Global MarketView

Q3 2012

CBRE Global Research and Consulting

GLOBAL OFFICE RENT
-0.07% Q-o-Q Change

GLOBAL OFFICE CAPITAL VALUE
0.6% Q-o-Q Change

GLOBAL INDUSTRIAL RENT
0.3% Q-o-Q Change

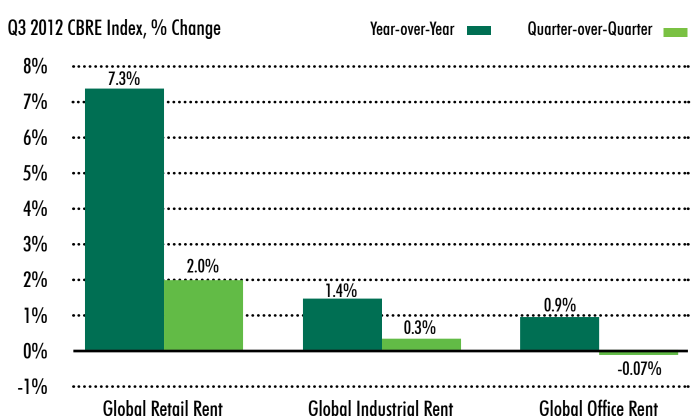
GLOBAL RETAIL RENT
2.0% Q-o-Q Change

COMMERCIAL REAL ESTATE HOLDS ITS GROUND AGAINST HEADWINDS

GLOBAL EXECUTIVE SUMMARY

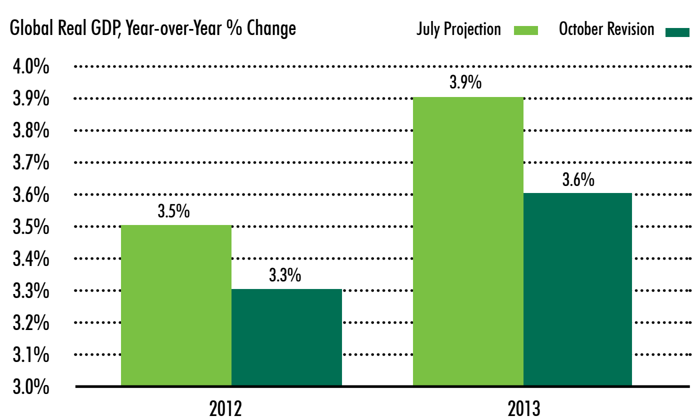
- The commercial real estate (CRE) sector displayed resilience in Q3 2012, continuing its gradual recovery despite an insalubrious mix of slow global economic growth and ubiquitous uncertainty.
- The preference among occupiers for prime space in gateway and core markets was again pronounced in Q3 2012 across the office, industrial and retail sectors.
- The preference for prime space extended to the global capital markets as well, with capital continuing to flow to the CRE sector, attracted by recovering fundamentals and alluring yields. The result was a continued strengthening of capital values in Q3 2012. Global investment volumes held relatively robust as global investors remained active, yet acutely aware of external factors, global volume in Q3 2012 was 3.7% higher than the same quarter last year. Investment activity in the Americas and Asia Pacific was generally firm while, in EMEA, strong activity in the U.K. offset underperformance in Southern Europe and CEE.
- Once again this quarter, the Global Retail Prime Rent Index recorded the strongest gain of all leasing sectors (shown in Figure 1). Gains were propelled by growth in the Americas, where demand increased for prime U.S. retail high street space—particularly in historically robust U.S. markets such as New York and Boston—pushing already elevated rates even higher.
- The Global Industrial Rent Index held firm this quarter, increasing 0.3% quarter-over-quarter, defying softening industrial indicators such as global trade, industrial production, consumer sentiment, retail sales and overall economic growth. This strength was attributable to the evolution of e-commerce and its growing influence on the composition of the global industrial market. E-commerce occupiers sought modern, large-space footprints capable of accommodating advanced processing technologies and improved stacking requirements.
- The global office leasing sector continued its encouraging path, showing signs of consistent improvement since late 2010. While the Global Office Rent Index declined 0.07% in Q3 2012, global office leasing trends demonstrated further resilience, and, encouragingly, showed continued improvement in the Americas. Office rents in Asia Pacific moderated due to heightened occupier caution and a focus on cost containment. But perspective is important: many of the markets experiencing rent declines in Asia Pacific have already recovered from their pre-crisis peak levels.
- The strength of global economic growth for the short and medium term depends to a significant extent on the effectiveness of government policy decisions now under debate in both Europe and the U.S. on the delicate balance between fiscal stimulus and retrenchment. Unanswered questions about policy direction have generated widespread uncertainty, which, in turn, have caused many global economic forecasters to lower expectations for short-term growth. In their October forecast, the IMF downgraded its July projections for Global Real GPD growth (Figure 2), and lowered its forecast for the balance of 2012 and 2013.[1]

Figure 1: Global CBRE Indices Performance



Source: CBRE Research, Q3 2012.

Figure 2: Deterioration of Global Growth Prosepcts



Source: IMF World Economic Outlook, October 2012.

THE GLOBAL ECONOMY

Uncertainty in the global economy remains pervasive and constraining. The lack of resolution to the various sovereign debt and budget deficit crises taking place in Europe and the U.S. has inhibited growth, with caution reigning throughout the global economy. Yet, while solutions are uncertain, the major obstacles inhibiting growth are quite evident. The question for the euro zone is whether peripheral countries can harness burgeoning debt-to-GDP ratios. Fiscal and competitive reforms are required, but consensus on the shape and scope of these reforms is difficult to reach. In the meantime, the European Central Bank and the European Stability Mechanism have become more aggressive, adopting monetary strategies designed to provide the time needed by stressed peripheral governments to develop and implement viable plans for restructuring.

For the U.S., the immediate source of uncertainty relates to the proverbial "fiscal cliff," which, in the absence of governmental consensus, involves an automatic sequestration mechanism to reduce the U.S. budget deficit. Without a Congressional compromise, predetermined austerity measures in the form of tax increases and spending cuts would soon take effect. These collective austerity measures, if implemented in unison to such an extent as the sequestration mechanism calls for, could place further strain on economic growth. Notably, the negotiations and debates surrounding the best approach to curtailing the budget deficit are merely the first phase of a much larger endeavor necessary to achieve fiscal reform in the U.S. As debt crises throughout Europe and the U.S. intensify, monetary support and stimulus policies throughout Europe and the U.S. have reached unprecedented levels.

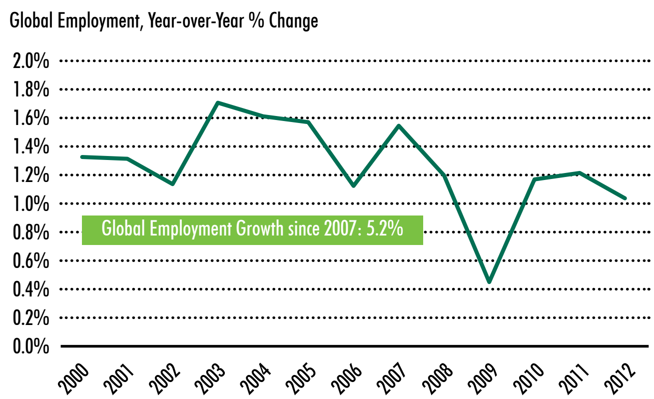
In light of these unresolved burdens on global economic prospects, the IMF has once again downgraded its projection for global growth. The IMF now estimates that global real GDP growth for 2012 will amount to a moderate 3.3% annual growth rate. The estimates aren't much better for 2013 at just 3.6%.

The malaise in the advanced economies has been palpable and contagious. Even the stronger emerging economies in Asia Pacific and Latin America are feeling the slowdown. Exports throughout Asia Pacific, including China, continue to weaken. Most Asia Pacific countries reported weaker GDP growth with concerns over the slowdown in domestic consumption. Recent regional data on manufacturing, PMI, business sentiment and consumer confidence readings all indicate dim prospects for the short term. Latin America's economies are expected to see only moderate growth due to lower commodity prices, lower regional export demand, and dampened foreign direct investment. In response to the slowdown, many Asian and Latin American countries have introduced stimulus programs to mitigate downward trends in demand and growth.

Regionally (as depicted in Figure 3), Asia Pacific and Latin America continue to experience positive growth rates. Europe and North America lag behind, with real GDP growth rates amounting to a paltry 2.4% for North America and negative 0.3% for Europe.

Global total employment growth (Figure 4) is a reliable indicator of the health of CRE markets. The track of this demand driver from 2000 through 2012 reveals interesting global patterns. Predictably, the pace of global employment growth faltered at the onset of the global financial crisis in 2008. However, it did not decline, as robust emerging markets supported global employment growth while the advanced economies' employment levels underwent declines.

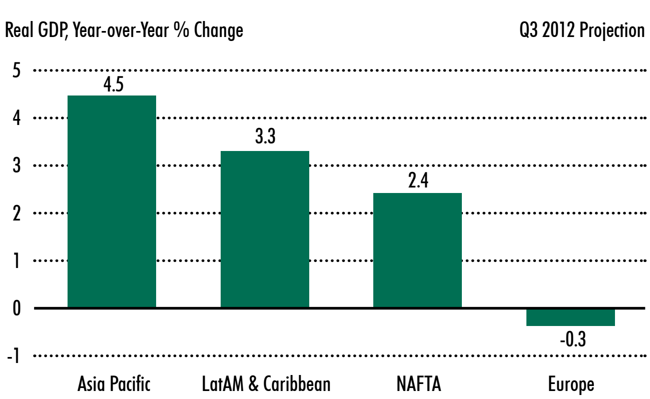
Figure 4: Global Employment



Source: IHS Global Insight, Q3 2012.

