

Global Real Estate Outlook

UNC Kenan-Flagler Business School

Jacques Gordon Global Strategist

February 10, 2011

Real Estate – A Significant Asset Class



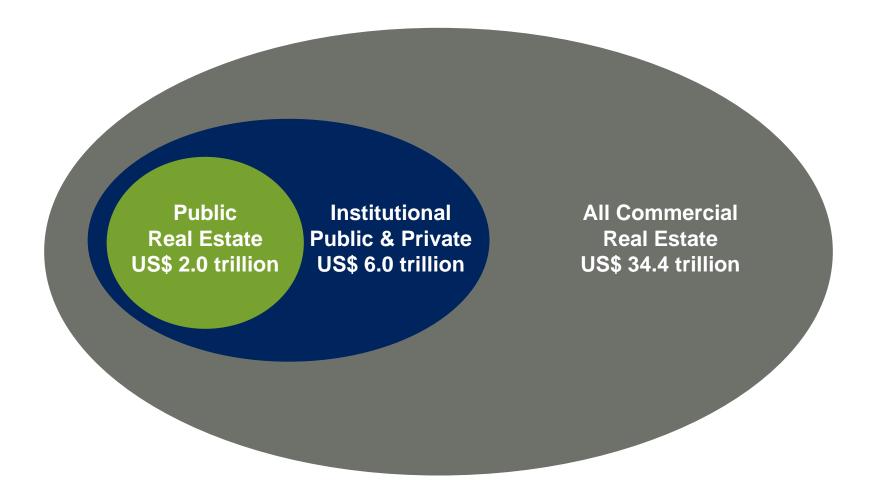
Market Cap: \$1.2 Trillion Assets worth: \$2 Trillion

- Global real estate assets are a sizable component of world wealth
- Investable real estate universe is estimated at \$6 trillion

Source: Bloomberg, NAREIT, LaSalle Investment Management Research



The Real Estate Investable Universe 2010

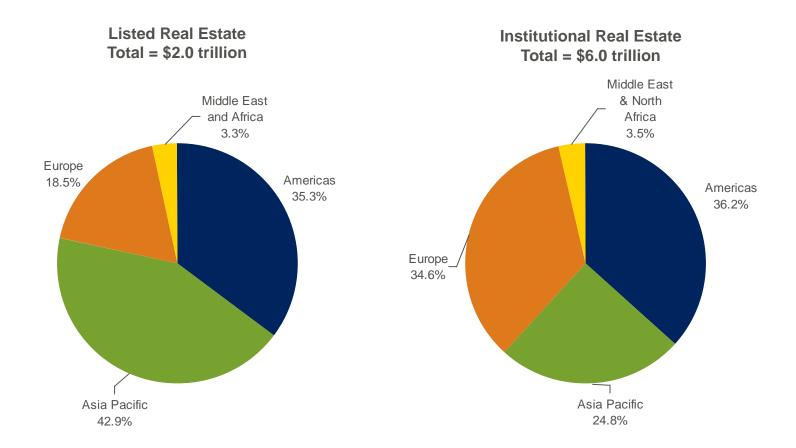


Source: Investment Property Databank, LaSalle Investment Management

LASALLE INVESTMENT MANAGEMENT

As of 3Q 2010

Global Real Estate Universes by Region 2010



Source: Investment Property Databank, LaSalle Investment Management

As of 3Q 2010

Note: The Listed Real Estate Universe includes all publicly listed property companies, primarily REITs and REOC. Diversified development companies are included in emerging markets, but homebuilders are excluded. The Institutional Real Estate Universe includes all institutional investor-owned property, public and private.



Global Asset Class Correlations – Twenty Year Total Returns

	Global Stocks	Global Bonds	Global Listed Real Estate	Global Private Real Estate
Global Stocks	1.0			
Global Government Bonds	07	1.0		
Global Listed Real Estate	.67	.02	1.0	
Global Direct Real Estate	.25	36	.33	1.0

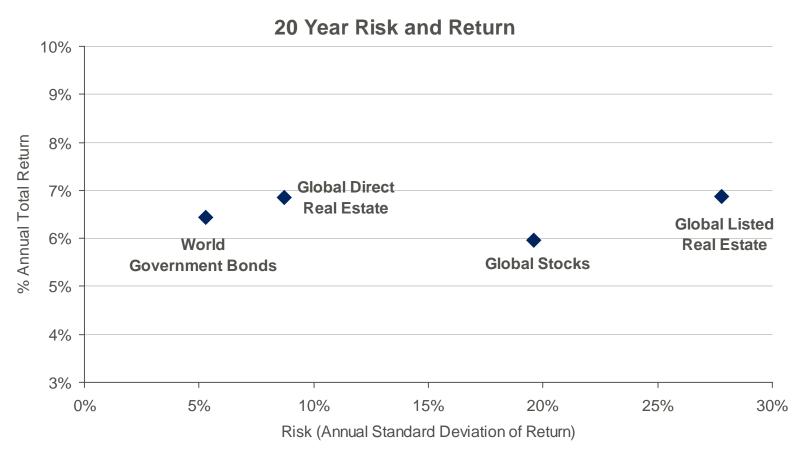
- Direct RE: Offers diversification benefits for a portfolio that consists of stocks and bonds.
- Listed RE: Diversification benefits are weaker, but offer other advantages (liquidity, transaction costs)

Source: IPD, Bloomberg, EPRA, LaSalle Investment Management

Note: Stocks = MSCI All Country TR Local Currency; World Govt. Bonds = Citigroup World Government Bond Index Local Currency; REITs = EPRA/NAREIT Developed World Index TR USD; Direct RE = IPD Global TR Index USD. Correlations are based on annual returns.



