

The definitive guide to

Real Estate Fundraising

Leading insight and know-how for real estate fund managers,
investors and professional advisers



Edited by Capital & Marketing Group



London | New York | Singapore

www.peimedia.com

Published in July 2010 by
PEI Media Ltd
Second Floor
Sycamore House
Sycamore Street
London EC1Y 0SG
United Kingdom

Telephone: +44 (0)20 7566 5444
www.peimedia.com

© 2010 PEI Media Ltd.

ISBN 978-1-904-696-78-0

This publication is not included in the CLA Licence so you must not copy any portion of it without the permission of the publisher.

All rights reserved. No parts of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means including electronic, mechanical, photocopy, recording or otherwise, without written permission of the publisher.

The views and opinions expressed in the book are solely those of the authors and need not reflect those of their employing institutions.

Although every reasonable effort has been made to ensure the accuracy of this publication, the publisher accepts no responsibility for any errors or omissions within this publication or for any expense or other loss alleged to have arisen in any way in connection with a reader's use of this publication.

PEI Media editor: Anthony O'Connor

Production editor: Julie Foster

Cover design: Joshua Chong

Printed in the UK by: Hobbs the Printers (www.hobbs.uk.com)

Cover image: Courtesy of iStockphoto



THE QUEEN'S AWARDS
FOR ENTERPRISE
2009

Contents

Message from the publisher	vii	Impact of the financial crisis	24
About the editors	ix	Lower risk preference in the new market cycle	25
Figures and tables	xi	INREV role to encourage best practice	25
Editors' introduction	xiii	Investor preferences in the recovery	26
		Looking forward	27
Chapter one	1	Chapter three	29
Global real estate outlook and implications for investment strategy 2010		Selecting the optimum fund strategy in 2010 and beyond	
<i>By Peter Hobbs, RREEF Alternative Investments and Henry Chin, Deutsche Bank Private Wealth Management</i>		<i>By Jeremy Plummer, CBRE Investors Global Multi Manager</i>	
Introduction	1	Introduction	29
Global economic outlook	1	Fund selection	31
Outlook for real estate fundamentals:		Lessons learned	34
Rents and vacancies	3	Conclusion	34
Real estate capital markets outlook	7		
Post-crisis implications:		Chapter four	37
Investment strategies	14	Best-practice fund structuring – the legal perspective	
Conclusions	19	<i>By David S. Ryland and Steven Cowins, SJ Berwin LLP</i>	
		Introduction	37
Chapter two	23	Tax efficiency	40
Non-listed property funds in the new market cycle		Tax returns	45
<i>By Andrea Carpenter, INREV</i>		Residence and substance	45
Current market composition	23	Tax-efficient carried interest	46
		Typical fund structures	47
		Feeders and holding vehicles	47
		Retail funds and REITs	49
		Limited liability	51
		Regulatory concerns	51

The Alternative Investment Fund Managers Directive – an overview	54	How do placement agents work?	76
ERISA	55	A tougher fundraising market	77
Open-ended or closed-end funds	56	Lower revenues	78
Corporate governance	57	Increased regulation	78
Conclusion	57	What can a placement agent do today to survive?	79
<hr/>		The changing dynamics of real estate fundraising	79
Chapter five	59	What should the placement agent do to continue?	81
Real estate fund terms		Conclusion	82
<i>By James Gee and Nigel Hatfield, Clifford Chance LLP</i>		<hr/>	
Introduction	59	Chapter eight	83
Moving away from funds	59	Performing due diligence on a real estate fund	
What real estate funds?	60	<i>By Antonio Alvarez and Ben Brandon-King, Aberdeen</i>	
Fund economics	61	Introduction	83
Key non-economic terms	65	Dissecting the components of due diligence	83
Conclusion	66	Commercial due diligence – corporate governance and key fund terms	85
<hr/>		The importance of underwriting returns and risk	87
Chapter six	69	Conclusion	89
Structuring real estate funds		<hr/>	
<i>By John Forbes, PricewaterhouseCoopers LLP</i>		Chapter nine	91
Commercial issues	69	Presenting the proposition: planning and executing the fundraising	
Investor issues	70	<i>By Martin A. Anthonson and Lori D. Campana, Monument Group</i>	
Structural issues	71	Introduction	91
Investment issues	72	Planning and preparation pay off	92
Conclusion	73	Planning, writing, editing, legal review and printing the PPM	93
<hr/>		Executing on the plan – practicalities of the fundraising process	95
Chapter seven	75	Approaching the closing	97
Placement agents: a Darwinian tale		<hr/>	
<i>By Christophe de Taurines, Capital & Marketing Group</i>			
Introduction	75		
What is a placement agent?	75		

