

# GLOBAL REAL ESTATE FORECAST

2012

## The Big, Big Picture

- ▣ Slow growth at best in the United States
- ▣ Probable recession or possible disaster in Europe
- ▣ Slowing growth in Asia

Fortune Magazine December 26, 2011

One thing is for sure:  
We are not heading into a  
recession.

-Bob Doll  
Chief Investment Officer, BlackRock

While German Economy is  
doing well, next year without  
a doubt will be more difficult  
than this one.

-Angela Merkel  
German Chancellor

We will Continue to manage  
well the relationship between  
stable and relatively quick  
economic growth, structural  
adjustment and inflation.

-Hu Jintao  
President of China

We are going to dig down  
deep to get to the bottom to  
stay on top.

-Frank & Mike

## Regional Presenters

- ▣ Europe – Dr. Lee Elliot

Director of Occupier Research – EMEA, Jones Lang LaSalle

- ▣ Asia – Mr. Hans Vrensen

Global Head of Research DTZ

- ▣ The Americas – Ms. Asieh Mansour

Head of Research – the Americas – CBRE

- ▣ The Bay Area – Ms. Caroline Green

Head of Research – Northwest North America – Cushman & Wakefield



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# The Changing Face of Asia

2012 Real Estate Global Forecast

San Francisco, CA

19 January 2012



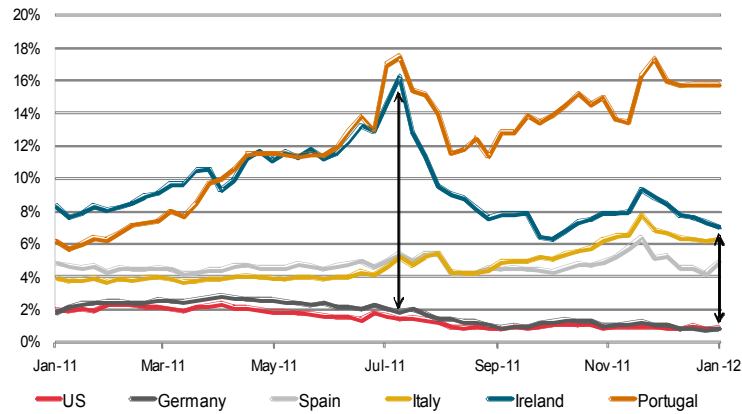
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- Global economic overview
- Asia Pacific market update
- Downside scenario analysis
- Conclusions

## Despite remaining pressures in Europe, Ireland shows how it's done

5 year government bond yields (daily data, last date = 7 Jan 12)

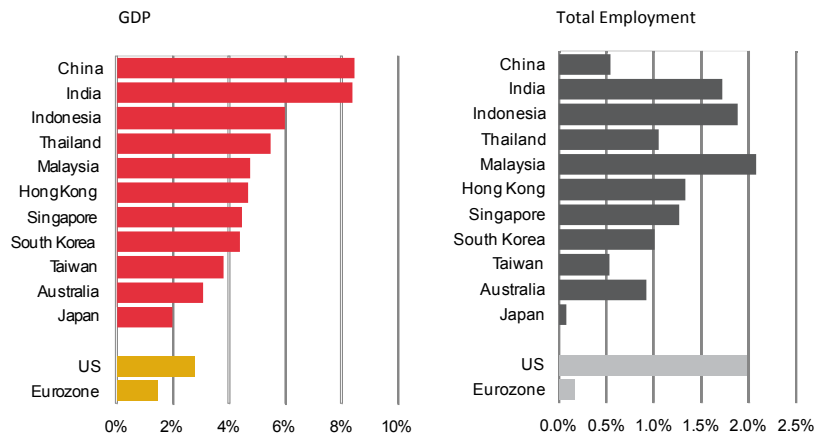


Source: DTZ Research, Bloomberg

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## Asian growth remains strong, especially in China and India

GDP and total employment (2012-2016)



Source: DTZ Research/Oxford Economics

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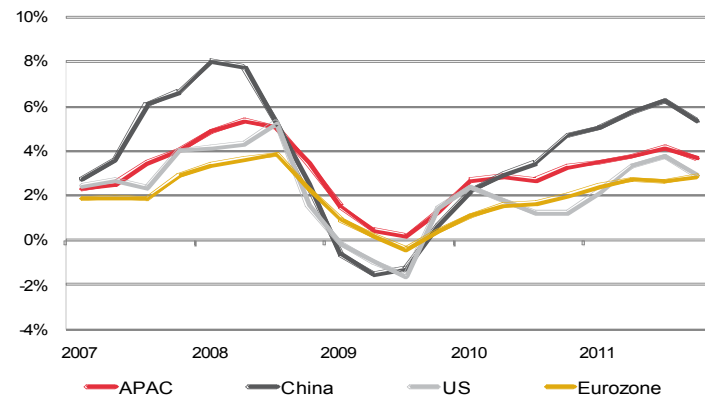


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## Chinese inflation remains, but is easing due to policy tightening

### Inflation



Source: DTZ Research, Oxford Economics

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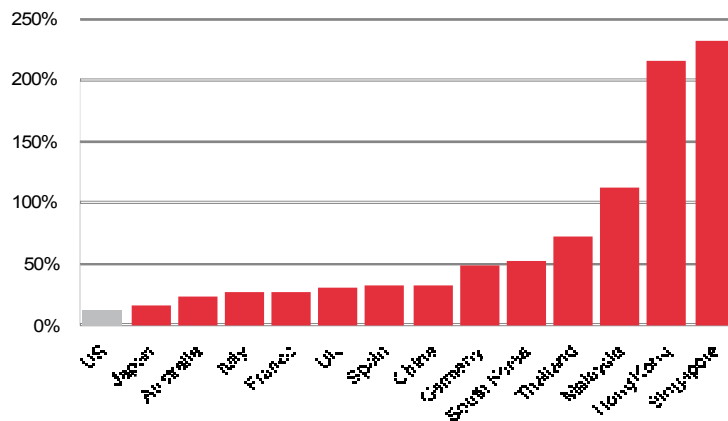


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## Some APAC countries could be impacted by European slowdown

### Size of exports relative to GDP



Source: DTZ Research

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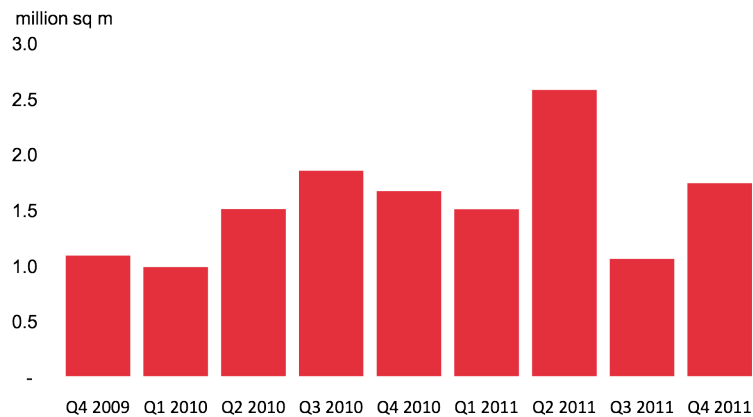


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## Increased volatility in corporate sentiment reflected in absorption

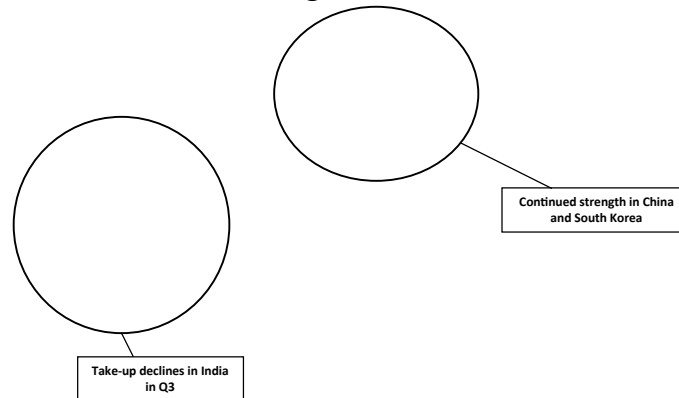
Aggregate APAC office net absorption, Q4 2009 – Q4 2011



Source: DTZ Research

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## Office demand remains strong in China



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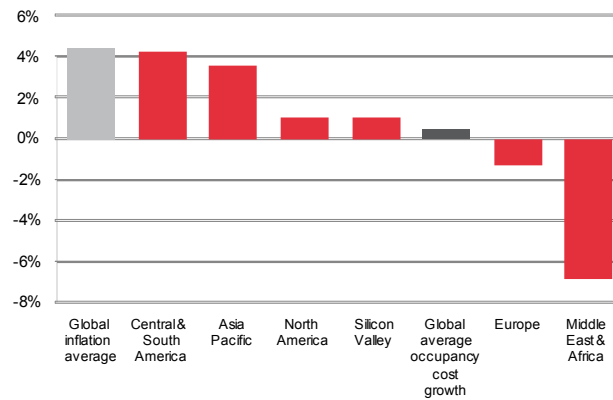


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## Occupancy costs increased in APAC but still below inflation

Growth in total occupancy costs per workstation by region, 2010-2011 (in USD)



Source: DTZ Research, Oxford Economics

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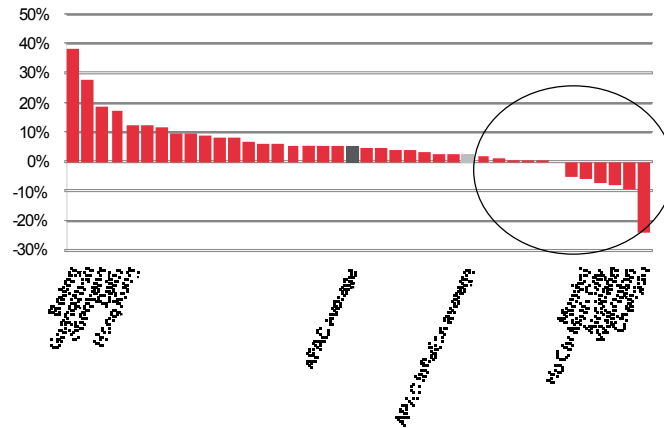


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## 12 out of 38 APAC cities saw office costs rise less than inflation

% change 2010-2011 in total occupancy costs per workstation in Asia Pacific (in local currency)



Source: DTZ Research

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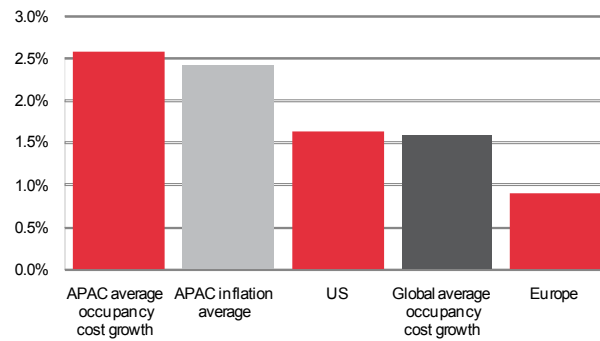


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## Despite occupancy costs growth highest in APAC, flat in real terms

Average annual growth in total occupancy costs per workstation, 2012-2016 (base case)



Source: DTZ Research

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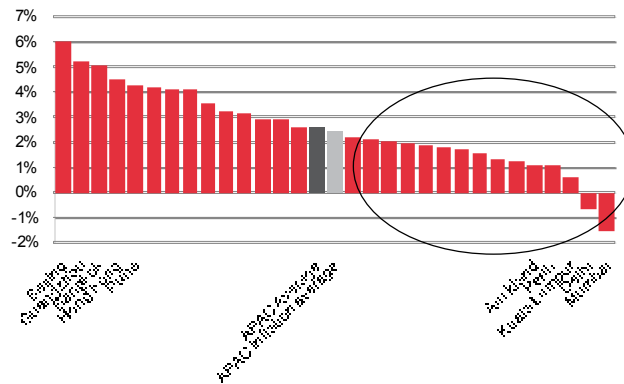


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## Half of forecasted APAC office markets to have below inflation cost increases

Average annual growth in total occupancy costs per workstation, 2012-2016 (base case)