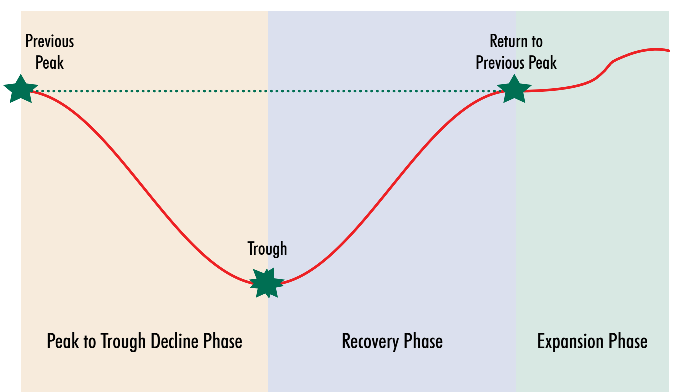
The global economic downturn is usually dated as the end of 2007 or the first half of 2008. We find that an effective approach to discussing the relative health of markets is to evaluate where the market is positioned today relative to its pre-crisis peak in total employment.[2] Figure 5 is a stylized representation of the phases of the cycle. The decline from pre-crisis peak to the trough is the recession, while the period from trough back to the pre-crisis peak is defined as the recovery. Beyond recovery is the expansionary phase.

Figure 3: Regional GDP Projections



Source: IHS Global Insight, Q3 2012.

Figure 5: Stylized Representation of Cycle Phases



Source: CBRE Research, Q3 2012.

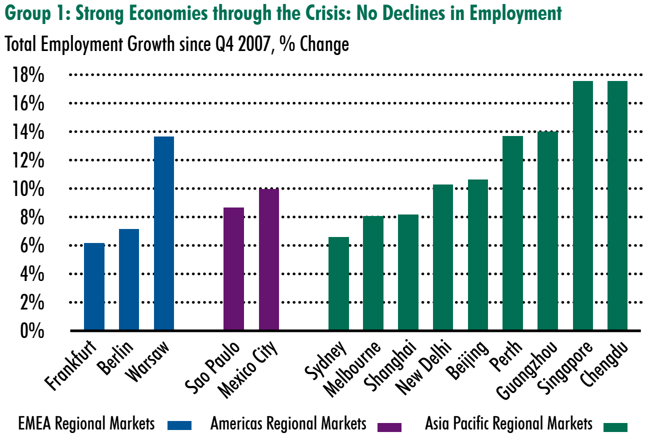
Many local markets have yet to fully recover to their pre-crisis positions, while others never felt the effects of the Great Recession. The charts on this page track markets across the globe using three benchmarks:

1. Was there any impact on employment due to the Great Recession?
2. Which markets have recovered from their trough to reach expansionary levels—levels beyond their pre-crisis peak?
3. Which markets are still recovering?

Figure 6 shows markets that maintained stability and growth in employment levels throughout the Great Recession. Clearly, the strength of Asia Pacific markets is evident in this depiction. Chengdu and Singapore have grown roughly 18% since Q4 2007, with Guangzhou, at more than 14% above its Q4 2007 level, not far behind. Three Australian markets—Sydney, Melbourne and Perth—maintained positive employment growth throughout the financial crisis, supported by demand for its mining sector exports and mining infrastructure investment. China's fiscal stimulus also helped to boost Australian export demand during the 2009 period.

Figure 6: Employment Didn't Backtrack in these Markets

Group 1: Strong Economies through the Crisis: No Declines in Employment



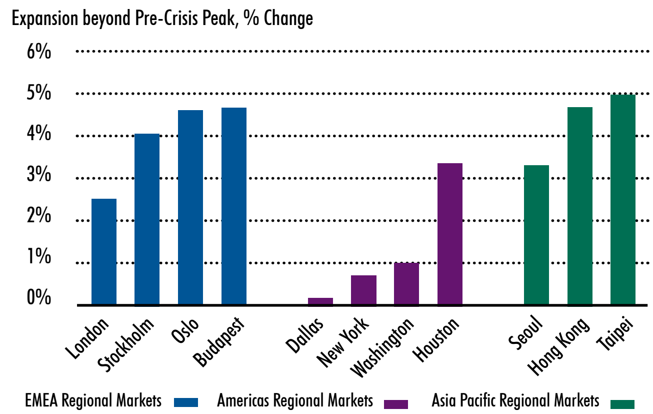
Source: CBRE Research and Oxford Economics, Q3 2012.

Warsaw, Frankfurt and Berlin also experienced robust employment growth, defying the broader pattern of European declines. Germany showed extraordinary economic resilience, with domestic consumption and demand offsetting weakening external demand, particularly from its southern neighbors. Two markets in the Americas region, Sao Paulo and Mexico City, also experienced growth in their employment levels thanks to the region's healthier economic prospects, including strong retail sales and fixed investment levels. Notably, not one U.S. market appears in Figure 6.

Figure 7 shows markets that experienced employment losses as a result of the global financial crisis but have subsequently regained and expanded beyond their pre-crisis peak levels. Five EMEA markets, including London, have regained and exceeded their pre-crisis peak levels. New York and Washington, D.C., have made similar recoveries, although not as robust as their EMEA counterparts. Houston's employment recovery has been driven by its ties to the energy sector. Seoul, Taipei and Hong Kong also experienced recoveries and expansions. While moderating external demand impacted Hong Kong's exports, its logistics, financial and tourism industries offset the export slowdown and accounted for its growing employment prospects.

Figure 7: Markets that have Recovered Pre-Crisis Employment Levels

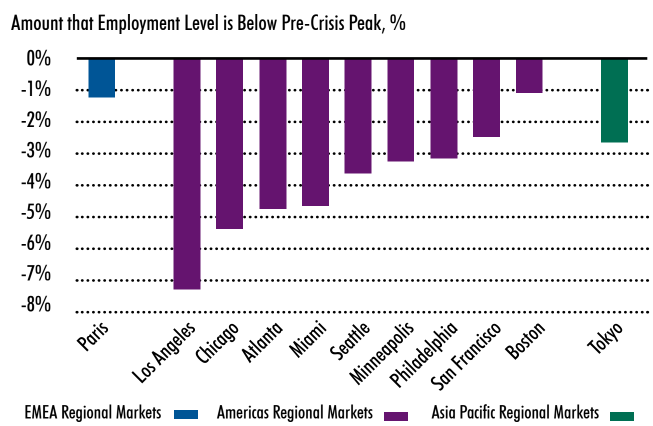
Group 2: Markets that have Recovered *and* Expanded Beyond their Pre-Crisis Employment Levels



Source: CBRE Research and Oxford Economics, Q3 2012.

Figure 8: These Markets are Still Recovering

Group 3: Markets Still Below Pre-Crisis Peak



Source: CBRE Research and Oxford Economics, Q3 2012.

Figure 8 shows the markets with employment levels that remain below their pre-crisis peak levels. While Paris and Tokyo fall in this category, U.S. markets predominate.

Europe's ongoing debt crisis seems overwhelming at times given the daunting tasks confronting European banking officials and government leaders. As a result, several European peripheral employment markets continued their downward trajectory and have yet to reach an inflection point towards recovery including Madrid, Barcelona, Dublin and Lisbon.

Full employment recovery for many of the key U.S. markets is contingent on the implementation of a clear economic strategy that addresses the country's fiscal problems.

Although several markets show signs of strength, global economic growth lingers at restrained levels. The most encouraging sign is continued employment growth in a wide range of global markets. While uncertainty clouds the global landscape, evaluating markets' employment circumstances helps provide valuable perspective on where the recovery is prevailing.

GLOBAL OFFICE SECTOR

CAUTIOUSNESS AND COST CONTAINMENT LEAD TO STABILIZATION IN OFFICE RECOVERY

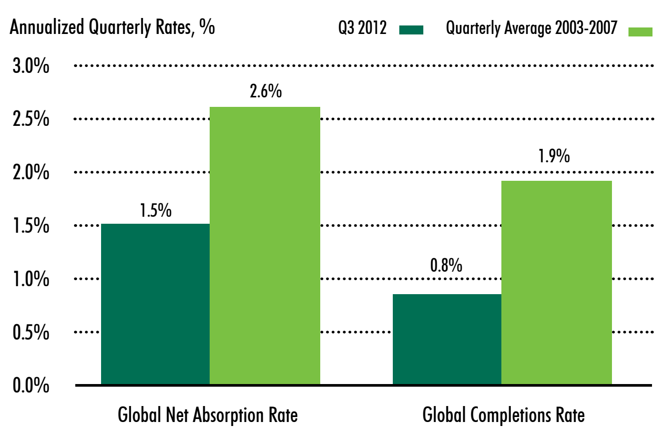
CBRE GLOBAL OFFICE RENT INDEX Q3 2012 % Change	GLOBAL	AMERICAS	ASIA PACIFIC	EMEA
	-0.07% Q-o-Q	0.3% Q-o-Q	-0.3% Q-o-Q	-0.2% Q-o-Q

Despite omnipresent economic headwinds, global office demand has experienced a significant recovery over the past couple years. While net absorption rates have not yet recovered to pre-crisis levels, they are nevertheless positive, growing by 1.5% in Q3 2012 (Figure 9). However, this number is still below the average annualized net absorption rate of 2.6% recorded from 2003 to 2007.

