GDP growth rates in the UK had not fallen below 2% since the first quarter of 2006. However, the streak was broken in the second quarter of 2008, with 1.4% annual GDP growth. In the first quarter of 2008, UK inflation hit 2.4% (1.2% core), rising to 3.4% (1.5% core) in the second quarter. The pound remains 35-40% overvalued on a Purchasing Power Parity basis against the U.S. dollar. Unemployment rose in the second quarter of 2008 by 10 basis points, to 5.2%, but remains 40 basis points less than early 2007.

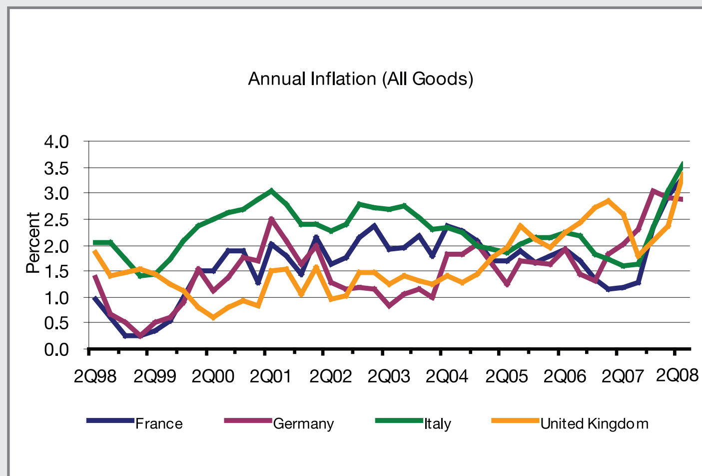
UK banks are victims of the Great Capital Strike, with LIBOR spreads over central bank rates at roughly 78 basis points in September 2008 (versus an average of 69 basis points in the preceding 12 months and 11 basis points in the previous year). The household bank debt burden in the UK is greater than in the U.S., and the UK mortgage-backed securities market is on life support.

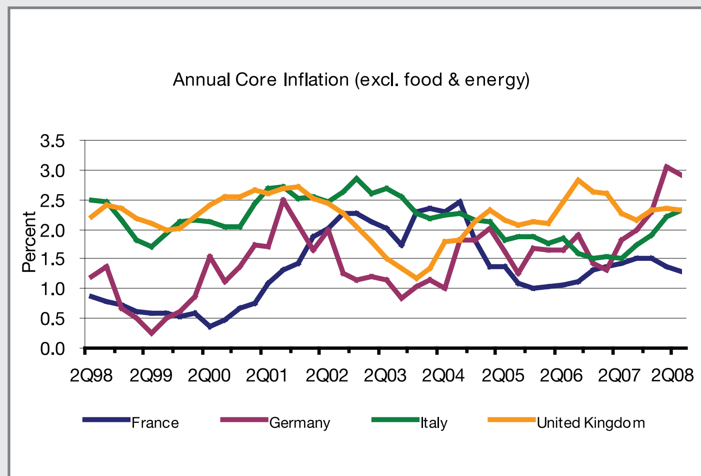
Euro non-residential construction permits remain flat, while residential permits continue their four-year 10% annual decline. With banks tightening credit and weak housing fundamentals, residential construction will not rise until 2010.

UK housing prices have declined for nine straight months through July 2008, with prices falling another 1.7% in July. Meanwhile, downward pressure on asking rents and escalating leasing concessions and tenant improvements are the norm, and development projects are being shelved due to the lack of financing. The retail sector has also been affected by the economic slowdown and rapidly declining consumer confidence.









Germany. Germany's economy is struggling. Real GDP grew by only 1.3% in the first quarter over the preceding quarter and experienced negative growth of 0.5% in the second quarter. Inflation for all goods has been roughly 3% over the last three quarters through June 2008, while core inflation was 1.9% in the fourth quarter of 2007, and dropped to 1.1% in the second quarter of 2008. Unemployment stands at 7.5%, down 10 basis points from the first quarter, and 103 basis points over the past year. Yet, domestic consumption declined 0.8% in the fourth quarter of 2007, and has only grown 0.7% through the first two quarters of 2008.

Through the first two quarters of 2008, Germany's net exports declined 0.4%, due to lower global growth and an overvalued Euro. The commercial real estate market in Germany remains in limbo, with vacancy rates declining in all major markets except Frankfurt, which is up 20 basis points. Loan pricing has been stable, but very selective, as the Pfandbrief has allowed German banks to maintain some liquidity. Transaction volume is small for CMBS, at less than €1 billion. The failure to reform labor and product markets during the global boom haunts Germany, as it lacks the flexibility necessary to survive weak demand.

France. Another economy that failed to reform during the global boom is France, where second quarter real GDP growth was 1% year-over-year, but registered a 0.3% decline in the first quarter of 2008. Inflation in France jumped to 3.3% in the second quarter, up from 2.9% in the previous quarter, and from 1.2% one year earlier. Core inflation was 1.3% in the second quarter of 2008, flat from the previous quarter, but down from 1.4% the previous year.

Second quarter unemployment stands at 7.5%, down 97 basis points over the past year. But an economic slowdown is underway, with output falling to its lowest point since 2003, low consumer confidence, weak domestic demand, and an overvalued Euro that is strangling non-EU exports.

