Global Capital Markets Bulletin

Spring 2008

"Stock selection is becoming the key to out-performance as the credit squeeze impacts global real estate markets"

USA

- 2007 was a roller coaster year. In 2008, we expect vacancies to rise and values to fall as the economy slows, with the most pronounced effects in the secondary and tertiary markets.
- Debt is hard to find but equity remains plentiful.
- Fundamentals remain strong in many markets, particularly Tier 1 markets on the East and West coasts.

Europe

- Despite the credit squeeze, tenant demand has been steady, especially in Tier 1 markets.
- UK capital values have fallen, but prime assets are starting to look fairly priced.
- We expect investors across Europe to become increasingly focused on rental growth opportunities.

Asia

- GDP remains strong but inflation is a growing concern.
- Asian buyers have avoided excessive leverage in recent years, but credit will become tighter, especially in China.
- Market differentiation is becoming more important with increasing differences in market prospects in Japan, China, Hong Kong and Singapore.

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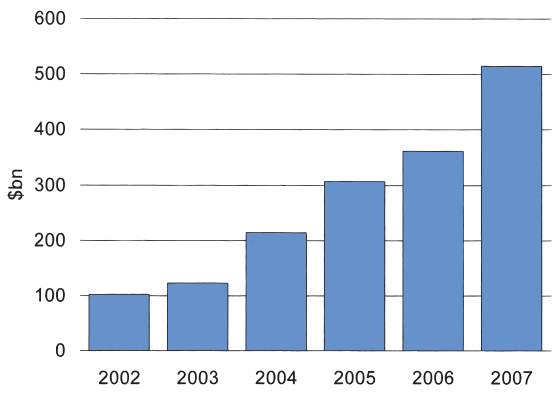
2007 was a record year for the sale of investment properties in the United States, the culmination of five years of steadily growing sales volumes and steadily declining capitalization rates. Indeed, the US accounted for almost 50% of all real estate transactions globally.

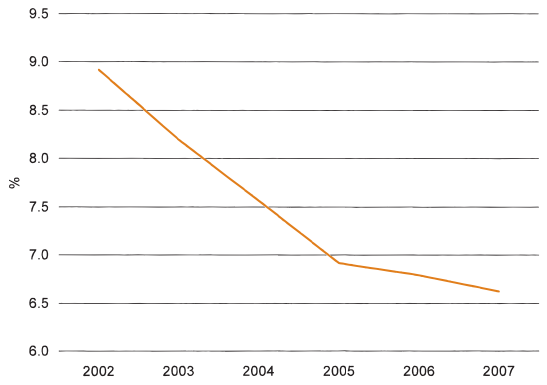
First half 2007 - Rising to a peak

Total sales volumes



Source: Real Capital Analytics

Total average cap rates



Source: Real Capital Analytics

Many factors contributed to this consistent string of sales growth and cap rate compression, including:

- Strong fundamentals in many markets.
- Limited additions to supply (with the exception of condominium development in several markets).
- A steadily growing economy with low unemployment and low interest rates.
- Increasingly efficient and liquid markets for securitized commercial mortgage debt.
- The evolution of a deep market for mezzanine debt and preferred equity.
- Increasing allocations to real estate by major domestic pension funds and other institutional investors, for whom real estate began to be viewed as a mature and stable investment class.
- Merger and acquisition frenzy. (Privatizations and large portfolio transactions accounted for a high percentage of 2007's record transaction volume).
- The attraction of U.S. real estate to off-shore investors, particularly in light of the relative strength of foreign currencies against the dollar.
- The lowering of U.S. taxes on capital gains, which enhanced the appeal of selling for taxable domestic property owners.

Second half 2007 & early 2008 - Starting a a descent?

By mid year 2007, things began to change as a broad re-pricing of risk took hold throughout the financial markets. The troubles that had been brewing in the U.S. housing sector started to spill over into commercial real estate. Housing prices, which in many markets had risen in dizzying fashion over a number of years, began to taper off, due partly to overbuilding and partly to lax home lending credit policies. According to the Commerce Department, the median price of a new home fell 15% between January 2007 and January 2008, to $216,000, the first time U.S. home prices declined on an annual basis since the Great Depression. In too many cases, loans were offered to borrowers who would never have qualified for mortgage loans under traditional underwriting standards. In addition, more and more home loans were structured with floating rates and interest resets, as opposed to the more conventional long-term fixed rate structures that historically dominated home lending. As interest rates inched up, monthly payment obligations on the floating rate loans rose, and this occurred just at the time when home prices were declining. Due to the slack underwriting standards, many new borrowers could barely afford even the initial mortgage payments, let alone the increased payments once the interest rates were reset. As a result, delinquencies and defaults ballooned: January 2008 foreclosures were up 90% over January 2007, and it is estimated that nearly 7% of subprime home mortgages are currently in foreclosure and nearly 17%

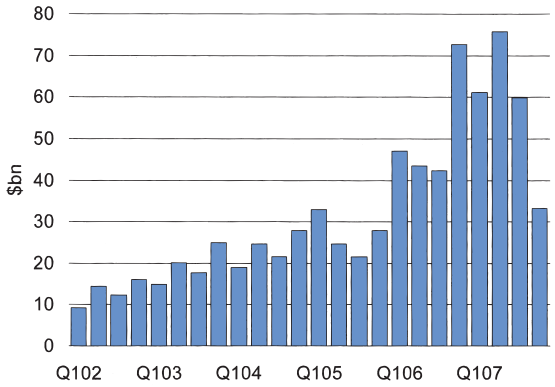
are delinquent. Lenders who were originating home mortgage loans suddenly found that the buyers of the securities into which their loans were packaged are either demanding significantly higher yields or are out of the market altogether.