After the closing	97
Final thoughts	98

Chapter ten 99

Placement agent agreements – commentary on terms

By Cindy Valentine, SJ Berwin LLP

Introduction	99
Selecting a placement agent	99
Parties	99
Services	99
Term	100
Sunset clause	101
Compensation	101
Timing for payment	101
Successor funds	101
Out-of-pocket expenses	102
Targets	102
Regulatory	102
Indemnity	102
Confidentiality	103
Conflicts of interests	103
Appointment of sub-agents	103
US pensions reassess using agents	103
Conclusion	104

Chapter eleven 105

Changing investor demands: transparency is key

By Chris Bellairs, PricewaterhouseCoopers LLP

A focus on operational reporting	105
New investments, new demands	106
Investment due diligence	106
Ongoing monitoring by the investor	106
Responding to investor demands	107
Improving confidence in your performance record	108
Conclusion	109

The surveys 111

Introduction to the surveys	113
International institutional investors	115
Fund of funds investors	127

Appendix I 139

The Ten Rs of choosing and hiring a placement agent

By John Barber, Bridgepoint

Introduction	141
Reach	142
Relationships	142
Record	143
Rigour	143
Rapport	144
Regulation	144
Responsiveness	145
Restraint	145
Robustness	146
Remuneration	146

Appendix II 149

Journalistic coverage of real estate fundraising

Fortress confirms \$800m capital raise	151
Days of real estate capital allocation 'are gone'	151
Texas Teachers' opens board meetings to world	153
TPG makes €900m UK and Ireland property push	154
CMBS 'the future' of real estate business	155
Cornerstone raises \$1.75bn core mortgage fund	155
MSREF's new mission	156
ING REIM launches new Euro fund for its in-house real estate vehicles	160

INREV makes AIFM directive a 'priority'	161	CBRE Investors launch UK fund for defined pensions	173
GE Capital Real Estate, Angelo Gordon close \$1.25bn PPIP fund	162	Investment discipline key to future fundraising success	174
Latin America timber fund targets \$300m	163	Norway oil fund to invest \$22bn in key property markets	175
Qatar state company to launch \$1bn in RE funds	164	Squarestone aims to raise £250m for Brazil	176
Texas ERS to quadruple real estate exposure	164	Arkansas to commit \$250m to RE funds in 2010	177
Americas News: When size doesn't matter	164	\$30bn raised in real estate funds in 2009	178
A\$67bn Future Fund RE allocation rises 3% in a year	165		
Fundraising dropped 60% in 2009, to reach €10.9bn in 2010	166	<hr/>	
LaSalle sees growth in Europe from separate accounts	167	Appendix III	179
MSREF VI faces \$5.4 billion loss	168	Real estate fundraising and rankings	
Study: Use of placement agents drops below 50%	169	<hr/>	
Asiaview: Aligning the stars	169	About Capital & Marketing Group	191
More power to LPs	170		
Apollo Global raises \$107m for CMBS fund	172	About PEI Media	192
Morgan Stanley secondaries fund raises \$370m	173		

Message from the publisher

Welcome to *The Definitive Guide to Real Estate Fundraising*. This exciting publication is brought to you as part of a series of real estate guides conceived and produced by the co-editorial partnership of Capital & Marketing Group and PEI Media.

Capital & Marketing and PEI understand that fundraising in the non-listed indirect real estate asset class will face considerable challenges in the coming years from mid-2010, the date when the guide was first published. So its timely publication should provide you with guidance through a series of fund processes which have essentially had to be rewritten as the financial crisis has raised a series of pressing questions about the direction the asset class should take.

We have worked together to produce a highly practical executive know-how resource, which is written by a leading group of dedicated real estate industry professionals and advisers, so that you can understand how the market for raising capital has developed in the very testing times following the global financial crisis and what you should prepare for when launching future funds. Each author has spent countless hours in sharing his or her understanding and experiences so that you can benefit in your business.

While it is beyond the remit of this publication to provide you with a blueprint for fundraising success, what this collection of thoughtful chapters will offer you is very useful assistance to lead to you achieving your targets. The esteemed authors of this publication reveal precisely what you need to be aware of and what to ask of whom in a given situation so that your real estate fund has every chance of being one of the successful funds.

I would like to thank Christophe de Taurines and Sandra Johansson of Capital & Marketing Group for their dedication to this project and for being so focused in helping the asset class achieve a return to good health. I would also like to thank my colleagues at PEI who work tirelessly to make projects like this one work. And I would like to thank Julie Foster for designing and producing yet another great PEI publication.

