

BACK FROM THE BRINK... BUT WHAT NEXT?

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Introduction

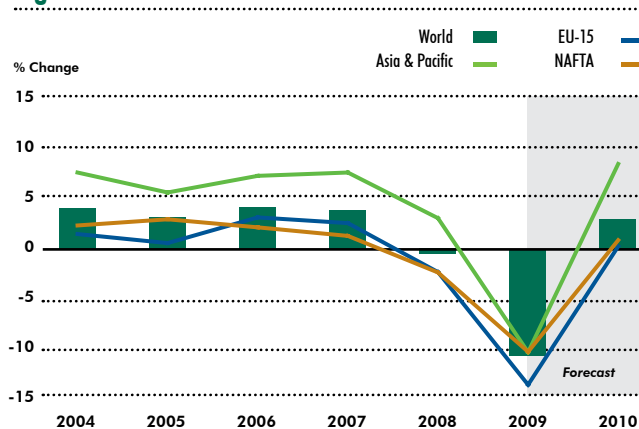
From a global economic viewpoint, the patient appears to have stabilized, but remains in intensive care. The severe trauma caused by last year's large shocks to the global financial system—the subprime crisis, the collapse of debt securitization and the fallout from the bankruptcy of Lehman Brothers—has been contained by aggressive monetary and fiscal actions around the world. That said, recovery looks set to be a slow and painful process, with the likelihood of setbacks along the way.

From a regional or country-by-country economic viewpoint, conditions vary widely. Some nations like China, India and Australia have suffered only minor illnesses, slowing their economic growth but not diminishing it. Others have recovered quickly, such as Canada, where the central bank has announced the recession is “over.” Still others are confirming that their stage in the process is stabilization.

The far-reaching impact of the global recession is reflected most dramatically in global trade and industrial production levels. Figure 1 shows the record-setting falls in industrial production worldwide. In contrast to the 5% growth in production seen in the middle of the decade, the world economy halted in 2008 and is expected to show an annual decline of about 10% during 2009. Some countries have seen even sharper and more astonishing drops in quarterly production. The outlook for 2010 is for a return to growth, but prospects for recovery remain uncertain.

The drop in global trade is also startling. Estimates from the World Bank indicated that as of May, global trade is down about a third, year-over-year. Monthly data are more

Figure 1: Global Industrial Production Growth



Source: Economist Intelligence Unit

encouraging, however, as recent month-to-month figures show flattening.

For all of the regions or countries of the world that have suffered this traumatic economic pain, stabilizing their economies by arresting the recent precipitous fall is the first step in the healing process. While there is general agreement among economists that some form of recovery is now appearing on the horizon, there is no consensus as to when it will begin and how strong it will be. Debate is raging over the shape of the recovery and whether we will ever see a return to earlier health—or whether there has been some permanent structural damage that will result in what some call the “new normal.”

Economic history teaches us that a severe trauma to the economy is usually followed by a quick V-shaped recovery. However, commentators have seized upon a whole alphabet of letters and symbols to describe the current outlook: U-shaped (with a longer period of stagnation); W-shaped

(a double dip); L-shaped (no recovery at all); or the “saxophone” (a long, slow upturn followed by another downturn at the end). The truth is that, at present, no one knows. But most expect the path to recovery to be longer and slower than might have been the case in the past, because of the globally synchronized recession and the high levels of debt that still need to work their way through the system.

As we enter Q3 2009, different parts of the world are at various stages of stabilization, and the prospects for their recoveries diverge greatly. For instance, while the U.K. has seen a sharp contraction and may emerge more quickly from its recession, continental Europe is seeing high and rising unemployment levels, continued economic contraction and a weak banking system, leading many observers to believe that recovery in this region will be U-shaped. A similar recovery is expected for North America, where the region still needs to repair its consumer balance sheets, auto industry, housing industry and financial system.