Though commercial mortgage lending was somewhat more disciplined throughout this period than home mortgage lending, some of the same forces were in fact at work on the commercial side. Increasingly efficient and liquid markets for commercial real estate debt, in combination with steadily rising values, emboldened lenders to "push the envelope." Loan-to-value ratios of 80% and 90% became commonplace. Debt coverage ratios declined - and in some cases disappeared altogether. Lenders accepted the fact that borrowers took on mezzanine, preferred equity and other forms of financing, leaving them with razor-thin levels of equity in their properties. Amidst unbounded optimism in rising rents, owners and lenders began to view in-place tenancy as an impediment to full value. Vacancy and near-term lease expiration, on the other hand, came to be viewed as positive underwriting factors, as they allowed building owners to capture full rental value sooner rather than later. Acquisitions, and the loans that financed them, were increasingly underwritten on the basis that future, pro-forma occupancies and rents would justify historically low going-in yields. In retrospect, insignificant consideration was given to the risk inherent in actually attaining those increased occupancy and rent levels.

In addition, as was the case with the home lending industry, the commercial real estate lending industry had become increasingly dominated by securitization. Buyers of commercial mortgage backed securities (CMBS), alerted to the "subprime crisis" in the home lending sector, began to question the declining underwriting standards in the commercial sector. While actual default levels in the commercial sector were low, they did begin to inch up.

Once this mindset took hold, CMBS investors reacted quickly, and with a vengeance. The market for the lowest rated tranches of CMBS all but dried up, and the required yields on higher rated paper widened dramatically. Trading activity in the secondary market virtually ground to a halt. By summer 2007, commercial and investment banks, the traditional originators of loans for CMBS securitization, found themselves stuck with billions of dollars of loan inventory that they might only be able to sell at a loss. Not knowing what they would have to charge borrowers on newly-originated loans in order for the bonds issued against them to clear the market, these origination factories for the most part simply stopped writing new loans. In common parlance, the market "seized up."

Total US CMBS issuance



Source: Commercial Mortgage Alert

Risk premiums increased throughout the debt markets. Concerns over a generally slowing economy and a possible recession added to investor apprehension. The environment that prevailed for five years leading into 2007—one of steadily rising rents and values—turned into a "perfect storm" by the end of the year, at least in terms of commercial mortgage debt availability.

But underlying fundamentals are still relatively strong and capital is still available in 2008

With respect to commercial real estate, the well-publicized "credit crunch" is just that—a decline in the availability of mortgage debt. Despite the downturn in the housing markets, however, underlying fundamentals in many commercial markets — particularly in major metropolitan areas on the East and West Coasts and in the high growth corridors of the South and Southwest remain sound. Occupancies are often good to excellent, and supply and demand are in relative balance. (As opposed to the frenzy in the arena of lending on existing properties, construction lending standards—other than for residential condominium development in several high profile markets—have remained conservative.) At the same time, equity capital and private mezzanine and opportunity capital continues to be readily available from domestic sources, and the demand for U.S. real property assets from foreign investors continues to be robust.

In addition, first mortgage capital, albeit limited in supply, continues to be priced at historically attractive rates. That mortgage capital is available from domestic life companies and pension funds, and from foreign banks. Such lenders are more restrictive in their lending policies than the CMBS lenders, as they generally confine themselves to more limited markets, higher quality properties and loans with lower loan-to-

USA

value and higher debt service coverage criteria than borrowers have become accustomed to over the past several years. Additionally, there are fewer lenders that can handle larger-sized transactions, at least without syndication. Consequently, the commercial debt market will not be nearly as liquid in 2008 as it has been. Still, for the well-qualified deal with a borrower who is willing to put in significant levels of cash equity (35%-45%), mortgage capital is available, and on historically attractive terms.

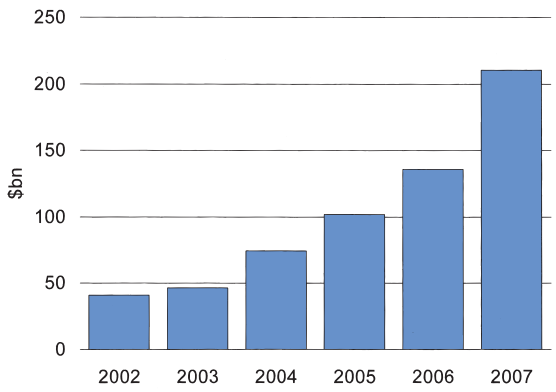
In 2008, therefore, we expect transaction volume to decline but not grind to a halt. Overall, market fundamentals may weaken as the economy contracts, but this is coming off a period of record low vacancies. New development is under control, interest rates remain low and equity capital remains plentiful. Capitalization rates should rise in general, but the speed of cap rate expansion in 2008 will vary by region and property type.

Private domestic buyers who relied heavily on easy access to high loan-to-value financing in 2007 will move to the sidelines. This will create a more accommodating environment for domestic institutions, which typically use less leverage than private buyers, and for foreign buyers. For these reasons, we expect foreign capital to become an even larger part of the U.S. commercial property market. The percentage of offshore buyers in the U.S. increased 22% between 2006 and 2007, and this trend should continue in 2008.

Office

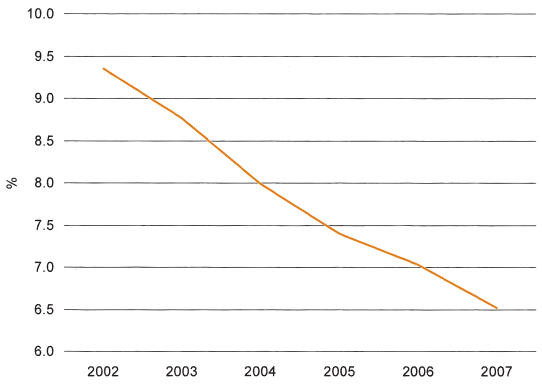
Office properties in central business districts (CBDs) remained strong throughout 2007, with relatively stable vacancies and increasing rents. Additionally, over the past 5 years, cap rates have dropped and sales volumes have grown within major cities. In 2008, we expect vacancies to rise and rents to soften, but only marginally in the major CBD markets. Due to the lowering of loan-to-value criteria and the need for buyers to put significantly more cash equity into their purchases, we nonetheless expect sales volumes to decrease and cap rates to increase. Business confidence will either decline or flatten as the broader effects of the slowing economy play out, and this may have a negative impact on expansion plans. New development will probably be held in check going forward, given the overall cautious sentiment among lenders, although new supply that is about to come on line in certain suburban markets may be difficult to absorb. The strongest markets are expected to remain the major cities in the East and West Coasts. The Manhattan office market remains extremely robust, with limited new supply relative to demand. However, fallout from the credit crunch, as it relates to office demand from financial services firms, and the law and accounting firms that service them, could have an impact on the market over time.

