



The outlook for property markets; Offshore & Australia

PRRES Conference, Sydney, 20 January 2009

*If you are going through hell,
keep going.*

Winston Churchill



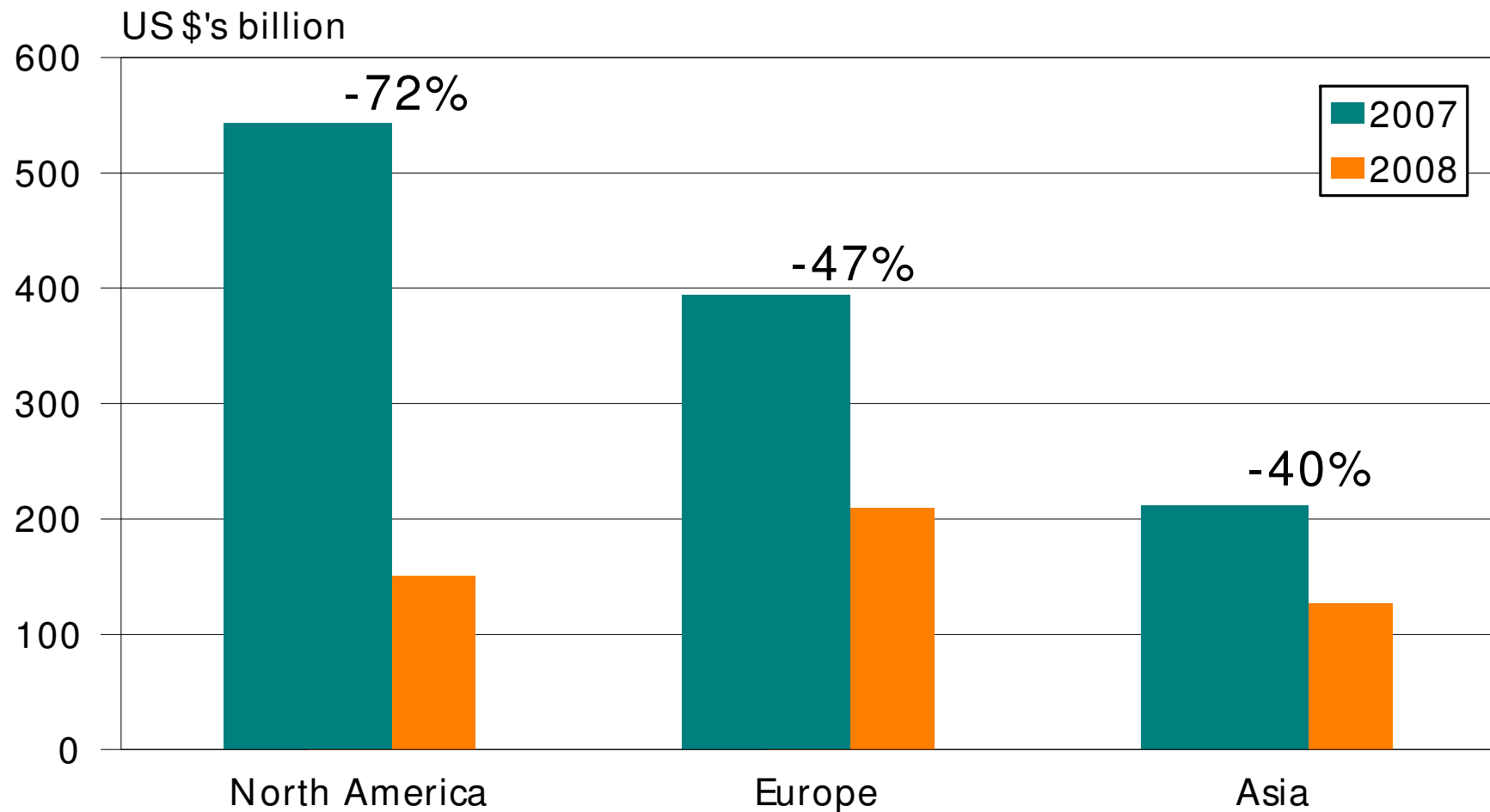
Scope of presentation

- § Global investment activity
- § The outlook through the regions
- § Closing thoughts



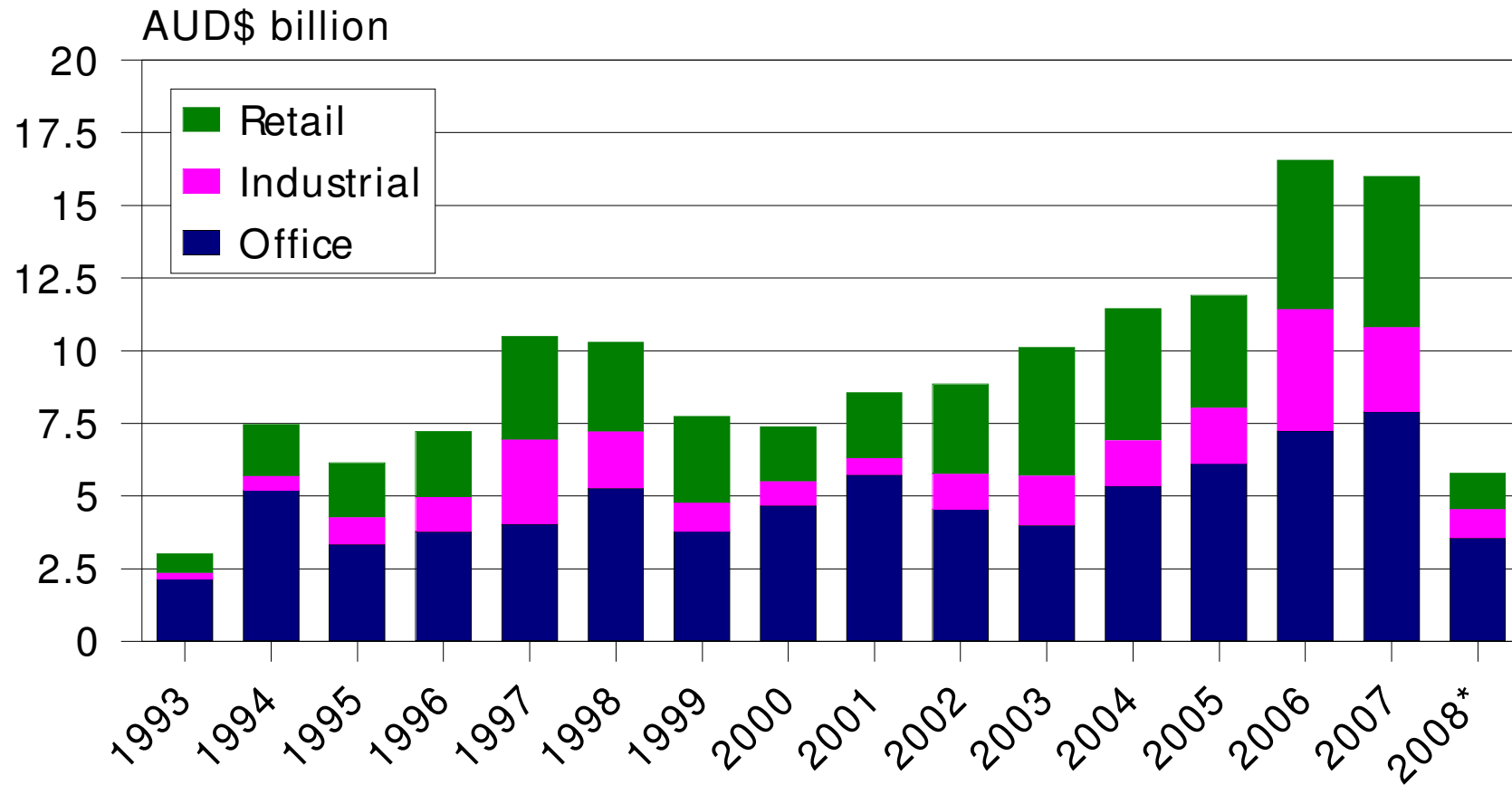
Global investment activity

Global commercial real estate turnover down 59%



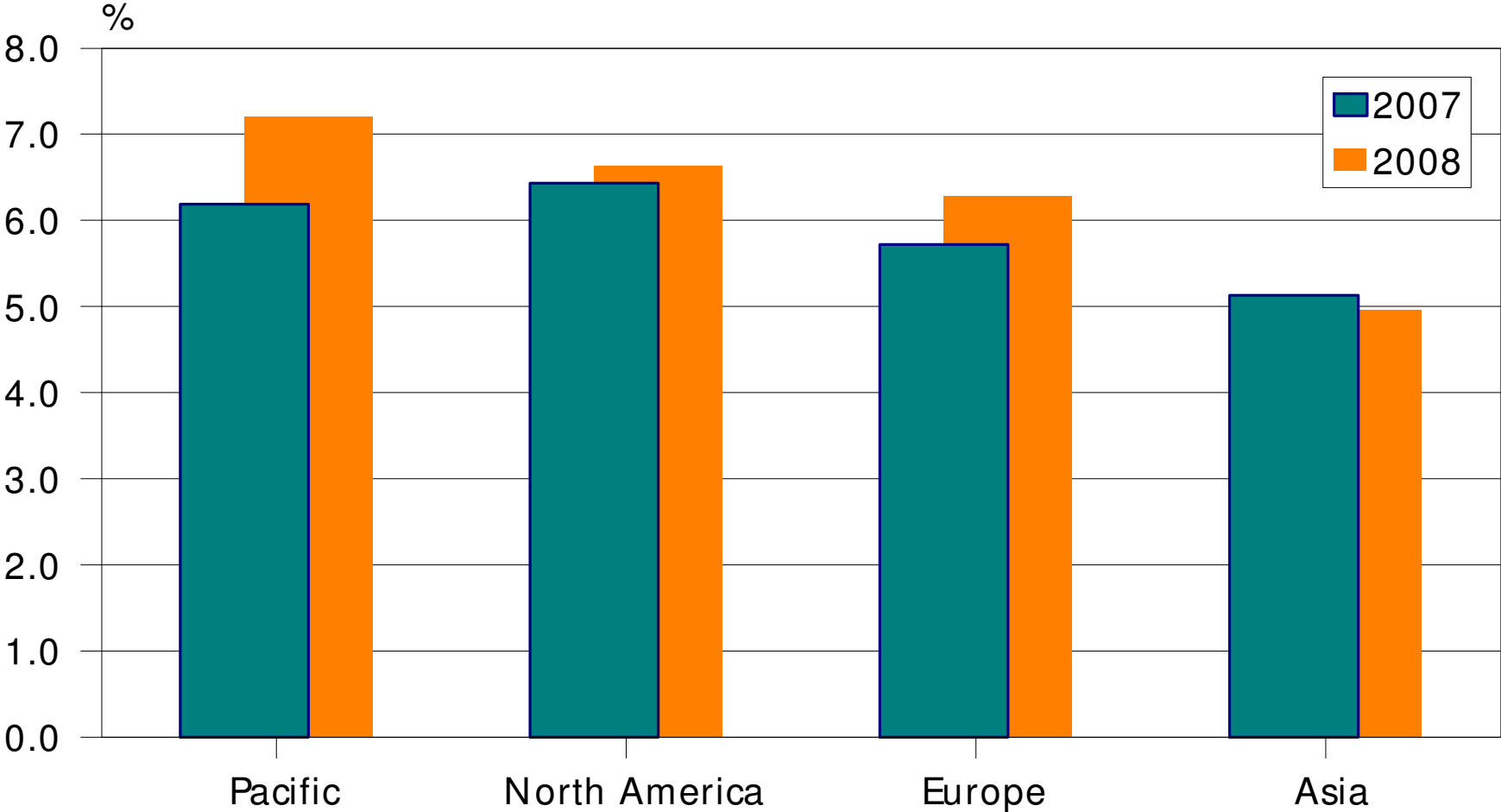
Source: CBRE Research & Consulting and Real Capital Analytics (Dec 2008)

Australian commercial property sales down 62%



Source : CBRE Research & Consulting
Includes sales over \$5.0 million
*to November 2008