After reading this publication, should you wish to share your thoughts on the content, please feel free to contact me: anthony.o@peimedia.com.

Sincerely,

Anthony O'Connor
Head of Specialist Publications

About the editors

Christophe de Taurines is the founder and managing director of Capital & Marketing Group (CMG), the global independent capital raisers, based in London, UK. He is responsible for the overall operations of CMG, which acted as a placement agent focused on real estate, infrastructure and other alternative investment funds for over €18 billion of placement mandates since 2002.

Christophe was previously European head of the Real Estate Private Funds Group of Donaldson, Lufkin & Jenrette (now Credit Suisse). Prior to that role, he was managing director of LaSalle Investment Management, funding a number of European and US investments.

Before working at LaSalle, he was resident vice president at Citibank in the Corporate Real Estate Team and assistant vice president at Credit Commercial de France (now HSBC) in the debt capital markets.

Christophe holds an MBA from the London Business School and a BA in Economics and Business from the George Washington University, achieving the dean's list. He is a member of the Urban Land Institute, the Institute of Directors and the Young Presidents' Organization. He received the Order of Merit of St. Joseph (Tuscany).

Sandra Johansson is a vice president of Capital & Marketing Group (CMG), a leading independent capital markets advisory firm for alternative investment vehicles. She is responsible for the placement process in the Nordic region and assists the placement process in the UK and Northern Ireland. She also plays a key role in product selection and due diligence.

Prior to joining the firm in 2008, Sandra worked at Lehman Brothers in London, where she was responsible for the distribution of a range of investment management products to Scandinavian institutional investors and prior to this, a member of the real estate distribution and investing team.

Before moving to London, she was a senior financial analyst at US Advisors LLC, a real estate investment company in California, where she was responsible for investing in and managing a commercial real estate portfolio in the US. Before this role she worked at Morgan Stanley in California, USA.

Sandra graduated Summa Cum Laude and a Gamma Sigma scholar with a degree in International Management and Finance from Dominican University in California. She holds an MBA in Global Strategic Management from the same university and was awarded the William G. McGowan Charitable Fund Scholarship for exceptional academic achievement and leadership ■

Figures and tables

Figures

- Figure 1.1: GDP growth across major global economies, 2008–11f
- Figure 1.2: Prospect of rising interest rates, 2008–14f
- Figure 1.3: Office vacancies across global regions, 1990–2014f
- Figure 1.4: Office rental growth across major global markets, 1990–2014f
- Figure 1.5: Asian city positions in property market cycle, 2010
- Figure 1.6: European city positions in office market cycle, 2010
- Figure 1.7: US city positions in property market cycle, 2010
- Figure 1.8: Illustrative real estate capital structure
- Figure 1.9: Quarterly cumulative real estate distress across global regions, 2008–10
- Figure 1.10: Volume of European maturing loans vs. originations, 2000–12
- Figure 1.11: US pension fund implied allocations to real estate, 2007–09
- Figure 1.12: Real estate investment activity
- Figure 1.13: Global office cap rates, 2000–14f
- Figure 1.14: Total market returns by region, 2005–14f
- Figure 1.15: Global real estate market share by investment style and geography
- Figure 1.16: Investor preferences for specific investment styles
- Figure 1.17: All sectors current cap rates vs. rental growth from 2010 to 2014
- Figure 1.18: Major opportunistic real estate investment strategies, 1990–2010
- Figure 3.1: Fund performance disparity (funds with full five-year performance history)
- Figure 3.2: Typical fund-selection process
- Figure 4.1: Fund structure of UK investors in UK real estate
- Figure 4.2: Fund structure showing transfer interests subject to SDLT in UK property
- Figure 4.3: Fund structures determined by location and type of real estate assets
- Figure 7.1: Proportion of funds using placement agents in 2009 – by fund type (% of the total)
- Figure 7.2: Proportion of placement agents specialising by fund type
- Figure 7.3: Proportion of funds using placement agents – by geography (%)
- Figure 8.1: Pre-due diligence as a tool to facilitate identifying risk areas
- Figure 8.2: Example of interdependent factors in due diligence
- Figure 8.3: Underwriting fund returns – risk and return contributors, an illustrative example
- Figure 8.4: Impact of fees on a fund's IRR

Tables

- Table 1.1: Weight of capital towards real estate, 2009 year end
- Table 1.2: High-yielding investment themes for 2010
- Table 1.3: Relative attractiveness of different real estate strategies, 2009–14

Table 3.1:	Fund risk classification
Table 3.2:	Fee structures across different fund strategies
Table 4.1:	Real estate funds – key features
Table 5.1:	Fund economics for opportunistic real estate funds

Editors' introduction

By Christophe de Taurines and Sandra Johansson, Capital & Marketing Group

Who would have guessed in June 2007 that a professional guide to real estate fundraising would be required reading in 2010? Then, most real estate operators, flush with ample debt and equity capital, were more concerned about where to invest and how, in a web of ever-more complex and leveraged transactions.