Office sales volumes



Source: Real Capital Analytics

Office average cap rates



Source: Real Capital Analytics

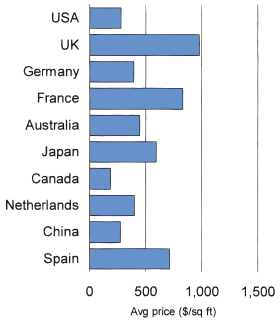
Office product in the primary US markets will continue to attract interest from foreign buyers. Pricing of US office assets, despite the run up that has occurred over the past several years, is still moderate in comparison with other major markets around the globe. This should sustain the appeal of US office assets to offshore investors.

In most suburban office markets, average cap rates, vacancy and rents as well as total sales volumes either decreased slightly or experienced little change in 2007. Suburban office vacancy stood at 14.2% in 2007, in contrast to 13.6% in 2006. We expect that suburban office product in second tier markets will be a challenged asset class in 2008.

USA

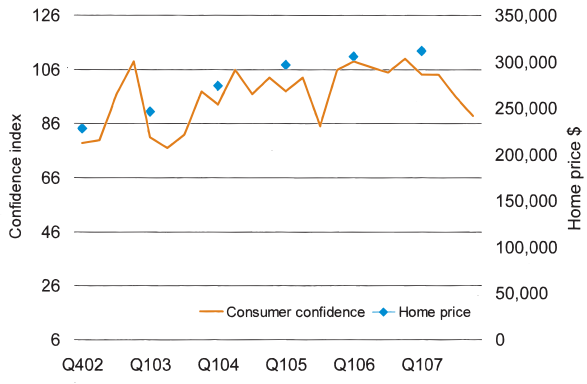
Top investment sales worldwide by country

	Volume $bn	Sq ft m	Cap rate %
USA	209.3	734	6.3
UK	54.8	63	5.5
Germany	36.4	82	6.8
France	25.0	32	5.5
Australia	17.6	35	6.5
Japan	14.1	23	4.9
Canada	7.4	37	7.4
Netherlands	6.7	21	5.6
China	6.6	24	10.0
Spain	5.8	8	5.7



Source: Real Capital Analytics

Consumer confidence vs US average single family home price



Source: The Conference Board, US Census Bureau

Retail

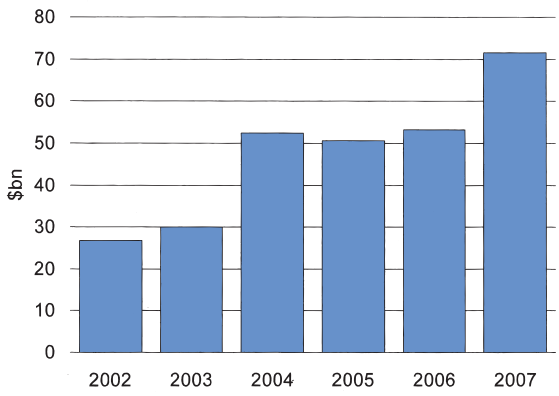
2007 saw $66 billion in retail property sales in the US, with an average price of $197 per square foot and an average cap rate of 6.5%.

The slowdown in the housing market and in the general economy will likely lead to a decline in consumer spending and a possible increase in retail vacancies. The strength of the U.S. retail markets tends to vary greatly based on region. In 2007, most major cities experienced lowering vacancy and cap rates as well as increasing rents. We expect well positioned, high quality regional malls and well anchored neighborhood and community centers to continue to perform well. So-called “B” malls, second-tier enclosed malls in smaller markets, have become an increasingly challenged asset class and are likely to remain so.

An important concern in the retail sector will be the impact that the housing market woes will have on consumer spending. To a considerable degree, consumer spending over the last 4–5 years has been spurred by spiralling home values and easy credit. Homeowners were able to refinance their mortgages, take out excess proceeds and still in many cases reduce their mortgage payments. An accommodating second mortgage and home equity loan market further helped borrowers create liquidity out of their homes. Optimism over rising home values boosted consumer confidence, and a significant portion of the liquidity that was created was spent at the nation’s malls and shopping centers. It remains to be seen how much the reverse scenario—falling home prices, rising rates and more restrictive lending practices—will impact the retail sector.

In 2007, luxury shopping centers and lifestyle centers in upscale neighborhoods were secure. Upper middle-class and upper class buyers did not feel the pinch of the capital markets crunch for most of the year and continued to make retail purchases. Middle and lower income buyers felt that crunch more acutely, and were disproportionately impacted by increasing CPI. In 2008, we expect that trend to continue: wealthy buyers will continue to splurge while others will be more cautious in their spending and even cut back.

Retail sales volume



Source: Real Capital Analytics

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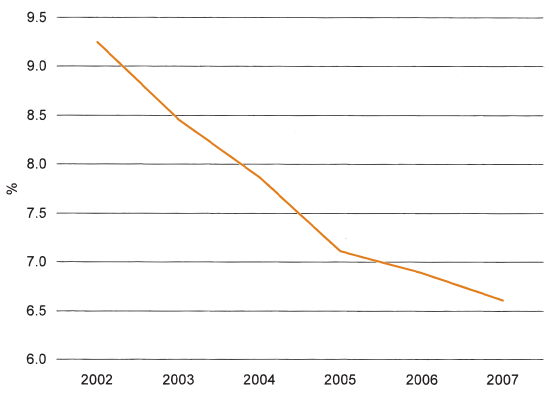
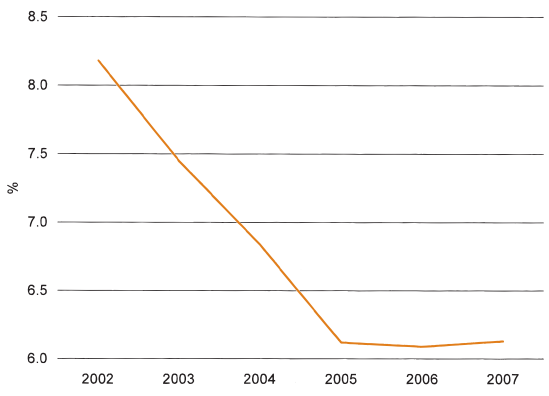
Retail average cap rates