Asia has a more positive, albeit not uniform, outlook. Major economies such as China and India are still advancing. In China, government stimulus, focused on domestic infrastructure, has been very effective in bringing about a V-shaped recovery for the soon-to-be third-largest economy in the world. In fact, some are concerned that the China recovery is too fast and the brakes may need to be applied, raising the specter of a potential W-shaped recovery in China. At the same time, there is significant concern over Japan, the second-largest economy in the world, which depends on exports to the mature, consumer-driven sectors of the world that are likely to grow very slowly over the next few years. Domestic demand is low, and the government has not provided the expected stimulus, raising the prospect of a period of sustained stagnation mirroring the “lost decade” of the 1990s.

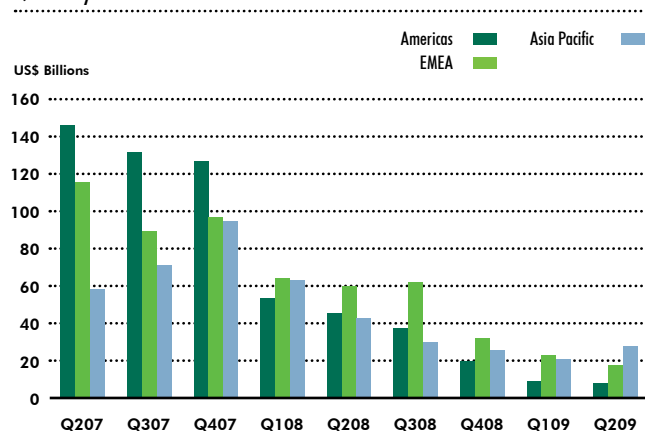
GLOBAL COMMERCIAL REAL ESTATE MARKETS

Ultimately, real estate demand is entirely dependent on economic activity, and the global recession has taken

a predictable toll on occupiers and investors alike. The lack of financing for real estate transactions—along with rising risk premiums and weakening property fundamentals—has so far driven real estate asset prices down by 35% to 50% from the peak levels of 2007-08, with the scale and speed of decline varying depending on the market, property type, and asset quality and location. In many markets, this process of value adjustment is far from complete.

Transaction volumes across the globe are down precipitously, as shown in Figure 2. Volumes for EMEA and the Americas are at record lows and were flat quarter-over-quarter. Of note is the uptick in volume in Asia, where the market has adjusted quickly and pricing may have hit bottom in some Asian cities in Q2. A similar observation has been made for London, where activity in the last part of Q2 has quickened. These events are worth closer inspection as we move into Q3.

Figure 2: Global Sales Transaction Volume by Region Quarterly



Source: Real Capital Analytics

Rental prices in the property markets reflect the global recession as shown in Figure 3 for the office sector. Clearly all the regions are in a property market downturn, with Asia showing the widest swings, reflecting how swiftly that market changes.

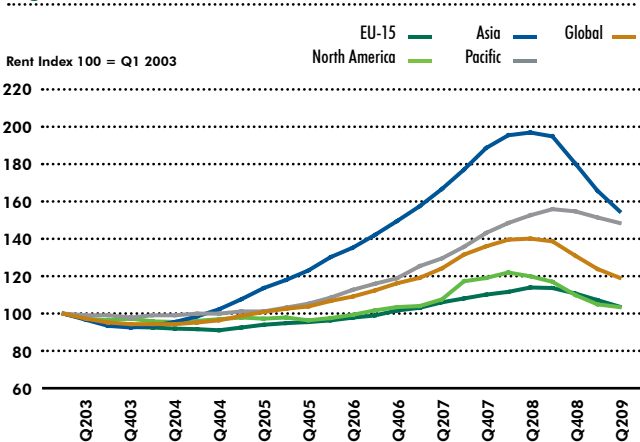
The Asian rental index rose from a low in 2004 of 100 on the index scale to a high of 200 four years later—a

100% increase. Since 2008, rents have dropped to 150 or 25%.

By contrast, the growth in the mature regions—EMEA and North America—is mild by comparison. Rents for the blended regions rose about 20% in the U.S. and 15% in EU-15 and to date have lost this gain almost entirely. Of course, select markets in both regions, such as London and New York, which were driven by financial services, have seen swings in office rents which are quite wide.

