

OVERVIEW

Rental recovery is on the horizon for all regions

- The contraction in demand for industrial & logistics properties across the globe in 2008 and 2009 caused the CBRE Global Rent Index to decline by over 10% since 1Q 2008. The US and EMEA underwent the most significant contraction in rents within this period, registering declines of 14% and 12% respectively, while the Pacific region and Asia weathered the storm better, each with rental declines of 5% since 1Q 2008. All regions now appear to be in recovery mode, albeit at differing rates and stages. In 2Q 2010 an easing of rental decline emerged throughout EMEA, the Americas and the Pacific region, while rental growth is well underway across Asia.

Leading global industrial indicators point towards a slow but steady recovery in global rents

- An historic assessment of the trends in leading global indicators such as GDP growth, consumer spending, industrial production and export growth shows a correlation between these indicators and prime rental growth in the industrial & logistics market. Pre-2005 it can be seen that global industrial & logistics rents typically moved in the same direction as GDP and industrial production, albeit at lower levels of growth than these economic indicators. While rental growth grew out of proportion between 2006 and 2008, it now appears that the index has returned to the previous trend movements that were seen before 2005, and are now anticipated to grow at a lower level than GDP and industrial production over the medium term.

Stronger capital markets are being reflected in prime yields

- Investor sentiment in industrial properties has notably improved at a global level throughout 1H 2010, as over US\$16 billion was invested in the sector in comparison to over US\$10 billion in 1H 2009. EMEA in particular saw a return of investor appetite as industrial sales increased by 90% over the same period, while spend in US industrial properties increased by 40%. As a result of this return in appetite; prospects of rental growth; and a shortage of prime assets on the market, the Global Industrial Yields Index tightened by 37 basis points in 2Q 2010. This contraction in yields has been ongoing across all markets since 3Q 2009 and, specifically in Asia, as far back as 4Q 2008.

Land values hit in developed countries but escalating in emerging markets

- The nervousness of the global financial markets regarding real estate development has had a particularly significant effect on land values in the developed markets over 2010, but has not impacted values in emerging economies, which are still recording average increases of between 2% and 29% for prime serviced industrial sites.

Global Industrial & Logistics Annual Rental Change

Source: CB Richard Ellis

GLOBAL INDUSTRIAL DRIVERS

The global industrial & logistics market is particularly susceptible to external economic conditions and their effect on world trade patterns and volumes. Put simply, the demand for manufactured goods, where the end consumer is located and how the goods will get there, can dramatically alter the position and performance of industrial & logistics markets across the world. Recent trends in the recovery of global economic growth and trade have in tandem contributed to a slight recovery of the sector. Indeed, how this recovery will persist and in what shape will be of particular interest to occupiers, developers and investors.

Economic Factors

The year 2008 will go down in history as one of the most economically tumultuous of our time. Aided by a collapse in retail sales and a resultant de-stocking of goods in all major manufacturing markets, global GDP growth contracted to just 1.95% and continued to contract in 2009 to -1.86%. As key economies recovered in the second half of 2009, a global inventory restocking process occurred as demand and trade resumed, albeit at lower levels than before the "global financial crisis" (GFC). This resumption in activity has led economists to believe that the global economy will grow by around 3.8% in 2010 and remain at this level over the medium term.

Interestingly for the logistics sector, it is the emerging economies, led by large consumer markets such as India and Brazil that are expected to lead this economic growth. The anticipation that these emerging markets will grow at almost twice the rate of developed economies by 2011 redefines the importance of these countries in the future global industrial & logistics sector. Indeed, retail sales in developing economies such as China, Brazil, India and Russia are expected to grow by 2.3% in 2012 and escalate even further in 2013 to grow almost four times the amount (5.87%) of advanced economies.

Global GDP Growth

	WORLD	ADVANCED ECONOMIES	DEVELOPING ECONOMIES
2007	4.03	2.65	6.38
2008	1.95	0.37	4.30
2009	-1.86	-3.32	0.91
2010(f)	3.77	2.57	4.24
2011(f)	3.60	2.33	4.95
2012(f)	3.75	2.52	4.86
2013(f)	3.76	2.42	4.73

Source IHS Global Insight

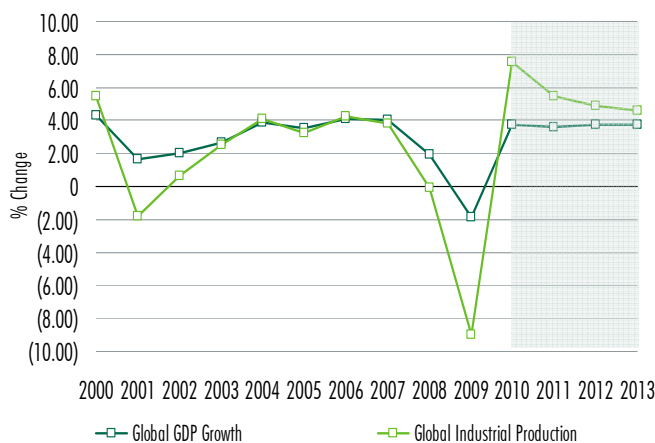
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Trade Growth

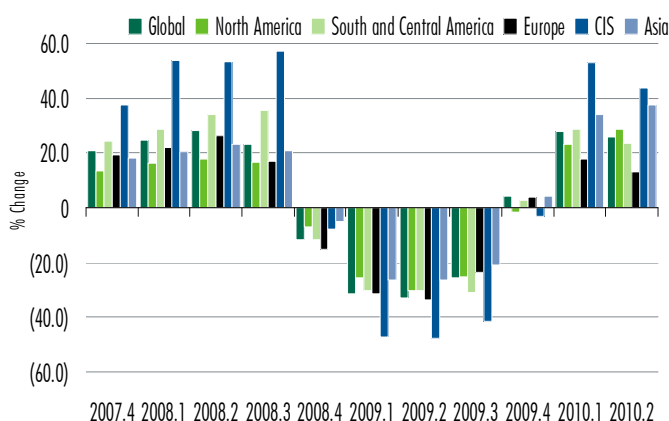
World industrial production has typically moved in tandem with global GDP; however, in recent years the trends in production exceeded the trends in global GDP, proving the volatility of world trade patterns to macro-economic factors. As GDP growth is expected to stabilise over the next few years, so too is it anticipated that world industrial production will level out between 4.5% and 5% prior to 2013.

