



LASALLE
INVESTMENT MANAGEMENT®

Real estate experience. Investment expertise.

Global Real Estate: Similarities & Differences

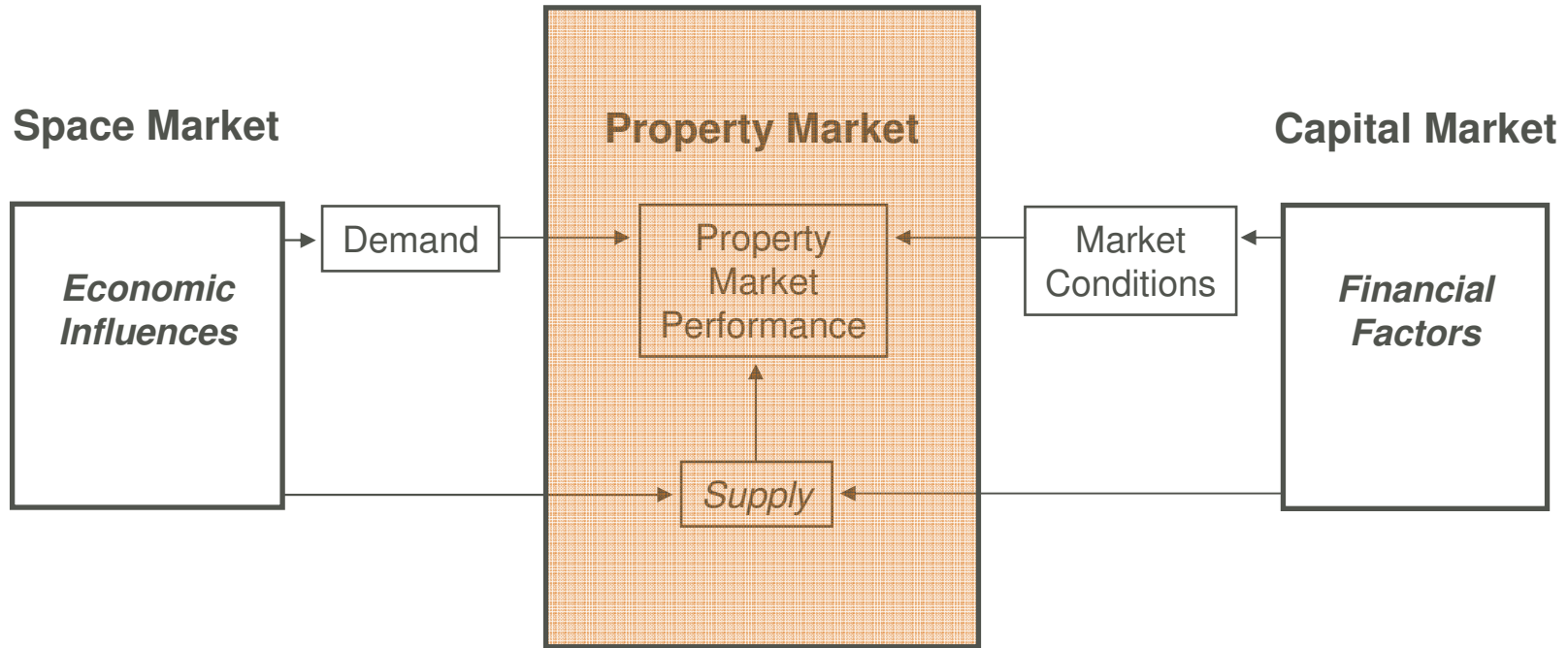
ERES 2010: Plenary Session

Robin Goodchild

International Director &
Head of European Strategy

24th June 2010

How do Real Estate Markets Work?



The most local

Source: Higgins adapting Archer & Ling 1997

Supply Side: what can be different?

- Market Transparency
- Liquidity
- Taxation



LASALLE
INVESTMENT MANAGEMENT®

Real estate experience. Investment expertise.

Transparency

REAL ESTATE TRANSPARENCY INDEX
Global Foresight Series 2010

JONES LANG
LASALLE
Real estate in a changing world

Mapping the world of transparency

Uncertainty and risk in real estate



Real Estate Transparency Index - Methodology

The survey includes 33 questions designed to measure real estate transparency as objectively as possible.

2010 Index covers 81 markets, which were rated against 5 transparency tiers.

The questions address five categories of transparency:

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

Source: Jones Lang LaSalle, LaSalle Investment Management 2010

Tier 1

High
Transparency

Tier 2

Transparent

Tier 3

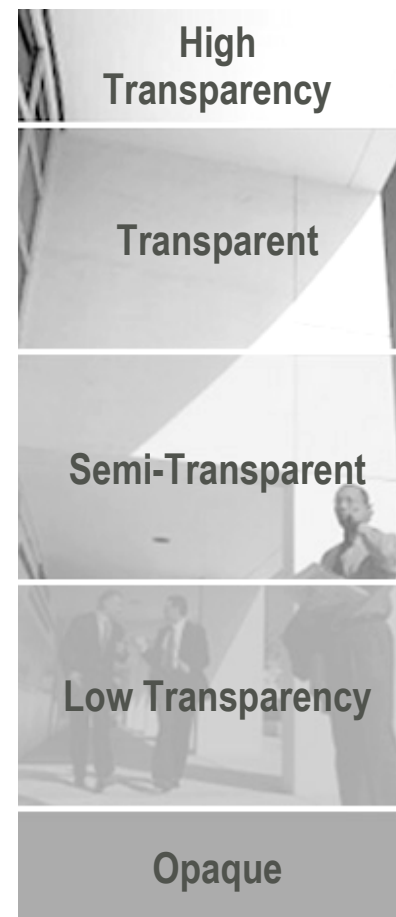
Semi-Transparent

Tier 4

Low Transparency

Tier 5

Opaque



The 5 Sub-Indices of Real Estate Transparency

Investment Performance Measurement

- Availability and time series of public and private investment indices
- Property valuation frequency and credibility