Real Estate Provides Competitive Risk-Adjusted Returns



Source: Sources: Large Cap Stock: MSCI All Country TR Local Currency; Public Real Estate: EPRA Global Developed Index TR USD; Private Real Estate: IPD Global Index TR USD; Bonds: Citigroup World Government Bond Index TR Local Currency. US Dollars used when no local currency index available. Based on annual data.

Through December 31, 2009



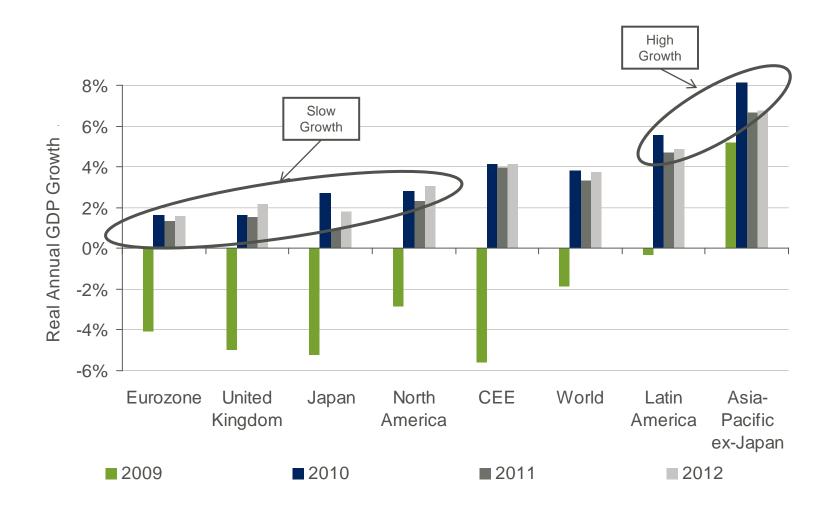
Investing in a multi-speed world

- Low-Low countries: The G-7
 - Low growth rates
 - Low interest rates
 - Low inflation
 - Lower nominal returns from all asset classes
- Grow-Grow-Grow countries: China, India, Brazil, Australia, Sing, HK
 - Higher growth rates
 - Rising/higher interest rates
 - Rising inflation
 - Growth, rather than value, strategies work best





A Multi-Speed Recovery



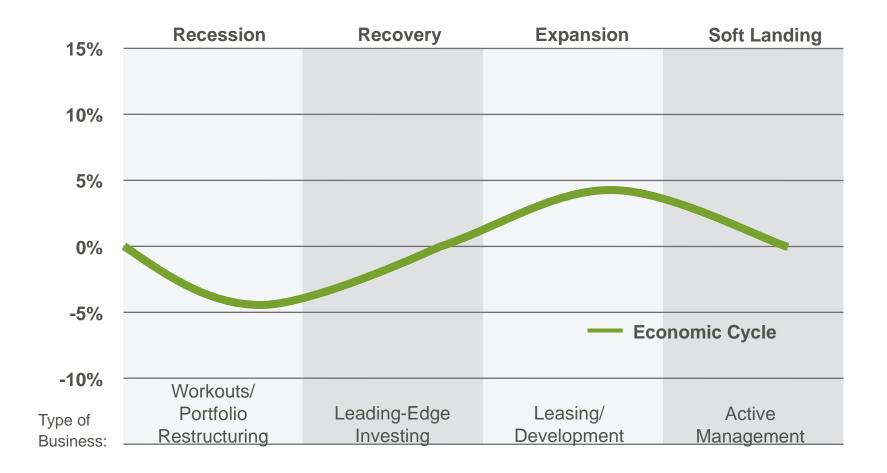


The 2011 Outlook (as of early February)

- Global economic outlook much-improved in last 60 days.
- US picking up steam...despite longer-term concerns about fiscal health.
- Germany, S. Korea and Singapore gaining strength through exports/manufacturing.
- China holding steady at high growth levels...despite concern that the Bank of China needs to reign in inflation.
- Deal flow picked up globally in 2H '10; growth will continue in 2011.
- Tenants/Occupiers are profitable, but reluctant to hire or lease.
- Fundamentals will improve slowly from a weak position in most markets.
- Buyers focusing on top tier, leased assets to broaden in 2011.