Asia

The Great Capital Strike has had only a very limited impact on China and India. Instead, these economies face domestic challenges and accelerating inflation. In contrast, Japan has seen a collapse of real estate values in spite of sub-1% interest rates.

China's inflation rate remains a serious concern, hovering in the 6-8.5% range. Recent rate increases by the People's Bank of China are an attempt to reduce inflation. However, the lack of a typical monetary mechanism makes these efforts unlikely to succeed. While official unemployment remains in the 4% range, it is widely believed that unemployment is far higher, particularly in rural areas. Real GDP declined from 11.9% in 2007, to 9.5% in 2008, even as net exports have decreased due to an overvalued currency and weakening Western demand. The current account surplus stands at 9.3%.

Commercial real estate demand remained positive, with office vacancy rates edging downwards and rental rates generally increased. Hong Kong, still China's financial capital, remains surprisingly unaffected by the Great Capital Strike, with most major financial institutions reporting only small write-offs.

India has been largely unaffected by the Great Capital Strike, but its economy is slowing due to weakening domestic demand. However, as Western companies suffer flattening profits, more Western companies are exploring India's lower cost opportunities. High interest rates and accelerating inflation have taken a toll on domestic demand, and real GDP growth is forecasted to be "only" 7.7% in 2008, down from 9% in 2007. Inflation remains a major concern, reaching a 13-year high in July of 11.1%. This is a dramatic jump from the 8.8% inflation recorded in May. As a result, the Reserve Bank of India is tightening monetary policy, raising key lending rates to 8.5% (75 basis points) since the start of June. However, the lack of a strong monetary system makes it unlikely this policy will be effective.

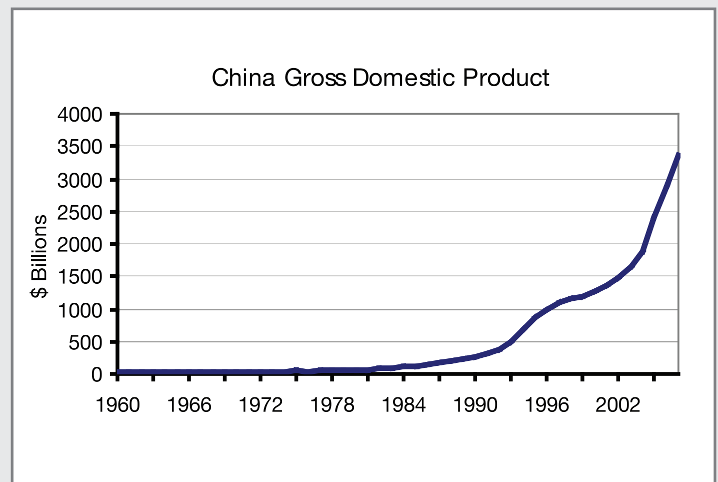
India's real estate industry has taken a turn for the worse as high interest rates have made capital expensive. Construction costs are rising and as a result, investors are adopting a "wait-and-see" attitude. A further hindrance has been the poor performance of recent real estate IPOs.

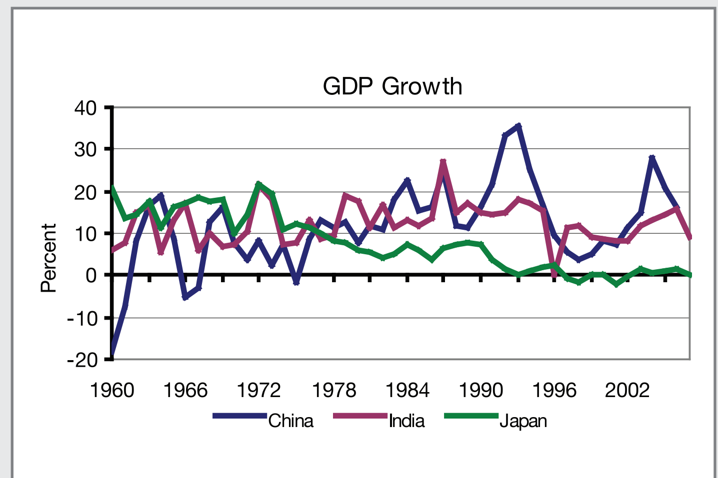
Finally, political uncertainty remains a bane, with Prime Minister Singh barely surviving a No Confidence vote in late July. This political situation will remain tenuous at least until the May 2009 general election.

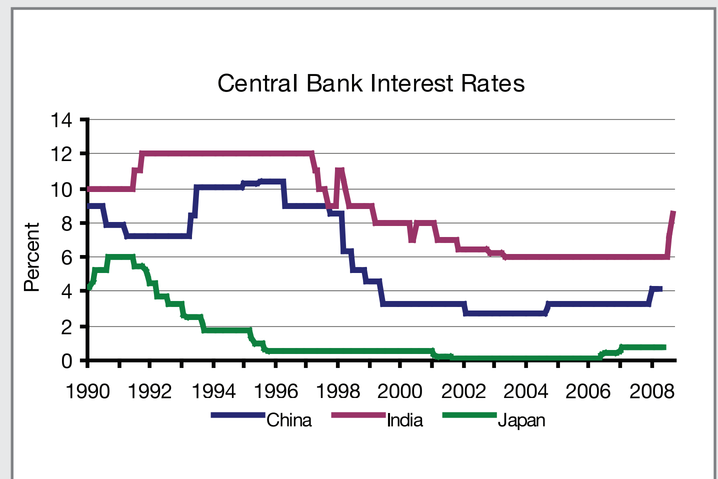
Japan's economy was stronger than expected in the first half of 2008, but only because our expectations were so low. Real GDP is expected to grow by less than 1% in 2008 and 2009. The Bank of Japan maintains a loose monetary policy, with its overnight call rate at 0.5%. Key interest rates in Japan have now been below 1% for 13 years, and real rates are effectively zero. The Yen has been depreciating against the U.S. dollar since the middle of March, and unemployment stands at 4% in June.