As has been the narrative throughout the recovery, supply has fortunately held at historically low rates and the global vacancy rate has slowly descended from its crisis peak level despite lackluster GDP growth and below-average absorption rates. This year-long pattern demonstrates that CRE fundamentals are faring well even in light of the strained global economic environment.

Even so, it would be a mistake to conclude that occupiers do not share a global wait-and-see cautionnary approach. Occupiers in every market remain exceptionally cost- and risk-averse amid weak economic conditions and vast uncertainty. This is especially true of occupiers in European markets. Still, even in Europe, the office sector recorded modest gains in net absorption in Q3 2012.

Figure 9: Global Supply and Demand



The net absorption rate is taken as a percent of total occupied stock.
The net completions rate is taken as a percent of total stock.

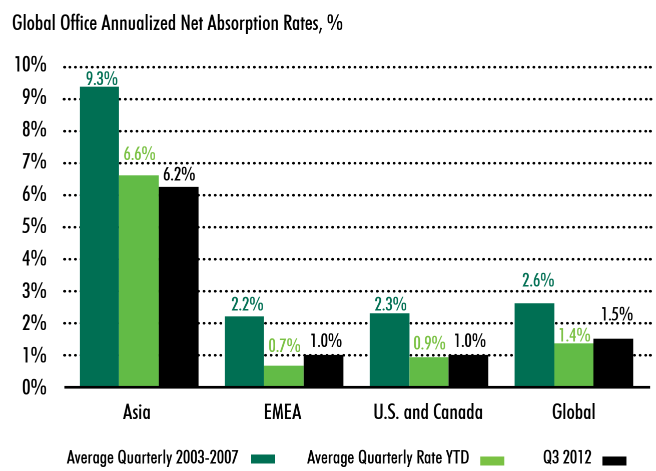
Source: CBRE Research, Q3 2012.

REGIONAL DEMAND AND SUPPLY

Figure 10 provides a perspective of regional net absorption rates.[3] Not surprisingly, the Q3 2012 rates for each region remained below their respective pre-crisis quarterly average rates recorded from 2003-2007. However, the cross-regional variation is stark, with Asia's Q3 2012 rate of 6.2% eclipsing the modest, but nevertheless positive, regional rates recorded in EMEA, and the U.S. and Canada.

U.S. and Canadian markets with large technology, energy and healthcare sectors are substantially outperforming other markets. Austin, San Francisco and San Jose are examples of markets experiencing strong demand driven by the technology sector. Meanwhile, Houston and Dallas's growth has been powered by strong energy and healthcare industries. Calgary has also experienced exceptionally strong demand due to a booming energy sector. While several key EMEA markets—including Paris, Milan, Munich, Frankfurt and Warsaw—have seen moderate improvement, regional demand remains subdued and sluggish.

Figure 10: Regional Demand



The net absorption rate is taken as a percent of total occupied stock.

Source: CBRE Research, Q3 2012.

OCCUPIER PREFERENCES

Demand for prime space, especially in gateway and core markets, is strong across all regions. This trend is particularly evident in the stronger economies of Europe, most Latin American markets, as well as several U.S. and Canadian cities. Markets witnessing this demand include London, Berlin, Prague, Dusseldorf, Washington, D.C., Chicago, Dallas, New York, San Francisco, Los Angeles and Vancouver. A second global theme was an increasing occupier preference for an open-concept workplace design with column-free floor plates that can accommodate flexible work environments suited for advances in technology and mobility.

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GLOBAL PIPELINE

As with demand, global and regional completions rates remain considerably below pre-crisis levels. Markets in the Americas such as Boston, Washington, D.C., Houston, Vancouver, Calgary, Edmonton and Toronto are experiencing tight supply conditions. The Santiago and Lima markets have failed to keep up with strong demand, resulting in exceptionally low vacancy levels and boosting rents in both markets. Demand in Canada has been strong and has only recently moderated. As a result, construction activity is high in Toronto, Calgary and Vancouver, with new supply expected to be delivered starting in 2014 through 2016.

Most newly completed space in the U.S. and Canada is increasingly meeting "green" accreditation criteria—a rising factor on the list of occupier preferences. LEED®-certified buildings in downtown markets have experienced significant pre-leasing.

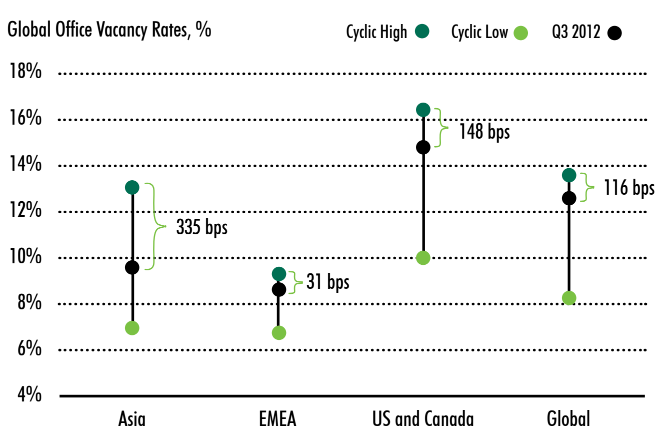
The supply side fares better in Asia, as it does with demand indicators. While completions rates throughout 2012 for Asia remain below the quarterly average recorded during the pre-crisis period of 2003-2007, Asia's annualized completions rate of 5.0% stands considerably above other regions. Among the key Asian markets, Shanghai's market accounted for the largest amount of new completions this quarter, with seven office buildings delivered, amounting to more than 3 million sq. ft.

GLOBAL VACANCY

Figure 11 compares each region in relation to its recovery from the current downturn and shows the cyclic low rates—the most recent low prior to the financial crisis—and cyclic high experienced following the cyclic low. Of course, with modest growth in demand and a constrained supply pipeline, vacancy rates fell across regions.

Globally, the office market has seen modest improvement in occupancy, declining by 116 basis points, with both the Asia Pacific and the U.S. and Canada regions showing unquestionably healthy declines from their cyclic highs of 335 and 148 basis points, respectively. The EMEA region, dominated by European markets, remained close to its cyclic high.

Figure 11: Regional Vacancy



Source: The cyclic low is the most recent low prior to the onset of the GFC; the cyclic high is the high experienced following the cyclic low.

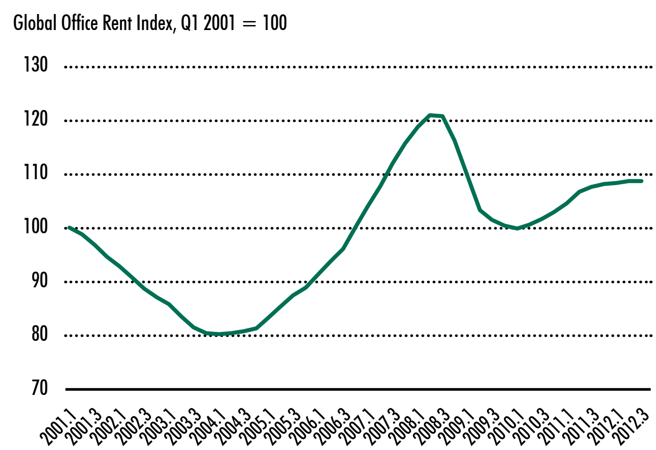
Source: CBRE Research, Q3 2012.

GLOBAL OFFICE RENTS

Thanks to modest demand conditions, slow growth in supply, and a gradually descending global vacancy rate, the Global Office Rent Index, depicted in Figure 12, recovered reasonably well from Q1 2010 through roughly Q3 2011. However, gains over the past year have been modest and the Global Office Rent Index has stabilized at a level that is roughly 10% below its pre-crisis peak level.

The continuing macro-economic malaise and concomitant uncertainty in the Western economies has finally slowed CRE's growth. We view this as a pause and not a turning point. How long the pause in the CRE market lasts will depend on how quickly global economic uncertainty can be improved.

Figure 12: CBRE Global Office Rent Index



Source: CBRE Research, Q3 2012.

REGIONAL RENTS

Global economic uncertainty continues to weigh on occupier sentiment, translating into caution and a greater emphasis on cost-containment strategies. While the Global Office Rent Index registered a negative 0.07% quarterly change, there are some bright spots. Over the last few quarters, the Global Index has been bolstered by the performance of the Americas Index, which, as of Q3 2012, stands 2.9% above the same point last year. By comparison, both the Asia Pacific and EMEA Rent Indices have held steady, albeit at fragile plateaus, since the second half of 2011—a testament to the resilience of their leasing markets and the generally better performance of CRE when compared with other asset classes.

Nevertheless, it should be noted that EMEA and Asia Pacific both registered slight declines in Q3 2012. While EMEA's slightly negative quarterly performance was expected given the region's unresolved debt crises, Asia Pacific's performance reflects the dampening effect that reduced export demand and heightened uncertainty have had on even the relatively strongest economies.

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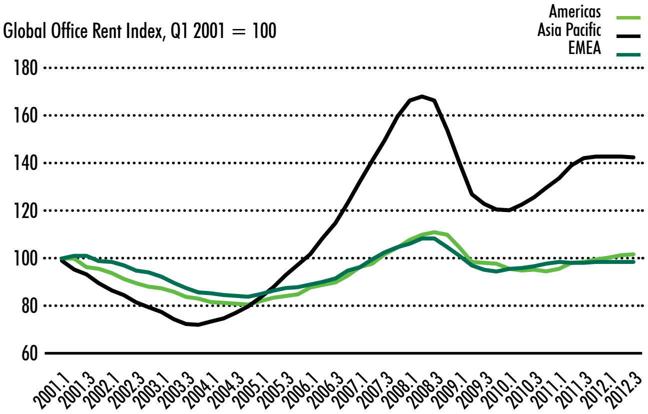
Figure 13: CBRE Regional Office Rent Indices



Source: CBRE Research, Q3 2012.