Source: Real Capital Analytics

Multi-family average cap rates



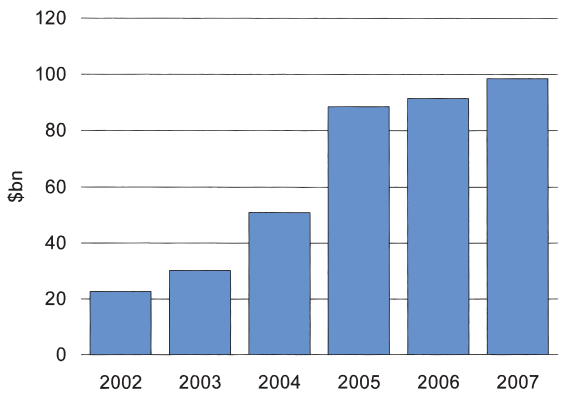
Source: Real Capital Analytics

Multi-family

Multi-family sales volume approached $99 billion in 2007, with the average capitalization rate at 6.13% and an average price per unit of $109,000.

On the other hand, the multi-family rental market suffers from oversupply in a number of U.S. markets. After steadily declining for five years, cap rates inched up in 2007.

Multi-family sales volume



Source: Real Capital Analytics

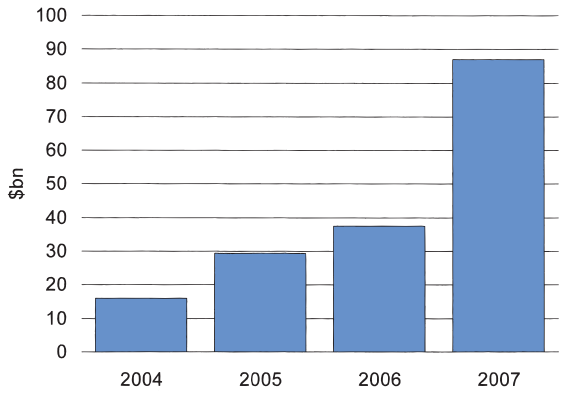
The multi-family rental market will continue to be indirectly affected by adverse developments in the for-sale housing market. The impact will be mixed and will vary significantly from market to market. For example, a decline in new housing starts and the increasing difficulty for first time buyers to qualify for mortgage loans will tend to increase demand for rentals. On the other hand, in certain markets, the overhang of unsold condominiums and single family homes may have a negative impact on rental housing. It is also possible that 2008 will see more rental product produced in the United States. This will have a positive impact in several urban markets that currently have a dearth of apartments, but a negative impact elsewhere. A bright spot for multi-family is that it remains a favored asset class for mortgage lending, even in the face of the downturn in the supply of real estate mortgage credit generally.

Hotel

2007 was the fourth year in a row of record sales for the lodging sector. The number of properties sold increased 70% over 2006 and the price per key was 37% higher. Private equity groups were at the root of this sector's strength - they were involved as either the buyer or seller of approximately 70% of the hotel transactions in 2007. Additionally, large transactions, such as Blackstone's $26 billion acquisition of Hilton and Lightstone Group's $8 billion acquisition of Extended Stay America, accounted for over 60% of 2007 transaction volume. With merger and acquisition financing becoming more constricted, however, mega transactions will be a less important factor in market activity in 2008. Interestingly, while sales volumes increased in 2007, average cap rates increased as well. One possible explanation for this anomaly is that a material part of the increase in sales volume in 2007 involved lesser quality product.

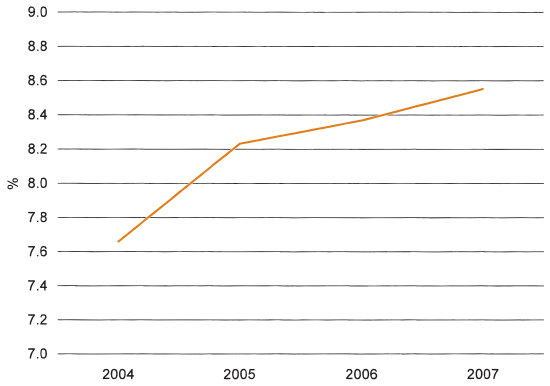
USA

Hotel sales volume



Source: Real Capital Analytics

Hotel average cap rates



Source: Real Capital Analytics

Occupancy remained relatively flat in 2007, averaging just over 63%, while average daily rate (ADR) and revenue per available room (RevPAR) grew at 5.7% and 5.5%, respectively, over 2006.

Several themes, sometimes contradictory in their impact, dominate the lodging forecast for 2008. First, a likely slowdown in the US economy will negatively impact hotel operating performance and values. Second, the credit crunch will also take its toll in valuations, as debt financing for hotels will become much harder to find. Third, the declining dollar will have a two-pronged, positive effect: foreign travel to the US will become less expensive in relative terms, resulting in an increase in travel to major destinations, while travel overseas will become more expensive for US citizens, resulting in an increase in domestic vacation travel. Finally, hotels, having performed strongly over recent years, have assumed a "core asset class status" among institutional and offshore investors, who are flush with equity capital and eager to make additional acquisitions.

Sorting this all out, we estimate that ADR and RevPAR will continue to grow in 2008 but at a more modest rate than in the recent past, and occupancies on balance will fall slightly. The upscale segment of the market should hold up relatively well in terms of performance and value, particularly in high barrier to entry markets like New York, San Francisco, Washington DC, Boston and Chicago.