Source: DTZ Research

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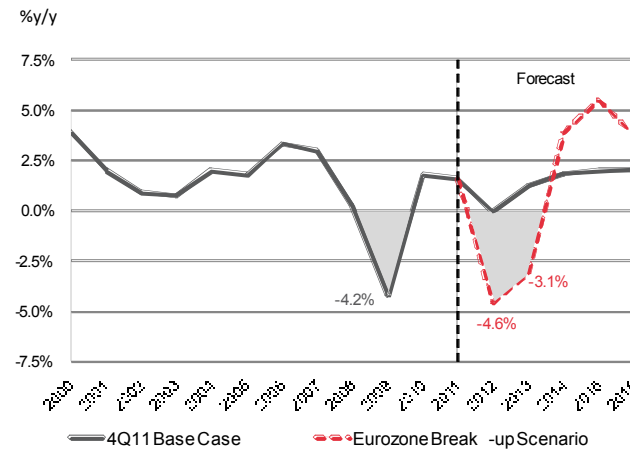


- Global economic overview
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## Eurozone break-up scenario prompts deep recession

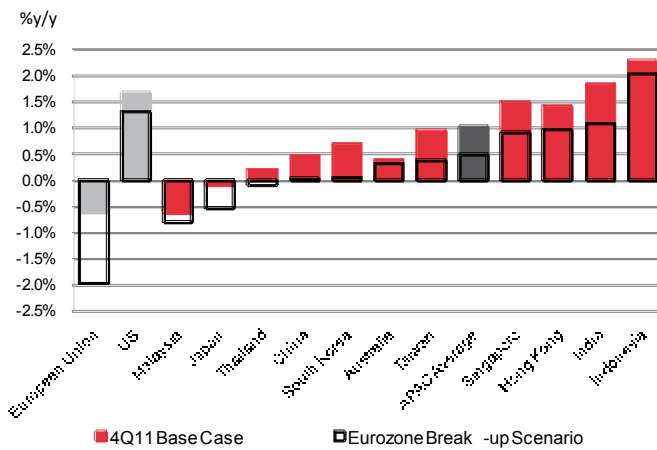
### Eurozone GDP



15

## Eurozone break-up scenario also impinges on APAC labour markets

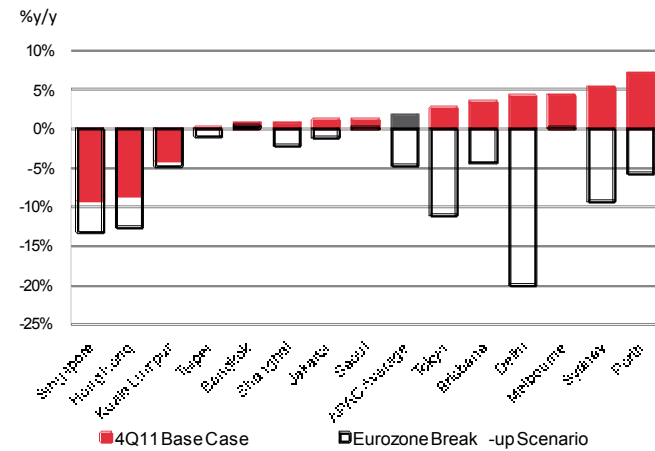
### Total Employment, 2012



16

## Break-up scenario sees office rents fall in most Asia Pacific markets

Prime office rents, 2012

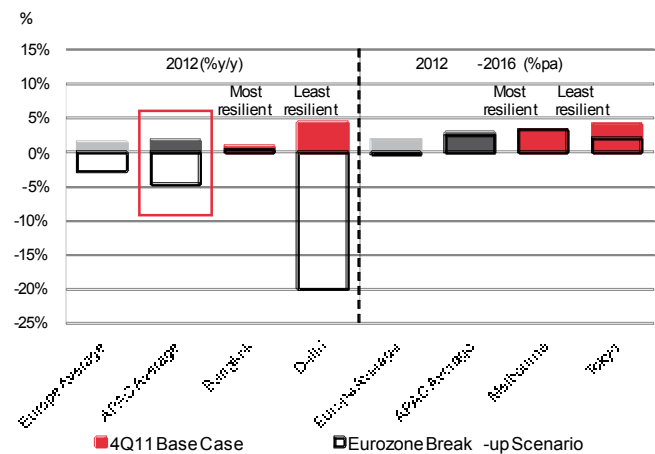


Source: DTZ Research

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## 2012 offers short-term cost savings as strong rebound by 2016

Prime office rents



Source: DTZ Research

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- Global economic overview
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- Base case economic growth expected to remain strong in Asia with moderate inflation
- Despite APAC occupancy costs growth high compared to other regions, it is forecasted to grow below inflation in most markets
- Only short window of cost saving opportunity in APAC under downside scenario as the region gets impacted in short term

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Global Head of Research

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## 2012 Real Estate Global Forecast San Francisco, CA