Market Fundamentals Information

- Accurate time series of supply, demand, rental rate and yield data on all property types in major markets

Standardized and Efficient Reporting of Listed Vehicles

- Financial disclosure meeting international standards
- Corporate governance meeting international standards

Fair and Efficient Legal Regulatory System

- Enforceable contracts
- Secure title
- Tradition of property rights
- Taxes and fees administered efficiently & fairly
- Zoning and building codes administered efficiently and fairly

Open and Fair Transaction Process

- Availability of pre-sale information, and fairness of bidding/negotiating processes
- Professional standards of service providers
- Transparency of service charges and management fees
- Availability of information on debt and role of regulators

Source: Jones Lang LaSalle, LaSalle Investment Management 2010

2010 Real Estate Transparency Index – Key Enhancements

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



Source: Jones Lang LaSalle, LaSalle Investment Management 2010

Real Estate Transparency Index 2010 – Key Findings

- Slowdown in progress in real estate transparency over past 2 years, bucking the long run trend
- Transparency of the transactions process has been most compromised by the real estate downturn
- Availability and quality of market fundamentals data continues to improve
- Transparency of real estate debt markets rising in significance
- One-third of markets register no change or deterioration
- Australia ranks as world's most transparent market
- Notable improvers – Turkey, China, India
- Deterioration in some MENA markets

Source: Jones Lang LaSalle, LaSalle Investment Management 2010

Supply Side: what (else) can be different?

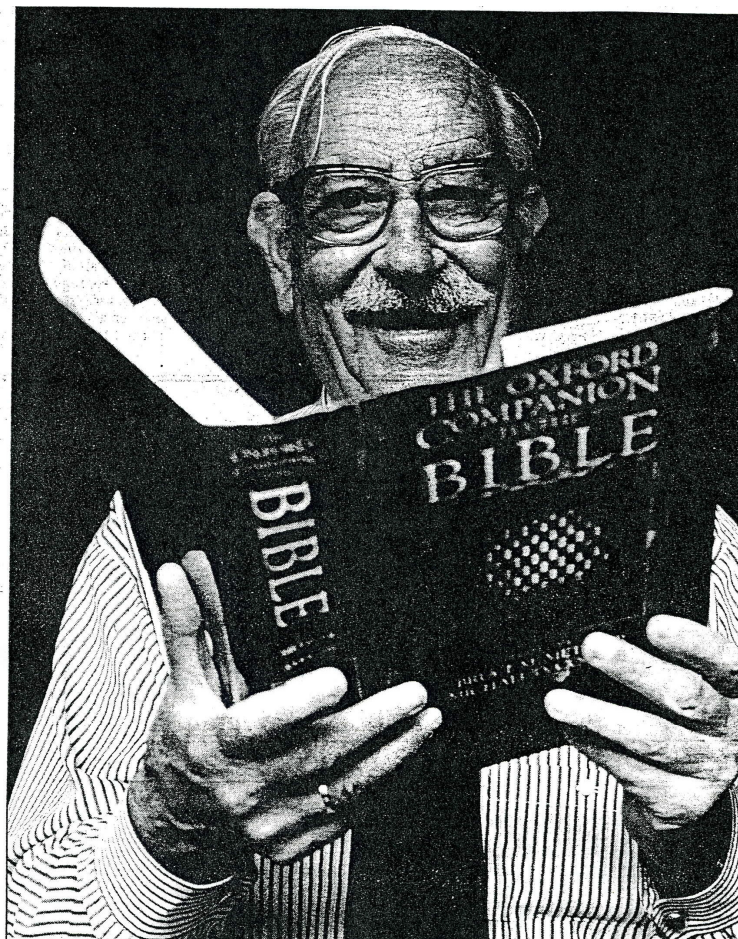
- *Market Transparency*
- *Liquidity*
- *Taxation*

- Lease terms
 - Impact on cash flows
- Attitudes to land / Operation of the land market
 - Public good or private property
 - Effect on supply elasticity, market volatility & land values
 - Required Returns
- Terms of trade between investors & developers
 - Risk sharing affects availability of development finance

Your ideas

The Importance of Institutional Frameworks

- John Kay 'The Truth about Markets'
- Similar institutional frameworks in US & UK
 - market economies with some government intervention
 - legal system based on 'common law' with emphasis on 'precedent'
 - Anglo-Saxon culture towards property rights
- Real Estate only recently taught as an international subject but is there recognition of the different Institutional Frameworks around the world?
- Recognised over 40 years ago by Donald Denman, first Professor of Land Economy