Within regions, performance lacked uniformity across markets. The Makati CBD in Manila, for example, experienced relatively strong rent growth thanks to high occupancies, demand for high-quality space and a minimal amount of new supply. Meanwhile, the central business districts of Mumbai, Bangalore, Adelaide and Shanghai entered the downward portion of their rent cycles due, in part, to the introduction of new supply in decentralized areas which offers more competitive rents than CBD areas. Rents in Beijing, New Delhi and Shenzhen have flattened near their peak levels. Rent declines in Singapore and Central Hong Kong continued in Q3 2012 as a result of the weak banking and financial sectors.

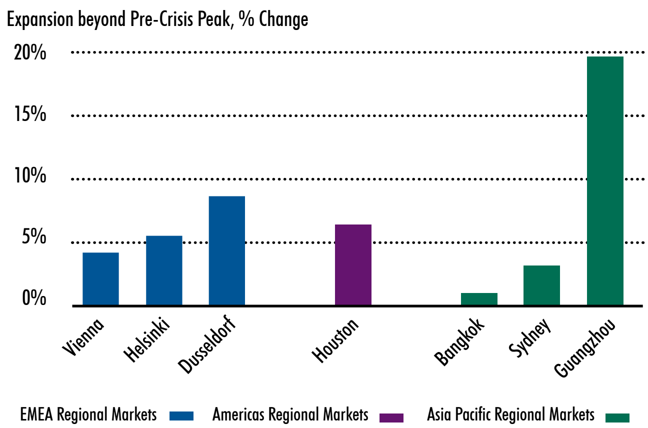
While Europe has seen a virtually universal absence of rent momentum due to subdued demand and cautious occupiers, there are exceptions in the region's stronger economies such as Germany, Poland, Norway and Finland.

As we did in the global economic section above, we used a comparative method to analyze the global office market and its rent recovery. Figure 14 features a selection of key global markets that have recovered beyond their pre-crisis peak levels. For instance, rents have grown beyond pre-crisis peak levels in the resilient Europe markets of Vienna, Helsinki and Dusseldorf. Several Asia Pacific markets have also expanded beyond their peak levels, led by Beijing, which stood 91% above its pre-crisis peak levels as of Q3 2012. Beijing's average rent of RMB 407 per sq. m. per month vastly exceeded its previous peak of RMB 213 per sq. m. per month. During Q3 2012, Beijing's office market remained stable, increasing by the smallest quarterly percentage, 1.5%, in six quarters. A market-wide shortage of space still prevails, a condition that has served to keep its vacancy rate low at 3.8%.

Guangzhou, Bangkok, Sydney and Houston have also expanded beyond pre-crisis peak levels. While demand has moderated slightly for Sydney, low levels of supply have kept vacancy rates low, which, in turn, supported rent levels in its CBDs. Limited supply has also played a role in Bangkok's recovery, and with only a limited supply of new space coming online through the end of 2013, rents are expected to rise further. In contrast to the limited supply conditions in Bangkok and Sydney, Guangzhou has expanded roughly 20% above its pre-crisis peak level, making rents vulnerable to new supply pressures. Downward pressure is expected in less favorable locations and buildings.

Rents in Houston fell roughly 9% from their pre-recession peak prior to reaching an inflection point. Since then, its recovery has been supported by demand from the energy sector. Further expansions in Houston's rents are expected in the coming quarters.

Figure 14: Markets that have Recovered Pre-Crisis Peak Rent Levels



Note: Beijing's rents currently stand 91% above their pre-crisis peak; for purposes of the graphic scale, we have excluded it.

Source: CBRE Research, Q3 2012.

The Great Recession impacted some markets more severely than others. As shown in Figure 15, rents in many markets remain below peak levels achieved prior to the crisis. In Europe, some of the major markets that remain below the peak are London West End, London City, and Paris, which remain roughly 23%, 15%, and 2%, respectively, below their pre-crisis peak levels. These markets have recently flat-lined amid further occupier caution.

In the U.S., Washington, D.C., remains below its pre-crisis peak. Yet, among the U.S. markets shown in Figure 15, D.C. has the least amount of its pre-crisis peak left to recover of the markets featured. However, D.C's ongoing recovery is highly sensitive to federal government budget decisions and its near-term prospects remain in flux. In New York, rents were roughly 21% below their pre-crisis peak level, having been adversely affected by financial sector uncertainty related to government regulatory reforms. On the West Coast, slow economic growth has hampered the Los Angeles market, with rents remaining19% below previous peak levels. Meanwhile, San Francisco, whose rents stand roughly 10% below pre-crisis peak level, has witnessed strong demand driven by the technology sector. While at a moderated pace, rents are anticipated to experience further gradual recoveries.

Several Asia Pacific markets have yet to regain their pre-crisis rent levels. This is linked not only to the strained economic climate and wait-and-see occupier attitudes, but also supply conditions. Declines in Hong Kong and Singapore were due to subdued demand from the weakened banking and

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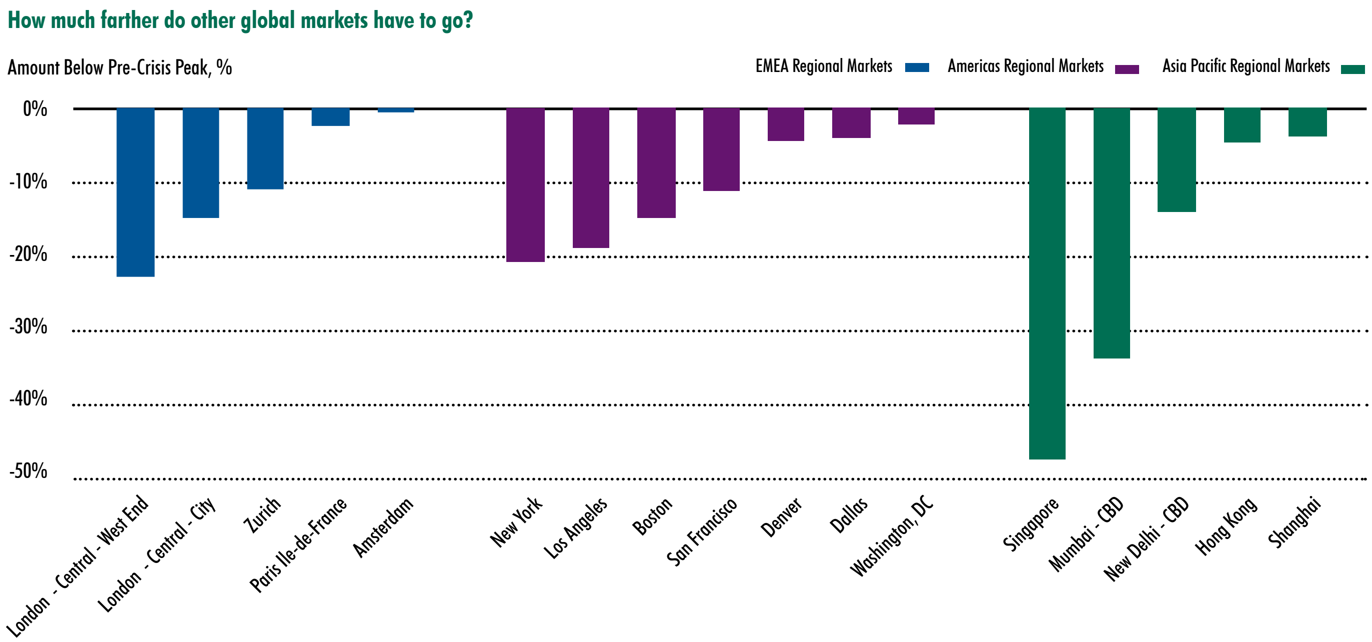
financial sectors. Shanghai's office market also remained below its pre-crisis peak level. Occupiers in all three markets remain cost conscious, a sentiment that has motivated some to relocate to decentralized areas which boast greater value. Meanwhile, Mumbai and New Delhi continue to experience an oversupply of product. Mumbai continues to suffer from oversupply, and existing demand has been further weakened by occupier focus directed to cost-effective secondary space in peripheral business districts.

There are also several markets suffering from ongoing downward pressure on rents. This is evident in Southern European markets such as Madrid, Barcelona, and Athens, as well as several Asia Pacific markets, including Wellington and Hanoi.

Figure 15: Markets Still Below Pre-Crisis Peak



Source: CBRE Research, Q3 2012.

