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Asia Pacific Property Digest

SOUTH EAST ASIA

Third Quarter 2007

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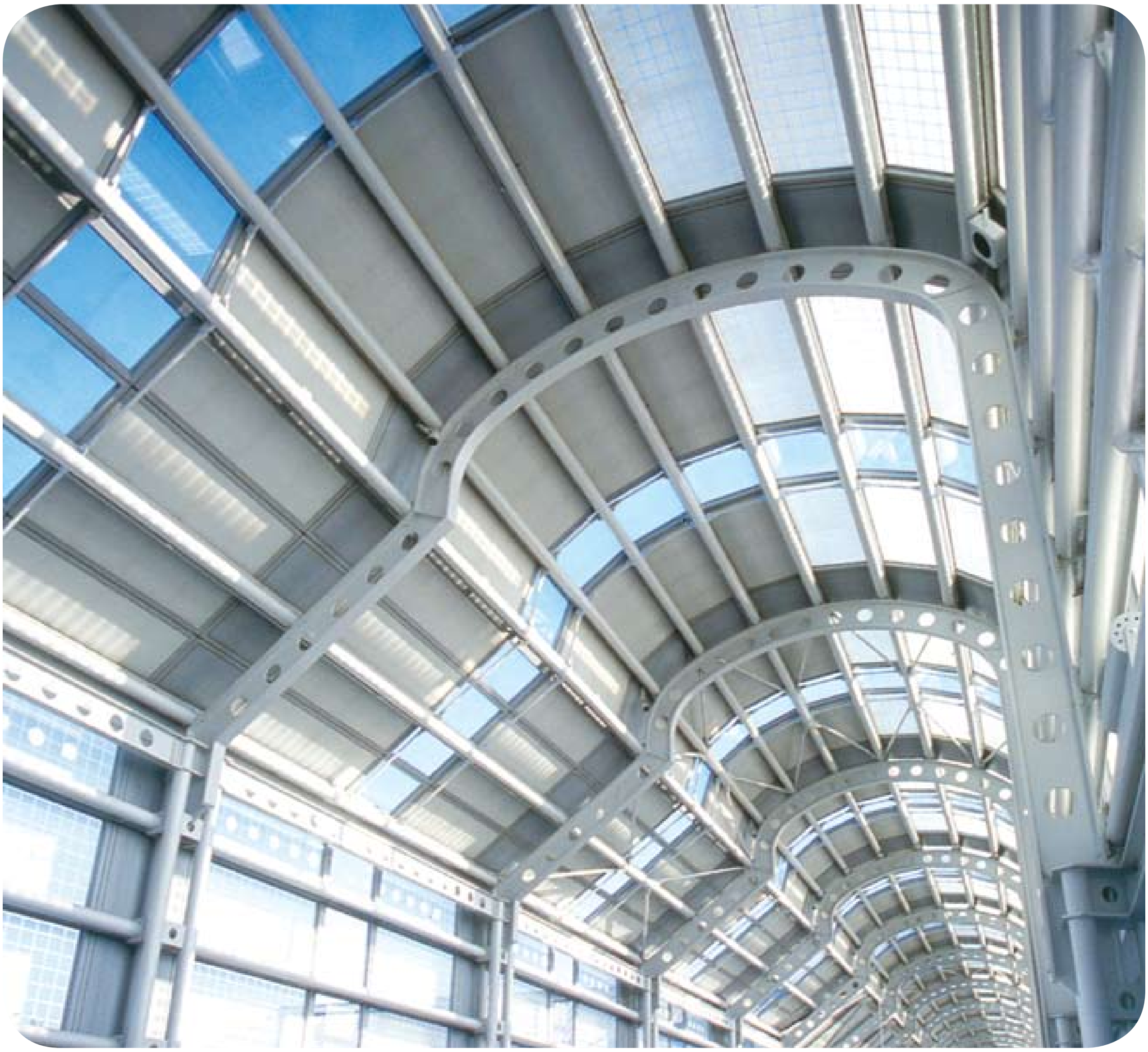
TABLE OF CONTENTS



Asia Pacific Economy

Safe Haven in a Stormy Sea

Dr Jane Murray

Head of Research - Asia Pacific

Asia Pacific: limited fallout from credit crunch

The troubles in the US sub-prime mortgage sector have spread far beyond their origins to shake the world's financial markets. The global economy still faces major uncertainties in regard to how this issue will affect the availability of credit and asset pricing. To date, the most pronounced impact has been in the US and Europe. Asia Pacific has remained relatively unscathed, assisted by strong economic fundamentals and the low exposure of the region's banks to sub-prime loans. According to the Economist Intelligence Unit (EIU), the region will continue to significantly outperform the world economy this year and next, under a range of different scenarios (Figure 1). Solid rates of economic growth across Asia Pacific have generally been accompanied by mild consumer price inflation, with a few notable exceptions including China and India (Figures 2 and 3).

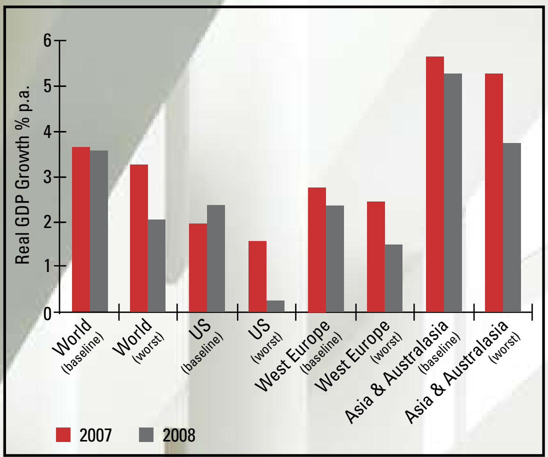
Greater China: China to underpin regional growth

China's economy continues to expand at a blistering pace, registering growth of 11.5% for the first three quarters of 2007. Fixed investment and exports have been key drivers of growth. Demand is outstripping supply in certain quarters and inflation is rising rapidly as a result, with an annual increase of 6.2% recorded in September. The People's Bank of China has raised interest rates five times in 2007 in an attempt to cool the economy, and is likely to implement more monetary and administrative tightening in an attempt to cool the economy. However, growth is unlikely to decelerate significantly ahead of the 2008 Olympics in Beijing. GDP growth in Hong Kong accelerated to 6.9% y-o-y in 2Q07. The current economic upturn is broad-based, with exports, inbound tourism and financial market activity all making strong contributions. Next year should also see Hong Kong's economic output exceeding the ten-year historical average of 4.2%.

North Asia: the longest post-war economic expansion in Japan interrupted

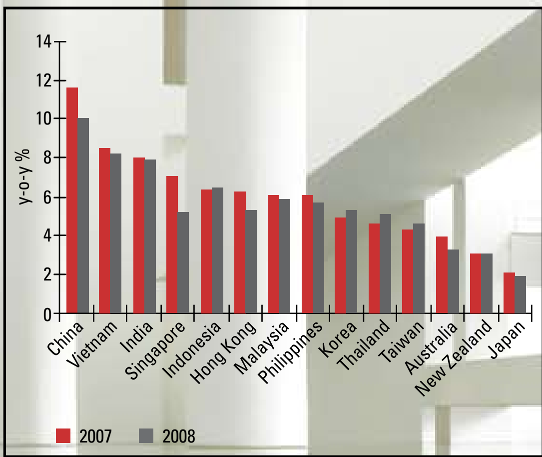
Japan's GDP contracted at an annualised rate of 1.2% in 2Q07, largely due to sluggish housing investment. However, Japan's economy is expected to resume its moderate expansion over the next year. Exports are benefiting from strong global demand, while domestic demand is likely to continue rising due to high corporate profits and moderate increases in household income.

Figure 1: Economic Growth Forecasts under Different Risk Scenarios



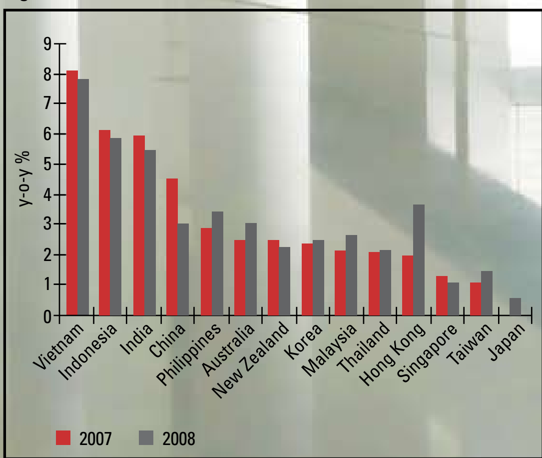
Source: Heading for the Rocks, Economist Intelligence Unit, October 2007

Figure 2: Real GDP Growth Forecasts



Source: Economist Intelligence Unit, October 2007

Figure 3: Consumer Price Inflation Forecasts



Source: Economist Intelligence Unit, October 2007

Key Performance Indicators

	GDP (%)		Prime Lending Rate (%)		CPI (%)		Employment Growth (%)		Retail Sales Growth (%)		Industrial Production (%)	
	2007F	2008F	2007F	2008F	2007F	2008F	2007F	2008F	2007F	2008F	2007F	2008F
Hong Kong	6.2	5.2	8.2	8.4	1.9	3.6	2.3	1.6	4.7	2.0	-1.7	-0.3
China	11.5	10.0	6.7	7.2	4.5	3.0	1.1	1.1	11.8	12.9	16.1	14.3
Taiwan	4.3	4.6	4.2	4.7	1.0	1.4	1.0	1.1	5.1	1.7	5.9	5.4
Japan	2.0	1.8	1.8	2.0	0.0	0.5	-0.4	-0.5	1.1	1.0	1.8	1.7
South Korea	4.9	5.2	6.5	6.4	2.3	2.4	0.7	0.7	3.7	3.2	5.8	4.5
Philippines	6.0	5.6	9.5	9.3	2.8	3.4	1.7	3.3	4.9	4.8	5.0	5.5
Singapore	7.0	5.1	5.3	5.4	1.2	1.0	0.2	1.5	5.1	2.5	6.8	5.4
Malaysia	6.0	5.8	6.5	6.5	2.1	2.6	2.3	2.0	5.7	2.6	1.5	4.2
Thailand	4.6	5.0	6.8	6.0	2.0	2.1	1.4	1.2	-0.7	4.1	6.6	5.0
Indonesia	6.3	6.4	14.0	13.0	6.1	5.8	2.2	2.2	6.3	5.2	8.1	5.7
India	8.0	7.9	13.1	12.7	5.9	5.4	2.3	2.3	6.0	6.2	12.1	8.5
Australia	3.9	3.2	10.2	10.1	2.4	3.0	1.7	1.3	4.4	2.7	4.3	3.4
New Zealand	3.0	3.0	12.7	13.0	2.4	2.2	1.8	1.2	4.5	3.3	1.1	2.0
Vietnam	8.4	8.4	11.5	11.7	8.1	7.8	2.8	2.5	6.3	5.9	17.2	16.2
World	3.5	3.3	NA	NA	3.0	2.9	1.6	1.5	3.4	3.1	NA	NA

Source: Economist Intelligence Unit, October 2007

Consumer prices are at similar levels to a year ago. As a result, the Bank of Japan will remain cautious in its monetary tightening. In South Korea, the economy is forecast to grow by around 5% in both 2007 and 2008, although export growth should slow due to weaker US demand.

South East Asia: benefiting from China and India

The major economies of South East Asia are expected to grow by an average of 5.8% y-o-y in 2007 and 5.5% in 2008, supported by their strong cyclical upswings and riding on the growth momentum of China and India. Singapore's output is expanding rapidly, with 8.6% y-o-y growth recorded in 2Q07. Growth is currently broad-based, with the financial services and construction sectors registering double-digit expansion. Next year is likely to see a slowdown to levels closer to the historical average. The Thai economy grew 4.4% y-o-y in 2Q07 as strong exports helped to offset weak domestic demand. Economic growth in Indonesia is expected to surpass 6.0% this year and next, due to robust household consumption and rising export prices.

West Asia: India continues its rapid expansion

India's GDP grew 9.3% y-o-y in 2Q07, underpinned by strong growth in its manufacturing and service sectors. The FIREBUS (finance, insurance, real estate and business services) sectors are currently major growth engines, with combined output expanding by 11.0% in 2Q07. Inflation is still running at high levels: 7.2% y-o-y in August. The Reserve Bank of India has raised its short-term lending rate five times since mid-2006, and should continue to remain vigilant against signs of overheating in the economy.

Australasia: inflation creeping up in Australia

Australia's economy expanded by 4.3% over the year to end-June, with growth being driven by the global commodities boom as well as some housing markets starting to recover from the 2003 slump. Businesses have reported their highest levels of capacity utilisation since the late 1980s and unemployment has reached a generational low. Inflation has picked up, with a 2.75% y-o-y increase for the June quarter. The Reserve Bank has raised its cash rate target by 25 basis points in each of August and November to reach 6.75%. In New Zealand, the Reserve Bank has raised interest rates by 100 basis points so far this year in order to maintain inflation within the 1-3% target range. Both Australia and New Zealand are expected to notch up healthy rates of economic growth of between 3.0 and 4.0% over this year and next.

The Region: bright prospects amid gathering clouds

Regional growth is likely to remain strong over the rest of 2007 and into 2008. There are some increased downside risks to the US economy associated with its housing downturn and credit market difficulties. However, these developments are unlikely to cause a major change to the broader global outlook. Aggregate output of the Asia Pacific region ex Japan is expected to expand at a very healthy 7.6% pace this year, an upward revision of 0.4% from the mid-year forecast by the EIU, and significantly higher than the projected 2.5% growth in OECD countries. Next year's forecast for the region is 7.1%, compared with 2.3% for the OECD.

Asia Pacific Property Market

Activity Remains Buoyant

Sub-prime issue has had little impact

The Asia Pacific region is enjoying sound property market fundamentals. To date, the credit crunch has not significantly impacted the markets here. Indeed, most markets have been unaffected and continue to be attractive to investors, with sentiment remaining positive. Liquidity levels are still high, and both local and foreign investors have maintained their allocations to real estate. As a result, price levels have held up.