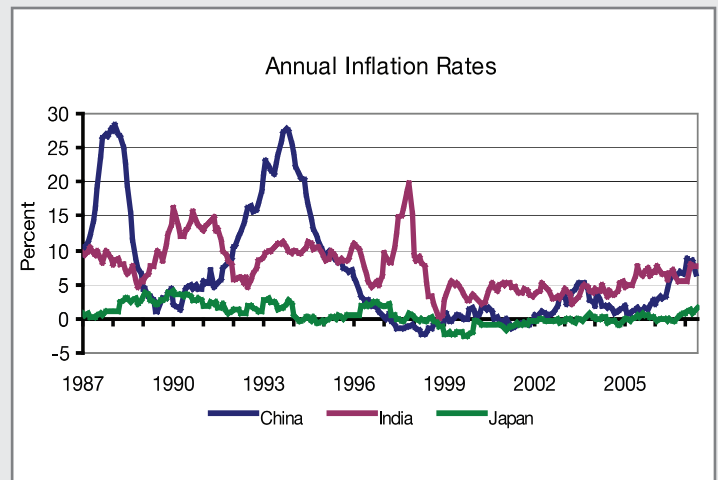
The ruling Liberal Democratic Party (LDP) is expected to avoid early elections, and Prime Minister Fukuda, who escaped a censure motion by the House of Councillors, has recently resigned causing a typical Japanese political vacuum.

Dr. Peter Linneman is Chief Economist of NAI Global and Principal in Linneman Associates, a real estate research and advisory consultancy. Linneman also serves as Albert Sussman Professor of Real Estate, Finance & Economic Policy at the Wharton School, University of Pennsylvania.









Emerging Market Spotlight

São Paulo, Brazil

Brazil Emerges As Boom Location

Aloisio Barinotti
CEO
NAI Commercial Properties
São Paulo

While the global credit crunch continued to pin back growth in much of the developed world, the emerging economies of Brazil, Russia, India and China have been far less affected.

In Brazil, Aloisio Barinotti, CEO of NAI Commercial Properties in São Paulo, confirms that the country's real estate market has been "untouched" by global credit conditions. "Prime rents have jumped from $450 per square meter per annum a year ago to $600, while both industrial and retail rents are up. Yields have fallen to 10.5 percent and growth for this year is forecast at 5 percent."

Since the election of President Lula da Silva in 2002, the country has enjoyed a boom unlike anything in its recent history. Inflation has fallen, along with unemployment, as first world financial conditions such as the wide-spread availability of credit, a reduction in black marketeering and informal labour have been introduced. This has increased national wealth and security and raised productivity, bringing an estimated 190 million people into the consumer market for the first time.

Ratings agency Standard & Poor's recognized the strides taken by da Silva earlier this year when the country's sovereign debt was granted an investment-grade rating. In the first half of 2008, foreign investors have acquired more than $11 billion worth of Brazilian assets, an 18 percent increase on the same period in 2007.

"Brazil is one of the fastest growing economies in the world with arguably the most sophisticated capital markets of the BRIC countries," said David Sonter, partner at law firm Freshfields in Brazil. "Its growth is being propelled by the commodities boom, enormous riches in natural resources, a stable political system and a labor force of over 200 million people. The country is riding a growth wave that could see the next few years establish it as one of the world's leading economies."

In the energy sector, the discovery of the vast Tupi oil field offshore Brazil in 2007 is likely to push the country into the top ranks of oil producers in the coming years, with estimated reserves of between 5 billion and 8 billion barrels. This would put the country above Canada and Mexico in terms of known reserves. Large multinational oil companies such as Shell and Exxon are now beginning to divert resources away from politically problematic locations such as Nigeria and Russia and into Brazil, where a national willingness to collaborate with foreign interests is neatly matched with vast untapped resources.

Rising food prices have brought additional prosperity to Brazil, since the country has a highly developed and massive agricultural base. The country's food and beverage companies are already expanding overseas, with Brazilian-Belgian brewing giant InBev taking over premier American brewer Anheuser Busch for $52 billion and food company Marfrig acquiring Irish chicken processor Moy Park for $900 million this year.

"Big international investment funds such as Merrill Lynch, Morgan Stanley and Prudential are all very active in Brazilian real estate investment," noted NAI Commercial Properties' Barinotti. "Values are increasing, and with companies gaining greater capitalization, construction is growing. Conditions are excellent in Brazil."

Demand for Chinese Real Estate Unabated

Beijing, China

Fears that the Chinese real estate market was overheating led the Beijing government to introduce progressively tighter restrictions on foreign real estate investment, but the surge of demand from both domestic and foreign investors has meant the measures have had only a limited impact.

