# ECONOMIC PULSE

The impacts of economic conditions on commercial real estate markets around the world

A Cushman & Wakefield Research Publication

FORECAST 2012

GLOBAL

## CHANGE, RISK AND OPPORTUNITIES

These are challenging economic times – and at this point, no one is fully certain how the EU and US sovereign debt issues will play out...

Page 2

THE AMERICAS

### Better times ahead

The entire Americas region experienced a slowdown in 2011, but underlying fundamentals are looking up...

Page 5

EMEA

### Recovery delayed, not canceled

The escalation of the sovereign debt and banking crisis hit a European economy already weakened...

Page 11

ASIA PACIFIC

### Slow growth ahead

The Asia Pacific economy's dynamism remains one of the bright spots in this challenging global environment...

Page 18

A Cushman & Wakefield Research Publication

# GLOBAL PULSE
# CHANGE, RISK AND OPPORTUNITIES

MARIA T. SICOLA
Executive Managing Director
Americas Research

VIEW VIDEO

## PREPARING FOR RECOVERY

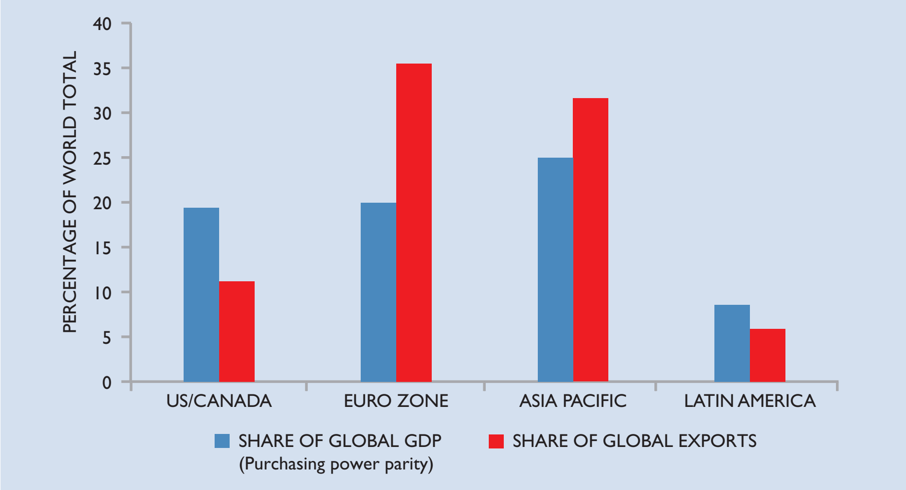
These are challenging economic times – and at this point, no one is fully certain how the EU and US sovereign debt crises will play out. However, there is a sense of constrained optimism as we anticipate the global economy to strengthen during the second half of 2012.

*Continued on Page 3*

*Continued from Page 4*

While Europe remains the major concern on everyone's mind, with sovereign credit ratings cut not only in indebted fringe countries but in some core markets as well, the European Central Bank and International Monetary Fund are arduously working on solutions. In this difficult and complex scenario, we remain reasonably optimistic that more opportunities for growth in Europe will emerge during the second half of 2012.

GLOBAL ECONOMY: EXPORTS AND GDP




For global real estate markets, the picture is similar: a slow start in 2012 followed by improvement in the second half of the year. In our mixed *Economic Pulse* forecast, there are bright spots thanks to stronger economies in specific markets and due to new strategies being deployed to manage change. Occupiers around the world, for example, are not sitting still, as demonstrated by the high volume of office leasing activity in the last 12 months. Many organizations are taking advantage of a slower growth period and low interest rates to restructure portfolios and recast occupancy strategies in preparation for the next expansionary cycle. This trend, which has paused somewhat, is also expected to pick up momentum later in the year.

In Cushman & Wakefield's *Global Office Forecast 2012-2013* released last December, we projected declining vacancy rates in 37 of the major 60 cities we tracked. Rental rates were expected to increase in 47 cities.

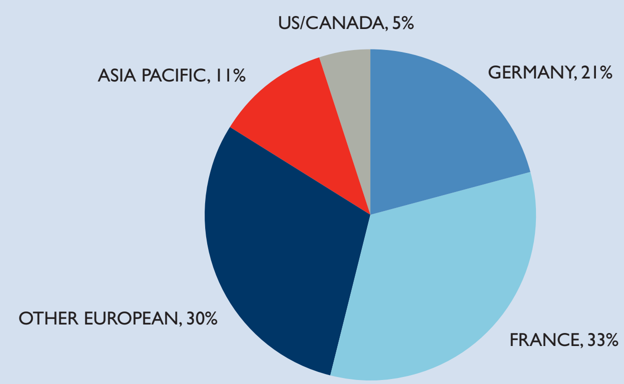
On the industrial front, the softer global economy will likely perpetuate sluggish performance, particularly in Europe. Regionally, the greatest opportunity may be found in North America where supply growth has been limited and rising consumer and business demand is likely to lead to higher trade volumes and industrial output.

## GLOBAL AND REGIONAL TRENDS

Around the world, government deleveraging has become a common theme. The US continues to struggle with its large budget deficit during an election year and solutions put forward seem widely polarized. However, as we move into 2012, we have seen signs of solid labor market improvement, with related positive stock market responses.

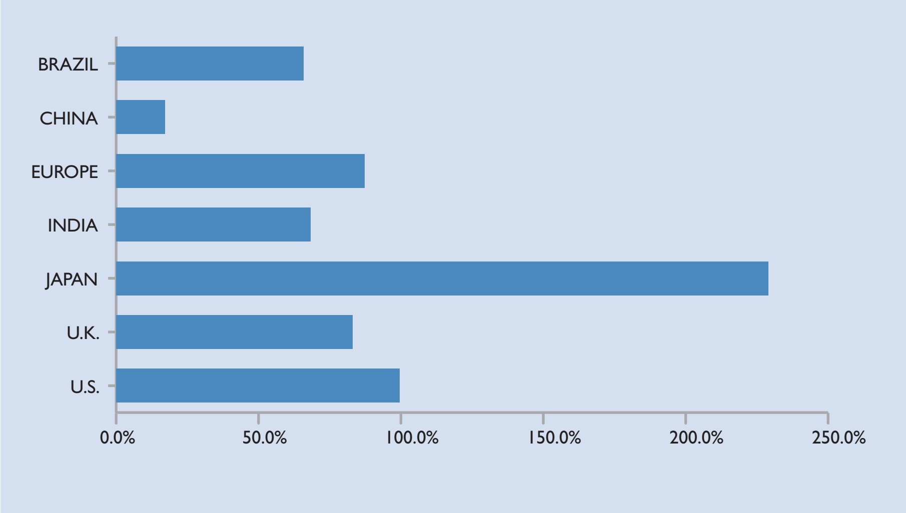
Throughout the Americas, new monetary and fiscal policies in countries such as Brazil and Mexico will stimulate stronger demand in the second half of the year. Canada and some countries in South America have appeared almost immune to global economic woes and remain on relatively solid ground with continued, albeit slower growth expectations. However, manufacturing in Canada and Mexico continues to feel the effects of the US slowdown – and awaits recovery to restore export sectors. Brazil will host both the World Cup in 2014 and Olympics in 2016, and is high on many retailer and corporate radar screens.

REALITY CHECK: EXPOSURE TO EUROPEAN SOVEREIGN DEBT

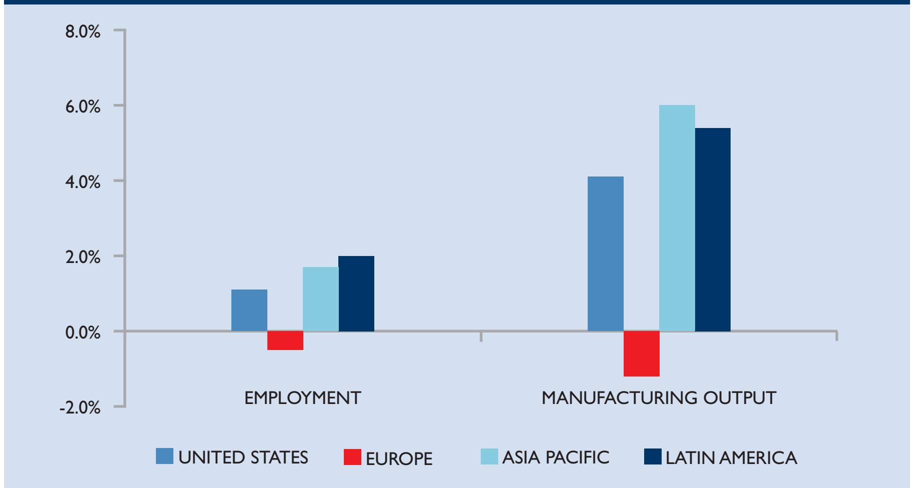


A Cushman & Wakefield Research Publication

GROWING CONCERN: GROSS DEBT AS % GDP (2011)



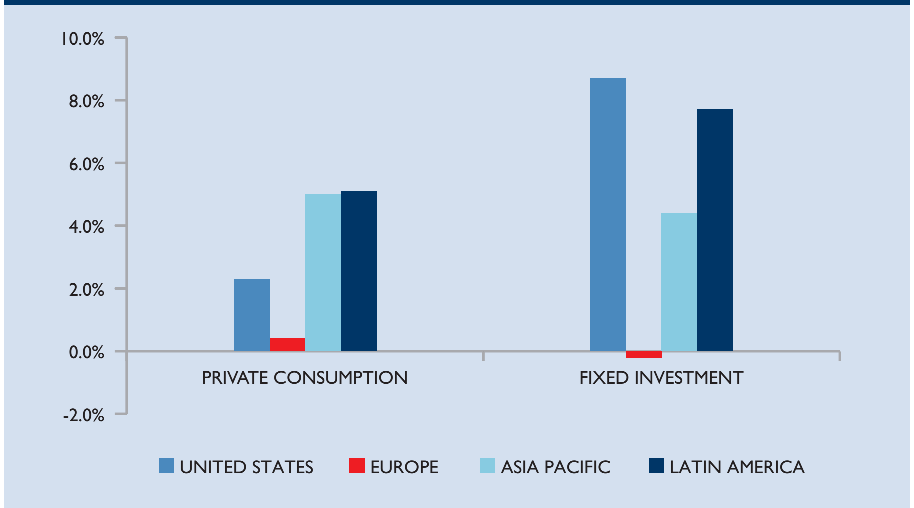

DRIVERS OF GROWTH: EMPLOYMENT & MANUFACTURING OUTPUT
(Percent change, 2012)




In Asia Pacific, the combination of policy initiatives and the prospect of stronger demand in the West during the second half of 2012 is likely to lead to stronger growth during the final six months of the year. Several countries including Australia and India are moving to stimulate demand by lowering interest rates, which should boost activity in the second half. Add to this the fact that Asia's dependence on the US and Europe for trade continues to diminish. Only 10% of the $20-trillion APAC economy is attributable to the US and Europe.

