

Global Office Index Q4 2011

Rental growth despite economic uncertainty



Jones Lang LaSalle Global Office Index Q4 2011

Rental growth continues through economic uncertainty

Jones Lang LaSalle's Global Office Index tracks the rental performance of prime office space across 81 major markets in the Americas, Asia Pacific and Europe. This second edition shows that prime office rents continued to grow in major office markets during the final quarter of 2011. While there is further evidence that some markets are softening, equally others are displaying remarkable resilience.

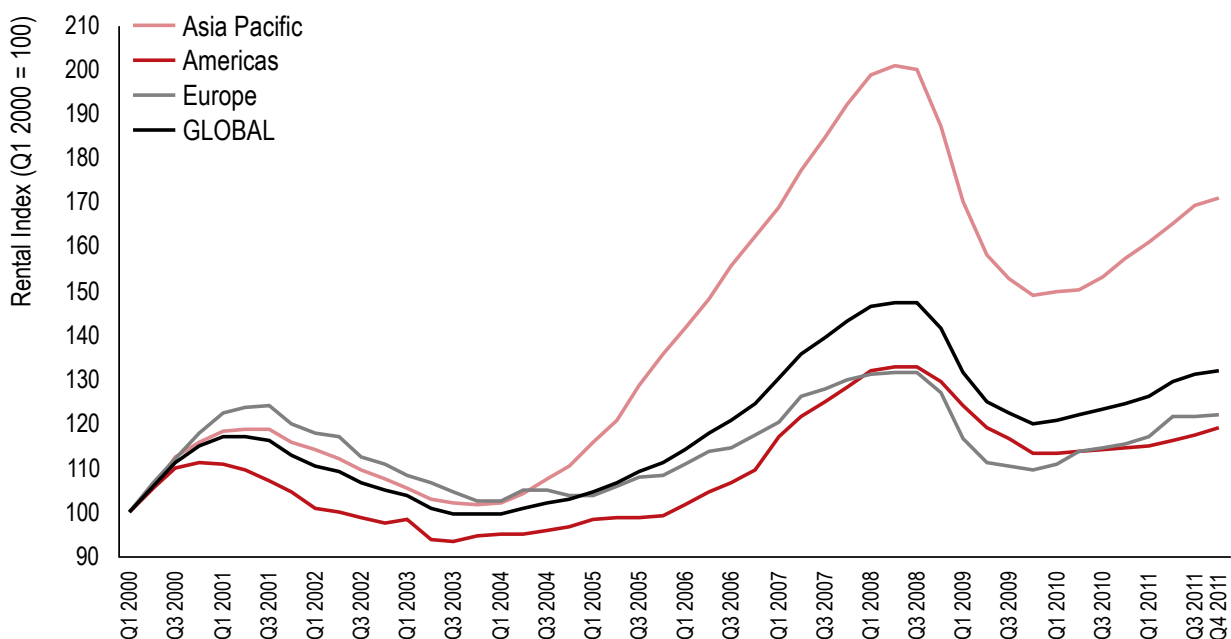
Rents for prime office space in the world's major cities rose by 0.8% during Q4 2011 and are up 6.0% year-on-year. Prime rents have now increased for eight consecutive quarters, resulting in a 10% uplift since the bottom of the market in Q4 2009. Rental growth has slowed further from the 1.2% rise in Q3.

The **Americas** registered the highest rental growth of the three global regions at 1.2% quarter-on-quarter, as landlord leverage gradually increased in the majority of markets. **Asia Pacific's** markets have seen rental growth decelerating from 2.5% in Q3 to just 0.9% in Q4, as corporate demand began to slow. Despite the negative economic backdrop, **Europe** showed some improvement over Q4 with growth picking up to 0.4% from a virtual halt in Q3.