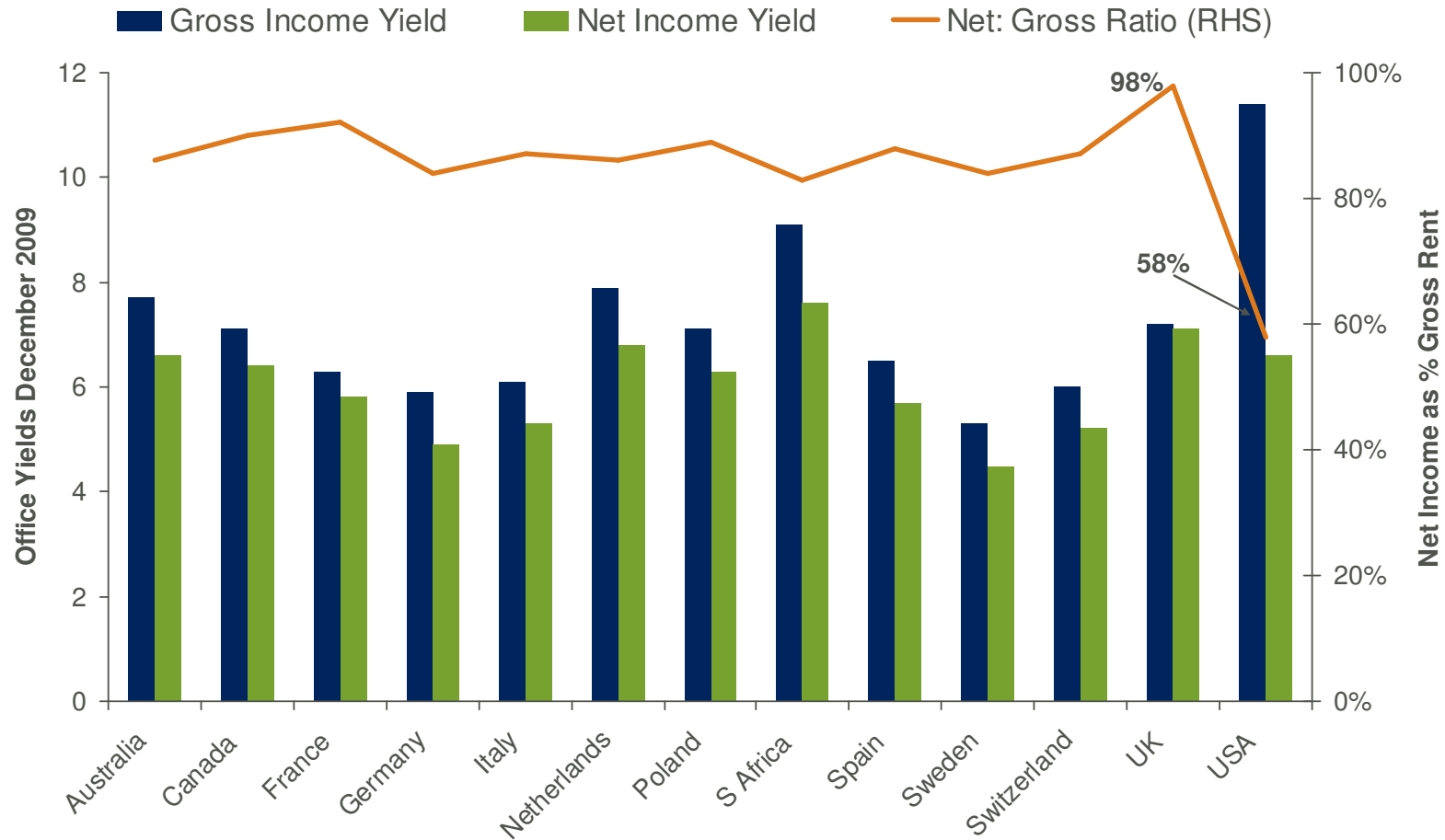
Denman in 1995, as a finalist in the 'Preacher of the Year' contest *Cambridge Evening News*