Investors remain interested in top-tier markets around the world and, although lenders are cautious, equity players are looking for opportunistic plays, and insurance firms are back in the game with a fresh pool of capital for 2012. Finally, inflation does not appear to be a great concern in any region.

DRIVERS OF GROWTH: PRIVATE CONSUMPTION & FIXED INVESTMENT
(Percent change, 2012)




## CONCLUSIONS

Overall, Cushman & Wakefield is moderately optimistic about 2012 and beyond. While the crystal ball is clouded by economic uncertainty, we see positive signs as corporations continue to reposition themselves to win the fight for talent, strategize to reduce space and costs, embrace employee-driven workplace strategies – and strengthen their real estate position to meet long-term objectives in a rapidly changing world.

# THE AMERICAS PULSE
# BETTER TIMES AHEAD

KEN McCARTHY
Senior Economist, Senior Managing Director
Research

**LISTEN TO PODCAST**

The entire Americas region experienced a slowdown in 2011 as the European and US debt crises caused businesses and investors to become more cautious and dramatically slowed the pace of growth in the US – the region's main driver. But underlying fundamentals are pointing to a brighter future as we move into 2012.

*Continued on Page 6*

A Cushman & Wakefield Research Publication

*Continued from Page 5*

## Economic recovery

in the Americas slowed in 2011, but was not derailed.

After deteriorating in the second half of 2011, growth in the Americas is expected to rebound in 2012. In the US, real GDP is forecast to grow at a 2.6% rate, not great, but a significant improvement over the 1.7% increase recorded last year. In addition, the pace of growth is projected to accelerate as the year progresses. By the fourth quarter of 2012, real GDP is expected to be clipping at a 4.0% annual rate, compared with 2.8% at the end of 2011. Improving labor markets should boost income, while the housing sector is finally projected to make a positive contribution to growth, albeit a limited one.

Growth is also expected to accelerate from 2011 levels in the other main economies of the Americas. Brazil will see increasing government stimulus in the form of lower interest rates and higher spending, causing GDP growth to surge from 2.8% in 2011 to 5.0% in 2012. In Mexico, rising government spending in the months before the July presidential election will boost growth from 4.0% last year to about 5.0% in 2012. In Canada, rising exports to the US will offset sluggish domestic demand growth and boost GDP growth from 2.4% in 2011 to 2.6% in 2012.

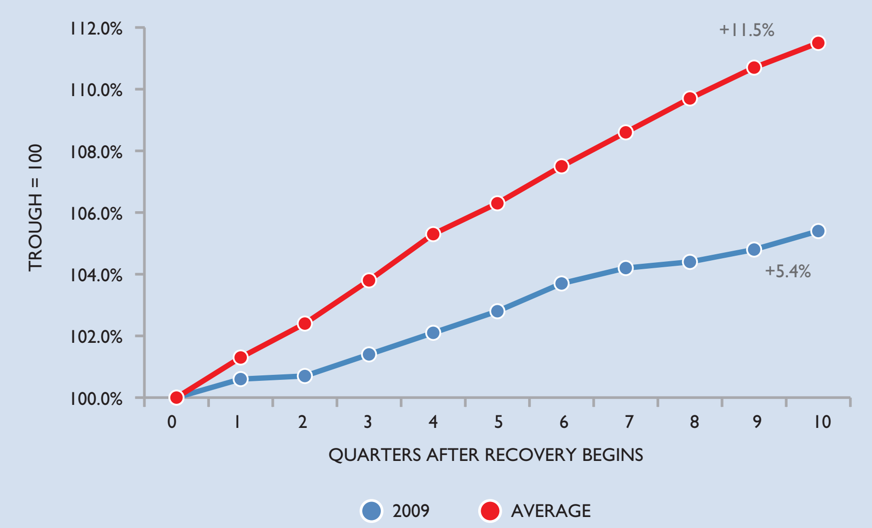
## AMERICAS FORECASTS AND TRENDS

### THE IMPORTANCE OF THE US CONSUMER

The Americas is dominated by the US consumer. The total GDP of the four main economies in the region is approximately $19.6 trillion. Of this total, US consumer spending amounts to about $10.2 trillion or slightly more than 52%. So, when US consumers dig into their wallets, the entire region benefits – demand is boosted for goods manufactured in Canada, Mexico and Brazil, as well as for commodities (from oil to metals to agricultural products) produced throughout the region.

The US consumer has been largely absent from the recovery that began in 2009. In the ten quarters from the end of the recession in the second quarter of 2009 to the fourth quarter of 2010, total US consumer spending, adjusted for inflation, increased by only 5.4%. Since 1954, there have been eight recessions and recoveries prior to the most recent recession. This is a surprisingly weak performance given the depth and duration of the recession. Usually, deeper and longer recessions generate faster and stronger recoveries, but that has not been the case this time. The average ten-quarter increase in consumer spending in the previous eight recoveries was 11.5% (see chart).

CHART 1: CONSUMER SPENDING IN RECOVERIES




KEY ANALYSIS

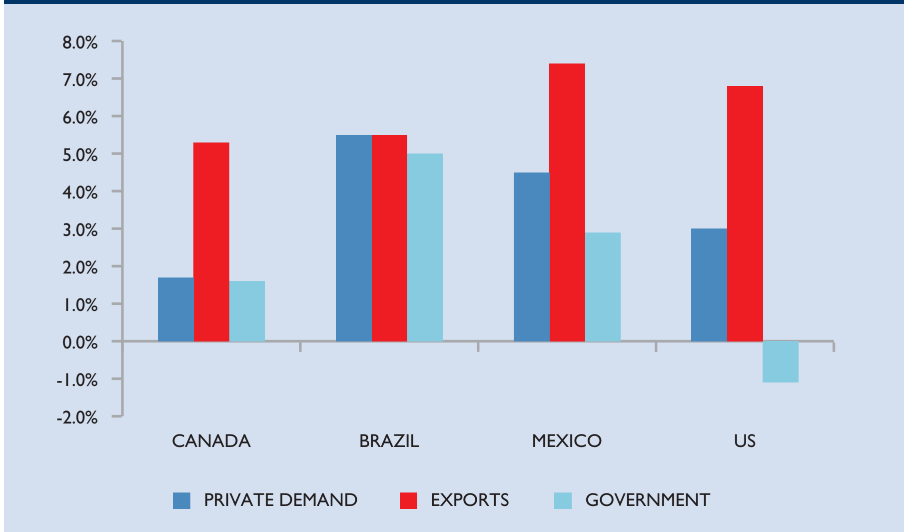
- American consumers account for more than half of all activity in the four main regional economies
- In this recovery, US consumer spending has grown at less than half its historic pace
- Acceleration in spending driven by pent-up demand will boost output in the entire region

CLICK TO LISTEN

## The main drivers of growth,

low interest rates, pent-up demand, balance-sheet improvement at business and consumer levels, are all still very much in place.

CHART 2: AMERICAS 2012 SOURCES OF GROWTH




This sluggish consumer demand growth has been caused by a number of factors – slow employment and income growth, weak housing activity and rising energy prices among them. But it has also created a large amount of pent-up demand in the economy that should start appearing in the coming year. For example, the average age of a car or light truck on the road in the US today is 10.8 years, the highest it has ever been. This is a direct result of the recession and slow recovery, and it surely extends to other kinds of durable goods from appliances to furniture.

Now, as goods are wearing out, we are at a point where that demand will need to be acted on. The key trigger is an improvement in labor markets, something that is underway. Starting in late 2011, there has been a marked improvement in US labor markets, with layoffs falling and hiring accelerating. While it is far from booming, employment growth in the US over the most recent three-month period was 201,000 jobs per month, up from 133,000 in the preceding three-month period.

With corporations in better financial shape and profits at record levels, as demand rises, businesses are more likely to take a risk and hire in 2012 than they were in the second half of 2011. Faster job growth will generate stronger income growth, which is likely to drive the pace of consumer spending growth from a 2.0% annual rate in the fourth quarter of 2011 to 4.0% in the fourth quarter of 2012.

Such revived activity will boost economic growth throughout the Americas. As US consumer demand rises, exports are projected to increase in major regional economies, with Brazil and Canada showing the strongest gains and Mexico expected to experience a more modest acceleration. Each of these countries will also experience changes in domestic demand that will also contribute to growth. In Brazil and Mexico, increased government spending is expected to play an important role in growth. In Mexico, spending always rises in the quarters before and immediately after a presidential election. In Brazil, where preparations are underway to host both the World Cup and Olympics in the next four years, government spending will increase sharply. In Canada, export growth will accelerate, but domestic consumer demand is likely to slow due to modest employment growth.

Overall, the Americas region is expected to see a pick-up in economic growth, particularly during the second half of the year, as the uncertainties that have dominated the forecast for the past nine months or so begin to dissipate.