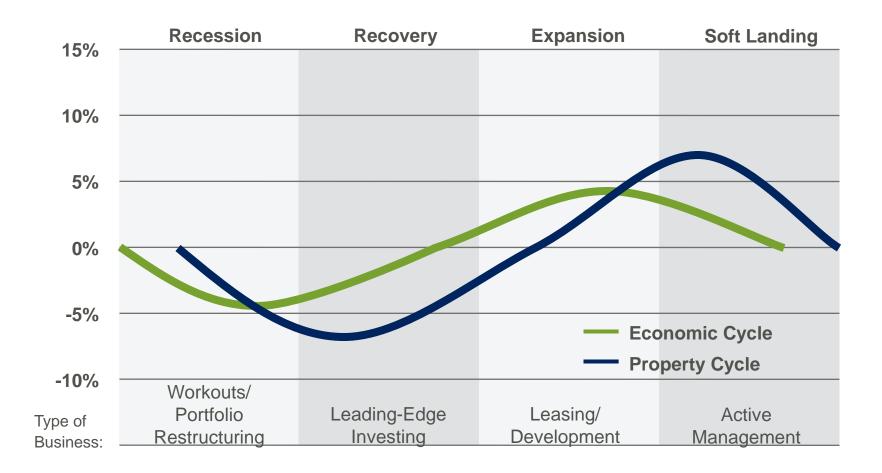


Economic Cycle: The Driver of Demand



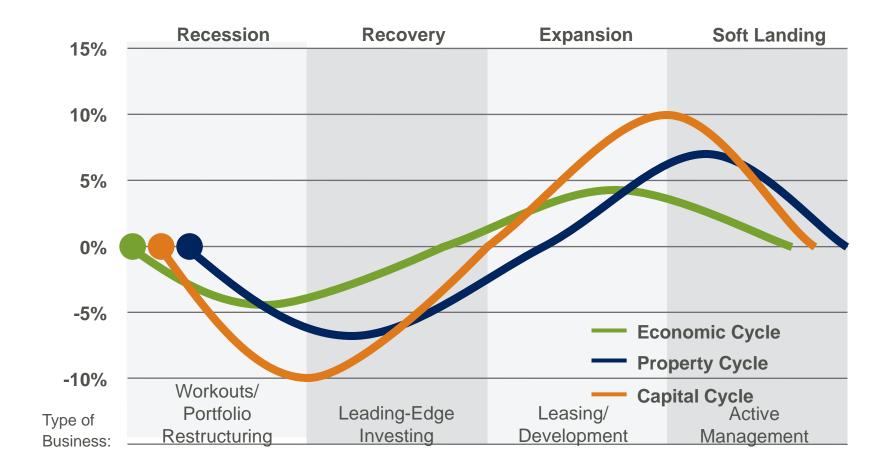


Economic vs. Property Cycle (fundamentals)



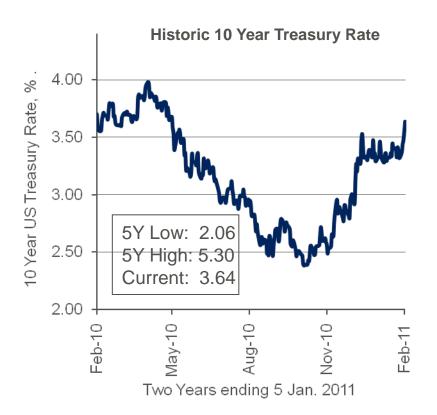


Economic vs. Property vs. Capital Cycle

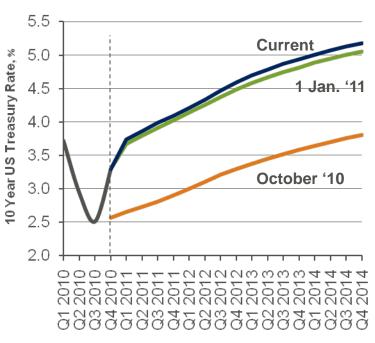




Interest Rates Moving Higher



Swap Market 10Y Treasury Rate Forecast



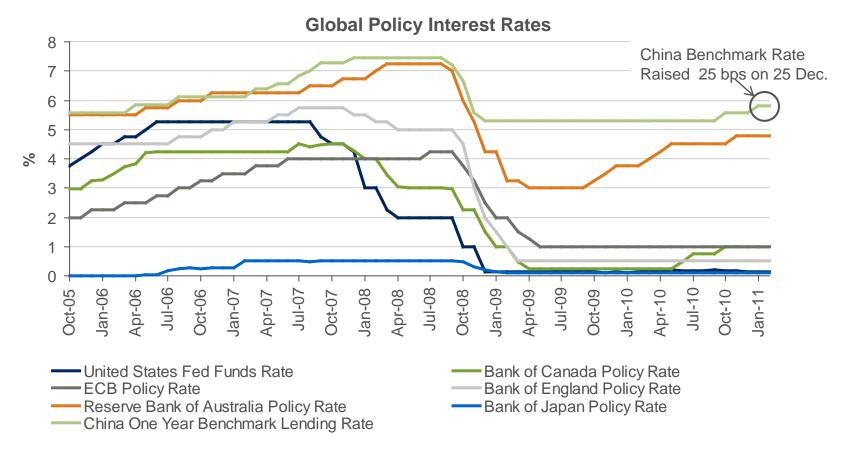
• In the US, higher inflation expectations and expectations for stronger growth have driven interest rates higher. The swaps market implies that yields will rise over 150 bps to 5% by 2014, a trend that should eventually apply upward pressure to cap rates.

Source: Bloomberg As of 3 February 2011



Policy Interest Rates Low in Most Developed Economies

But Rising in China and Commodity-Driven Markets



The ECB held its benchmark rate constant in February and signaled that it did not expect to raise rates in the short term. While China raised its benchmark interest rate, its fixed exchange rate forces it to effectively import America's loose monetary policy.