State of the global capital markets and their relationship with the US

The global currency market

	1/1/07	12/31/07	% chng
Euro	0.758	0.6794	11.57%
Yuan	7.8175	7.3141	6.88%
Yen	119.116	112.35	6.02%
GBP	0.5107	0.5009	1.96%
HK$	7.794	7.8049	-0.33%

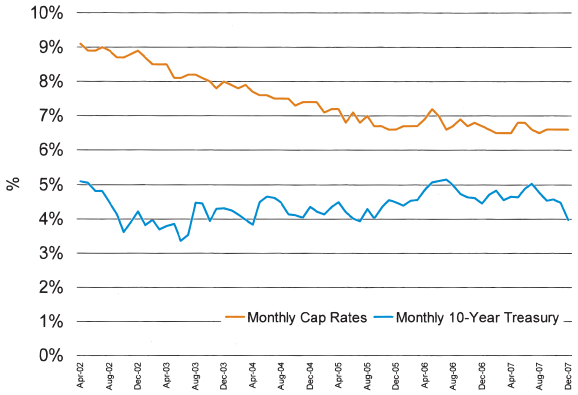
In 2007, the Dollar declined significantly against the Euro, Chinese Yuan and Japanese Yen. Thus far in 2008, the Dollar has continued to fall against many of the world's major currencies, and it is likely to continue to do so. The best case scenario for the Dollar is that the capital markets crunch will catch up with the European markets and increase the Dollar's value in relation to the Euro. The Dollar's position against the Yuan is less clear. Controlling inflation has become an important policy goal in China, but China's economy is heavily dependent upon exports to the US. It is too soon to tell how these forces will play out.

US capital markets and their affect on real estate

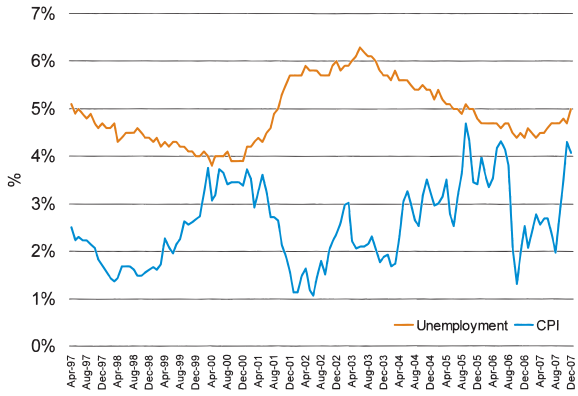
The interest rate on the 10 Year Treasury remained fairly steady from 2002 through the first half of 2007, but declined 100 basis points over the last six months of 2007. Cap rates, which had been steadily declining over that same five and a half year period, began to increase during the last months of 2007. Thus far in 2008, the trend is continuing: the rate on the 10 year Treasury has dropped another 50 basis points, and cap rates continue to widen. We expect the rate on the 10 Year Treasury to stabilize in 2008, but cap rates should increase further.

USA

Ten Year Treasury versus average cap rates



In the ten years between 1997 and 2007, unemployment changed little while inflation ranged between 1% and 4.5%. In 2007, unemployment increased approximately 50 basis points to approximately 5% and inflation moved from 1% to just over 4%. Economists predict that inflation will increase again in 2008, but the U.S. Federal Reserve is taking action to curb that trend. If layoffs and other such after-shocks of the credit market crunch continue to occur, the percentage of unemployed Americans will rise.



CPI and unemployment in the USA

Source: United States Department of Labor

Mergers & acquisitions/privatizations in 2007

The top 10 commercial real estate transactions of 2007 in the United States were largely due to privatizations and merger and acquisition (M & A) deals. We do not expect this trend to continue in 2008, as borrowing capital will be more expensive and investors will be cautious in their acquisitions. 2007 was a year of big proportions; investors will not continue to take on such large deals in 2008.

Buyer	Seller	$bn	Asset type
Blackstone Group & Macklowe/Fortress	Equity Office Properties Trust	39.0	Office
Apollo Management LP & TPG Capital	Harrah's Entertainment Inc	27.8	Casino
Blackstone Group	Hilton	26.0	Hotel
Tishman Speyer, Lehman, Bank of America	Archstone Smith	22.2	Multi-family
Eurazeo	Station Casinos	9.0	Hotel
Lightstone Group	Extended Stay America (Blackstone)	8.0	Hotel
Simon Property, Farallon Capital	Mills Corporation	7.9	Shopping centre
Ashford Hospitality, Morgan Stanley, Pyramid Advisors	CNL Hotels & Resorts	6.6	Hotel
Morgan Stanley	Crescent RE Equities	6.5	Office
Centro Properties Group	New Plan Excel	6.2	Retail

Top 10 commercial real estate transactions of 2007 (including privatizations and M&A)

Conclusions

In conclusion, we expect that 2008 will see:

- a decline in overall transaction activity,
- an increase in capitalization rates, and
- a need for greater cash equity to go into each new acquisition.

While the availability of first mortgage debt capital has changed dramatically, the impact of reduced mortgage availability will be partially offset by the fact that the domestic markets for equity, mezzanine and opportunistic real estate capital continue to be flush. This impact will also be offset in certain major markets by the continued and even increasing appeal of U.S. commercial real estate investment to offshore investors.

Europe

While the shadow of the credit squeeze hung over Europe in the second half of 2007, its impact has not been as systemic as many expected. Generally, tenant demand has remained resilient even in the office market, with vacancy rates trending downwards across Europe.

We estimate that 2007 saw approximately €170 billion invested in European commercial property, marginally down from 2006's record levels. More than 50% of this volume was by cross-border players focusing on established Tier 1 markets, as well as the emerging markets of Central and Eastern Europe. The most active investors are expected to remain equity players, whether private or institutional. While debt backed investors will remain hamstrung by the credit squeeze, we are already seeing an acceptance of tighter lending criteria over the last six months.