## THE RISKS

There remain significant risks to this positive outlook for the Americas. Our projections assume that the two major financial unknowns, the sovereign debt crisis in Europe and the US budget deficit debate, are gradually resolved in such a way that there is a positive impact on financial markets and confidence. As our *EMEA Pulse* points out, the history of the European Union is based on eventually making the difficult decisions that need to be made to resolve crises. With the cost of failure so


**Domestic demand remains healthy** in Canada, Mexico and Brazil, which will continue to experience varying levels of economic growth.

A Cushman & Wakefield Research Publication


## Labor markets will continue

to improve in the US, driving income growth and increased consumer spending as the year progresses.

high, it is our assumption that the EU leadership will once again resolve the current financial challenges, but this view is far from certain.

Any number of pieces of the financial solution could unravel and put the crisis once again at the forefront of everyone's mind. As we saw so dramatically demonstrated in 2011, a re-emergence of the sovereign debt crisis in Western Europe would once again lower confidence and cause businesses, investors and consumers to retreat from risk. But the main impact in the Americas will be on confidence, not direct economic or financial contagion. To be sure, a financial crisis would place stress on US financial institutions, but the major US banks have spent the last three years shoring up their balance sheets and, as the various stress tests of the past several years have demonstrated, they are in much better condition to weather a major financial crisis. Exposure to European debt is much smaller here than was exposure to the US housing market and, thus, the impact on financial systems will be smaller.

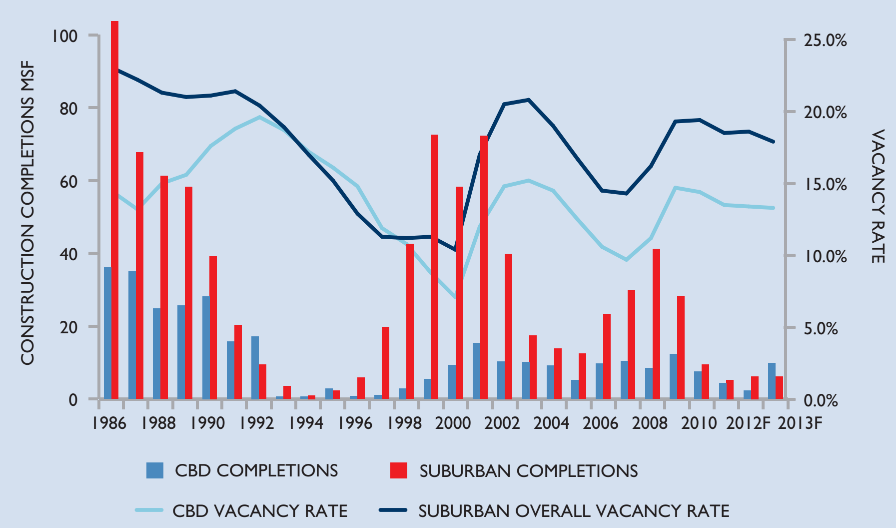
Nevertheless, a prolonged European crisis would disrupt the recovery. It would not derail it altogether, but rather push true, strong recovery even further into the future, something that has already occurred once in the current cycle.

Perhaps the bigger risk in the Americas is the risk that the US budget deficit debate will turn into another partisan argument similar to that which occurred in the summer of 2011. While this appears unlikely in an election year, it is not impossible.

## DEMAND TO REMAIN HEALTHY

The improving economic environment in the Americas is expected to lead to healthy leasing fundamentals in office and industrial markets, along with improvements in retail markets. Rising US consumer spending is again critical. As consumers boost outlays, demand will increase across the entire goods sector of the economy, from retail stores through the distribution chain to manufacturers and raw materials producers. In addition, imports of consumer goods will gather steam. The result will be stronger

CHART 3: CONSTRUCTION COMPLETIONS VS. OVERALL VACANCY RATES




demand for retail space, the rising use of manufacturing facilities and a continuing increase in the use of warehouse and distribution space. At the end of 2011, US retail sales in real (inflation adjusted) terms were at record levels. As this trend continues and even accelerates in 2012, retail markets are likely to see rising demand for space.

Industrial and office markets in the US will be influenced by two sets of mutually reinforcing forces: rising demand and limited supply. In US office markets, new construction has virtually ground to a halt. In 2011, a total of 9.6 million square feet of office space was completed in the 41 central business districts (CBD) and suburban markets tracked by Cushman & Wakefield – representing a 15-year low for new construction and only 0.3% of inventory. A similar situation exists in the industrial sector, where new construction has been very sparse.

In Canada, Mexico and Brazil improvement is also anticipated. Like the US, Canada saw little new construction during the recession and recovery, leading to low vacancy rates for office space in most major cities. Notable exceptions, however, are Toronto and Calgary, where strong central-area development has been offset by robust demand.


# The second half of 2012

is likely to be better than the first in most of the region, as uncertainty is reduced and spending by the US consumer accelerates.

In Mexico and Brazil construction is booming, but so is trade. These are the strongest economies in the region and are forecast to gain more speed in 2012.

As a result, even with high rates of construction, leasing fundamentals are forecast to improve with vacancy falling and rents increasing throughout the region.

Of course, the degree of improvement is predicated on the rate of economic growth. In the US, even if growth is more modest, supply is so limited that leasing fundamentals are likely to continue to improve. In Canada, where demand fundamentals are easing after showing surprising strength through 2009 and 2010, central market office vacancy in major cities is at or near historic lows. This has triggered a new development cycle that will provide some relief for larger tenants with expiries in the 2014-2016 period.

In Mexico and Brazil, there are greater risks if economic growth is weaker than anticipated due to the high levels of new construction. In São Paolo for example, new supply in the 2011-2013 period is about one third of existing inventory. With this overabundance of stock, an economic slowdown would create risks.

Overall, however, our baseline economic expectations support improvement in leasing fundamentals throughout the region.

## INVESTMENT OPPORTUNITIES LOOK UP

With interest rates low and bank balance sheets in the Americas continuing to improve, there is still a substantial amount of capital available to invest in real estate. In 2010 that capital was largely focused on the key core markets in North America: New York, Washington DC, Boston, San Francisco, Los Angeles and Toronto.

In early 2011, as prices in these core markets rose, investors began to look at other markets where higher yields were available, including suburban markets. But when global economic activity weakened, investors retreated from risk and returned to core markets. The strong first half was enough to push investment sales in the Americas up by roughly 51% from recession-depressed 2010 levels. While most of that increase was in the US, volumes in Canada have been picking up since 2010, with 2011 being a strong year for investment, especially in Toronto. Elsewhere in the Americas, volumes were essentially flat and down slightly in Brazil. There were strong gains in Mexico, but volumes were very low.

For 2012, improving fundamentals, coupled with a still healthy investor appetite for real estate, should lead to healthy growth in the region. Cushman & Wakefield forecasts investment sales in the US will increase by about 25%.

We anticipate that investors will continue to show more willingness to take on risk in an improving economic environment. The result will be stronger growth in suburban markets and in non-core markets. This increase should extend to the rest of the region, particularly Brazil, where economic improvement will be an important driver.

A Cushman & Wakefield Research Publication

## THE AMERICAS COUNTRY ECONOMIC FORECASTS (FEBRUARY 2012)

| | 3-MO. INTEREST RATE | | 10-YEAR BOND RATE | | GDP % PA | | INFLATION % PA | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| | 12-FEB | TREND | 12-FEB | TREND | 2011 | 2012 | 2011 | 2012 | |
| Argentina | 10.1 | ▬ | 10.1 | ▬ | 8.6 | 4.5 | 9.8 | 10.1 | Economy expected to decelerate sharply in 2012 as the government retrenches to reduce budget deficit. Higher interest rates needed to avoid capital flight will also weaken economy. |
| Brazil | 9.6 | ▼ | 11.1 | ▼ | 2.8 | 5.0 | 6.6 | 5.3 | Easier monetary policy implemented in 2011 should boost growth in 2012. In addition government spending will increase ahead of World Cup and Olympics. |
| Canada | 0.9 | ▬ | 2.1 | ▬ | 2.4 | 2.6 | 2.9 | 2.4 | Continued healthy office demand and low vacancy have triggered an expansionary cycle in Canada's major central markets, and improving US demand is expected to bolster suburban markets and the economy in general. Investment markets as well have performed well since 2010. |
| Chile | 5.0 | ▲ | 5.0 | ▲ | 6.2 | 5.0 | 3.3 | 4.4 | Economy is in danger of overheating. Government has begun to raise interest rates and is likely to continue to do so to slow economic growth and hold down inflation. |
| Colombia | 12.4 | ▲ | 12.8 | ▲ | 5.7 | 5.5 | 3.4 | 3.3 | Colombia's economy has benefited from strong resource demand and strong local demand. Unemployment is at a record low and consumer spending is strong and expected to remain so. |
| Mexico | 4.7 | ▬ | 4.8 | ▬ | 4.0 | 4.5 | 3.4 | 4.0 | The upcoming presidential election will be the dominant factor in Mexico as government spending accelerates. Add in a stronger US economy, and Mexico will likely have a solid year. |
| Peru | 5.7 | ▬ | 6.3 | ▲ | 6.7 | 5.4 | 3.4 | 3.4 | Peru's economy showed strong, balanced growth in 2011 led by healthy consumer spending and rising exports. Deceleration is likely in 2012. |
| United States | 0.1 | ▬ | 2.0 | ▬ | 1.7 | 2.6 | 3.1 | 1.9 | Growth is improving and inflation receding. Risk aversion remains an issue. Second half expected to be stronger than the first. |
| Venezuela | 17.0 | ▬ | 17.5 | ▬ | 4.0 | 4.5 | 27.1 | 27.9 | Economic growth will be driven by domestic spending in the run-up to the October presidential election, supported by rising oil prices. However domestic production capacity has fallen leading to rising imports. The economy may falter if oil prices fall. |

# EMEA PULSE
# RECOVERY DELAYED, NOT CANCELLED

DAVID HUTCHINGS
Partner
Head of the European Research Group

**LISTEN TO PODCAST**

## FORECAST 2012 SUMMARY: HOPE IN SIGHT?

The escalation of the sovereign debt and banking crisis hit a European economy already weakened by higher inflation and interest rates, but also by weaker exports due to the tragic events in Japan and slower global demand more generally. As uncertainty increased, confidence evaporated, bringing a delay in spending and raising the specter of a deeper financial crisis.