Corporations expand their geographic reach

Most office markets in Asia Pacific are seeing robust leasing activity. Singapore is benefiting from major corporate expansion, driven in part by relocations into the city-state. The continued high level of banking and finance related corporate demand, in particular, has driven CBD vacancy rates down to historical lows. Similarly Hong Kong is experiencing strong levels of take-up by occupiers. Australian office markets such as Perth and Brisbane are running at very high occupancy rates, on the back of the current commodity market boom. Emerging markets such as India and China are enjoying sustained levels of underlying demand. Across the region, office rents have been buoyant, with most markets posting strong gains over the last twelve months. Standout performers have been Singapore (104.4%), Kolkata (80.0%) and Brisbane (76.8%).

Industrial markets in the region are also enjoying sturdy demand fundamentals, with Hong Kong, Shanghai and Chinese Tier II cities, for example, benefiting from China's growing manufacturing base. Singapore's high-tech space is seeing strong demand from both local and international occupiers, some of which is the spillover effect from the very tight prime office market. This in turn is leading to a ratcheting up of rents in business park locations.

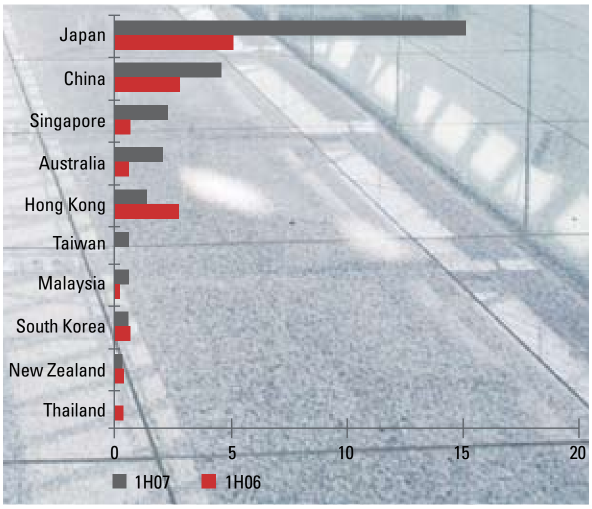
Consumers are buoying the retail and residential sectors

Retail sales continue to grow at a solid pace and consumer confidence remains high, underpinned by rising household wealth and increasing or improving residential prices in markets such as Singapore, Hong Kong, China, India and Australia. Retail vacancy rates are generally at low levels across the region. The booming labour and equity markets continue to underpin demand for quality housing in prestigious locations in the region. In Singapore, residential demand has outstripped supply this year, and rents and prices have escalated. In Hong Kong, developers are bullish about continued high-end demand, as evidenced by strong interest in clean site land auctions.

Capital flows at record levels

Asia Pacific continues to see large volumes of capital flowing into and around the region, leading to increased competition for assets in many markets. In the office sector, for example, cap rates in 3Q07 firmed in Japan, Hong Kong, Singapore, Korea and some of the Indian markets. Although regional investment volumes are still a comparatively low proportion of global direct property investment, interest levels are very high and we foresee the continuation of rapid growth in volumes. Our latest Global Capital Flows research revealed that during the first half of 2007, some USD 54 billion worth of direct property was transacted in the region. Of this, around half was cross-border activity[1], which in dollar terms was only slightly lower than cross-border investment for the entire 2006 year. Japan continues to be the dominant market for international investors, with China also seeing major growth compared to the same time last year (Figure 4). A notable trend is the increasing presence of European

Figure 4: Asia Pacific Cross-Border Transaction Volumes



Source: Jones Lang LaSalle

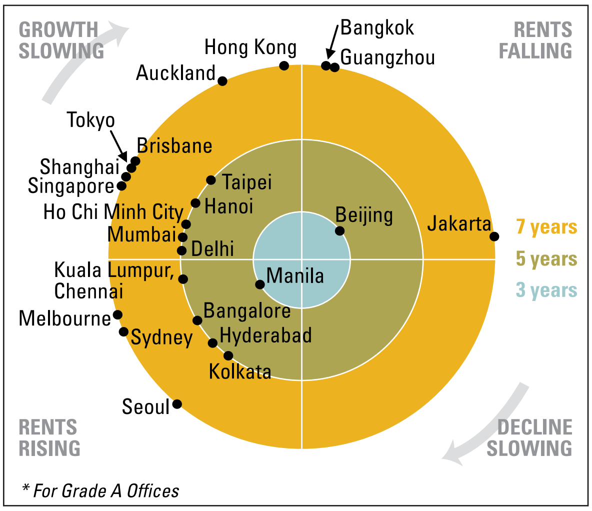
Figure 5: Capital Inflows from Europe into Asia Pacific

	1H06	1H07
Total capital flows into Asia Pacific	USD 47.3 billion	USD 53.8 billion
Capital inflows from Europe	USD 0.03 billion	USD 1.79 billion
Europe's share of capital inflows into Asia Pacific (%)	0.06%	3.33%

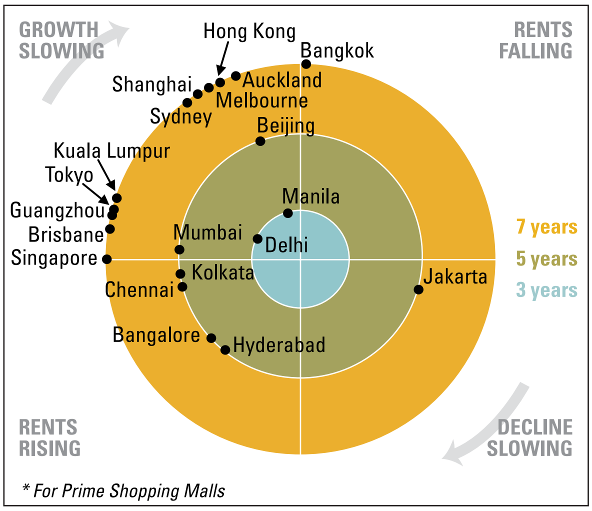
Source: Jones Lang LaSalle

[1] A transaction is classified as cross-border if at least one of the vendors or purchasers is located outside the country of the asset.

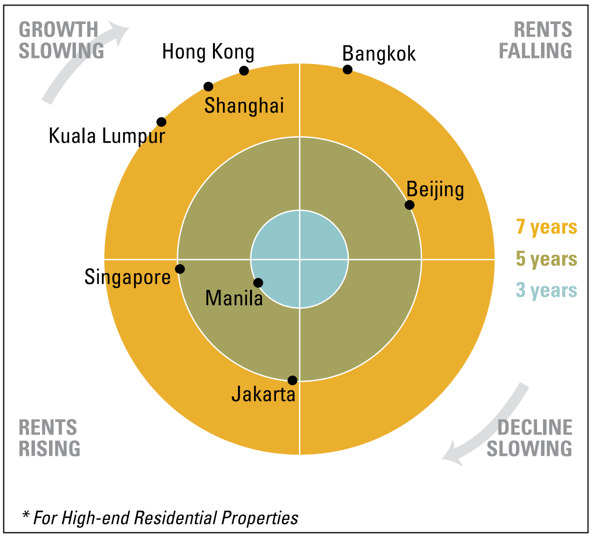
Grade A Office



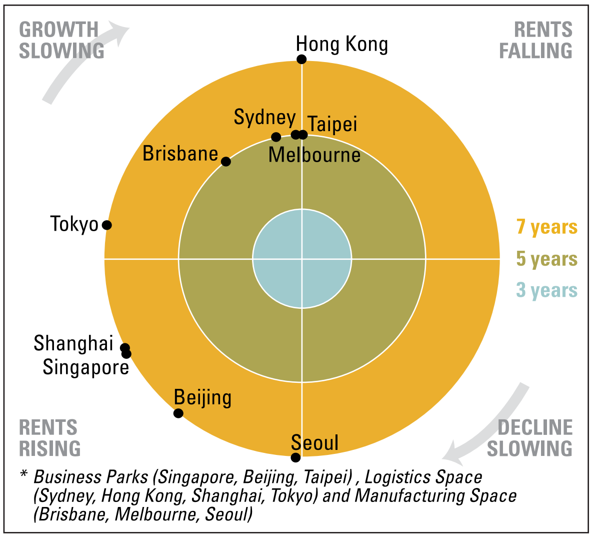
Prime Retail



Prime Residential



Industrial



** The concentric circles represent the estimated length of the current property cycle in each of the respective markets.*

funds, particularly from Germany and the UK. These players are looking to diversify their portfolios and are seeking higher returns through exposure to fast growing emerging markets such as China and India (Figure 5).

Riding the wave to year's end

We expect to see a continuation of strong property market fundamentals in the final quarter of the year. A general moderation in rental and capital value appreciation is likely compared with the growth seen in 1H07. However, demand/supply imbalances remain in favour of landlords and investors, who should benefit even further from upward rental revisions. Unfortunately for corporate occupiers this means that there will be little change to the current tight market conditions. Although leveraged markets may see some effect from the sub-prime issue, regional yields are not expected to soften over the short term. Indeed, the region could be a beneficiary of the fallout as investors reallocate funds from the US and Europe towards Asia Pacific in search for higher growth opportunities on a risk-adjusted basis.

ABOUT THE AUTHOR

Dr Jane Murray joined Jones Lang LaSalle in 1998 and in April 2005 was appointed as Head of Research - Asia Pacific.

In this role, Jane leads a team of over 100 professional researchers in the region, which forms part of a network of around 250 researchers in over 50 countries around the globe.

The Asia Pacific Research team produces a range of outputs to assist the clients of the Firm with their decision making, including comprehensive market monitoring and analysis across major institutional-grade real estate markets in the region; forecasts of key real estate indicators; consultancy projects; thought leading research papers on topical issues as well as regular publications.

Grade A Office Market

	Vacancy Rate (%)	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
		q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Tokyo CBD	0.8	4.1	20.3	1,521	↗	8.7	40.0	34,461	↗	3.1
Seoul CBD	0.5	0.4	3.0	617	↗	5.0	22.0	6,781	↗	5.5
Beijing	15.6	-1.0	-2.7	323	↘	-2.2	2.6	2,861	→	7.2 - 9.2
Shanghai (Central Puxi)	1.6	2.4	8.8	397	↗	3.0	17.7	5,042	↗	7.9
Guangzhou	21.5	1.1	0.3	271	↘	3.2	12.0	2,180	→	7.8 - 9.9
Chengdu	32.2	6.3	12.6	148	↗	2.2	7.7	1,380	↗	10.4 - 11.9
Taipei CBD	11.3	4.4	7.8	273	↗	5.7	17.6	5,222	↗	4.9 - 5.9
Hong Kong Central	2.5	6.7	26.2	1,461	→	8.6	19.8	17,276	→	4.3 - 6.6
Singapore	2.4	8.7	104.4	1,081	↗	20.8	114.8	21,029	↗	5.0 - 5.5
Kuala Lumpur CBD & GT	9.3	0.0	2.3	148	↗	0.0	5.1	1,917	↗	7.5
Makati CBD	3.4	2.8	22.2	179	↗	1.8	19.0	1,655	↗	10.0 - 10.5
Bangkok CBD	11.4	-0.9	1.8	199	↘	0.9	3.5	2,513	→	6.6 - 8.4
Jakarta CBD	17.8	-0.4	1.6	107	→	0.0	3.1	1,340	→	7.5 - 8.0
Delhi CBD & SBD	2.3	0.0	72.8	855	↗	0.0	72.4	7,426	↗	11.5
Mumbai CBD & SBD	1.5	2.0	39.0	881	↗	2.9	46.5	7,834	↗	11.3
Bangalore CBD & SBD	0.4	4.0	17.1	178	↗	5.2	24.8	1,645	↗	10.8
Chennai CBD & SBD	0.7	2.4	17.1	183	↗	4.1	22.3	1,659	↗	11.0
Hyderabad CBD & SBD	2.2	13.6	44.8	163	↗	16.7	45.6	1,471	↗	11.1
Kolkata CBD & SBD	0.6	19.0	80.0	391	↗	19.0	87.2	3,530	↗	11.1
Melbourne CBD	4.3	2.8	9.6	336	↗	4.8	19.6	6,245	↗	5.75 - 6.50
Sydney CBD	6.9	6.5	11.6	555	↗	4.0	14.6	9,299	↗	5.25 - 5.75
Brisbane CBD	0.2	8.3	76.8	667	↑	8.2	73.5	8,778	↑	5.75 - 6.00
Auckland CBD	-	-	-	-	↗	-	-	-	↗	-

* *Refers to net rent except for Tokyo (gross rent), Singapore (effective rent), Jakarta (effective rent), Melbourne (gross effective rent), Sydney (gross effective rent), Brisbane (gross effective rent), Hong Kong (net rent quoted on GFA), Guangzhou (net effective rent on net area), Beijing (effective rent), Chengdu (effective rent), Shanghai (net rent on GFA), Taipei (gross rents on GFA), Mumbai,(gross rent on GFA), Delhi (gross rent on GFA), Bangalore (gross rent on GFA) , Chennai (gross rent on GFA), Hyderabad (gross rent on GFA) and Kolkata (gross rent on GFA).*

\+ *Percentage changes are based on local currency of individual markets except Jakarta.*

++ *The USD exchange rate as at end-Sep 2007.*

Prime Retail

	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Beijing	-1.8	-0.7	909	→	-1.8	-0.7	6,407	→	7.8
Shanghai	4.8	11.5	1,992	↗	5.7	14.5	17,057	↗	11.2
Guangzhou	1.6	6.9	806	↗	-	-	-	-	-
Macau (Prime Street Shops)	0.0	1.2	1,724	→	0.0	1.4	27,299	→	6.1
Hong Kong (Prime Street Shops)	6.7	14.8	5,017	↗	3.2	10.7	128,693	↗	3.9
Hong Kong (Prime Shopping Centres)	1.5	14.4	5,067	↗	-	-	-	-	-
Hong Kong (Decentralised Shopping Centres)	2.5	3.7	2,113	↗	-	-	-	-	-
Singapore	0.5	3.2	3,050	↗	5.0	15.3	55,944	↗	5.7
Kuala Lumpur (City Centre)	3.1	10.6	838	↗	2.3	10.9	8,340	↗	7.5 - 11.0
Makati	1.2	9.1	399	↗	0.7	9.8	3,425	↗	11.0 - 11.5
Bangkok	1.7	-2.6	552	→	2.7	5.6	4,626	→	11.7 - 12.2
Jakarta	0.7	1.3	488	→	0.6	-0.2	3,222	→	15.0 - 15.5
Delhi	0.0	27.3	1,140	↗	0.0	18.9	10,362	↗	11.0
Mumbai	0.0	20.0	977	↗	0.0	19.6	8,922	↗	10.9
Bangalore	6.7	18.5	521	↗	6.0	15.5	4,703	↗	11.1
Chennai	0.0	20.0	234	↗	0.0	12.4	2,117	↗	11.1
Hyderabad	7.3	89.4	524	↗	7.5	87.0	4,668	↗	11.2
Kolkata	0.0	57.1	896	↗	0.2	60.3	7,973	↗	11.2
Sydney (Regional)	1.2	4.7	1,576	↗	-	-	-	-	5.3
Sydney (Sub-regional)	1.0	4.3	784	↗	-	-	-	↗	6.1
Auckland	-	-	-	↗	-	-	-	↗	-