Typical Lease Durations – Major Markets



Source: LaSalle Investment Management

Effect of different national lease terms: gross rent to NOI

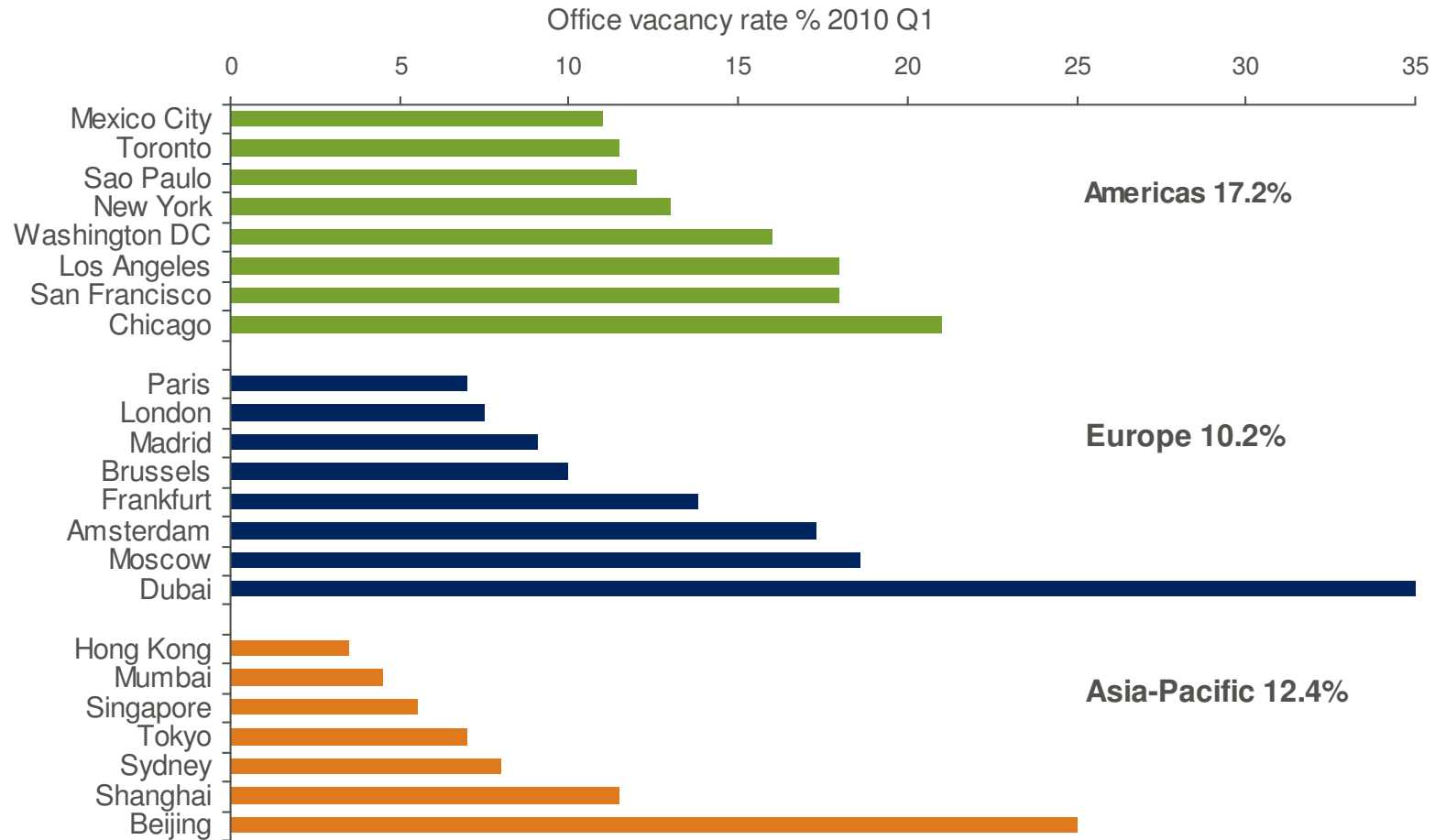


Source: IPD Multinational index

Operation of the Land Market

- Systems for land zoning:
 - Prescriptive plan, or
 - Administrative/political decision making
- Attitudes to land development
 - Utility to sacred status (Needham)
 - Local v national decision making
 - Importance of local tax base
- Effects:
 - Differing levels of 'natural vacancy' (Sanderson et al.)
 - Variation in price of urban land
 - Cost of regulation (Cheshire & Hilber)
 - Differences in Required Returns

