Global Real Estate Universe (2008)

Listed Real Estate
US $ 1.8 trillion

Institutional investments
US $ 9 trillion

All Commercial Real Estate
US $ 24 trillion

Sources: EPRA/NAREIT, LaSalle Investment Management
Global Real Estate Universes (April 2008)

Market Cap US $ 1.8 Trillion

Americas 40%

Asia-Pacific 40%

Europe 19%

US 37%

Japan 13%

Australia 11%

Hong Kong 14%

Euro zone 10%

UK 7%

Europe 26%

Americas 49%

Asia-Pacific 25%

US 45%

Japan 18%

UK 9%

Euro zone 13%

Sources: EPRA/NAREIT, LaSalle Investment Management
Mega-Trends for Commercial Real Estate Investing

- Expansion of the Invest-able Universe (40-year trend)
- Shift from owner-occupied to investor-owned (30-year trend)
- Securitization - debt and equity (20-year trend)
- Rise of the “Private Equity” Model (15-year trend)
- Diversification by Risk-Return Style (10-year trend)
- Anglo-American Pension Funds add International (7-year trend)
- Asset allocation to four types of “Real Assets” (5-year trend)
  1. Commodities
  2. Index-linked Bonds (TIPs, IL-Gilts)
  3. Real Estate
  4. Infrastructure
- Derivatives Taken Seriously by real estate investors (2-year trend)
- Sustainability Gains Traction as an Investment Theme (1-year trend)
## A Strategic Framework

<table>
<thead>
<tr>
<th>Portfolio Balance</th>
<th>Domestic</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income-Focused Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core</td>
<td>20%</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Core-Plus</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Blend Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value-Add or Develop-Hold</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total Return Strategies</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Opportunistic-Development</td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
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<tr>
<td><strong>Portfolio Balance</strong></td>
<td>60%</td>
<td>40%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Harnessing the Power of Yield Compression: An investment strategy for semi-transparent markets

- Higher Cost of Capital
  - Opportunistic
  - Information scarce
  - Inefficient capital markets
  - Under-performing assets

- Lower Cost of Capital
  - Balanced/Core
    - Income
      - Plentiful information
      - Full financials
      - Efficient capital markets

- SELL/HOLD

Risk

Return

Riskless Rate

Lower Cost of Capital

BUY

LaSalle Investment Management.
### Investable Markets: Global Real Estate Transparency 2006

#### High

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Change (04-06)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Australia</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>United States</td>
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<tr>
<td>3</td>
<td>New Zealand</td>
<td></td>
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<td>4</td>
<td>Canada</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>United Kingdom</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>*Hong Kong</td>
<td>★</td>
</tr>
<tr>
<td>7</td>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>*Sweden</td>
<td>★</td>
</tr>
<tr>
<td>9</td>
<td>*France</td>
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<tr>
<td>10</td>
<td>*Singapore</td>
<td>★</td>
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#### Medium

<table>
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<tbody>
<tr>
<td>11</td>
<td>Finland</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>South Africa</td>
<td>★★☆</td>
</tr>
<tr>
<td>14</td>
<td>Denmark</td>
<td>★</td>
</tr>
<tr>
<td>15</td>
<td>Austria</td>
<td>★★</td>
</tr>
<tr>
<td>15</td>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Belgium</td>
<td>★</td>
</tr>
<tr>
<td>18</td>
<td>Spain</td>
<td>★★</td>
</tr>
<tr>
<td>19</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Norway</td>
<td>★</td>
</tr>
<tr>
<td>21</td>
<td>*Italy</td>
<td>★★☆</td>
</tr>
<tr>
<td>22</td>
<td>Malaysia</td>
<td>★★</td>
</tr>
<tr>
<td>23</td>
<td>*Japan</td>
<td>★★☆</td>
</tr>
<tr>
<td>24</td>
<td>*Portugal</td>
<td>★</td>
</tr>
<tr>
<td>25</td>
<td>Mexico</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>26</td>
<td>Czech Republic</td>
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<tr>
<td>27</td>
<td>Hungary</td>
<td>★</td>
</tr>
<tr>
<td>27</td>
<td>Poland</td>
<td>★★☆☆</td>
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<tr>
<td>29</td>
<td>Israel</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>29</td>
<td>Taiwan</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>31</td>
<td>South Korea</td>
<td>★★☆☆</td>
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<tr>
<td>32</td>
<td>Slovakia</td>
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<td>33</td>
<td>Chile</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Greece</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>35</td>
<td>*Russia</td>
<td>★</td>
</tr>
<tr>
<td>36</td>
<td>Philippines</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>*Brazil</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>38</td>
<td>Slovenia</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>*Argentina</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>41</td>
<td>*India</td>
<td>★★☆☆☆</td>
</tr>
</tbody>
</table>