*Continued on Page 12*

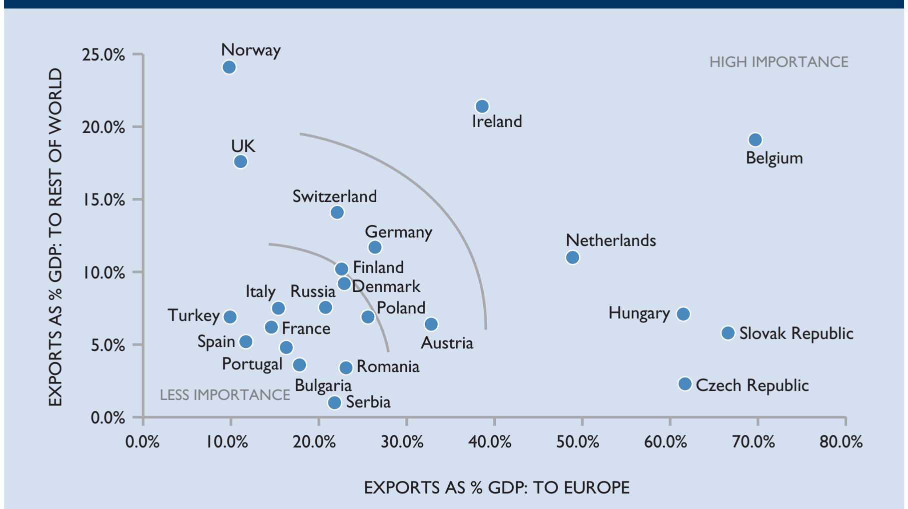
*Continued from Page 11*

Most of Europe now faces the threat of weaker growth and a credit squeeze. Furthermore, with ongoing deleveraging and austerity, a number of countries are already enduring a return to recession.

However, while global headwinds have stymied hopes of export-led growth, the outlook for the region overall is still judged by the majority of forecasters to be poised for mildly positive growth by the year end. The first half will remain weak but better growth is expected later in 2012 as inflation falls and a more stable pattern of global demand emerges.

Moreover, while a more marked recession would likely occur if a resolution to the sovereign debt crisis does not start, it is equally true that growth may rebound more strongly once confidence does return. In the short term, this would support more business investment, feeding into job growth and better consumer demand further down the line – bringing some hope for 2013, if not 2012.

CHART 1: EXPOSURE TO EXPORTS AND EUROPEAN DEMAND




**KEY EXPECTATION**

**With some countries back in recession,** the immediate outlook in Europe is clearly poor. However, the second half of the year could be more stable, with greater confidence and global demand entering the picture.

## MARKET AND SECTOR TRENDS

Consumer spending rebounded somewhat in late 2011 as shoppers started to adjust to higher inflation. Lower price increases this year should further support spending power, but deleveraging will continue to hold back consumption overall and alongside a constrained public sector, this means corporate spending and exports remain key.

However, the region's export cycle has clearly turned down and Chart 2 on page 13 also points to a lull in investment spending. It is therefore reassuring that according to expectations, corporate spending will be healthier by 2013, and strong cash positions among leading companies means that some may not wait until next year. Despite a shortage of debt, small-to-medium-sized businesses are already active in a number of areas, while larger players could return to the fore quite quickly via M&A activity as financial markets stabilize.

Recovery in all sectors will vary by market depending on the mix of measures adopted and the balance between stimulus, austerity and reform. Access and interaction with global growth markets will also be important, including emerging markets in Asia and Latin America.

As Chart 1 shows, the degree to which each European economy relies on exports is highly variable, but most are more heavily exposed to intra-regional trade rather than exports to the rest of the world. Those with the greatest exposure to non-European markets include Norway, Ireland, the UK, Belgium and Switzerland.

## LEADING MARKETS

While much of Western Europe is flirting with recession, 2012 growth for most countries is forecast to be mildly positive, led by Norway, Sweden, Austria and Denmark. Germany will slow after its stellar growth in the last couple of years, but out-performance will return given its competitive position.

Growth in Central and Eastern Europe has held up well and further out-performance is forecast despite obvious export risks. At present, the best performance is expected in Russia, the Ukraine, the Baltics and Poland. Concerns have increased over the health of the region's banking sector, but aside from foreign currency loan exposure, most seem reasonably stable, with many foreign parents showing a firm commitment and renewed IMF support also possible.

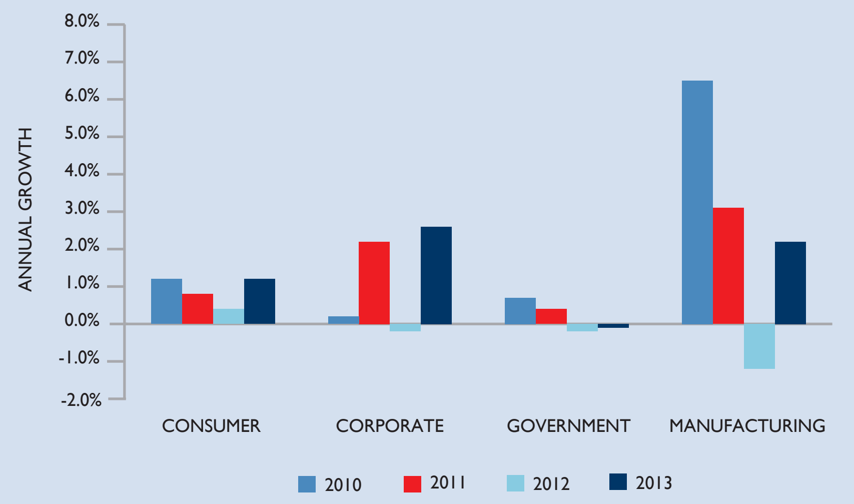
## COST OF FAILURE TOO HIGH

All eyes still rest on whether the Eurozone crisis can be resolved and many are pessimistic on this point. Certainly if the domino of Italy were to fall, France could be next and then it would be hard to see how the union could hold together. Similarly, if the UK remains isolated, its economy may be impacted, but the stability of the EU itself could be in question.

However, a collapse is far from inevitable. Indeed, while one can postulate on how long it may take for one or two countries to recover from leaving the Euro, it is hard to contemplate the cost of all countries leaving. It is also not too dramatic to suggest that social cohesion would be at risk if the Euro collapses, as competition for markets, jobs and resources would inevitably increase. Arguably, therefore, we cannot afford not to solve the problem.


**While it remains incredibly hard to predict** what may happen, the commitment of governments and institutions to resolve the sovereign debt crisis looks increasingly sufficient to keep the Eurozone intact – at least for now.

### CHART 2: DRIVERS FOR GROWTH IN EUROPE




KEY ANALYSIS
- All segments of the economy are forecast to see weaker growth in 2012
- Consumer expansion is slowing but will drive demand growth in 2012
- Corporate spending and manufacturing output will drive the recovery in 2013

CLICK TO LISTEN

But how do we set about this? As a first step, it is clear that Eurozone governments must stand behind their debt. Anything else equates to picking a fight with the global bond market and that has never been a recipe for success. Some will argue that this only addresses the symptoms and ignores the root cause of the problem – global imbalances according to some, a lack of growth according to others – but the first requirement is to deliver stability and show the willingness to reform.

After that we need some of the promises that are on the table – greater fiscal discipline and probity, for example – and, ultimately, the transfer of money or competitiveness must take place between Germany and the fringe.

KEY EXPECTATION

**Even if the jigsaw pieces** of a workable solution come together, underlying problems of weak growth and competitiveness will not be solved quickly. The rebalancing needed is global and will take years, not months. What is more, even as public-sector debt stabilizes, problems will still hang over the banking sector and deleveraging will accelerate, deepening the liquidity squeeze.

At the end of the day a solution requires a mix of time, money and confidence and demands a political, not a market, approach. Is there the will to tackle the problems – to cut debt, to face down social and union pressure, to reform and re-galvanize economies? The cost of not doing it would be huge and should be enough to deliver the cooperation and sacrifice needed. But that assumes that parliaments – elected or not – are in the driving seat. If power moves from parliament to the street, decisions will be hard to predict.

The EU does, however, have a history of making difficult decisions, albeit in a less than elegant way. It stumbles to a solution as compromises are slowly made. A number of such solutions have been suggested involving varying degrees of fiscal union and debt guarantees, and if current plans can deliver more of a fiscal policeman than a fiscal government then they could help. In truth though, one escape plan is not enough – a number of initiatives backed by a number of players is needed to steadily underpin faith in the currency. Interestingly, however, together with greater global coordination, this could pave the way for potentially rapid changes in global market sentiment, which businesses need to be ready for.

## STRUCTURAL CHANGE AND LIMITED SUPPLY DRIVE OCCUPIER MARKETS

Occupiers will be cautious in 2012, but markets are still supply, not demand driven and conditions are far from uniform, with some markets supply-constrained and seeing costs increase, while others are still stabilizing.

Recent activity has largely been driven not by expansion, but by a need for better or more efficient space; hence, what is really important for activity is not so much renewed economic growth as renewed confidence. Some occupiers are taking stock and more are likely to react to uncertainty by staying in situ, leading to more lease renegotiations and a greater focus on consolidation and network optimization. Nonetheless, others will still look to invest. For example, there continues to be strong demand from international retailers looking to expand into core markets. Secondary locations and units in all sectors are likely to see limited interest, however, with a lack of prime supply to influence occupiers.