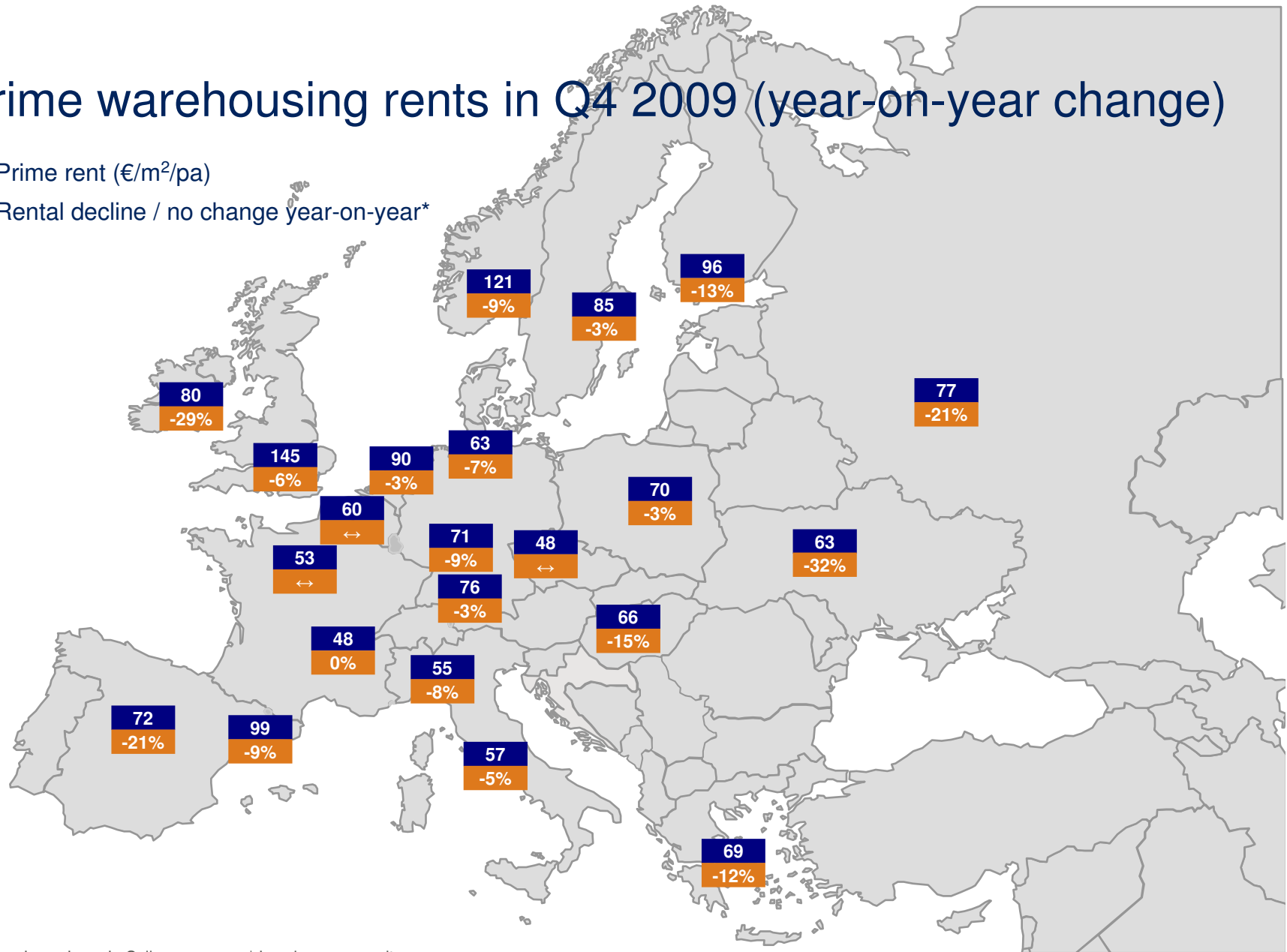
Office vacancy rates around the world



Source: Jones Lang LaSalle (regional vacancy rates based on 52 markets in Americas and 24 markets each in Europe and Asia-Pacific)

Prime warehousing rents in Q4 2009 (year-on-year change)

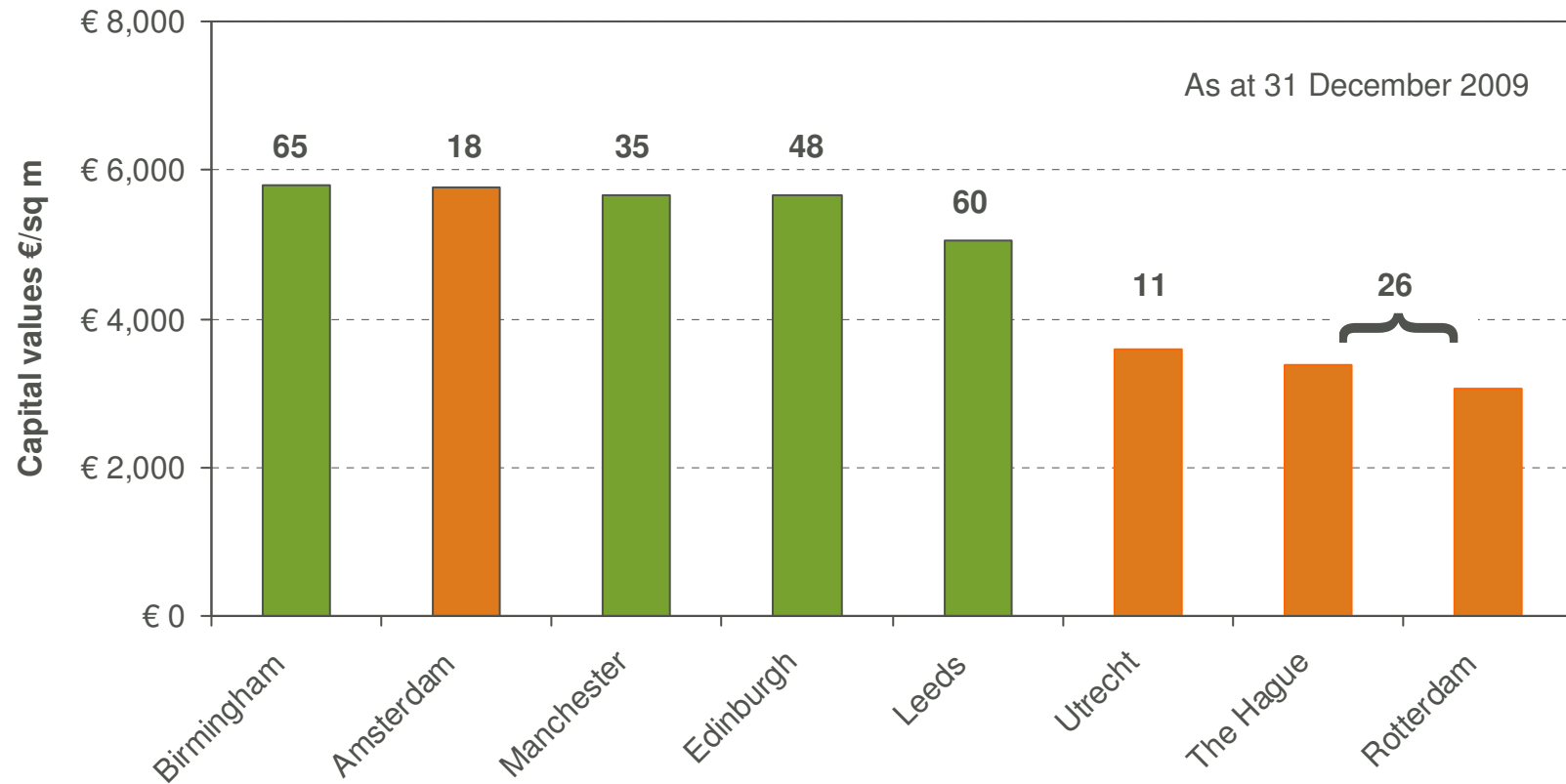
- Prime rent (€/m²/pa)
- Rental decline / no change year-on-year*