GLOBAL INDUSTRIAL SECTOR

STABILIZED PERFORMANCE AMIDST SOFTENING INDICATORS

CBRE GLOBAL INDUSTRIAL RENT INDEX
Q3 2012 % Change

GLOBAL
0.3% Q-o-Q

U.S.
0.4% Q-o-Q

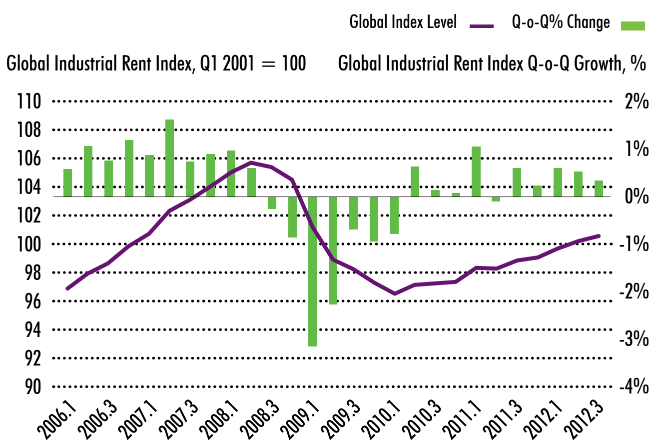
ASIA PACIFIC
0.7% Q-o-Q

EMEA
-0.2% Q-o-Q

Since emerging from the global financial crisis, a broad range of global metrics have remained sluggish, including economic growth, industrial production and manufacturing, consumer spending, consumer confidence and global trade. Recovery has been gradual, and the modest pace of improvement continued in Q3 2012.

As measured by the Global Industrial Rent Index, seen in Figure 16, prime industrial rents experienced moderate positive momentum in Q3 2012, inching up slightly by 0.3% and 1.4% on a quarterly and annual basis, respectively. Nevertheless, Q3 2012 marked the 10th consecutive quarter of growth for the Global Industrial Index, and its stabilized performance is indicative of CRE's resilience amid broader economic weakness and inordinate uncertainty.

Figure 16: CBRE Global Industrial Rent Index

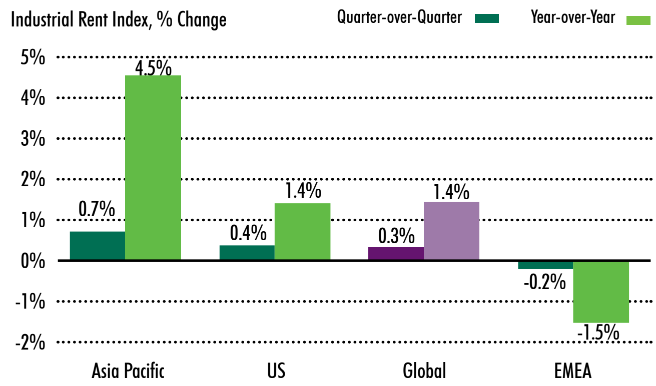


Source: CBRE Research, Q3 2012.

Quarterly prime industrial rental growth amounted to 0.7% in Asia Pacific, the strongest quarterly gain for any of the regions featured in Figure 17, though down from the 1.8% quarter-over-quarter growth seen in Q3 2011. Softer industrial demand prospects for the region, coupled with the fact that many markets throughout Asia Pacific were approaching peak levels, resulted in the quarter's moderate regional rent growth.

The pace of the U.S. industrial recovery, as with the recovery in other regions, continued to be dampened by modest economic growth prospects, slowing global trade dynamics, cautious consumers and heightened political uncertainty. The U.S. Industrial Rent Index held relatively stable in Q3 2012, increasing by only 0.4%. Occupiers throughout the

Figure 17: Regional Industrial Rent Indices



Source: CBRE Research, Q3 2012.

U.S. focused on large, new Class A space to reduce labor costs, increase efficiency and improve supply chain and e-commerce platforms. There is evidence that the trend towards large space is shifting, as warehouse occupiers increasingly locate near major urban centers (closer to their customers) in an effort to lower shipping costs by reducing distance and improving speed of deliveries. These closely located facilities tend to be smaller given higher land costs. Canada also experienced heightened interest from international logistics occupiers in search of logistics facilities near transportation hubs.

The EMEA Industrial Rent Index was effectively flat in Q3 2012 and was down by 1.5% year-over-year. Uncertainty surrounding the resolution of the euro zone debt crises continued to weigh on sentiment and activity. Despite the broadly downbeat quarterly performance in EMEA, some annual growth was evident in the region's stronger economies including Germany, Finland, Russia and Switzerland. These improvements were offset by weakness in Europe's peripheral economies, including Italy, Portugal, Ireland and, notably, the Netherlands and Denmark. Strategic expansions of third-party logistics firms and retailer networks were EMEA's most active sectors.

GLOBAL INDUSTRIAL DEMAND

A unifying theme throughout the global industrial logistics market was the growing demand for more sophisticated, modern facilities with large floor plates in well-located prime locations. Occupiers of large warehouses and distribution centers are increasingly seeking facilities capable of accommodating advanced technology and higher clearance heights to maximize stacking potential. Mounting evidence indicates that the rising importance of e-commerce continues to drive requirements for improved levels of mechanization and process complexity. Meanwhile, the supply of this new, prime, advanced product type was distinctly limited, causing availabilities to shrink across select markets around the globe.

- Among the key U.S. industrial markets–including Chicago, New Jersey, Greater Los Angeles and Dallas–total Class A available space accounted for less than 20% of all available space in Q3 2012.
- Shortages of quality logistics/distribution product were felt in Vancouver, Toronto and Montreal.
- In China and Australia, new facilities were either pre-committed or fully occupied soon after becoming available.
- The Indian market of Pune recorded a quarter-over-quarter rent increase of 18%, with a spike in occupier demand. Even after the closing of several big leasing deals/completion of several major leasing deals, the market remains tight.

Despite broad-based weak economic growth, low trade expectations for the near term and a prevailing shortage of prime space, global leasing activity remained at modest levels as occupiers sought to secure prime space as well as take advantage of current attractive, cost-effective conditions.

GLOBAL INDUSTRIAL MARKET RENTS

We find that an additional effective approach to understanding global dynamics is to create rankings of the most expensive markets, and then search for common themes. The top 10 most expensive logistics markets in the world in Q3 2012 spanned all three regions—six in Asia, three in EMEA and one in the Americas. The rankings, as seen in Figure 18, are based on US$ per sq. ft. per annum.

Tokyo led the top 10 rankings in Q3 2012, bolstered by an ongoing recovery in industrial production and steady demand from consumer goods-related logistics firms. E-retailers were particularly strong drivers of distribution space activity in this market as well. Tokyo is expected to benefit from 12 new developments within the next two years, an amount that will exceed the five-year annual average supply.

Asia's regional industrial logistics rent growth held firm in Q3 2012. Its regional markets have been advancing for nearly two years, and are still performing well, although signs indicate that rent growth momentum may be reaching a peak in many Asian markets. Rent growth in markets throughout the Pacific region moderated in Q3 2012 after significant growth in the previous quarter. Uncertainty regarding the regional economy caused occupiers to adopt a more conservative attitude and retail sales throughout the region remained under pressure from declining consumer sentiment, impacting logistics firms linked to such retailers. Third-party logistics companies remained the major drivers of demand across the region's markets. In Australia, the mining and resources sectors, particularly in Perth, accounted for the bulk of demand. E-commerce and retailers were strong in Hong Kong and Singapore, but both markets experienced a slackening of exports in Q3 2012, due mainly to the slumping European markets. Even so, retail occupiers continue to drive growth in rents for warehouse/logistics space in Hong Kong. Despite a moderating economy, Singapore continued to see strong demand for warehouse space in central locations. A significant amount of Singaporean industrial space is now held by REITs, after the government divested the properties to REITs and private owners. As one of the main landlords of industrial properties, REITs could influence rental patterns going forward.

London, Stockholm and Paris represented EMEA in the rankings of the most expensive global industrial logistics markets. London's strategic location, coupled with a constrained geography that limits the supply of new facilities, keeps prime rents at elevated levels. Its performance is testament to occupier preference for prime, well-located space, even amid Europe's economic environment of heightened uncertainty, which has resulted in occupier caution throughout the region.

Vacancy levels remain low in Paris's prime locations, but occupiers are reluctant to settle in secondary space, which is plentiful. In general, Paris' low vacancy rate is indicative of the lack of development in prime areas rather than heightened demand.

Demand for prime logistics facilities in Stockholm was strong, especially for product strategically located close to the city center, which have elevated to such an extent that Stockholm is now ranked fourth among the world's most expensive logistics markets.

Sao Paulo has benefited from the prevailing favorable regional and country-level economic conditions. New, world-class logistics facilities have come online recently, placing the market among the top three Latin America markets in terms of the amount of product introduced.

Figure 18: Global Industrial Logistics Prime Rent Ranking

Markets	Q3 2012 US$ PSF PA Equivalent	Q3 2012 Local Market Measurement
Greater Tokyo*	$23.28	JPY 150.93 psf pm
London	$19.61	STG 12.5 psf pa
Singapore	$17.51	S$ 1.79 psf pm
Stockholm	$14.17	SEK 1000 psm pa
Hong Kong	$12.84	HK$ 8.3 psf pm
Sydney	$12.45	AU$ 128.83 psm pa
Brisbane	$11.74	AU$ 121.5 psm pa
São Paulo/Campinas	$11.71	US$ 11.71 psf pa
Perth	$11.02	AU$ 114.04 psm pa
Paris	$10.76	Euro 90 psm pa

*Greater Tokyo's Rents are updated on a semi-annual basis, so the Q3 2012 figure referenced is effecitvely the H1 2012 figure as a proxy until the next data point is available.
Source: CBRE Research, Q3 2012.