Sustainability is impacting more on corporate decisions due to the focus on cost containment, but there are other structural drivers shaping markets throughout Europe, such as the exponential growth in e-tailing, social media, cloud computing and demographics. Other key drivers include the raft of new regulations for the banking and insurance sectors, while multi- and bilateral accountancy and tax regulations may also impact on location preferences.

KEY EXPECTATION

**Uncertainty will hold back occupier activity,** though many businesses are ready to take action, at least in cost cutting and driving efficiency. However, while occupiers will be in a strong position in many markets, a shortage of supply is still likely to push up Grade A rents.

## INVESTORS FOCUS ON THE BEST

The investment market has also seen greater caution, a delay in decision-making and a renewed flight to quality, but low interest rates should support demand in 2012, even if the economic environment weakens. Indeed, the defensive case for real estate, especially in core markets, is strong, with robust income returns considered highly attractive when set against current bond rates.

The focus will remain on top cities and top assets that clearly offer downside protection, as well as exposure to the upside when it comes. As a result, yield trends are likely to diverge further, with prime, core markets stable or possibly down in, say, Germany, but secondary markets seeing yields increase where income levels are perceived to be vulnerable.

Overly rapid bank deleveraging will add to the liquidity squeeze now being seen, suggesting bank finance for property will remain heavily constrained. At the same time, however, banks will emerge more notably as suppliers of opportunities, and new sources of finance are also steadily growing.

## STRATEGY

A key strategic consideration across the region will be the impact of the sovereign debt crisis on risk premiums and the occupational and investment hierarchy of markets will continue to change – parts of Central Europe have shown themselves to be less risky than parts of Western Europe, for example. Markets like Poland and Russia will increase in importance compared to others such as Greece, Portugal and Spain.

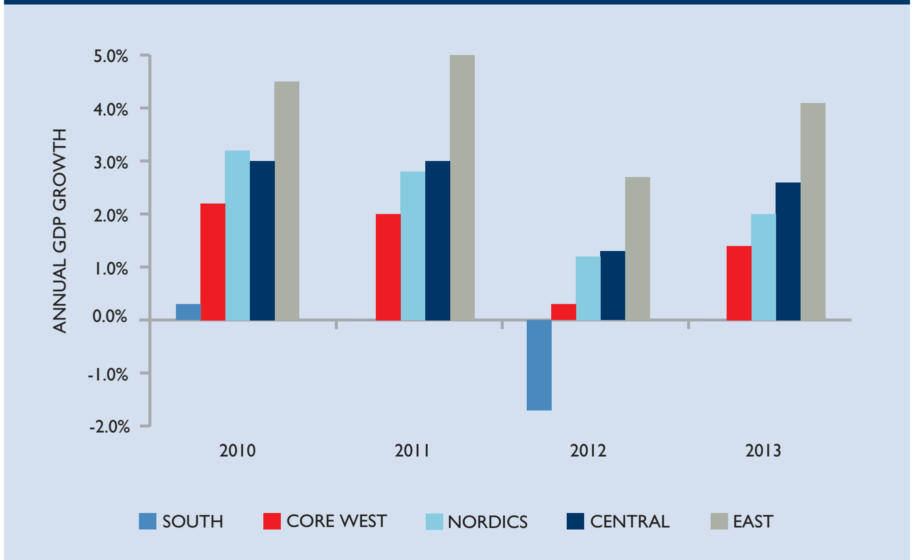
**For property investment, caution will remain,** but the recovery is likely to be delayed rather than cancelled. More than ever it's a recovery for prime property, and one that will be held back by a lack of finance and opportunities, except for those ready and able to dive into the debt mountain.

**Trends will remain highly variable** by country, city and industrial sector. There will be winners and losers. Inflation will be lower, but volatile, and interest rates will stay low for some time.

Occupiers may be more relaxed in targeting emerging markets, but most firms and investors will still focus on the core, with Germany to remain in strong demand, along with countries with stronger domestic activity (Norway, Sweden, Poland, Turkey and Russia) and greater productivity.

Some firms and investors will seek to diversify their Euro risk by targeting Asia and the Americas, as well as markets such as the UK, Switzerland and Norway. Meanwhile, others may be ready to take on risk in distressed markets, with Italy, for example, possibly recovering more rapidly than most and Spain attracting interest from some long-term buyers as and when quality stock emerges on the market.

CHART 3: GROWTH BY REGION



A Cushman & Wakefield Research Publication

## EMEA COUNTRY ECONOMIC FORECASTS (FEBRUARY 2012)

| | 3-MO. INTEREST RATE | | 10-YEAR BOND RATE | | GDP % PA | | INFLATION % PA | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| | DEC 2011 | TREND | DEC 2011 | TREND | 2011 | 2012 | 2011 | 2012 | |
| Austria | 1.4 | ▼ | 2.9 | ▲ | 3.2 | 0.5 | 3.3 | 2.1 | Good recent growth is slowing due to Austria's export dependency, banking sector weaknesses and the impact of inflation on household spending. |
| Bahrain | 2.3 | ▬ | Na | Na | 1.9 | 3.7 | -0.4 | 3.0 | Political instability and deflation continue to subdue activity, but growth has picked up, helped by government spending and higher oil prices. |
| Belgium | 1.4 | ▼ | 4.1 | ▲ | 1.9 | 0.0 | 3.5 | 2.2 | A new coalition is at last in place, but Belgium is still vulnerable to weaker domestic and external demand as well as public sector debt and banking risks. |
| Bulgaria | 1.8 | ▼ | 5.2 | ▬ | 1.6 | 1.6 | 4.2 | 3.1 | Weaker exports and subdued consumers will hit recovery, but inflation is down and risks have been reduced by new legal constraints on public sector debt. |
| Czech Republic | 1.2 | ▬ | 3.6 | ▬ | 1.7 | 0.2 | 1.9 | 3.1 | Eurozone troubles have undermined exports and, with consumers subdued, inflation increasing and new austerity measures, the risk of recession is up. |
| Denmark | 1 | ▼ | 1.6 | ▬ | 1.1 | 0.8 | 2.7 | 1.8 | Lower exports and subdued consumers are holding back growth, but government stimulus and real wage growth could offer some support this year. |
| Finland | 1.4 | ▼ | 2.3 | ▼ | 2.9 | 0.4 | 3.5 | 2.6 | Previously rapid growth is slowing, but so is inflation. Real wage growth, as well as a diverse export base, will support modest but above average growth. |
| France | 1.3 | ▼ | 3.2 | ▲ | 1.7 | 0.0 | 2.1 | 1.9 | Growth, employment and credit have all weakened and risks are up due to fiscal tightening, a further possible rating downgrade and this year's election. |
| Germany | 1.3 | ▼ | 2.6 | ▬ | 3.1 | 0.6 | 2.3 | 1.8 | Weaker exports and confidence have ended a period of strong growth, but a robust labour market and rising real wages should hold up domestic demand. |
| Greece | 1.4 | ▼ | 32.3 | ▼ | -6.8 | -4.4 | 3.3 | 1.5 | Stability is improved with a new bail out agreed but the short term outlook is poor whether or not Greece can remain within the Eurozone. |
| Hungary | 7.2 | ▲ | 9.9 | ▲ | 1.7 | -0.6 | 3.9 | 5.1 | Growth will remain subdued with credit downgrades, weaker exports and further austerity and deleveraging, not to mention growing public dissent and inflation. |
| Ireland | 1.4 | ▼ | 8.6 | ▼ | 0.8 | -0.1 | 2.6 | 1.4 | While domestic demand will remain constrained by austerity, deleveraging and banking risks, competitiveness has improved and will help exports. |
| Israel | 2.6 | ▼ | 4.2 | ▬ | 4.6 | 2.7 | 3.5 | 2.3 | While robust, growth has slowed as export demand has dropped, but falling inflation will allow further rate cuts to support domestic demand. |
| Italy | 1.3 | ▼ | 7.1 | ▼ | 0.4 | -1.4 | 2.8 | 2.6 | The new government with EU/IMF monitoring offers hope for reform, but risks are high with a debt mountain to refinance and recession developing. |
| Luxembourg | 1.4 | ▼ | 2.3 | ▬ | 1.1 | 0.8 | 3.6 | 2.2 | Business services drove strong 2010/11 GDP growth but weaker Eurozone demand and problems for the region's banking sector have slowed the economy substantially. |
| Netherlands | 1.3 | ▼ | 2.2 | ▲ | 1.5 | -0.3 | 2.3 | 1.8 | With a loss of export momentum and negative wage growth and rising unemployment weighing on consumers, recession may already have returned. |