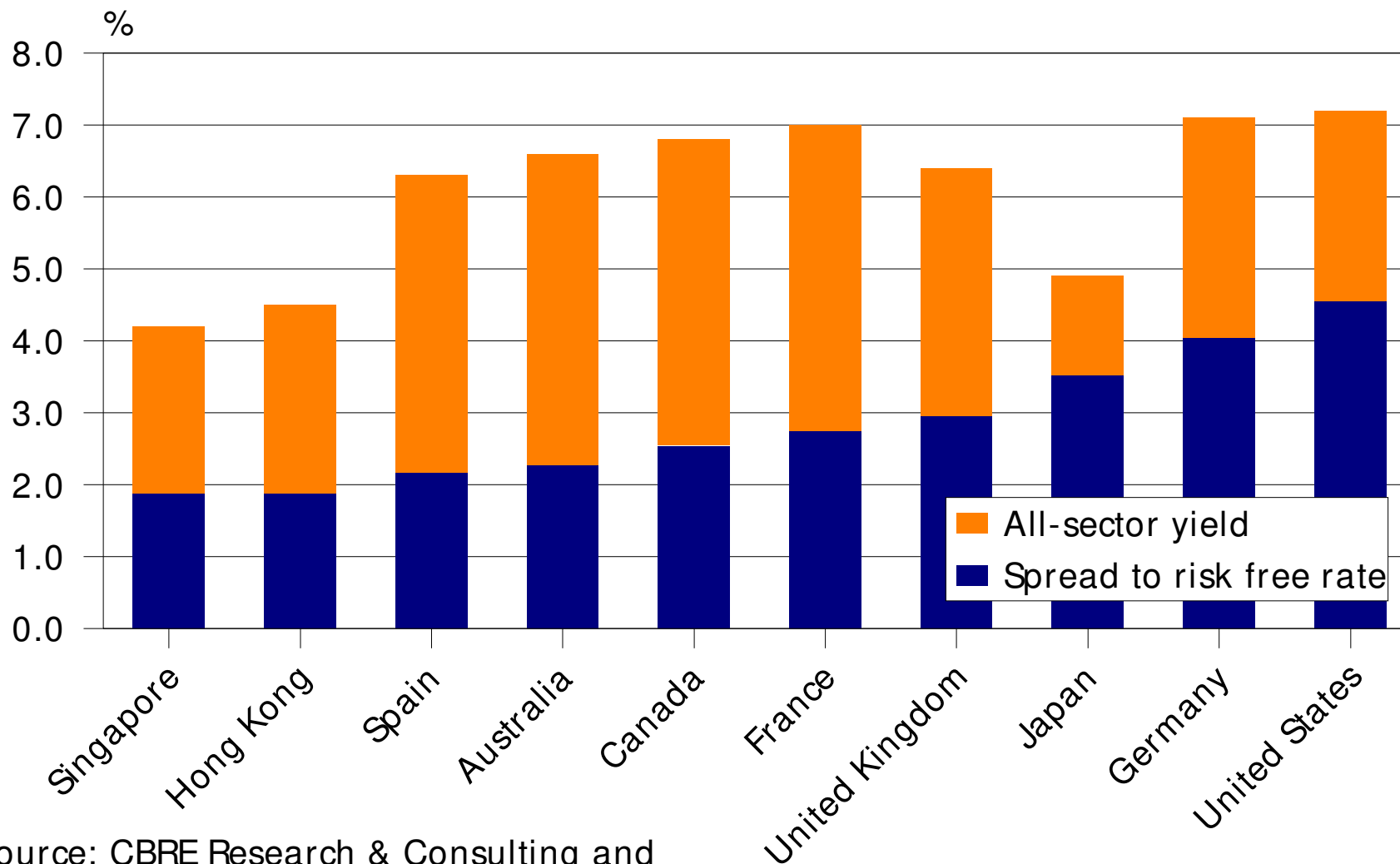
All-sector yields are blowing out, by any measure



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

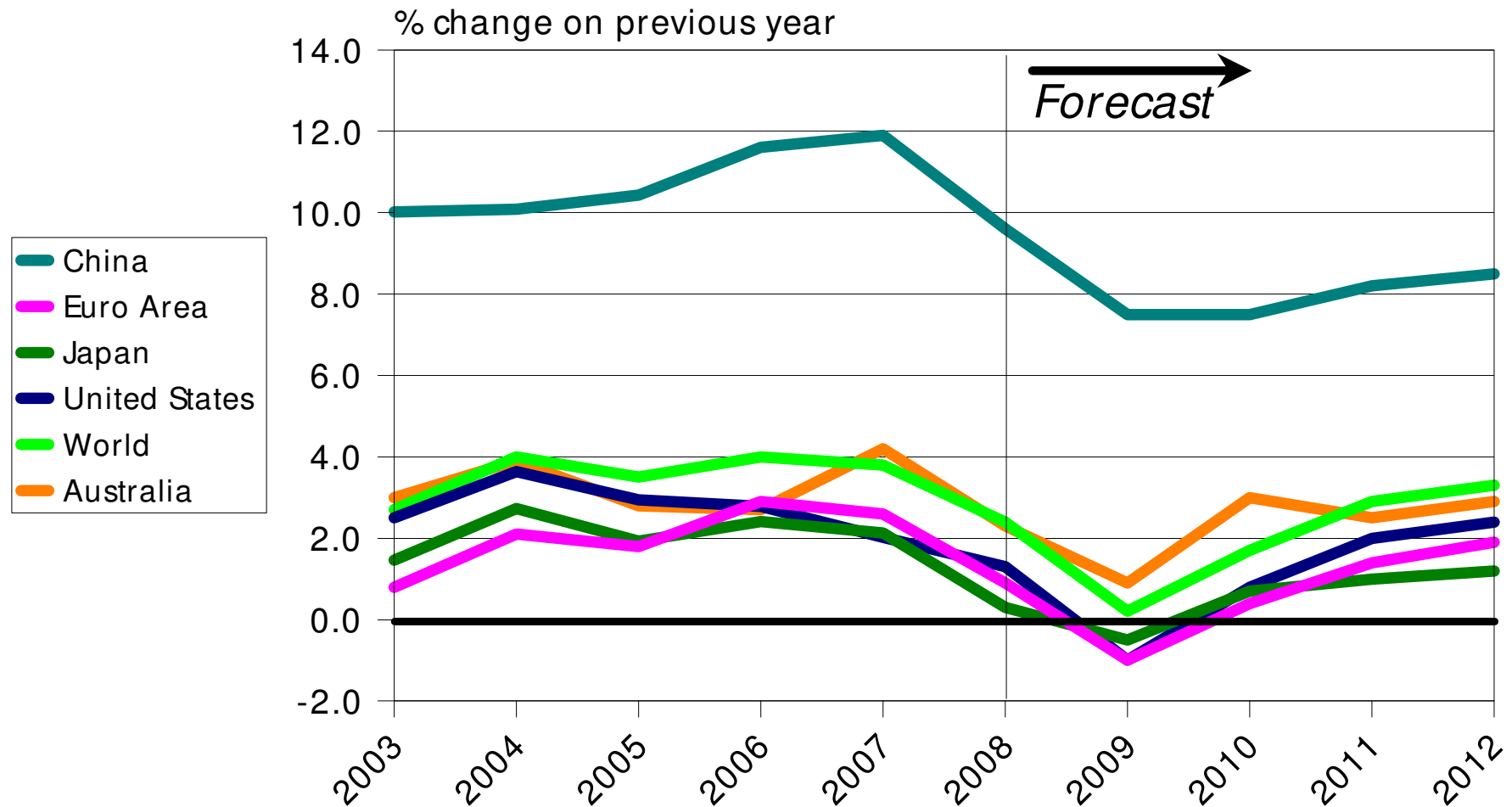
USA

Europe

Asia

Australia

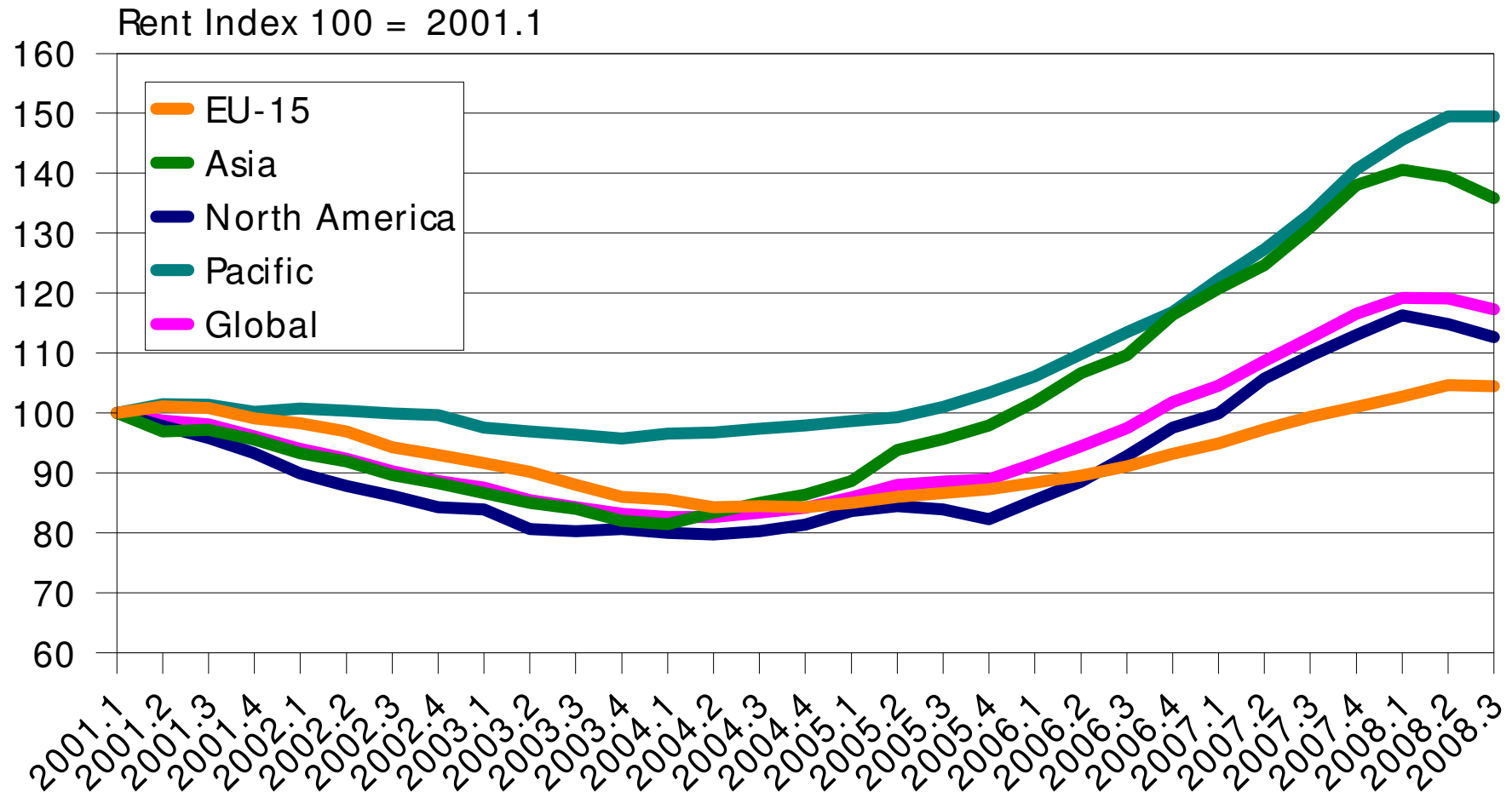
GDP growth for major countries & the world



Source: Economist Intelligence Unit & Access Economics (Dec 2008)