January 19, 2012

# Macroeconomic Indicators in 2012 by Region

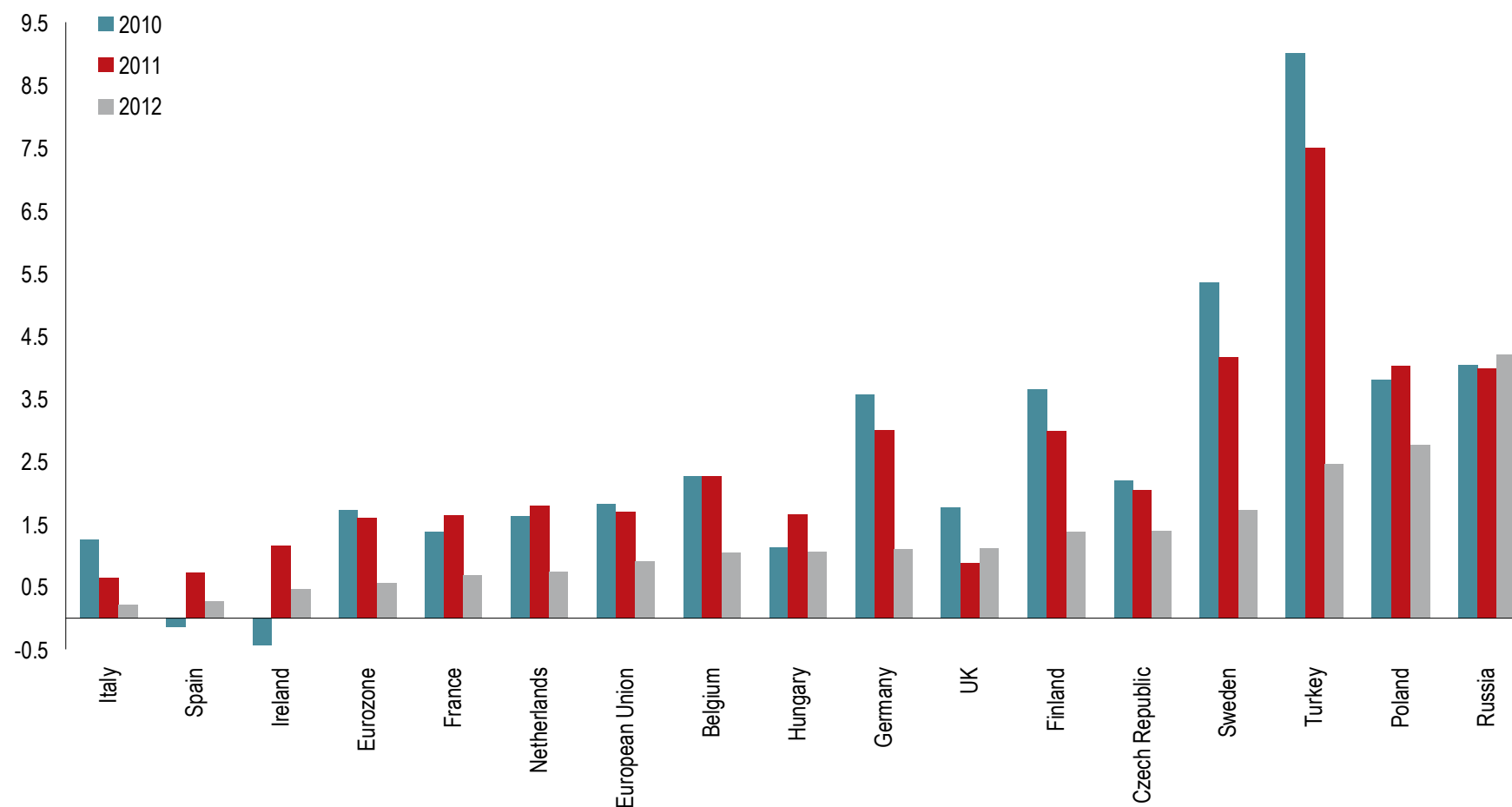
## Eurozone lags into medium term



Source: Oxford Economics

# Macroeconomic Indicators in 2012 by Region

## Country GDP variance



Source: Oxford Economics

## Macroeconomic Indicators in 2012 by Region

Global outlook remains highly uncertain

Eurozone debt crisis most pressing threat

### Most likely scenarios

Credible rescue



**Early recovery**  
**20%**

Muddling along



**Eurozone stagnation**  
**50%**

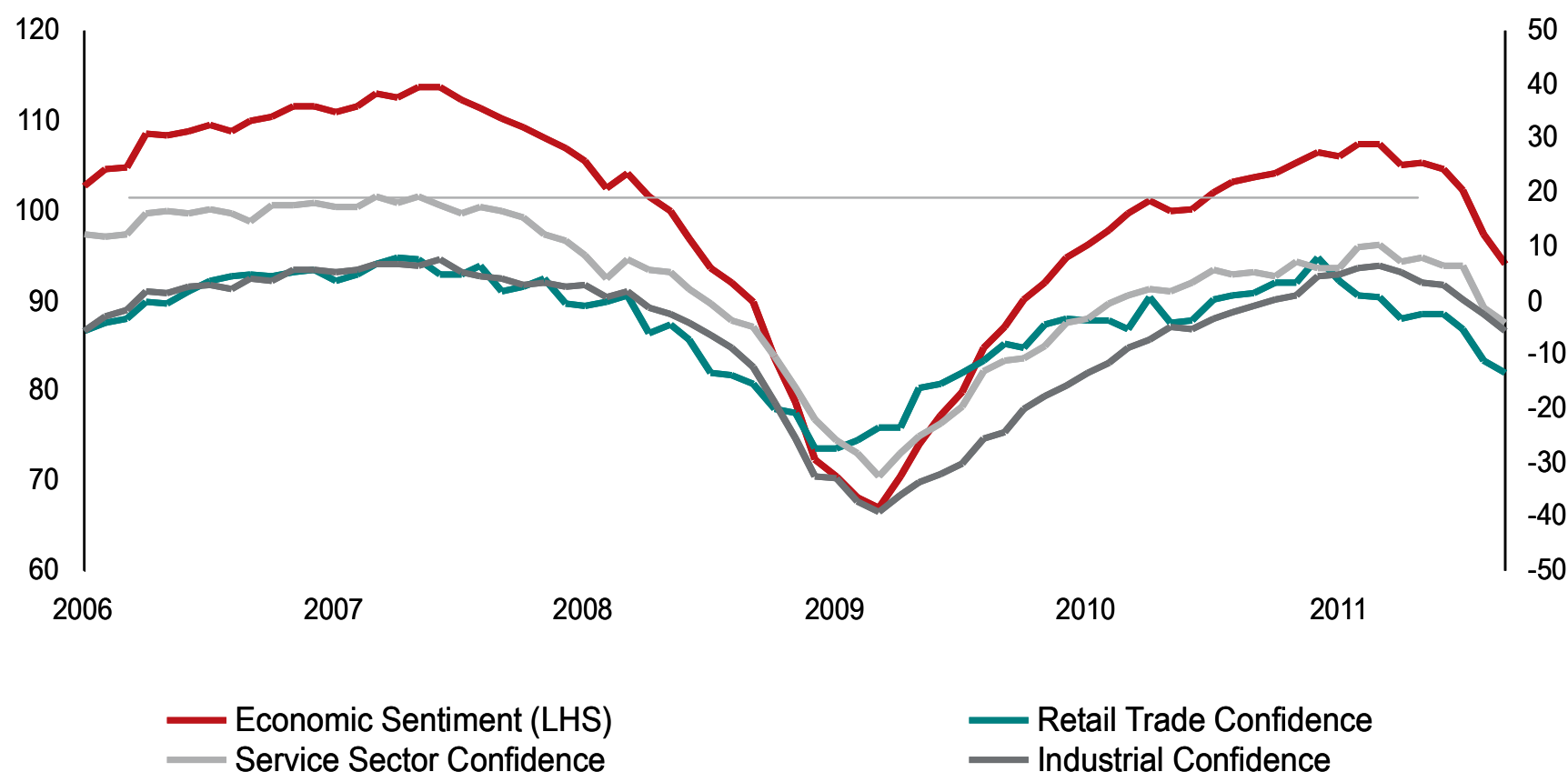
EMU breakdown



**Deep recession**  
**30%**

# Labour Markets: Outlook for 2012

## Corporate sentiment trending downwards



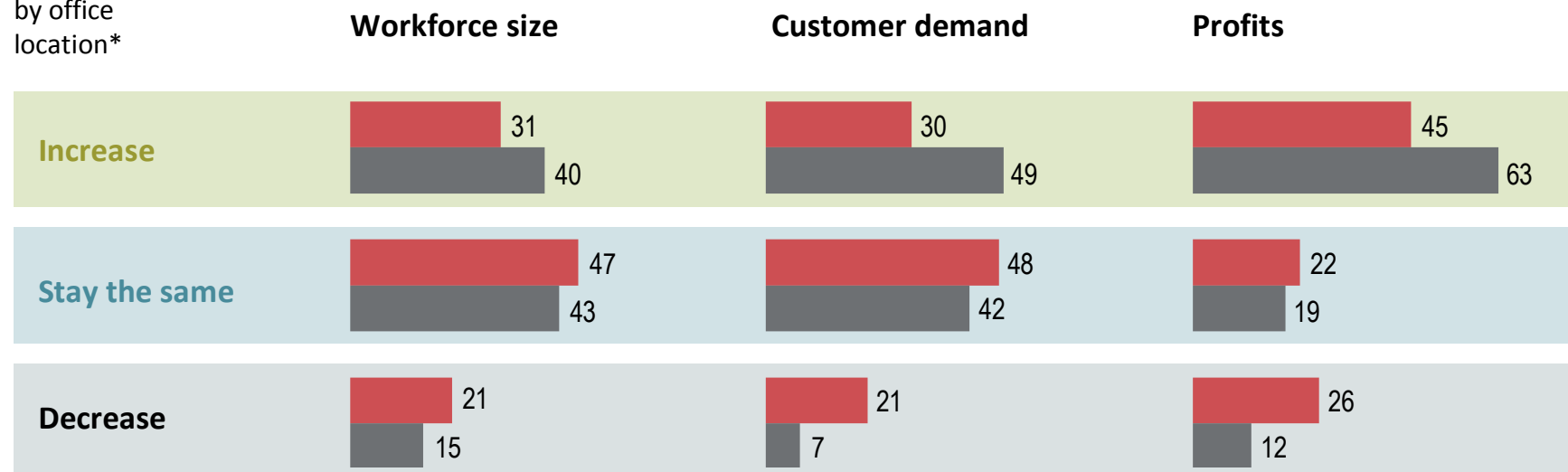
Source: European Commission, September 2011

# Labour Markets: Outlook for 2012

## More job losses to come?

Over the next 6 months, executives expect changes in:

% of respondents  
by office  
location\*



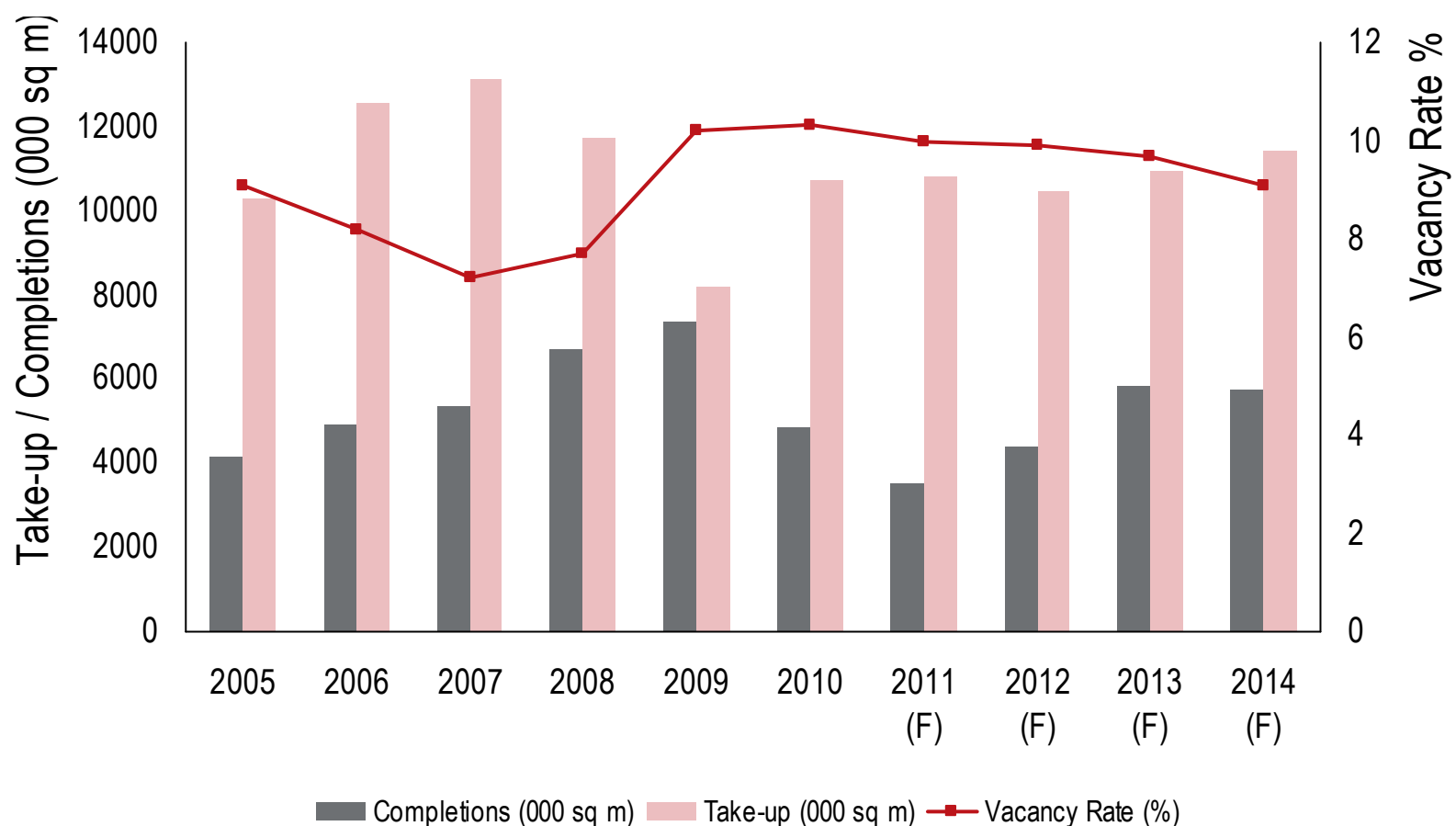
■ September 2011; n = 1,224

■ June 2011; n = 1,590

\* Respondents who answered "don't know" are not shown

# Office Supply - Demand/ Vacancy & Net Absorption

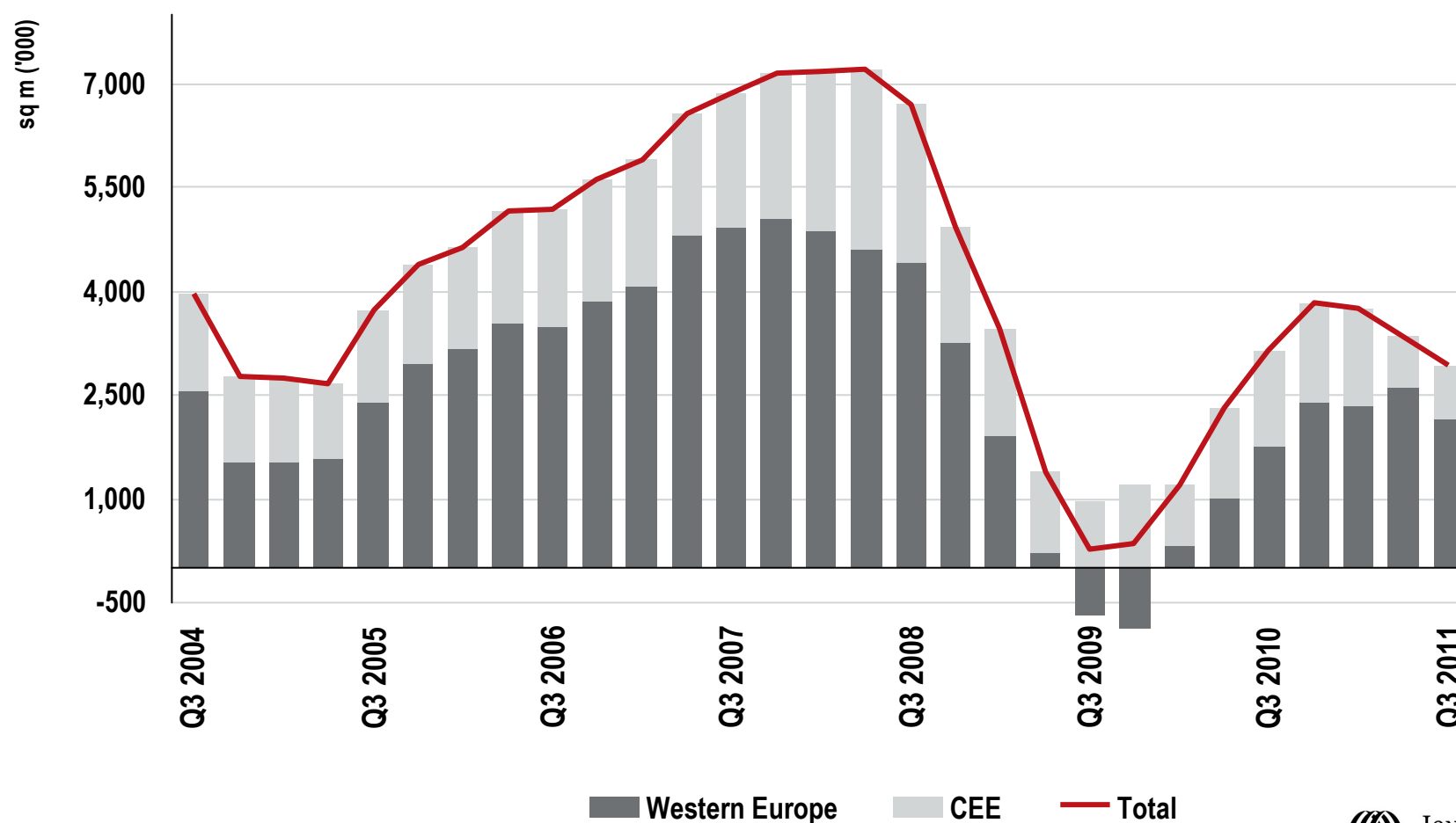
Pipeline continues to be moderate and under pressure