Now, after the most severe drought in real estate fundraising in a generation and a massive repricing of assets, as well as a major reshuffling of management talent, fundraising is the foremost concern of every player in the industry. For the first time in a long time, even end-investors are expressing concerns about fundraising as a reason not to invest in funds, thus establishing an unvirtuous circle for funds.

The fundraising market has always been competitive, but it has taken on a new intensity with many investors reluctant to make new commitments; investor caution is highlighted by the increase in the time required for real estate funds to reach final close. With investor capital in short supply, the most important hurdle for many fund managers is to secure long-term investment capital.

This executive how-to guide is aimed at all participants in the real estate industry and seeks to help answer some fundamental questions, most notably including: is investor confidence permanently impaired?

Economic uncertainty is certainly the most important contributor to the capital draught. What does the future hold: high inflation or deflation? Where will real estate prices recover first and to what extent? Are China, Brazil and India and other

emerging markets the world economic engines of the future? Or will the traditional power houses, such as the US, Japan and Germany regain their status once again? Will the market be subject to further unforeseen financial shocks as assets need to be refinanced? What risks will investors be subject to and will returns be adequate to compensate those risks?

A key question on the lips of real estate professionals the world over is whether governments and regulatory bodies are making matters better or worse.

The regulatory environment is obviously tightening. This is the result of governments seeking to tackle financial groups that are deemed too big to fail and attempt to address the general public's perception that the financial industry has abused its privileged position. Government bail-outs of banks and insurance groups, brought about in part by massive issues in illiquid investments as well as some of the spectacular frauds, are driving an era of increasing regulation and scrutiny. A key uncertainty is introduced by yet another pressing question: will government and regulatory responses to the crisis lay a solid foundation and lead to structural long-term changes to the industry?

In consequence, the environment in which banks operate is tighter with Basel 2 and the so-called Volcker Rule. Insurance groups now have to contend with Solvency 2, a much stricter set of regulatory requirements for insurance firms operating in the European Union (EU). Hedge funds and private equity-style funds also face tighter EU regulations as currently contemplated with the Alternative Investment Fund Managers (AIFM)

Directive. Even placement agents are now more tightly controlled under the Financial Industry Regulatory Authority (FINRA) in the US, having barely escaped an outright ban. There is a growing consensus in the industry that tighter regulation will be unavoidable in coming years.

Does investing in indirect non-listed real estate still make sense?

Institutional investors are increasingly concerned about delivering the returns expected by their constituents while maintaining a sensible balance between risk and return, while also satisfying increasing demands from their regulators.

With many funds raised in the past five years showing poor returns, investors are now questioning some basic assumptions about investing in real estate funds. Historically, the main driver was an attempt to diversify geographically and by management style, but does this still make sense in 2010 and beyond?

Is the bond of trust between managers and investors irrevocably broken? Should investors still invest indirectly or should they now invest directly? Is the GP/LP model still valid and if so, where will capital for real estate funds come from? Do investors have the necessary internal resources and expertise to go direct? Which fund strategy is optimum? Is the large-cap allocator-fund model still valid or is there going to be a gradual shift to smaller funds with focused strategies and specialist local managers? What level of governance and transparency is now demanded?

How will funds be raised in a post-global-financial-crisis environment?

Investors are increasingly looking for tighter investor parameters, greater governance and transparency. They are looking towards fund managers who are responsive and adapt well to investors'

demands and those who will increase their chances of securing scarce capital.

Debate rages over what are appropriate fund terms for investors and for fund managers, precisely how any gap should be bridged, and just how a fund should be structured for legal and fiscal efficiencies. It also is unclear whether some investors will favour focusing on investing alongside investors that have similar cultural backgrounds and regulatory requirements. And of course, there is considerable uncertainty as to what degree of due diligence should be performed on a manager and a real estate fund in this new challenging era.

In terms of marketing, fund sponsors are having to re-evaluate how a fundraising process will be planned and executed, a discussion that extends to relying on funds being placed by internal teams or by placement agents or by a combination of both. And if an agent is used, what should an agreement look like? What are the restrictions on the use of an agent?