* *Rents are net prime rent except Beijing (net effective rent on NLA), Guangzhou (net rent on NLA), Delhi (gross rent), Mumbai (gross rent), Bangalore (gross rent), Chennai (gross rent), Hyderabad (gross rent) and Kolkata (gross rent).*

** *Capital values are quoted on NLA except for Beijing, Hong Kong, Macau and Guangzhou (all quoted on GFA).*

\+ *Percentage changes are based on local currency of individual markets.*

++ *The USD exchange rate as at end-Sep 2007.*

Luxury Residential

	RENTAL VALUES*				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Beijing (Luxury Apt)	0.0	-5.5	168	→	17.4	25.7	2,579	↗	7.4
Shanghai (Luxury Apt)	-0.1	-2.3	345	→	6.5	10.3	4,458	↗	5.2 - 7.4
Shanghai (High-end Apt)	0.2	-2.0	188	→	6.6	8.6	3,006	↗	4.9 - 7.8
Macau (Overall)	5.4	14.9	131	↗	5.1	13.5	3,642	↗	3.6
Hong Kong (Overall)	5.4	13.7	620	↗	5.4	18.7	19,404	↗	3.2
Singapore	7.9	39.7	496	↗	9.2	56.4	18,853	↗	2.6
Kuala Lumpur	0.5	2.8	141	→	2.9	10.1	1,823	↗	7.5 - 8.0
Makati	2.4	12.6	133	↗	4.7	17.9	1,851	↗	7.0 - 7.5
Bangkok	-1.2	-8.4	112	↘	-0.5	-2.1	2,286	↘	4.1 - 5.2
Jakarta	0.2	2.3	144	→	-0.7	1.9	1,335	→	10.5 - 11.0

* *Rents are net rent except for Shanghai (gross rent), Beijing (net effective rent) and Jakarta (effective rent).*
** *Capital values are quoted on NLA except for Beijing, Shanghai, Hong Kong and Macau.*
+ *Percentage changes are based on local currency of individual markets except Jakarta.*
++ *The USD exchange rate as at end-Sep 2007.*

Industrial

LOGISTICS	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Hong Kong	0.4	1.2	115	→	0.7	3.4	1,622	→	6.5 - 7.0
Brisbane	8.8	36.3	110	↑	-	-	-	-	7.0
Sydney	0.0	1.9	92	↗	0.0	5.0	1,332	↗	7.1
Melbourne	0.0	2.9	56	↗	-	-	-	-	7.3
Shanghai	2.6	19.2	56	↗	5.8	2.2	559	↗	9.3
Tokyo^	-	-	-	-	-	-	-	-	-

BUSINESS PARKS	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Taipei	0.0	12.3	150	↘	9.8	26.7	2,638	↗	5.7
Shanghai	1.2	10.5	153	→	5.2	4.8	1,530	↗	10.0
Singapore	25.6	74.4	194	↗	16.0	38.1	2,103	↗	9.0 - 9.5
Beijing	14.1	-	138	↗	-	-	-	→	-
Chengdu	0.0	9.0	37	→	0.5	13.4	545	↗	6.8
Guangzhou	1.0	8.1	74	↗	-	-	-	-	-

MANUFACTURING	RENTAL VALUES				CAPITAL VALUES				Yield (%)
	q-o-q+ (%)	y-o-y+ (%)	USD psm pa++	12-month outlook	q-o-q+ (%)	y-o-y+ (%)	USD psm++	12-month outlook	
Brisbane	2.8	10.6	92	↑	3.1	14.6	1,236	↑	7.1
Singapore	13.0	36.5	93	↗	21.0	48.8	1,632	↗	5.8 - 6.2
Melbourne	5.6	21.9	68	↗	5.3	19.8	927	↗	7.4
Chengdu^^	-2.3	-5.9	18	→	-	-	-	↗	-
Shanghai	0.8	-	34	↗	-	-	-	↗	-
Bangkok	-0.6	-0.8	62	→	-	-	-	-	-
Jakarta^^	-	-	-	-	-	-	-	-	-

+ *Percentage changes are based on local currency of individual markets.*
++ *The USD exchange rate as at end-Sep 2007.*
^ *Tokyo and Jakarta updates coverage twice per year. As such, the quarterly percentage change is based on half-yearly data.*
^^ *Chengdu and Jakarta updates manufacturing coverage twice per year.*

A Year after the Coup… Office Owners Caught up in Politics

Dan Tantisunthorn
Head of Research – Thailand

Ten years after sparking the Asian Financial Crisis in 1997, Thailand remains mired in political uncertainties, which have clouded the outlook for the overall economy as well as the commercial real estate sectors. Having enjoyed several years of robust activity prior to the military coup in 2006, many of Thailand's property sectors appear to be missing out on the benefits of sustained economic growth that neighbours around the region are now enjoying. Bangkok's office market is one sector that is beginning to see the effects of these conditions.

Sparked by public opposition to the previous administration facing allegations of corruption, nepotism and overly populist policies, military intervention in September 2006 led to the installation of an interim government, the National Legislative Assembly (NLA). The NLA was charged with prosecuting the alleged wrongdoings of the previous government, redrafting a new constitution and implementing elections by the end of this year.

Foreign investment affected

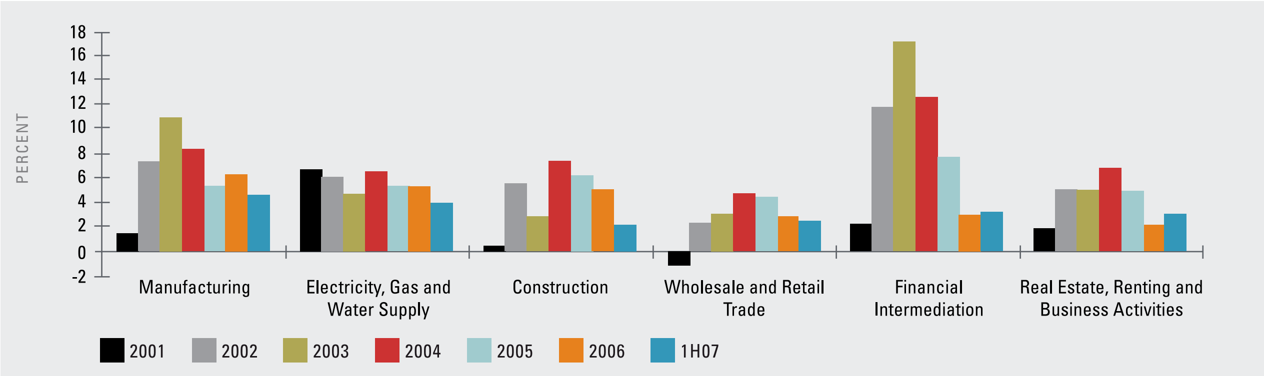
Seemingly nationalistic policies introduced by the interim government during its tenure have upset the outlook for Thailand's economy and property sectors. Concerned that speculative inflows were undermining the competitiveness of exports (the key driver of overall growth) due to sharp appreciation of the baht against the US dollar, the Bank of Thailand introduced a 30% reserve requirement on foreign currency exchange transactions in December 2006. Though later relaxed, this policy directly and indirectly raised the cost of inbound investment to Thailand.

Furthermore, the NLA later proposed amendments to the Foreign Business Act that would further restrict foreign ownership of corporations in Thailand. The amended laws would also close loopholes through which foreign entities held certain real estate assets, property which foreign entities are otherwise prevented from owning. So far the uncertainty and policy moves have not resulted in a flight of investment, though new investment and aggressive expansion have been curtailed. Simultaneous with investment, activity in the real estate and financial sectors has slowed.

Impact on the office market

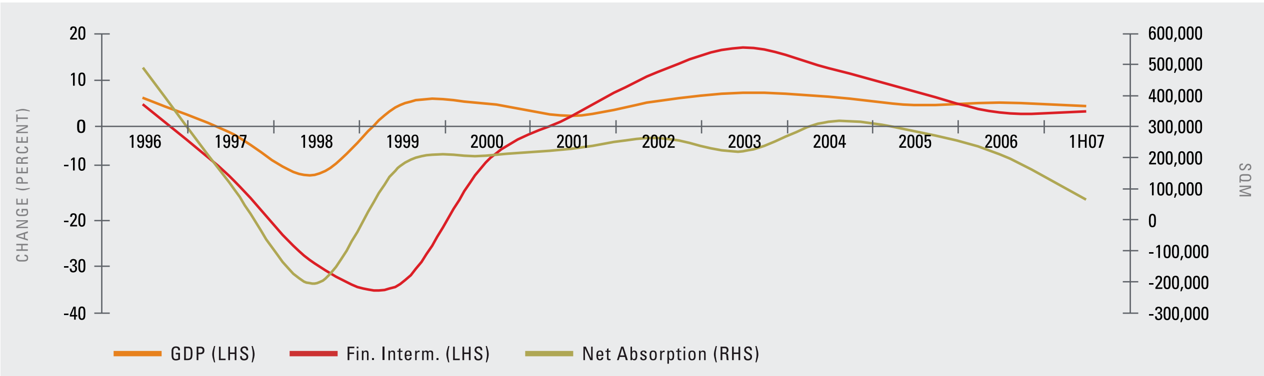
In the aftermath of the Asian Financial Crisis and a sharp contraction in demand, Bangkok's office sector has seen

Figure 1: Real y-o-y Growth of Office Space Associated Industries



Source: Bank of Thailand and National Economics and Social Development Board

Figure 2: Net Office Absorption, GDP and Financial Intermediation Growth



Source: BOT, NESDB, Jones Lang LaSalle

a steady recovery. While registering nowhere near pre-crisis levels (of more than 600,000 sqm per annum), new demand as measured by net absorption has remained well ahead of new supply since 2000. However, at only 65,000 sqm in the first half of 2007, net absorption this year is likely to barely keep pace with the amount of new space becoming available in new buildings being completed this year (Figure 2).

With the office leasing market having stagnated this year, industry observers are looking towards next year as to how much demand has been pent up by the political uncertainty and catalysts which would stimulate such demand. Next year will also see the completion of more supply in Bangkok that was initiated prior to the political turmoil. As demand remains primarily composed of lease renewals, occupiers of office space will have more options and greater negotiating power in satisfying their short-term and medium-term needs.

Outlook

Even if democratic elections are successfully carried out by year-end, a simple resolution to the political crisis is unlikely to be realised and confidence may lag. Among those positioning to campaign in the next elections, proposed policies and platforms remain unclear. To guarantee a smooth transition and secure the endorsement of the military authorities, current policies may need to be upheld.

Persistent political uncertainty does not bode well for new office demand. Even if a stable government is installed early next year, history shows that the highest levels of new office demand, post-financial crisis, were generated two to three years after the previous ruling government took office and began implementing its policies. This being the case, landlords are unlikely to enjoy the favourable conditions enjoyed prior to the political crisis over the short term. At this point, owners of the most prime buildings are trying to hold their ground. However, if elections by year-end do not unlock 'pent-up' demand, these landlords may finally begin further accommodating tenants.

ABOUT THE AUTHOR

Dan Tantisunthorn is the Head of Research for Thailand, leading a team of analysts covering various property sectors in the country. Besides regularly contributing to regional and local research publications, he is responsible for consultancy assignments wherein he helps investors understand the dynamics of property markets to assist them in making quality real estate decisions.

Asian Logistics:
Growth and Opportunity as an Investment Class

Barnaby Martin
Industrial Research Manager – Asia

Asia is witnessing high levels of capital inflows as funds and investors are looking to profit from strong regional growth and economic performance. One class of investment attracting a lot of attention is logistics and this is impacting almost every industrial market in Asia. Warehouses in Asia have evolved from basic single-storey, low-level buildings to purpose-built solutions with or without handling services, often grouped in logistics parks. Across Asia, we are beginning to see the emergence of this international-standard homogenous asset class with the same characteristics in each market, making it a product easily palatable to investors.

Key players…

Investment in logistics facilities in the Asia region is still relatively small compared to those of North America and Europe. For example, for ProLogis, Asia accounts for 14%[1] of the firm's global expenditure, whilst for Goodman International the figure is almost 13%[2] (excluding Australia and New Zealand). However, all of the large global players are investing heavily in investment grade logistics facilities and are looking to capitalise on the high returns available and increased opportunities in this sector.

…..and key markets

The type of investment vehicles in the logistics sector varies from country to country. In Australia, we see the presence of industrial REITs, logistics funds and a high level of securitisation. Singapore, Hong Kong and Japan are all hot investment markets for logistics facilities but with fewer REITs. China has recently emerged as a new destination for logistics fund operators with close to 20 international investors looking to invest. Korea and Taiwan are undergoing the structural change needed to deliver modern logistics and third-party logistics (3PL) services and will consequently begin to attract international logistics developers as well as the investors and funds focused on this product. Finally, Vietnam is an example of a rapidly emerging market, likely to offer excellent logistic investment opportunities.

Investment in logistics driven from exports and within

Demand for warehouses in Asia is growing and being driven by huge increases in trade volumes. Exports is a core contributor to the recent surge in investment in logistics. Export growth in India has averaged 14% in the last five years, whilst China is poised to become the world's biggest exporter by 2008. At the same time, Asian ports have responded to increased cargo volumes by investing heavily in infrastructure, new facilities, manpower and maintenance. Indeed, 14 of the world's 20 largest container ports are in Asia and the capacity of these facilities and the investment that has gone into them provides a tangible measure of Asian countries' anticipated trade in manufactured products over the next ten to fifteen years.

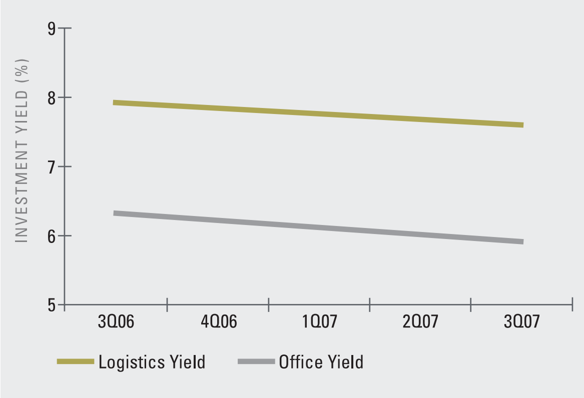
[1] Based on figures obtained from www.prologis.com (2007).
[2] Based on figures obtained from www.goodmanintl.com (2007).