Across the 81 monitored markets, the top performers are again dominated by emerging markets, notably from the BRIC economies (**Beijing** +51.2% y-o-y, **Moscow** +41.2%, **São Paulo** +18.6%, **Shanghai** +17.5%) and South East Asia (**Jakarta** +51.0% y-o-y, **Manila** +15.0%). Several Australian cities also recorded double-digit growth (e.g. **Perth** +26.8% y-o-y, **Sydney** +15.2%). Robust annual growth was recorded in office markets that leverage on the strength of the technology sector, which is helping to boost rental performance in markets such as **Silicon Valley** (+23.4%), **Bangalore** (+16.0%) and **San Francisco** (+15.4%). **Buenos Aires** saw some of the highest growth in Q4 (+7.9% q-o-q) as office vacancy rates plummeted.

A quarter of the markets covered by the Index registered rental declines in Q4, reflecting a range of factors including oversupply, weak corporate occupier demand and poor economic fundamentals. The largest falls were recorded in **Hong Kong**, **Singapore**, **Rio de Janeiro** and **Hanoi** (between -4.5% and -11.3% q-o-q). Notably, rents decreased for the second successive quarter in Hong Kong and, for the first time since the Global Financial Crisis (GFC), in Singapore.

Global Office Index – Prime Rents, 2000-2011



Asia Pacific – stock weighted average of 27 markets; Americas – stock weighted average of 30 markets; Europe – stock weighted average of 24 markets.
Global Index based on GDP weighted average of the three regional indices.
Source: Jones Lang LaSalle, January 2012

Office rental increases slow across Asia Pacific

Rental growth in most of Asia Pacific's major markets slowed in Q4 2011. Of the 27 featured office markets, only 14 saw an increase in net effective rents while, for the remainder, rents either stabilised or recorded declines. Aggregate rental growth across the region averaged just 0.9% quarter-on-quarter, slowing from 2.5% in the previous quarter.

Beijing and **Jakarta**'s CBDs continued to see the largest quarterly rental increases although growth eased to single-digits (9.4% and 5.6% respectively) as vacancy levels fell further in both markets. Rental growth in **Shanghai** moderated to 2.5% as landlords became less aggressive on asking rents. On the other hand, rents in **Sydney**'s CBD continued to see solid quarterly growth of 5.6% due to healthy take-up. On an annual basis, Beijing and Jakarta saw the strongest rental growth across the region (at around 50%).

Net effective rents declined for the second successive quarter in **Hong Kong** (-4.5% q-o-q) and, for the first time since Q1 2010, in **Singapore** (-4.9% q-o-q), a result of corporate caution coupled with some financial sector tenants moving outside of both markets CBDs. Net effective rents in **Tokyo** and **Seoul** fell further over the quarter (up to -3.3%) as landlords remained generous with incentives. Rents saw further decreases in a few other Asian markets (e.g. **Osaka**, **Ho Chi Minh City**, **Hanoi**) due to weak tenant demand or new supply. Average rents in India saw flat or marginal rental growth. Apart from **Sydney** and **Perth**, rents in Australasia were relatively stable, recording quarterly changes of between -2.2% and 1.9%.

Mixed rental growth patterns in Europe

The Eurozone debt crisis continues to weigh down on economic growth prospects across Europe. Ongoing efforts, including changes in government, strict austerity measures and high-level inter-governmental summits have not resolved the strains in credit markets, and concerns about a further escalation of the crisis remain high. Recent downgrades to the credit ratings of major European economies and the European Financial Stability Facility are also likely to hinder a quick solution. Despite this serious backdrop, key office market indicators showed modest improvement over Q4, though the picture remains mixed, with market conditions in German and Nordic cities showing robust performance, whereas markets in the centre of the crisis continue to struggle.

Prime rents were broadly unchanged over Q4 with the European Office Index increasing by a mere 0.4%. Of the 24 Index markets,

four saw rental increases (**Rotterdam** +2.6%, **Berlin** +2.4%, **Düsseldorf** +2.1%, **Paris** +1.3%), whereas rents dropped further in the two major Spanish markets (**Barcelona** -1.3%, **Madrid** -1.0%). All other Index markets were unchanged on the previous quarter. Levels of incentives remain high and are keeping headline rents stable in many markets.