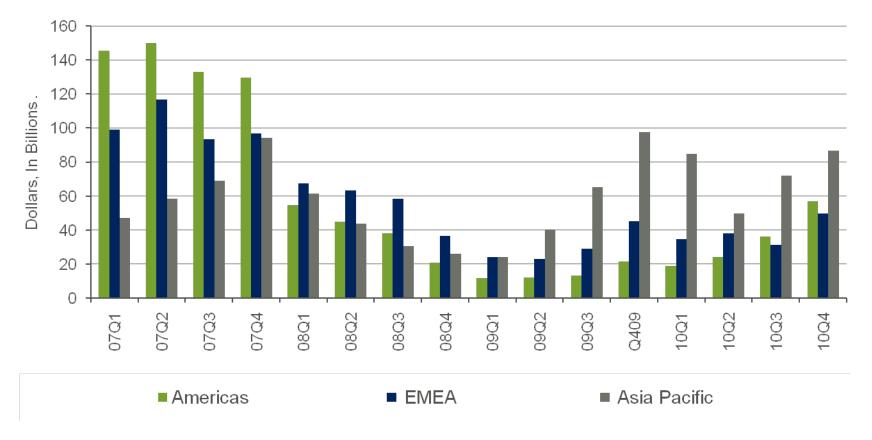
Source: Bloomberg Note: Chart displays monthly rates.



As of 4 February 2011

Big Jump in Deal Flow in 4Q 2010

Americas Volume Doubles in 2010, Asia and Europe up 30%



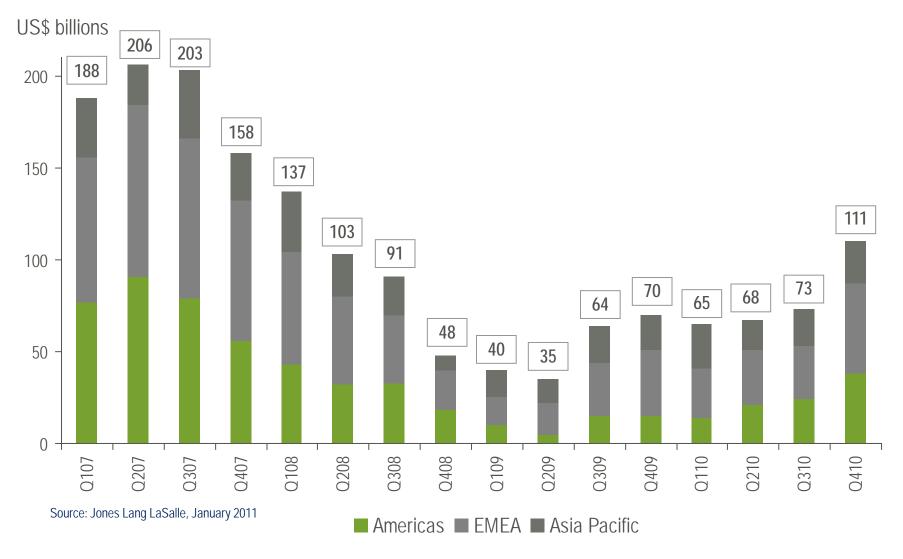
Fourth quarter transaction volume was the strongest since 2007 in the Americas.

Source: Real Capital Analytics, includes land sales, which comprise about 75% of transactions in Asia-Pacific but less than 10% in Europe and the Americas

Data through December 2010

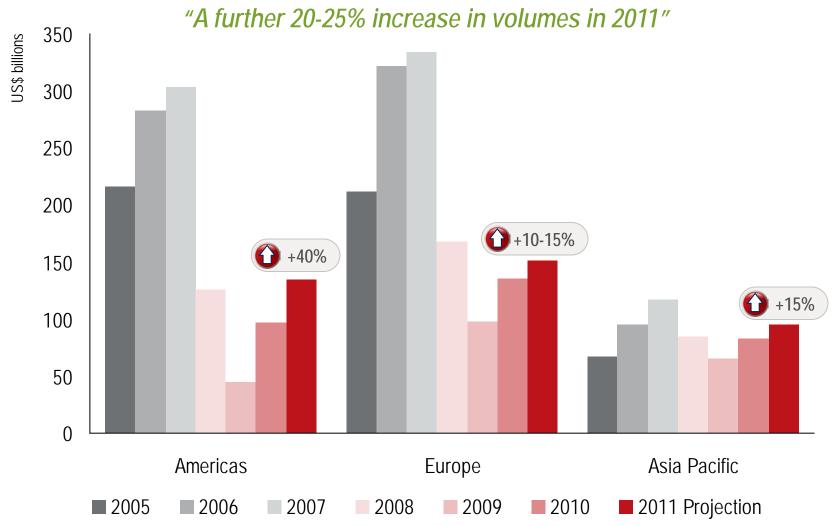


Direct Commercial Real Estate Investment, Quarterly Trends





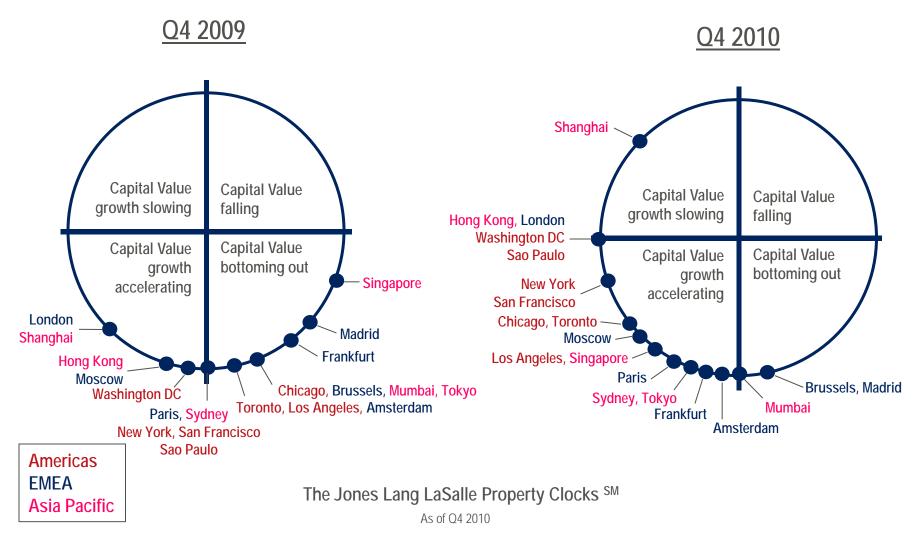
Direct Commercial Real Estate Investment, 2005-2011