#### Low

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Change (04-06)</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>P.R. China</td>
<td>★</td>
</tr>
<tr>
<td>43</td>
<td>Macau</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>United Arab Emirates</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>45</td>
<td>Costa Rica</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Indonesia</td>
<td>★</td>
</tr>
<tr>
<td>47</td>
<td>*Turkey</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>48</td>
<td>Peru</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>*Romania</td>
<td>★★☆☆</td>
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<tr>
<td>50</td>
<td>Colombia</td>
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<tr>
<td>51</td>
<td>Uruguay</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>*Saudi Arabia</td>
<td>★★☆☆</td>
</tr>
<tr>
<td>53</td>
<td>Panama</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Egypt</td>
<td>★★</td>
</tr>
<tr>
<td>55</td>
<td>Venezuela</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Vietnam</td>
<td></td>
</tr>
</tbody>
</table>

*Indicates country moved up one full tier
★ Indicates slight improvement in transparency
★★☆ Indicates moderate improvement in transparency
★★☆☆ Indicates significant improvement in transparency

**Key**
- 1 Highly Transparent
- 2 Transparent
- 3 Semi-Transparent
- 4 Low Transparent
- 5 Opaque

Source: Jones Lang LaSalle Global Real Estate Transparency Index
Return Expectations for New Investments 2008 – 2009

RETURN
(leveraged, post fee)

RISK

Leveraged core

Emerging Asia Pacific

Developed Asia Pacific

Value-add

Emerging Asia Pacific

Developed Asia Pacific

Opportunistic

Europe

US-Canada

Latin America

Developed Asia Pacific

Emerging Asia Pacific

LaSalle Investment Management.
Global Economic Outlook: Baseline Scenario

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>2007</th>
<th>2008 f</th>
<th>2009 f</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.2%</td>
<td>0.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Euro Zone</td>
<td>2.6%</td>
<td>2.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>UK</td>
<td>3.2%</td>
<td>1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.8%</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Asia-Pacific (ex-Japan)</td>
<td>7.9%</td>
<td>7.1%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

- The high likelihood of a U.S. economic recession and continued credit contraction will lower global GDP growth in 2008 to 2.8%.
- Continued momentum in commodity-driven economies and emerging market growth will help offset weakness in G-7 countries.
- US recovery begins in late 2008 and builds steadily, but below trend, in 2009.
- UK, Euro-zone, and Japan follow a similar path.
- China-India growth slows, but continues to out-pace the G-7.
- Hong Kong, Singapore, Australia and Russia also grow well above trend.