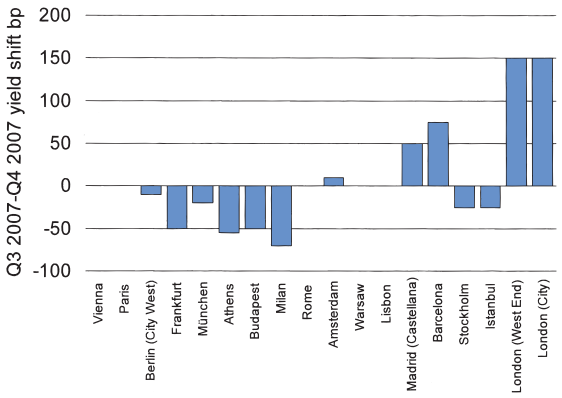
The major story of 2007 has been the correction in the UK investment market, with capital values falling by around 15% across all asset classes. The big questions for 2008 are whether this correction will spread across the rest of Europe, and when the credit squeeze will ease.

Office

Tenant demand for office space in Europe remained strong in 2007, with an average YOY increase in leasing activity of 18%. Tenant demand remained heavily biased towards prime property and most markets remained resilient in the face of the credit squeeze. Indeed, 2007 marked the first year in quite a while that the majority of tenant demand was due to expansion rather than churn.

Vacancy rates continued to fall in most cities, leading to continued strong upward growth in rents. We estimate that prime office rents in Europe grew by an average rate of 10% in 2007, though the rate of growth is slowing.

Office yields still falling in some locations in Q4



Source: Savills

Generally, yields continued to fall in Europe's office markets in 2007, with the major exception being London. However, the rate of fall slowed in Q4 in many locations, or indeed reversed. London has been considered by many investors to be overpriced for a number of years. For many players, this correction now means that London offices look like a buy. We believe that London offices represent the best prospects for rental growth in the UK over the next five years.

Retail

There are marked variations in the prospects for Europe's consumer economies over the next five years, and these variations are the factors driving investor behaviour. Generally, the Western European economies are facing slow but positive growth in consumer spending, and the Eastern European economies are still booming.

We expect that retailers will be continuing to expand in all markets, but this expansion will be heavily focused on locations that can deliver above average profits per square metre.

Retail yields have continued to go down, with the average prime retail yield across Europe moving from 5% at the end of 2006, to 4.5% at the end of 2007 (though they have softened in the UK). In most western European countries we expect yields to stabilize at their current level in 2008.

Rental growth prospects still exist and investors are increasingly focusing on opportunities to enhance the retail offer in their target country. We expect to see an increasing focus on mall and retail warehouse park development and investment. Portfolio weightings to European retail property have grown substantially over the last 12 months.

Industrial/Distribution

The distribution market in Europe is quite varied at present, with some locations seeing extremely strong upward rental growth due to an undersupply of space, and others seeing falling rents due to oversupply.

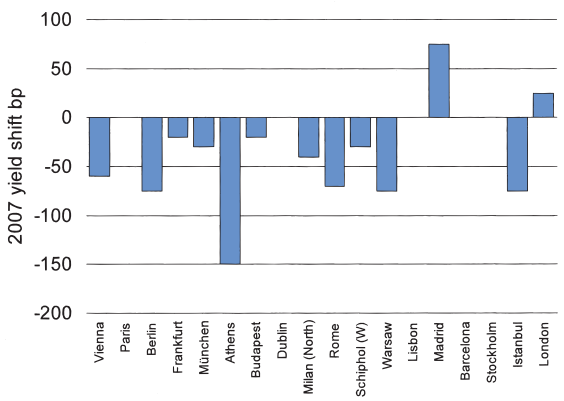
The major buyers of industrial/distribution property remain the Pan-European and global logistics funds. These funds are both developing new schemes and buying and redeveloping existing schemes in the traditional and emerging distribution hubs. Their activity has driven down prime distribution yields across most of Europe over the last 12 months.

On the tenant demand side we expect distributor margins to remain under pressure, in the face of a quiet consumer environment, and this should cause rental growth to stabilize at its traditional 3-5% per annum level.

Europe

Hot spots will remain, including traditional core markets such as Germany and the emerging markets of Central and Eastern Europe.

Yields on prime European distribution property continued to harden in 2007



Source: Savills

Hotel

The hotel sector is probably the largest "alternative" direct property asset class in Europe, and has been the focus of considerable investor interest over the last three years.

Occupancy rates were generally stable across Europe's major cities in 2007, averaging around 75%. London stays consistently higher than average at 87%.

RevPARs have continued to improve in 2007 in most locations, with London and Paris leading the pack at €165 and €177 respectively. We estimate the average European RevPAR grew by 8% in 2007.

Looking ahead we expect investor interest in this sector to remain strong. While yields on UK hotels have softened in line with the wider direct property market, the rest of Europe is still seeing some hardening.

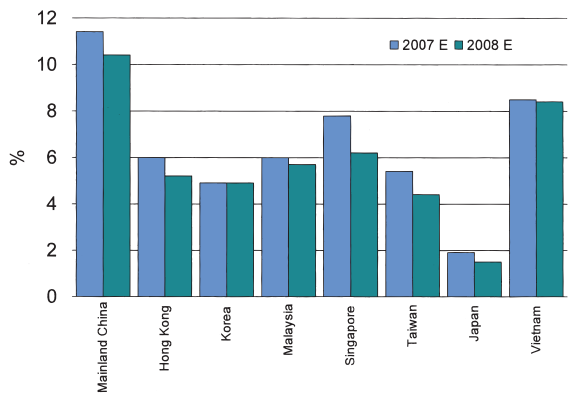
Outlook

- Credit squeeze to remain an issue for the remainder of 2008.
- Debt to become more widely available thereafter but at lower LTVs and higher spreads.
- Prime investments in the UK to have corrected to a more sanguine level. Investor demand to recover in 2008 in the UK, and remain heavily focused on prime property that can deliver upward rental growth. We expect new buyers for UK commercial property in 2008, driven by the return to "right-pricing."
- Western European markets to see the end of downward yield shift this year. Prime yields to stabilize, potential for yield softening on secondary product.
- Central and Eastern European markets to remain strong on the back of economic growth, but we advise caution in some locations due to the size of the development pipeline.
- Commercial property in Europe to remain a buy in many investors' minds. With the relaxation of the credit squeeze, sellers may be in a minority other than in the UK where some retail funds will be forced sellers in 2008 due to redemptions.
- We expect the big trend for 2008 to be a "flight to quality" with investors focusing on Tier 1 markets, where the prospects for rental growth are sound and levels of liquidity and transparency limit risks.