"Government restrictions on new capital entry to China, as well as increased control on the approval of larger transactions and joint ventures has slowed the volume of deals," according to Steve Atherton, Managing Director-Asia Pacific Region at NAI Global. "But strong interest and activity remains from developers and investors in Hong Kong, Singapore and from around the world." NAI Global has eight full-service offices in China.

Steve Atherton
Managing Director
Asia Pacific
NAI Global

To acquire non self-use property in China, an investor now has to incorporate and capitalize an onshore entity in China, or create a foreign-invested real estate enterprise (FIREE) to hold investment properties. Approval for a range of investment types, including office buildings, hotels, resorts and exhibition centers, must be applied for on a case-by-case basis. Debt to equity ratios for FIREEs with a total investment of $10 million has been reduced to 50/50.

At the same time, investment opportunities and market sentiment in the developed economies of Europe and the U.S. have fallen, leaving large amounts of capital free to invest elsewhere. A Citigroup survey of 50 major pension funds in the U.S. and Europe recently reported that portfolio managers aim to commit $370 billion to real estate in the next three years, bringing the percentage of real estate in their portfolios up to 6 percent from the current 4.5 percent.

Funds such as Charles Schwab's $228 million Global Real Estate Fund have begun to invest in BRIC economies and the Mapletree India-China Fund, part of Singapore's Temasek Holdings, made a series of investments in China earlier this year, including a $320 million residential and retail development in the Southern Guangdong Province, along with a $121 million office building in Beijing.

China has been receiving the lion's share of inward investment into emerging economies, taking two-thirds of the total amount invested in developing nations in the 12 months to March 2008, according to a report from research firm Real Capital Analytics (RCA). In the same period, China accounted for almost half of all the land sales in the world based on value.

There are some small signs of slowing growth. Loans made by Chinese banks to real estate developers and housing buyers registered a 22.5 percent rise to the end of June this year, down from 24.5 percent in the previous 12 months, but the overall picture is one of vigorous demand, abundant supply and a government unwilling to fully halt the tide of real estate investment.

In neighboring Hong Kong, "The property market is consolidating after four years of rapid rise," stated Beverley Sunn, President of NAI Asia-Pacific Properties. "But the fundamentals are still sound and further decline is not likely." The retail and industrial sector remain healthy, while international investors have become conservative, said Sunn.

Beverly L.W. Sunn
President
NAI Asia Pacific Properties

Belgrade Makes Progress Through Politics

In an attempt to draw a line under the horrors of the Balkan civil war that devastated the region in the mid-1990s, the newly formed Serbian government in Belgrade took immediate steps to please the European Union by handing over the former leader, Radovan Karadzic, to the Hague war tribunal earlier this year.

As an act of political goodwill it was extremely effective, eliciting praise from many quarters, including the secretary general of NATO and the president of the European Parliament. Yet the longer term benefits to Serbia are likely to be more economic than political.

"The arrest of Mr. Karadzic is a clear indication that the new Serbian government is committed to meeting its international obligations," said Hans Gert Pottering, European Parliament President. "The parliament supports Serbia in its efforts to integrate into the European family, which is underpinned by the fundamental values of democracy, rule of law and respect for human rights."

"His capture represents the opportunity for Serbia to move forward and to take a step toward integration into the European Union," added Annemie Neyts, President of the European Liberal Democrats.

Local commercial real estate professionals are optimistic that the new mood of collaboration with the EU will produce dividends for them and help to reassure international investors. "In the past, politics and business were separate issues," said Roman Klott, Managing Director of Atrium Consulting in Belgrade. "Now they are linked, and the new government is pro-European Union. I think they will help Serbia become a candidate for EU accession, which will help to bring in new investors."

Atrium Consulting has already worked with foreign investors from Austria, Germany and Israel, but recognizes that many of them are waiting to see what direction Serbia will take. "They need to know that the country will join the EU in five years, for example, and so will adopt a legal system comparable to other EU countries," Klott added. "These signs are not there yet. We have already seen an improvement, but the big step forward is still in front of us."

Roman Klott
Managing Director
Atrium Consulting

The EU's enlargement commissioner, Olli Rehn, believes that most Serbs are in favour of EU membership, despite some vocal nationalists expressing objections, particularly over the EU's attitude to Kosovo, which they argue should be brought back under Serbian control. "It should be a realistic expectation that the Serbian government listens to this silent majority [of pro-accession Serbs]," he said.

The EU is holding out the prospect of visa-free travels for Serbs, alongside social and economic support for the country, in return for its political support on war criminals and Kosovan independence.

In commercial property terms, the most dramatic progress in recent months has been falling vacancy rates and yields (down to 6.5 percent and 8.5 percent respectively) for Class A space in Belgrade, and the partial realization of an ambitious office complex called Airport City Belgrade. This 120,000-square-meter project is due to complete in 2012 but already hosts companies including UniCredit, Unilever, Cisco and GlaxoSmithKline. "We see the same curve of development here as we saw in Warsaw, Prague and Budapest. It's just taking place 10 years later," said ACB's chief executive, Gili Dekel.