Source: Jones Lang LaSalle

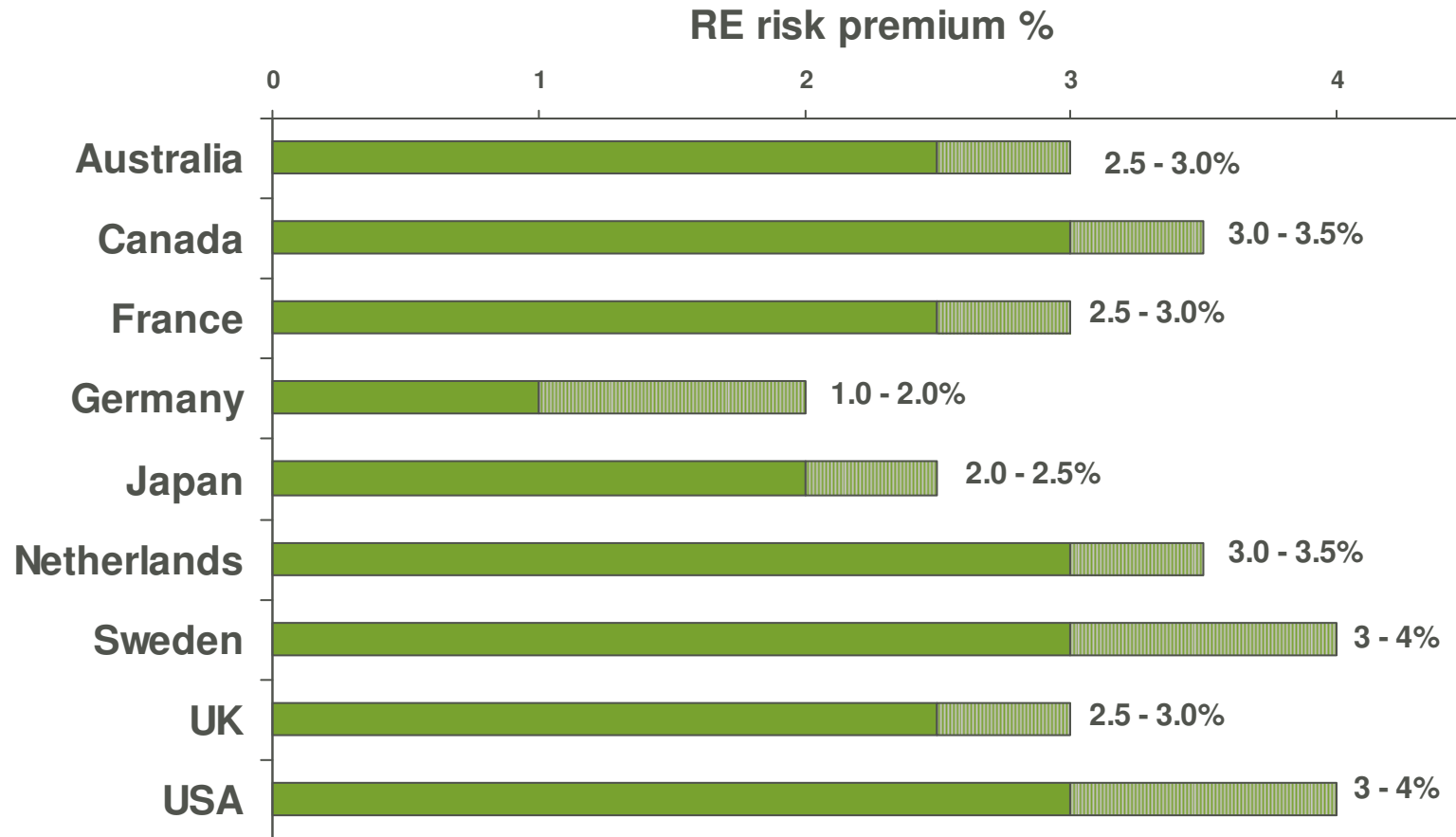
* Local currency unit

Office values in UK & Netherlands + EREGI 2009 Rankings



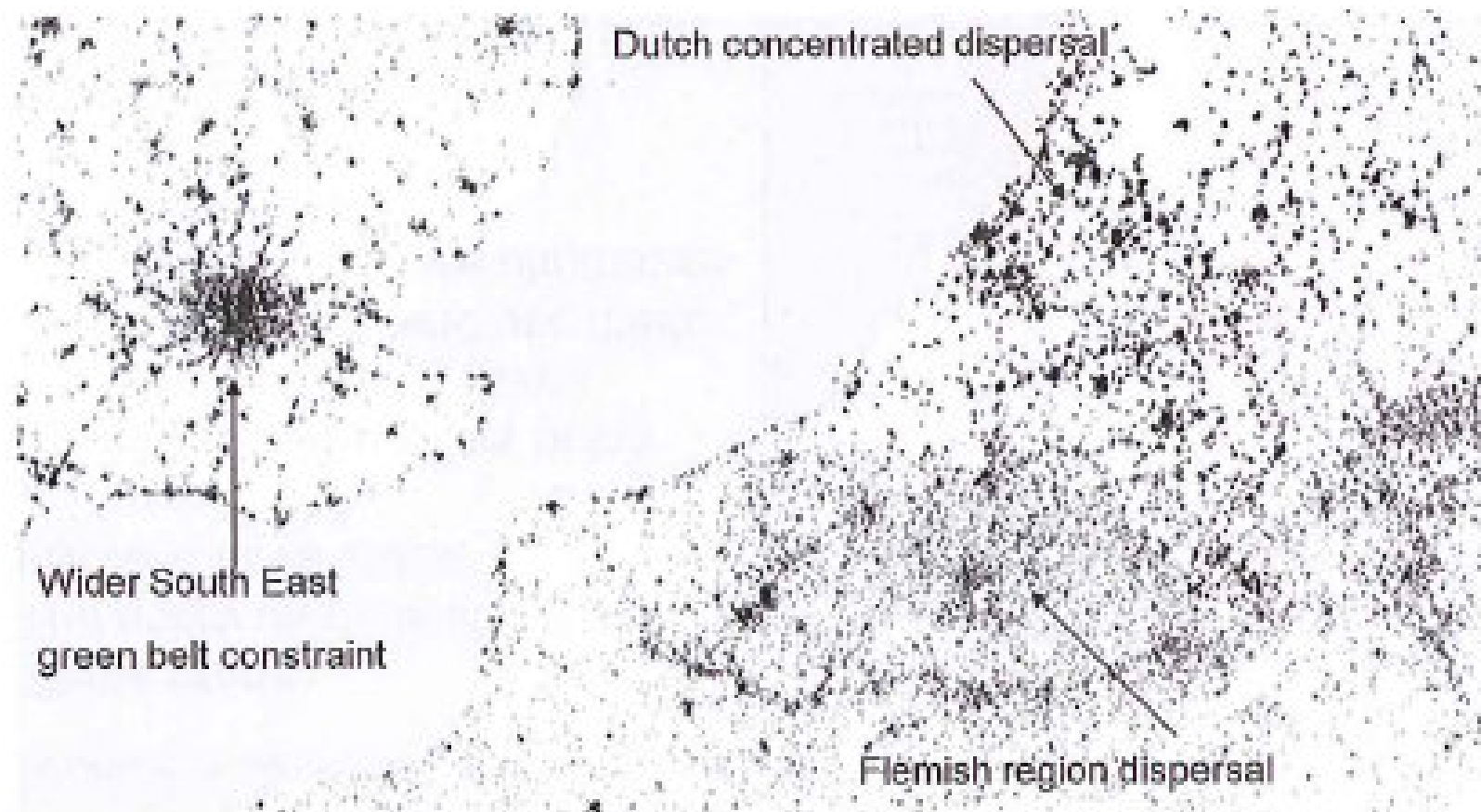
Sources: Jones Lang LaSalle & LaSalle Investment Management

Risk premium from real estate differs by country