Although significantly impacted by the crisis, we believe that non-listed real estate will continue to play a significant role in institutional investors' investment and diversification strategies. Hopefully, the non-listed real estate market that emerges from this crisis will be in a better position to withstand the next one.

We want to congratulate PEI Media for its foresight, and particularly Anthony O'Connor for his relentless passion for this project. We also want to thank each of the many contributors, who have taken their time and efforts to help build this book to educate and to share their insight with the industry of the opportunities and pitfalls of fundraising non-listed real estate funds in the wake of the global financial crisis.

As the indirect non-listed real estate market is reassessing which direction the asset class will

move in, *The Definitive Guide to Real Estate Fundraising* aims to answer many of the questions that are puzzling industry professionals. It is also the intention that this must-read publication opens up for debate some of the topics that could shape the face of the industry right through the next cycle.

The guide's incisive content is opened by **Peter Hobbs** and **Henry Chin** in Chapter 1 who, in providing an excellent overview of global real estate, share their detailed outlook on the asset class and address implications for investment strategies in 2010.

Andrea Carpenter then takes us to the role of non-listed property funds in the new market cycle in Chapter 2.

Jeremy Plummer follows in Chapter 3 with his views on how to select the optimum fund strategy in 2010 and beyond.

In Chapter 4, **David Ryland** and **Steven Cowins** educate us about best practices in fund structuring from their very accomplished legal perspectives.

James Gee and **Nigel Hatfield** provide a detailed analysis of non-listed real estate fund terms in Chapter 5.

Structuring real estate funds from the all-important tax perspective is the topic chosen by **John Forbes** in Chapter 6.

Christophe de Taurines discusses how placement agents will operate in real estate after the global financial crisis environment in Chapter 7.

In Chapter 8, **Antonio Alvarez** and **Ben Brandon-King** share their keen views on how to perform due diligence on a real estate fund.

Martin Anthonsen and **Lori Campana** detail how to plan and execute a real estate fundraising in Chapter 9.

Chapter 10 deals with terms of placement agent agreements according to lawyer **Cindy Valentine**.

Chris Bellairs in Chapter 11 focuses on a number of changing investor demands.

In April and May 2010 PEI Media and Capital & Marketing conducted fully impartial and independent surveys regarding attitudes to real estate fundraising, canvassing the opinions of international investors and fund of fund investors. The findings are presented in the raw in the Surveys section. You can draw your own conclusions!

Finally, the editors are delighted to present valuable additional material, which is contained in the extensive appendices to the guide:

- The classic 10 Rs of choosing and hiring a placement agent by **John Barber**
- News and feature stories on real estate fundraising that were first published in *PERENews.com* and *PERE magazine*
- A series of tables on ranking and fundraising provided by PERE Connect

Happy reading!

Christophe de Taurines **Sandra Johansson**

Global real estate outlook and implications for investment strategy 2010

By Peter Hobbs, RREEF Alternative Investments and Henry Chin, Deutsche Bank Private Wealth Management

Introduction

The sharp correction in real estate during the years of the credit crisis meant that 2009 represented an excellent vintage for investing across risk styles and markets. The losses of 2008 and the first half of 2009 were soon followed by an astonishing recovery in a number of markets, and more widespread confidence in the outlook for real estate investing. Real estate investment trust (REIT) markets globally were, as of March 2010, nearly double their levels of March 2009, and certain direct markets such as those in China, the UK and even the US have posted record-breaking performance in recent months. These trends and the continued momentum behind the recovery suggest that 2009 did, indeed, represent an excellent vintage for real estate investing.

By the end of the first quarter of 2010 the outlook was, if anything, more complex than in the previous year. The global economy and property markets were back from the brink of a potential depression, and the prospects for performance had improved over the past 12 months. Despite this, there remain profound risks facing the outlook, and the market is susceptible to a range of shocks. More significantly, the recent improvement has been driven by a turnaround in real estate capital markets, well ahead of a sustained improvement in fundamentals. Improvement in the capital markets is serving to 'front-load' the strong performance of real estate that is expected during the cyclical recovery. This front-loading of performance raises the question of whether real estate capital markets are correctly pricing in the risks to