Source: Jones Lang LaSalle, October 2011

# Office Supply - Demand/ Vacancy & Net Absorption

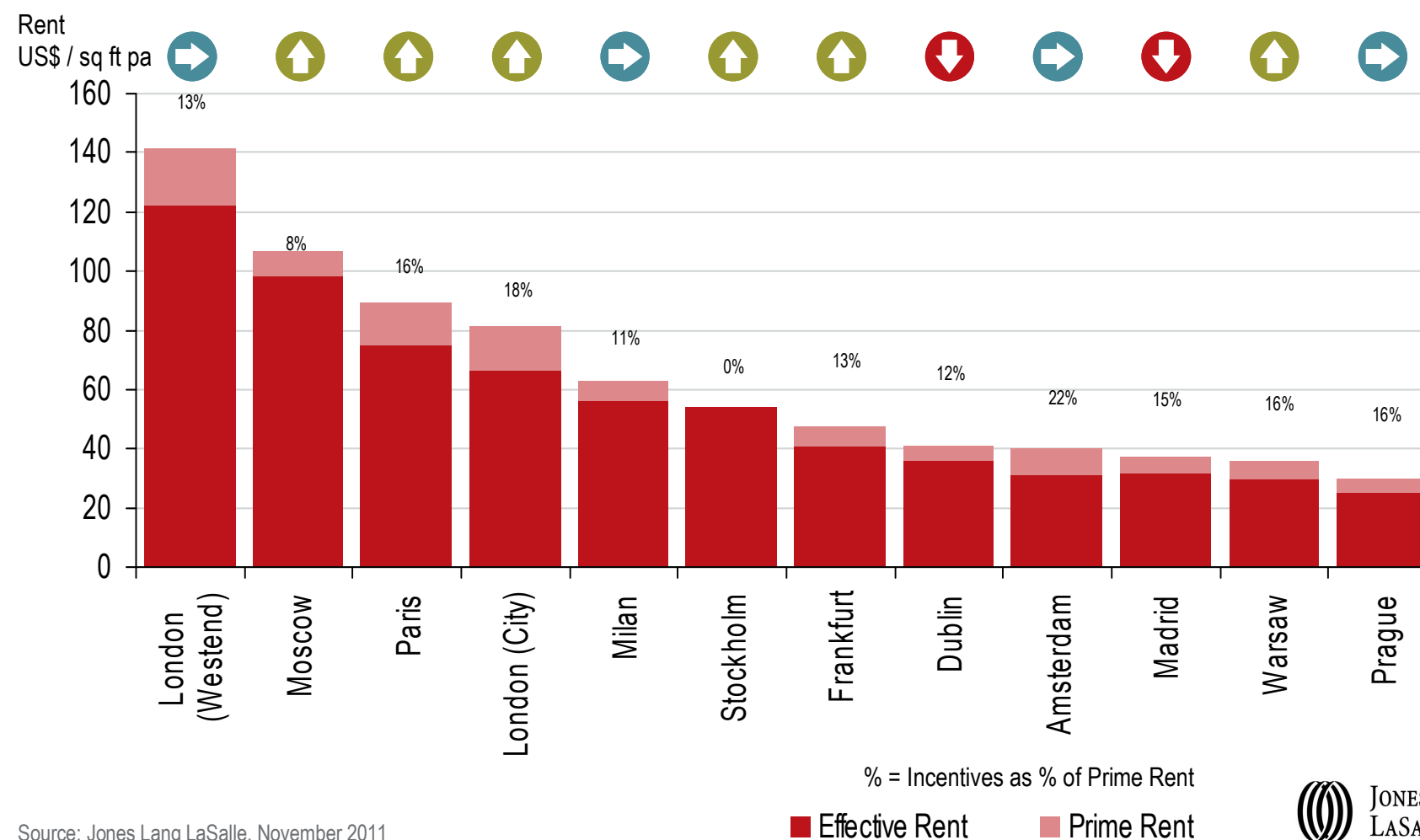
Net-absorption is again on a downward trajectory



Source: Jones Lang LaSalle, October 2011

# Rental Rates

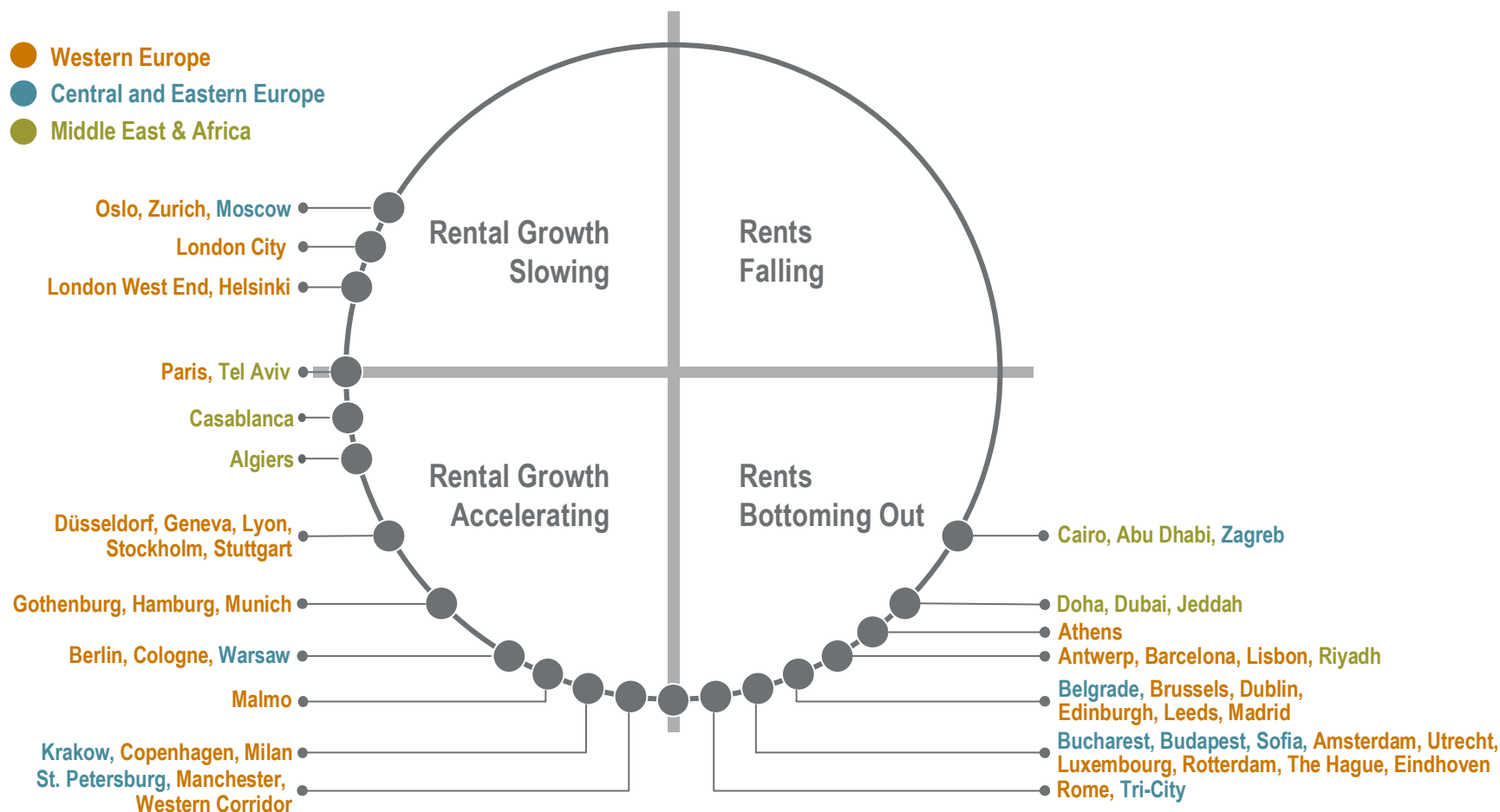
## Prime Rents & Effective Rents 2011 Q3



Source: Jones Lang LaSalle, November 2011

# Rental Rates

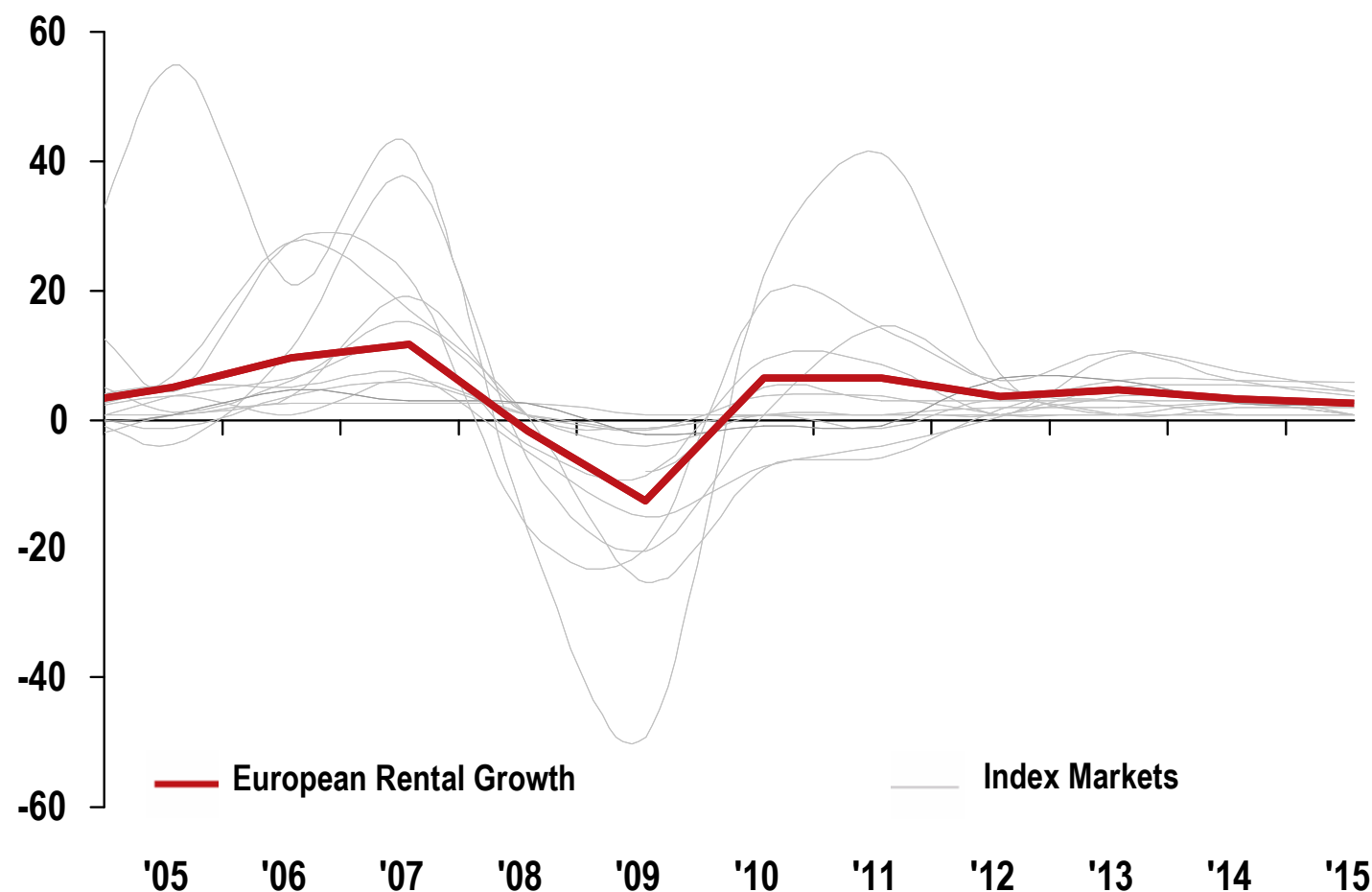
## Occupier property Office Clock Q3 2011



Source: Jones Lang LaSalle, November 2011

















































# Recovering Markets

## Rental spectrum chart



Source: Jones Lang LaSalle, October 2011

# Recovering Markets

	2012	2013	2014	2015
Amsterdam				
Dublin				
Frankfurt				
London City				
London West End				
Madrid				
Milan				
Moscow				
Paris CBD				
Prague				
Stockholm				
Warsaw				