## EMEA COUNTRY ECONOMIC FORECASTS (FEBRUARY 2012)

| | 3-MO. INTEREST RATE | | 10-YEAR BOND RATE | | GDP % PA | | INFLATION % PA | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| | DEC 2011 | TREND | DEC 2011 | TREND | 2011 | 2012 | 2011 | 2012 | |
| Norway | 2.9 | ▼ | 2.4 | – | 2.5 | 2.3 | 1.3 | 1.6 | Modest growth in consumer spending and fixed investment will balance a weaker export sector hit by slower global outlook and a stronger krone. |
| Poland | 5 | – | 5.9 | ▼ | 4.3 | 2.4 | 4.3 | 3.5 | Growth has held up well, but leading indicators point to a modest slowdown as weaker exports, higher inflation and fiscal tightening enter the picture. |
| Portugal | 1.3 | ▼ | 13.5 | – | -1.5 | -3.8 | 3.7 | 2.6 | Contagion risks have prompted further austerity measures, resulting in predictions for a longer recession, but a return to growth in 2013. |
| Romania | 5.6 | ▼ | 7.5 | – | 2.5 | 1.1 | 5.8 | 3.2 | Domestic demand has improved, underpinned by IMF reforms, lower inflation and a rise in government spending, but weaker exports and public sector cuts will hit growth this year. |
| Russia | 7.2 | ▼ | 8.5 | ▼ | 4.3 | 3.5 | 6.1 | 6.6 | Uncertainty and capital outflows sparked by public unrest will hit growth despite robust consumer demand, pre-election spending and the weaker rouble. |
| Slovakia | 1.4 | ▼ | 5.2 | – | 3.3 | 1.0 | 3.9 | 2.6 | Recent out-performance has cooled quickly due to a dependence on exports to the EU, but consumers may get a modest boost from falling inflation. |
| South Africa | 5.6 | – | 7.9 | – | 3.2 | 2.9 | 5.0 | 5.8 | Domestic consumption and investment are proving robust, but exports have been hit by a weaker Eurozone and the Rand's falls are boosting inflation. |
| Spain | 1.3 | ▼ | 5.1 | – | 0.7 | -1.3 | 3.2 | 1.7 | The new government plans reforms but also more austerity and with consumers and the banking sector facing further pain, the recession will be deeper than feared |
| Sweden | 2.7 | ▼ | 1.6 | – | 4.3 | 0.8 | 2.6 | 1.4 | While still out-performing, strong growth has cooled as confidence falls and consumers react to a weaker housing and labour market. |
| Switzerland | 0.1 | – | 0.7 | – | 1.7 | 0.2 | 0.2 | -0.3 | Weaker exports and a strong Franc will hit growth, but domestic demand is more robust, helped by low inflation and a peaking of the currency. |
| Turkey | 11.6 | ▲ | 11 | ▲ | 8.3 | 1.9 | 6.5 | 9.1 | Strong growth has dissipated quickly as the authorities have looked to cut the current account deficit and stabilize inflation with higher taxes and interest rates. |
| Ukraine | 21.5 | ▼ | Na | Na | 5.2 | 2.8 | 8.0 | 6.6 | With no agreement on IMF assistance or EU trade, credit constraints and weaker exports are hitting growth but at least agricultural production is up. |
| UAE | 1.5 | – | Na | Na | 4.1 | 3.1 | 0.9 | 2.2 | Recent growth underpinned by oil prices, tourism and business spending is likely to ease this year as oil prices drop and government spending falls. |
| UK | 1.1 | – | 2 | – | 0.9 | 0.5 | 4.5 | 2.6 | Recovery has been undermined by a combination of weaker trade, higher inflation and austerity but a resumption of QE and a fall in inflation will help in 2012. |
| Western Europe | | | | | 1.5 | -0.1 | 2.8 | 1.9 | Weaker global trade and the inability of Eurozone politicians to deal with the debt crisis have undermined growth prospects and increased the risk of recession. |
| Eastern Europe | | | | | 4.7 | 2.5 | 6.3 | 6.4 | Export markets remain highly exposed to the Eurozone, while fiscal austerity and sliding consumer confidence will constrain domestic demand. |

A Cushman & Wakefield Research Publication

# ASIA PACIFIC PULSE
# SLOW GROWTH AHEAD BUT NO RECESSION

SIGRID ZIALCITA
Managing Director
Research
Asia Pacific

**LISTEN TO PODCAST**

## FORECAST 2012 SUMMARY: STILL GOOD BUT NOT GREAT

The Asia Pacific economy's dynamism remains one of the bright spots in this challenging global environment. Steady GDP growth, which continued through 2011 on the back of healthy domestic consumption and investments, is expected to reach 5.3% in 2012.

*Continued on Page 19*

*Continued from Page 18*

Even so, the region is not impervious to shocks. Export growth has been moderating from ongoing global economic strains and will further retrench if weakness in the developed world morphs into a more serious downturn.

Barring any major economic disruption, however, we believe the current backdrop should support sustained strength in occupier demand, though fundamentals will vary by geography and supply. The combination of healthy demand and limited new development will allow for greater rental gains in the gateway markets of China, including Beijing and Shanghai. Similarly, Grade A rents in Jakarta, Sydney, Melbourne, Taipei and Bangalore are set to post new highs in 2012.

Attractively priced options, however, will continue to abound in supply-heavy markets such as Ho Chi Minh City, Seoul, Mumbai, New Delhi and Kuala Lumpur. Meanwhile, the region's top financial centers will remain among the most susceptible to global volatility, which could put pressure on Grade A rents and occupancies in Hong Kong and Singapore. Nonetheless, the guarded optimism for solid economic and real estate fundamentals should pave the way for relatively favorable prospects for the investment market in 2012.

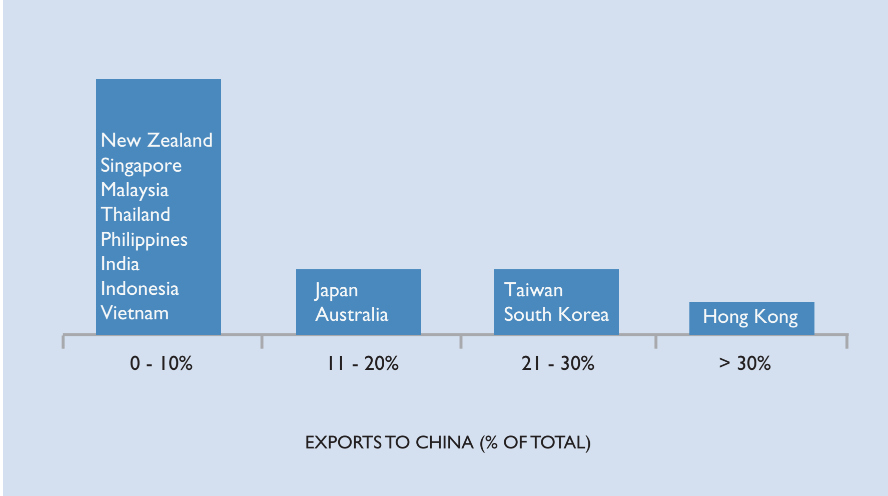
## FORECASTS AND TRENDS

Given expectations of flat to modest growth in Europe, combined with the continuing moderate recovery in the US, it is reasonable to expect economic growth in Asia to remain intact in 2012. However, a slowdown will be inevitable in all countries especially as the downside risks still loom.

Asia-Pacific's GDP growth is forecast to average 5.3% in 2012 from 6.0% in 2011, but higher than the 4.0% that prevailed in 2009. The lower growth forecast for Asia mainly reflects the deteriorating outlook for exports to advanced economies, as well as weaker economic prospects in China. Nonetheless, the expansion should remain healthy enough to support employment and income gains and thus fuel efforts to rebalance sources of growth from external demand to more domestic and regional demand.

In most economies, inflation is not likely to be as much of a concern. As such, inflation in the region is projected to recede to 3.7% in 2012 after peaking 5% in 2011. Risks around inflation will remain highest for India and Vietnam, so it will be critical for policy

CHART 1: REGIONAL EXPORTS TO CHINA

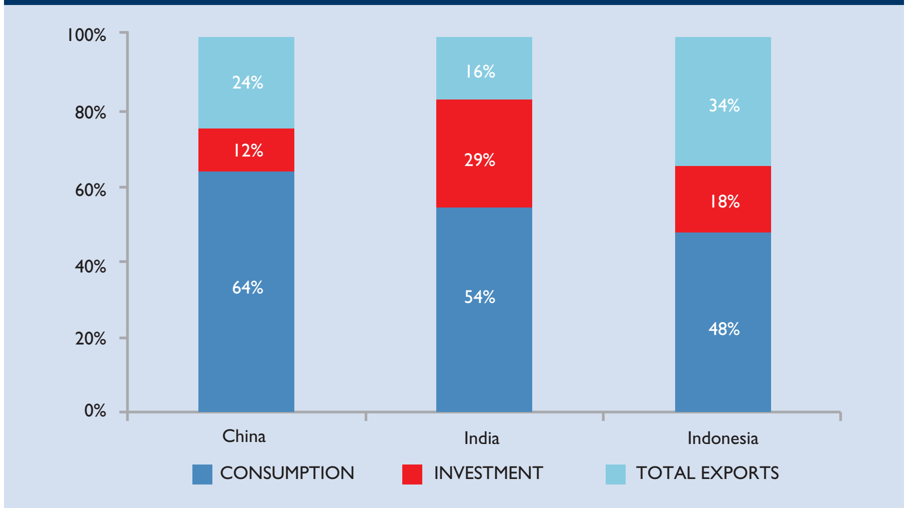



makers to strike that careful balance between keeping inflation under control while responding to a slowing economy. In Japan, prices are expected to remain broadly flat, with little or no inflation.

Emerging Asia led by China, India and Indonesia will remain the region's nexus of growth in the next two years, with domestic demand the key driver of economic activity. Despite signs of cooling, China is expected to manage a soft landing this year. Government spending as well as relatively strong private consumption should help temper risks from a moderating property market and contraction in exports (Chart 1). Such healthy domestic demand bodes well for regional exporters; China has evolved into an important trading partner through its imports of manufactured goods as well as commodities.


**Global weakness continues** to threaten exports and could have severe ramifications if the European crisis deepens or another major shock arises.

CHART 2: DOMESTIC DEMAND IS MAJOR GROWTH DRIVER




Meanwhile, robust investment and private consumption will be the linchpin of Indonesia's economic strength (Chart 2). Both Fitch Ratings and Moody's Investor Service raised Indonesia's sovereign rating to investment grade, the country's first such rating since the Asian financial crisis. This development should help accelerate investment and assist the government to raise funds at lower interest rates.

In India, GDP growth is likely to stabilize, as current fiscal constraints and slowing exports lead to a modest pullback in economic activity, and then potentially pick up, as inflation eases and a pause in the rate-hike cycle is manifested in lower interest rates that buoy investment. The country's business process outsourcing (BPO) industry will remain a bright spot in an increasingly competitive global marketplace.