Global Industrial Production & GDP Growth



The full impact of the GFC was only felt across trading countries as late as 4Q 2008, when export levels began to deteriorate. Within this quarter the biggest drop in exports was felt across Europe, which declined by over 15%. This drop was soon surpassed by the Commonwealth of Independent States (CIS), (including Russia, Kazakhstan and Ukraine) which experienced a decline of 47.6% in exports in 2Q 2009. It is this region and Asia however, that have rebounded the most in terms of export growth in recent months. Over 2Q 2010 alone, exports grew by over 37% in Asia and by more than 43% in the CIS countries over the same period. Unfortunately, in-depth figures on the destination of these exports are not yet available. However, all accounts suggest that a large percentage of this export growth is attributable to internal trade among the emerging economies.

Growth in Global Merchandise Exports

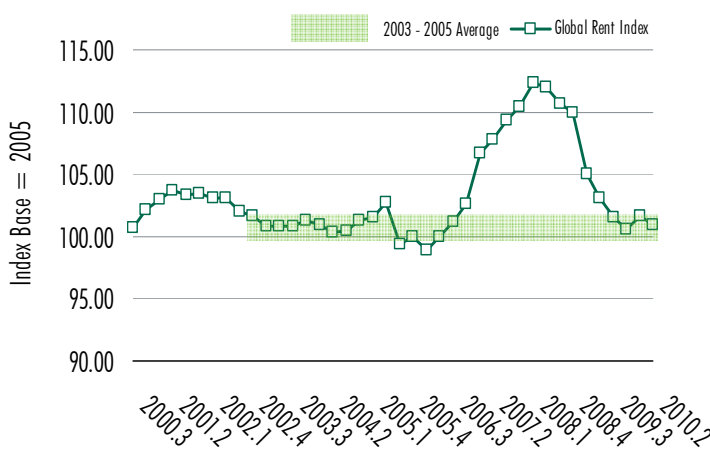


In order to assess the possible impact that the drivers of trade, GDP and industrial production may have on the future of the global industrial & logistics market, it is first important to ascertain how the market has performed in the past and examine how these drivers have previously affected the key real estate indicators.

GLOBAL INDUSTRIAL RENTS

The CBRE Global Industrial & Logistics Rent Index has been compiled based on the average prime rental level for a 161,000 sq.ft. (15,000 sq.m.) logistics/distribution centre in prime locations across each geographic region. While it was not possible to collect data on all markets across the globe, each regional trend helps us to understand the broad changes that are occurring around the world.

Global Industrial & Logistics Rent Index



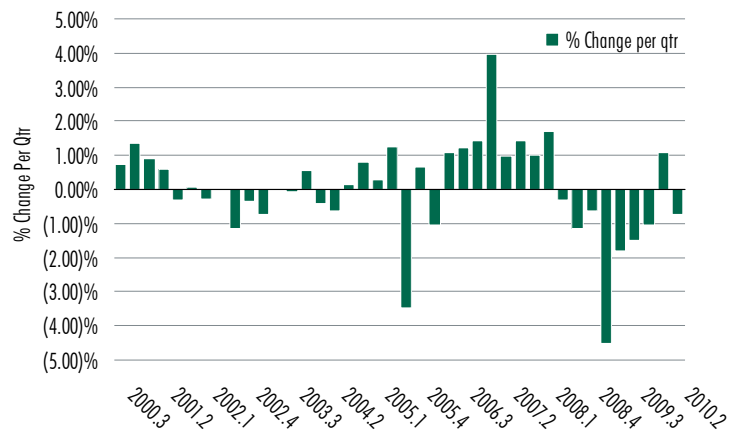
Source: CB Richard Ellis

- Index includes US, Europe and Pacific pre 2005 and incl. Asia post 2005
- Asian rental index does not include India

The Global Industrial & Logistics Rent Index shows us that as of 2Q 2010, prime logistics rents across the world have returned to 2003-2005 levels. Indeed, the index now lies at the average rental level that was achieved for industrial & logistics properties between 1Q 2003 and 4Q 2005. Within this period, the index typically deviated by a maximum of 3%, which is a far cry from the increase of over 12% that occurred between 2006 and 2008.

The big question however, is whether the global rental index has further to fall or whether the cyclical floor has been reached. It can be seen that the momentum of quarterly rental decline has definitely slowed. From the largest quarterly decline of 4.5% in 1Q 2009, the downward pressure on global industrial & logistics rents has now eased to -0.7% as of 2Q 2010. Indeed, a quarterly growth of 1.1% in rents occurred in the global index in 1Q 2010, as rents in Asia have increased by over 6% since the end of 2009.

Global Industrial & Logistics Rental Change



Source CB Richard Ellis

All regions across the world have suffered a decline in industrial & logistics rents since the peak of the market in early 2008. Similarly, all regions now appear to be recovering, albeit at differing rates and stages. With the exception of the Pacific region, all markets experienced the largest quarterly decline in rents in 1Q 2009, while Pacific rents decreased the most in 2Q 2009. Since then, however, all markets have been in recovery mode with a general easing of rental decline occurring across the board.

Regional Rental Movements

			1Q 2009	2Q 2010
EMEA	Decline Slowing	↓	-3.5%	-0.8%
Asia	Growing	↑	-6.9%	6.3%
Pacific	Decline Slowing	↓	-1.4%	-0.13%
Americas	Decline Slowing	↓	-3.8%	-1.32%

Source CB Richard Ellis

Our analysis of over 55 of the most expensive industrial & logistics locations across the world shows us that as of 2Q 2010, Tokyo was the most expensive rental location in the world for a distribution/logistics centre, followed by London, UK and Sao Paulo, Brazil.