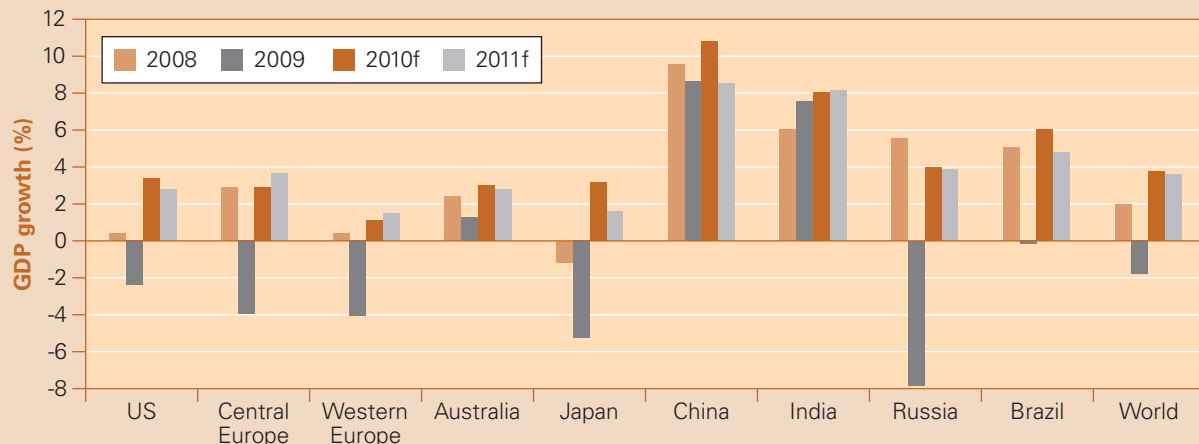
the outlook, with an increased possibility that the markets overshoot, leading to weaker performance during the period between 2011 and 2014.

Although these risks have increased, it is likely that 2010 will remain an attractive vintage for investing in real estate, despite the recent improvements and front-loading of performance expectations. Markets should benefit from relatively high income returns given the repricing of the market, as well as the prospect of value recovery driven by rental growth and capitalisation or cap-rate compression. However, as usual, there are significant variations from market to market in terms of the pace of the recovery and the risk of overheating. It is within this context that this real estate market outlook has been written. The focus centres on two main areas. First, the outlook for real estate fundamentals, capital markets and performance and, second, the implications for investment strategy.

Global economic outlook

Despite some heightened volatility in financial markets during early months of 2010, the global economy continues to be recovering from the significant downturn experienced at the end of 2008 and the first half of 2009. This recovery is expected to persist through 2010, with global economic growth expected to reach close to 4 per cent for the year as a whole, sharply up on the negative growth of 2009. This growth, which is forecast to be sustained into 2011, is being driven by a combination of factors including aggressive policy stimulus, a powerful upturn in the inventory

Figure 1.1: GDP growth across major global economies, 2008–11f



Source: Global Insights, June 2010.

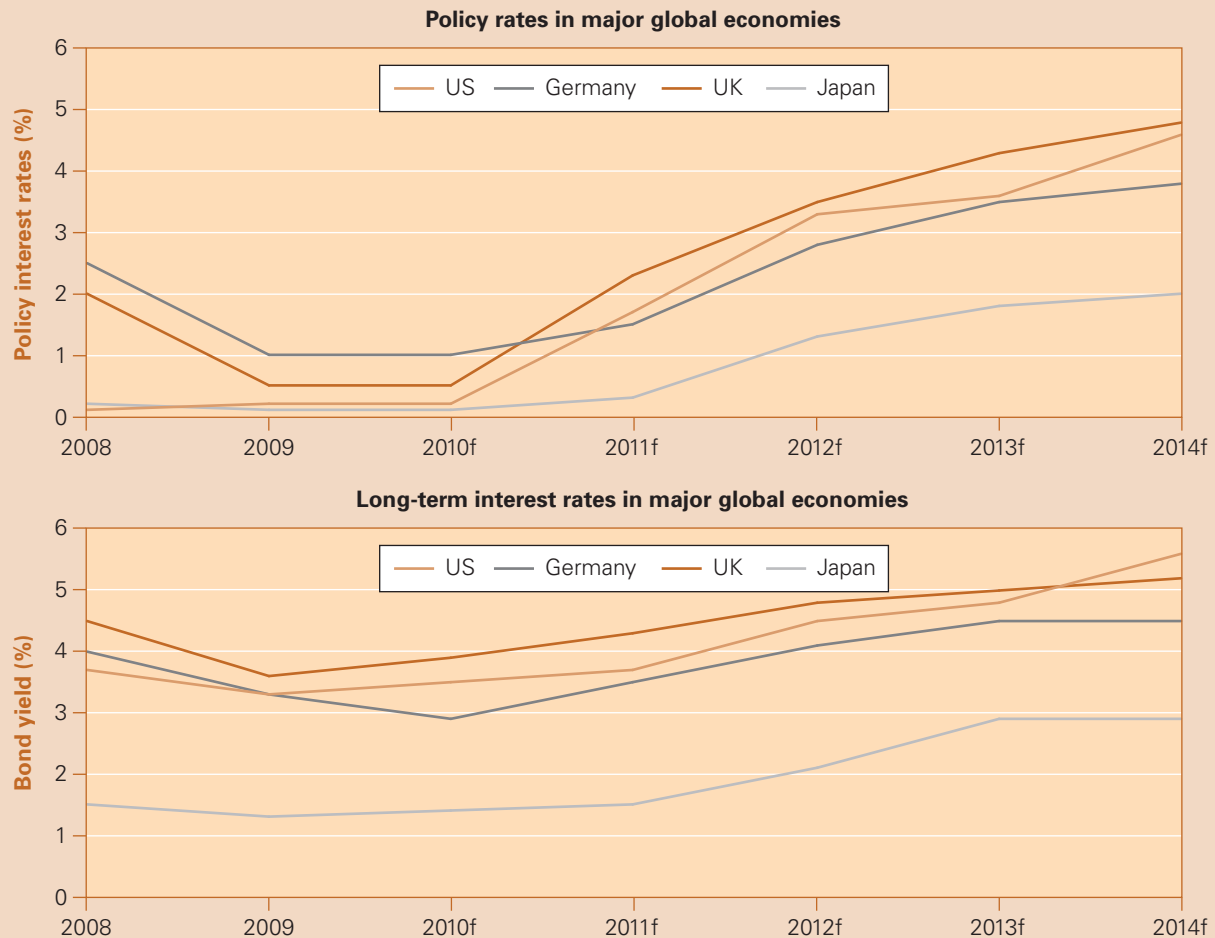
cycle, improved financial conditions, stabilisation in housing, and progress in balance sheet repair.