Growth should rebound in Japan, Thailand and New Zealand, as reconstruction investment primes the near-term economic pump. Japan has enacted a series of massive reconstruction budgets that should boost output in 2012. In Thailand, the government has approved the budget for water-management infrastructure that should help spur economic activity. At the same time, government policies to boost wages are expected to strengthen consumption. Meanwhile, New Zealand's vulnerability to earthquakes continues to slow down the pace of rebuilding. Nonetheless, reconstruction efforts will help stimulate the economy in the second half of 2012.

KEY EXPECTATION

## Increasing intra-regional trade,

plus continued economic strength among the region's powerhouses, China, Indonesia and India, should support relatively good growth in the region.

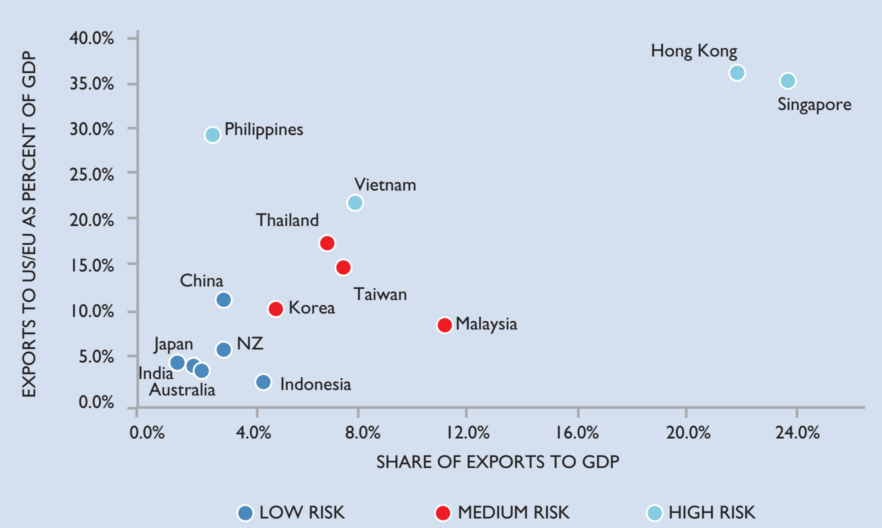
The expansion of trade initiatives stands to boost regional trade performance in the long term. After signing free-trade agreements with the US and Europe, South Korea held discussions with China and Japan in December to lay the ground work for a three-nation free-trade agreement. Another tangible sign of progress was the agreed framework for the Trans-Pacific Partnership (TPP) free-trade agreement launched in 2006 by Singapore, New Zealand, Chile and Brunei. Notably, discussions have been under way since March 2010 to include five other countries – Australia, Malaysia, Peru, the US and Vietnam. Japan announced in November that it will formally join the TPP negotiations. All of these talks are significant, as they could potentially develop a backbone for further regional integration and links with other economies, and thus, improve the region's economic resilience.

## WEATHERING ANOTHER DOWNTURN

To be sure, Asia Pacific will not be immune from any global downdraft, but several factors should allow the region to keep the impact manageable. First, its relatively healthy macroeconomic fundamentals should allow it to ride out the crisis. Regional governments have the ability to judiciously deploy the policy tools needed to boost investor and consumer confidence, and ensure sustainable growth and financial stability. However, the scope of fiscal or monetary stimulus is likely to be smaller relative to 2009. Nonetheless, it allows the region to undertake structural reforms and make the necessary public investments in infrastructure and education that could enhance domestic sources of growth in the long term. Thus far, most Central Banks have continued with the gradual easing of their monetary stance, but with continued vigilance to risks from inflationary pressures.

Secondly, while the deepening European crisis and sluggish US recovery pose a threat to trade, exports to the US and Europe currently make up only about 10% of the US$20 trillion Asia-Pacific economy. In addition, their share of the regional export total has shrunk from more than one third in 2000 to 28% today as intra-regional trade increased.

CHART 3: REGIONAL EXPORT ACTIVITY




KEY ANALYSIS

• Smaller economies more exposed to a global slowdown

CLICK TO LISTEN

Notably, the share of trade within the region now accounts for close to 60% compared to over 40% in 2000. Of course, vulnerabilities will differ across countries (Chart 3). The impact would be smaller for domestic-demand based economies, such as China, India, and Indonesia, and larger for highly open economies such as Hong Kong, Singapore, Malaysia, Philippines, Thailand and Taiwan. Even in the event of a downturn in Europe, a 1% contraction of European GDP could slash regional exports to Europe by just 14.4%.

Thirdly, the region's exposure to European sovereign debt is also low, at 0.03% of GDP, so the impact of the crisis may be minimal. We believe that current challenges are related to slowing global growth for Asian banks, rather than direct balance-sheet threats. Asia-Pacific banks have better liquidity profiles, with loan-to-deposit ratios generally low by global comparison. However, a tightening of credit market conditions might prove to be more consequential. If European banks start deleveraging by scaling back their cross-border loans and building their capital in a period of financial turmoil, it would be detrimental for the entire region, as they are an important source of funding for many Asian banking systems.

Lastly, even as the current economic landscape has become more challenging than ever, the long-term trends remain in favor of the region, particularly as growing emerging market economies move hundreds of millions of consumers into the middle class and urbanization continues to gather steam. In addition, globalization will continue to make the region integrated into the world economy and still thrive so long as arbitrage opportunities exist.

## OCCUPIER DEMAND TO MODERATE WITHOUT STRONG CATALYST

Real estate market conditions in 2012 will remain highly segmented across the region. Generally, we still expect healthy occupier demand to support positive office absorption, but at a lower rate compared to 2011. We expect the abundance of risks to foster caution among occupiers and sustain their focus on the rationalization of space requirements and minimization of costs.

However, rent premiums will prevail in ultra-tight locations such as Beijing and Shanghai, where the combination of healthy leasing activity and limited new supply will keep office availabilities low and their rents on an upward trajectory. Similarly, strong economic conditions will continue to fuel the real estate sector in Jakarta, Melbourne, Sydney and Taipei, with Grade A office rents expected to reach new highs in 2012.

Information technology hubs in India will remain in high demand, particularly in Bangalore, where Grade A office rents are expected to shoot up and post another high watermark. A rising BPO sector will underpin Manila's real estate market and

KEY EXPECTATION

**A sound economic outlook** will continue to feed into a growing middle class, as well as urbanization over the long term.

KEY EXPECTATION

## Confidence is everything,

so investors will show continued interest in core assets to lower risk amid an uncertain macro-environment.

result in rent gains in 2012; even so, Grade A office rents are still significantly below their peak levels in 2008. Rents in Bangkok are expected to remain stable in 2012, as the reconstruction gets under way, but this is likely to be temporary, as the lack of new office supply will tighten this market upon the resumption of strong demand.

Meanwhile, tenants will have ample attractive opportunities in supply-heavy markets. This is especially true for markets such as Ho Chi Minh City, Seoul, Mumbai, New Delhi and Kuala Lumpur where a multitude of options will translate into relatively cheap office rents versus their previous peaks in 2008, and induce landlords to continue offering incentives to attract or retain tenants. In Tokyo, we expect a continuation of tenants' increasing preference for newer and superior quality office buildings that boast earthquake-resistant features. Hence, we expect buildings that come online in 2012 to be taken up, causing Grade A office rents to stabilize and even creep up in some cases.

The office sector in Hong Kong and Singapore will remain among the most vulnerable to global shocks especially given the large presence of multinational companies in both markets. After hitting a new record in the third quarter of 2011, Grade A office rents in Hong Kong began their descent as macroeconomic trends weakened. Without meaningful GDP growth in 2012, a sustained improvement in rents and occupancy will be challenging for Hong Kong even if new supply remains in check. However, occupiers renewing their lease in 2012 are not likely to benefit from such trends, as rents will remain significantly above those in 2009 when they signed their original lease.

In Singapore, the slowing global economic momentum also cut into office rent gains in the final quarter of 2011, and this trend is likely to persist in the event of a prolonged slowdown. Still, rent spikes are a thing of the past, with the government's commitment to support affordable office space through land availability for office development, reclamation, or redevelopment. Consequently, we expect office vacancies in Singapore to trend higher than the equilibrium vacancy of 7%, and support gradual rent movements over the near term; and, in turn, Grade A rents are still likely to remain below their peak levels in 2008.

## AN OASIS OF INVESTMENT OPPORTUNITIES

The generally positive regional economic outlook in 2012, combined with acceptable risk-adjusted returns, will continue to set the stage for sustained investment opportunities within the region. Any substantial change in economic outlook for the Eurozone and the US will likely weigh on sentiment and hence affect momentum early in 2012. We expect investors to continue treading cautiously and prefer well-located, stabilized core opportunities that offer stable income profile in key gateway cities as a total return play.

Generally, we expect yields to remain relatively stable for office properties across the region except for those markets that potentially could see a quick uptick in vacancy due to supply pressures. Peaking interest rates and inflationary pressures in some emerging economies such as China and India will also encourage foreign capital to seek opportunistic investments especially in mixed-use projects. These markets alongside Indonesia and Malaysia should attract incremental risk capital.

The recent Fed announcement to consider keeping benchmark interest rates low until end of 2014 is likely to put a lid on any near-term spikes in interest rates in Asia, thus remaining supportive of current underwriting parameters. However, a few markets are expected to contend with a challenging funding environment. A case in point is Hong Kong, where liquidity conditions are expected to remain tight in 2012.

Of course, we expect investment activity to gain more traction especially if the sense of crisis fades and wholesale funding markets remain liquid. The continuing strength in the regional economy over the long term relative to growth challenges in the US and difficulties in Europe creates a more stable backdrop for real estate investments.