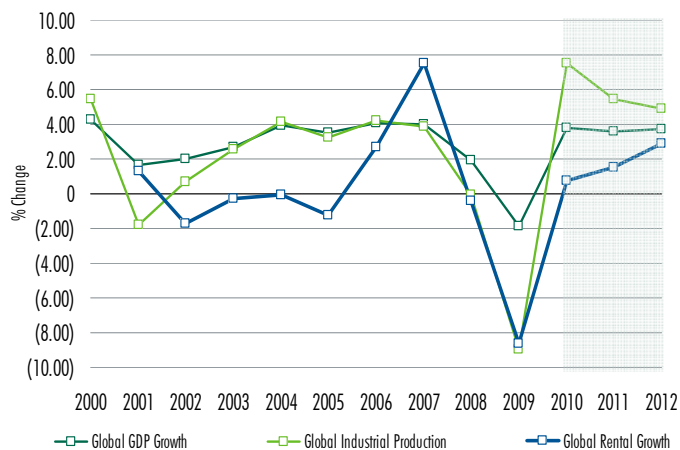
Most Expensive Global Industrial & Logistics Rental Locations, 2Q 2010

	MARKET	LOCAL	UNIT	US \$ psf
1	Tokyo, Japan	162.73	JPY psf	22.09
2	London, UK	15.25	GBP psf	19.51
3	Sao Paulo / Campina, Brazil	13.01	US\$ psf	13.01
4	Singapore	1.33	S \$ psf	11.37
5	Amsterdam (Shipol), Netherlands	8.10	EUR psf	10.37
6	Paris, France	7.50	EUR psf	10.00
7	Sydney, Australia	112.90	AUD psm	9.72
8	Madrid, Spain	7.25	EUR psf	9.28
9	Perth, Australia	105.75	AUD psm	9.14
10	Brisbane, Australia	103.13	AUD psm	8.91

Source CB Richard Ellis

As can be seen by the below chart, in the past, trends in global industrial & logistics rents were closely tied to economic and production trends. Since the GFC, however, the demand for industrial property and the recovery in rents are now susceptible to a larger variety of unquantifiable factors than before. Consumer sentiment, increased saving patterns, tighter credit restrictions and the curbing of speculative development are now additional factors that will influence the logistics market and the demand for industrial real estate going forward.

Global GDP, Trade and Industrial Rent Trends



Source: CB Richard Ellis

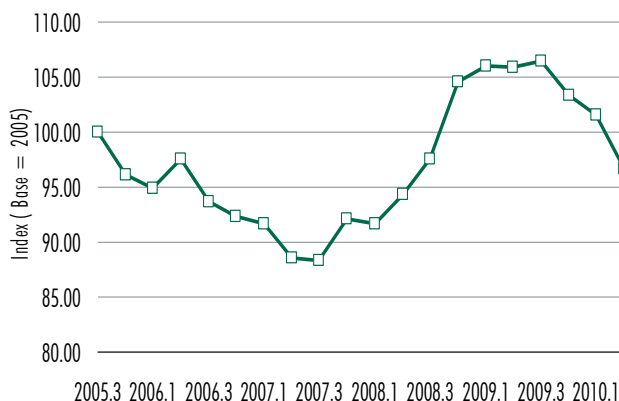
Taking into account these changing variables, we have studied the previous trends in historical production, as well as future projections in GDP growth, to ascertain how global industrial rents are likely to perform over the next three years. While the demand for property is likely to remain weak in some regions such as the US and EMEA, stable and growing demand levels in Asia, Pacific, Latin America and Canada will, along with limited supply in these markets, cause rental growth in prime locations. Therefore, despite decreasing in 2Q 2010, we anticipate that global industrial rents for prime logistics properties will gradually stabilise and increase before the year-end to record a yearly growth of 0.8%.

The growth in global industrial production and GDP is expected to decelerate in 2011 and 2012; however, we believe that the bottoming-out of rents in the EMEA and US markets will stabilise the prime global rental growth level at 1.5% in 2011. The consumption of goods is expected to rebound (to more moderate levels) in these key markets in 2011/12 as frugal saving patterns adopted in the GFC could result in stronger consumer spending in the future. Equally, moves by governments and lending institutions to ease restrictions on credit for business investment should improve demand for industrial properties. We therefore anticipate global rents to increase by 2.9% in 2012 due to a growth in rents in EMEA and a stabilisation of rental growth in other markets.

GLOBAL CAPITAL MARKETS

The Global Industrial Yields Index fell by 37 basis points in 2Q 2010 to reach 7.46%. This marked the third consecutive contraction in yields since 3Q 2009, when yields were 8.21%, and returns the market to 3Q 2008 levels. We expect this trend, which is being experienced across all regions, is a result of a lack of assets available on the market rather than a significant resurgence in demand. However, as rental growth prospects across all regions look likely to rebound by 2012, demand for industrial investment properties could strengthen and be reflected in the overall prime yield.

Global Industrial Logistics Yield Index

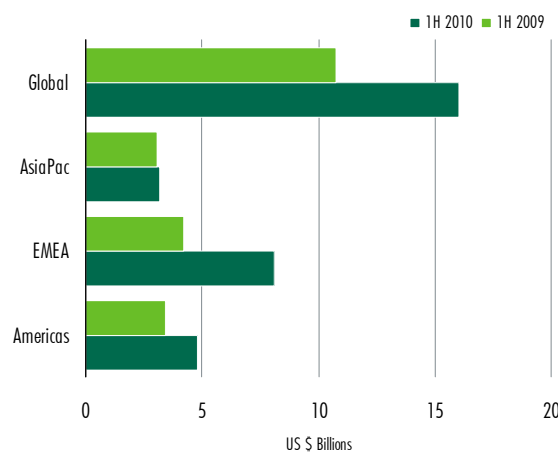


Source: CB Richard Ellis

*Asia Sample includes Beijing, Shanghai, Hong Kong, Singapore, New Delhi and Mumbai

Indeed, investor sentiment in industrial properties has notably improved at a global level throughout 1H 2010. According to the most recent data collected, over US\$16 billion was invested across the industrial sector in the first six months of 2010, representing a strong 49% increase from the same period in 2009. While following the overall improvement in total real estate investment levels across the globe, the industrial sector has lost some of its share of the overall investment spend, accounting for only 6.6% in 1H 2010 in comparison to 8% in 1H 2009.