Source: EIU, March 2008
Evolution of 2008 Consensus Forecasts of GDP Growth

US dropped 170 bps...more than any other major country

Source: Consensus Forecasts
Asia has Become the Largest Contributor to World Growth

Asia’s Contribution to World Growth in 2008-2010 is projected to be larger than N. America and Europe Combined

Source: EIU, February 2008

LaSalle Investment Management
Major Economic and Financial Changes…in the last 100 days

- Global Growth for 2008 will be 80 bps lower than 2007 (2.8% vs 3.6%)
- Price of oil hovering in the range of US$125 barrel vs. $65 in May of 2007
- Inflation is ramping upward in many major economies (esp. China and Russia)
- “Western World” Credit crisis continues to expand:
  - Damaged balance sheets must be re-built before lending gets back to levels of 2003-2005.
  - Lending at levels of 2006-2007 (during the credit bubble) was not sustainable.
- Banking in a tailspin; Central banks responding, but NOT in a coordinated fashion.
- Rising inflation makes their task much more difficult.
- Structural problems in securitized debt markets are global. The “Originate to Distribute” model is highly flawed.
Global Investment Markets Outlook:
Debt Securities, Public Equity and Private Equity pricing are not aligned

- Massive contraction of credit is taking place, despite Central Bank efforts to inject liquidity.
- Asian and Latin America has been less affected, although credit is tightening somewhat.
- Re-pricing of risk underway, transaction volume very slow until credit markets stabilize.
- Credit spreads at an all-time high across a wide spectrum of asset-backed securities.
- Securitized equity markets have sold off, but not by as much as debt securities.
- Yield expansion (Private Equity) is underway in UK, US, Continental Europe and Australia.
- Yield contraction continues in Latin America and developing Asia, but has stopped in developed Asia. Early signs of yield expansion in Japan.
- Equity raised for real estate at an all-time high. No shortage of investors trying to get into real estate. Allocations to real estate continue to rise.

**Unresolved: How will debt, REITs and Private Equity pricing re-align?**
Shut-down of CMBS has Greatest Impact in UK, US and Europe

2007 CMBS Issuance

CMBS as a % of total Mortgage Debt Outstanding

Portfolio lenders (Banks and Insurance Cos.) will dominate the commercial mortgage market until the CMBS market re-opens

Source: CMA, SIFMA, European Securitisation
Reasons for Optimism

- Real Estate fundamentals going into the global slowdown are strong.
- Owners still get healthy increases in NOI when leases roll…even if rent growth is flat.
- Some industries are expanding (tech, life sciences) though financial services are shrinking.
- No signs yet of massive sublet space give-backs (as happened in 2002).
- Corporations and Investors are still in the process of “going global”.
- Cross-border transactions are now 47% of all purchase/sale activity (up from 43% in 2006).
- Asia and Latin America momentum will offset slowdown in Anglo-American markets.
- Dividends of globalization and open markets come to tens of millions of people in Emerging Markets each year.
- Large reservoirs of liquidity are waiting to be tapped.
Global... or Local?

- Capital Markets
- Interest Rates
- Currency Markets
- Commodity Prices
- Investment Vehicles
- Tenants
- Owners and Operators

- Assets and Surroundings
- Land Use Regs
- Property Taxes
- Competing Supply
- Transportation Networks
- Local Demand
- On-Site Property Management
Why Cross Border?

- More places to look for higher risk-adjusted returns
- Real Estate Diversification
- Currency Diversification
- Lack of domestic opportunity (at times)
- Improved access to foreign markets
Secular Changes in Global Real Estate

- Rising transparency
- The demographics of the demand for income
- Real estate as a mainstream asset class
- Expansion of the definition of a “core holding”
- Diversification by risk-return style
- Global trade rising faster than Global GDP

All of these trends have an impact on international investing
Challenges

- Finding trustworthy local partners/operators
- Currency and political risk
- Tax drag (in some markets)
- Many countries have lower transparency
- Lack of global benchmarks (except securities)
- Communicating across time zones and cultures

*Cross-border real estate can compensate investors for these costs and risks*
Correlation of Global Asset Class Returns