Asia

During a period of adjustment for the global economy, Asia's GDP grew strongly over the second half of 2007 with only Japan registering an exception. Asia's notoriously high levels of Foreign Direct Investment (FDI) also showed strong growth during 2007's last six months, with some moderation noted in China.

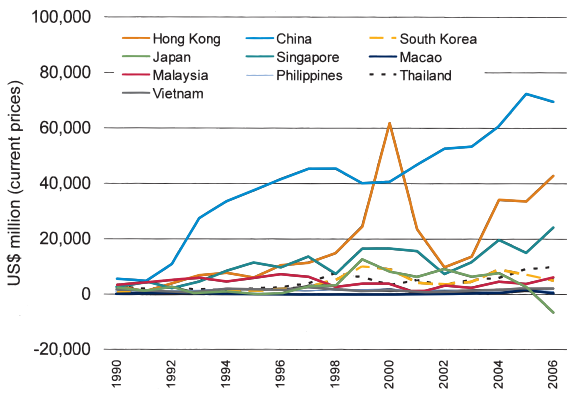
GDP growth



Source: Asia Pacific Consensus Forecasts

Inflation concerns are now surfacing as food, oil and materials costs continue to escalate in most major economies. In Mainland China, a risk of overheating remains, even after increases in taxation and interest rates as well as the imposition of more stringent lending limits on banks. As a result of the tightening measures, growth in the PRC is likely to moderate to close to 10%.

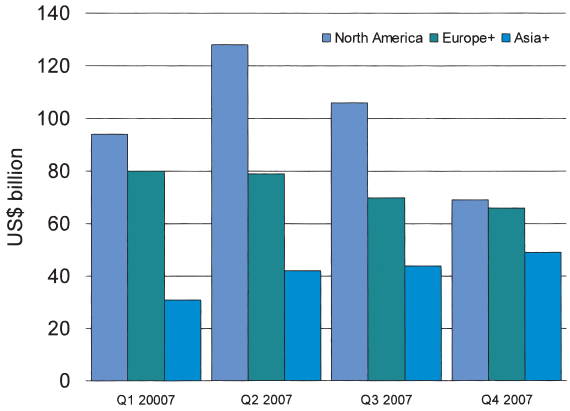
Foreign Direct Investment



Source: United Nations. Note: Hong Kong's FDI in 2000 was due to a telecoms acquisition by China Mobile

Many of the long-term drivers which have attracted investors to this part of the world remain in play: population growth, rapid household formation, urbanization rates and a burgeoning middle class. Post Asian-Crisis, most investors here have proved relatively conservative. High gearing levels and lax lending policies seem to have been avoided.

Quarterly sales volume



Source: Real Capital Analytics

2008 will not favour all Asian markets equally, however. Japan seems to be slipping backwards, as export-led growth slows and exposure to the sub-prime market is revealed. In China, where overheating remains a threat, development opportunities in second tier cities, especially in the retail and residential sectors, are attracting investor interest. The Hong Kong and Singapore real estate markets are moderating after two years of above trend growth but continue to post strong gains. Emerging economies such as Vietnam are attracting significant amounts of capital from overseas. Despite these inconsistencies, Asia in general has become increasingly attractive to many investors, particularly in light of anxieties over the property markets in Europe and the U.S.

Office

Tokyo: High levels of pre-commitment to limited new supply is likely to support rental rates this year despite signs of a slowdown in the general economy.

Singapore: Grade 'A' office rents recorded growth of around 40% in 2007 and vacancies were pushed below 1%. Strong occupier demand amidst very limited supply should result in further increases in rents and values this year.

Hong Kong: The rapid pre-commitment of new supply in core areas helped to support rents in 2007; however, elevated Grade 'A' supply levels in non-core districts should act to slow growth over 2008.

Seoul: Demand in the Seoul office market has been driven principally by financial services occupiers. With

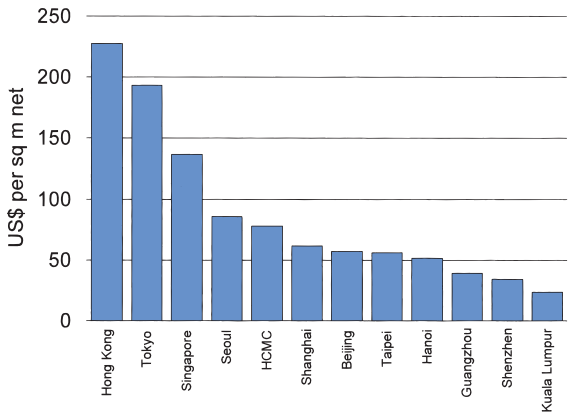
Asia

little new supply in the pipeline, it is likely that 2008 will see further gains as tenants and investors seek stock.

Shanghai: Significant volumes of new supply are due to enter the market this year, mostly in Pudong. High levels of pent-up demand should ensure limited downside for rents.

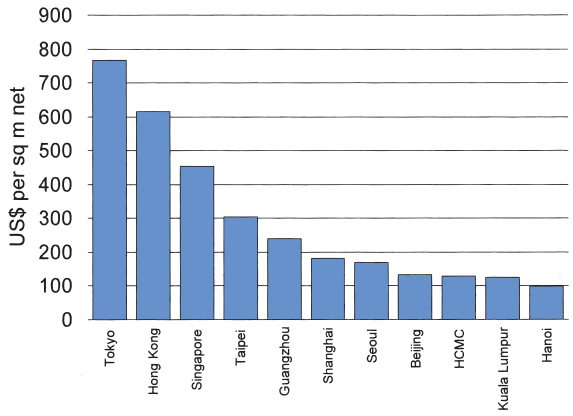
Beijing: A high volume of new supply saw rents drift down over 2007. This trend is unlikely to change in 2008. Vacancy rates are expected to remain consistently high.