Industrial Investment Transactions, 1H 2010



Source: Real Capital Analytics

All industrial regions witnessed the encouraging increase in investment spend in 1H 2010, albeit some more than others. Most notable is EMEA, which saw industrial sales increase by 90% in comparison to 1H 2009, followed by the Americas where investment in the sector increased by 40% over the period. Interestingly, industrial sales in Asia and the Pacific (partly due to China's recently introduced restrictions on property and the strengthening of the Australian dollar) remained relatively stable over the six months, comprising US\$3.15 billion of spend in comparison to US\$3.06 billion in 1H 2009.

Key Global Logistics Transactions, 1H 2010

	PROPERTY	SQ FT	US \$ M	BUYER
Japan	Ichikawa Logistics Center II	795,316	229.01	Japan Logistics
Australia	Salta Properties National Portfolio	2,325,327	210.05	GIC, Singapore Wealth Fund
Australia	Woolworths Regional Distribution Centre	495,144	67.44	Charter Hall
US	AMB Miami International Business Park	882,895	66.75	AMB Property Corp
Australia	Coles Warehouse	460,979	57.55	Growthpoint
Japan	Noda Logistics Centre	386,358	56.81	Mapletree Logistics
UK	Castle Industrial Estate	365,976	46.91	Orchard Street Investments
Japan	Iruma Logistics Centre	279,864	40.24	Mapletree Logistics

Source: CB Richard Ellis & Real Capital Analytics

REGIONAL PROPERTY SUMMARY

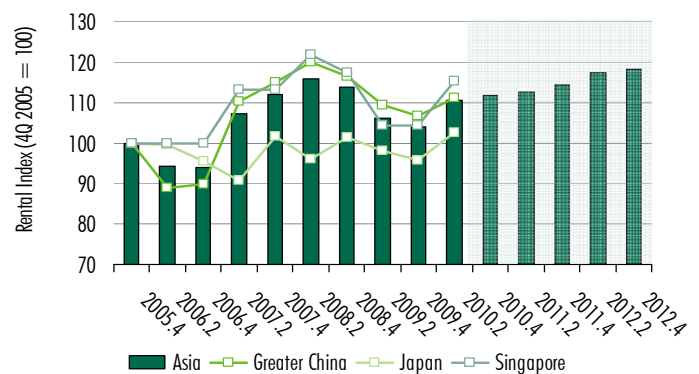
Asian Markets

It is difficult to quantify such a large and diverse region such as Asia without focusing on the larger occupational markets of China, Singapore, India and Japan. However, it is the export and local demand growth of these key areas that has led to the strong economic growth of the region as a whole. The growth of China and India as major global trading partners and producers of goods and services has changed the structure of world output, and indeed the logistics sector, greatly over recent years. The emerging and strengthening links of key markets in this region with both emerging and intra-regional markets have also sheltered Asia's economic recovery from the European and US debt crises.

It is no surprise therefore that industrial & logistics rents across the Asian region have remained resilient since the onset of the GFC. Having declined slightly between the end of 2008 and the end of 2009, the average rent across the region now appears to be on the rise. Singapore, which is expecting economic growth of over 14.9% in 2010, is undergoing the biggest increase in rents of the major markets, having grown by 10.4% in the index in 1H 2010, in comparison to a growth of 7.4% in Japan and 4.2% in Greater China.

As economic growth and production across the region is expected to remain strong over the next three years, so too should the demand for industrial & logistics properties in the region. Having considered these economic projections in tandem with the likely supply of prime properties in major markets, we forecast a regional rental growth of up to 9% in 2010, followed by stable annual growth of approximately 4.5% thereafter, as economic and production growth also stabilise.

Asian Industrial & Logistics Rent Index



*Asian rental index does not include India

Source: CB Richard Ellis

Markets that are anticipating the strongest rental growth in the region include New Delhi, India, as supply is absorbed by significant deals in the pipeline; Singapore, which due to demand expects strong rental growth in 2010, albeit easing in 2011; and Beijing, China, where demand is again outweighing new supply. Indeed, if recent suggestions that India may remove its restrictions on foreign investment in multi-brand retailing in its markets come to fruition, demand for logistics centres will be enhanced even further and could lead to an even greater increase in rents than anticipated.

The prime yield for industrial & logistics properties throughout the region is anticipated to remain at a low of 6.9% over 2010. Meanwhile, the demand for properties from foreign investors is expected to ease in the short term due to the rise of Asian currencies and new restrictions introduced by governments to curb the development of property market bubbles.

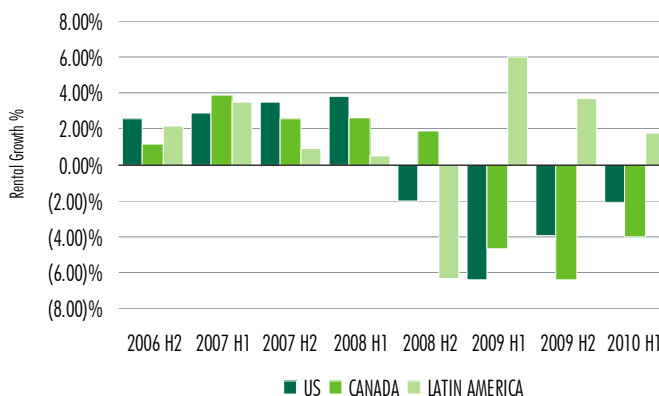
Key occupier deals that were concluded throughout Asia in 2010 include the leasing of over 760,000 sq. ft. at Yupei Anting Logistics Park in Jiading, Shanghai China to Itochu; the leasing of over 538,000 sq. ft. at the Marine High Tech Development Area, Tianjin, China to Volkswagen; and the letting to Kirin Logistics of over 370,000 sq. ft. of logistics space in Prologis Parc Ebina, Tokyo, Japan.