Source: LaSalle Investment Management

Three different Urban Forms: Where are land values lowest?



Source: SOLUTIONS research project

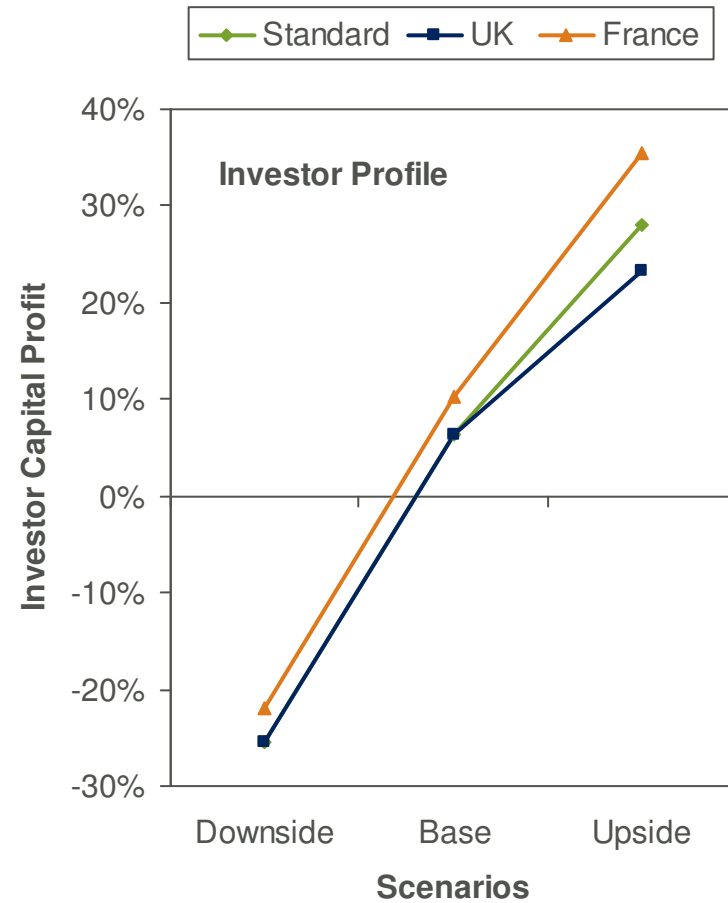
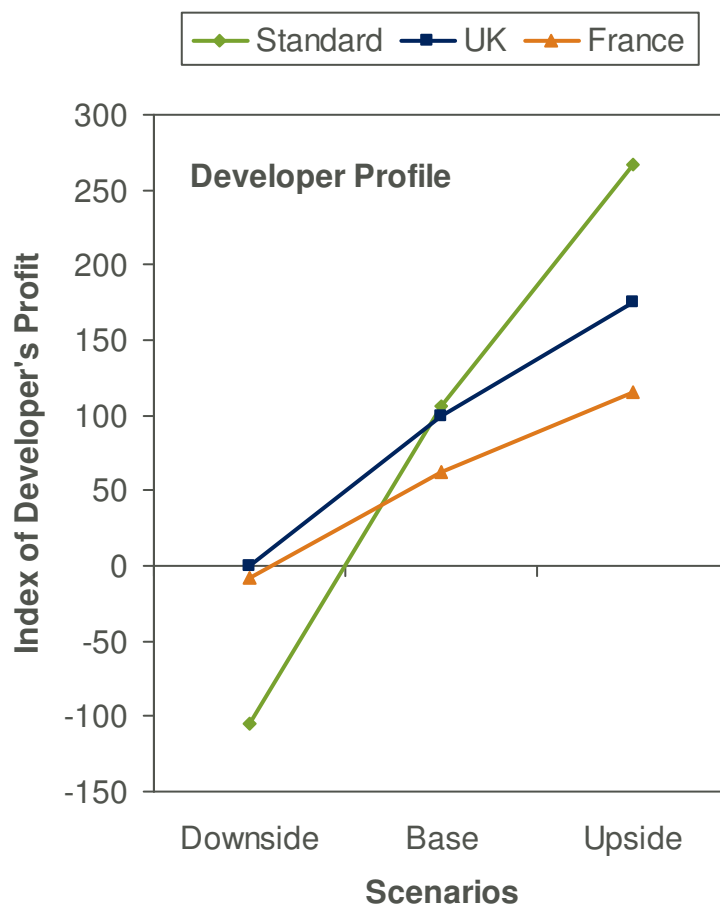
Terms of Trade between Developer & Investor