Tenant Favourable Market  
Conditions



Balanced Market Conditions



Landlord Favourable Market  
Conditions



JONES LANG  
LASALLE

# Strategies in a Slow-Growth Environment

## ***Agenda***

***Cost saving***

***Transformation***

*Workplace productivity*

*Responding to downsizing*

*Responding to M&A*

*Reporting quickly and accurately*

## Key Trends & Risks for 2012

### Operating Environment

Low growth environment with selective strategic investments authorised

### CRE Agenda

Portfolio optimisation and workplace enhancement to boost productivity

### Competition

Activity to be churn and event driven and highly selective

### Choice

Further disposals (challenging) but push towards pre-lets & retrofitting

### Cost

Market opportunity moving further away from occupiers as year progresses





*Real value in a changing world*

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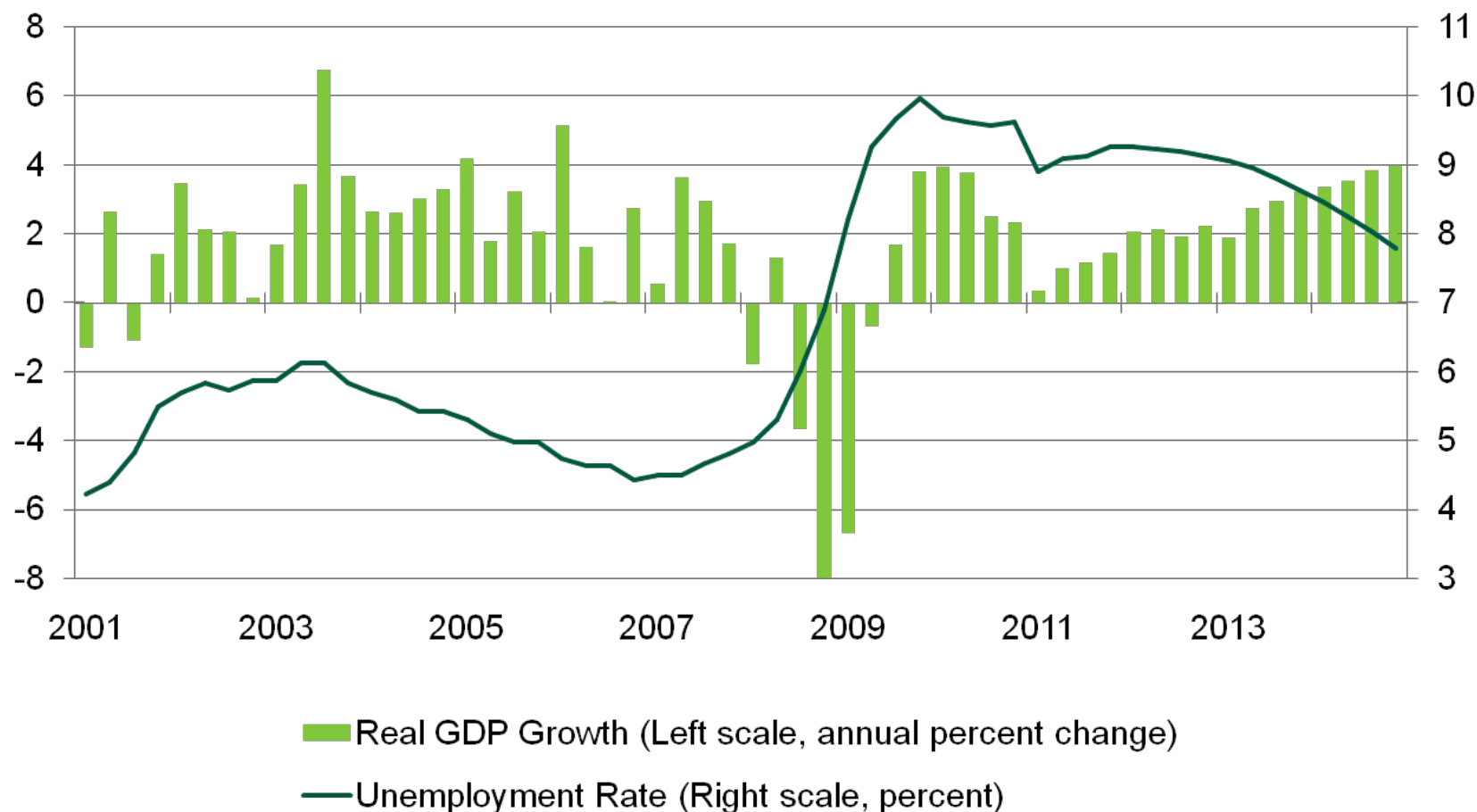
# 2012 Real Estate Global Forecast

## San Francisco, CA

January 19, 2012

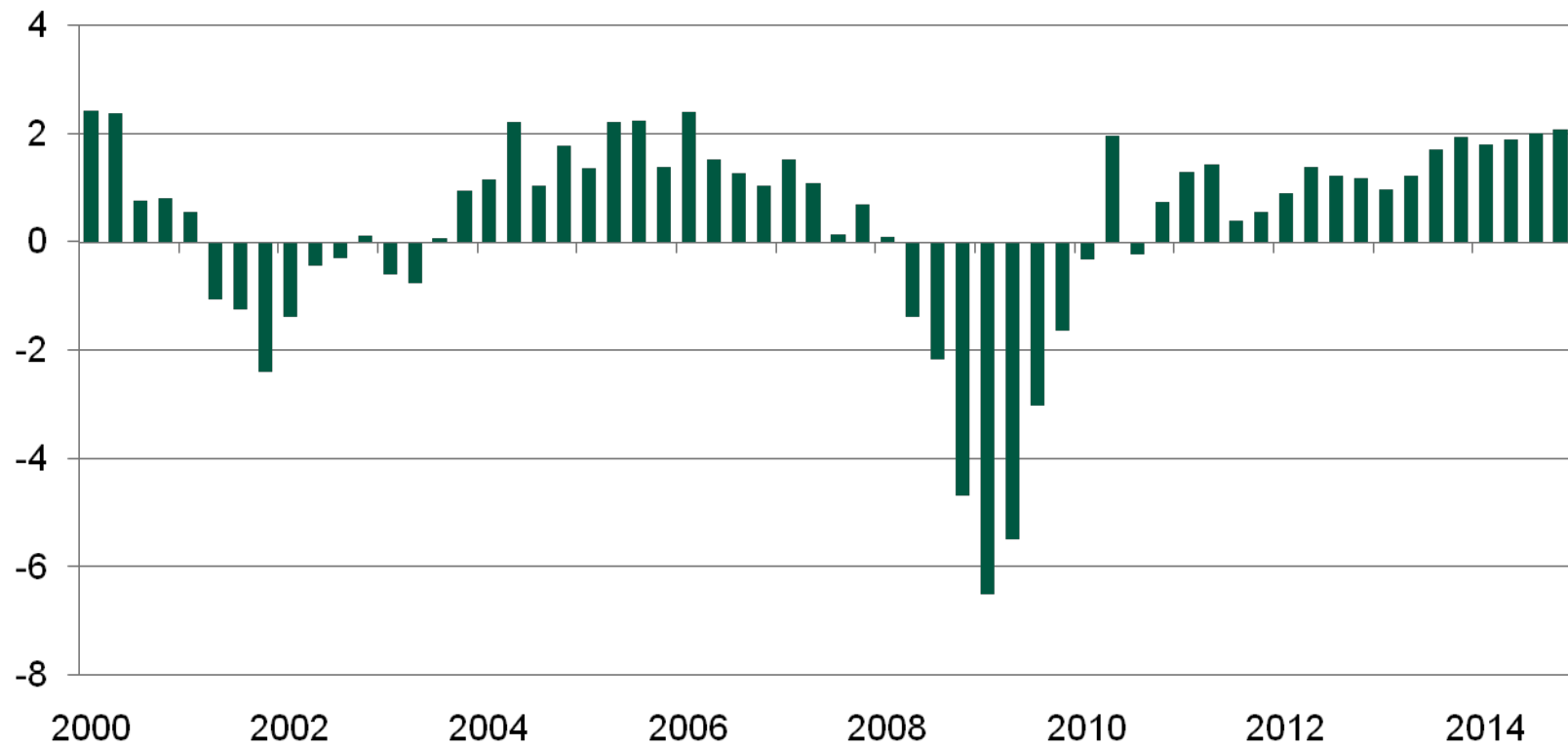
# Macroeconomic Indicators in 2012 by Region

## US Outlook: Modest Growth But No Recession

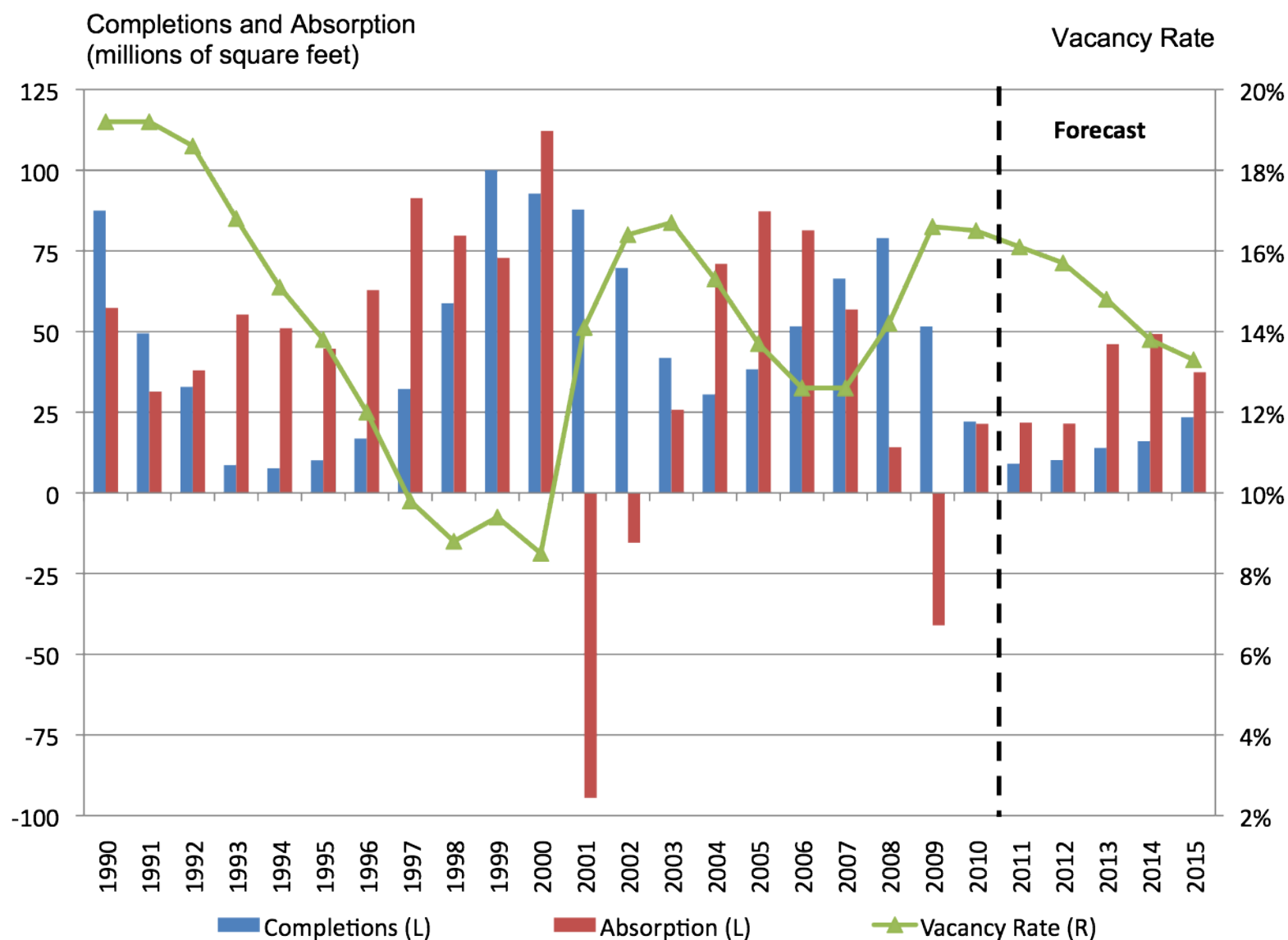


# Labor Markets: Outlook for 2012

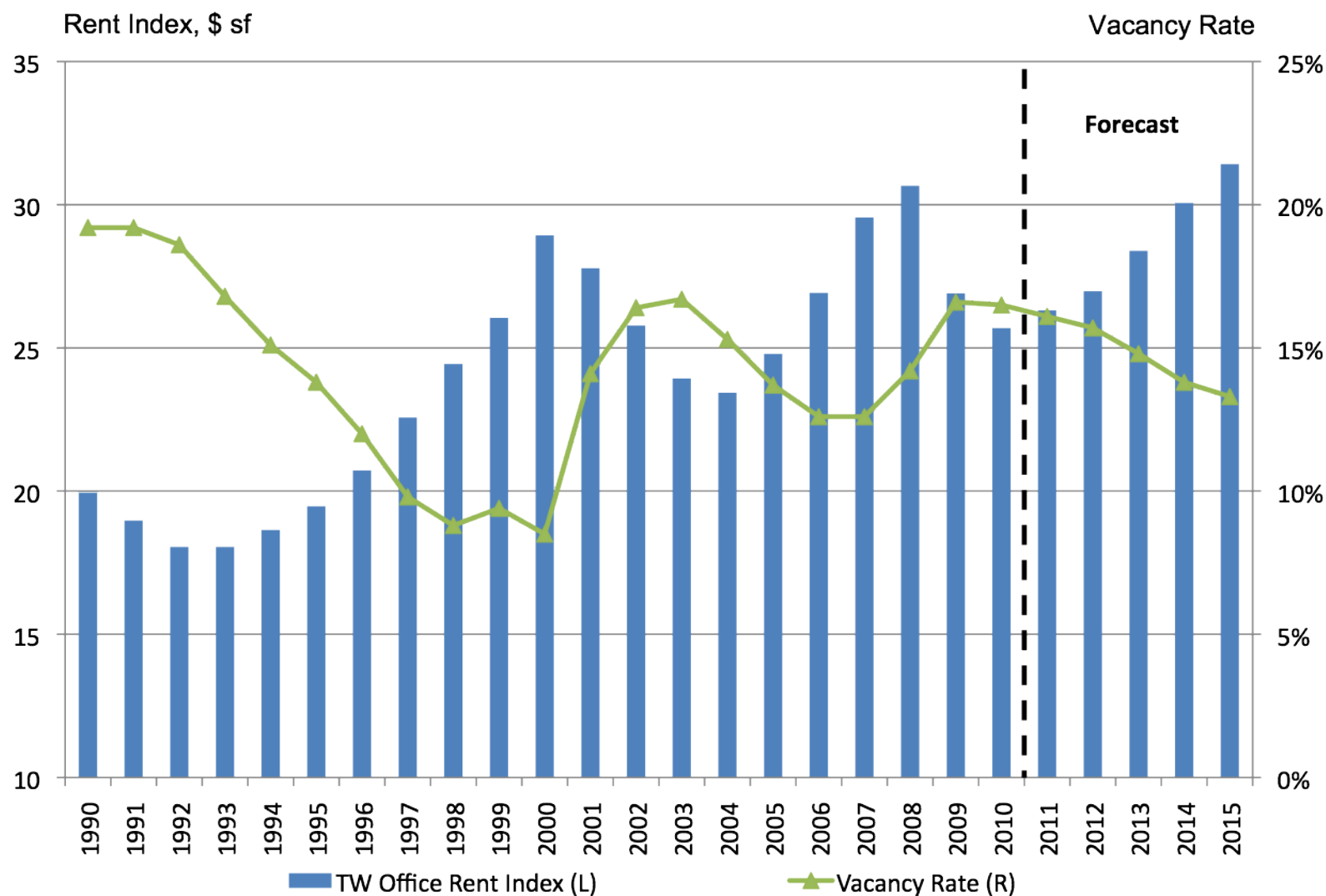
US Employment Will Slowly Recover, Back to Peak in 2015