The Americas

The Americas recovery race out of the GFC is currently being won by Latin America, with Canada in second place and the US, while keeping pace, lagging in last position. The strong recovery in industrial production in Latin America ensured that this region emerged from the GFC the quickest.

Due to the increase in demand for prime properties in key markets such as Sao Paulo, Brazil and the Bajio region in Mexico, industrial & logistics rents in the Latin America region have increased steadily by close to 12% since 2H 2008. This trend is expected to continue in key markets such as Brazil, North Mexico and Panama due to the significant rise in demand for logistics centres in these areas. Meanwhile, rents are expected to remain stable in other markets throughout Mexico and Chile as supply in the latter is expected to meet upcoming requirements. Mexico's close ties to the US have impacted the industrial markets in the region, which have effectively been placed on 'pause' awaiting a stronger recovery in the US and a resurgence of demand for goods.

Americas Industrial Rental Change

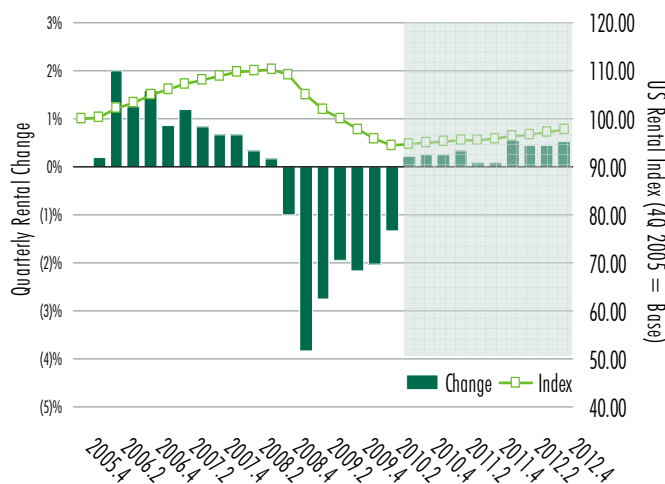


Source: CB Richard Ellis

In 2H 2008 average prime rents in the Canadian industrial logistics market were on par with those in Latin America; however, as the GFC affected each economy differently, rents have since declined throughout Canada to reach a current level of \$4.71 per sq. ft. As the Canadian economy continues to improve, albeit at a much lesser pace than the beginning of 2010, new orders and consumer spending are reinforcing industrial production and demand for properties in the region. This trend is expected to stabilise over the remainder of 2010 and, coupled with a steady level of available properties, should maintain the market at the current rental level.

The recovery race for the US market is more akin to a marathon - stable and steady. Industrial production in the US has gained momentum over 2010 as manufacturers in the region, later than their global counterparts, moved to restock their production inventories. Industrial & logistics rents across the region have similarly begun to recover as rental decline eased, from -3.82% in 1Q 2009 to -1.32% in 2Q 2010.

US Industrial & Logistics Rent Index



Source: CB Richard Ellis

The main hurdle to rental growth in this sector is the overhang of industrial stock throughout most US markets. For the tenth consecutive quarter the industrial availability rate has increased, to a record high of 14.1% in 2Q 2010. It must be noted, however, that this rate includes all types of industrial properties, and some logistics-related markets have in fact experienced some contraction in availability. This existing supply of stock, coupled with cautious demand, leads us to believe that prime industrial logistics rents throughout the US market will continue to contract over coming months.

As industrial production and economic growth is expected to continue in 2011, we anticipate demand for industrial facilities to equally pick up. Until the prime available stock is somewhat absorbed, however, significant rental growth in the logistics markets is not expected to occur. As a result, we anticipate a moderate rental growth of 0.7% in 2011, followed by a stronger growth of 2% in 2012. This will return average prime industrial & logistics rents across the US back to 2004/2005 levels, similar to the trends expected globally.

Investment sales activity in industrial properties throughout the Americas has gained impetus throughout the first half of 2010. Surpassing the level of spend invested in Asia within the same period, over US\$4.78 billion was invested in industrial properties throughout the Americas over the six months, representing a 39% increase on 1H 2009 levels. Cap rates throughout the regions will vary over coming months, but are likely to trend from stability to a slight decline in markets where prime assets are scarce.

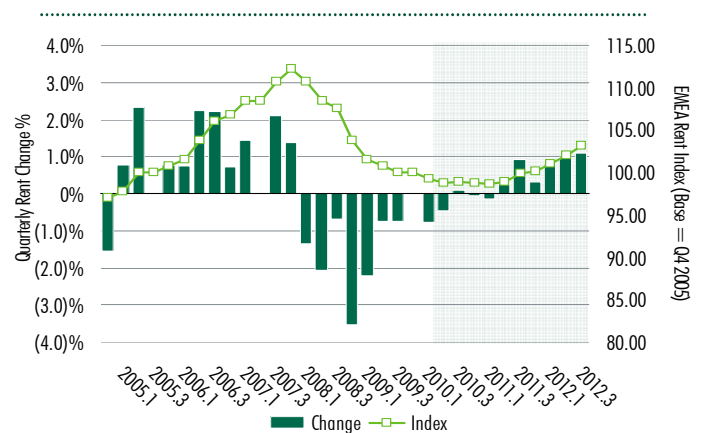
EMEA Markets

The European industrial & logistics market could be the last of the global regions to recover from the GFC, as consumer spend remains low and retailers continue to cope with the current volatile economic climate. While some markets are struggling amid the continuing debt crisis, most economies across the region have experienced positive growth in 2Q 2010, albeit at low levels. Having decreased by over 12% across the region in 2009, industrial production has returned to positive territory in 2010, buoyed by strengthening activity in markets such as Germany, Russia, Netherlands and Hungary.