Belgrade, Serbia

Global Property Roundup:
Emerging Markets Hold On as Economic Slowdown Weighs On Major Markets

Continues from front cover

not be far off. (See related articles in this issue.)

Unlike past cycles, generally healthy worldwide commercial real estate fundamentals and a lack of significant overbuilding leading up to the downturn should limit the correction.

Following is an overview of market conditions in major real estate markets around the globe:

THE AMERICAS

Major U.S. markets are experiencing a slowdown in activity as tenants and investors remain on the sidelines waiting for a clear read on the economy. Downtown office vacancy rates in Chicago fell to 11.79 percent in mid-2008, their lowest rate in seven years, according to NAI Hiffman in Chicago. But the expected delivery of 3.5 million square feet in 2009 means vacancy rates should soon begin to rise again. The local economy is forecast to grow by 2.2 percent in 2008, a slight rise on last year. By contrast, office vacancy rates across the Bay area of San Francisco have already moved upwards, with overall availability reaching 28.7 million square feet, the highest since 2006, reports NAI BT Commercial in San Francisco. Even so, average asking rates rose slightly during the second quarter of 2008. In Los Angeles, prices per square foot for properties sold continue to climb, despite sales falling away, reports NAI Capital. Vacancy rates for office, retail and industrial properties across the city rose in the first half of 2008, with further rises predicted in the coming months. In the New York City office market, rental growth has flattened, vacancies have risen slightly and investor confidence has been hit by credit restrictions, according to NAI Global New York City. However, some significant new deals were announced in August, perhaps signifying a break in the logjam.

In Toronto, both office and retail markets continue to show modest growth, according to NAI Commercial-Toronto. The industrial market has been very strong, but industrial property developers are deferring construction starts until economic conditions stabilize. The office market in the Vancouver CBD has an overall vacancy rate of 3%, and strong absorption is expected to drive vacancy rates to 2.5% over the next 12 months. Demand for high-rise residential development sites in the urban core has led to reduced office space inventory with little new office product coming to market in 2008-2009. The industrial market continues to outperform most other Canadian industrial markets due to insufficient supply, with average vacancy rates of 2%, reports NAI Commercial-Vancouver.

The BRIC countries have generally been less adversely affected by the credit crunch than the traditional western economies and Brazil is no exception. In Sao Paolo, NAI Commercial Properties reports that office investment activity has been strong, with falling yields and more multinational companies eager to acquire assets. Brazil's economy is forecast to grow by at least 6 percent in 2009. The Buenos Aires office market continues to be tight, with vacancy rates in low single digits, reports NAI Castro Cranwell & Weiss. There is still upward pressure on rents, although a large pipeline of projects will come on to the market in the next two years. Yields for Class A buildings have stabilized at around 10-12 percent.

ASIA-PACIFIC

In China, the volume of transactions in commercial real estate has slowed as a result of government restrictions, reports NAI Asia Pacific Properties in Shanghai. Chinese developers have seen their market capitalizations fall and have become less active as a result. In Hong Kong, the market is consolidating after four years of strong growth, according to NAI Asia Pacific Properties. Yields fell slightly from mid-2007 to mid-2008 but the volume of office investment has fallen in response to tighter credit conditions. Rents for office properties in Tokyo, which had shot up by as much as 20 percent in 2007, have moderated this year, reports NAI Japan, whereas office investors have sought out opportunities in the city in record numbers, making Tokyo a more active market than London or New York in the first half of 2008. Despite soaring rents and falling yields, commercial property conditions in New Delhi are cool, reports NAI Collaborators-India. Although the economy as a whole is expected to continue growing at more than 9 percent for 2009, real estate companies have suffered a fall in stock market prices and are hesitant to invest.

EUROPE

Activity in Germany's commercial real estate investment market has cooled, according to NAI apollo in Frankfurt, as yields have risen slightly for prime office buildings, while rates for retail space are predicted to rise in the next year. Tightening credit conditions have had a severe impact on the French investment market, reports NAI Evolis in Paris, whereas an undersupply of retail property should push up rents here too. Office investment figures for Spain are even more extreme, as yields have jumped from 5.5 percent in mid-2007 to 7.5 percent today. The country's housing market has collapsed, leading to general economic difficulties, reports NAI Sol in Madrid.

In Russia, a dual market in office investment has emerged, with local investors increasingly interested in Class B and C properties, but a drop in activity from foreign investors, according to NAI Russia in Moscow. In Ukraine, by contrast, foreign interest has remained high, reports NAI Pickard in Kiev, with falling yields and a general undersupply of good quality space. Further east, Kazakhstan has posted steady economic growth and investment interest from a range of foreign groups, including Middle Eastern funds, Russians and Koreans, according to NAI Kazakhstan Aristan. Rather than the 'wild money' that has flooded into real estate in Turkey in recent years, there is now more 'smart money' going into well-located and constructed retail centres, reports NAI Treas in Istanbul. An undersupply of good Class A office space in the capital has kept the market strong. Austrian and Israeli investors are especially active in the Serbian market, reports Atrium Consulting in Belgrade. Retail development is beginning to take off and industrial output is growing.