Table 1: Top 10 Global Seaports

Rank	Port	2006 Container Throughput (million TEUs -Twenty-foot Equivalent Units)
1	Singapore	24.8
2	Hong Kong	23.2
3	Shanghai	21.7
4	Shenzhen	18.5
5	Busan	12.0
6	Kaohsiung	9.8
7	Rotterdam	9.6
8	Hamburg	8.9
9	Dubai	8.8
10	Los Angeles	8.5

Source: China Ports Association Container Branch (2007)

Figure 1: Asian Logistics and Office Investment Yields 3Q06 - 3Q07



Source: Jones Lang LaSalle

Table 2: Top 10 Global Airports

Rank	Airport	2006 Cargo and Mail Throughput (million tonnes)
1	Memphis	3.60
2	Hong Kong	3.44
3	Anchorage	2.61
4	Tokyo Narita	2.30
5	Seoul Incheon	2.15
6	Frankfurt	1.96
7	Los Angeles	1.93
8	Shanghai Pudong	1.86
9	Singapore	1.85
10	Louisville	1.77

Source: General Administration of Civil Aviation of China (2007)

Air cargo growth in intra-Asian markets is forecast to expand at a rate of 8.6% per annum for the next two decades[3], easily outpacing the global figure of 6.1%. Asia also boasts five of the top ten airports by cargo and mail throughput.

Sea and air are not the only forms of transport receiving large amounts of investment. Rail connections across Asia continue to improve with China especially seeking to expand its current 72,000 km network to 100,000 km by 2020[4].

The retail sector and logistics activity go hand in hand. This is certainly true in India where the booming retail market is offering significant new opportunities in the logistics sector, with 50 million sq ft of retail space planned for operation by 2010[5], presenting excellent opportunities for 3PL and thereafter logistics investors.

Investors hungry for higher returns

Whilst the logistics market is certainly a market which requires more specialised knowledge than the office, retail and residential sectors, the potential returns are often much higher. Logistics yields in Asia are consistently in the region of 200 basis points higher than office yields, with Tokyo showing the biggest difference, averaging 350 basis points over the past 12 months (Figure 1).

Asian logistics markets are coming of age

Logistics is a global asset class receiving attention from international investors who are chasing a limited but increasing stock of international-grade logistics facilities. Prospects for growth are strong in the export-oriented markets of Asia and 3PL providers are making the most of the strong domestic demand for retail-related products. In addition, the asset class is distinguished by its yield advantage, maintained by the persistent gap between the yields of the commercial and industrial sectors. The logistics market in Asia is coming of age: as Asia continues to provide manufactured goods for the world, her domestic economies flourish, retail and infrastructure advance, thus driving logistics activity and the investment opportunities in this area.

ABOUT THE AUTHOR

Barnaby joined Jones Lang LaSalle in February 2007 and is the lead researcher for industrial markets in the Asia region. Based out of Shanghai, he contributes to and coordinates research relating to industrial topics on thought leading papers as well as regular publications.

Having previously worked in a different field for three years in London, Barnaby speaks Mandarin and took a Masters programme in Real Estate Finance in the UK before joining the Firm.

[3] www.boeing.com (September 2007).
[4] The Ministry of Railway, China (2006).
[5] Jones Lang LaSalle.

Singapore: Office

As the office supply crunch situation looks set to persist, rentals continued to peak. However, the q-o-q net effective rental growth have slowed down to 8.7%, a single-digit quarterly growth since 2Q06.

Current rentals marked an 8.7% q-o-q rise in 3Q07, creating yet another all-time peak.

Demand

Several banks that do not have a presence in Singapore are locating their office in the country despite the sub-prime mortgage crisis. Meanwhile, banks that already have a presence are considering space expansions to accommodate the rise in headcount.

Fund management firms are also setting up their offices in Singapore to gain proximity to banks and to leverage on the expanding pool of high-net-worth individuals in the country as well as in the region. Typically, fund management offices in Singapore are catered for operations such as research, trading activities and regional, middle-office and back-office settlement functions.

Data from the Monetary Authority of Singapore reveal that the fund management industry's assets in Singapore was USD 581 billion as of end-2006, more than tripling the value in 2000.

Supply

To resolve the supply–demand imbalance, the Urban Redevelopment Authority (URA) has introduced transitional offices to provide short-term to intermediate-term supply. Such low-rise transitional offices can take as short as a year to be completed and the tenure for the sites are typically 15 years or less.

Industry watchers are expecting the URA to release more transitional office sites in the future, as there is limited supply coming on-stream.

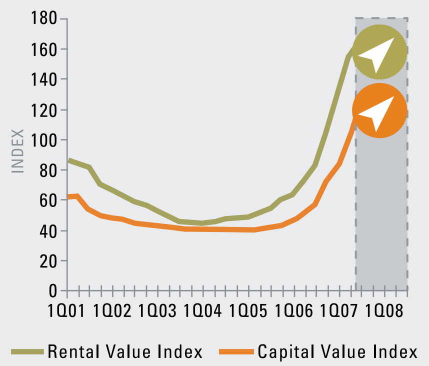
Asset Performance

On the back of strong demand and limited supply, rentals climbed to reach a new high in 3Q07. Net effective rentals for prime Grade A office space recorded a 8.7% q-o-q rise from SGD 1,476 per sqm to SGD 1,604 per sqm per annum during this quarter. On a y-o-y basis, the growth stands at 104.5%.

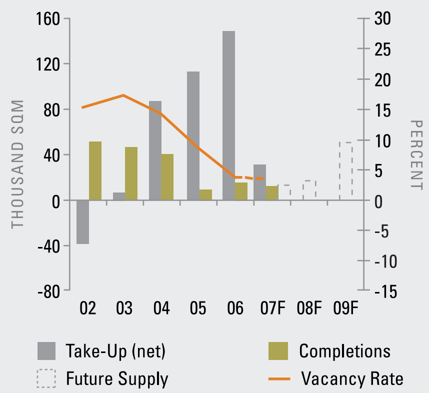
As for investment transactions of office buildings, a new benchmark price has also been set by the sale of Chevron House for SGD 730 million or SGD 2,780 per sq ft of NLA. The sale surpassed the previous record set in 2Q07 by 1 Finlayson Green at SGD 2,650 per sq ft of NLA.

12-Month Outlook

With no announcement of additional future supply, office supply continues to be in shortage. We expect rental growth to continue, albeit at a slower pace, as more companies will resort to alternative workplace solutions including high-tech industrial space for their non-frontline operations in the face of rising rentals.



Index base: Jan 1997 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	8.7%	20.8%
1 Year	104.5%	114.8%
3 Years	262.7%	202.1%

	3Q07
Vacancy Rate	2.4%
Net Effective Rent	SGD 1,604 psm pa
Capital Value	SGD 31,215 psm
Investment Yield	5.0% - 5.5%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

Singapore: Retail

There was no new completion in 3Q07, and the imbalance between strong demand and limited supply caused rentals to rise.

Demand

Demand has always been supply-driven in Singapore as retailers are eager to have their presence felt, particularly in the primary shopping belt. This also provides them with the opportunity to ride on the Singapore Tourism Board's (STB) promotion of the retail scene to encourage tourist spending. In August, Singapore welcomed 911,000 visitors, representing a 4.7% y-o-y growth. Tourists from mainland China registered an all-time high of 114,000. This coincided with the traditional summer school holiday in China.

Besides awaiting the completion of ION Orchard and Orchard Central, which are due in 2008, retailers began appealing to the government for more in-depth planning of the Orchard Road shopping belt. Actual work has not begun, although the plan is for a SGD 40-million makeover. One of the key issues highlighted by retailers and businesses is the need to improve the traffic flow to ease congestion. Suggestions for covered linkways and underground passages to improve connectivity have also been made.

Supply

With no supply completed in 3Q07, rising rentals may be an issue for retailers. Retail space is increasingly becoming costlier, particularly in the prime shopping belt of Orchard Road and Marina Centre, where hype is generated from the future Marina Sands Integrated Resorts and the Grand Prix in 2009. However, rising rentals may not pose a major problem to new entrants, especially big international stores, because they are more focussed on market exposure as they foray into Singapore.

To meet demand for suburban retail space, CapitaLand and Rock Productions will invest SGD 660 million to develop an integrated civic, cultural, retail and entertainment hub at Vista Xchange, one-north, which is due for completion in 2011. This 54,000-sqm development will have four levels for retail and eight levels for a civic and cultural zone. This investment enables CapitaLand to extend its presence into the Buona Vista area, with a strong catchment from the one-north community, surrounding estates, as well as nearby tertiary institutions.

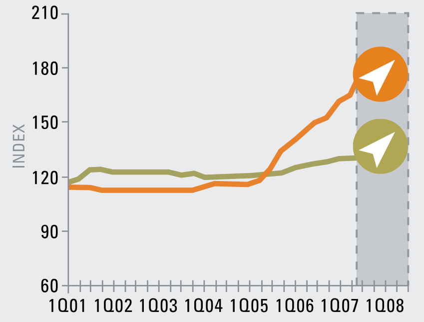
Asset Performance

In 3Q07, average prime-level rental values for Grade A space reached SGD 4,528 per sqm per annum, a rise of 0.5% from the previous quarter. This quarter also witnessed improvements in capital values of 5.0% q-o-q, to average SGD 83,043 per sqm.

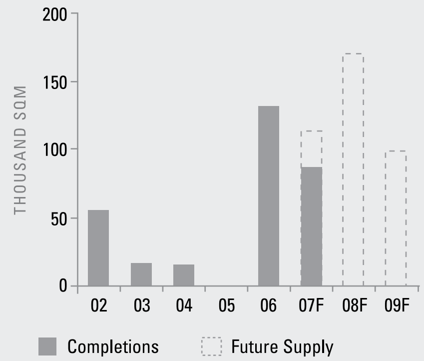
12-Month Outlook

Limited supply and low vacancy rates will ensure that rentals remain firm in 2007, with upward pressure expected for tourist-driven retail space. Retail investment interest is also expected to remain strong.

Limited supply and low vacancy rates will ensure that rentals remain firm in 2007.



Index base: Apr 2000 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	0.5%	5.0%
1 Year	3.2%	15.3%
3 Years	9.4%	49.4%

	3Q07
Vacancy Rate	0.3%
Net Effective Rent	SGD 4,528 psm pa
Capital Value	SGD 83,043 psm
Investment Yield	5.5% - 5.7%

12-MONTH OUTLOOK

RENTAL VALUE | **CAPITAL VALUE**

Singapore: Residential

Limited supply continued to drive residential prices up in prime districts. En bloc sellers and expatriates may have to seek cheaper replacement housing in non-prime districts.

Demand

Demand remained strong, with new physical supply being released at a slower rate. As such, average prices continued to drive upwards and major high-end projects report a strong take-up amidst the Goods and Services Tax hike and the US sub-prime woes. Such projects include Scotts Square, M21 and Soleil @ Sinaran, which achieved an average take-up of over 90% since they were launched in 3Q07.

Niche projects in Sentosa Cove remained in favour among buyers and developers. Ho Bee had soft launched its new development—The Turquoise (91 units)—at an average of SGD 26,910 per sqm. The expected selling price for the development is around 60% higher than the initial average price of the recently launched The Coast @ Sentosa Cove (also by Ho Bee). Apart from the excitement from the new sales, there has been a strong expressed interest in new tenders within Sentosa Cove. The last condominium plot—the 21,525-sqm The Pinnacle Collection—was launched with a minimum reserved price of SGD 963.8 million (SGD 1,600 per sq ft per plot ratio).

As of 3Q07, capital values for luxury units in the resale market remain on the rise, registering a 9.2% q-o-q growth to reach about SGD 27,986 per sqm. Moving in tandem with the luxury prime market, the typical prime market grew by 12% q-o-q to SGD 13,563 per sqm.

To promote 'waterfront-garden living', the Urban Redevelopment Authority (URA) has planned a 60-ha site near the upcoming Marina Bay Sands and Garden at Marina South to encompass an estimated 11,000 homes. Shopping malls, hotels, parks and schools will be constructed to form a community in this new residential district. The private Residential developments expected to go beyond 50 storeys. This new district will be completed in 15 to 20 years time.

Supply

The completion of 561 units in the prime non-landed stock brought the total existing supply to 34,148 units. This quarter is the second-highest third quarter in terms of supply after the peak recorded in 3Q97. Projects that were completed in 3Q07 include 8 @ Mount Sophia (Frasers Centrepoint), ShanghaiOne (Chip Eng Seng) and Newton Suites (United Overseas Land).

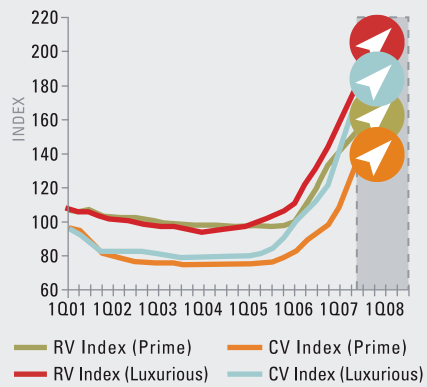
Asset Performance

The continuous influx of expatriates, coupled with limited existing supply due to collective sales in 3Q07, has led to a rental increase of 7.9% q-o-q and 39.7% y-o-y.

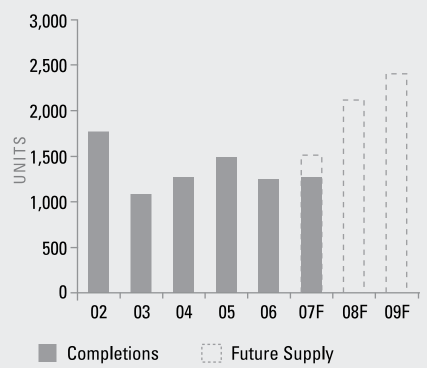
12-Month Outlook

With the new stringent measure for collective sales kicking in October 2007, the collective sales market is likely to slow down in the medium term. The tight supply situation might ease slightly, with more new completions expected by 4Q07.

Limited supply, coupled with high demand, continues to drive the sales and leasing market.