Although economic indicators are improving slowly throughout the region, demand for industrial logistics properties continue to falter as uncertainty on the robustness of the recovery remains. Companies continue to remain cautious regarding expansion or relocation plans and the need to control operating costs continues to govern decision-making processes.

Prime rents for industrial & logistics properties across the region have declined by -11.6% since the peak of the market in 1Q 2008. This rate of rental decline has eased however, as rents in 2Q 2010 recorded a change of -0.76% over the quarter, in comparison to -2.21% over the same period in 2009.

EMEA Industrial & Logistics Rent Index



Source: CB Richard Ellis

The occupational market across the EMEA region has become particularly two-tiered in nature in recent months, as cost-conscious manufacturers and distributors look to prime buildings with reasonable and flexible terms instead of lower-quality options. Indeed demand has notably strengthened for large, high-quality units that are suitable to modern occupiers, resulting in an increased availability of poorer-quality buildings with falling rents.

Once the economic hangover of the GFC clears further and the path to recovery becomes more robust across the region, the demand for prime industrial & logistics properties will increase throughout Europe. With this prospect some way off, however, it is not likely to be until 2012 that rental growth is experienced across the region as a whole. Indeed, overall rents across the EMEA region are expected to fall by -2.2% in 2010, albeit easing to -0.6% in 2011. In line with the anticipated constraint on prime flexible accommodation for modern industrial & logistics companies in the medium term, rents could increase by up to 2% moving into 2012.

It is this anticipated future rental growth for prime industrial properties, coupled with a realignment of sellers' pricing expectations that has led to a significant increase in investment transactions across the region in 2010. Indeed, the European industrial markets attracted just over half of all the spend invested in industrial properties across the world in the first six months of 2010.

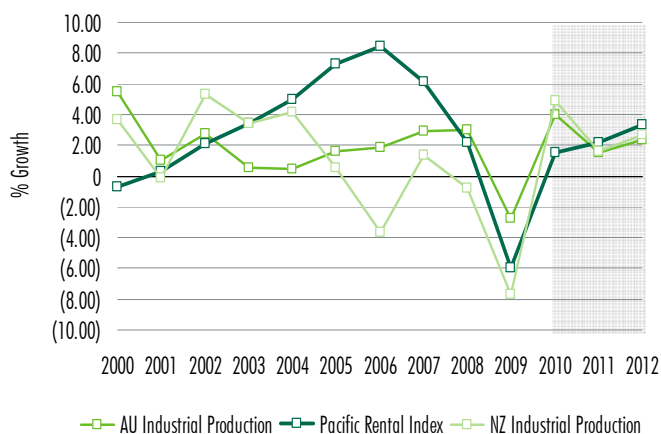
Over US\$8.1 billion, or €6.05 billion, was invested in the region's industrial sector in 1H 2010 in comparison to US\$4.2 billion, or €3.14 billion, in the same period in 2009. Some of this activity is credited to a number of industrial portfolios changing hands such as the Norwegian Bulk Eiendom Logistics properties by Storebrand Livsforsikring AB for US\$230 million, or €181 million, and the purchase of 33 warehouse units across the UK by ING UK REIT's for over US\$59 million, or €45 million.

Pacific Markets

The Pacific region's close trading partnership with Asia's developing countries has ensured a sustained economic recovery throughout the region as the rising demand for mining commodities, along with generous stimulus packages, has assisted strong GDP growth in recent months. Both Australia and New Zealand expect to end the year with GDP growth of between 2.5% and 3.0% and remain at this level for the next few years.

Despite this relatively painless journey through the GFC, the region's dependence on international trade particularly with emerging Asian economies has meant that industrial production suffered similarly to global trends due to the lower export prices and falling global demand. Similarly, as fiscal stimulus packages expired and interest rate increases were introduced, waning consumer sentiment and local demand also had a negative effect on industrial production and the demand for logistics properties in 2009.

Pacific Region Industrial Indicators



Source: IHS Global Insights, CB Richard Ellis

Having declined from a peak of AU\$9.75 per sq. ft., or US\$9.04 per sq. ft., in 1H 2008, prime industrial & logistics rents throughout the region stood at AU\$9.00 per sq. ft., or US\$8.38 per sq. ft., in 2Q 2010. Similar to other global markets, the rate of rental decline has slowed significantly in recent months to just -0.1% in 2Q 2010, and rental recovery is expected throughout most major markets before the end of 2010.

The key impetus of this rental recovery will be the rising demand for goods and minerals from growing markets such as China and India, who themselves are expecting economic expansion over the next few years. More locally, an increase in employment throughout the region is expected to stimulate wage increases in 2011. This is likely to result in a rise in consumer spending and, in turn, manufactured goods. Therefore, while the logistics market in 2010 is characterised by a restocking of goods and meeting export demand, 2011 will be bolstered by a growth in local demand as well as sustained export levels.

It is therefore anticipated that industrial & logistics rents across the Pacific region will recover by 1.5% in 2010 and strengthen further by 2.2% in 2011. On the back of a continuing improvement in consumer sentiment and an anticipated limited amount of prime logistics accommodation in key locations, we believe prime rents across the region could continue to grow by 3.3% in 2012.

Investment trends in the Pacific industrial & logistics market are not proving as resilient, with transaction levels at sub-par levels throughout 2010. As a number of industrial portfolios have been brought to the market, however, some rays of light have been evidenced such as the sale of the Salta Properties portfolio for approximately AU\$210 million to the Singaporean Sovereign Wealth Fund, GIC. Other deals that have concluded in 2010 suggest that foreign investors are again considering the Pacific industrial & logistics market where weighted yields tightened over 2Q 2010, to 8.77%.