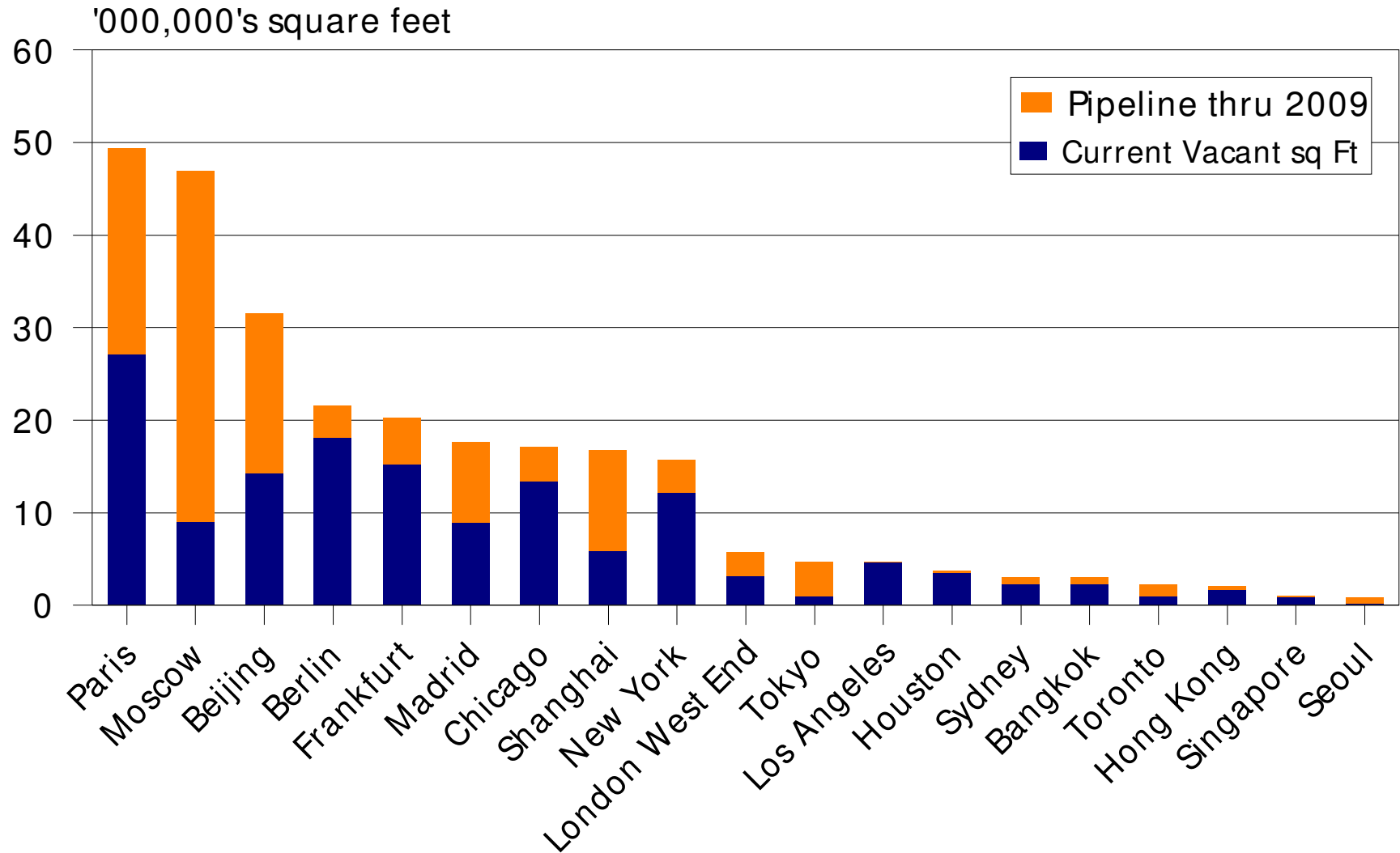
Global office rental indices

Rents poised to fall in all regions during 2009



Source: CBRE Research & Consulting (Dec 2008)

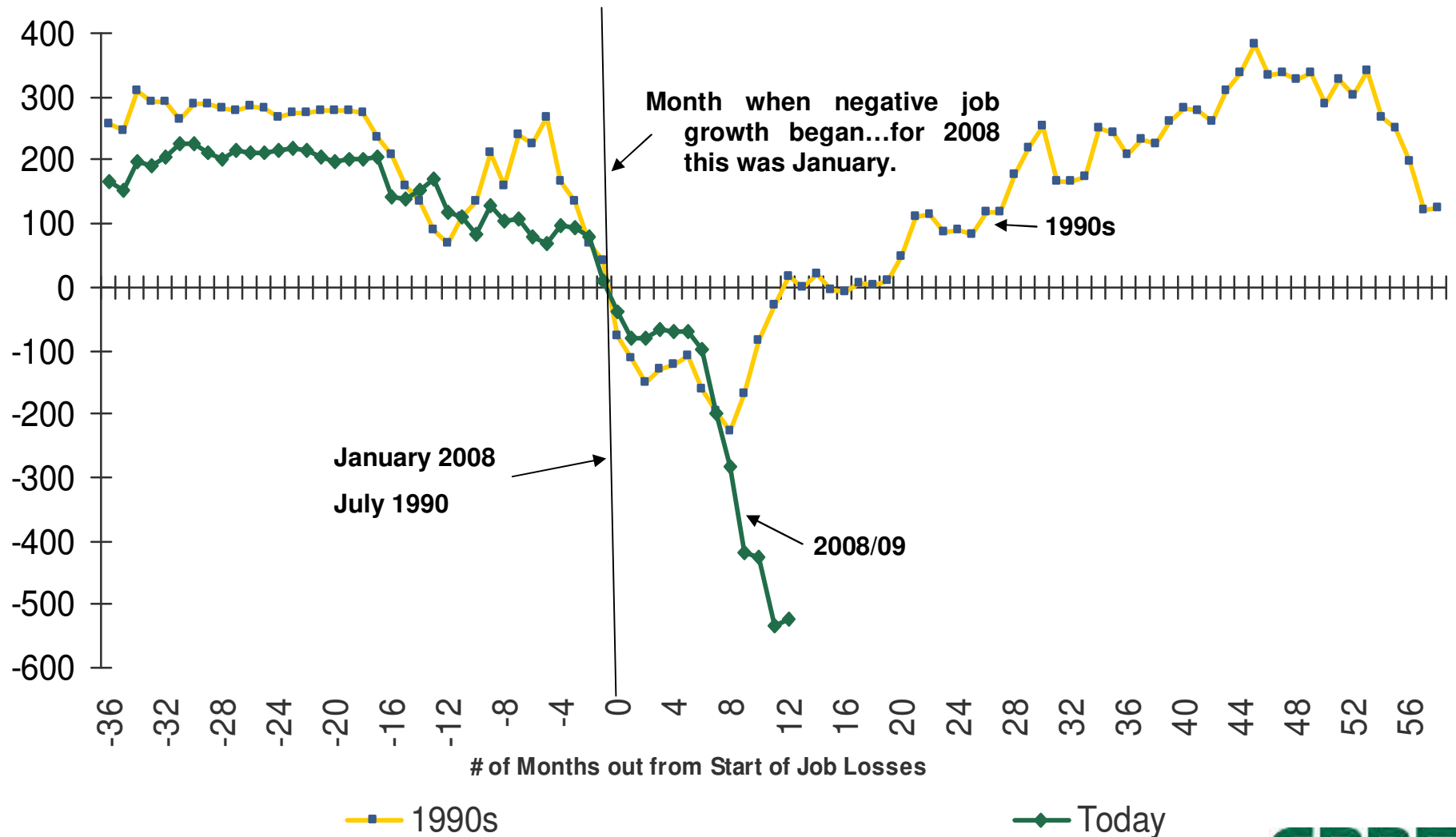
Some examples of office pipeline effects



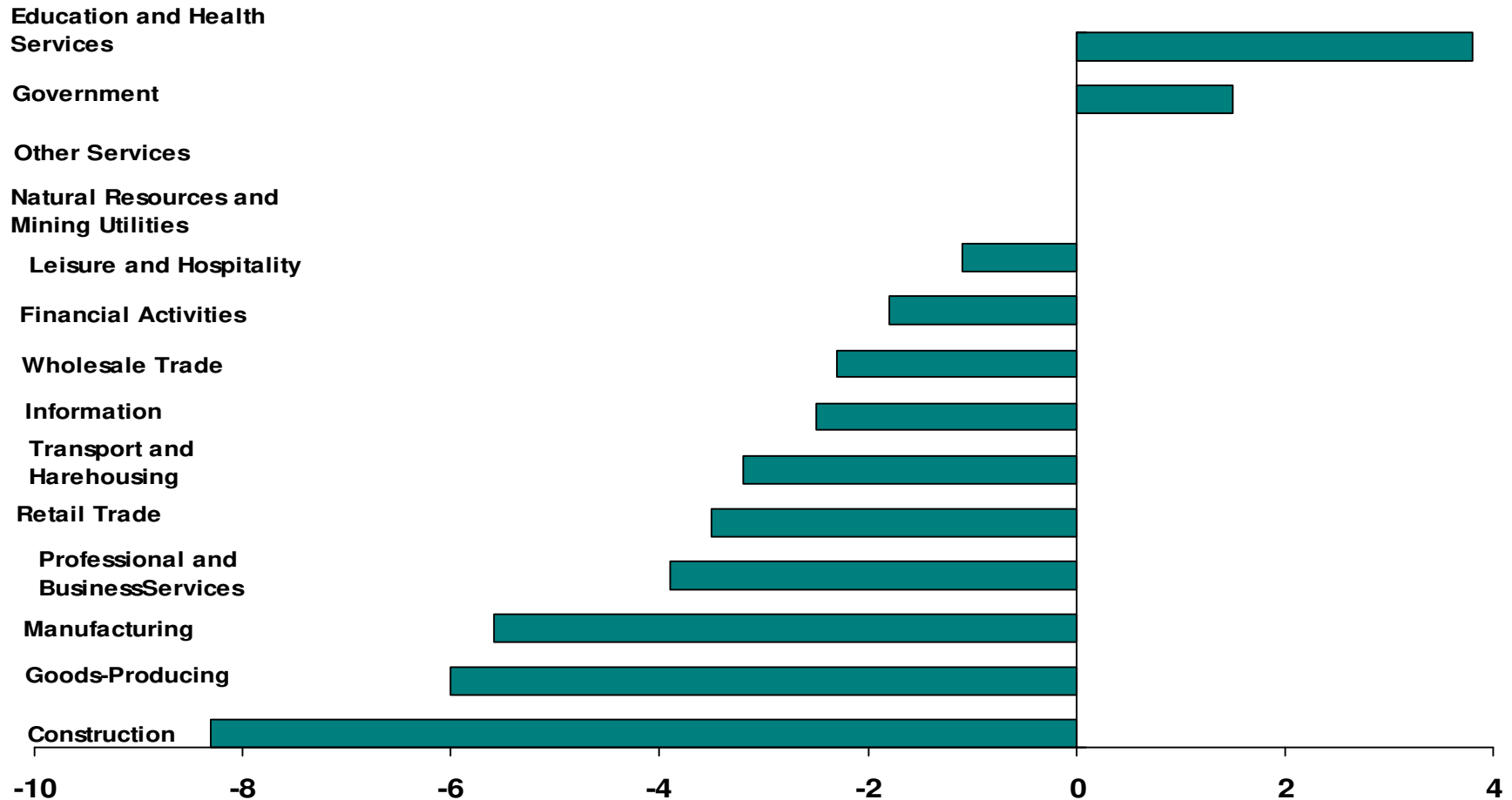
Source: CBRE Research & Consulting (Dec 2008)

US employment; this no longer looks like the 1990s

Net # of Jobs Created per Month x,1000

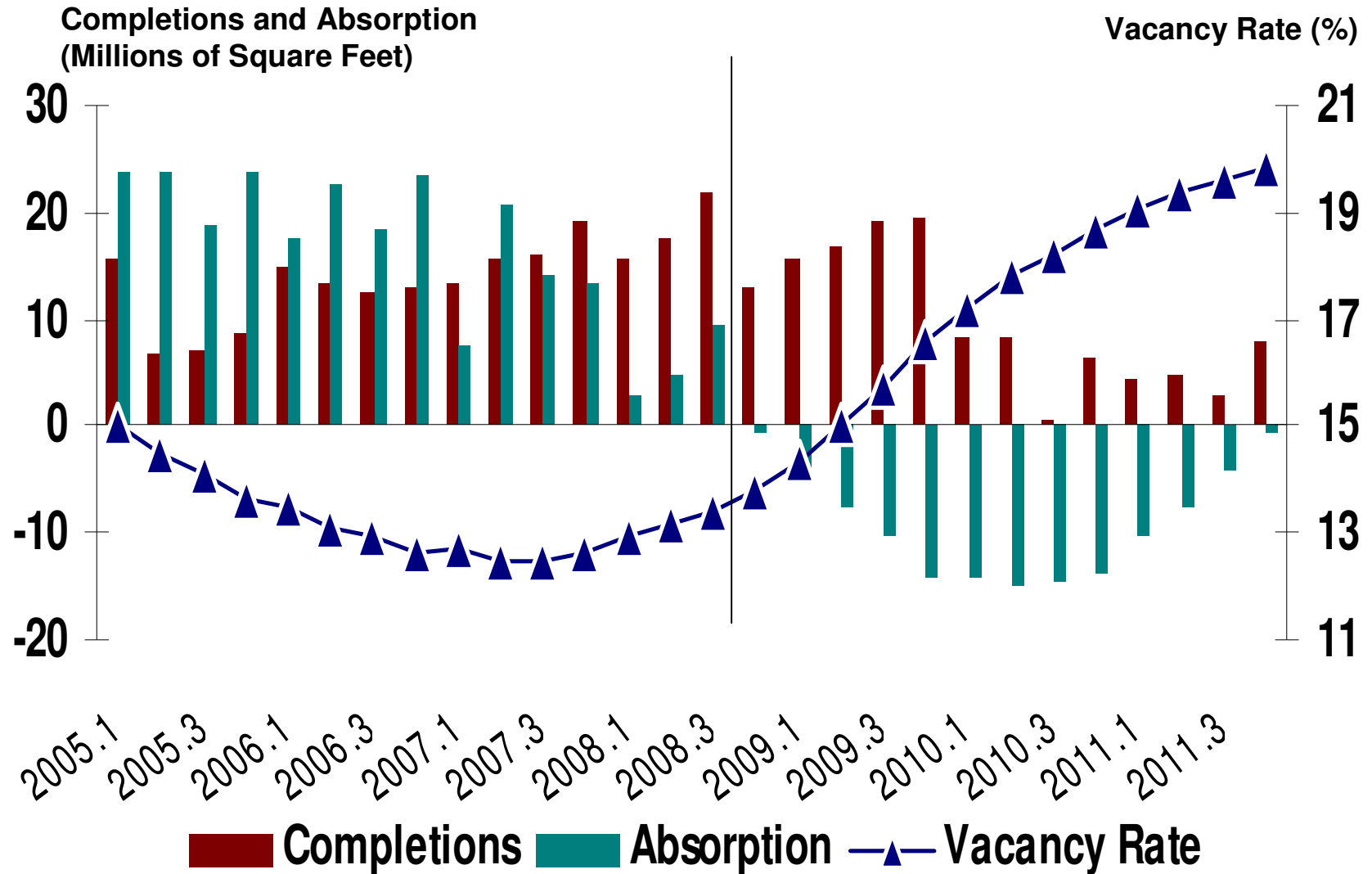


Change in Non-Farm payroll (December 2008)