Prime office rents



Retail

Prime retail mall rents



Hong Kong: Strong growth in visitor arrivals from Mainland China was complemented by rising domestic consumption demand in 2007. Consumer confidence in 2008 remains buoyant and record rents for prime premises continue to be set.

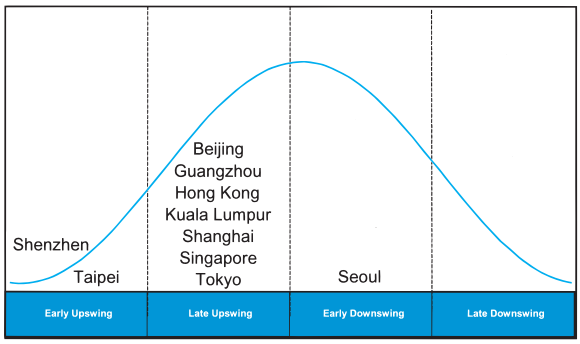
Singapore: The city state continues to draw overseas visitors. New attractions, such as the "Singapore Flyer", a revamped Orchard Road and Formula One, are expected to add to Singapore's appeal in 2008.

Seoul: Rising incomes and generally positive sentiment helped boost retail sales in 2007. These factors may be offset by inflationary pressures during 2008.

Shanghai: The city attracted a raft of international retailers in 2007 while domestic retailers also favour the city as China's premiere commercial centre and a good place to develop a brand.

Beijing: High levels of new supply are expected to exceed demand levels, despite the Olympic stimulus. Rents will moderate this year as vacancy increases.

Residential



Hong Kong: Negative real interest rates, limited new supply and healthy economic growth are expected to put upward pressure on prices this year and could result in increases in the order of 15% to 25%. The rental market is being buoyed by a continuing influx of expatriates.

Singapore: Dramatic rates of growth in 2007 will not be matched in 2008. Prices should rise at more moderate rates of 10% to 20%, with the mass market expected to outperform.

Seoul: Increasing interest rates and higher levels of taxation cooled the residential market in 2007. These factors are likely to remain relevant in 2008. We are therefore not expecting strong price increases.

Tokyo: A weakening macro-economic outlook should act to cap growth in residential values, despite the low interest rate environment.

Shanghai/Beijing: The Central Government is attempting to cool the property market with a series of measures (particularly Circular 359). These are likely to have a greater effect on the mass housing market than the luxury sector. Uncertainty still lingers as a result of stock market instability and the nature and enforcement of new measures.

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The investment markets worldwide are increasingly cross-border and annual real estate transactions total more than $700bn.

Recent global transactions closed by Savills

Madrid, Spain - Banco Santander portfolio
$733 million

Eleven properties located in eight Spanish cities, including Banco Santander's Madrid headquarters -- which totals 968,760 sq ft (89,998 sq m) -- were purchased on behalf of Pontegadea, the real estate company of Zara founder Amancio Ortega. The properties were part of $5.8 billion offered by Banco Santander.

Multi-state, United States - HCP National Medical Office Portfolio
$515 million

General Electric and Health Care Property Investors, Inc., America's largest healthcare REIT, sold GE's interest in an eight-state portfolio of 55 medical office properties comprising 4 million sq ft (371,612 sq m). All but four are located on the campuses of or affiliated with Hospital Corporation of America, the largest healthcare system in the US.

Multi-state, United States - Starmount Portfolio
$540.8 million

Savills Granite advised private property investor The Starmount Company on the disposition of its shopping center, retail and office portfolio comprised of 46 properties. The buyers were a joint venture between CBL & Associates and Teachers' Retirement System of the State of Illinois.

Washington DC, United States - Union Station
$160 million

A consortium of institutional and private-equity investors sold the ground lease for this historic Amtrak rail station to Ashkenazy Acquisition. The landmarked site encompasses 213,000 sq ft (19,788 sq m) of retail space, 109,700 sq ft (10,191 sq m) of office space and a 63,800-sq-ft (5,927 sq m) rail concourse.

Mexico City, Mexico - Deka Immobilien Acquisition
$113 million

Savills advised Deka Immobilien in its acquisition of the Mexico City headquarters of PriceWaterhouseCoopers.

Shanghai, China - Times Square, Suzhou Industrial Park
$91.2 million

Suzhou United Development Group forward sold two office towers to a Korean investment fund. When complete in early 2009, the two office buildings will form part of the 5.5 million sq ft (512,000 sq m) Times Square on the outskirts of Shanghai, one of the world's most ambitious mixed-use developments.

Warsaw, Poland - City Point Distribution Park
$104 million

Acquired from Europa Capital, Teesland iOG purchased Warsaw's largest multi-tenant distribution and industrial facility comprising 1,313,197 sq ft (122,000 sq m). It is 95% leased to more than a hundred tenants, including Colgate Palmolive, Saturn Planet, PZU and UPS.

London, United Kingdom - Redevelopment of Riverbank House, City of London
$619 million

Pace Investments (City) Limited signed a forward fund agreement for a landmark City of London redevelopment at Riverbank House. Pace and the City of London Corporation agreed the forward fund to Evans Randall, the St. James's-based investment banking and private equity group, following a pre-lease of the entire 320,000 sq ft (29,449 sq m) office property to Man Group Plc.

London, United Kingdom - Acquisition of Citypoint, City of London
$1.31 billion

US Fund Beacon Capital Partners acquired the freehold interest of Citypoint, a landmark tower in the City of London. Multi leased at an average rent of £44.65 per sq ft (£481 per sq m), the property provides 706,000 sq ft (65,646 sq m) of high quality space over 36 storeys.

Sydney, Australia - Macquarie Street
$80 million

Situated in Sydney's central business district, ISPT sold this 19-storey office building to Charter Hall. Surrounded by a number of prominent institutions, the property's views overlook Sydney Harbour and Botanical Gardens.

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