REGIONAL LAND VALUES

The apprehension of the global financial markets regarding real estate development had a particularly significant effect on land values in the developed markets over 2010. Lending restrictions on land purchases and speculative development have resulted in a drop in land values across some of the major industrialised markets surveyed, while others have remained stable.

Although particularly hard to quantify, our analysis of average industrial land values for prime serviced industrial sites of over 1.5 hectares in size shows that land values in the advanced markets have declined on average by between 0% and 14% between 1H 2009 and 1H 2010.

Key Advanced Market Land Value Changes, 1H 2010

US\$ psm	1H 2009	1H 2010	% CHANGE
Madrid, Spain	515	450	-13%
Sydney, Australia	383	344	-10%
Paris, France	180	167	-7%
Perth, Australia	354	340	-4%

* Average Industrial Land Values for prime fully serviced industrial sites <1.5 hectares

Source: CB Richard Ellis

On the back of increasing demand and a lack of suitable accommodation, the younger emerging markets have in comparison to developed economies recorded significant increases in land values between 1H2009 and 1H 2010, leading some governments to implement a range of fiscal restrictions to curb escalating prices. In Asia values have increased by between 2% and 29%, with markets such as Singapore and Hyderabad, India, in the upper quadrant of values. Meanwhile, in Latin America values have increased by as much as 60% in Panama City in advance of the completion of the Panama Canal widening.

Key Emerging Market Land Value Changes, 1H 2010

US\$ psm	1H 2009	1H 2010	% CHANGE
Panama City, Panama	75	120	60%
Hyderabad, India	78	104	33%
Singapore	416	538	29%
Mumbai, India	93	116	25%

* Average Industrial Land Values for prime fully serviced industrial sites <1.5 hectares

Source: CB Richard Ellis

We anticipate that restrictions may begin to ease on development in some key advanced markets in coming months, causing land values in these areas to increase going forward. This may be delayed in the more volatile markets in the US and EMEA, however, as an overhang of available accommodation and economic worries will delay speculative development for some time.

INDUSTRIAL LOGISTICS DEVELOPMENT

The industrial & logistics sector is evolving at a greater speed and complexity than the average advanced industrial real estate market has the capacity to cope with. Lessons learned from the oversupply of stock that occurred during the GFC when consumer demand evaporated have caused modern logistics occupiers to move further away from the traditional stocking of goods. Retail distributors and third-party logistics operators (3PLs) have advanced even further into a flow system of goods where speed, technology, road infrastructure and space are crucial for an industrial logistics facility.

Premises that can accommodate a faster turnaround of goods with cross-docking facilities in locations close to population centres, and indeed other networks of logistics operations, are what the ever-evolving modern industrial & logistics operator requires. As a result, there is now an increasing differential between new, modern facilities and the abundance of vacant, poor-quality accommodation that, despite falling rents, is not of interest to the modern occupiers. Due to the lack of suitable accommodation on the market, we are now beginning to see an increasing emergence of build-to-suit developments, which meet not only occupier needs but also those of lending institutions that will not release building capital until pre-leasing arrangements are in place.

In regions such as EMEA and the US where there is an abundance of second-hand accommodation and a restriction on new development due to unsettled occupier trends and lending institution wariness, there is a notable shortage of suitable developments for the modern logistics occupier. Indeed, some markets simply lack the availability of land or Brownfield sites close to prime population centres on which to construct modern cross-docking facilities. Therefore, future industrial & logistics development in such locations will have to focus on the redevelopment of older, second-hand accommodation to meet this changing and growing sector's needs.

The potential lack of suitable development in the advanced economies may push the logistics sector further towards emerging economies, where more flexible lending practices and available land in prime locations are aiding the development of a number of schemes. Indeed, specialised logistics hubs are being developed throughout China and India with completion dates ranging between 2011 and 2014. The success and specifications of these schemes will undoubtedly become benchmarks for future logistics development across all other markets.

Key Global Logistics Developments

MARKET	LOCATION	SQ M	DEVELOPER
Tianjin, China	Tianjin International Logistics City, Hua Ming Town, Dongli District, Tianjin	2,699,999	Shenzhen Bao Neng Investment Group
Hyderabad, India	SriRajya Laxmi Logistics, Manorabad Village, Medak District	1,059,094	Rajya Laxmi Group
Mumbai, India	Arham Logiparc, Walshinde, Bhiwandi	929,030	Arham Group
Hyderabad, India	DRS Logistics, Kalakal Village, Toopran (mandal), Medak	929,030	DRS Logistics
Tianjin, China	Binhai Zhong Chu Logistics Park	880,000	Misc
Mumbai, India	Ashra, Panvel	464,515	Prithvi Group
New Delhi, India	Milestone Capital, Daruhera, N.H.8	232,258	Milestone Capital
Hong Kong, China	Interlink, Tsing Yi Road, Tsing Yi, Hong Kong	222,967	Goodman
Shanghai, China	Watson Pudong Airport Logistics Centre, Pudong Airport	220,000	Watson
Sao Paulo, Brazil	Campinas	198,000	Prosperitas
Shanghai, China	Goodman Pudong International Airport Logistics Park, Pudong Airport	193,000	Goodman
New Delhi, India	Realterm FCH, Village Lohari, N.H.8	185,806	Realterm FCH
Sao Paulo, Brazil	Cajamar	185,000	Cyrela CCP/AMB
California, USA	Moreno Valley	167,225	Highland Fairview Partners
Tokyo, Japan	ProLogis Parc Kawajima, Hiki-gun, Saitama Prefecture	166,640	Prologis

Source: CB Richard Ellis

FUTURE CONSIDERATIONS

Having weathered the GFC storm to a considerably successful degree, the global industrial & logistics sector is poised to evolve and become more complex than ever before. How the global real estate markets will need to cope with this changing demand going forward, is what we hope to address in future editions of this bi-annual publication.