Globally, the CBRE Office Rent Index rose about 40% over the period and has lost about 21% from its peak.

Figure 3: CBRE Global Office Rent Indices



Source: CBRE Global Research and Consulting

REGIONAL ECONOMIES

Asia

In Asia, forward-looking economic indicators such as the Purchasing Managers Index for many major exporting countries rebounded in Q2, suggesting that the worst period of contraction of Asia regional GDP is now over. However, a structural shift is now underway in Asia that will ultimately see a number of major Asian exporting countries wean themselves away from their former heavy reliance on U.S. household demand. Hence, with global growth expected to remain slow until 2010, this painful adjustment process is expected to be fairly protracted and will result in persistence of

below-trend growth in Asia and weak labor markets for the mid-term future, at least. Notwithstanding this fact, the overall outlook for the region's growth has turned more positive, as China presses ahead with its application of its stimulus package and looks to end the year on a fairly strong note, and as India, Korea and Singapore are all weathering the current global economic downturn better lately than they did in Q1.

Asian investment market conditions in Q2 2009 began to improve from the extremely difficult environment over the preceding six months. Sentiment in the region turned more positive overall as national governments continued to implement monetary and financial stimulus packages as well as other regulatory measures designed to jump-start their national economies. Throughout Asia, the massive stimulus packages applied by Asian governments have, to a degree, served to shelter consumers from the fallout from the global financial crisis, helping to preserve domestic consumer spending as an engine of regional growth. China has shown persistent strength, and remains the most buoyant economy in the region, with its Purchasing Managers Index having recorded readings of over 50 points for four consecutive months.

Pacific

Against expectations, Q1 2009 turned out not to be a negative economic growth quarter after all, meaning Australia, unlike many others around the world, has not gone into a technical recession. This has boosted confidence in the future both in this region and in the minds of investors interested in purchasing real estate in Australia. It appears the quick government response to the impending downturn has made a difference in the short term. And with fresh infrastructure spending starting from the second half of 2009, the impact of the stimulus package should last well into the recovery. As Australia is the economic engine of the region, this improved outlook will also be influential for New Zealand.

EMEA

The first quarter of the year saw some very steep year-on-year output falls in many of the major European economies, notably Germany and Italy, as the recession deepened. Short-term expectations for economic performance weakened further in Q2, in contrast to those for the U.S. The Eurozone—comprising those countries which have adopted the Euro as their currency—as a whole is expected to see a contraction of over 4% this year, with export-driven Germany seeing an even sharper decline.

Some parts of Europe have been particularly badly hit, including Central and Eastern Europe, which is heavily dependent on both export demand and inward investment from the wider global economy. While the Polish economy has held up relatively well, the rest of the region has suffered badly, with the Baltic and Balkan states seeing double-digit declines in their economies.

At the same time, however, a number of indicators are beginning to show signs of improvement. The rate of GDP decline is showing signs of easing, corporate and consumer sentiment remains weak but is slowly improving, and parts of the banking sector are seeing a return to profitability. At this stage, these are more an indication that the rate of decline is slowing, rather than firm evidence of improvement—but at least it is now possible to identify some positive signs, something that was very difficult in the previous few quarters. The extent to which these are genuine “green shoots” is difficult to assess, but a period of mixed, and occasionally contradictory, data is characteristic of turning points in the cycle. Even so, there undoubtedly remains further bad news to come, particularly on lagging indicators such as unemployment, before a more widespread recovery becomes firmly established.

The Americas

In addition to the U.S., the dominant economies in the Americas, measured by GDP, are Canada, Brazil and Mexico. Of the four, Canada’s central bank is now declaring the recession over—although GDP growth

for May is down by 0.5%, the manufacturing sector continues to suffer from a rising US dollar, and the weakness in the U.S. economy will continue to affect exports. Brazil, with its vast natural resources, is not far behind in achieving stabilization, while Mexico is suffering greatly from this economic malaise and will show the largest drop in GDP among all the countries of Latin America.