Stable overall growth in the Americas

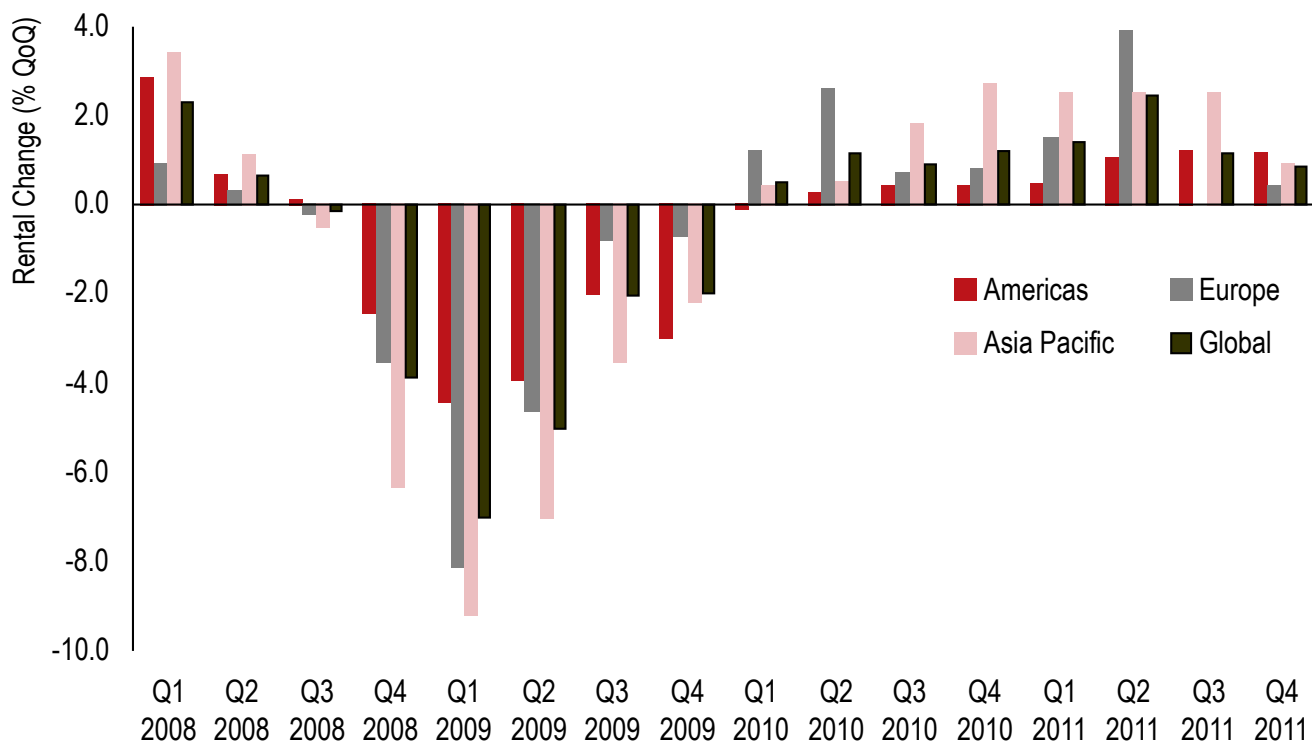
The Americas Office Rent Index experienced moderate growth during Q4 2011. The Index increased 1.2% quarter-on-quarter, matching the pace of growth registered in Q3. On an annual basis, it ended the year up 3.9%, the strongest rolling four-quarter cumulative increase since Q3 2008. However, the current level is still more than 10% lower than where it peaked just before the onset of the GFC in 2008.