One important by-product of the GFC that is worthy of considerable attention is the need for global logistics operators to reduce their cost base and the role that real estate can have in making this happen. Studies by our European colleagues have shown that for most operators, this does not necessarily mean cheaper rents, as this will typically sacrifice the quality of the building. Rather, it may include flexible leases, renegotiation of terms or incentives, etc. Due to the changing marketplace, logistics operators, now more than ever before, require the flexibility to make strategic operational decisions within a short timeframe that cannot be carried out under long lease term obligations. This is particularly an issue for 3PLs who are dependant on the operations and activity levels of their customers. Such significant logistics operators are now searching for modern, high-quality accommodation that is well located and while not necessarily cheap, can offer flexible terms such as lease breaks. These may not necessarily be exercised but will provide the cushion of flexibility. The conundrum that must be faced by landlords and developers now, however, is how much this flexibility should cost while still attaining a large logistics operator for their prime modern property.

The changing trends in the type of goods being produced and how they are transported and stored will also have particular significance on the global real estate market going forward. As industrial & logistics operators look to reduce their storage costs, locations with multi-modal forms of transport will be in particular demand. Cheaper storage locations in close proximity to airports, for example, will aid companies seeking to transport goods by air to more expensive locations where a flow goods operation will transport the goods to the end marketplace. This will have significant implications on the real estate markets of both cheaper emerging economies with suitable air freight abilities and the type of buildings required in more expensive locations next to key population centres.

Equally, rail transport is likely to become a dominant distribution network across all regions going forward, as a cheaper and quicker alternative to long haul road freight. As advancements are made on networks throughout the Americas, Australia, Asia and EMEA and links between regions are enhanced, demand for logistics accommodation along future routes and at significant nodes will also likely emerge. All such issues will be addressed in future editions of this bi-annual publication.

DEFINITIONS

INDUSTRIAL & LOGISTICS BUILDING

The term given to an industrial property that is used primarily for logistics operations such as transport, distribution of goods, packing, storage and inventory management. The building will comprise at least 107,600 sq.ft. (10,000 sq. m.) in size, of which a maximum of 15% can be office content. While typically single-storey, some buildings can range up to three stories in height with a minimum clear height of 10 m. With a site coverage of between 30%-60%, these buildings require a high number of ramp loading areas, cross-docking services, and track and yard areas.

DISTRIBUTION WAREHOUSES

A form of logistics building that is used primarily for the storage, consolidation and/or distribution of goods. It should contain the same characteristics as a logistics building and be located close to major arterial road networks.

3PL

A third-party logistics operator is a firm that provides multiple outsourcing logistics services to customers that would previously have performed such activities in-house. Services to multiple customers are typically bundled together by the 3PL, which offers significant cost-reduction savings to the end customer. Some of the functions carried out by a 3PL for a logistics operator are transportation, warehousing, inventory management, cross-docking, packaging, freight forwarding and reverse logistics.

METHODOLOGY

As this is the inaugural Global Industrial & Logistics MarketView, below is an outline of the methodology used to establish our unique rents and yields indices and to forecast future trends in same.

RENTS AND YIELDS

- Each region supplied prime rents and yields data on a regional level, which was weighted using either office or industrial stock per market.
- The EMEA index contains the weighted average rents and yields for the EU-15 countries; the US index contains the weighted average data for the US only and not Latin America or Canada; the Pacific index comprises all Australian and New Zealand markets; the Asian index contains Greater China, Japan and Singapore markets only.
- The Global index was compiled using World Real GDP % growth and based in 4Q 2005.
- For further information on this process, please contact our Pacific team at kevin.stanley@cbre.com.au

FORECASTS

- Using the compiled indices, a simple single equation was estimated to analyse how changes in industrial production growth affected changes in industrial rents over time.
- From the calculated elasticity based on historical data, the forward estimate of industrial production was applied to obtain an initial forecast for global rents.
- The model was then reassessed using real GDP as an additional indicator, and the estimated impact of industrial production on the global rent was then re-adjusted.
- For further information on this process, please contact our Pacific team at kevin.stanley@cbre.com.au

CB RICHARD ELLIS GLOBAL RESEARCH AND CONSULTING

Global Research and Consulting is a CB Richard Ellis network of pre-eminent researchers and consultants who provide strategic advisory and research services and econometric forecasting to investors and occupiers around the globe.

For more information regarding this MarketView, or to find out more about any aspect of our services, please contact:

Ray Torto, CRE, Ph.D.

Global Chief Economist
and Executive Managing Director of Global Research

t: +617 912 5225

e: raymond.torto@cbre.com

Nick Axford, Ph.D

Head of Research for Asia
and Senior Managing Director of Global Research

t: +852 2820 8198

e: nick.axford@cbre.com.hk

Richard Holberton

Director
EMEA Research

t: +44 20 7182 2000

e: richard.holberton@cbre.com

Kevin Stanley

Executive Director
Pacific Research

t: +61 2 9333 3490

e: kevin.stanley@cbre.com.au

Andrew Ness

Executive Director
Asia Research

t: +852 2820 2800

e: andrew.ness@cbre.com.hk

Ray Wong

Executive Director
Americas Research

t: +416 362 2244

e: raymond.wong@cbre.com

For more information regarding CB Richard Ellis activities in the industrial sector, please contact:

Ed JM Schreyer

Executive Managing Director
The Americas

t: +513 369 1331

e: ed.schreyer@cbre.com

Joshua Charles

Regional Director
Pacific

t: +61 2 9333 3342

e: joshua.charles@cbre.com.au

Guy Frampton

Head of Industrial Logistics
EMEA

t: +44 (0) 207 182 2150

e: guy.frampton@cbre.com

Andrew Hatherley

Executive Director
Asia

t: +86 21 2401 1200

e: andrew.hatherley@cbre.com.cn

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