There has been constantly increasing demand for commercial real estate investment opportunities in Bulgaria, reports NAI ProCon in Sofia. REITs have become very popular and yields are falling. The level of commercial property investment deals in the Czech Republic has slowed, reports NAI MIPA in Prague, since prices are now similar to the developed economies of Western Europe, although logistics developments for the rising manufacturing sector are in heavy demand. The Hungarian economy has had a quiet couple of years, as the government attempts to correct its budget deficit, according to NAI Otto Hungary in Budapest. Yields for offices have risen slightly and are expected to rise further. In Vienna, office rents are predicted to rise slightly while vacancy rates have fallen, reports NAI Otto Immobilien in Vienna. Demand for industrial and warehousing space has weakened, although the accession of new countries to the EU, close to Austria, may provide growth in the coming years.

Transactions in the Danish office investment market have slowed dramatically this year, according to NAI Danmark in Copenhagen. Most current deals are between distressed companies, while many investors are waiting for prices to drop further. Equally, the Swedish market is in limbo, especially investments with a large loan to value ratio. Nevertheless, the €4 billion sale of a government-owned office complex showed some remaining appetite for commercial property, reports NAI Svefa in Stockholm. After two years of exceptional activity, the Norwegian real estate market corrected in the first half of 2008, according to NAI FirstPartners in Oslo. The country's vast oil wealth has insulated it from the worst effects of the credit crunch. In Finland, demand for prime office investment deals by German funds has kept the market buoyant throughout 2008, reports NAI Finland in Helsinki, accompanied by a falling vacancy rate and rising rents. In the Baltic states of Latvia, Lithuania and Estonia, high inflation rates have led to an economic slowdown, after several years of booming conditions, reports NAI Baltics in the Latvian capital Riga. Both the industrial and retails sectors in the three countries are experiencing strong growth.

Ukraine Attracts Investment Attention

Ukraine, Europe's second-largest country by size after Russia, is taking positive strides toward membership in the club of developed nations, registering dramatic improvements in economic conditions in recent years.

In May 2008 the country was welcomed into the World Trade Organisation after a campaign stretching back to the early 1990s. It is now being seriously considered for European Union membership, after reforming many of its regulations and laws to allow freer movement of capital and trade and encouraging foreign investment.

At the beginning of this year, total FDI in Ukraine had reached $29.5 billion, a leap of 36.5 percent since the beginning of 2007. Commercial real estate has been one of the prime beneficiaries, alongside financial services, engineering, metallurgy, food processing and machine building.

According to figures from the UK government's foreign trade services, foreign direct investment in construction in Ukraine for the first quarter of 2008 came to $244 million, while for real estate, engineering and business services the total was $257 million, both figures a significant rise over the same period in 2007. "Important factors attracting foreign investors to Ukraine include a large domestic market serving more than 46 million people, under-utilized production capacity, developing capital markets and the fact that privatization and deregulation is under way," according to a UK trade spokesperson. "In addition, English is increasingly spoken, particularly by the younger generation."

The European Bank for Reconstruction and Development (EBRD) has poured more than $3.2 billion into 161 projects in Ukraine, many of them real estate-related. Most recently it extended a loan of $139 million to three special purpose companies to fund three large retail centers across the country, in Kiev, Krivoy Rog and Simferopol. Ukraine remains poorly served by modern real estate, with just 115 square meters of high quality retail space per 1,000 inhabitants, compared with 600 square meters in Warsaw and more than 1,000 square meters in London.

Terry Pickard
Group Chairman
NAI Pickard

German-owned retail chain Metro Group has already developed 20 stores in major cities in Ukraine and is now planning a further 40, according to Terry Pickard, Group Chairman of NAI Pickard in Kiev. Other retail developers are looking for as many as 120 sites, he believes. "We have developers and investors from Austria, New Zealand, Britain, Korea, Ireland and Israel," he noted. "We reckon the total value of the potential investments is as much as €4 billion."

Pickard has seen confidence in the Ukrainian market rise consistently in recent years, as its regulatory processes have become more credible and corruption has diminished. "Even the oligarchs have developed a social conscience," he said. "This is the last market in Europe that is still looking pretty healthy."

Some commentators argue that while Ukraine offers scope for opportunistic real estate investment, there are still higher country and currency risks than in the EU, along with the risk of punitive tax and customs changes. There are still disputes over land ownership and relatively little investment grade property, but the potential rewards are certainly higher than in most other European markets for the moment.

2008 GDP GROWTH*

USA:	0.8%
Canada:	1.0%
Brazil:	4.6%
China:	9.8%
Japan:	1.0%
India:	7.7%

*Estimates.
Source: The Economist

Launch of New Funds Brings Hope of Upturn

Hong Kong, China

Sophia, Bulgaria

Kuala Lumpur, Malaysia

Bucharest, Romania

A number of major new real estate investment funds launched in early summer, undeterred by the troubled state of many property markets, and found investor interest to be remarkably high.

Europa Capital received £750 million of equity capital commitments for two new European property funds in June, giving it spending power of more than €2.5 billion. This result surprised some in London, but Noel Manns, one of the company's principals, was understandably pleased. "We are delighted by the high level of investor support we have received for both of our new funds," he said. "This capital will provide Europa Capital with a significant war chest to capitalize upon the opportunities, which we are seeing in these difficult and volatile credit conditions."

The opportunities so far identified include a logistics development in Western Romania, expected to be completed within four years at a cost of €160 million. Other countries to be considered include Bulgaria, Ukraine, Croatia and Serbia.