There continues to be stark differentiation by market. Some markets that had been leading the Index's upward charge in recent quarters have seen their rate of growth slowed considerably over the last one to two quarters. Such markets include **São Paulo**, facing challenges with increasing supply and slower economic growth, and **Washington DC**, where uncertain U.S. fiscal policy and election-year gridlock have stymied federal government-related demand for space. In other markets, rental growth has remained robust or is now accelerating. In **San Francisco** the technology industry's strength and expanding demand for office space continue to exert upward pressure on rents (+3.4% q-o-q and +15.4% y-o-y). Rental growth accelerated in **Boston** (+3.4% q-o-q), bringing growth for the full year to 8.1%. In **Calgary**, forward leasing by the booming energy sector helped to push rentals higher by 8% over the past three quarters. Meanwhile, in **Toronto**, stronger fundamentals began to filter through to more vigorous rental growth in Q4, with rents up 3.0% quarter-on-quarter. The **Buenos Aires** market tightened noticeably over the course of 2011, pushing rents up 7.9% quarter-on-quarter and 9.5% year-on-year.

Markets that displayed much weaker rental growth or, in some cases, declines during Q4 included many that currently lack dynamic industry drivers such as energy and commodities, technology and healthcare. In other cases, high levels of new supply were a major factor. For example, rents in **Chicago**, **Baltimore** and **Mexico City** declined by between -1.3% and -3.3% in Q4.

Global Office Index – Prime Rents, 2008-2011

Quarterly Movements



Asia Pacific – stock weighted average of 27 markets; Americas – stock weighted average of 30 markets; Europe – stock weighted average of 24 markets.
Global Index based on GDP weighted average of the three regional indices.
Source: Jones Lang LaSalle, January 2012

Outlook is still positive

The rental outlook for 2012 has been tempered by ongoing economic uncertainty, although we continue to expect positive rental growth in most major prime office markets – the notable exceptions being **Hong Kong** and **Singapore**. Among the larger office markets, the strongest performers in 2012 are likely to be **Beijing**, **Toronto** and **San Francisco**, potentially seeing double-digit increases. There are downside risks to our forecasts however, particularly in Europe, where the risks for the region's economic recovery have already translated into declining business confidence, which raises concerns over the sustainability of recent real estate improvements.

In Asia Pacific, the office market in general continues to favour landlords, although occupiers have become more reluctant to pay high rents. We expect rental levels to increase in most markets over the short term, although **Hong Kong** and **Singapore** may see further softening given their greater exposure to global economic

conditions. A few other laggards are also likely to see either no growth or some residual rental declines. Nevertheless, rental growth of up to 25% is expected across the region for the whole year, with the strongest growth likely to be seen in markets such as **Beijing** and **Jakarta**.

In Europe, business and investor sentiment remains fragile and, despite certain pockets of growth, this will most probably reflect in stagnation overall, before conditions improve towards the end of 2012. This assumes, of course, that a meaningful solution to the Eurozone crisis is implemented. Modern office space in key inner-city locations remains scarce and this is likely to support prime rents in 2012. However, in line with weakening overall economic conditions, rental growth forecasts for Europe have been revised down to 2.3% for 2012, which compares to 5.9% in 2011.

The outlook for the Americas for 2012 is one of continued rental growth, however further acceleration is unlikely over the near term.

Economic growth in the region is projected to be flat at best for the year, and financial risks from the Eurozone crisis linger on. Furthermore, the composition of growth within the Index is likely to change considerably, as some of the better-performing rental markets earlier in the recovery may undergo a temporary cooling

phase. In the meantime, new leading geographic contributors to the regional index are likely to emerge, e.g. high-technology hubs.

Methodological Note

Jones Lang LaSalle's Global Office Index is derived from the weighted average of the rental movements of Jones Lang LaSalle's European, Asia Pacific and American Regional Indexes that cover 81 office markets in total. They are weighted by real GDP (US Dollar basis) for each region from IHS Global Insight. Weights are adjusted every four quarters. The latest weights are 35% - Europe; 29% - Asia Pacific; 36% - Americas.