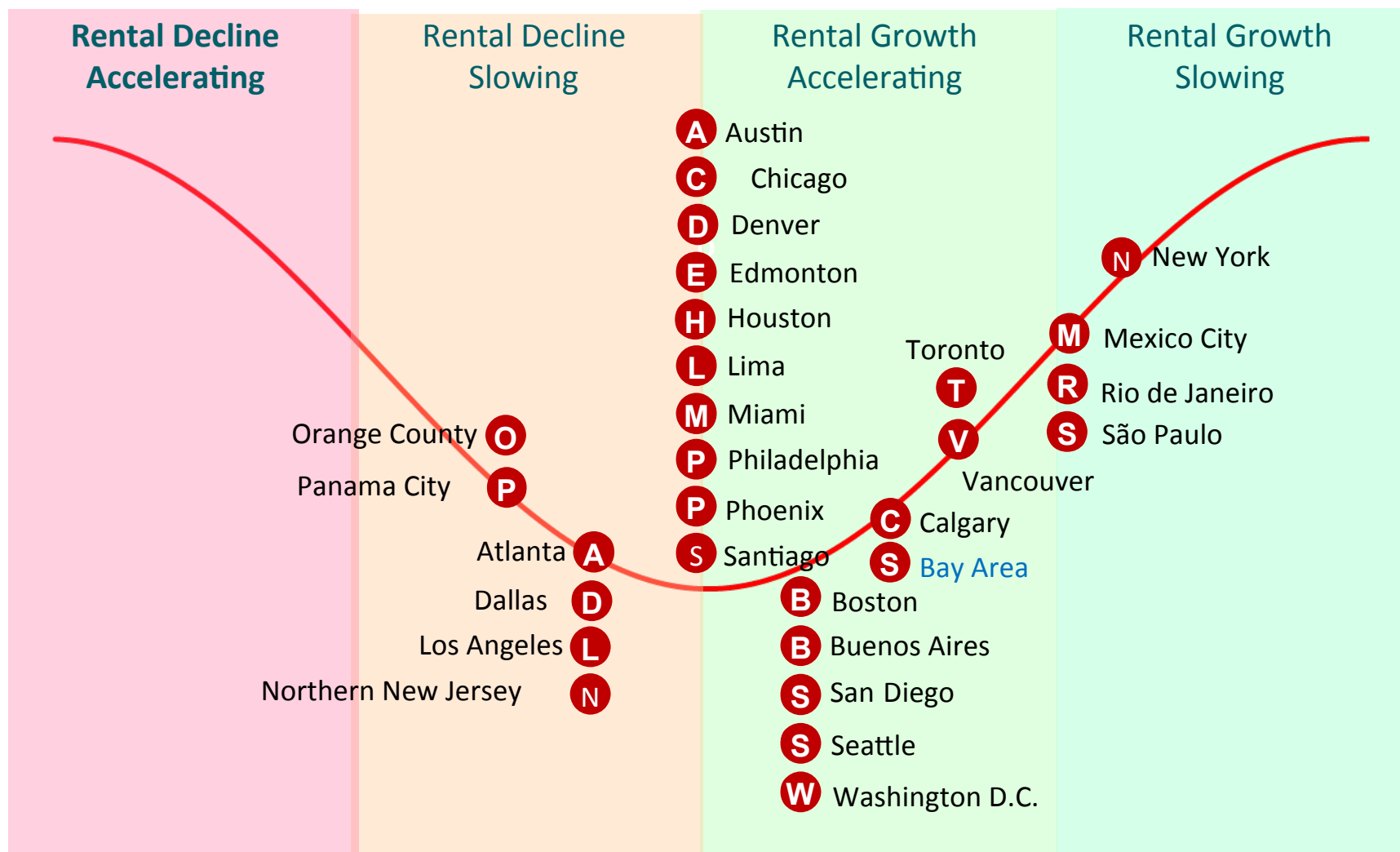
# Office Supply - Demand/ Vacancy & Net Absorption



# Rental Rates



## Recovering Markets



Source: CBRE Research

## Strategies in a Slow-Growth Environment

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- Short-term slowdown in growth will render top line demand and the corporate operating environment more challenging. And the “short term” is a long time in passing.
- Slow-growth will keep focus on cost-containment in the near-term.
- Longer term, the faster-growing markets across the Americas and globally will shape future business and commercial real estate strategies.
  - Access to new markets and new consumers will increasingly push corporations to BRIC countries.
  - Low-cost labor in Latin America (Mexico), Eastern Europe, and Asia will continue to attract labor-intensive industries.
- Within Americas developed markets, labor specialization will drive the CRE strategy for certain companies, e.g., Bay Area for High-Technology firms.
- Bottom line: Economic growth, job gains, and demographic trends remain more favorable in Emerging Markets.

## Key Trends & Risks for 2012

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- Growth will slow across the Americas in 2012 but the US will avoid a recession.
- Fiscal tightening and household deleveraging will continue and businesses will increase hiring, albeit cautiously.
- US/Canadian office market conditions will improve modestly given the tepid nature of job gains. Across Latin America, any new construction will be absorbed immediately despite escalating rents.
- Risks:
  - The Eurozone sovereign debt crisis and
  - Pre-mature fiscal tightening in the US (policy error).



# 2012 Real Estate Global Forecast

## San Francisco, CA

January 19, 2012

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# San Francisco / Bay Area Economic and Office Market Overview and Outlook

Caroline Green  
Director of Research  
Northern California and the Pacific Northwest  
Cushman & Wakefield



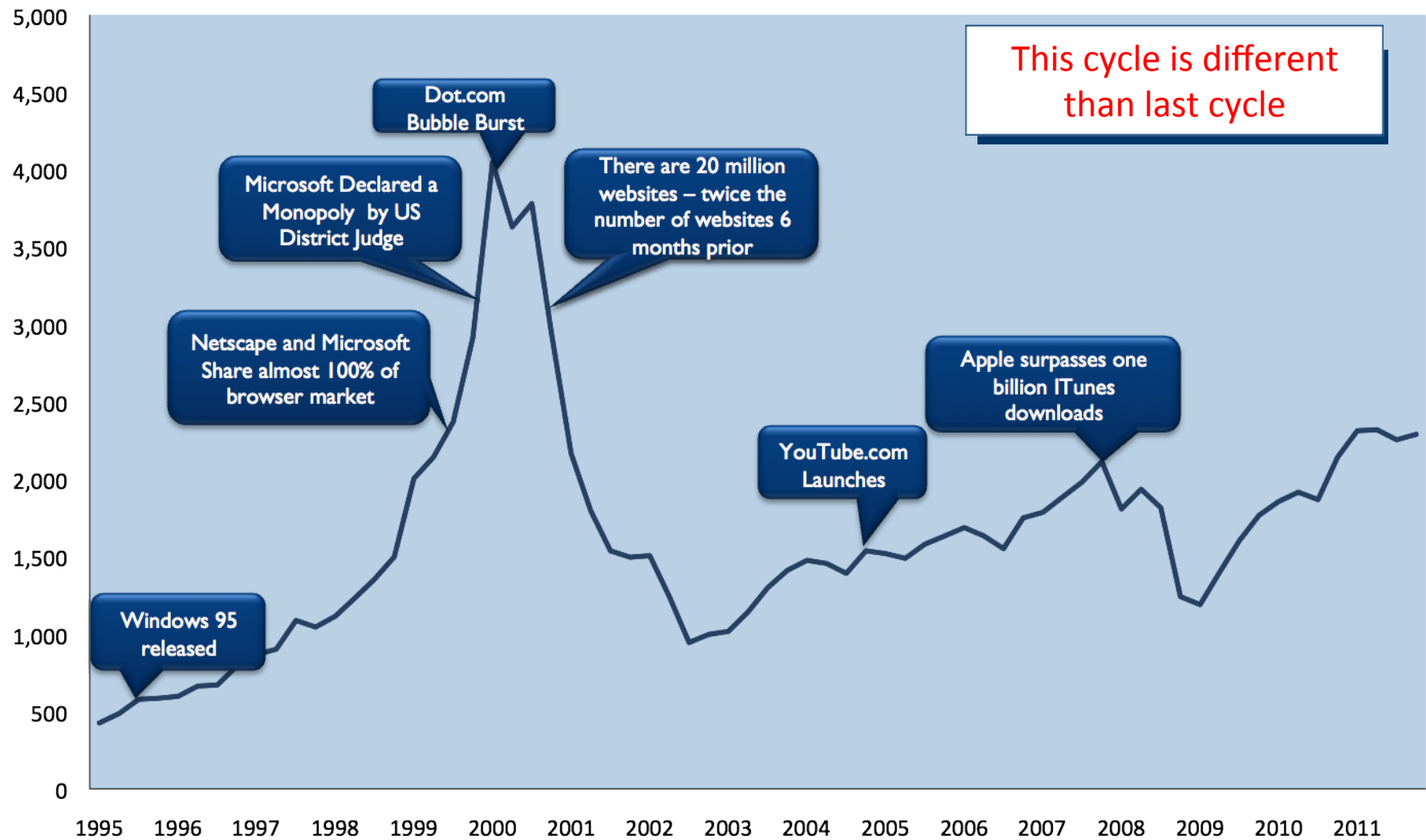
# Macroeconomic Indicators in 2012

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- » In the wake of **CONTINUED ECONOMIC UNCERTAINTY**, many companies are still searching for ways to streamline their operations.
  - » **VENTURE CAPITAL IS POURING** into Bay Area Web 2.0 companies, including cloud computing, online media and entertainment companies and software firms.
  - » Workforce **DEMOGRAPHICS** are profoundly influencing how companies are managing and investing for their future.
- Economy is EXPANDING and undergoing another TRANSFORMATIONAL SHIFT**