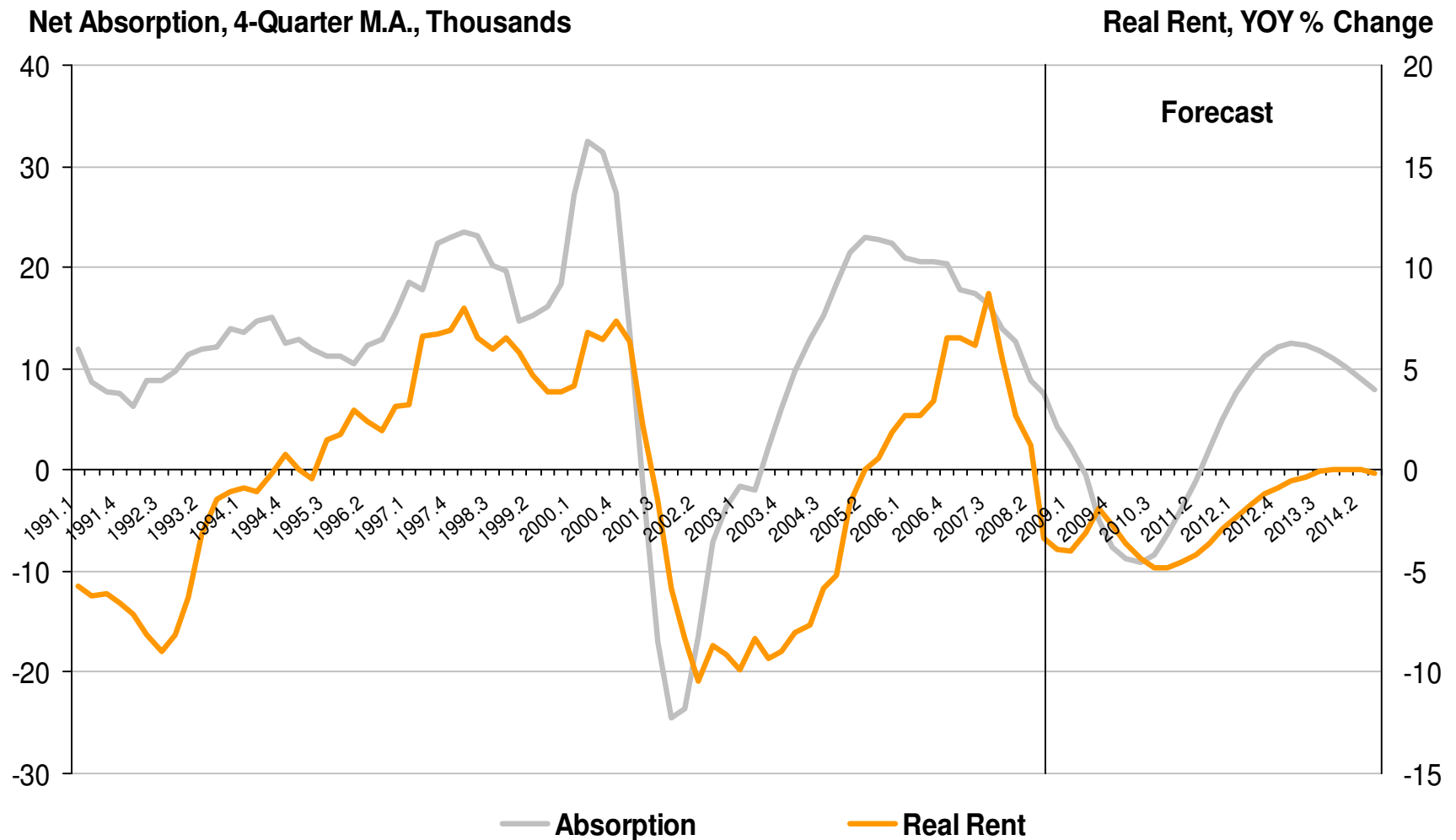
Source: Department of Labor December 2008

US office sector; financial spiral scenario



TWR Office Outlook XL, Winter 2009

Weak demand leads to real rent declines



Source: TWR Office Outlook XL, Winter 2009.

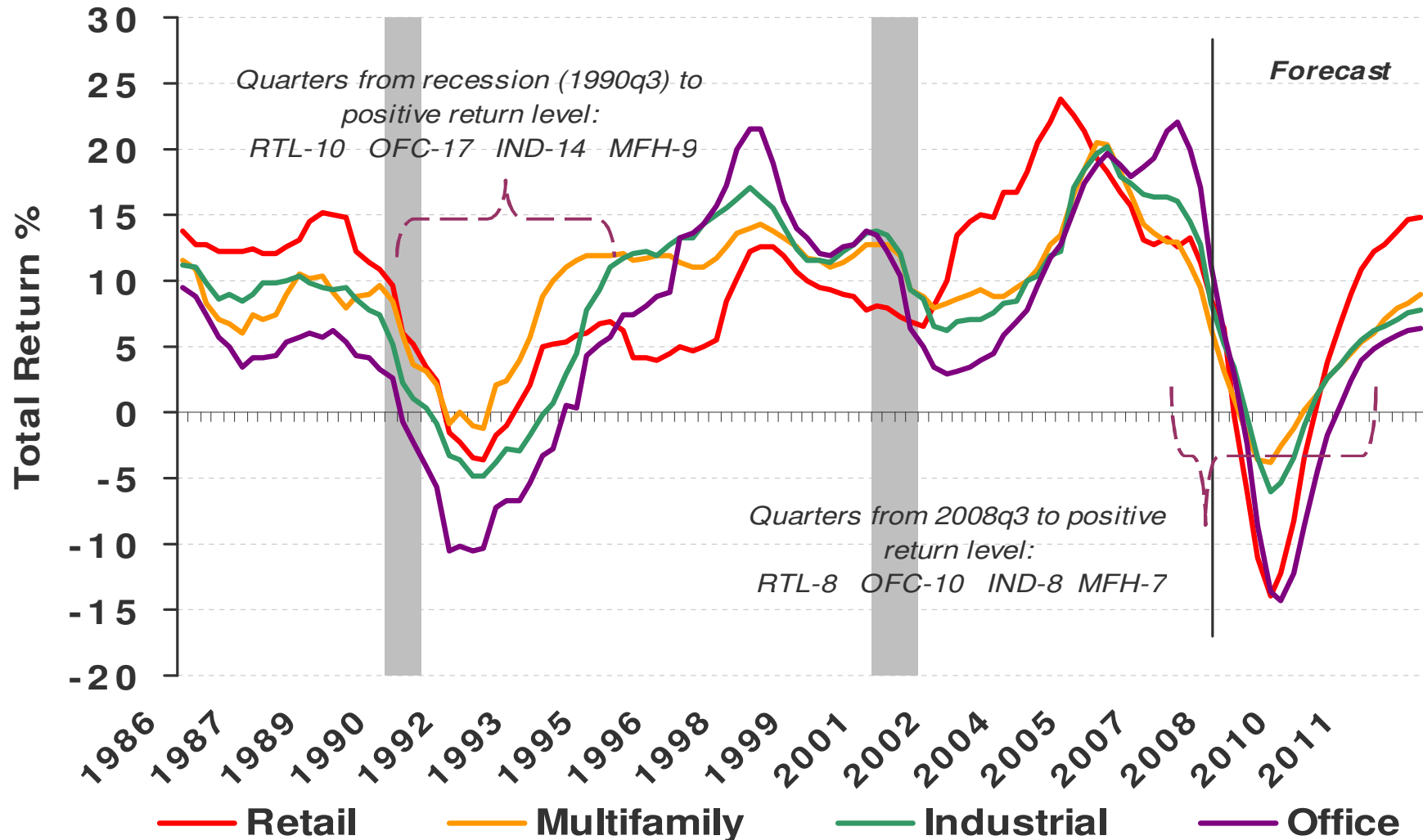


How bad can it get? Simple arithmetic!

	<u>Office</u>	<u>Industrial</u>	<u>MH</u> <u>(Units)</u>	<u>Retail</u>
Vacant Stock	485m	1.47b	737th	158m
(%)	(13.9)	(11.3)	(5.2)	(9.8)
Pipeline	112m	117m	272th	19m
Absorption 2001-2002	-108m	-197m	26th	7m
Worst Case Vacancy Rate	19.3%	13.1%	8.2%	9.9%
Historic High Vacancy Rate	19.1%	12%	6.8%	10%
(Quarter)	(1991 Q2)	(1989 Q3)	(2003 Q4)	(2002 Q4)

Source: CBRE Torto Wheaton Research, Outlook XL, Spring 2009

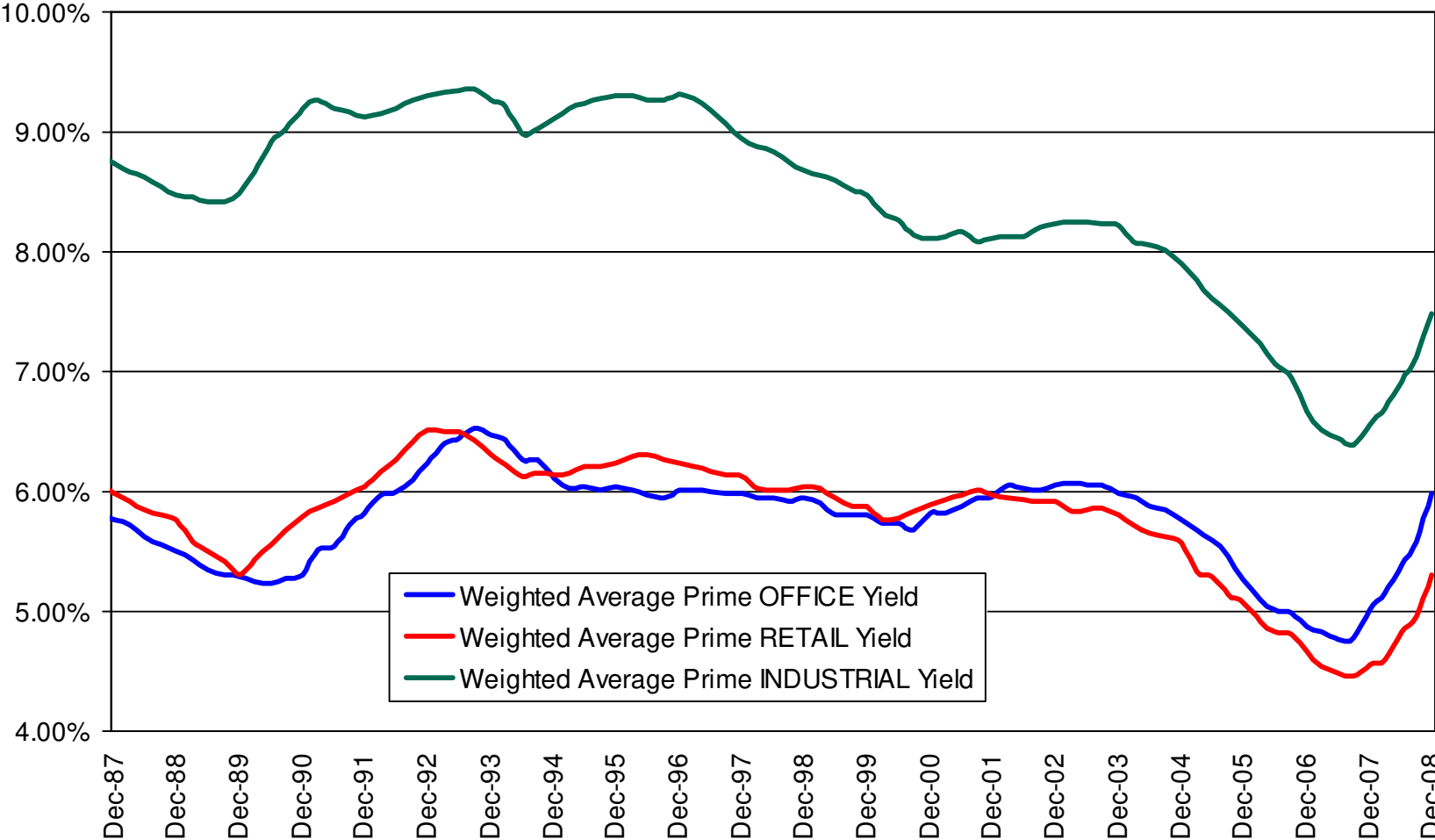
NCREIF total returns: financial spiral scenario