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GLOBAL RETAIL SECTOR

SUBDUED YET TANGIBLE GROWTH FUELED BY THE PREFERENCE FOR PRIME

CBRE GLOBAL RETAIL RENT INDEX Q3 2012 % Change	GLOBAL	AMERICAS	ASIA PACIFIC	EMEA
	2.0% Q-o-Q	4.3% Q-o-Q	1.4% Q-o-Q	0.4% Q-o-Q

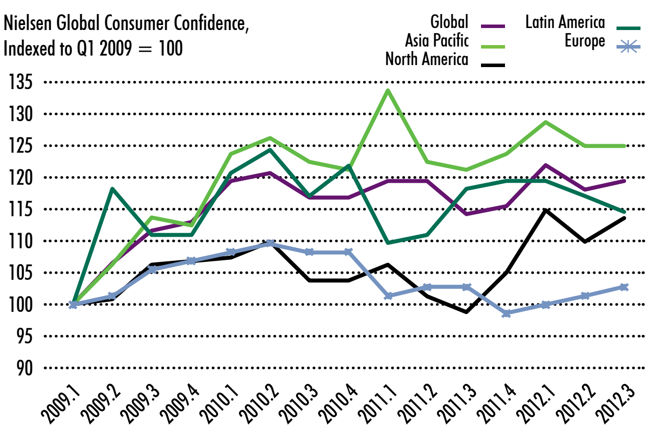
OVERVIEW

- While consumer confidence on a global scale remained restrained, the global retail sector continued to gradually recover. International and domestic retailers maintained cautious, yet forward-looking expansion strategies as they identified opportunities for long-term growth.
- The global retail market proved resilient in Q3 2012, with the Global Retail Prime Rent Index increasing on a quarterly basis by 2.0%.
- Global retailer activity remained segmented with prime, high street space in the best markets experiencing the greatest retailer demand.
- International entertainment, restaurants and fast-fashion brands actively sought prime space as they pursue long-term expansion strategies while still maintaining a cautious eye on global growth.
- Regional prime rent growth was strongest in the Americas, driven by gains recorded in U.S. gateway markets.

GLOBAL CONSUMERS RESIST PESSIMISTIC PRESSURES

Consumer confidence across regions provides a useful measure of the consumer sector. The Nielsen Global Consumer Confidence Index,[4] updated for Q3 2012, rose slightly, demonstrating modestly encouraging, steady sentiments throughout the globe. Consumer confidence improved in 52% of the markets measured by Nielsen in Q3 2012, compared with the 41% of markets that saw advancements in confidence during Q2 2012.

Figure 19: Global Consumer Confidence



Source: Nielsen Global Consumer Confidence Survey and Index, CBRE Research, Q3 2012.

Moderate upward trends were recorded for North America and Europe as well. North America posted the strongest improvement of all regions tracked, while consumer confidence fell in Latin America and held steady in Asia Pacific.

- The relatively strong improvement in consumer confidence for North America was driven by gradual employment market gains as well as strengthening housing market conditions in the U.S. Canadians have shown improved confidence thanks to a growth in spending power and robust employment levels.
- Europe's slight upward tracking in its regional consumer confidence index was fueled by strength in Western European countries. Switzerland, Belgium, Norway and Germany boasted relatively robust consumer confidence levels. Yet the strength of even these stronger economies continues to be tested as the broader regional debt crises takes a toll on stability and consumer expectations. Countries and economies in Southern Europe remain mired by sovereign debt, austerity implementation and recession. As a result, consumer confidence in Italy, Portugal, Spain, Ireland, Greece and Croatia floundered at exceptionally low levels.
- Latin America witnessed its second consecutive quarter of consumer confidence index declines as consumers throughout the region sharply focused their disposable income on debt reduction, deleveraging and saving. Even Argentina, which has previously undergone strong periods of consumer-driven growth, saw a dampening in consumer confidence as labor demand weakened.
- External economic headwinds such as slowing growth in China, the euro zone debt crises and the prospects of a U.S. fiscal cliff weighed on consumer confidence throughout Asia Pacific. The region's consumer confidence index was flat this quarter, with the majority of countries throughout the region holding steady or experiencing slight declines.

GLOBAL AND REGIONAL RETAIL RENT PERFORMANCE

Despite modest global retail sales and consumer confidence indicators, the global retail market, particularly the prime market, demonstrated resilience again in Q3 2012, with the Global Retail Rent Index increasing by 2.0% quarter-over-quarter and 7.3% year-over-year. It should be noted,

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however, that the index represents prime retail rents only. While the global retail landscape remained segmented with a prevailing preference for prime space, rent growth for secondary space was still constrained.

The Americas Retail Rent Index growth propelled the Global Retail Rent Index forward, increasing by 4.3% during Q3 2012—its fourth consecutive quarter of positive growth. Demand for prime space in the best locations was high throughout the Americas. Given the limited amount of retail construction activity, availability rates have stabilized and even declined in several markets. As the U.S. labor market gradually gains traction and consumers resume modest spending habits, entertainment, restaurants, fast-fashion and international brands, as well as luxury retailers throughout the U.S., have undergone strategic expansions, keeping a keen focus on efficiency and profitability. Demand from both international and domestic retailers was upbeat throughout the U.S., and retailers continued to favor prime space in core urban centers. Tenants are paying near historical highs for prime space in many markets.

Throughout Latin America, shopping malls, big-box retail and discount outlet centers were gaining strength as retailers targeted lower income groups and secondary locations. Apparel and luxury brands were growing as a sector in Brazil and Mexico. Meanwhile, supermarkets and mass markets were growing sectors in Colombia and Argentina. The lack of modern space throughout the Latin America region has caused further declines in vacancies in Brazil, Argentina, Chile and Columbia, where vacancies were below 5%.

Prime rent growth continued at more subdued levels in Asia Pacific and EMEA. The Prime Rent Indices for these regions improved at more muted levels of 1.4% and 0.4%, respectively. Accordingly, expansions remain conservative, yet international retailers still retained a long term strategy. Asia Pacific's modest growth was driven by positive consumer demand dynamics in Japan, Australia, India and Singapore. By contrast, China and Hong Kong experienced weakened demand conditions.

As EMEA's 0.4% quarterly growth rate suggests, retailers throughout the region, with certain exceptions, were restrained. Demand for the best prime space remained strong, while demand for secondary space weakened even further. Retailers continue to be cautious in their expansion activity. As a result, negotiation periods are longer and deals take more time to complete. With tight availability of prime space, the EMEA Retail Rent Index is likely to remain stable in the near-term.

GLOBAL RETAIL DEVELOPMENT THEMES

- **Distinct Shortages of Prime Space Support Rent Levels:** Prime space was extremely limited in markets such as Hong Kong, Tokyo, New York, San Francisco, Boston, Los Angeles, Sao Paulo, Rio de Janeiro, London, Paris and many German cities. The near-term retail development outlook for Western Europe and the U.S. is muted as retailers remain wary. These dynamics are likely to keep upward, or at least stable, pressure on rents in the near term.
- **The Rise of E-commerce:** Internet sales each year comprise a greater share of total retail sales, particularly in the U.S., and retailers are exploring ways to adjust. CBRE's recent survey, *The Role of Real Estate in the Multichannel World*, highlights the importance of the physical store in multichannel retailing. From "click and collect" to in-store order fulfillment and browsing kiosks, the store remains an integral part of the multichannel process. 72% of retailers surveyed stated they would require the same or a greater number of stores in the next two years. Many retailers have assessed the potential of "show-rooming," which allows consumers to view merchandise in person, but purchase products online at lower prices. To address these challenges, Macy's, for example, recently announced plans to expand its use of store-to-consumer shipping to fulfill online orders, thus repositioning store sites into partial distribution centers.
- **Shopping Center Development Increases throughout Asia Pacific:** Developers in Asia Pacific markets have recently turned their attention toward malls to capitalize on rising demand from international retailers. Significant pipelines of new product have been seen in Singapore, New Delhi, Mumbai and the Chinese markets of Beijing and Guangzhou. However, expansion plans may be deferred in India amid growing concerns that weak consumer spending will lead to rising vacancy rates in regional shopping centers throughout the country.
- **Foreign Direct Investment Restrictions Ease in India:** A foremost talking point in India has been the government's recent easing of restrictions on foreign direct investment (FDI) in multi-brand retail with immediate effect, paving the way for global supermarket giants to enter what has been long regarded as one of the world's most potentially lucrative emerging retail destinations. This move is expected to provide the real estate sector with a fairly substantial injection of demand and development for retail shopping mall space across the country, particularly in Mumbai, which is a key point of entry for international brands.

DEMAND TRENDS ACROSS THE MOST EXPENSIVE GLOBAL RETAIL HIGH STREET MARKETS

A further, more granular approach to understanding the global retail sector is to identify and compare the trends experienced across the most expensive high street markets. Q3 2012's most expensive high street markets are featured in Figure 20. Our analysis of top-performing global retail markets found several unifying features: Gateway locations were popular targets for retailer expansions where strong flows of tourists seeking luxury products were prevalent; International retailers, particularly fast-fashion brands, cosmetics and watch retailers, and food and beverage establishments, continued to be active in selected markets throughout all three regions; and the competition for limited prime high street locations supported elevated rent levels.

The top two markets in our quarterly track of global retail prime rents, Hong Kong and New York, recorded rises in rents during Q3 2012, while the next tier, Tokyo, Sydney and London, held steady. Hong Kong is virtually in a class apart,

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with rent levels, measured in US$ per sq. ft. per annum, more than four times higher than fifth-ranked London and more than six times higher than tenth-ranked Brisbane. However, there was some evidence in Q3 2012 that Hong Kong may be feeling the impact of moderating consumer sentiment, particularly among Chinese visitors who are curbing their appetite for luxury goods. Nevertheless, the supply of retail stock in Hong Kong is limited, which has continued to support prevailing rent levels.

U.S. gateway markets such as New York, San Francisco and Los Angeles are leading the U.S. recovery. Prime rents along New York's Fifth Avenue, increased markedly in Q3 2012, driven by strong tourism dynamics and a tight supply of prime space.