Index base: Apr 2000 = 100
(Base was revalued as the series was split to better reflect the market)
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	7.9%	9.2%
1 Year	39.7%	56.4%
3 Years	94.9%	121.3%

Luxurious Apts / Condo	3Q07
Net Rent	SGD 737 psm pa
Capital Value	SGD 27,986 psm
Investment Yield	2.6%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Singapore: Industrial – Business Parks*

This quarter has been characterised by increased acquisitions by industrial REITs and the continual rising demand for business park space - a result of demand spillover from the office supply crunch. Consequentially industrial rental rates have been on the rise.

Demand

A business park complex in Jurong East was acquired by MacarthurCook Industrial REIT (MI REIT) from EuroChem Corporation for SGD 91 million in a ten-year lease, with a five-year extension option deal. This marks MI REIT's first acquisition after being listed on the Singapore Exchange and its desire to tap into the demand spillover from the office into the high-tech industrial space.

NXP Semiconductors, a separate company set up by Phillips, will expand its USB Innovation Centre in Singapore. It is planning to spend a total of SGD 187.4 million on R&D over five years.

Supply

The beginning of 3Q07 saw an increase in supply of high-tech space with the completion of two developments at Changi Business Park by Changi Eightrium and Xilinx Asia Pacific Private Limited respectively, contributing an approximate total gross floor area of 435,938 sq ft of business park space. These completions will help ease the tight supply of high-tech space.

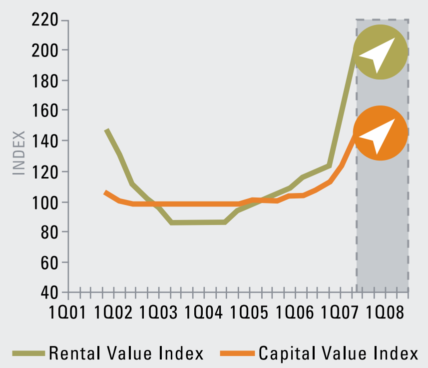
Asset Performance

Net rental rates rose to SGD 288 per sq m per annum with a q-o-q rise of around 25.6% this quarter, closing the premium gap between office and high-tech space. With growth of rental rates outpacing the capital value increments, yields for business parks have risen to a staggering 9.2%, signalling high demand and a jump in yields.

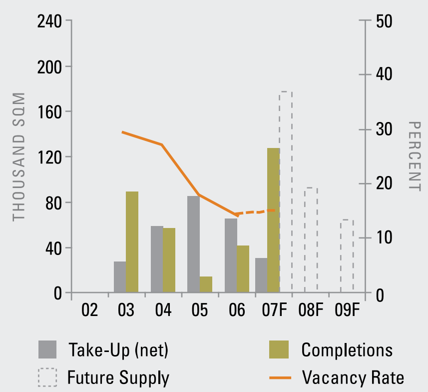
12-Month Outlook

The premium of office rentals over high-tech space has started to narrow, with business parks showing rising rents. However, this alone will not serve to deter the strong office demand for industrial parks in the near future. Demand for industrial parks both from backroom operations as well as SMEs and other MNCs are expected to remain strong until the end of the year.

The premium gap between office and high-tech space rentals, which is closing down, will not deter the strong demand for industrial parks in the near future.



Index base: Jan 2006 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	25.6%	16.0%
1 Year	74.4%	38.1%
3 Years	135.1%	45.0%

	3Q07
Vacancy Rate	14.8%
Effective Rent	SGD 288 psm pa
Capital Value**	SGD 3,122 psm
Investment Yield**	9.0% - 9.5%

* Includes high-tech industrial buildings that are not zoned for business/science parks in the Master Plan.

** Capital values and investment yields are based on 60-year leasehold properties .

12-MONTH OUTLOOK

RENTAL VALUE | **CAPITAL VALUE**

Singapore: Industrial – Manufacturing and Warehouse

Coupled with the recovery in the manufacturing sector, led by biomedical-manufacturing and transport engineering, the Federal Reserve's rate cut in mid-September has also enhanced the prospects of increased industrial activity in Singapore.

Demand

Based on a report released by the Economic Development Board (EDB), Singapore experienced a 13.8% growth in the manufacturing sector in August 2007, with a revival rise of 5.6% y-o-y in the electronics sector. The Purchasing Managers' Index (PMI) also rose 2.2 points in August to an optimistic ten-month high of 53.9 points in September. Sony plans to develop a SGD 150-million plant to capture a foothold in the global lithium-ion polymer battery market. This plant will manufacture cells for consumer electronics, which will be the pioneer in South East Asia.

Supply

As part of the GLS Programme, a 43-year-old leasehold development site at Tuas Cresent, with a NLA of around 700,000 sq ft released by JTC was awarded to Soilbuild Group Holdings after its successful bid. The proposed factory development would accommodate the demand of the engineering, marine, oil and gas sectors located in the vicinity as well as meet the needs of SMEs and MNCs. The final confirmed site in the Government Land Sales Programme for 2007, a 224,610-sq ft site in Jalan Tepong, was also launched by JTC on 28 September 2007 to accommodate the rising demand for land. Net rentals for manufacturing spaces rose to SGD 139 per sq m per annum, indicating a q-o-q rise of 13.0%.

Asset Performance

Manufacturing yields remain constant with both rental and capital value growing at the same pace. Nevertheless, more conventional spaces will be in demand with rising rentals and fast growing bio-medical and transport engineering sectors as Singapore manufacturing recovers from the decline in 2Q07. Optimism in manufacturing demand for spaces prompted MapletreeLog to go on a logistics acquisition spree, buying five warehouses in Tuas for a total of SGD 52 million in August and September. Another similar acquisition during the quarter was made by MI REIT. It purchased a warehouse and an office facility at 7 Clementi Loop for SGD 18.3 million, decreasing its exposure to UE Tech Park by 1.9% in income terms and by 2% in value.

12-Month Outlook

The recent appreciation of the Singapore dollar to the US dollar could undermine export competitiveness in the longer run, while rising oil prices could mean a rise in the cost of manufacturing inputs. However, with the recovery of the manufacturing sector as indicated by the PMI, demand for manufacturing space and business parks will continue to be high.

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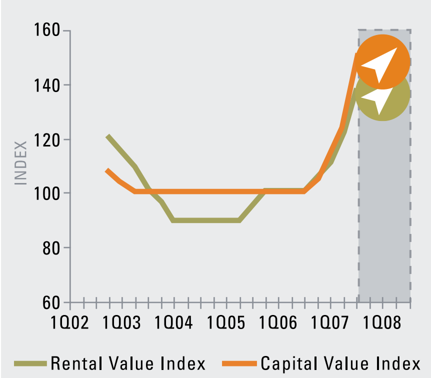
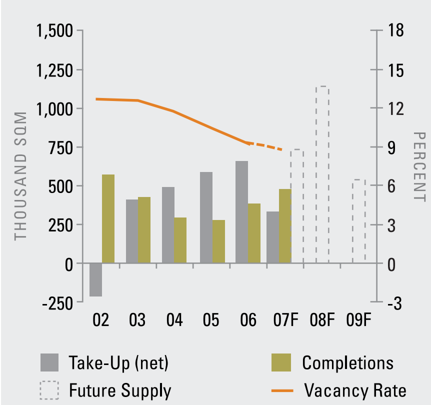


Index base: Jan 2006 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	13.0%	21.0%
1 Year	36.5%	48.8%
3 Years	52.6%	48.8%

	3Q07
Vacancy Rate	8.7%
Effective Rent	SGD 139 psm pa
Capital Value**	SGD 2,422 psm
Investment Yield**	5.8% - 6.2%

** Capital values and investment yields are based on 60-year leasehold properties.

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Bangkok: CBD Office

In spite of a newly drafted constitution being passed by public referendum and the democratic elections being scheduled by year-end, political uncertainty still remains an issue. As a result, many investment and expansion plans have been put on hold. The prime CBD office market stagnated as net absorption had contracted.

Demand

As the country transitions into having a democratically elected government, new demand for office space stalled. At the same time, some existing tenants have been relocating to areas outside of the CBD. Net absorption ultimately turned negative this quarter after continually contracting on a quarterly basis since the beginning of 2007. The contraction of 1,226 sqm slightly pushed the vacancy rate up from 11.3% to 11.4%.

Little activity occurred during 3Q07. Major movements include Sanofi Aventis, an international pharmaceutical company, expanding by some 1,500 sqm at CRC Tower and L'Oreal occupying 976 sqm in Bangkok City Tower. Most leasing deals were attributable to existing tenants renewing their leases, while the rest were reportedly for space of less than 500 sqm.

No en bloc office building sales were reported during this quarter.

Supply

Supply of Grade A office space in the CBD remains limited given the lack of new completions. Currently, supply totals 1.34 million sqm, the same level as in 2Q07. Only Athenee Tower will add some 40,000 sqm to the market by end-2007, while Jamjuree Square (90,000 sqm of office space) is scheduled for completion in the beginning of 2008.

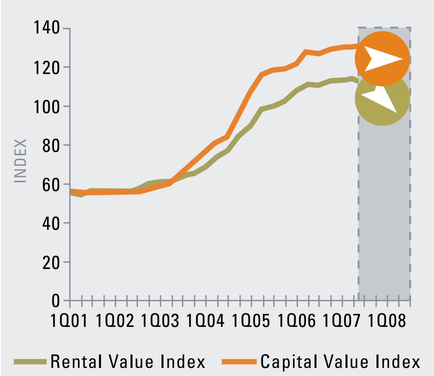
Asset Performance

In spite of the current limited supply, average rentals marginally dropped. This is the first quarterly drop in the past four years, bringing average monthly gross rentals down to THB 662 per sqm after peaking at THB 666 per sqm last quarter. However, estimated average capital value rose by another 0.9% to above THB 80,000 per sqm, causing investment yield to compress to 6.6–8.4%. Further downward pressure on rentals is foreseeable over the near term as new demand remains sluggish and anticipated new supply will enter the market by year-end.

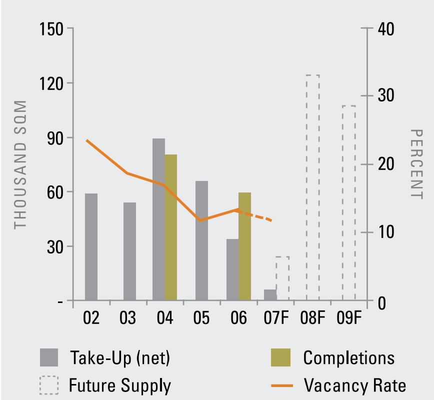
12-Month Outlook

Although the elections are set on 23 December 2007, there will be a lag between the formation of a new government, the implementation of policies and their impact on the overall economy. Nevertheless, consumer and investor confidence in the Thai economy should gradually build. During this time, lagging new demand coupled with the significant new supply of Grade A office in the near term will allow occupiers of office space to have stronger bargaining power. Vacancy rate is expected rise to above 12%.

Owing to the persistent political uncertainty, prime office demand contracted while rentals marginally declined. As new supply enters the market by year-end, vacancy is expected to rise further.



Index base: Jan 1997 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	-0.9%	0.9%
1 Year	1.8%	3.5%
3 Years	47.2%	56.6%

	3Q07
Vacancy Rate	11.4%
Net Rent	THB 6,361 psm pa
Capital Value	THB 80,185 psm
Investment Yield	6.6% - 8.4%

12-MONTH OUTLOOK

RENTAL VALUE | **CAPITAL VALUE**

Bangkok: Retail

Although the passage of a new constitution by public referendum in August cleared up some of the political uncertainty, consumer sentiment during much of 3Q07 remained sour. The consumer confidence index (CCI) fell further to 13.9 in August compared with 16.7 in June. Meanwhile, the private consumption index (PCI) improved slightly to 123.2 from 122.2 during the same period.

Demand

The baht appreciation narrowed the gap between local product prices and those of similar goods in other regional shopping hubs. This resulted in an improved purchasing power for luxury items. Sales volume of jewellery and watches reportedly rose during 3Q07.

Japanese tourists still play an important role in the luxury retail sector as they have a higher purchasing power than those from other countries. While Chinese tourists are making a bigger contribution to the retail business, their spending remains low compared with that of the Japanese.

Fitness, health and beauty businesses continue to undergo rapid growth. In addition to cosmetics, these businesses include those offering services and products in nutrition, spas and wellness centres.

Supply

The total stock of prime retail space in Bangkok remained unchanged for the third consecutive quarter at 3.24 million sqm. Very little supply is expected to come on-stream in 2007, totalling only 29,000 sqm. By year-end, supply consists of an assortment of small centres such as Project Thonglor (5,100 sqm) in Sukhumvit 55, The Horizon (1,900 sqm) at the Ekamai BTS station and Bangkok Medical Complex (5,000 sqm) also at the Ekamai BTS station. In addition, in Pradit Manutham Road near the Ekamai-Rarm Intra expressway, there will be The Crystal (15,000 sqm) will serve as a community centre.

Asset Performance

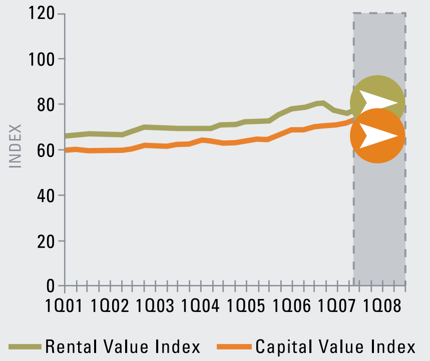
With a more positive outlook, some projects located in prime locations such as Silom have started to test the market by slowly hiking up their rentals. As of 3Q07, average rentals improved slightly (after having dropped for two consecutive quarters) to THB 17,601 per sqm per annum, up 1.7% q-o-q. Capital value also rose to THB 147,586 per sqm, up 2.7% q-o-q. This resulted in investment yield compressing to between 11.7-12.2%.

12-Month Outlook

At end-2007, not much change is expected for the Bangkok prime retail market. However, in 2008, retail sales should rise due to higher anticipated consumer confidence particularly after the general elections, currently scheduled for the end of the year.

In 2008, two prime retail space will undergo refurbishment, i.e. Seacon Square in Srinakarin Road and The Mall Bang Khae in Petchkasem Road. The former aims to attract more customers, given that the demographics in the area have shifted somewhat since the opening of the Suvarnabhumi Airport. The latter aims to capture more residents from nearby high-end housing projects, which have recently mushroomed.