Despite the positive outlook, the credit-related nature of the recession and the continuing process of deleveraging mean the global economy is set to grow at below trend rates over the next few years. In addition to these slow rates of growth, there are significant variations in the outlook for the mature and developing economies¹ (see Figure 1.1). Many of the former, including the US, Japan, and some in Europe, face significant restraints on their recoveries. It will take a number of years for these countries to absorb the disinflationary slack from the recession, and they will need monetary and fiscal policies to remain accommodating for some time. At the same time, these stimulus policies are not sustainable indefinitely, and there are significant risks in the timing of the removal of the policies. Removing stimulus too quickly could risk economic relapse, while removing it too late could risk sovereign debt crises and inflation.

By contrast, many emerging economies face different challenges. They exported aggressively to countries that had the booms, and financed those

exports via capital flows, but then suffered the fall-out when the booms turned to bust, their exports collapsed, and the financial crisis erupted. These economies have bounced back vigorously partly due to the massive policy stimulus and partly as they were less encumbered by domestic imbalances to begin with. By early 2010 it became clear that these emerging economies faced potential overheating and, in response, policy-tightening have started to be introduced. Further policy-tightening will be needed, and this process is fraught with risks as curbing the excesses without causing a hard landing will not be easy.

It is in the emerging economies where interest rates are set to rise earliest. Although inflationary pressures in China were, at 1.5 percent, more modest than expected, there remain medium-term pressures for tightening. Deutsche Bank economists forecast a rise of 100 basis points in the Chinese central bank's Reserve Requirement Ratio (RRR) in the second quarter of 2010, and policy rates to have risen to 3 percent by the end of 2010, up from 2.25 percent (as of March 2010). In contrast, interest rates are set to remain low across most developed economies for much of

Figure 1.2: **Prospect of rising interest rates, 2008–14f**

Source: *Global Insights*, June 2010.