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

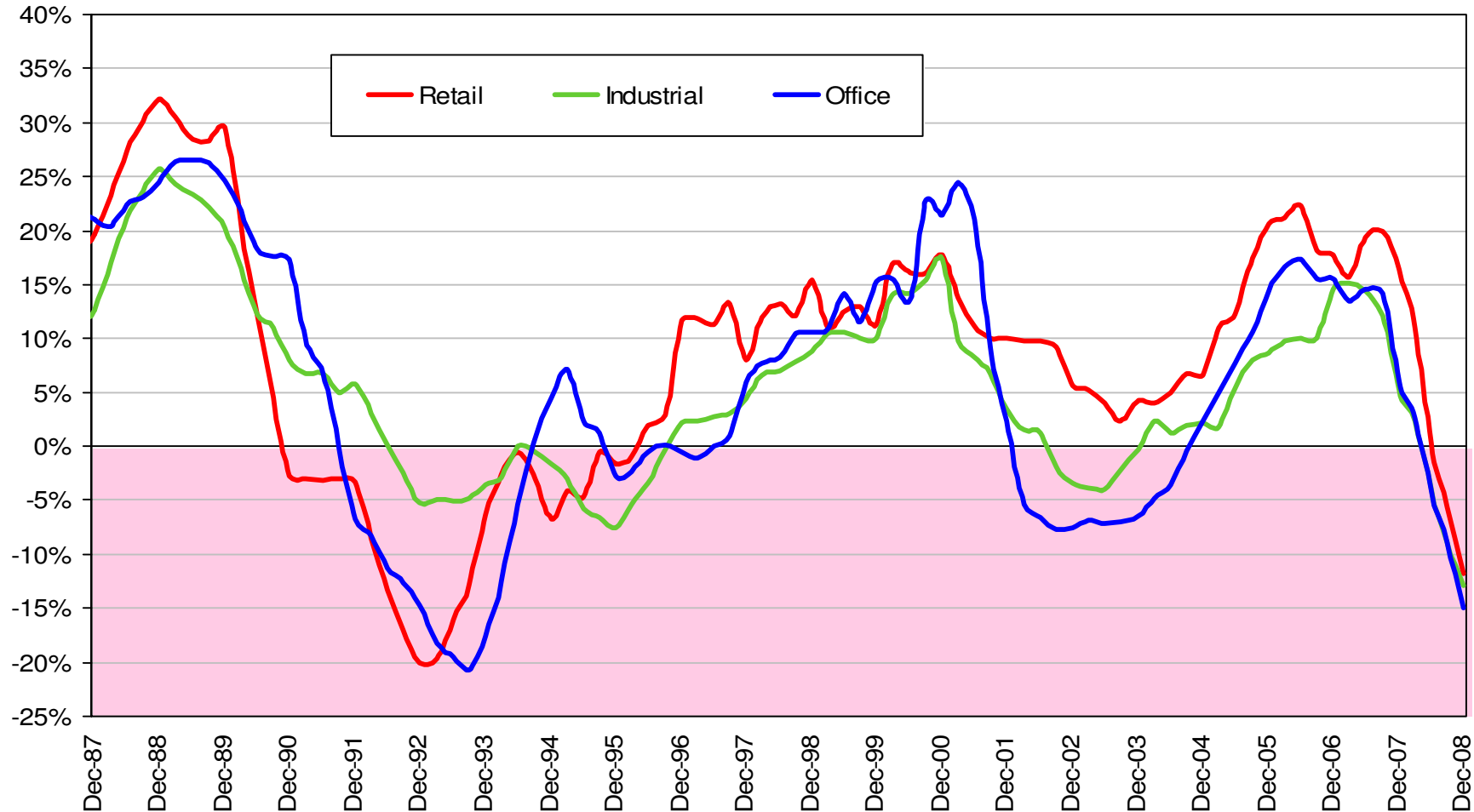


Source: CB Richard Ellis



Capital values now in negative territory

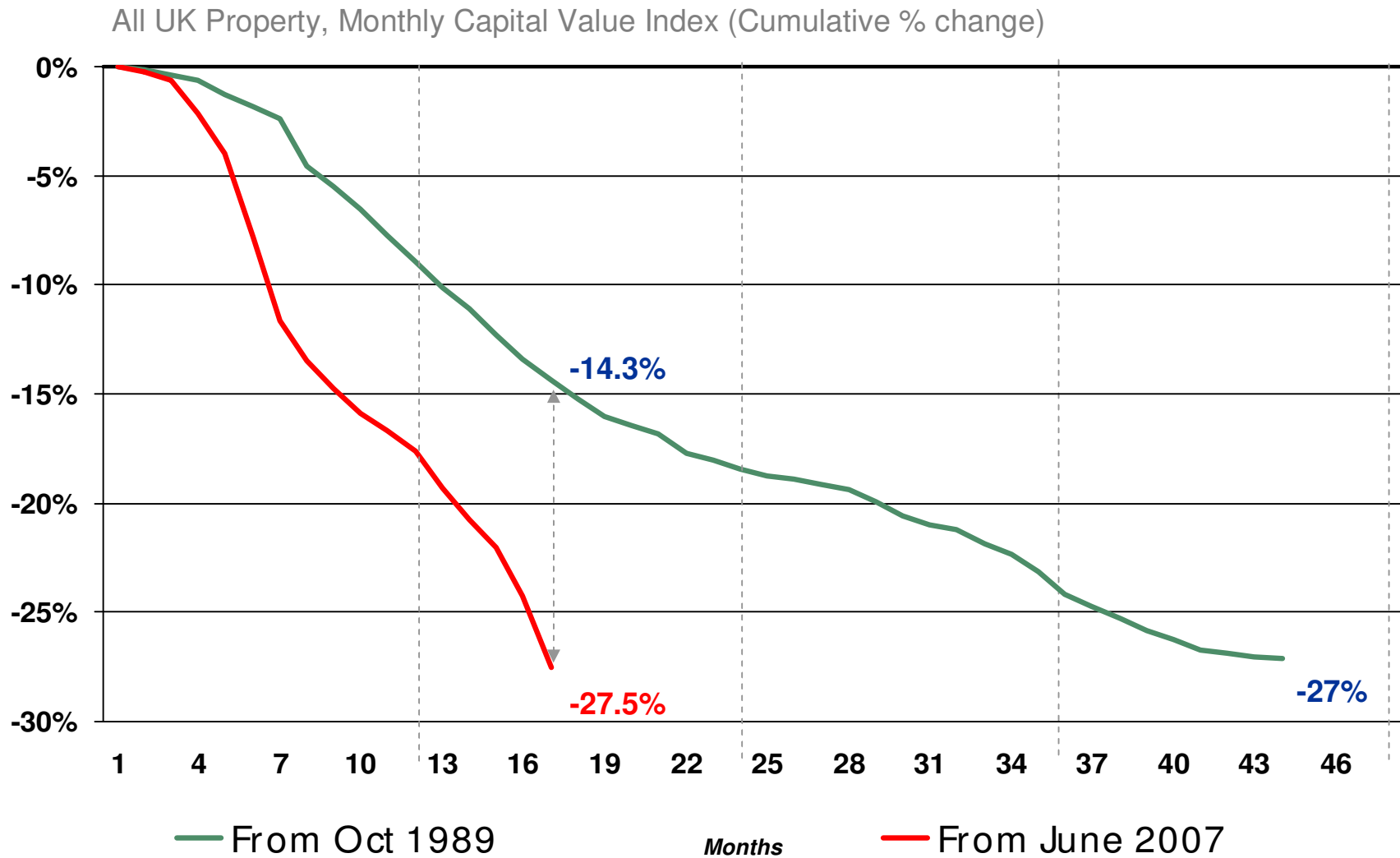
CB Richard Ellis EU-15 Capital Value Index



Source: CB Richard Ellis



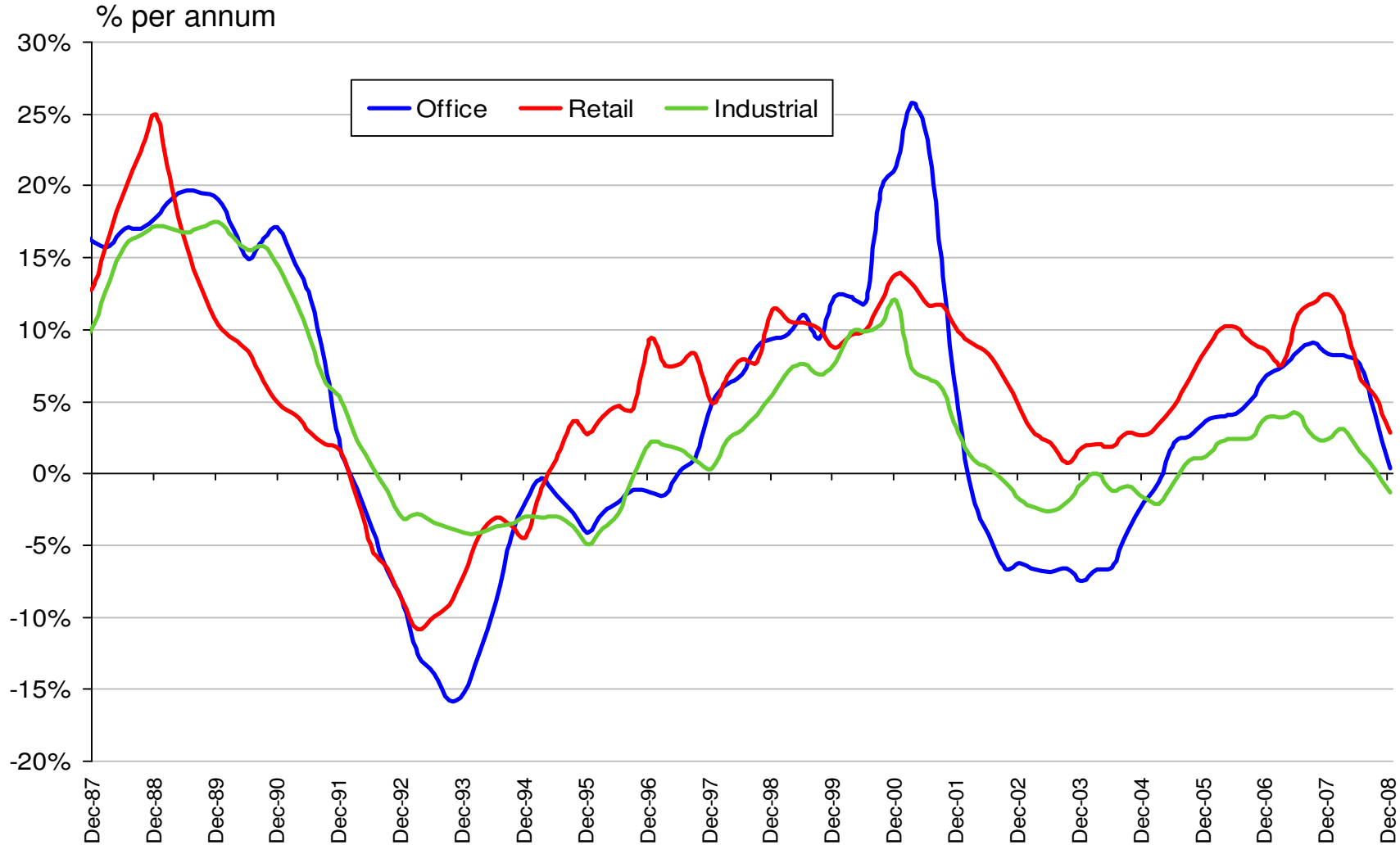
In the UK the decline is faster this time