The European Index is calculated from the change in headline face rents for the highest-quality space in the premier office sub-market in 24 European cities, weighted on the basis of the total office stock (all grades) in each city's overall market.

The Asia Pacific Index is calculated from change in average Grade A rents (net effective) in the main sub-market in 27 Asia Pacific cities, weighted on the basis of Grade A stock in the main sub-market of each city.

The Americas Index is calculated from the change in average Class A rents (gross asking in North America, triple net in Latin America) in the CBD, Downtown, central areas or primary investment market of 30 Americas cities, weighted on the basis of Class A stock (D.C. city for Washington DC; Northern New Jersey for New Jersey; Palo Alto for Silicon Valley; Midtown for New York; Westside for Los Angeles; Total Corridors for Monterrey; and the entire market for Buenos Aires and Santiago).

Jones Lang LaSalle Global Office Index

Quarterly Rental Performance across 81 Cities

Quarterly Change Q4 2011 vs Q3 2011		
Global		0.8%
Europe		0.4%
Asia Pacific		0.9%
Americas		1.2%
1	Beijing	9.4%
2	Buenos Aires	7.9%
3	Jakarta	5.9%
4	Sydney	5.6%
5	Perth	3.5%
6	San Francisco	3.4%
6	Boston	3.4%
8	Atlanta	3.1%
9	Toronto	3.0%
10	Chennai	2.8%
11	Vancouver	2.7%
11	Calgary	2.7%
13	Tampa	2.6%
13	Rotterdam	2.6%
15	Shanghai	2.5%
15	São Paulo	2.5%
17	Berlin	2.4%
17	Bangalore	2.4%
19	Guangzhou	2.1%
19	Düsseldorf	2.1%
21	Brisbane	1.9%
21	New York	1.9%
23	Los Angeles	1.6%
23	Taipei	1.6%
25	Charlotte	1.4%
25	Silicon Valley	1.4%
27	Paris	1.3%
28	Manila	1.2%
29	Houston	1.0%
30	Auckland	0.8%
31	Miami	0.7%
31	Orlando	0.7%
33	New Jersey	0.6%
34	Mumbai	0.5%
35	Bangkok	0.4%
35	San Diego	0.4%
35	Monterrey	0.4%
38	Denver	0.1%
39	Amsterdam	0.0%
39	Brussels	0.0%
39	Budapest	0.0%
39	Dublin	0.0%
39	Edinburgh	0.0%
39	Frankfurt	0.0%
39	Hamburg	0.0%
39	London	0.0%
39	Luxembourg	0.0%
39	Lyon	0.0%
39	Milan	0.0%
39	Moscow	0.0%
39	Munich	0.0%
39	Prague	0.0%
39	Stockholm	0.0%
39	The Hague	0.0%
39	Utrecht	0.0%
39	Warsaw	0.0%
39	Delhi	0.0%
39	Wellington	0.0%
39	Philadelphia	0.0%
39	Dallas	0.0%
39	Santiago	0.0%
62	Adelaide	-0.2%
62	Kuala Lumpur	-0.2%
64	Tokyo	-0.3%
64	Seattle	-0.3%
66	Canberra	-0.5%
67	Osaka	-0.6%
68	Ho Chi Minh City	-0.9%
69	Washington, DC	-1.0%
69	Madrid	-1.0%
71	Chicago	-1.3%
71	Montreal	-1.3%
71	Barcelona	-1.3%
74	Melbourne	-2.2%
75	Mexico City	-2.4%
76	Baltimore	-3.3%
76	Seoul	-3.3%
78	Hong Kong	-4.5%
79	Rio de Janeiro	-4.6%
80	Singapore	-4.9%
81	Hanoi	-11.3%