Fitness, health and beauty businesses continue to undergo rapid growth. In addition to cosmetics, these businesses include those offering services and products in nutrition, spas and wellness centres.



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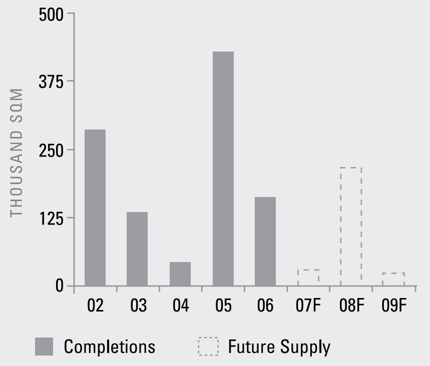
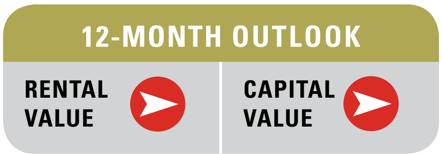
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	1.7%	2.7%
1 Year	-2.6%	5.6%
3 Years	9.4%	17.6%

	3Q07
Vacancy Rate	NA
Net Rent	THB 17,601 psm pa
Capital Value	THB 147,586 psm
Investment Yield	11.7% - 12.2%



Bangkok: Luxury Condominium

After a new constitution was passed by public referendum, the election for a new government is expected to be held by year-end. Given a better general outlook, investors are less concerned with the persistent political uncertainty. Nevertheless, confidence in Bangkok's condominium market remained relatively low, although newer projects continue to generate buying interest.

In the first nine months of 2007, new luxury condominium completions totalled 1,669 units, the highest level on record.

Demand

Overall demand for new luxury condominiums remained firm. Certain projects like Hansar Rajdamri and The Rajdamri, both located in proximity to a prime commercial area, were reportedly 60% sold out. However, foreign demand was suppressed, given the political uncertainty and the strengthening of the baht. Meanwhile, new rental demand has flattened. This is because existing tenants were seen relocating from older buildings to newer ones, which offer better and higher-quality facilities and amenities at only marginally higher rentals.

Supply

Two new projects—Siri on 8 (74 units) and The Rajdamri (278 units)—were launched in 3Q07. Siri on 8 is an eight-storey low-rise condominium located in the Sukhumvit area and was launched by Sansiri after Siri @ Sukhumvit (460 units) was sold out in only a month. The Rajdamri is a 29-storey building located in proximity to the 'Avenue of Luxury', with units being sold on 30-year leasehold. Since Pacific Star International's acquisition of the property, marketing of Sathorn Garden units that were unsold since the financial crisis, started again in August. Under the redevelopment plan, both ten-year-old buildings are being renovated. Meanwhile, Pacific Star will complete the redevelopment of the abandoned RS Tower III in Sukhumvit into a high-end, mixed-use residential project after acquiring it from Asian Property (AP).

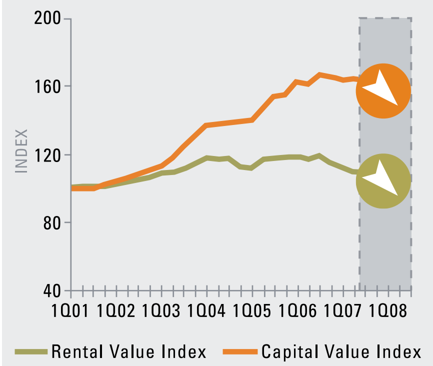
Only Manhattan Chidlom in the CBD North was completed during 3Q07, adding 190 units to the total stock. However, significant supply from five projects comprising more than 1,000 units will be completed by end-2007. Nearly half of the scheduled condo unit completions between 2007 and 2008 is concentrated in the CBD North. In the first nine months of 2007, new luxury condominium completions totalled 1,669 units, the highest level on record.

Asset Performance

The average resale condominium price in the CBD and the Sukhumvit area slipped further from THB 73,269 per sqm to 72,927 per sqm in 3Q07, or a 0.5% decline. The significant supply completed in 2006 coupled with the current supply strengthened the downward pressure on average rentals, which dropped by 1.2% to THB 3,585 per sqm per annum In line with declining rentals and interest rates, yield trended down to 4.1–5.2%.

12-Month Outlook

The general elections scheduled on 23 December will help improve the overall consumer confidence. On the other hand, lower mortgage rates and higher tax deductions on housing loans should help boost sales activity through end-2007. However, the excess supply condition will add downward pressure to both leasing and secondary markets. Rentals and capital values of older projects are unlikely to see any upside over the near term.



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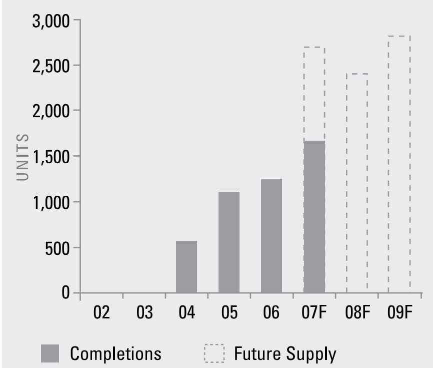

Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	-1.2%	-0.5%
1 Year	-8.4%	-2.1%
3 Years	-7.3%	18.3%

	3Q07
Vacancy Rate	NA
Net Rent	THB 3,585 psm pa
Capital Value	THB 72,927 psm
Investment Yield	4.1% - 5.2%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Thailand: Industrial – Manufacturing

Although the manufacturing and export sectors continue to drive the Thai economy, political uncertainty persists and several policy issues remain unsettled. While a constitution was passed by public referendum and the general elections have been scheduled on 23 December 2007, the market for industrial land remained somewhat sluggish.

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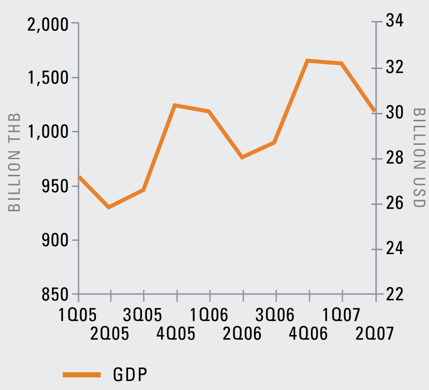
Demand

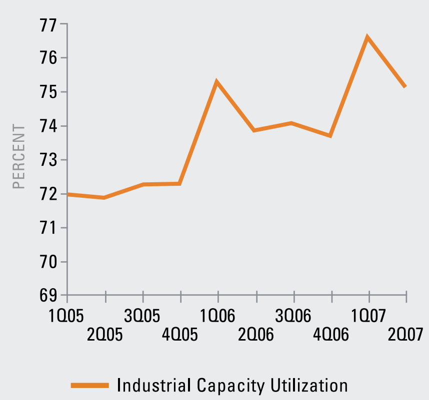
An estimated 965 rai (1.54 million sqm) of industrial estate land was sold during 3Q07. However, industrial capacity utilisation dropped slightly from 76.5% in 1Q07 to 75.1% in 2Q07. A couple of large transactions occurred during the quarter, including Siam Kubota's purchase of 202 rai (323,200 sqm) in Amata Nakorn Industrial Estate and Aapico Hitech Plc's acquisition of 100 rai (160,000 sqm) in Amata City Industrial Estate.

During the first eight months of 2007, net applications submitted for Board of Investment (BOI) privileges rose to 868 projects, up 2.24%. The investment value of the submitted applications totalled THB 418.7 billion, a 53% rise compared with in the same period in 2006. Demand for industrial land remained strong in Industrial Area Zone 2, which includes the provinces of Rayong and Chonburi, and attracted 70% of the total investment value. Most investment is planned for the service and infrastructure industries, followed by the chemical, electronics and automotive industries.

Honda was the first manufacturer to be granted BOI privileges for an eco-car project worth THB 6.7 billion. Given the favourable conditions of the package, more approvals are expected as other automobile companies have expressed their interest in similar projects. This should generate additional demand for industrial land in the future.



Source: Bank of Thailand



Source: Bank of Thailand

Supply

Total supply of industrial estates and parks rose to 105,287 rai (168.46 million sqm), up 1.34% on a quarterly basis. Of this amount, 23,285 rai (37.26 million sqm) was reportedly available for sale. During 3Q07, industrial estates accounted for 61,992 rai (99.2 million sqm) or 59% of the total supply, with only 13,092 rai (21 million sqm) being available for sale. Nevertheless, two new industrial estates—TFD Industrial Estate in Chachoengsao Province and VRM Industrial Estate in Ratchaburi Province—were established under the Industrial Estate Authority of Thailand (IEAT) in 2007.

Asset Performance

Owing to the lack of demand and intense competition, industrial land developers were more accommodating to boost land sales. Factory rentals slightly dropped to range between THB 160 per sqm per month and THB 175 per sqm per month on the average.

Average Effective Rental (THB per sqm per annum)	
Zone	**3Q07**
Eastern	1,985
Northern	1,995

12-Month Outlook

Although both the Business Sentiment Index (BSI) and Thai Industries Sentiment Index (TISI) rose in August, investment and expansion plans could remain on hold unless the political situation stabilises and uncertainty over government policies clears up. However, demand for industrial land should pick up as automobile companies expand their production as they are granted BOI privileges.

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE
	NA

Manila: Makati CBD Office

The business process outsourcing (BPO) industry remains the key driver of the office market. Both rentals and capital values registered a steady growth.

Demand

Demand for office space in the Makati CBD remains strong, primarily from the expansion of BPO and IT-enabled services (ITES) companies. Net absorption during 3Q07 was at 22,356 sqm.

One of the major leasing transactions in the quarter was the pre-commitment of DKS to occupy 9,068 sqm in Net Cube in Bonifacio Global City. Other transactions were DB Regis' expansion of 548 sqm in Ayala Tower One and Motorola's expansion of 259 sqm in The Salcedo Tower.

Supply

No new supply was introduced to the office market during 3Q07. Both Net Cube and One World Square, located in Bonifacio Global City, are in their final stages of construction.

As expected, vacancy rate continued its downward slide to 3.4%. Currently, most Grade A buildings like Robinson Summit and Sky Plaza enjoy an occupancy rate of 100%.

Asset Performance

With demand outpacing supply, rentals have moved up rapidly in the past quarters. Annual net rentals reached PHP 8,081 per sqm per annum.

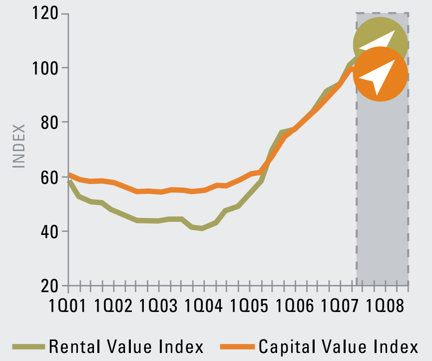
Likewise, capital values have been moving up, albeit slower than rental values. During 3Q07, capital values closed at PHP 74,825 per sqm, rising some 1.8% q-o-q and 19% y-o-y.

Meanwhile, investment yield stood at 10–10.5% during the quarter.

12-Month Outlook

Rentals are anticipated to continue their upward trend as the new supply is not sufficient to meet the growing demand. Moreover, despite the current and expected huge demand for office space from the BPO industry, few developers have yet to embark on providing the much needed supply.

Rising demand and limited supply continue to push rental rates to a higher level.



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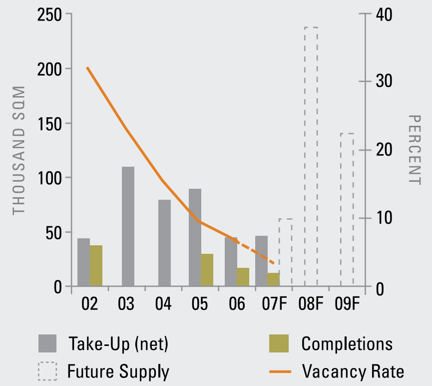


Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	2.8%	1.8%
1 Year	22.2%	19.0%
3 Years	115.4%	78.2%

	3Q07
Vacancy Rate	3.4%
Net Rent	PHP 8,081 psm pa
Capital Value	PHP 74,825 psm
Investment Yield	10.0% - 10.5%

12-MONTH OUTLOOK

Manila: Retail

Consumer spending in 3Q07 declined due to the rising cost of goods and services. However, overseas Filipinos' remittances remain afloat in anticipation of the fast-approaching Christmas season.

Remittances from overseas Filipinos will buoy the demand for retail space.

Demand

The anticipated bullish Christmas shopping season resulted in stronger demand from retailers wanting to set up shops soon. Net absorption slowed down and was recorded at 18,753 sqm this quarter.

Supply

As there is no new substantial supply, the strong demand led vacancy rate to ease further downwards to 5.2% in 3Q07 from 5.8% in 2Q07.

Asset Performance

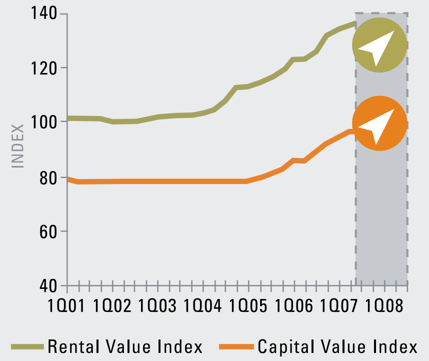
Net rentals stood at PHP 18,048 per sqm per annum during 3Q07, rising by 1.2% q-o-q and 9.1% y-o-y.

Capital values marginally rose by 0.7% q-o-q and 9.8% y-o-y to PHP 154,845 per sqm. Investment yield is maintained at 11.0–11.5% level during the quarter.

12-Month Outlook

Consumer spending is expected to be buoyed by the sustained remittances from Filipinos working abroad.

The main players, SM Prime, Robinsons Malls and Ayala Malls, have announced their expansion plans and are likely to further boost the demand for retail space in the near term.