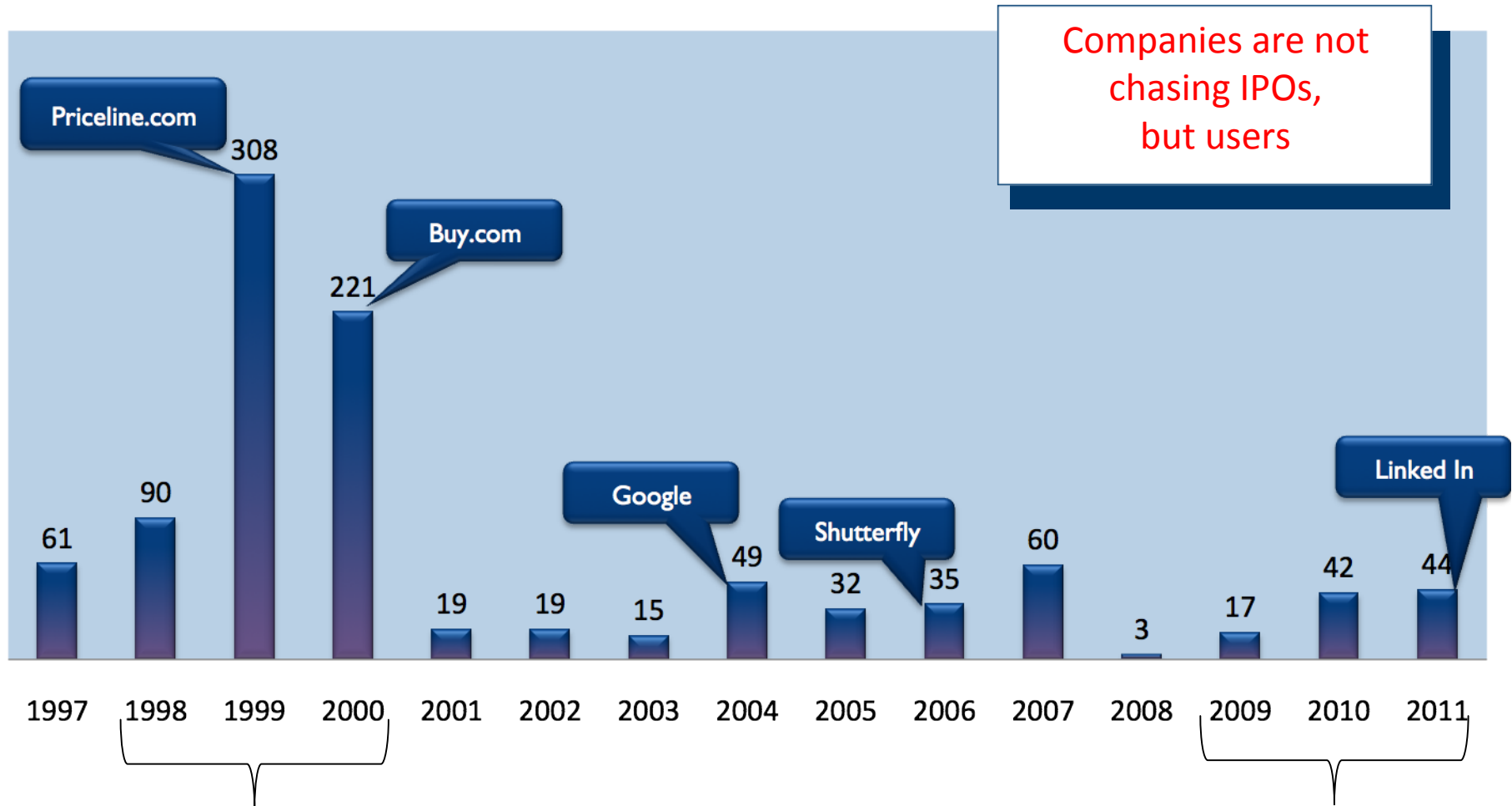


# NASDAQ



Source: Moody's Analytics, Cushman & Wakefield Research

# Tech IPOs

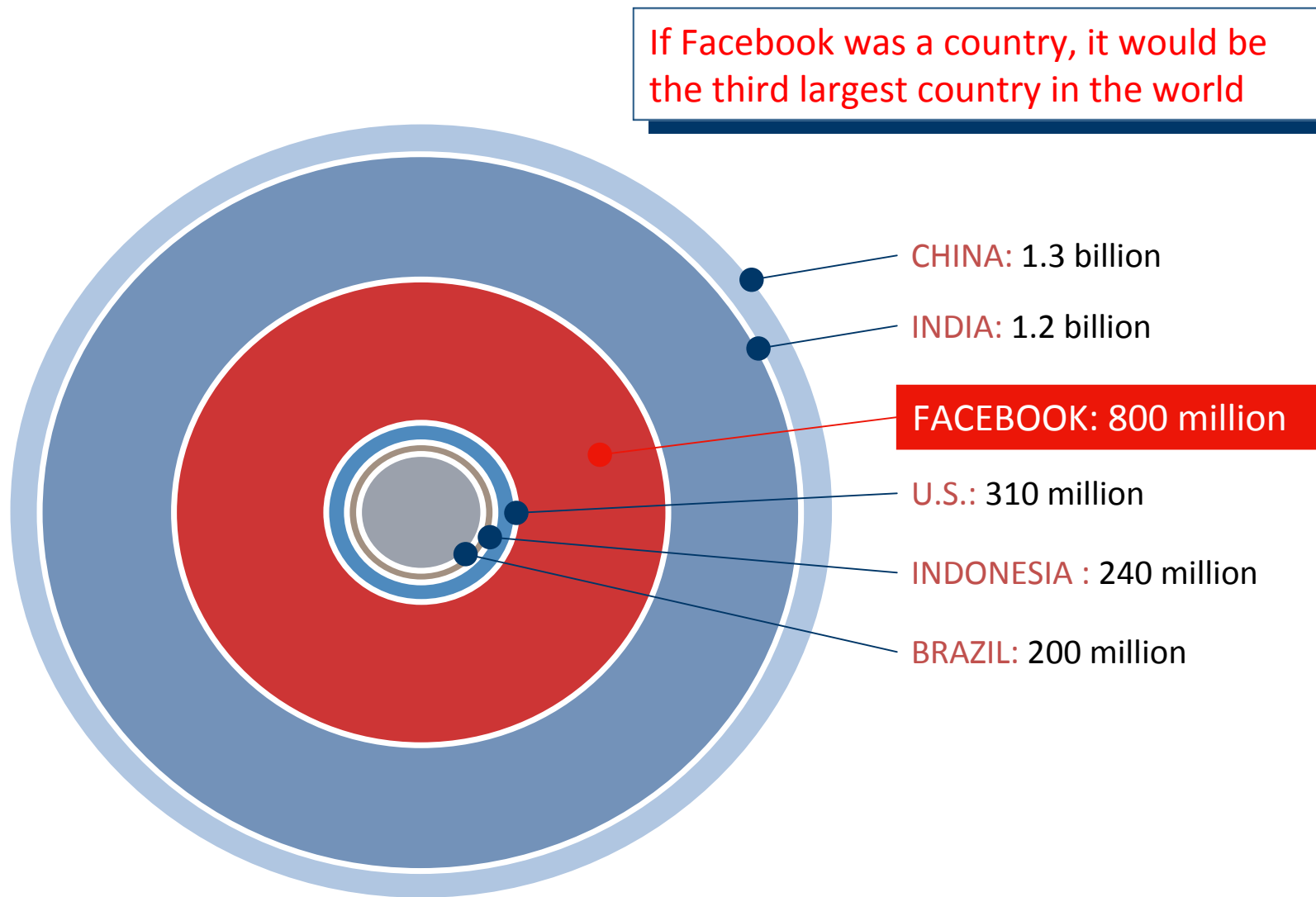


**619 TECH IPOs**  
between 98-00

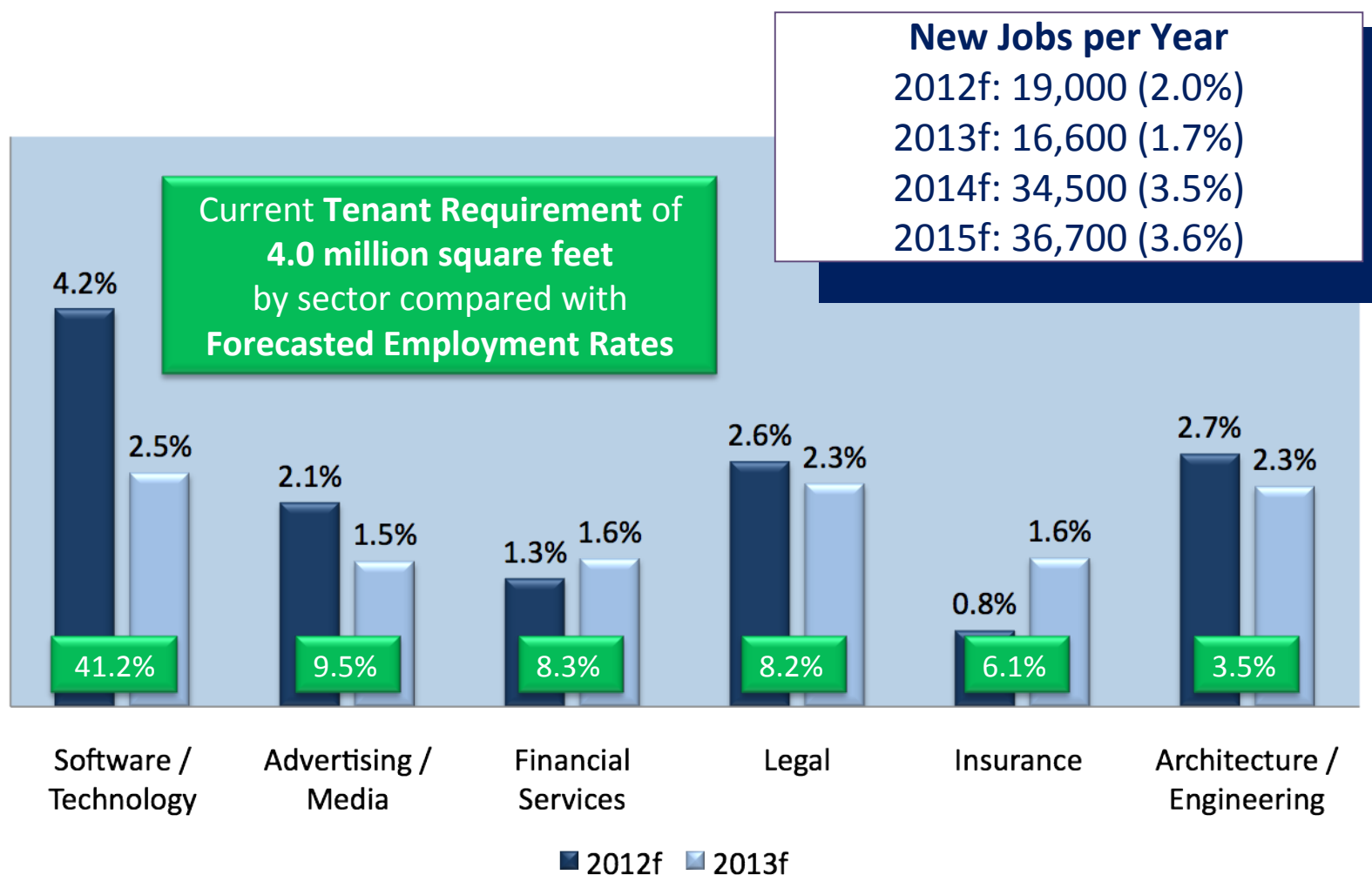
**84 TECH IPOs**  
between '09-'11



## Impact and Scope of Technology

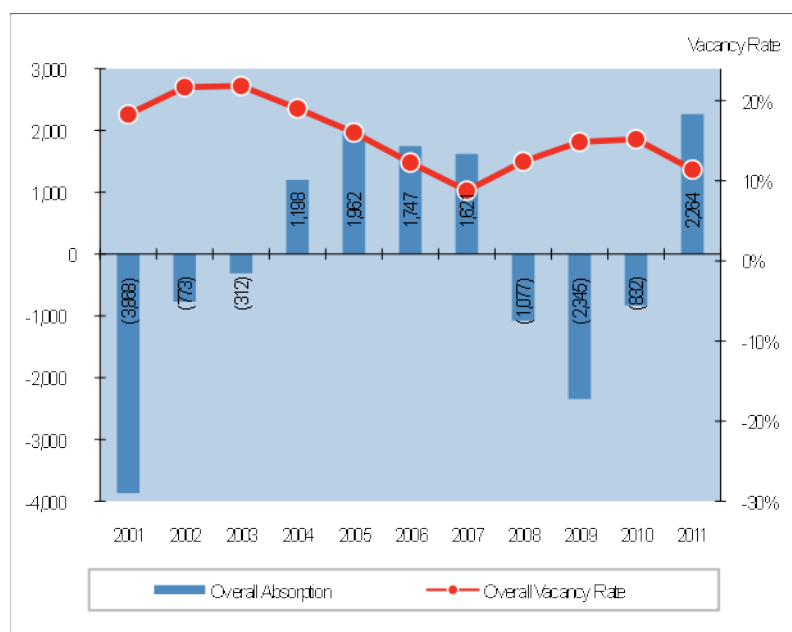


# Labor Markets: Outlook for 2012



# Office Supply – Demand/Vacancy & Net Absorption

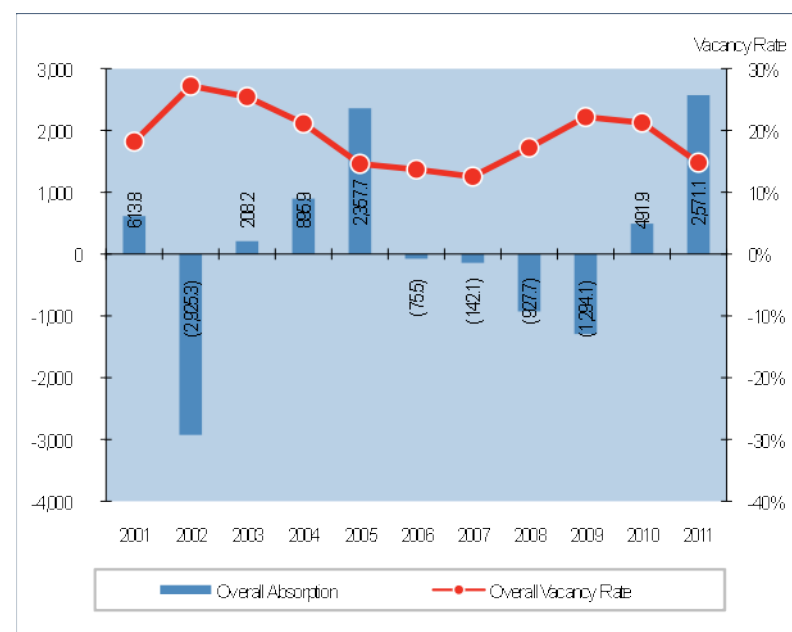
**6.5 msf leasing activity represented  
9% of the stock in San Francisco**