Source: Jones Lang LaSalle, January 2011



Prime Offices - Capital Value Clock





Prime Offices – Rental Clock



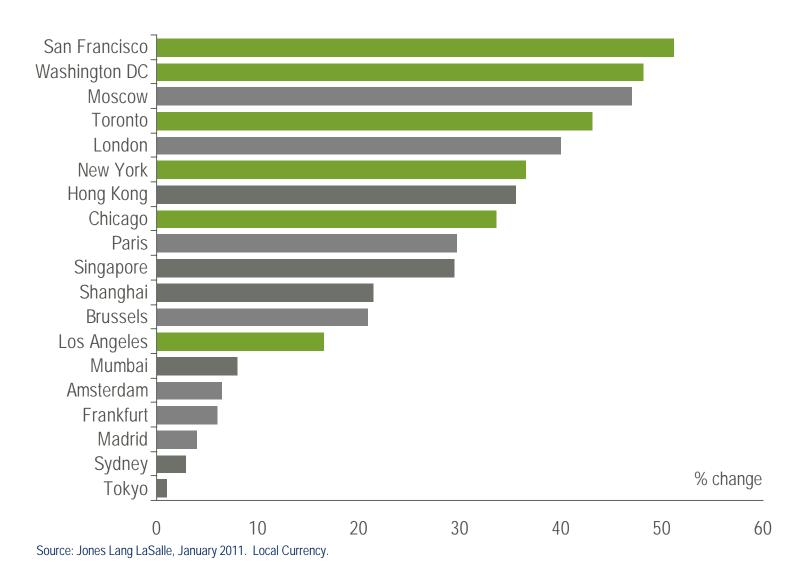


The Jones Lang LaSalle Property Clocks SM

As of Q4 2010

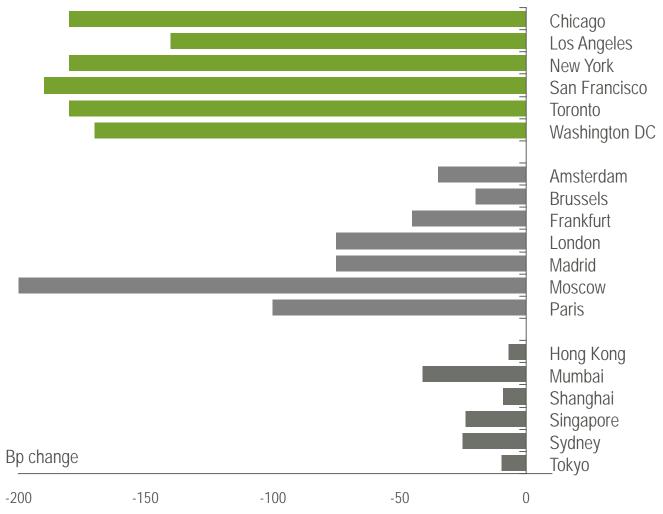


Prime Offices – Capital Value Change, 2010





Prime Offices – Yield Shift, 2010

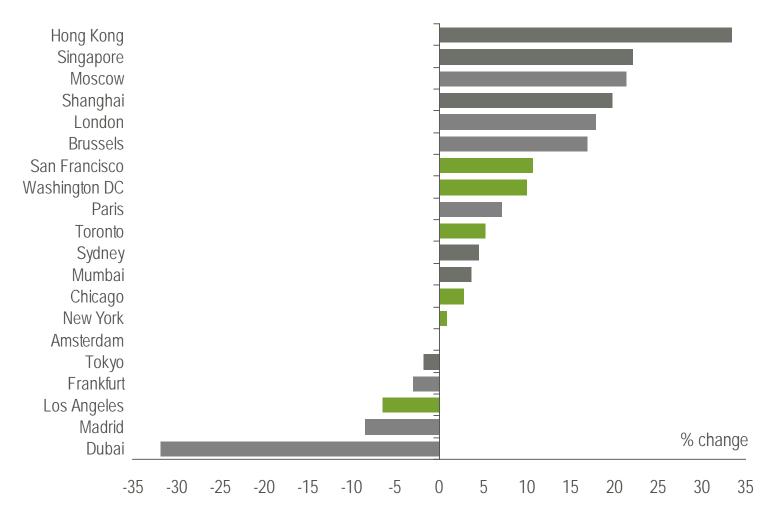


Source: Jones Lang LaSalle, January 2011

Americas Europe Asia Pacific



Prime Offices – Rental Change, 2010

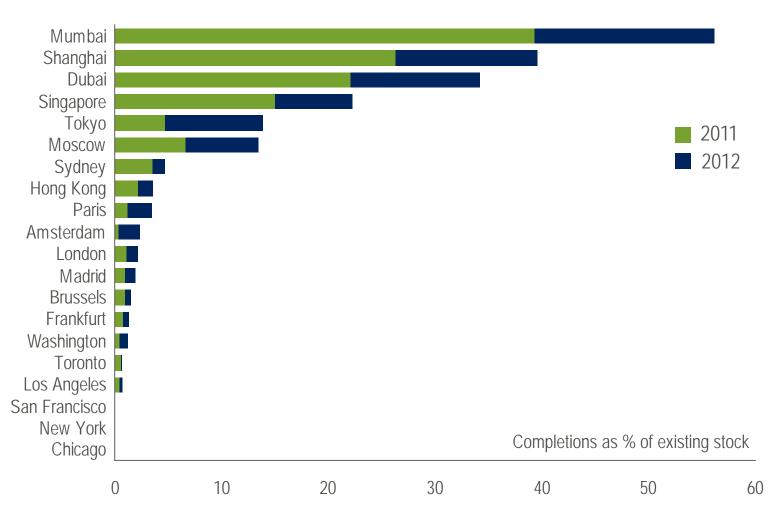


Source: Jones Lang LaSalle, January 2011. Local currency.

Americas Europe Asia Pacific



Office Supply Pipeline in Major Markets, 2011-2012



Source: Jones Lang LaSalle, January 2011. Relates to Metro Areas