The U.S.—the largest economy in the world, with about 24% of global GDP and only about 4% of the world’s population—is of course a major global economic engine. Its economic growth has declined for four straight quarters through Q2 2009, but the pace of decline is moderating. There is every expectation that GDP will turn positive in Q3, although not robustly, and that other measures of economic health—measures more important to real estate, such as jobs creation—will remain on the negative side for the balance of this year.

Structural issues such as the financial sector, the housing sector and the auto sector, as well as consumer balance sheets, all need attention in the U.S., and there is every expectation that economic growth will be at lower levels in the future than they were in the past.

REGIONAL REAL ESTATE MARKETS

Asia

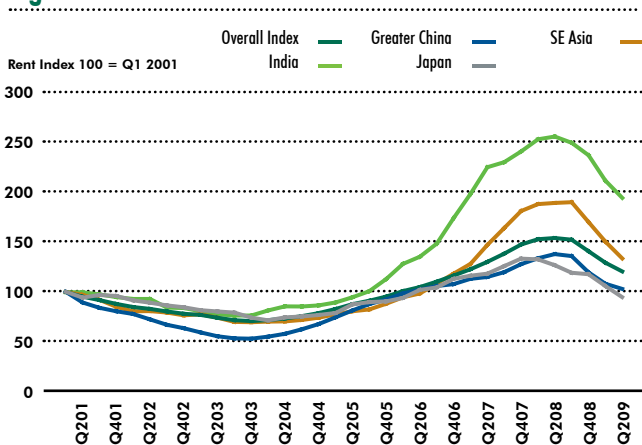
Commercial real estate investment activity in Asia ended Q2 on a more positive note than it began. In China and Hong Kong, residential sales transactions continued to rebound strongly, while overall market sentiment and investment transaction activity improved somewhat in Japan, Korea, India and Singapore. However, the high level of debt used to finance purchases in recent years has left some investors vulnerable to downward adjustments in property values. This was one of the factors that propelled investment sales activity to rise by more than 40% quarter-over-quarter during Q2 as some financially pressed property owners were forced to liquidate assets, particularly in the office sector. Nevertheless, a market standoff prevailed in a number

of emerging Asian markets as developers and property owners were buoyed by improved access to capital and easing business and credit risks.

Tokyo has emerged as the market with the largest number of distressed, or potentially distressed, real estate assets in the region. Owners have come under pressure to refinance deals that have fallen to well below the original LTV ratios prescribed by their loan covenants. Q2 saw a number of major office transactions concluded at US\$50 million and above. Nearly all of the buyers were Japanese investors or investment institutions, proving that there is still appetite for quality assets from domestic investors. Foreign institutions, while mainly on the sidelines, can be expected to return gradually to the market, once the timing is right from their perspective.

Overall prime office rental rates in Asia dropped in Q2 and a number of office markets continued to record negative net absorption and falling occupancy rates. A rise in the vacancy rate was recorded in virtually all markets tracked, with China's tier-one cities recording the highest vacancy levels. However, despite the continued softening trend in office market rents, in Tokyo and Hong Kong, and other leading markets, there are now indications that the rate of decline is beginning to slow.

Figure 4: Asia Office Rent Indices



Source: CBRE Global Research and Consulting

Although the most severe retrenchment in staffing levels appears to have passed, some corporate office occupiers remain cautious. For instance, in a number of leading office markets, this has sparked a rise in office relocation activity, as compared with the previous quarter, with some larger companies opting to relocate all or part of their back-office operations to newly emerged decentralized office locations or suburban office hubs to capture rental cost savings. Other corporations with stronger confidence in their business prospects took the opportunity provided by the softening leasing market to move into Grade A buildings, which the recent prolonged market contraction has made more affordable.

The performance of Asia's prime retail market was mixed in Q2, with prime retail rents maintaining relative stability in Shanghai, Guangzhou, Hong Kong and Taipei, while prime retail rents in other Asian markets continued to slip. Demand for retail space declined in most Asian markets as consumers cut back on spending and unemployment continued to rise in many markets. However, some mid-tier retailers took advantage of the weakened market conditions to negotiate more favorable lease terms. Youth-themed fashion retailers and mass-oriented F&B outlets remained fairly active in searching for new locations with less expensive occupancy costs.