**2.3 msf  
positive  
absorption**

**11.4% overall  
vacancy rate 9.7% in  
the CBD**

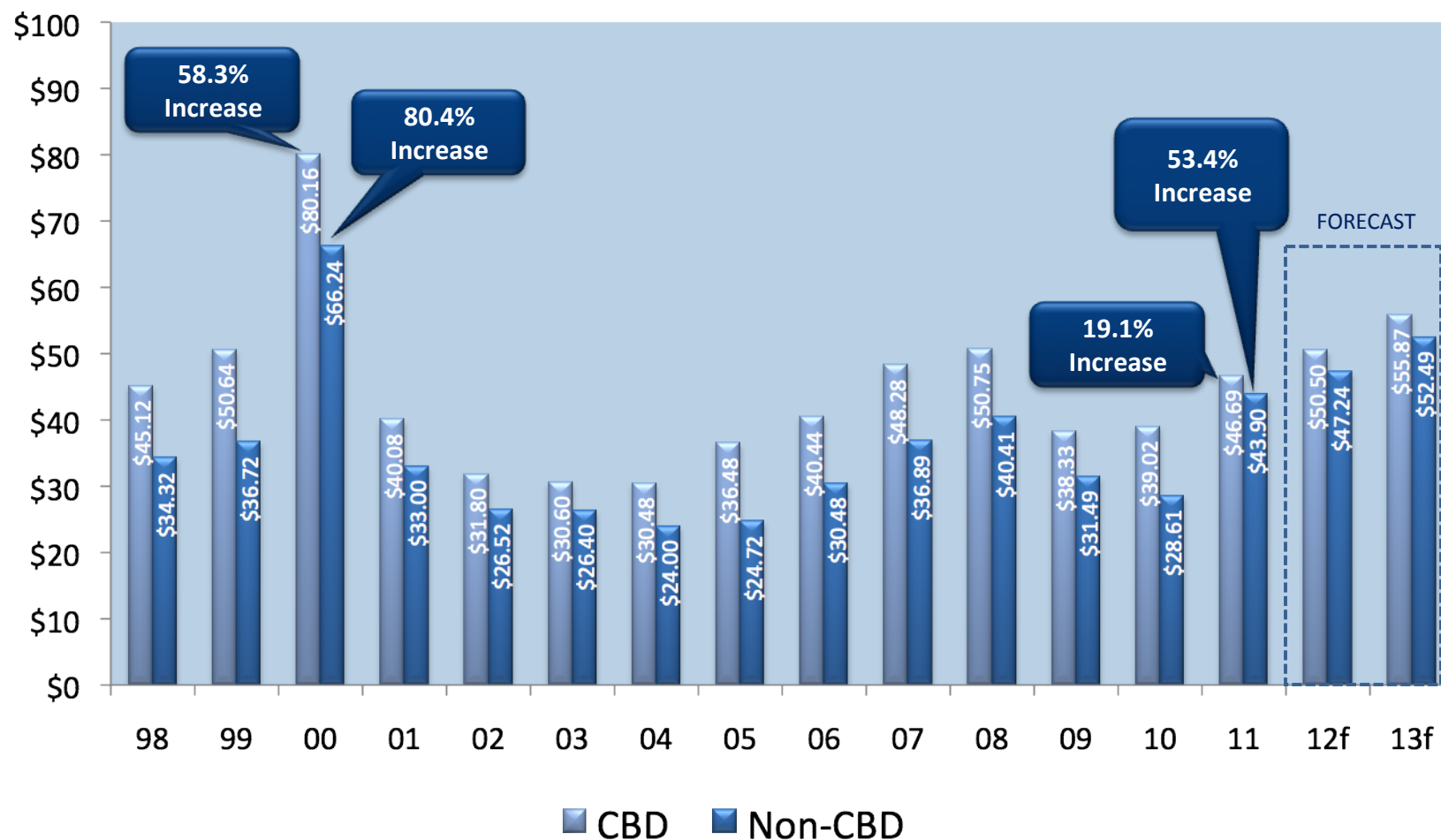
**7.7 msf leasing activity represented  
17% of the stock in Silicon Valley**



**2.6 msf  
positive  
absorption**

**14.8% overall  
vacancy rate**

# Rental Rate Growth



Rental Rate Growth Reflects Direct Class A Space  
Source: Cushman & Wakefield Research

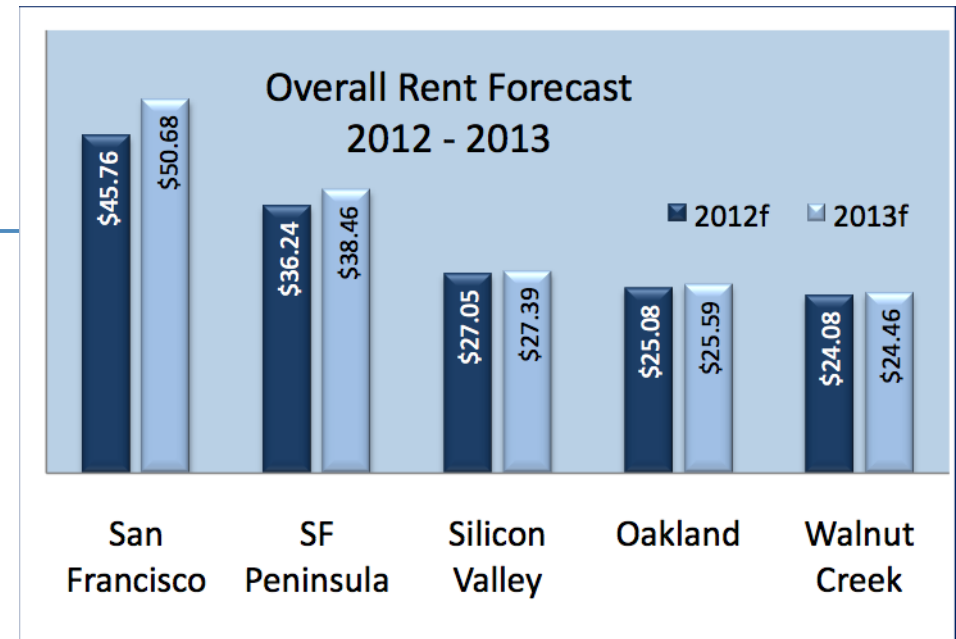
## Recovering Markets

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- San Francisco and Silicon Valley are **leading the recovery**.
- San Francisco Peninsula is **recovering**
  - Leasing activity of 5.2 msf represented **14% of the total stock**
  - Vacancy rate declined to 11.6% in 2011 from 15.5%.
- Oakland is **gaining traction** as the vacancy rate dropped nearly 150 bps to 17.6% and is expected to reach 10-year average vacancy rate by 3Q 2013.
- Walnut Creek showing **signs of improving** as absorption posted positive 2.8 million square feet in 2011 and the outlook is favorable.
- Sacramento will be the last to recover and is facing headwinds given the government sector.

# Strategies in a Slow-Growth Environment

- » **REVISIT** workplace design to focus on collaboration, interaction and greater efficiencies.
- » **ADAPT** to current technology to encourage productivity.
- » Given the forecast for growth, **LOCK IN SPACE** now.



# Key Trends & Risks for 2012

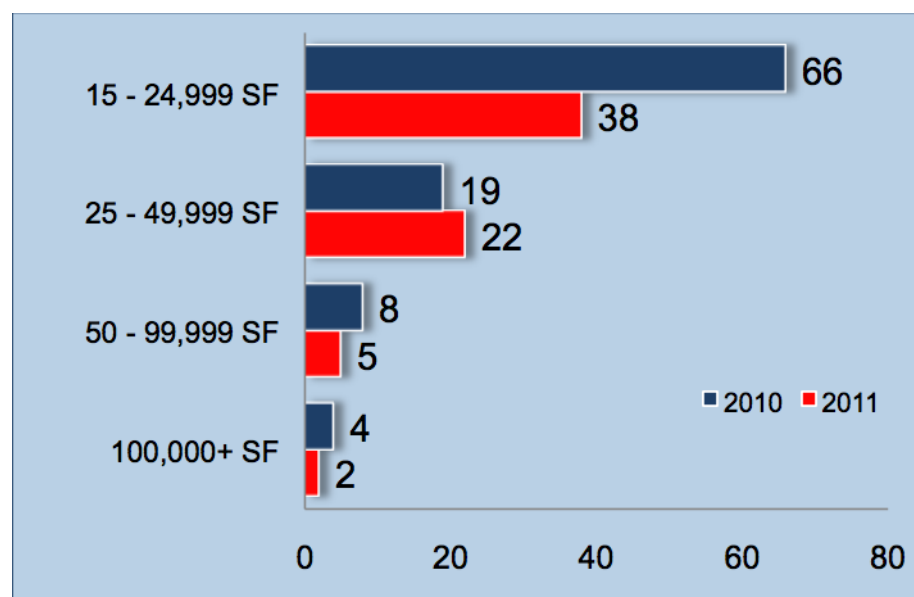
## Risks:

- Economic slowdown
- Lack of venture capital funding
- Financial crisis
- LACK OF AVAILABLE SPACE

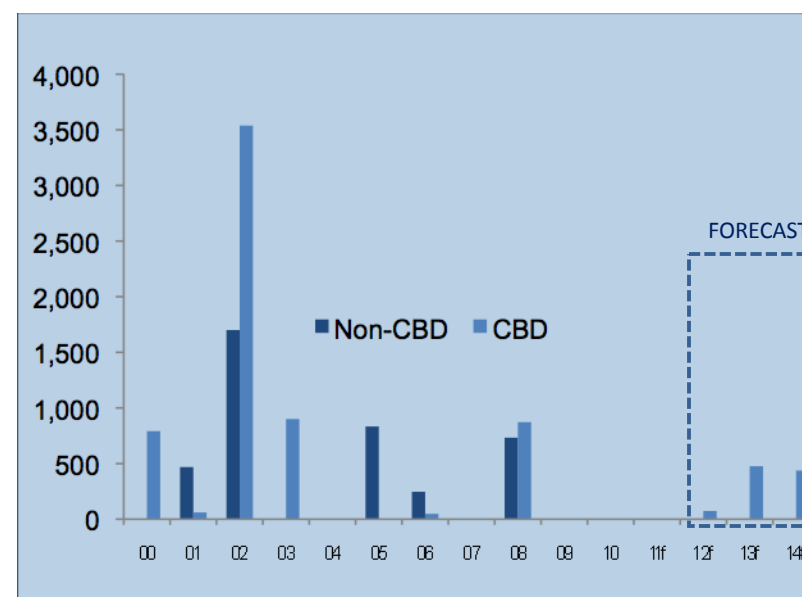
## Trends:

- Renovation of older buildings
- Revamping existing space
- More movement to urban core
- Construction increasing

## Lack of Large Blocks of Space



## Limited Construction



# PANEL DISCUSSION

# Q&A