Prime locations in Japan continued to appeal to retailers. The country saw several new international retailer openings and demand remained steady for expansion space by domestic retailers. As the supply of prime stock diminished, rents remained elevated in the most desirable districts of Tokyo and the overflow was seen moving to submarkets. Food and beverage retailers were active in the Tokyo market in Q3 2012, as they were along high streets in Taipei, Vietnam, Singapore and Australia.

Fourth-ranked Sydney experienced a slight rise in rents in Q3 2012, in accord with improvements in sentiment among Australian consumers and a pickup in the city's leasing activity. Sydney's shopping center retailers were maneuvering to relocate to prime shop fronts on high streets, hoping to take advantage of low rents—relative to their historically lofty standards. The rate at which retailers were signing leasing deals remained slow as retailers remain cautious. International groups expressed a strong interest in prime CBD locations in Melbourne, where its high streets performed well having been dominated by cafes and restaurants. Brisbane also witnessed a recovery in occupier confidence in the aftermath of the 2011 floods, as completion of the Wintergarden refurbishment has attracted a strong mix of high-profile national and international retailers.

As with other tourist-driven, gateway markets, London and Paris continued to attract luxury and international high-fashion retailers. A scarcity of prime stock, coupled with continued high demand, served to support prevailing rent levels. This dynamic is expected to continue as the development pipeline is low and London's stringent building regulations make construction costly.

Figure 20: Global Retail HS Prime Rent Ranking[5]

Markets	Q3 2012 US$ PSF PA Equivalent	Q3 2012 Local Market Measurement
Hong Kong	$4,334	HK$ 2,800 psf pm
New York	$2,925	USD$ 2,925 psf pa
Tokyo	$1,084	JPY 250,000 per tsubo pa
Sydney	$1,017	AUS$ 10,525 psm pa
London	$988	£1,000 ITZA per pa
Melbourne	$850	AUS$ 8,800 psm pa
Zurich	$830	CHF 8,400 psm pa
Paris	$828	€ 11,000 ITZA per pa
Moscow	$739	US$ 7,950 psm pa
Brisbane	$642	AUS$ 6,645 psm pa

Source: CBRE Research, Q3 2012.

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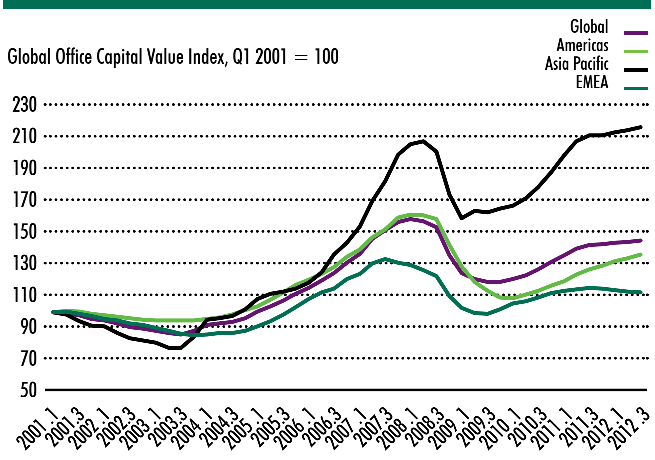
GLOBAL CAPITAL MARKETS

CAUTION, CAPITAL PRESERVATION AND THE SEARCH FOR YIELD

CBRE GLOBAL OFFICE CAPITAL VALUE INDEX Q3 2012 % Change	GLOBAL	AMERICAS	ASIA PACIFIC	EMEA
	▲ 0.6% Q-o-Q	▲ 1.4% Q-o-Q	▲ 0.8% Q-o-Q	▼ -0.5% Q-o-Q

Resilience amid weak global economic growth best describes the performance of CRE in global capital markets, as seen in relatively robust total returns, improving and/or stabilized capital values, and growing investment transaction volumes. The caveat, however, is that the positive conditions apply primarily to prime properties in the best markets, and the performance between prime properties in gateway markets and all others was polarized. The Office Capital Market Index rose 0.5% quarter-over-quarter and 2.1% year-over-year. As is true in the leasing sector, Q3 2012's modest performance reflected the slowing pace of advancement. We see this stabilization in the Global Capital Value indices, which are resisting any substantial declines even amid pervasive uncertainties.

Figure 21: CBRE Global Office Capital Value Index



Source: CBRE Research, Q3 2012.

As with the leasing index, The Americas Global Office Capital Value Index showed the strongest quarter-over-quarter and yearly gains of the three regions. The gain reflected the strength of the U.S. market, as well as rising prices in Latin America and Canada.

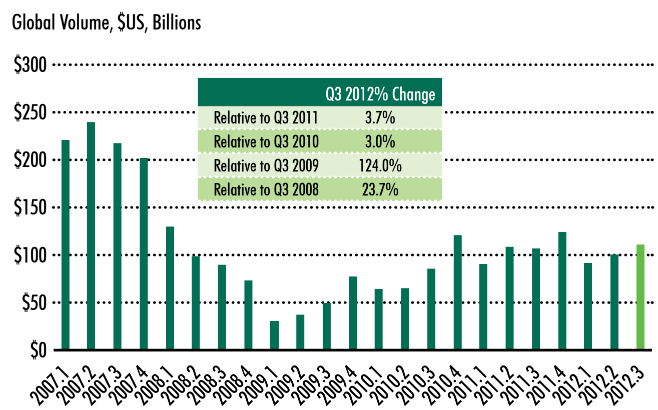
The EMEA Office Capital Value Index had a negative change in capital values for both its quarterly and annual performance metrics. EMEA has hovered around 110 for the last eight quarters, reaching its peak in 2007 at about 130 and bottoming at 100 in 2009. With most of its recovery occurring in late 2009, the EMEA index recovery was well ahead of other regions. Buyers from outside Europe continue to look for trophy office assets in key cities such as London and Paris, which has have helped stabilize regional capital values. Unfortunately, declines in Southern Europe offset that dynamic.

Of particular note, the Asia Pacific Capital Value Index is the only regional index above its 2007 peak. Asia Pacific had a strong recovery from mid-2010 to the end of 2011, but has paused in the face of debt crisis implications in Europe and historically slow growth in the U.S. Despite the slower growth for Asia Pacific this quarter, key markets in Greater China and New Zealand recorded positive gains in values thanks to robust investment demand. Taiwan, for example, saw a significant increase in value and demand growth from domestic insurance companies.

GLOBAL INVESTMENT VOLUMES – ALL PROPERTY TYPES

Year-to-date global investment volume was below the pace of 2011, but volume has improved each quarter so far this year. Additionally, Q3 2012's volume was 3.7% higher than the level recorded the same quarter last year. We think this reflects the preferred status that CRE is gaining among all asset classes as an investment alternative. While capital investment remains cautious, CRE is attractive given its recent performance, gradually improving fundamentals and the limited pipeline, especially in Western economies.

Figure 22: Global Transaction Volume



Source: CBRE Research (EMEA and Asia Pacific), RCA (Americas); Data excludes Development sites. Updated for Q3 2012.

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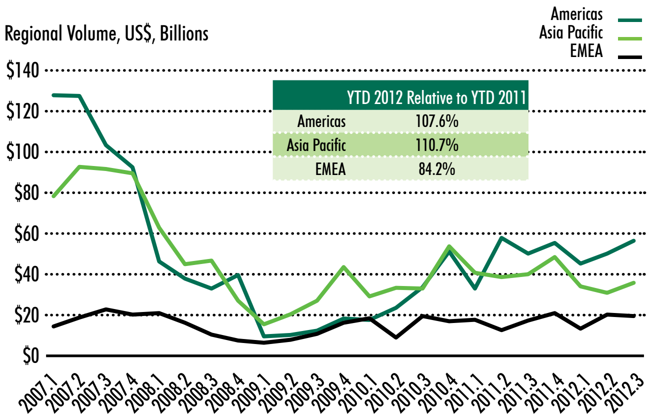
Regionally, Q3 2012 investment volumes portray a picture consistent with each region's leasing markets: The Americas continued to see modest growth, EMEA remained stable despite the on-going debt crisis, and Asia Pacific has experienced a cloudy, yet strong investment market.

In Q3 2012, the Americas region witnessed its strongest quarter so far this year, with a total volume of US$56.6 billion, 12.6% above the same quarter last year. It's year-to-date volume figure was also 7.6% higher than the equivalent figure for 2011. In the U.S., gateway markets such as New York, San Francisco and Los Angeles are most active, as investors continue to flock to liquid markets and to prime properties.

Canadian investment volume remained strong in Q3 2012 and annual 2012 figures are expected to eclipse 2011 levels. REITs and Pension Funds have taken a particular interest in Toronto's office market. In contrast to the U.S. and Canada, Latin America tempered during Q3 2012, with even the strong Brazilian market seeing moderation as a result of investors looking to shift from Brazil to intra-regional countries such as Mexico and Chile.

Figure 23: Regional Transaction Volume – All Property Types



Source: CBRE Research (EMEA and Asia Pacific), RCA (Americas); Data excludes Development sites. Updated for Q3 2012.

The transaction volume trend for EMEA in Q3 2012 was markedly improved, increasing by roughly 15.6% and 17.1% quarter-over-quarter in U.S. dollar and Euro terms, respectively. It's important to note that this trend was driven by strength witnessed in the U.K. rather than a pan-regional increase in activity. Investor preference is strongly focused on prime, CBD office properties, particularly in London, where the higher liquidity associated with its properties as well as the relatively more straightforward management prospects for the office sector attracts investors. Meanwhile, Europe's southern markets remain exceptionally subdued and the year-over-year trend was strongly negative.