The residential sales market continued its strong rebound in Asia, as Q2 witnessed higher activity levels across a number of key Asian markets. There was a spike in transactions in the mid-tier and high-end segments, with sales of condominium apartment units in cities such as Shanghai, Guangzhou, Singapore, Seoul and Hong Kong having taken off over the past few months. Despite the overall growth in volume, however, the direction of change with respect to housing market prices has proved to be quite divergent across cities in China, with Shanghai recording modest gains in housing prices in the first half of 2009, while Beijing witnessed a continuing softening of prices within the same time frame, attributable to the sizeable quantum of unsold supply carried forward from previous years.

Reflecting deteriorating global trade, rents and capital values for industrial properties generally continued to adjust downward in all export oriented markets. Overseas interest in purchasing or leasing industrial property and for acquisition of industrial land continued to fall away, with domestic demand for such facilities and land remaining the primary demand driver.

Pacific

There were signs in Q2 2009 that property markets in the Pacific Region were stabilizing after 18 months of turmoil caused by the global financial crisis:

- First, while investment activity is still low by historic standards, some larger deals have at last been completed, giving a clearer sign to where pricing is and, in turn, stimulating more interest from potential buyers in the belief that the bottom of the pricing cycle may be near.
- Second, the amount of sublease office space coming onto the market is slowing, suggesting companies have now reduced employment levels sufficiently for the time being.
- Third, both consumer and business confidence measures are now improving after reaching their lowest levels in almost 20 years.

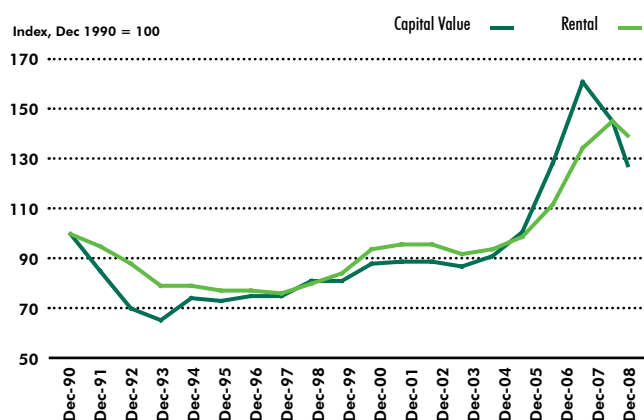
Meanwhile, total office vacancy continued to rise in Q2 2009. In Sydney, the vacancy rate increased to 7.7%, up from 5.4% at the beginning of the year. This was almost totally driven by the creation of sublease space, as there are no major new office buildings coming into the market. Encouragingly, leasing transactions are now starting to occur in some of the sublease space created in the last three quarters. Most markets have witnessed similar levels of increase in vacancy—higher in Brisbane and Perth, where a cyclical peak in office development is being reached in 2009.

Face rents in Sydney fell a further 2.6% in Q2 2009, and incentives offered by landlords have increased swiftly to 27% of the value of a lease, with every market following this trend. Rents in every office market in the

region were either stable or falling over the quarter. Most heavily impacted were the markets where new office completions are driving the vacancy rate up the fastest, with Perth recording a rent drop of 8.2% in the quarter, and Brisbane falling 4.3%.

Office yields softened further in Q2, although the rate of change has now slowed. The average weighted prime office yield for the Pacific region is now quoted at 8.02%, a further 27-bps softening in Q2.

Figure 5: Pacific Prime CBD Office Index



Source: CBRE Global Research and Consulting

The retail sector has generally stabilized in Q2 2009, as consumer sentiment picked up on the back of low interest rates and, in Australia, a direct household cash bonus from the Federal government. This has lifted consumer spending and stabilized rents in virtually every retail market and property type, after some weakness earlier in the year. Retail vacancy rates remain at historically low levels, and most are stable. Stronger retailers are actively looking to relocate or expand occupancy to win market share during what has been a volatile trading period.

