The outlook for property markets; Offshore & Australia

PRRES Conference, Sydney, 20 January 2009
If you are going through hell, keep going.

Winston Churchill
Scope of presentation

§ Global investment activity

§ The outlook through the regions

§ Closing thoughts
Global investment activity
Global commercial real estate turnover down 59%

Source: CBRE Research & Consulting and Real Capital Analytics (Dec 2008)
Australian commercial property sales down 62%

Source: CBRE Research & Consulting
Includes sales over $5.0 million
*to November 2008
All-sector yields are blowing out, by any measure

Source: CBRE Research & Consulting and Real Capital Analytics (Dec 2008)
And risk margins are returning…

Source: CBRE Research & Consulting and Real Capital Analytics (Dec 2008)
The outlook through the regions

USA
Europe
Asia
Australia
GDP growth for major countries & the world

% change on previous year

Forecast

Source: Economist Intelligence Unit & Access Economics (Dec 2008)
Global office rental indices

Rents poised to fall in all regions during 2009

Source: CBRE Research & Consulting (Dec 2008)
Some examples of office pipeline effects

Source: CBRE Research & Consulting (Dec 2008)
US employment; this no longer looks like the 1990s

Month when negative job growth began...for 2008 this was January.

January 2008  
July 1990

1990s  
2008/09

Net # of Jobs Created per Month x,1000

# of Months out from Start of Job Losses

1990s  
Today
Change in Non-Farm payroll (December 2008)

- Education and Health Services
- Government
- Other Services
- Natural Resources and Mining Utilities
  - Leisure and Hospitality
- Financial Activities
- Wholesale Trade
- Information
- Transport and Warehousing
- Retail Trade
- Professional and Business Services
- Manufacturing
- Goods-Producing
- Construction

Source: Department of Labor December 2008
US office sector; financial spiral scenario

Completions and Absorption
(Millions of Square Feet)

Vacancy Rate (%)

Completions
Absorption
Vacancy Rate

TWR Office Outlook XL, Winter 2009

CB Richard Ellis | Page 15
Weak demand leads to real rent declines

## How bad can it get? Simple arithmetic!

<table>
<thead>
<tr>
<th>Vacant Stock</th>
<th>Office</th>
<th>Industrial</th>
<th>MH (Units)</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>(%)</td>
<td>485m</td>
<td>1.47b</td>
<td>737th</td>
<td>158m</td>
</tr>
<tr>
<td></td>
<td>(13.9)</td>
<td>(11.3)</td>
<td>(5.2)</td>
<td>(9.8)</td>
</tr>
<tr>
<td>Pipeline</td>
<td>112m</td>
<td>117m</td>
<td>272th</td>
<td>19m</td>
</tr>
<tr>
<td>Absorption 2001-2002</td>
<td>-108m</td>
<td>-197m</td>
<td>26th</td>
<td>7m</td>
</tr>
<tr>
<td>Worst Case Vacancy Rate</td>
<td>19.3%</td>
<td>13.1%</td>
<td>8.2%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Historic High Vacancy Rate</td>
<td>19.1%</td>
<td>12%</td>
<td>6.8%</td>
<td>10%</td>
</tr>
</tbody>
</table>

(Source: CBRE Torto Wheaton Research, Outlook XL, Spring 2009)
NCREIF total returns: financial spiral scenario

Quarters from recession (1990q3) to positive return level:
- RTL - 10
- OFC - 17
- IND - 14
- MFH - 9

Quarters from 2008q3 to positive return level:
- RTL - 8
- OFC - 10
- IND - 8
- MFH - 7

TWR NCREIF Forecast, Winter 2009
What macro themes are important to US real estate markets?

§ Widespread job losses: few sectors or markets spared.

§ Key to recovery is unfreezing capital markets and stabilization of housing market.

§ Consumer retrenchment will make this recession painful as households restructure balance sheets.

§ A bleak outlook for consumer spending, a key driver of the economy. Retail markets will suffer.
CB Richard Ellis EU-15 yield index

Source: CB Richard Ellis
Capital values now in negative territory

CB Richard Ellis EU-15 Capital Value Index

Source: CB Richard Ellis
In the UK the decline is faster this time

All UK Property, Monthly Capital Value Index (Cumulative % change)

Source: IPD Monthly Index (October 2008)

From Oct 1989

From June 2007

Source: IPD Monthly Index (October 2008)
Rental growth slowing dramatically

CB Richard Ellis EU-15 Rent Indices

Source: CB Richard Ellis
Where are we now in Europe?

§ What will resolve the current impasse …
   » Sellers under insufficient pressure to sell
   » Buyers in no rush to buy

§ Forced sellers
   » Open funds needing to meet redemptions
   » Refinancing deadlines
   » Foreclosure by creditors: CMBS

§ Buyers identifying value
   » No shortage of equity, but only at the right price
   » Prices on prime need to move further to offer long term value

→ Return to life in the debt market
   » Whenever it happens, it wont look like it did in 1996/7!
Asia economic outlook

Recent deterioration and uncertain outlook

Clouds over growth and dimmer prospect

Clouds over growth but positive prospect

Recent deterioration and uncertain outlook

Continued deterioration

GDP growth

Source: IMA
Asia - office rents are set to decline


Source: CB Richard Ellis Research
Office rents are set to decline

Office Rental Growth  Q2 2008 vs Q3 2008

Growth slowed from the second quarter

Half of the markets recorded reduction in rents

Source: CBRE Research
Compression in Vacancy Reversed

The impact of the financial crisis on Asia’s employment market has not yet surfaced

Asia overall vacancy rate (2002 - Q3 2008)

Source: CBRE Research
New Supply (2004 - 2010)

Source: CBRE Research
Australian average weighted yield, 1993-2008

Implied yield now close to long term average...

Initial yield %

- Regional Retail
- Warehouse Grade A
- CBD Prime Office

Source: CBRE Research & Consulting
Includes weighted average of Brisbane, Sydney, Canberra, Melbourne, Adelaide, Perth
Sydney CBD prime office; where’s the market?

Initial yield %

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<th>Source: CBRE Research &amp; Consulting</th>
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<td>Trough Sep-93</td>
</tr>
<tr>
<td>7.50</td>
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</table>

25-year average 6.34
Forecast negative absorption 2009

Sub-lease office space expanding quickly

Source: CBRE Research & Consulting (November 2008)
Forecast new office supply above average & poorly timed

Source: Property Council of Australia & CBRE Research & Consulting

Figures as at December 2008
Office vacancy to rise & send rents falling

% office space vacant

Source: CBRE Research & Consulting (November 2008)
Closing thoughts…

§ Global drivers of commercial real estate to deteriorate thru 2009

§ Softer implied yield will be tested as buyer-seller gap is closed

§ Australian capital value falls mostly in the 20%-30% range

§ Vacancy to rise & market rents likely to drop in all sectors

§ Expect massive industry restructure thru M & A activity
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