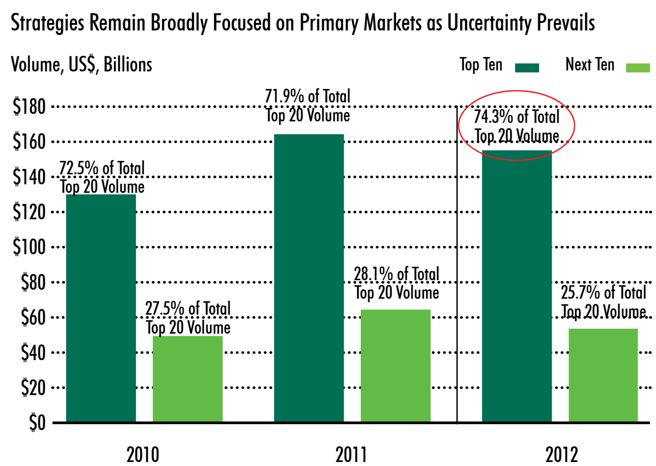
Despite declining slightly by 4.1% on a quarterly basis in Q3 2012, overall investment activity in Asia Pacific remains strong. 2012 year-to-date volume was 10.7% and 12.6% higher than the 2011 and 2010 year-to-date levels, respectively. As was the theme in the leasing sectors, ongoing uncertainties surrounding the euro zone debt crises, the weak recovery in the U.S., and the regional slowdown in growth in China have collectively hindered investor sentiments and raised their sense of caution. Despite some temperance, strong investment activity continues in Hong Kong, Singapore, Japan, South Korea, Taiwan, Australia and New Zealand.

GLOBAL CAPITAL FLOWS, INVESTOR PREFERENCE AND VOLUME CONCENTRATION

CRE boasted a healthy 9.8% unleveraged total return[6] last year, and with relatively resilient and robust total return prospects, CRE continues to operate as an attractive asset class that features competitive yields. Certainly the search for yield is as strong as ever, especially considering the prevailing low interest rate environment. Yet, despite this goal, we continue to witness a comparatively strong search for capital preservation and safety. Thus, the familiar theme is again evident: investor interest and preference continues to be focused on safe haven locations that boast relative liquidity and economic and political stability.

Figure 24 demonstrates the preference for prime properties. This Figure compares the concentration of global volume experience by the top 10 global markets by volume relative to the next 10 markets.[7] The results show that as risk and uncertainty in the global economy remains an acute concern for occupiers and investors, the flow of capital towards the top 10 markets, relative to the total volume for the top 20 global markets, has remained high and has actually increased in 2012 over the prior two years. 74.3% of the total volume for the top 20 markets was comprised of the top 10 markets in 2012, compared to 71.9% in 2011 and 72.5% in 2010.

Figure 24: Global Volume Concentration



Note: The 2012 series is a synthetic series. In order to arrive at a 2012 annual comparison, we have increased each 2012 YTD figure by 25%.

Source: CBRE Research and RCA, Q3 2012.

These results are consistent with the observations from our regional professionals across their markets.

- In the U.S., for example, cross-border and domestic capital has been flowing to core, gateway markets on coastal cities such as New York, Los Angeles and San Francisco, where employment recoveries are taking hold and perceived liquidity is high.

- Office properties in core Australian locations have been a major focus for global investors, driven not only by the high yields offered, but also the availability of quality, investable stock.
- The deep pool of quality office assets in Tokyo, combined with its positive yield spread and the bottoming of office rents, have resulted in strong investor interest for the market and Japan as a whole.
- Cross-regional buyers continue to look to purchase trophy office buildings in a few key European cities, particularly in London. This preference is again driven by liquidity.
- As is the case for the global office sector, high-quality global logistics and global retail product is in strong demand from investors. More markets saw compression in yields in their office sectors compared to their retail and industrial sectors.

While the question remains as to when the spread between prime and secondary property values and yields will begin to narrow, these spreads will likely remain suspended at relative historic highs in the near term, waning only in modest stages. This is especially the case in Europe, where fundamentals and economic growth will remain negligible for the medium term.

As noted, the current low interest rate environment prevailing for other asset classes has caused capital to flow from other asset classes to CRE. Meanwhile, existing CRE capital remains partial to prime product in core markets, particularly aimed at the office sector. This has resulted in compression of yields for prime product around the globe. A very slight shift in trend may be on the horizon for the U.S., as the cap rates for core assets in primary markets may be too tight for further investor interest and compression—meaning that these assets are likely to face less downward pressure in their cap rates in future quarters. By contrast, as investors in U.S. property hunt for yield, cap rates may indeed begin to compress slightly in secondary and tertiary markets.

GLOBAL CAPITAL FLOWS

Cross-border and cross-regional capital flows continue to grow throughout the CRE capital markets landscape. As you may recall from last quarter's Global MarketView, we explained our new approach to analyzing and classifying cross-border transactions; the terminology is reprised here.

Figure 25 reports the share of cross-border transactions relative to total global transaction volume. Q3 2012 witnessed a decline in global share, falling to roughly 20% of global volume. The most likely explanation is that when there is risk aversion and caution, staying close to home is preferred. Despite the slight decline in share, cross-border capital flows remain above their 2007 low point. Furthermore, when considering the unifying theme of capital preservation and the search for reasonable yields, options for investors continue to expand as they prioritize their risk aversion strategies. Thus, it is our view that cross-border transactions will increase as uncertainty subsides and investors become more willing to expand horizons.

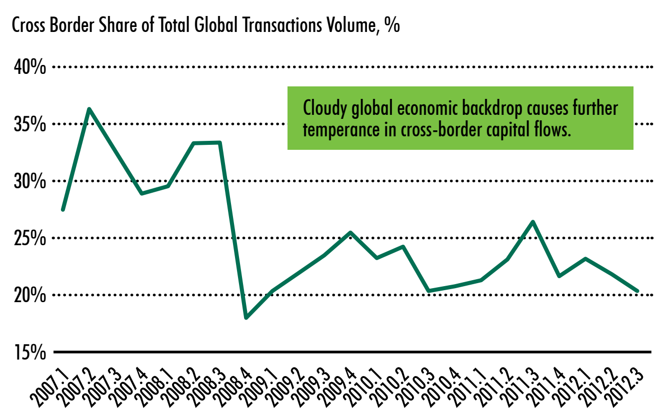
Despite the overall weakness of the European economy, strong net cross-regional inflows to the EMEA region were witnessed in Q3 2012, with much of this capital aimed at the London and Paris markets and the region's office sector. European intra-regional capital is also flowing from unstable environments in the peripheral European countries to those that are relatively more secure. Europe's secondary markets are suffering from a lack of liquidity and lack of debt financing, which is mostly available for prime assets in core geographies only.

In keeping with the global search for prime assets, Japan has recently experienced heightened interest from investors thanks to the country's deep pool of quality office assets, positive yields and, more recently, optimism related to improving leasing fundamentals.

Global cross-regional investors have focused on Australia's core office locations as a result of regionally high yields, its transparency and ample investable stock. Offshore pension funds and sovereign wealth funds were active in this market as they look to increase their allocations in the Asia Pacific region. In particular, the Canadian Pension Plan Investment Board (CPPIB) has made its first direct office investment in Sydney's prime Barangaroo development project, which will be completed in 2015.

As exemplified in the Barangaroo development project, we are finding that Canadian pension funds have been expanding their real estate portfolios globally. In addition to being particularly aggressive in Asia, Australia and Europe, Canadian—as well as Mexican investors—account for the main cross-border investors throughout Latin America. CPPIB has been a significant investor in the U.S. as well, focused primarily on the U.S. retail sector and CBD offices in markets such as Los Angeles and San Diego.

Figure 25: Global Cross-Border Trends



Source: CBRE Research and RCA, Q3 2012.

FOOTNOTES

1. In addition to the IMF, the OECD recently revised its forecast for 2013 for the 34 member countries. The adjustment was a downward revision from its 2.2% May forecast to 1.4% in its November forecast.

2. Pre-crisis levels may not, in some cases, be the historically normal level and some markets may never return to such a level. However, this date is a logical benchmark for the beginning of the Great Recession and thus for tracking subsequent performance.

3. Measured as annualized quarterly net absorption levels as a percent of total occupied stock.

4. "The Nielsen Global Survey of Consumer Confidence and the Global Consumer Confidence Index, established in 2005, tracks consumer confidence, major concerns and spending intentions among more than 28,000 Internet consumers in 56 countries throughout Asia-Pacific, Europe, Latin America, the Middle East, Africa and North America." –Nielsen Holdings N.V.

5. Local currency rents for certain markets are expressed in terms of Zone A (ITZA), an approach which places a higher value on certain parts of a shop more than others. The number reported is the value placed on the most expensive part of the shop and will therefore be much higher than the average per sq. m. value for the entire unit.

6. As measured by the IPD Global Annual Property Index, results for December 31, 2011.

7. Evaluating the top 10 markets over the course of the last three years, the following markets were classified as part of the top 10: London Metro, New York, Tokyo, Hong Kong, Washington, D.C., Paris, Los Angeles, Singapore, San Francisco, and Chicago. The next 10 markets, classified by volume, were Toronto, Sydney, Seoul, Shanghai, Houston, Boston, Moscow, Berlin-Brandenburg, Rhine-Ruhr and Beijing.

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