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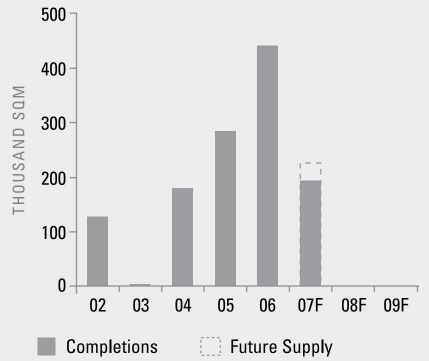
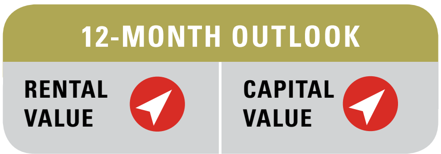


Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	1.2%	0.7%
1 Year	9.1%	9.8%
3 Years	27.1%	23.8%

	3Q07
Vacancy Rate	5.2%
Net Rent	PHP 18,048 psm pa
Capital Value	PHP 154,845 psm
Investment Yield	11.0% - 11.5%



Manila: Makati CBD and Fringe Luxury Residential

The rising leasing demand for luxury condominiums is buoyed by expatriates working in business process outsourcing (BPO) firms. On the other hand, overseas Filipinos are still the main driver of home sales.

Strong absorption rates have encouraged major developers to launch new towers.

Demand

Developers claimed that 30% of the remittances of overseas Filipinos have been used for real estate investment, specifically in the residential sector. Roadshows that market newly launched units have been targeted at areas with a high concentration of Filipino workers, e.g. the US, Europe and the Middle East. On the other hand, resale activity remains moderate.

The rental market continues to be driven by expatriates from the BPO industry.

Supply

No new project was launched in 3Q07. However, 1,029 units are scheduled to be completed in the next quarter. These will come from Fifth Avenue Place and Serendra District I sections B and C. About 97% of these potential units have already been pre-committed, pushing vacancy rate down to 2.1%.

The strong take-up encouraged established developers such as Ayala Land, Megaworld and Century Properties to launch new projects.

Asset Performance

Similar to other sectors of the property market, rental and capital values have been rising in tandem for the past quarters.

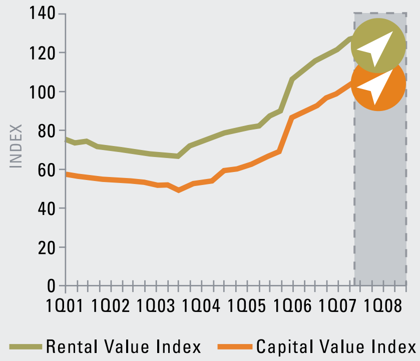
Capital values rose 4.7% q-o-q to PHP 83,673 per sqm. However, this average is lower than the pre-selling prices of new projects, which are now at around PHP 100,000 per sqm.

Rental values also rose at a steady rate of 2.4% q-o-q to reach PHP 6,024 per sqm per annum.

Meanwhile, investment yield was restrained to 7–7.5%.

12-Month Outlook

Sales will likely remain robust, with demand coming from affluent Filipinos who are working and residing abroad. Rental demand is also expected to remain healthy, given the growing number of expatriates from the expanding BPO industry.



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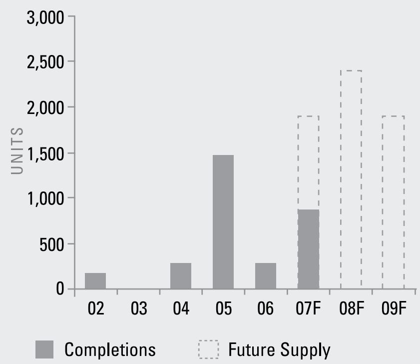


Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	2.4%	4.7%
1 Year	12.6%	17.9%
3 Years	66.8%	84.4%

	3Q07
Vacancy Rate	2.1%
Net Rent	PHP 6,024 psm pa
Capital Value	PHP 83,673 psm pa
Investment Yield	7.0% - 7.5%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Jakarta: Investment-Grade Office

Demand

The office market saw some improvements in leasing activity during 3Q07. Compared with 2Q07, enquires rose quite significantly, driven mainly by upgrading demand. This, in turn, kept tenant relocations from lower-quality to better-quality buildings active. These conditions benefited landlords of new or good-quality buildings as they were able to accommodate tenants' demand in terms of building specifications and facilities.

However, only some of these enquiries materialised during the quarter. The rest were scheduled for execution next year or even later. Overall, net take-up in 3Q07 totalled 13,700 sqm, representing a 23% rise from 2Q07. With no additional supply, vacancy declined from 18.7% to 17.8%.

Companies that were active in the market in this quarter came largely from the banking, trading, business and financial services and mining sectors. Significant deals in 3Q07 involve a securities company that relocated to their new office in Sudirman Plaza, a mining company that secured new premises in Menara Karya and a couple of trading companies that establish their new offices in Sampoerna Strategic Square.

Supply

Based on our observation, the completion of several projects has been delayed to later quarters in order for landlords to get sufficient tenants prior to their openings. As such, no new projects were completed during this quarter. So far, additional supply over the last nine months was only 76,700 sqm from the total of 242,400 sqm anticipated for this year.

As of 3Q07, the supply of investment-grade office in Jakarta totalled about 1.5 million sqm. Over the next four years, it is projected to rise by over 600,000 sqm or at an average of 150,000 sqm per annum.

Asset Performance

Limited new demand, coupled with massive new supply, continued to put downward pressure on rental movements. As a result, office rentals in the CBD suffered stagnancy over the last couple of years. Only one project in our basket raised its asking rental in this quarter.

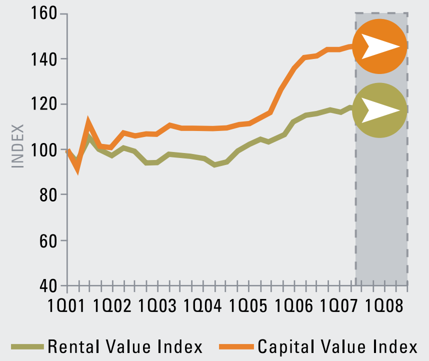
Meanwhile, net effective rentals remained unchanged, at USD 107 per sqm per annum with service charges of about USD 75 per sqm per annum. Accordingly, rental yield remained stable at the average of 7.5 - 8.0% per annum.

12-Month Outlook

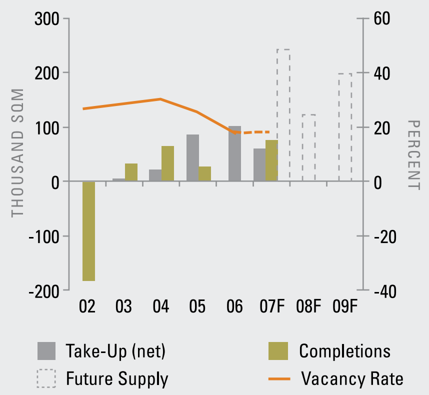
Projected economic growth and stability in Indonesia's socio-political environment over the next two years are expected to generate more investment interests. As such, leasing demand arising from business expansions is anticipated to grow in the near future.

However, as we expect the growth of supply to outstrip that of demand, vacancy in the next three years is likely to rise about 20–22%. As competition will possibly remain keen, office rentals will continue to suffer downward pressure, with only high-quality and popular projects recording marginal rental adjustments. All in all, rental and capital values will remain stable in the next twelve months.

Entering 3Q07, leasing activity improved quite significantly, triggered mainly by demand for better-quality office space. This trend had benefited good-quality and new projects, which offer competitive rentals.



Index base: Apr 2001 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	-0.4%	0.0%
1 Year	1.6%	3.1%
3 Years	25.3%	32.9%

	3Q07
Vacancy Rate	17.8%
Effective Rent	USD 107 psm pa
Capital Value	USD 1,340 psm
Investment Yield	7.5% - 8.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Jakarta: Upper-Class Retail

Demand

The retail market saw demand improving in 3Q07. This increase in market activity reflects the rising optimism among retailers. The anticipated buying spree as year-end festivities approach has given retailers the confidence to bring forward their expansion plans. However, most of this demand remains concentrated in newly completed projects.

Overall, net absorption in upper-class shopping malls in Jakarta in 3Q07 totalled 10,791 sqm, rising by 500% from the previous quarter. However, cumulatively, net absorption over the last three quarters totalled around 18,500 sqm, i.e. only around 25% compared to the same period a year ago.

With no additional supply during this quarter, vacancy in upper-class shopping malls fell further from 8.2% in 2Q07 to about 7.1% in 3Q07, leaving a total of 67,000 sqm of existing retail space vacant.

Supply

No new projects were completed in 3Q07. The opening of the Grand Indonesia project was put off to 4Q07, although a number of major tenants such as Seibu Department Store and Blitz Cinema had already opened their outlets. Similarly, the completion of Pacific Place and Mal Kelapa Gading Phase V is likely to be rescheduled to 4Q07. In total, these three projects are expected to provide about 196,000 sqm of new supply.

Meanwhile, another 260,000 sqm of potential supply from five mall developments are expected to enter the Jakarta market between 2008 and 2009.

Asset Performance

The strong competition in the market as a result of limited demand growth continued to put pressure on landlords. As such, several shopping malls, especially newer ones, had difficulties raising their occupancy levels. These landlords have resorted to providing incentives such as rental concessions and flexibility in lease terms to attract prospective tenants.

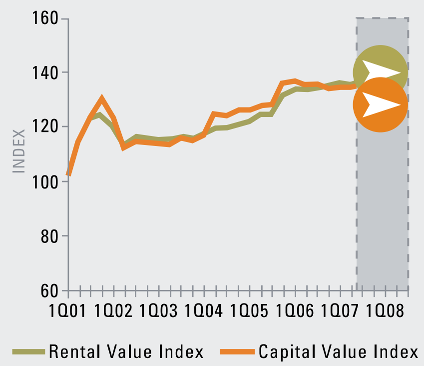
By end-3Q07, net effective rental in upper-class shopping malls in Jakarta stood at IDR 4.46 million per sqm per annum. This represents a modest growth of 0.7% q-o-q and 1.3% y-o-y.

12-Month Outlook

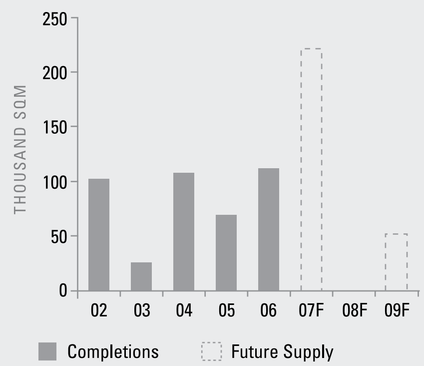
The recovery in consumer spending, following a gradual improvement in the economy, played an important role in the development of Jakarta's retail market. The rise of the urban middle class is also seen as a key factor that contributed to this growth. As such, the outlook of the industry is quite positive in the long run.

Over the next 12 months, the retail property market, especially the upper-class segment, will still be characterised by tough competition among landlords. As a result, rentals are expected to remain stable.

Demand growth in 3Q07 was boosted by the expansion of retailers anticipating the annual high season during year-end festivities.



Index base: Apr 2001 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Price
q-o-q	0.7%	0.6%
1 Year	1.3%	-0.2%
3 Years	14.1%	9.1%

	3Q07
Vacancy Rate	7.1%
Net Rent	IDR 4,464,987 psm pa
Capital Value	IDR 29,447,203 psm
Investment Yield	15.0% - 15.5%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

Jakarta: Luxury Residential

Demand

Leasing demand in the luxury residential market grew at a slower pace entering 3Q07. After experiencing two consecutive quarters of positive net take-up, the residential market in Jakarta suffered a major blow as new enquiries were limited. The competition from the luxury condominium and townhouse markets is seen as the major factor affecting demand.

In 3Q07, most of the rental apartments within our basket reportedly suffered a decline in occupancy. Only a few projects in the CBD area managed to add tenants to their buildings. Overall, net take-up in the luxury apartment market during this quarter totalled -27 units. As a result, vacancy rose from 16.8% in 2Q07 to 18.4% in 3Q07.

Supply

No new apartments entered the market during 3Q07. Currently, the supply of luxury apartments in Jakarta totalled some 1,736 units. Meanwhile,

about 150 units from the Pacific Place Apartment project are slated for completion by 4Q07.

Unlike the development of strata-title condominiums, rental apartment projects in Jakarta grew at a much slower pace. Between 2008 and 2009, about 161 units from three luxury apartment projects are scheduled for completion in Jakarta. In comparison, the proposed luxury condominiums over the next two years totalled more than 2,200 units.

Asset Performance

The majority of rental apartment projects in Jakarta are facing fierce competition from new condominium projects. This is because most rental apartments are older and thus lack modern facilities. In general, demand for luxury residential units had not grown significantly given the slower growth in expatriate arrivals.

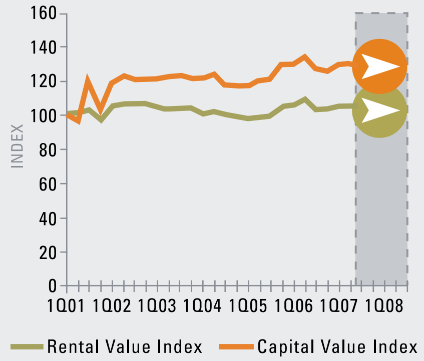
With no improvements in demand, landlords chose to focus on marketing their projects aggressively. As such, no landlords had increased their asking rentals in 3Q07, and net effective rental remained at USD 144 per sqm per annum. Similarly, service charges were unchanged at an average of USD 36.9 per sqm per annum, putting the total gross rental of luxury apartments at about USD 181 per sqm per annum.

12-Month Outlook

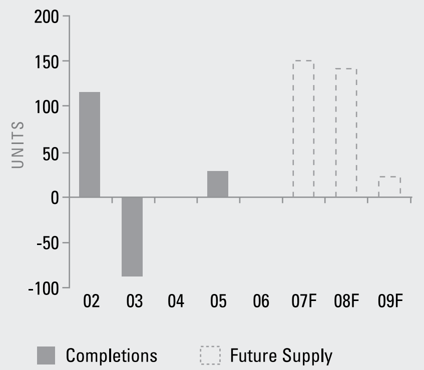
Demand for luxury residential units is expected to grow over the next one year, following the gradual rise in the general business environment. However, new projects are likely to benefit more as tenants would prefer new and better-quality residences that provided modern facilities. Competition from individually owned condominiums would also continue, adding downward pressure on rentals.

In the longer run, the growth of the expatriate community, the main target market of upper-class residential projects, is expected to strengthen alongside economic growth as well as the anticipated stability in the socio-political environment.

Demand for luxury apartments in 3Q07 dropped to a negative level. The competition from new condominiums and townhouses continued to give pressure on landlords of apartments and on rental growth.