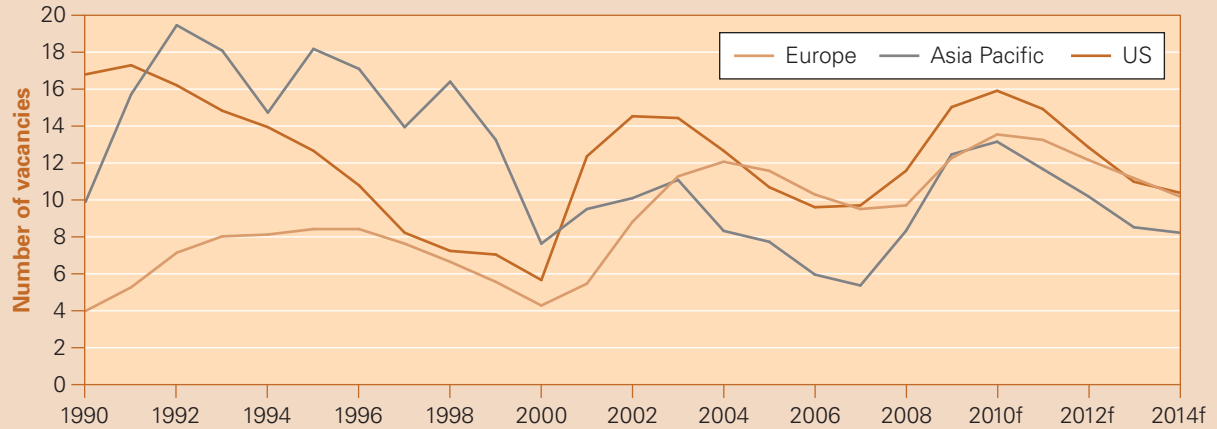
2010, although many of the credit-easing programmes are being phased out. Interest rates will only start rising once central banks are convinced that employment is growing more strongly and unemployment rates are reducing. Despite this, rates will, eventually, start to rise, with Deutsche Bank forecasting a 1.25 percent Fed Funds Rate (up from the current 0.25 percent), a 0.75 percent UK Bank Rate (up from 0.5 percent) and a 1.5 percent ECB Refi rate (up from 1 percent) by the end of the year (see Figure 1.2). Interest rates are forecast to rise only modestly over the medium term,

with the bigger risk that government bond yields might spike given the significant fiscal imbalances being faced by a series of European economies.

Outlook for real estate fundamentals: Rents and vacancies

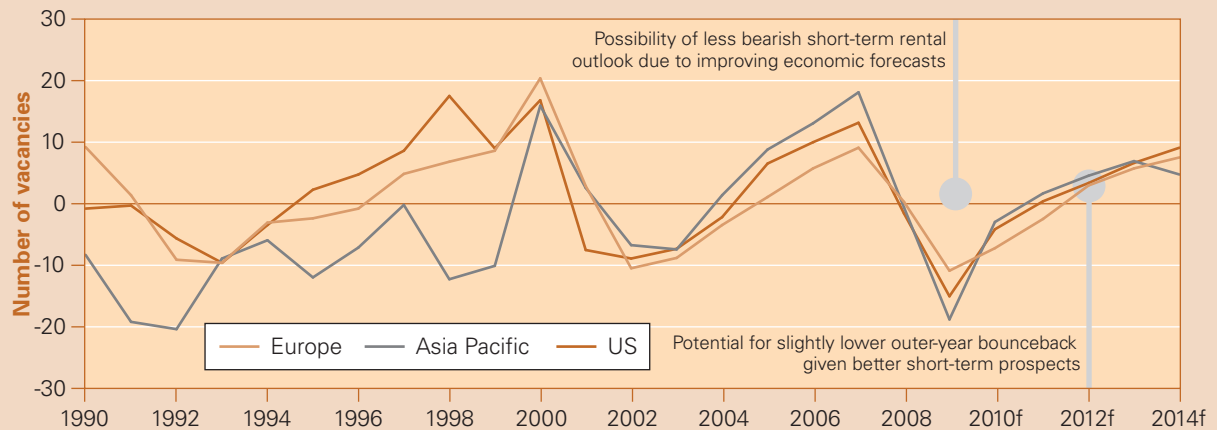
Although the capital markets and broader economy have staged a recovery over recent months, the outlook for real estate fundamentals remain weak

Figure 1.3: Office vacancies across global regions, 1990–2014f



Note: Based on 10 key markets in each region (Americas, Europe and Asia Pacific), weighted by market size at end 2008.
Source: RREEF Research, January 2010.

Figure 1.4: Office rental growth across major global markets, 1990–2014f



Note: Based on 10 key markets in each region, weighted by market size at end 2009.
Source: RREEF Research, January 2010.

across most markets. A few office markets are showing signs of recovery, but it will not be until 2011 that there will be a significant number of markets with rental levels advancing again; by 2012, only a few markets will still be struggling with rental deterioration (see Figure 1.3). Cyclical timing varies considerably across global markets. The Asia Pacific region, in general, is forecast to lead the

cycle, with rental growth in most markets stabilising in 2010 and then advancing in 2011. Europe and the US will generally be slower to turn.

Vacancy rates underscore the current outlook for office rents. The Asia Pacific region will be the first to see broad improvements in 2010 as over-supplied markets like Singapore begin to pick up