Although still softening in Q2, the rate of change in yields slowed markedly across the region. The Regional Shopping Centre yield is often quoted as the benchmark for the sector. Weighted average yields for this property type softened just 7 bps in Q2, to now be quoted at

6.23%. Overall, the retail sector is proving to be the most resilient of all.

Like the retail sector, the softening of yield in the industrial sector eased noticeably in Q2 2009—just 8 bps on average—suggesting the pricing adjustment for industrial is now near complete. This is reflected in the high level of interest and increasing investment activity in this sector across the region. Industrial rents fell or were stable over Q2 2009. As Perth comes down from its economic highs of the last five years, Warehouse Grade A rents experienced the largest fall of 9.4% in the quarter. Overall, industrial rentals decreased over the March quarter by 2.9%.

In New Zealand, with 2008 being the year of easing yields, 2009 is shaping up to be the year of falling rents. The leasing market has become less active in the last few months. In addition to low or contracting demand, vacancy is coming under increasing upward pressure due to ongoing new supply. The fall in rents is mainly occurring due to increasing incentives that reflect adverse market sentiment and lessee expectations which are now met by lessor acceptance. In contrast to the occupier market, investment market conditions appear to be stabilizing. Increased investor activity indicates that there is both equity and credit in the market for the right type of property. Moreover, an undersupply of investment stock has emerged relative to investor interest for properties with strong fundamentals and secure cash flows. During the rest of this year, some investors will likely be forced to further rationalize their portfolios, and this will provide a flow of stock for sale. We don't expect any yield recovery to show through the increased activity, however, due to the subdued outlook for market fundamentals and rents.

EMEA

As elsewhere in the world, it has taken time for the disruption in the financial markets to feed through into the real economy, and then into the real estate market. Thus far, the majority of the impacts on property values have been due to weakening investor sentiment and

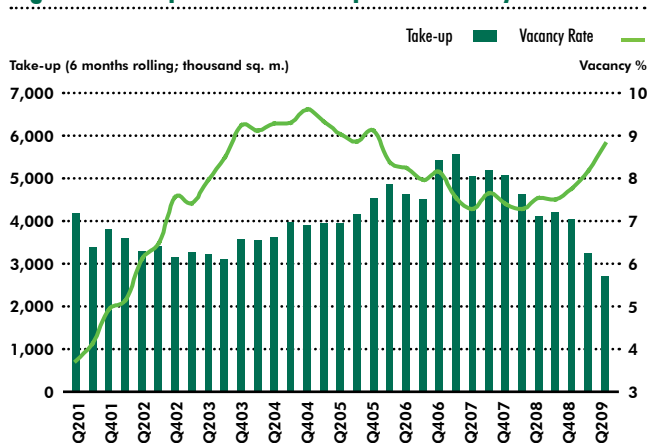
rising yields. However, the market now appears to be approaching a turning point, with yields beginning to stabilize—at least at the prime end of the market—but rents continuing to fall. From here on, rental values and the occupier market are likely to be the primary drivers of value change.

Occupiers remain cautious about real estate and overwhelmingly concerned with cost reductions. This is certainly evident in the office sector; leasing activity in the main European markets is still very subdued and on course to show significant year-on-year contraction relative to 2008. While some markets such as London saw quarter-on-quarter growth in take-up in Q2, this needs to be viewed in the context of the extremely low Q1 numbers, and underlying activity levels are generally very weak. There is, though, some variation in the severity of this downturn. Some of the German markets, along with Paris, are showing relatively less severe demand contraction than London and Madrid, where leasing activity is running at around half last year's levels.

Office occupiers are consolidating their space requirements and working to optimize the efficiency of their existing buildings, although those measures which require significant expenditure are often proving difficult to implement given widespread capital constraints. More occupiers are also seriously exploring options to mitigate their real estate costs either by restructuring leases, consolidating their occupancy into fewer buildings, reducing space utilization, or considering relocation to cheaper premises. The precise consequences vary from market to market, but in general this is producing growing pressure on landlords to accommodate tenant demands. While it remains difficult to dispose of space in a low-demand environment, subleasing activity is increasing in some markets and will become a more important component of rising vacancy. Thus far, increases in vacancy have largely been developer-driven, as buildings started during the last two years reach completion. In many markets, these completions are already starting to ease, and the development pipeline

is set to contract sharply over the next 24 months as new construction starts are almost non-existent.