MGPA, the London-based private equity real estate investor, part-owned by Macquarie bank of Australia, closed its third real estate fund with total equity commitments of $5.2 billion in June this year. This was the largest fund so far raised by the company and attracted investor interest from North America, Australia, Europe and the Middle East. It aims to invest in emerging economies including some in Asia and Eastern Europe.

Fund Manager	Equity Raised	Targets
AEW Capital Management	$558 Million	Singapore, Hong Kong, Thailand, Vietnam, China & Malaysia
Europa Capital	$1.3 Billion	Romania, Bulgaria, Ukraine, Croatia & Serbia
MGPA	$5.2 Billion	Emerging economies in Asia, Eastern Europe

In the U.S. there has been a corresponding appetite for emerging economy investments in real estate, with AEW Capital Management raising $558 million, well above expectations, earlier this year to invest in Asian assets. "There was a lot of interest in the fund from U.S. and European pension funds, insurance companies and high net worth investors," said Peter Wittendorp, managing director for AEW Asia. "I think the biggest draw for both U.S. and European investors for Asia is the current and projected growth in the region." He listed GDP growth, a young and growing population and markets that will benefit from globalization. "The fund's target markets in Asia are experiencing all three," he pointed out.

AEW Capital Management will target Singapore and Hong Kong initially, and then look at urban and suburban markets in Thailand, Vietnam, China and Malaysia.

As several real estate analysts have identified, the opportunities for gaining discounts and profiting from distressed situations have risen as the months have passed, attracting private equity firms such as Carlyle, Blackstone and Apollo into the water. But others feel that the market has some way still to fall. On the evidence of these new fundraising rounds, investor sentiment remains positive, at least relating to emerging markets.

Open-Ended German Funds Are Back in Action

Continues from front cover

funds to return to the market. But their priorities are now to seek real estate outside Germany. The funds sold €8.2 billion worth of German property, acquiring €2.9 billion, whereas they paid €7.5 billion for assets elsewhere in Europe last year.

Funds such as Deka-Immobilien-Global, the largest German open-ended real estate fund, have been extremely active so far in 2008. Deka has acquired three major office and retail properties in Helsinki, including the €50 million, 8,300-square-meter Kluuvikatu 3 building, part of an €800 million spending program that has covered Germany, the UK, France, the Netherlands, Portugal and Poland. Deka had not been active in the London office market since 2005, but has returned, partly thanks to a 15-20 percent fall in real estate values over the past year.

Six German funds acquired London assets for a total of £565 million in the first quarter of 2008, with Hansa-Invest paying £136 million for One London Wall and CS Euroreal paying £121 million for Plantation Place South. Another fund, the €6.6 billion KanAm Grund, will only invest outside Germany and acquired four central Moscow office blocks for $900 million earlier this year, along with a shopping center in Riga, Latvia.

The new mood of outward-looking confidence comes amid some mixed messages within the German economy. GDP growth in 2007 was a relatively healthy 2.6 percent, compared to the barren years of 2001-2005, but is expected to fall to 1.9 percent this year and down even further in 2009. Yet unemployment is falling, the government has paid off its budget deficit, exports remain strong and, according to the country's Federal Statistics Office, the economy grew at its fastest pace in more than 10 years during the first three months of 2008. Industrial and logistics transactions inside Germany rose to €1.2 billion in the first six months of 2008, a 20 percent increase on the same period last year.

Away from the verifiable economic statistics, the mood in the German real estate industry is less happy. A recent 'investment climate' survey showed that industry professionals are pessimistic about the prospects for rental growth or sales price increases.

Major Banks Ponder Refinancing Questions

Continues from front cover

pressure on them to further tighten their lending conditions. In the UK, the willingness of major banks to lend against commercial property has already fallen, in part due to a 20 percent fall in commercial property values over the past year. Yet the amount of lending made in the sector in the past couple of years is well above the historic average. Last year, it accounted for 38 percent of the total loan value by UK banks to non-financial corporations, against 19 percent in 1998. So a fall to more typical levels can be expected.