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

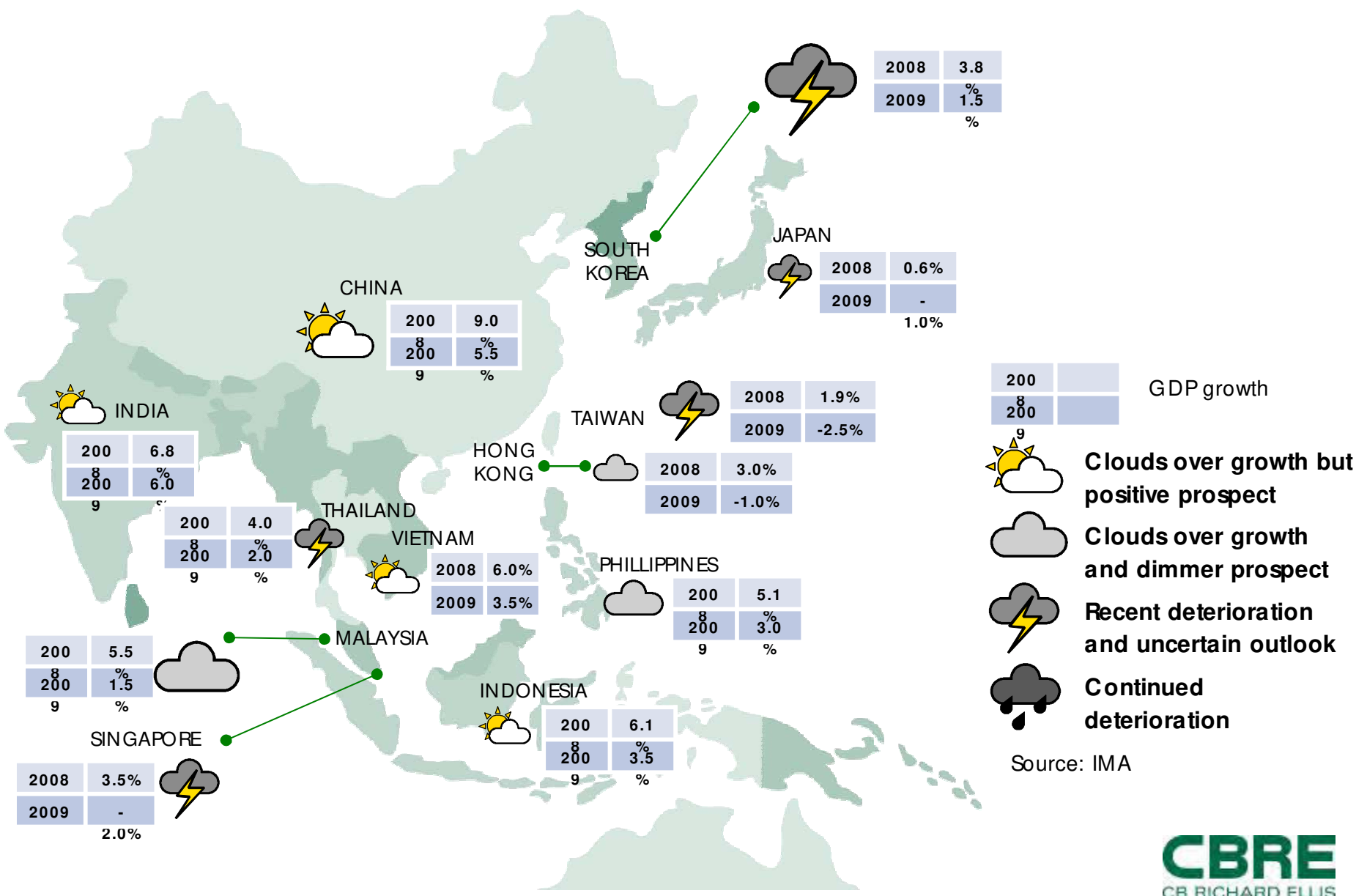
§ Buyers identifying value

- » 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

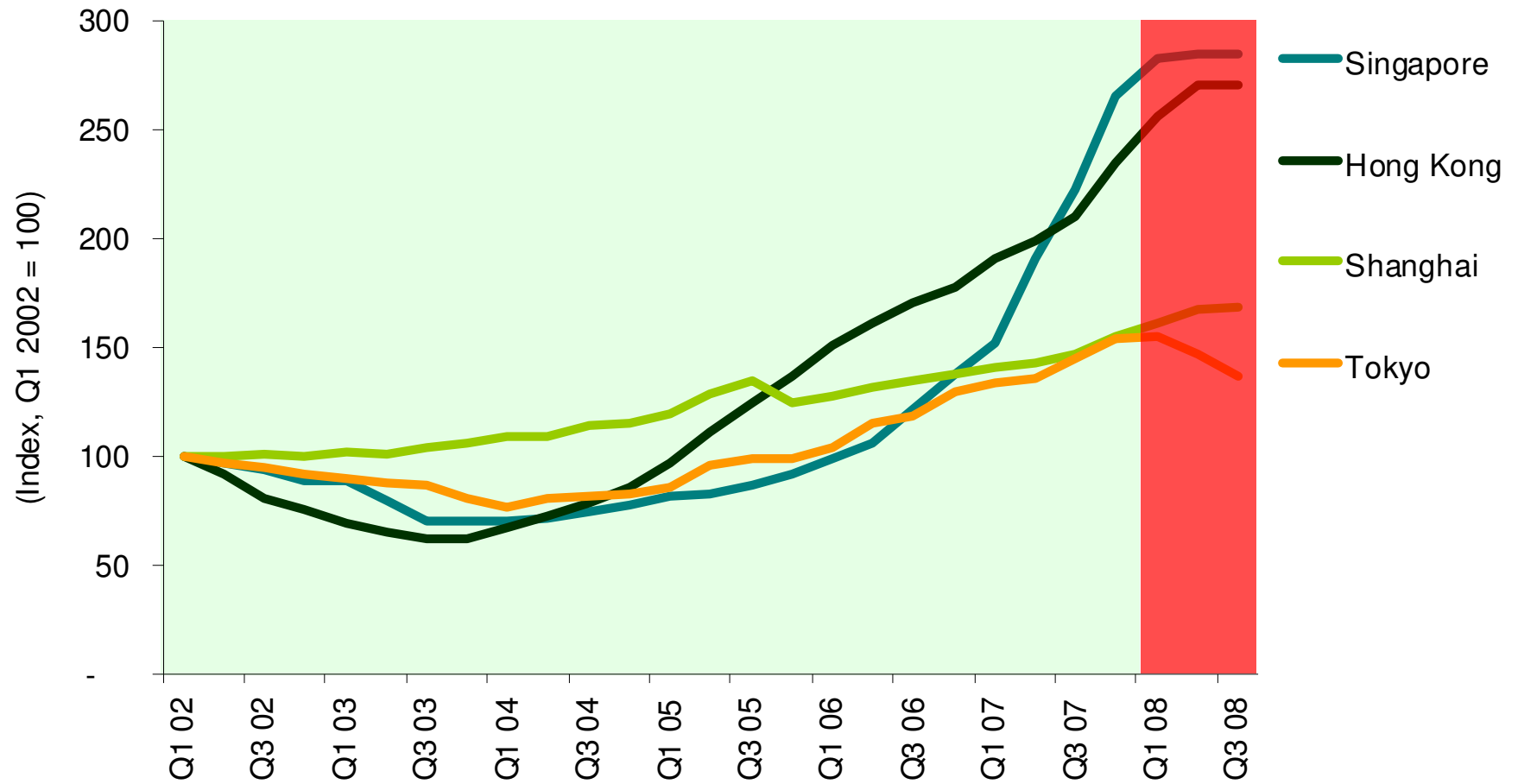
- » Whenever it happens, it wont look like it did in 1996/7!

Asia economic outlook



Asia - office rents are set to decline

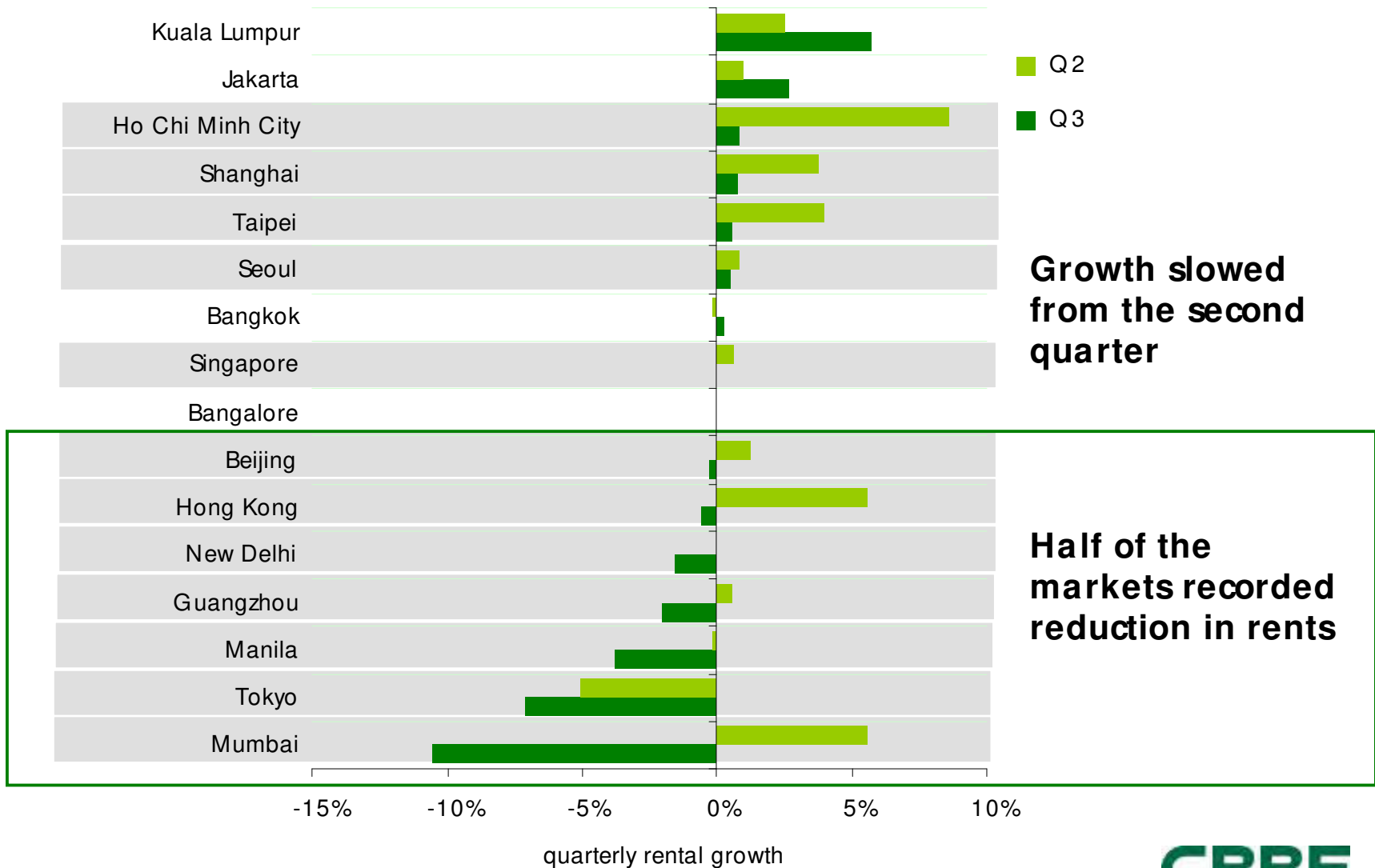
Prime Office Rental Performance (2002 – Q3 2008)