Figure 6: Europe Office Take-up and Vacancy



The 15 markets in the sample are: Vienna, Brussels, Ile de France, Frankfurt, Munich, Hamburg, Berlin, Dublin, Amsterdam, Barcelona, Madrid, Central London and UK M25 (M25 North and South and Thames Valley).

Source: CBRE Global Research and Consulting

Office rents are now under general downward pressure. The CBRE EU-15 index of prime office rents fell by 2.9% in Q2, taking the year-on-year rate of decline to 8.6%. Among the major western European office markets, significant quarterly falls occurred in London, Madrid, Dublin and Oslo, while rents remained relatively stable in Germany and the Netherlands. A number of Central and Eastern European markets are seeing sharp reductions in rent levels reflecting much weaker demand, a trend which is clearly linked to the significant slowing of the economy of the region.

In the retail sector, rising unemployment and the general economic decline have had a major impact on consumer spending, which had been a major engine of economic growth across most of the region in recent years. Despite aggressive discounting, retail sales have fallen sharply in many countries—although sales have held up surprisingly well in the U.K., France and Germany. There are significant differences among retail sectors, however, with budget retailers and food stores reporting healthy or even improved trading performance. Retailer confidence also appears to be recovering from its historic

low levels, and demand for units in the prime high street and shopping centre locations remains robust. Vacancy levels in these top locations are low, with very little new space being developed. Rents have fallen somewhat, with the CBRE EU-15 Retail Rent Index down marginally at -0.8% year-on-year, but with the majority of markets seeing stable rents. However, the situation is rather different in many secondary locations, where demand is far weaker and rents have fallen more sharply.

Demand conditions are also weakening in the industrial market, as manufacturers and others seek to reduce their cost base in the face of falling demand and sharply reduced output across most product types. Some are using the current recession—with less competition from other occupiers and lower rents—as an opportunity to reconfigure supply chains, resulting in decisions to upgrade from outdated stock to newer buildings or to take space closer to urban markets. However, as in the office sector, the predominant response is to reduce costs and optimize the efficiency of existing space, with many new requirements being delayed or shelved.

The CBRE index of EU-15 industrial rents dropped by 1.5% in Q2, taking the year-on-year decline to over 5%. There is substantial variation in the degree of rental change that has taken place since the peak of the market—ranging from declines of over 20% in places like Lisbon, Dublin and Madrid, to rental stability in the main German and Dutch markets. A number of CEE markets have also seen very significant rental declines over the past year, as weaker world trade and inward investment have dented markets, exacerbated by recent speculative supply growth. New speculative development has virtually ceased, which will clearly affect market balances once demand starts to recover. In the meantime, this is continuing to provide some support for rents in those rare situations where an occupier commissions a new build-to-suit facility.

Europe's real estate investment markets are, as might be expected, ahead of the cycle being shown by the

occupier markets. This is most obviously evident in improving investor sentiment, which resulted in much higher levels of interest being expressed by investors, and the completion of a number of large transactions over the last few weeks of Q2. Many of the larger European countries, particularly France and Italy, saw a marked increase in investment activity quarter-on-quarter. However, Central and Eastern Europe is still experiencing very low levels of activity, for the most part due to an absence of lenders active in the region. Overall, the turnover of the EMEA investment market did show a slight increase quarter-on-quarter, growing to €13 billion, from €11.6 billion in Q1 2009. While it is a little early to treat this as the start of a sustained upturn, especially as we are now heading into the traditionally quiet summer period, there is some expectation that Q4 could see a modest further improvement in transaction volumes.