## TABLE 1: COUNTRY ECONOMIC FORECASTS (FEBRUARY 2012)

| | 3-MO. INTEREST RATE | | 10-YEAR BOND RATE | | GDP % PA | | INFLATION % PA | | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|
| | DEC 2011 | TREND | DEC 2011 | TREND | 2011 | 2012 | 2011 | 2012 | |
| Australia | 4.25 | ▼ | 3.79 | ▼ | 1.90 | 2.50 | 3.4 | 2.20 | Mining exports and investment will dominate Australia's economic growth, estimated at 2%-3% through next year. Its fortunes remain tied to China, while a shaky housing market would weigh on consumption considerably in 2012. |
| China | 6.56 | ▲ | 3.49 | ▲ | 9.10 | 7.40 | 5.4 | 3.20 | The economy is set for a soft landing in 2012. GDP growth is expected to converge to the government's 7%-8% target rate between 2011 and 2015. The impact from any decline in demand from the US and Europe is expected to be modest. |
| Hong Kong | 0.50 | ▬ | 1.39 | ▲ | 4.90 | 1.20 | 5.3 | 3.50 | Hong Kong remains highly susceptible to a downturn in overseas demand given its export-oriented economy. Private consumption will hold up better on the strength of labor market and earnings and drive GDP growth of 3.3% in 2012 from 4.7% in 2011. |
| India | 8.50 | ▲ | 8.79 | ▲ | 7.00 | 7.00 | 8.5 | 5.10 | Economic expansion is expected to stabilize around 7% against a backdrop of weaker global growth. The central bank remains inhibited by inflation concerns as well as a widening trade deficit that could climb higher in 2012. |
| Indonesia | 6.00 | ▼ | 6.03 | ▼ | 6.30 | 5.80 | 5.3 | 5.00 | Indonesia should cope with the expected slowdown in global growth, as exports account for a relatively small portion of GDP. Recent interest rate cuts should support private consumption and investments, and, in turn, GDP, which is expected to stabilize around 6.0% through 2012. |
| Japan | 0.05 | ▬ | 1.02 | ▬ | 0.50 | 1.50 | -0.3 | -0.25 | Ongoing reconstruction in Tohoku Region will be will be felt most in 2012, pushing Japan's GDP growth to over 1% in 2012. However, the country remains in a deflationary state, which would mire investment decisions. An appreciating yen could derail a nascent recovery. |
| Malaysia | 3.00 | ▬ | 3.70 | ▼ | 4.90 | 3.10 | 3.2 | 2.20 | The government's massive investment program will offer significant traction to the economy in 2012, even as exports remain dragged down by the sluggish developed economies. However, projected economic growth is likely to fall short of the government's target of 6%, which has been set in order to propel its leap to become a high-income economy. |
| Philippines | 4.50 | ▲ | 5.75 | ▼ | 3.50 | 3.00 | 4.8 | 3.40 | Waning demand for electronics will drag down export growth but remittance inflows and income from business process outsourcing services is expected to shore up domestic demand. The central bank will hold policy rates and more targeted policy tools will take center stage to manage inflation and currency appreciation without discouraging long-term and FDI inflows. |
| Singapore | 0.38 | ▬ | 1.63 | ▼ | 4.90 | 1.40 | 5.1 | 3.20 | Singapore is among the most vulnerable to shrinking Western demand; economic growth in 2012 has been sharply lowered to between 1%-3%. With moves recently made to curtail foreign capital in the housing market, the central bank is able to proceed with more accommodative monetary policies should the need arises. |
| South Korea | 3.55 | ▬ | 3.82 | ▬ | 3.60 | 2.80 | 4.0 | 3.10 | South Korean economic growth, estimated at 3.6% in 2011, is expected to slow to below 3% in 2012. Although its external financial vulnerability has improved since 2008, it remains quite susceptible to volatility in global financial markets. |
| Taiwan | 1.88 | ▲ | 1.28 | ▼ | 4.10 | 1.70 | 1.4 | 1.40 | Taiwan's economy remains hinged on external demand, and weak exports in 2012 would further curtail consumption, and heighten the risk of a protracted downturn. The KMT's hold on political power imparts a measure of visibility in terms of its economic policies with China. |
| Thailand | 3.25 | ▲ | 3.20 | ▲ | 0.70 | 3.90 | 3.5 | 3.59 | The recovery from the flood-induced pullback in production is expected to be strong and sharp. Domestic demand is likely to remain resilient as such and offer some respite should the global economic environment deteriorates. |
| Vietnam | 14.00 | ▼ | 12.50 | ▲ | 5.70 | 5.10 | 18.2 | 9.20 | Economic malaise in the developed world, combined with high domestic inflation cutting into consumption and investments will inhibit GDP growth in 2012. Its dwindling foreign reserves, a chronic current account deficit, high external debt and a weak currency leaves it vulnerable to a full-blown credit crisis should one erupt in Europe. |

A Cushman & Wakefield Research Publication

# CUSHMAN & WAKEFIELD'S KNOWLEDGE CENTER

Our Knowledge Center offers focused thought-leadership reports to support your real estate and business decisions. With over 80,000 registrants, Cushman & Wakefield's Knowledge Center is one of the industry's most respected information resources on all aspects of commercial real estate.

Our menu includes Global Research Reports, Local Market Reports, Business Briefings, Economic Reports and much more. Go to Cushman & Wakefield's Knowledge Center at: www.cushmanwakefield.com/knowledge

Marketbeat


Business Briefing


Economic Pulse


Global Office Forecast


Scan code to sign up for C&W Knowledge Center

# CONTRIBUTORS


## MARIA T. SICOLA

Executive Managing Director
Americas Research
San Francisco, CA

+1-415-773-3542
maria.sicola@cushwake.com



## KEN MCCARTHY

Senior Economist
Senior Managing Director
Research
New York, NY

+1-212-698-2502
ken.mccarthy@cushwake.com



## DAVID HUTCHINGS

Partner
Head of the European Research Group
London, UK

+44-20-7152-5029
david.hutchings@eur.cushwake.com



## SIGRID ZIALCITA

Managing Director
Research
Singapore

+65-6232-0875
sigrid.zialcita@ap.cushwake.com


# CHART AND TABLE SOURCES

PAGE 3 – GLOBAL ECONOMY: EXPORTS AND GDP
*Source: IMF, WTO, Cushman & Wakefield*

PAGE 3 – WAKE-UP CALL: EXPOSURE TO EUROPEAN SOVEREIGN DEBT
*Source: Bank of International Settlements, Cushman & Wakefield*

PAGE 4 – GROWING PROBLEM: GROSS DEBT AS % GDP (2011)
*Source: IMF, Cushman & Wakefield*

PAGE 4 – DRIVERS OF GROWTH: PRIVATE CONSUMPTION & FIXED INVESTMENT (PERCENT CHANGE, 2012)
*Source: Moody's Analytics, Cushman & Wakefield*

PAGE 4 – DRIVERS OF GROWTH: EMPLOYMENT & MANUFACTURING OUTPUT (PERCENT CHANGE, 2012)
*Source: Moody's Analytics, Cushman & Wakefield*

PAGE 6 – CONSUMER SPENDING IN RECOVERIES
*Source: US Bureau of Economic Analysis*

PAGE 7 – AMERICAS SOURCES OF GROWTH 2012
*Source: Moody's Analytics*

PAGE 8 – CONSTRUCTION COMPLETIONS VS. OVERALL VACANCY RATES
*Source: Cushman & Wakefield Research*

PAGE 12 – EXPOSURE TO EXPORTS AND EUROPEAN DEMAND
*Source: Cushman & Wakefield, National Statistics Offices*

PAGE 13 – DRIVERS FOR GROWTH IN EUROPE
*Source: Oxford Economics, Cushman & Wakefield*

PAGE 15 – GROWTH BY REGION
*Source; Consensus Economics, Oxford Economics, Cushman & Wakefield*

PAGE 17 – EMEA COUNTRY ECONOMIC FORECASTS
*Source: Consensus Economics Inc, Oxford Economics and Cushman & Wakefield*

PAGE 19 – REGIONAL EXPORTS TO CHINA
*Source: Multiple Sources*

PAGE 20 – DOMESTIC DEMAND IS MAJOR GROWTH DRIVER
*Source: Roubini Global Economics*

PAGE 21 – RISKS TO US AND EUROPEAN DOWNTURN
*Source: Cushman & Wakefield*

PAGE 23 – COUNTRY ECONOMIC FORECASTS
*Source: Roubini Global Economics, UOB, Asia Bonds Online, Cushman & Wakefield*

Cushman & Wakefield is the world's largest privately-held commercial real estate services firm. The company advises and represents clients on all aspects of property occupancy and investment, and has established a preeminent position in the world's major markets, as evidenced by its frequent involvement in many of the most significant property leases, sales and assignments. Founded in 1917 it has 235 offices in 60 countries and more than 14,000 employees. It offers a complete range of services for all property types, fully-integrated on a global basis, including leasing, sales and acquisitions, debt and equity financing, investment banking, corporate services, property management, facilities management, project management, consulting and appraisal. The firm has more than $5.5 billion in assets under management through its wholly-owned subsidiary Cushman & Wakefield Investors. A recognized leader in local and global real estate research, the firm publishes its market information and studies online at **www.cushmanwakefield.com/knowledge.**




**WORLD HEADQUARTERS**

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10104
+1-212-841-7500 Tel

**EMEA HEADQUARTERS**

Cushman & Wakefield
43/45 Portman Square
London W1A 3BG
England
+44-20-7935-5000 Tel
+44-20-7152-5360 Fax

**ASIA-PACIFIC HEADQUARTERS**

Cushman & Wakefield
26/F The Headquarters Building
168 Xizang Zhong Lu
Shanghai 200001, China
+8621-2320-0808 Tel
+8621-2320-0909 Fax

www.cushmanwakefield.com