Source: CBRE Research

Office rents are set to decline

Office Rental Growth Q2 2008 vs Q3 2008

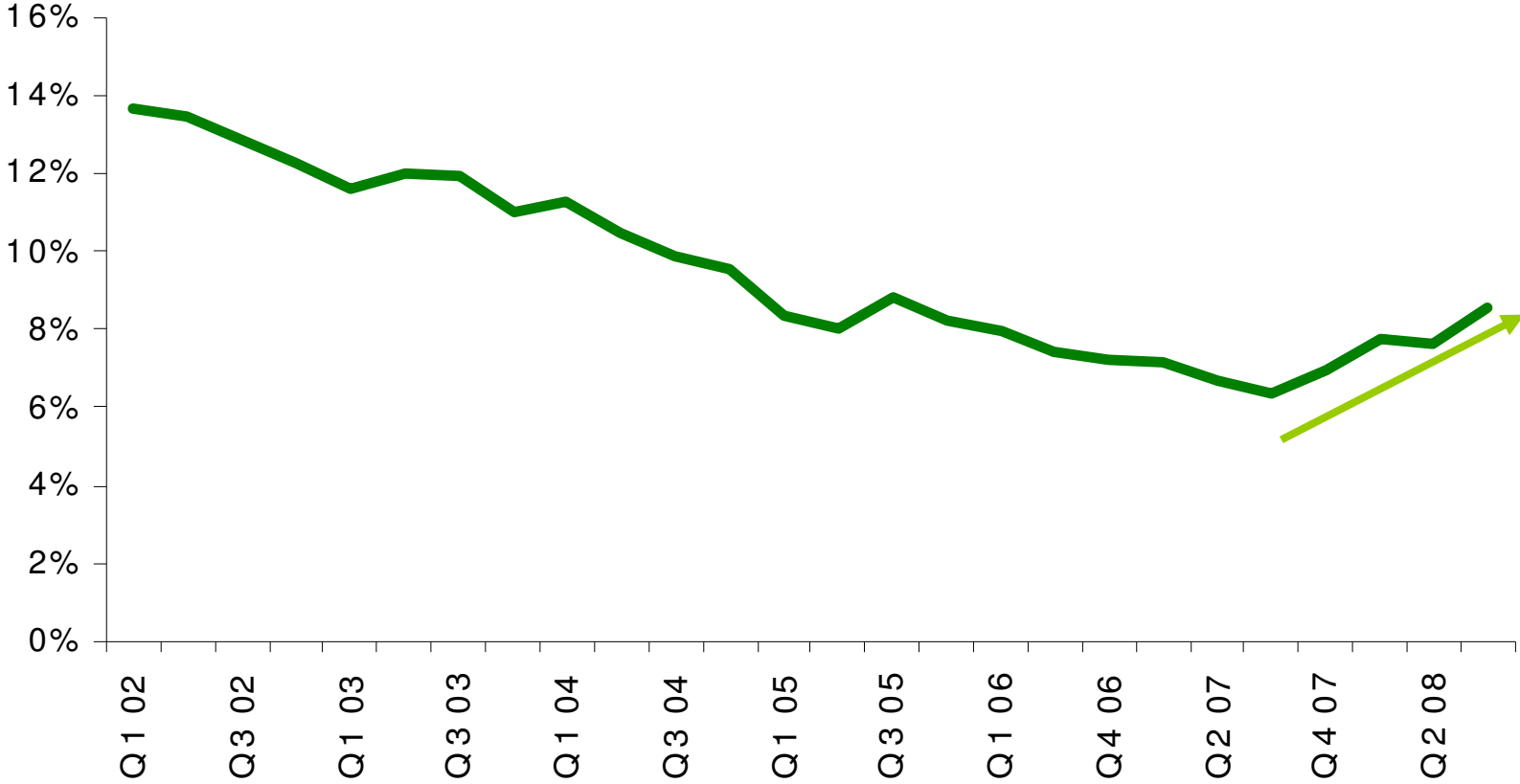


Source: CBRE Research

Compression in Vacancy Reversed

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

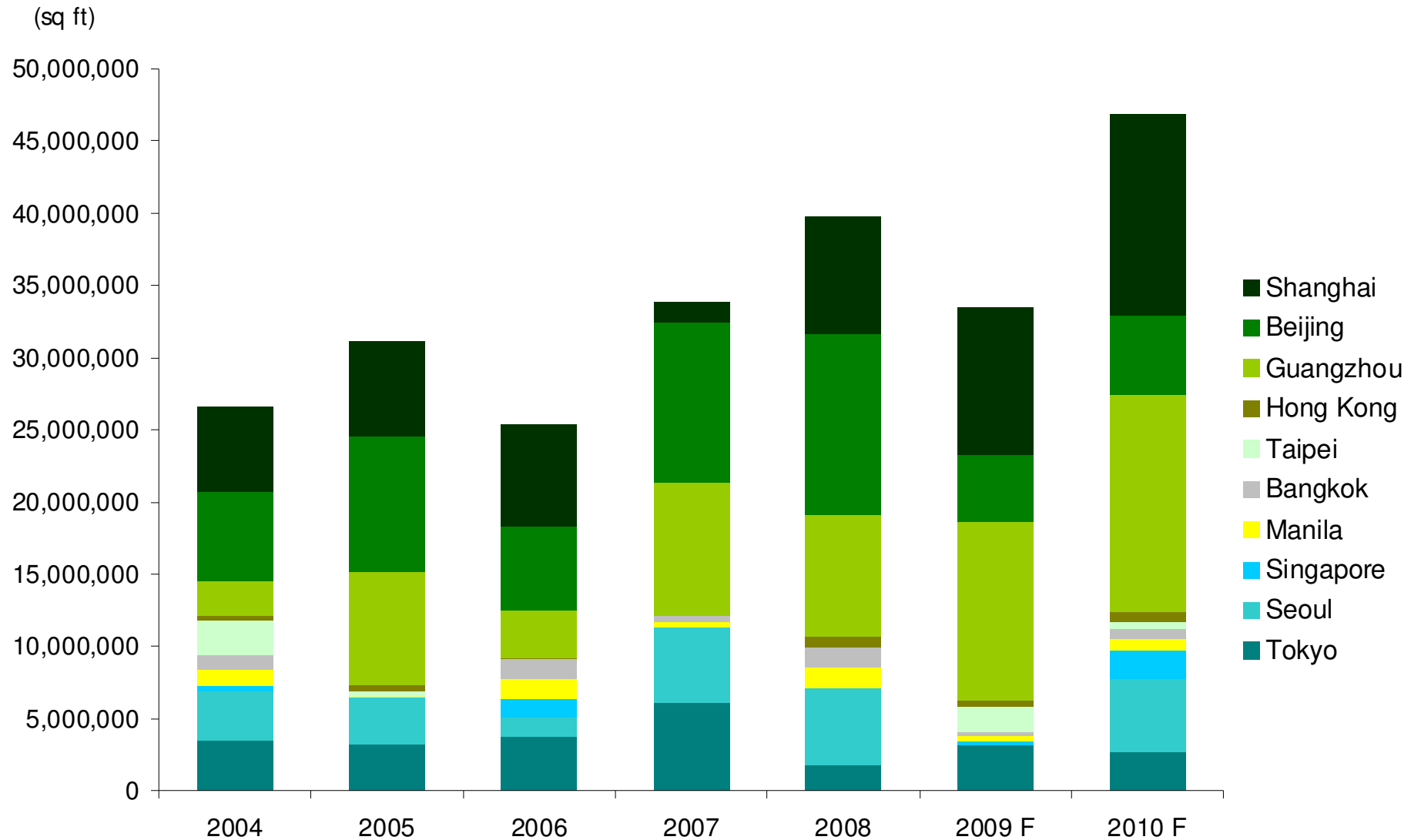
Asia overall vacancy rate (2002 - Q3 2008)



Source: CBRE Research



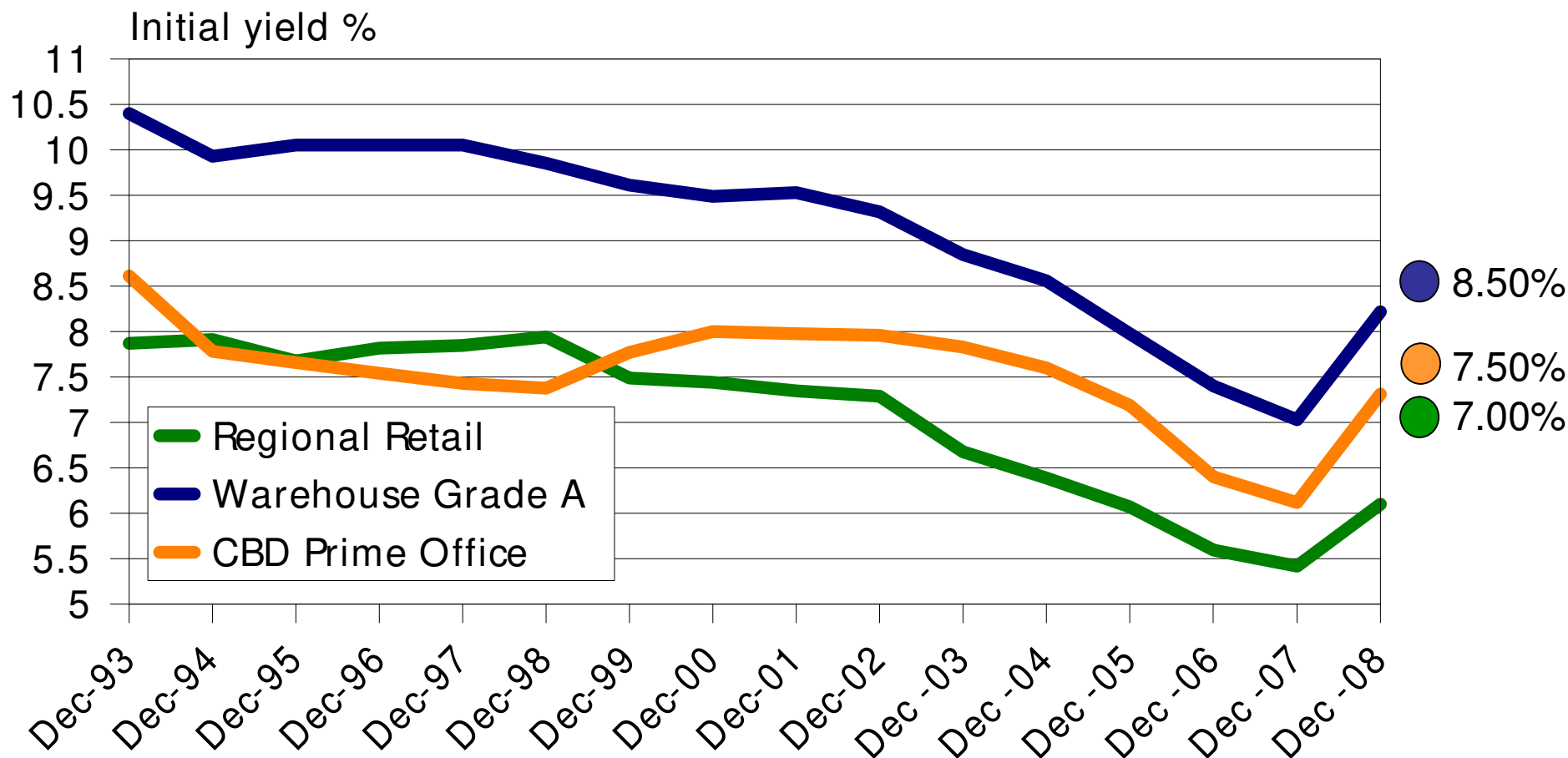
New Supply (2004 -2010)



Source: CBRE Research

Australian average weighted yield, 1993-2008

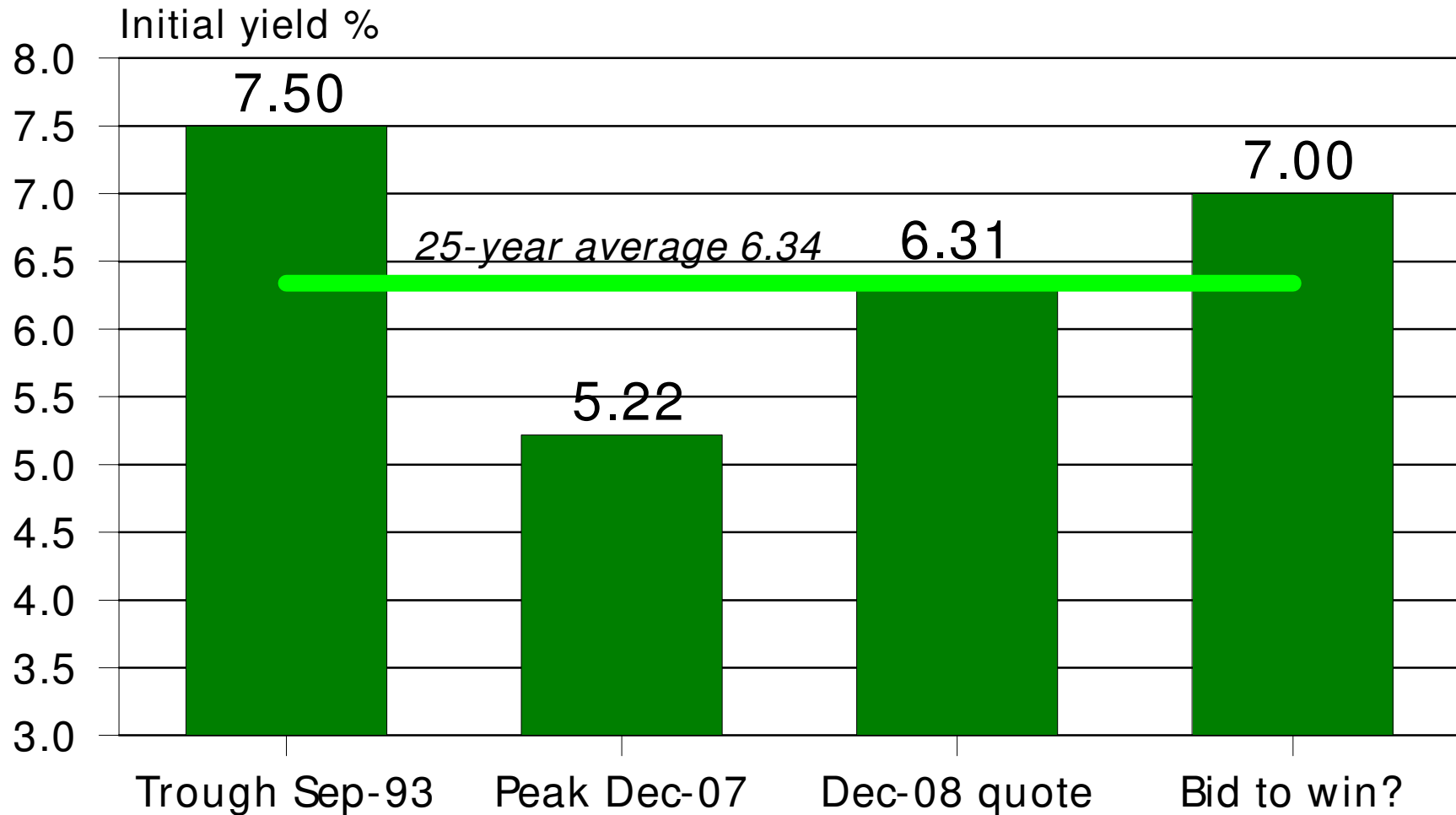
Implied yield now close to long term average...