Correlation of Total Returns (1988-2007), US Dollar

<table>
<thead>
<tr>
<th></th>
<th>Global Stocks</th>
<th>Global Bonds</th>
<th>Global Indirect Real Estate</th>
<th>Global Direct Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Stocks</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Bonds</td>
<td>-0.11</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Indirect Real Estate</td>
<td>0.41</td>
<td>0.07</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Global Direct Real Estate</td>
<td>0.09</td>
<td>0.08</td>
<td>0.22</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Sources: GPR Index, UBS Global Property Investors Index; MSCI Global Equity, CitiGroup, LaSalle Investment Management
Recommendations

- Take a step-by-step approach to “going global”
  1. International securities: good place to start and learn from
  2. Add private, indirect funds: 1) Global, 2) Regional and 3) Country-focused
  3. Add JVs and partnerships in transparent markets
  4. The ultimate goal is NOT to do direct cross-border deals

- Build from a strong core portfolio of domestic private and public
- Put real estate into a currency overlay program
# The Trillion Dollar Club: Where to Focus

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>2007 GDP Trillions USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>U.S.</td>
<td>$13.8</td>
</tr>
<tr>
<td>2.</td>
<td>Japan</td>
<td>4.4</td>
</tr>
<tr>
<td>3.</td>
<td>China</td>
<td>3.3</td>
</tr>
<tr>
<td>4.</td>
<td>Germany</td>
<td>3.3</td>
</tr>
<tr>
<td>5.</td>
<td>U.K.</td>
<td>2.7</td>
</tr>
<tr>
<td>6.</td>
<td>France</td>
<td>2.5</td>
</tr>
<tr>
<td>7.</td>
<td>Italy</td>
<td>2.1</td>
</tr>
<tr>
<td>8.</td>
<td>Spain</td>
<td>1.4</td>
</tr>
<tr>
<td>9.</td>
<td>Canada</td>
<td>1.4</td>
</tr>
<tr>
<td>10.</td>
<td>Brazil</td>
<td>1.3</td>
</tr>
<tr>
<td>11.</td>
<td>Russia</td>
<td>1.2</td>
</tr>
<tr>
<td>12.</td>
<td>India</td>
<td>1.1</td>
</tr>
<tr>
<td>13.</td>
<td>Korea</td>
<td>0.960</td>
</tr>
<tr>
<td>14.</td>
<td>Australia</td>
<td>0.895</td>
</tr>
<tr>
<td>15.</td>
<td>Mexico</td>
<td>0.891</td>
</tr>
</tbody>
</table>

Source: EIU, Q1 2008

### Real Annualized GDP Growth Rate 2008-2012

- **Japan**: 1.4%
- **Italy**: 1.6%
- **France**: 1.9%
- **United States**: 2.0%
- **Germany**: 2.1%
- **Spain**: 2.2%
- **Canada**: 2.2%
- **United Kingdom**: 2.3%
- **Australia**: 2.9%
- **Mexico**: 3.3%
- **Brazil**: 4.1%
- **Korea**: 4.7%
- **Russia**: 5.3%
- **India**: 7.5%
- **China**: 9.1%
Europe Key Themes for 2008-2010

- Defense: core retail properties
- Develop warehouses to capture impact of increasing trade flows
- Core real estate returns to be between those of stocks and bonds
- More rapid adoption of “green” features in buildings
Western Europe’s Growth Cities

Consistently Strong Cities
- Paris
- London
- Dublin
- Helsinki
- Madrid
- Munich
- Stockholm

Emerging Cities
- Barcelona
- Valencia
- Brussels
- Lyon
- Bilbao

Source: LaSalle Investment Management / Jones Lang LaSalle E-REGI 2006
# Expanding Universe

<table>
<thead>
<tr>
<th>Category</th>
<th>Subcategories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Trade</td>
<td>Air Cargo, Truck Terminals, Port Facilities</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Military Housing, Parking Facilities, Transport</td>
</tr>
<tr>
<td>Health Care</td>
<td>Medical Office, Senior Housing</td>
</tr>
<tr>
<td>Education</td>
<td>Student Housing, Lab/Research Buildings</td>
</tr>
<tr>
<td>Leisure</td>
<td>Theme Parks/Resorts, Gaming-Hotels</td>
</tr>
</tbody>
</table>
Asia Key Themes for 2008-2010

- Booming trade and a need for new warehouse formats and product
- Shift to a more consumer-driven economy
- Exposure to growing business and leisure travel throughout region
- Dearth of professionally managed office properties in Japan, Korea, and China.
Can Asia’s Growth be Maintained?