The upturn in both sentiment and activity is further illustrated by the trend in prime yields, which are showing signs of stabilizing after a year and a half of sharp upward movement. The CB Richard Ellis EU-15 All Property Average Prime Yield increased by just two bps in Q2 2009, following a total increase of 130 bps over the previous six quarters. The trend was particularly marked in the office sector, where the average prime yield actually fell—albeit by only two bps—following a fall in the prime office yield in Paris and several provincial U.K. markets. There are now very few cities where the prime office yield is still increasing. Again, it is a little early to say that this is a turning point, particularly since negative rental value growth is still contributing to falling capital values. However, the stabilization of yields is clearly a prerequisite for any recovery in values and thus is a positive sign that the market is moving in the right direction.

The Americas

Vacancy rates in the U.S. office, industrial and retail property markets continued to rise in Q2 2009. Commercial

property markets are reflective of the economy, and the Q2 highlights the continuing impact of the recession on property markets nationwide.

The office vacancy rate increased by 80 bps during Q2 2009 to 15.5%. Both downtown and suburban markets were impacted by the recessionary environment. The downtown vacancy rate increased by 70 bps to 11.7%, while the suburban rate rose by 90 bps to 17.6%. The largest vacancy increases occurred in markets where the housing bust has been particularly acute, including the Southwest and Florida; however, the increase was broad-based, with 44 out of 57 markets seeing higher vacancy levels during the quarter. The national office vacancy rate remains well below the high of 19.1% set in 1991, but the forecast is to reach 17% by year-end, with negative absorption for the year at 68 million sq. ft.

The national industrial availability¹ rate increased 80 bps during Q2 2009 to 13.0%. Industrial availability is now at the highest level since 2003 and is forecast to go higher. The industrial market continues to suffer from declining economic activity both at home and abroad, as trade flows have slowed, and its negative absorption for the year is going to set a record.

The retail (neighborhood and community centers) availability¹ rate rose to 11.7% and is also forecast to continue upward. However, the rate of increase is slowing and may signal that the negative effect from the current economic crisis on neighborhood and community centers is moderating. It is expected that once the recovery in consumer spending begins, some tenants of

Figure 7: U.S. Vacancy and Absorption Trends

	U.S. Vacancy				U.S. Absorption Trends (in million SF)			
	4Q07	4Q08	2Q09	4Q09F	2007	2008	2Q09	2009F
Office	12.5%	14.0%	15.5%	17.3%	59.3	19.8	-16.2	-68.2
Industrial	9.5%	11.4%	13.0%	14.3%	167.2	-86.9	-80.5	-306.1
Retail	8.7%	10.4%	11.7%	12.6%	13.9	-0.4	-11.3	-23.3

Source: CBRE Econometric Advisors (EA) Outlooks Fall 2009

1. Availability is space that is actively being marketed and available for tenant build-out within 12 months.

neighborhood and community centers will be the first to benefit.

In Canada, office vacancy is rising but not at the same rate as in the U.S. The national office vacancy increased from 7.5% in the previous quarter to 8.3% in Q2. This resulted in negative absorption of 1.8 million sq. ft., a slight improvement from the negative 2.3 million sq. ft. recorded in Q1 2009. Significant new supply in Calgary and Toronto over the next two years will push Canada's national vacancy rates higher, especially with leasing activity diminishing quickly.

The Canadian industrial availability rate increased from 6.7% in the previous quarter to 7.4% in Q2. The increase in availability was due to weaknesses in Vancouver, Calgary and Toronto.

The long-term health of the Latin America real estate market is dependent on the length of the global recession.

Vacancy rates have moved up moderately, while rental rates have flattened and, in a few instances, declined. However, we have not seen any major changes in market fundamentals. Investment transactions are down significantly, as they are in the rest of the world, but deals are still closing, especially in the major markets.

IN SUMMARY

The freefall in economic terms has ended and the global economy is stabilizing. Nevertheless, the patient is still in intensive care, globally, although some regions are certainly doing better. Discussion is now focused on recovery for the economies of the globe, but commercial real estate prospects for the balance of this year are quite mixed. Overall, Asia is looking good, while mature regions and countries will have muddling recoveries.

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