Source : CBRE Research & Consulting

Includes weighted average of Brisbane, Sydney, Canberra, Melbourne, Adelaide, Perth

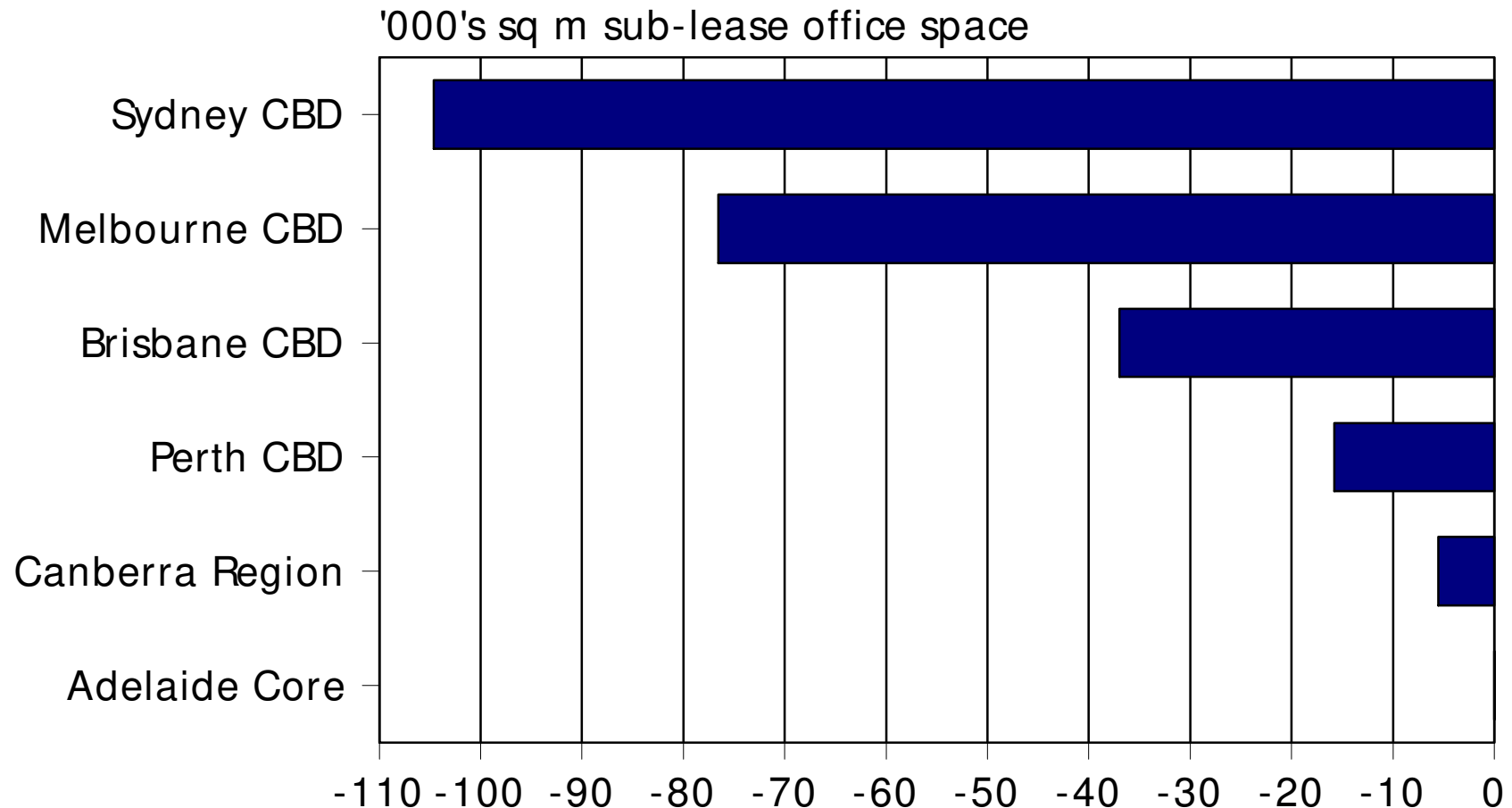
Sydney CBD prime office; where's the market?



Source : CBRE Research & Consulting

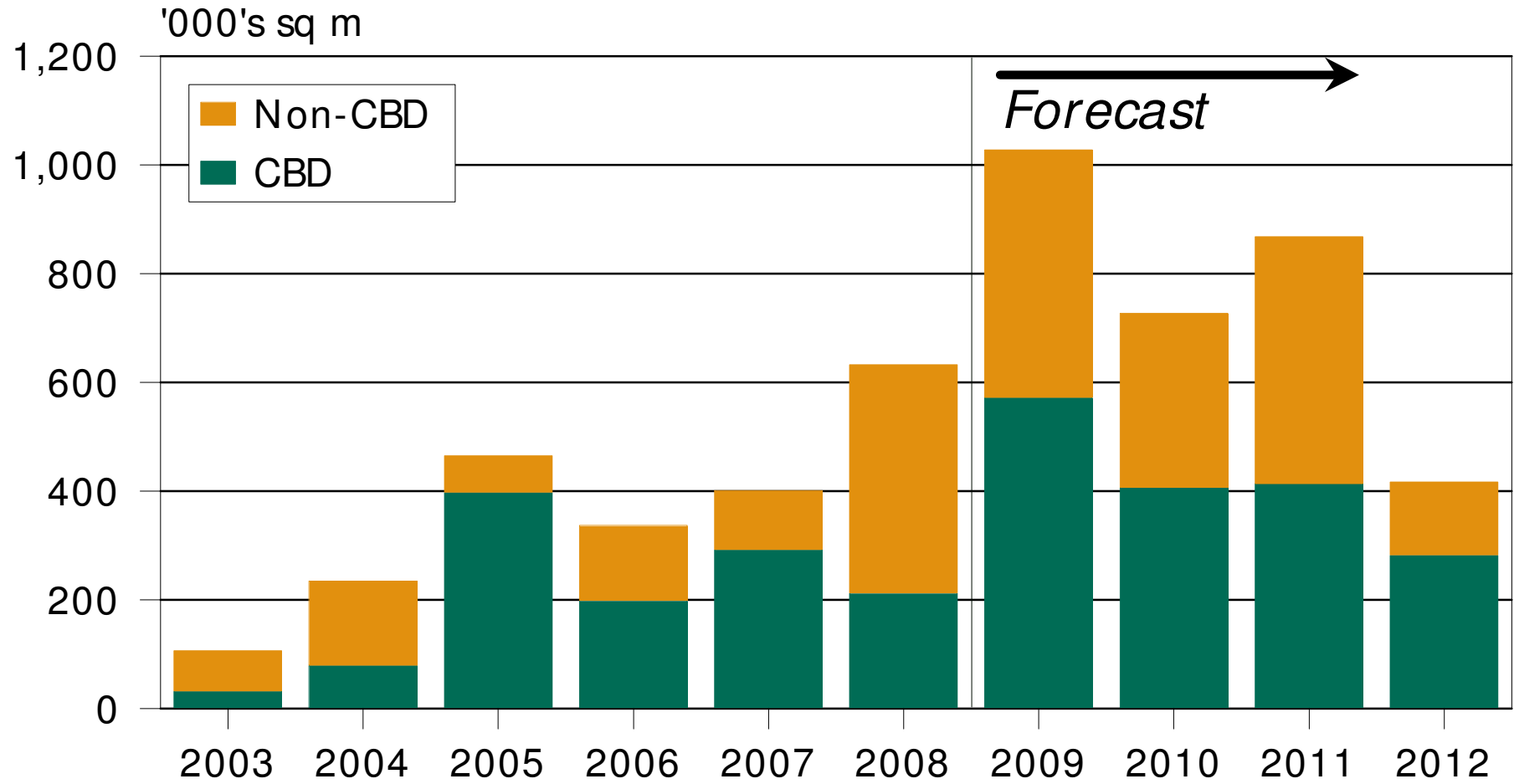
Forecast negative absorption 2009

Sub-lease office space expanding quickly



Source : CBRE Research & Consulting (November 2008)

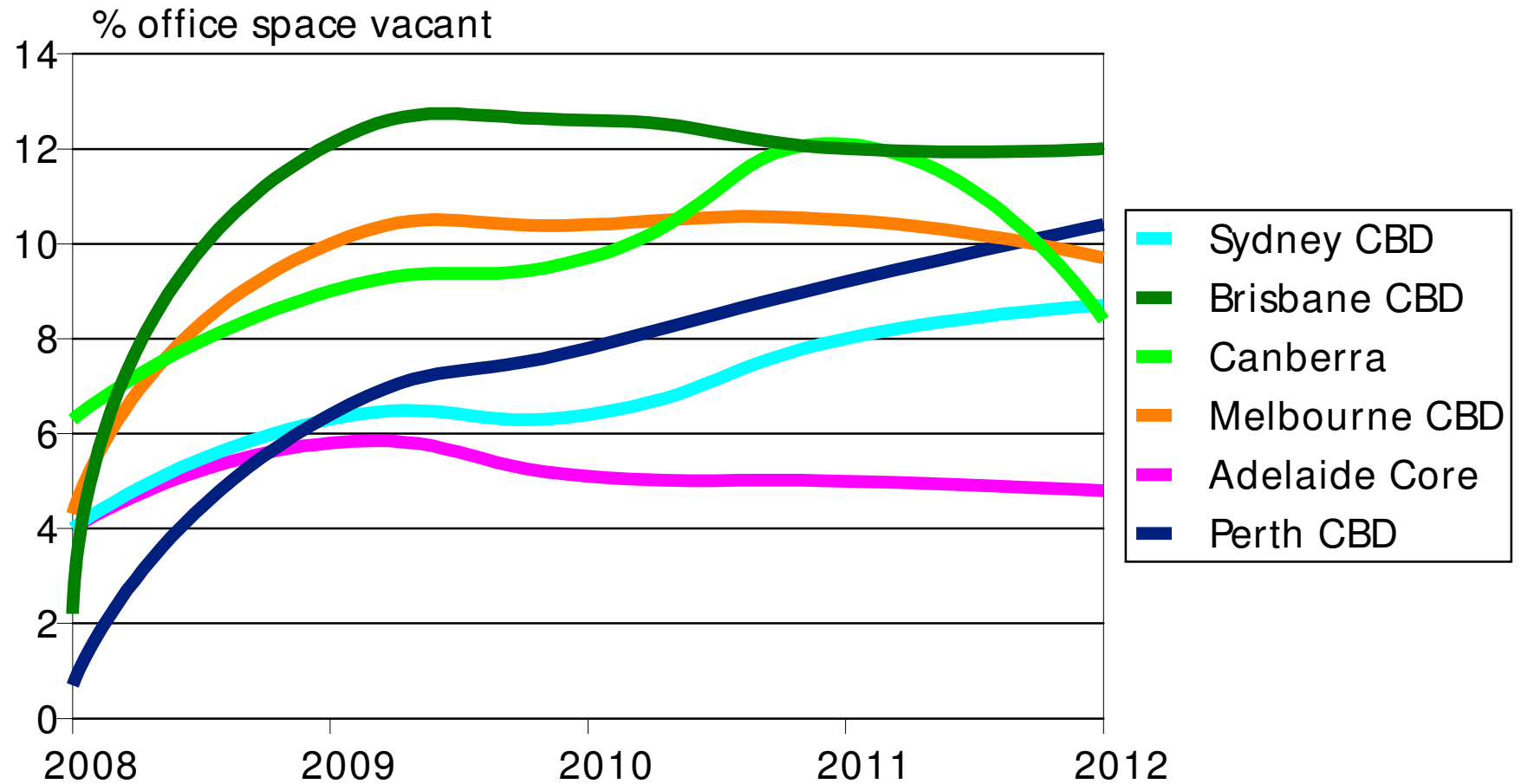
Forecast new office supply above average & poorly timed



Source : Property Council of Australia & CBRE Research & Consulting
Figures as at December 2008



Office vacancy to rise & send rents falling



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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