- Asia is now less dependent on the US
- But a “decoupling” is counter-intuitive with increased globalization
- The main risk is of a significant global slowdown, reducing demand for Asia’s exports
- Conclusion: Growth in Asia can be sustained, but will be slower than 2007

Exports to the US as % Total

Composition of Exports in 2007

Note: NE Asia includes Japan, South Korea and Taiwan. ASEAN 5 includes Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Source: Bloomberg; CEIC; EIU
Rapid Corporate Expansion in Office Markets has produced Low Vacancies, Sustained Demand, Limited Supply

- Vacancies in major financial centres have fallen
- The 3-year outlook remains positive

![Forecast Cumulative Office Rental Growth in Asia 2008-2010](image)

Source: Jones Lang LaSalle

---

**LaSalle Investment Management.**
Retail Rental Growth Forecasts are more Moderate, reflecting Sustainable Growth and Anticipated Lower Volatility

- Consumer sentiment is strong in the region, although weakness has emerged recently in Japan
- Tourism booming aided by growth from a new population of ‘emerging middle class’ travelers

### Forecast Average Annual Retail Rental Growth in Asia 2008-2010

- **Hong Kong**: 15%
- **Shanghai**: 12%
- **Perth**: 9%
- **Sydney**: 6%
- **Adelaide**: 3%
- **Melbourne**: 3%
- **Singapore**: 3%
- **Tokyo**: 2%
- **Beijing**: 0%

Source: Jones Lang LaSalle, Tokyo guestimate forecast by LIM

Aeon Hamamatsu, Japan
Asian Residential Demand Remains Strong

- Growing wealth effect is driving demand for better homes and higher living standards
- Strong consumer sentiment is producing strong demand from buyers
- Singapore and Hong Kong still rising, potentially volatile in the medium term
- Urbanization is adding to the demand, especially in the emerging markets
- Chinese developers’ need re-capitalization

Forecast Cumulative Residential Capital Value Growth in 2008-2010

<table>
<thead>
<tr>
<th>City</th>
<th>2008-2010 Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wuhan</td>
<td>40</td>
</tr>
<tr>
<td>Singapore</td>
<td>40</td>
</tr>
<tr>
<td>Macau*</td>
<td>35</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>30</td>
</tr>
<tr>
<td>Chongqing</td>
<td>30</td>
</tr>
<tr>
<td>Shanghai</td>
<td>25</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>25</td>
</tr>
<tr>
<td>Dalian*</td>
<td>15</td>
</tr>
<tr>
<td>Beijing</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle. *Dalian forecast is for luxury residential; the middle income segment in which we have exposure is expected to outperform off a lower base; there is no formal forecast for the middle income residential market. Macau is LIM guestimate.
Best Global Opportunities for 2008-2009

- Asia expansion driven by Twin Engines (China and India)
- Take advantage of debt scarcity in US and UK
- Leverage in markets with widest spread (Germany, Japan)
- Rising middle class in emerging markets (Brazil, Mexico, China, India)
International Real Estate: 
Academic and Practitioner Literature

- Prudential Real Estate Research, 1990-present
- LaSalle Investment Strategy Annual, 1995-present
- Canter-Gordon, International Real Estate Securities: Test of Capital Market Integration  JREPM 1999
- Jones Lang LaSalle, Global Transparency Index 1999-present
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