Prime Offices - Projected Value Change in 2011

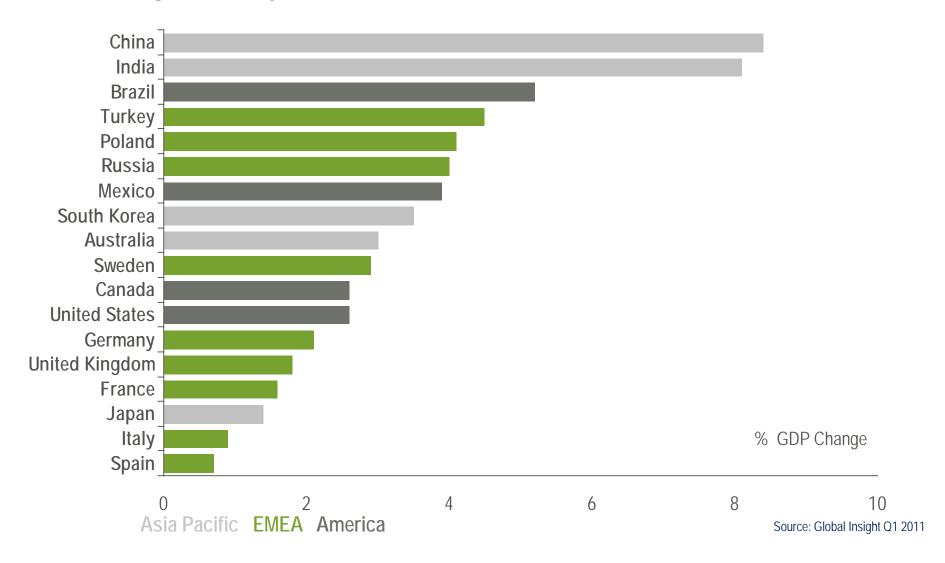
	Rental Values	Capital Values
+ 20%	Hong Kong	Hong Kong
+ 10-20%	Shanghai, Singapore, Tokyo, Moscow, Sao Paulo	Shanghai, Singapore, Tokyo, New York* Moscow, Paris San Francisco, Toronto, Sao Paulo
+ 5-10%	London*, Paris New York*, San Francisco Toronto, Washington DC, Sydney	London*, Los Angeles Washington DC
+ 0-5%	Amsterdam, Brussels, Frankfurt Chicago, Los Angeles, Mumbai	Amsterdam, Brussels Frankfurt, Chicago Mumbai, Sydney
- 0-5%		
- 5-10%	Madrid	Madrid
- 10-20%	Dubai	Dubai

^{*}New York – Midtown, London – West End. Nominal rates in local currency. Source: Jones Lang LaSalle, January 2011