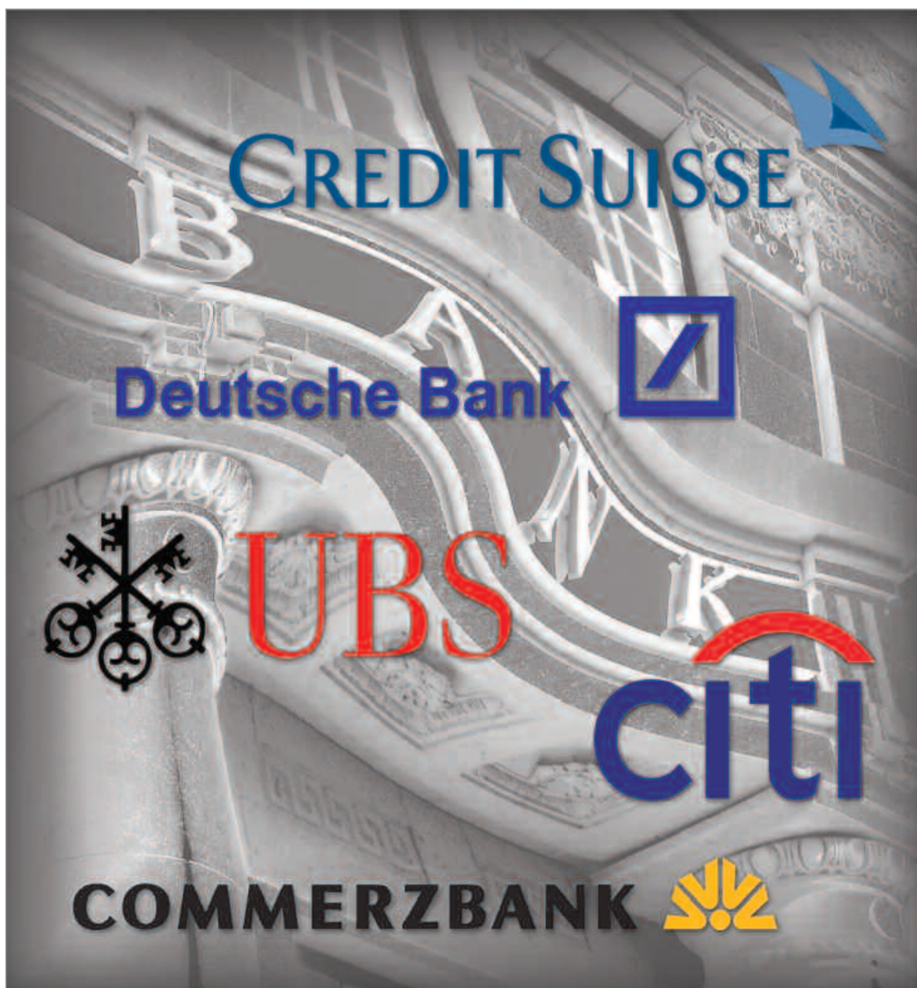
In mainland Europe there is a similar level of exposure, with Deutsche Bank, Commerzbank, Credit Suisse and UBS together reported to have more than €100 billion exposure to commercial real estate. In Ireland, the situation is particularly extreme, with commercial real estate loans making up 70 percent of the total lending to private companies in 2007.

In the U.S. the price of commercial mortgage-backed securities (CMBS) has fallen in response to fears over the health of the market, but as one senior banker put it: "While it is true that the CMBS market is dead, that doesn't mean that the commercial real estate market has died along with it." Before the CMBS market developed, the majority of U.S. real estate financing was carried out by pension funds, life insurance companies and regional banks. These lenders are now re-emerging, albeit slowly, to refinance loans.

In a recent report by Fitch Ratings, the agency reported that 95 percent of recently matured U.S. CMBS loans had been successfully refinanced - a total of 3,354 fixed-rate loans with a balance of $21.4 billion since the credit crunch began in August 2007. Most of these lenders were insurance companies and regional banks. "Lenders continue to finance assets like this because they produce reliable monthly income, not consume it," added the banker.

Nevertheless, the level of refinancing needed in the coming months is worryingly large. Adding together 10 of the biggest U.S. bank borrowers, financial analyst Dealogic said that maturing bonds total $27 billion in August, $52 billion in September, $23 billion in October, $20 billion in November and $86 billion in December.

Some major real estate assets have fallen in value to put their owners into negative equity. For example, the Metrovacesa building in London's Canary Wharf was acquired by the company with a £812 million loan, but could now be worth just £800 million, down from its purchase price of £1.1 billion. The company is just one of a number of Spanish property owners who have run into trouble recently, with Martinsa-Fadesa filing for creditor protection with debts of €5 billion.



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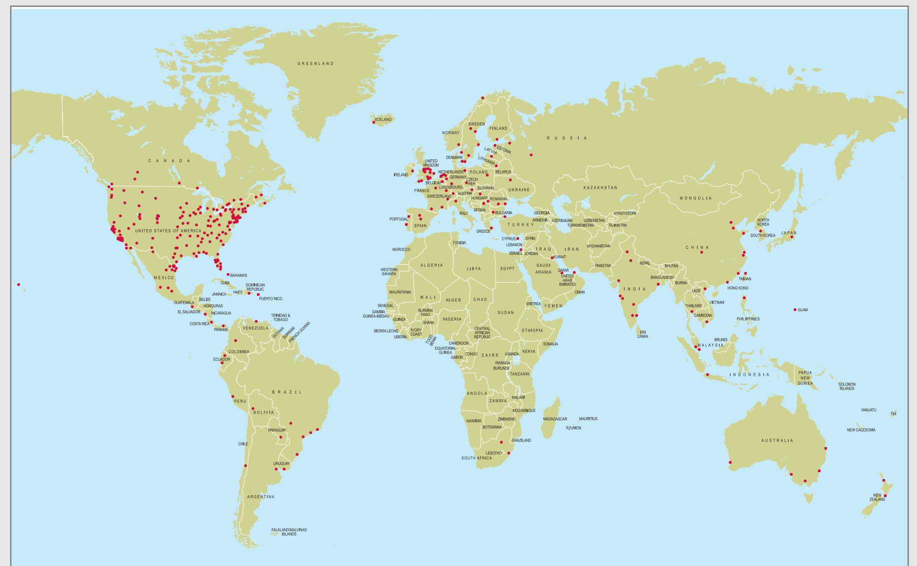

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