Annual Rental Performance across 81 Cities

Annual Change Q4 2011 vs Q4 2010		
Global		6.0%
Europe		5.9%
Asia Pacific		8.7%
Americas		3.9%
1	Beijing	51.2%
2	Jakarta	51.0%
3	Moscow	41.2%
4	Perth	26.8%
5	Silicon Valley	23.4%
6	São Paulo	18.6%
7	Shanghai	17.5%
8	Bangalore	16.0%
9	San Francisco	15.4%
10	Sydney	15.2%
11	Manila	15.0%
12	Warsaw	13.6%
13	Lyon	12.5%
14	Paris	10.7%
15	Hong Kong	10.2%
16	Buenos Aires	9.5%
16	Guangzhou	9.5%
18	Santiago	9.0%
19	Chennai	8.8%
20	Boston	8.1%
21	New York	7.6%
22	London	7.4%
23	Mumbai	7.2%
24	Washington DC	6.4%
25	Adelaide	5.5%
26	Stockholm	5.0%
27	Berlin	4.9%
28	Singapore	4.8%
29	Hamburg	4.4%
30	Düsseldorf	4.3%
31	Montreal	3.9%
32	Atlanta	3.6%
33	Munich	3.4%
34	Los Angeles	3.2%
35	Orlando	3.0%
36	Calgary	2.9%
37	Philadelphia	2.7%
38	Rotterdam	2.6%
39	Brisbane	2.5%
39	Vancouver	2.5%
39	Rio de Janeiro	2.5%
42	The Hague	2.4%
43	Taipei	2.1%
44	Toronto	2.0%
44	Monterrey	2.0%
46	Milan	1.9%
47	Miami	1.1%
48	Auckland	0.9%
48	Melbourne	0.9%
50	New Jersey	0.7%
51	Denver	0.3%
52	Chicago	0.2%
53	Amsterdam	0.0%
53	Budapest	0.0%
53	Frankfurt	0.0%
53	Luxembourg	0.0%
53	Prague	0.0%
53	Delhi	0.0%
59	Houston	-0.1%
60	Seattle	-0.8%
61	Kuala Lumpur	-1.0%
62	Dallas	-1.2%
63	Osaka	-1.3%
64	Bangkok	-1.4%
65	Wellington	-1.6%
66	Edinburgh	-1.8%
67	San Diego	-2.1%
67	Tokyo	-2.1%
69	Baltimore	-2.2%
69	Utrecht	-2.2%
71	Tampa	-2.6%
72	Charlotte	-2.9%
73	Brussels	-3.2%
74	Barcelona	-3.9%
75	Madrid	-4.6%
76	Canberra	-5.1%
77	Seoul	-6.4%
78	Ho Chi Minh City	-7.2%
79	Dublin	-8.6%
80	Mexico City	-13.8%
81	Hanoi	-15.2%

About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specialising in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2011 global revenue of US\$3.6 billion, Jones Lang LaSalle serves clients in 70 countries from more than 1,000 locations worldwide, including 200 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 2.1 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with more than US\$47.7 billion of assets under management. For further information, please visit our website, www.joneslanglasalle.com

About Jones Lang LaSalle Research

Jones Lang LaSalle's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our 350 professional researchers track and analyse economic and property trends and forecast future conditions in over 70 countries, producing unrivalled local and global perspectives. Our research and expertise, fuelled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

For more information contact:



Dr Jane Murray
Head of Research, Asia Pacific
+ 852 2846 5274
jane.murray@ap.jll.com



Ben Breslau
Managing Director, Americas Research
+ 1 617 531 4233
benjamin.breslau@am.jll.com



Bill Page
Head of Offices Research, EMEA
+ 44 (0)20 3147 1212
bill.page@eu.jll.com



Jeremy Kelly
Director, Global Research
+ 44 (0)20 3147 1199
jeremy.kelly@eu.jll.com

Contributing Authors:



Myles Huang
Director, Asia Pacific Research
+ 852 2846 5793
myles.huang@ap.jll.com



Josh Gelormini
Vice President, Americas Research
+ 1 312 228 2060
josh.gelormini@am.jll.com