- Or how risk is shared in a development project
- Issue: symmetry of profit share between a successful & unsuccessful project
- Three examples – Standard JV, UK & France

Key Terms	Standard JV	UK	France
<i>Name</i>	Equity/Profit share	'Profit Erosion'	'VEFA' *
<i>Investor Price</i>	Variable	Notionally fixed	Fixed
<i>Developer Overage</i>	Yes	Yes	No
<i>Developer capital</i>	Yes, e.g. 10%	None	Land & Construction
<i>Developer max loss</i>	Equity stake	Zero	Rent guarantee

* Vente en l'état futur d'achèvement (VEFA).

Three Equity Schemes for Financing Development:Risks & Returns



Institutional Frameworks Matter:

- Effect land & property prices
- Effect speed of supply response
- Effect market volatility
- Effect detail of returns (cash flow from lease & share of development profit)
- (as well as differing levels of transparency)

Scope for a significant new research agenda ?

Contact details: Robin Goodchild PhD FRICS

Tel +44 (0)20 7852 4390

E-mail robin.goodchild@lasalle.com

References:

- Archer W & Ling D (1997) 'The Three Dimensions of Real Estate Markets: Linking Space, Capital & Property Markets' *Real Estate Finance* Fall pp 7-14
- Cheshire P & Hilber C (2008) 'Office Space Supply Restrictions in Britain: The Political Economy of Market Revenge' LSE, London
- Denman D & Prodan S (1972) '*An Introduction to Proprietary Land Use Analysis*' George Allen & Unwin, London
- Kay J '(2003) '*The Truth about Markets: Their Genius, their Limits, their Follies*' Allen Lane, London
- Needham B (2007) '*Dutch Land Use Planning: Planning & Managing Land Use in the Netherlands – the Principles & the Practice*' SDU Publishers, The Hague
- Sanderson B, Farrelly K & Thoday C (2006) 'Natural vacancy rates in global office markets' *Journal of Property Investment & Finance* Vol 24 pp 490-520

This publication does not constitute an offer to sell, or the solicitation of an offer to buy, and is subject to correction, completion and amendment without notice. This publication has been prepared without regard to the specific investment objectives, financial situation or particular needs of recipients. No legal or tax advice is provided. Recipients should independently evaluate specific investments. By accepting receipt of this publication, the recipient agrees not to distribute, offer or sell this publication or copies of it and agrees not to make use of the publication other than for its own general information purposes.

The views expressed in this publication represent the opinions of the persons responsible for it as at its date, and should not be construed as guarantees of performance with respect to any investment. LaSalle has taken reasonable care to ensure that the information contained in this publication has been obtained from reliable sources but no representation or warranty, express or implied, is provided in relation to the accuracy, completeness or reliability of such information. LaSalle does not undertake and is under no obligation to update or keep current the information or content contained in this publication for future events. LaSalle does not accept any liability in negligence or otherwise for any loss or damage suffered by any party resulting from reliance on this publication.

Copyright © LaSalle Investment Management 2010. All rights reserved. No part of this publication may be reproduced by any means, whether graphically, electronically, mechanically or otherwise howsoever, including without limitation photocopying and recording on magnetic tape, or included in any information store and/or retrieval system without prior written permission of LaSalle Investment Management.

LaSalle Investment Management is authorised and regulated by the Financial Services Authority in the UK.