The Hierarchy of Economic Performance, 2011-2012

Economic growth led by China, India and Brazil





The Globalization of Real Estate Services and Investment Management



Real value in a changing world





Global Private Equity Managers

AEW Capital Management

Angelo Gordon

AREA – Property Partners

Blackstone Group

CB Richard Ellis Investors, LLC

DB-RREEF

ING Clarion Partners

Heitman

Hines

JP Morgan Asset Management

LaSalle Investment Management

Lone Star Funds

Morgan Stanley

Prudential Real Estate Investors

UBS Global Asset Management



Largest Listed Real Estate Companies



















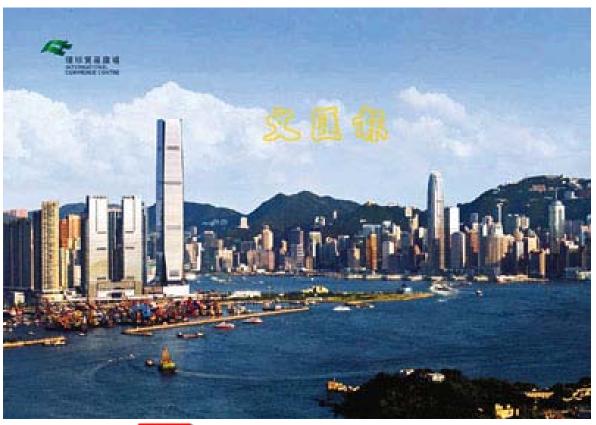


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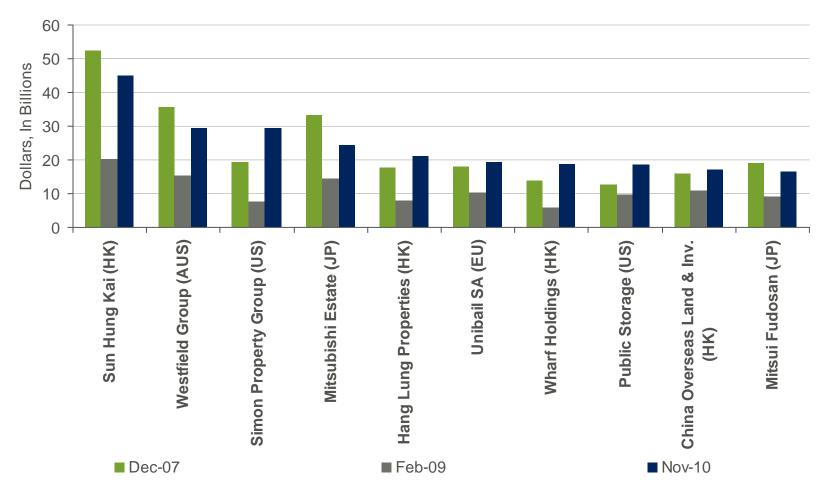
The Largest Market Cap Real Estate Company USD \$52 Billion







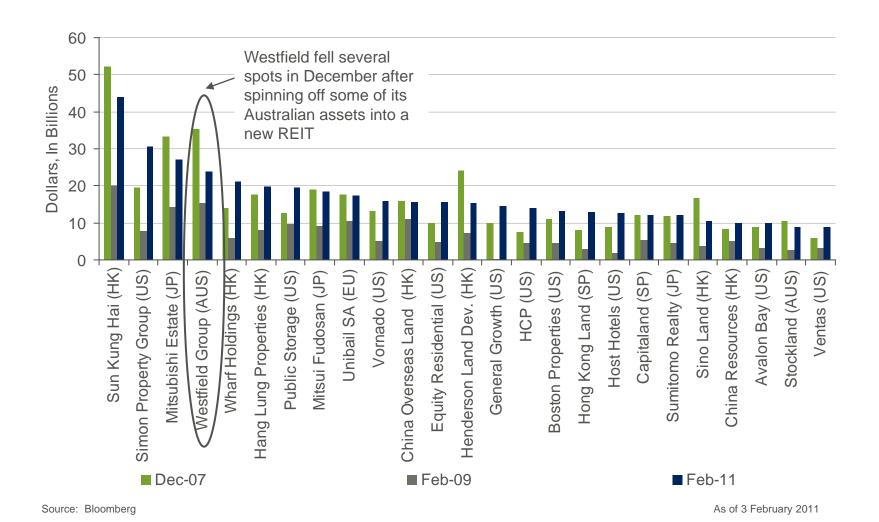
World's Largest Public RE Companies 7 out of 10 Are Based in Asia



Source: Bloomberg As of 3 November 2010



Most of World's Largest Public RE Companies Based in Asia





Largest Real Estate Companies by Market Capitalization Seven of the Top 25 are US-Based; Seven are HK-Based

Company (HQ)	Market Capitalization	Countries
(2010 ranking)	(\$Billions as of 2/2011)	Invested
1. Sun Hung Kai Properties (HK)	43.8	2
2. Westfield (Australia)	23.7	4
3. Mitsubishi Estate (Japan)	27.0	3
4. Simon Property Group (US)	30.7	7
5. Unibail-Rodamco (France)	17.5	13
6. China Overseas Land & Inv. (HK)	15.6	2
7. Mitsui Fudosan (Japan)	18.4	5
8. Hang Lung Properties (HK)	19.8	2
9. Public Storage (US)	19.6	8
10. Henderson Land (HK)	19.8	2
11. Wharf Holdings (HK)	21.1	2
12. Vornado (US)	15.9	1
13. Capitaland (Singapore)	12.1	10

Sources: LaSalle Investment Management, Bloomberg. As of 2/5/11. Only EPRA/NAREIT Global Index qualifying companies included.



Real Estate Transparency Index – Key Enhancements

- Enhanced Questions on Debt Addressing:
 - Availability of information on commercial real estate debt
 - The role of bank regulators in monitoring and publishing information on real estate debt
- New Geographies
 - North Africa and the Levant
- New Transparency Website
 - www.joneslanglasalle.com/Transparency

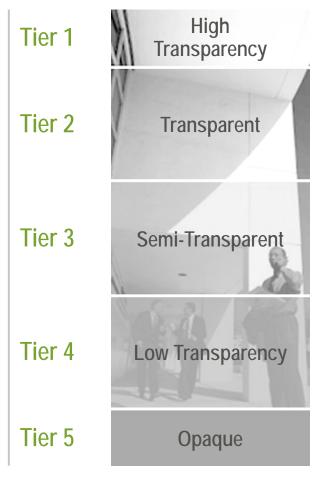




Real Estate Transparency Index - Methodology

Our survey addresses five categories of transparency:

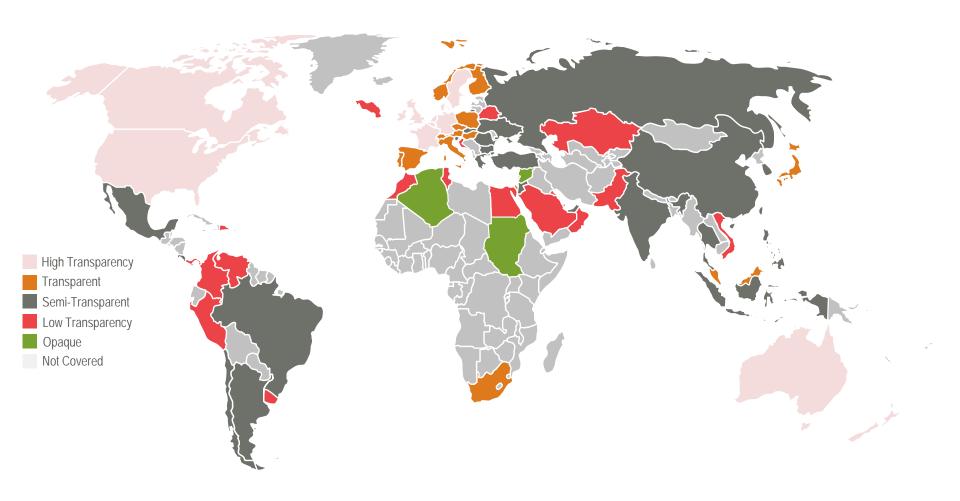
- 1. Investment Performance Indices (7)
- 2. Availability of Market Fundamentals Data (5)
- 3. Listed Vehicles Financials (3)
- 4. Regulatory and Legal Factors (11)
- Professional Standards and Transaction Process (7)





Real Estate Transparency Index

81 markets worldwide





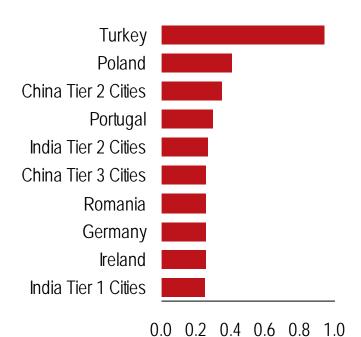
The 12 Most Transparent Countries, 2010

2010 Composite Rank	Market	2010 Composite Score	2010 Composite Tier
1	Australia	1.22	1
2	Canada	1.23	1
3	United Kingdom	1.24	1
4	New Zealand	1.25	1
4	Sweden	1.25	1
6	United States	1.25	1
7	Ireland	1.27	1
8	France	1.28	1
9	Netherlands	1.38	1
10	Germany	1.38	1
11	Belgium	1.46	1
12	Denmark	1.50	1

Note: Scores shown rounded to two decimal places; rankings are based on unrounded scores. Sources: Jones Lang LaSalle, LaSalle Investment Management



The Largest Improvers, 2008 - 2010



- Turkey moves up 27 ranks registering world's strongest improvement – aligning its legal and regulatory with EU
- Transparency improvements in China and India rippling into 2nd and 3rd Tier cities
- Continued progress in CEE markets Poland, Romania, Hungary
- European markets moving into highest tier –
 Germany, Ireland, Denmark

score change

Note: Scores shown rounded to two decimal places; rankings are based on unrounded scores. Sources: Jones Lang LaSalle, LaSalle Investment Management



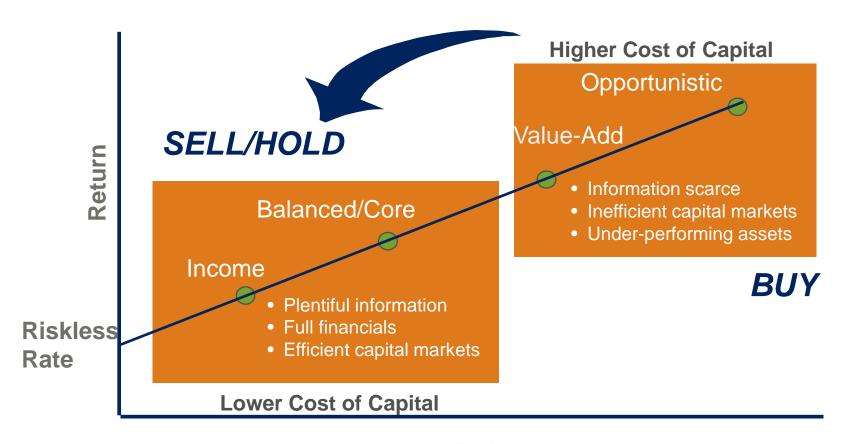
Real Estate Transparency Index – A Forward Perspective

- Global Financial Crisis shows that high transparency does not eliminate risk or prevent market volatility
- High transparency will help markets open up after the financial crisis
- The recap of real estate will be helped by the free flow of information and protection of property rights
- Regulators will emphasise the importance of more disclosure.
- Transparency of real estate debt will therefore increase

Higher transparency moves real estate from the world of uncertainty (unknown hazards and outcomes) to the world of risk (known hazards, probabilistic outcomes)



Harnessing the Power of Yield Compression: An Investment Strategy for Semi-Transparent Markets



Risk



Jacques Gordon – Global Investment Strategist

Tel +1 312 228 2760

E-mail jacques.gordon@lasalle.com

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