Index base: Apr 2001 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	0.2%	-0.7%
1 Year	2.3%	1.9%
3 Years	5.3%	9.4%

	3Q07
Vacancy Rate	18.4%
Effective Rent	USD 144 psm pa
Capital Value	USD 1,335 psm
Investment Yield	10.5% - 11.0%

12-MONTH OUTLOOK

RENTAL VALUE	CAPITAL VALUE

Kuala Lumpur: Office

Sustained economic growth and strong growth in the services sector supported the continual expansion requirements of numerous occupiers of prime office buildings. These requirements were, however, restricted by limited supply.

Demand

In 3Q07, against a backdrop of limited prime office supply, the vacancy rate in the Golden Triangle (GT) area and the CBD continued to reduce, albeit marginally. The absence of suitably-sized contiguous quality space in the GT and the CBD resulted in some landlords being unable to accommodate existing tenants' expansions. This, together with infrastructure improvements, lower rentals and the availability of quality space in decentralised locations, has resulted in some major tenants, such as PricewaterhouseCoopers and General Electric, relocating away from KLC.

In 3Q07, net absorption in the KLC represented 15% (3,752 sqm) of the total net absorption in the Klang Valley, compared with a healthy 21,132 sqm recorded in the Decentralised Areas (DC).

Supply

No new building was completed in 3Q07, resulting in the total stock in the KLC remaining stable at 1.9 million sqm. While construction work on Wisma Lee Rubber continued, the KL Pavilion building is expected to be ready for occupation in 4Q07. Both buildings are expected to contribute 29,088 sqm by end-2007.

Asset Performance

Average net rents across the market remained relatively stable due to increasing outgoing charges. However, rental renewals in select top-end buildings (with nearly full occupancies) such as Petronas Tower 2, Menara Exxon Mobil and Menara Citibank registered rental increases of between 5% and 15% per annum.

En bloc sales activity in the KLC was minimal in 3Q07. Transactions were mostly limited to secondary grade buildings. KL Plaza, an integrated development comprising office, retail and serviced apartments, was acquired by subsidiaries of the KL Pavilion Group for MYR470.6 million.

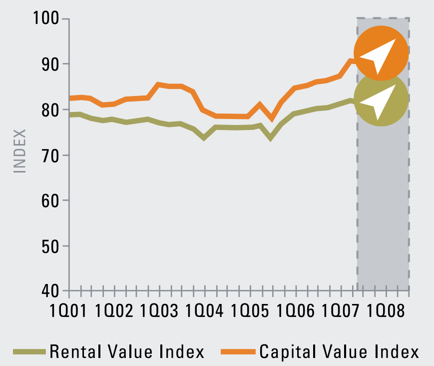
In spite of limited en bloc transactions, there is a growing trend in which office buildings are purchased and tenants procured prior to physical completion. A key transaction was the sale of KL Sentral Lot A (DC) to a wholly-owned subsidiary of CIMB-Mapletree Real Estate Fund 1 for MYR7,136 per sqm.

12-Month Outlook

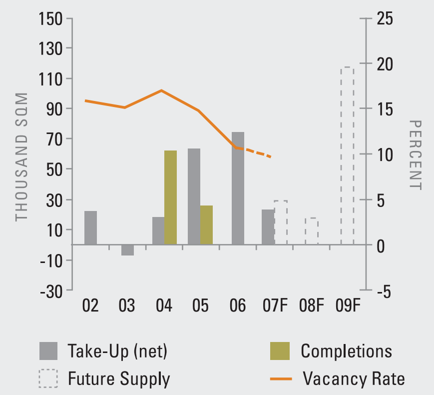
The reduction of corporate tax from 27% in 2007 to 26% in 2008 is expected to boost business sentiment in Kuala Lumpur. This, together with the sustained economic growth of 6% and low unemployment rate, will provide the conducive environment necessary for further business expansions.

Restricted supply of prime office space and continued expansions by existing tenants will further reduce vacancy rates. However, there will be slight adjustments by end-2007 due to the completion of two buildings. With the number of buyers continuously outnumbering sellers, yields in the KLC are expected to compress, supported by bullish prospects for further rental and capital value growth.

Limited space and high rentals have resulted in some landlords continuing to lose major tenants to quality modern buildings in decentralised locations.



Index base: Jan 1997 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

For 2007, take-up, completions and vacancy rate are YTD figures. Future supply is for the full year.

Growth	Rental Value	Capital Value
q-o-q	0.0%	0.0%
1 Year	2.3%	5.1%
3 Years	7.7%	15.2%

	3Q07
Vacancy Rate	9.3%
Net Rent	MYR 504 psm pa
Capital Value	MYR 6,531 psm
Investment Yield	7.5%

12-MONTH OUTLOOK

Kuala Lumpur: Retail

The strong demand for retail space continued in 3Q07 and the industry is expected to register better performance in retail sales, occupancy and rentals in the short term. Robust development activity resulted in the opening of three prime retail malls: Pavilion Kuala Lumpur, The Gardens in Mid Valley City and the extension of Sunway Pyramid, which were all completed in September 2007.

Demand

In spite of some relocations and closures of retailers, leasing demand was generally encouraging, with the more successful retail centres such as Suria KLCC, Mid Valley and 1 Utama recording full occupancy rates. Louis Vuitton and Jimmy Choo started operations in Suria KLCC while Joan & David, Thomas Pink, Mandarina Duck, Kiehl's and Okaidi & Obaibi made their debut in the Malaysia market, opening outlets in Pavilion KL. Australian retailer Harvey Norman opened new outlets in both Pavilion KL and Sunway Pyramid Phase 2, and has plans to expand to about 20 outlets across Malaysia in the medium term.

Supply

Robust development activity continued with the opening of three new prime retail centres at end-3Q07 (two in the city centre and one in the suburbs): Pavilion KL (120,774 sq m), The Gardens in Mid Valley City (74,323 sq m) and the extension of Sunway Pyramid (60,387 sq m) in the suburbs. Japan's Isetan and Singapore's Robinsons anchored in the upmarket-fashion focused Gardens in Mid Valley. Owing to the push for early opening in 3Q07, an average physical occupancy of 50% or less was recorded; however, this is expected to increase to approximately 90% as more retailers will complete renovations during 4Q07.

Asset Performance

In 3Q07, average effective rentals for the city centre increased to MYR 2,855 per sqm per annum and average capital values increased to MYR 28,417 per sqm.

With anticipated sustainable rental and capital value growths, investment yields in the city centre hardened from 2Q07's levels and ranged from 7.5% to 11%.

Strong demand from retailers, underpinned by growth in consumer spending, will continue to drive rentals upwards for the more popular prime retail centres.

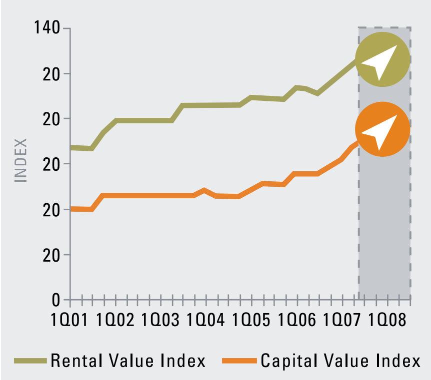
12-Month Outlook

Retail centres are expecting relatively better trading growth this year with many retailers registering average sales growth of between 10 and 15 per cent. Sales are likely to be stronger during 4Q07 supported by the robust economy, the generally increasing domestic consumer spending and the usual higher end of year spending due to the festive season and the long school holidays.

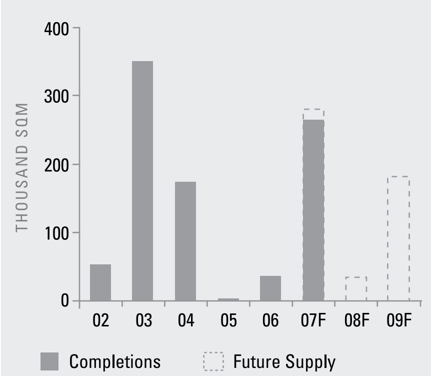
Encouraging factors such as the strong economy, a young population, urban migration and growth in tourist arrivals will spur the market further in the medium to long term.

Rental values and market prices for prime retail accommodation are expected to increase over the next three to six months.

Retail sales, occupancy rates and rentals will increase further, supported by strong retail spending and growing foreign interest in the local retail industry.



Index base: Jan 1997 = 100
Source: Jones Lang LaSalle



Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	3.1%	2.3%
1 Year	10.6%	10.9%
3 Years	13.9%	19.7%

	3Q07
Vacancy Rate	16.9%
Net Rent	MYR 2,855 psm pa
Capital Value	MYR 28,417 psm
Investment Yield	7.5% - 11.0%

12-MONTH OUTLOOK

RENTAL VALUE | **CAPITAL VALUE**

Kuala Lumpur: Luxury Residential

Strong demand prevailed in 3Q07, particularly with the increased number of foreign purchasers scouting the markets in areas where supply is relatively tight.

Notable increases in foreign interest investing in Malaysia's luxury market, particularly from Arab, Hong Kong, China, Australia, Singapore, and Europe.

Demand

There has been strong investor and owner-occupier demand, local and foreign alike, particularly in the Mont Kiara, Damansara Heights, Bangsar and Kuala Lumpur City Centre (KLCC) areas. A newly launched development within the KL city vicinity, The Crest Residence, was launched at MYR 750 per sq ft. Reflecting strong demand, this project achieved a 30% sales rate at its initial launch despite minimal advertising. According to the developer, an Arabian company purchased three levels of the condominium block.

Occupancy rates of the younger generation of luxury condominiums, such as Stonor Park, Hampshire Park in the KLCC area, remained stable with many reporting near full occupancy. The majority of the occupiers, especially those located near the city centre, are expatriates working in Kuala Lumpur.

Supply

In 3Q07, supply increased from 7,577 units to 8,878 units with a further 2,033 units (22.9% of the existing supply) expected to come on-stream by end-2007. However, it is likely that a number of these projects may be deferred to 2008.

661 luxury condominium units were launched within the vicinity of the KL City Centre, Mont Kiara, Bangsar and Damansara Heights.

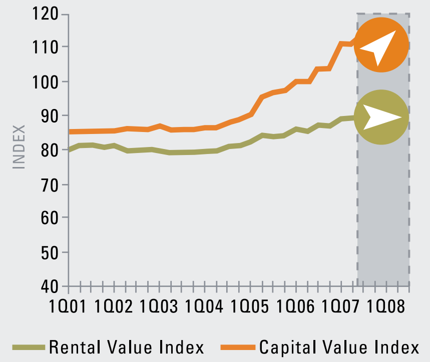
Two of the most notable condominium developments are expected to be launched in 4Q07 and are anticipated to set new benchmarks prices.

Asset Performance

Overall rentals and average prices increased during 3Q07. Rentals increased marginally while the average capital value increased further to MYR6,211 per sqm. Although rentals increased, there is a relatively limited pool of demand, compared with the steadily increasing supply of rental units. Therefore, capital values increased at a faster rate than rentals, resulting in a marginal hardening of investment yield, which ranged between 7.5 and 8.0%.

12-Month Outlook

High investor demand for luxury residential residences is expected to encourage developers to increase the sales prices when their projects are launched in the short to medium term. Sustained economic growth in Malaysia is expected to further stimulate the luxury condominium market and the sales volume of high-end condominiums is likely to increase. Rentals however are expected to remain stable in the short to medium term.



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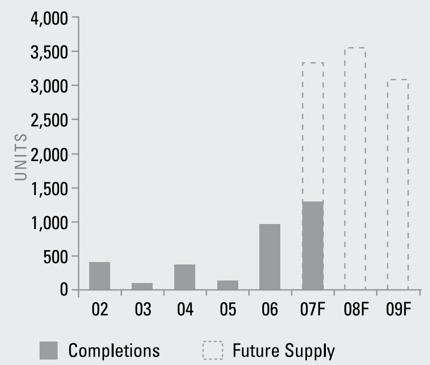

Source: Jones Lang LaSalle

Growth	Rental Value	Capital Value
q-o-q	0.5%	2.9%
1 Year	2.8%	10.1%
3 Years	10.7%	30.2%

	3Q07
Gross Rent	MYR 482 psm pa
Capital Value	MYR 6,211 psm
Investment Yield	7.5% - 8.0%

12-MONTH OUTLOOK

RENTAL VALUE

CAPITAL VALUE

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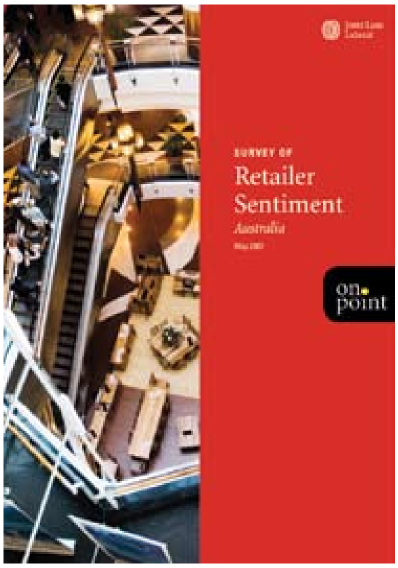
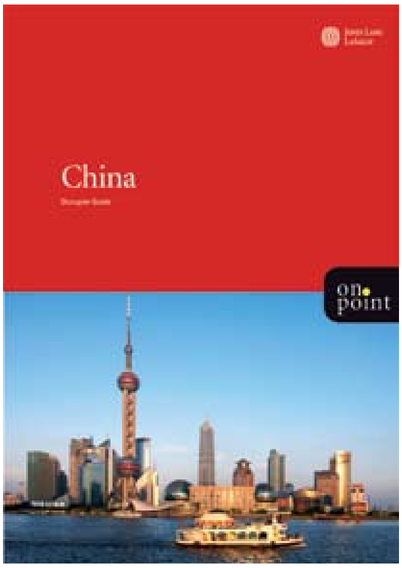
A measure of retailers' sentiment and an understanding of their growth strategies based on a survey of retailers in key Asian markets.



RETAILER SENTIMENT SURVEY – AUSTRALIA (BI-ANNUALLY)

A measure of retailers' sentiment based on a survey of leading Australian retailers.



CORPORATE OCCUPIERS GUIDE (ANNUALLY)

General overview and market update of the office, industrial and residential property sectors in key markets across Asia Pacific, including a guide to property market practices in those countries. The Corporate Occupiers Guide series covers: Australia, China, Hong Kong, Japan, South Korea, India, Malaysia, The Philippines, Singapore, Taiwan and Thailand. It is published in conjunction with the Asia Pacific Real Estate Operating Guide (wall chart) and a regular bulletin.

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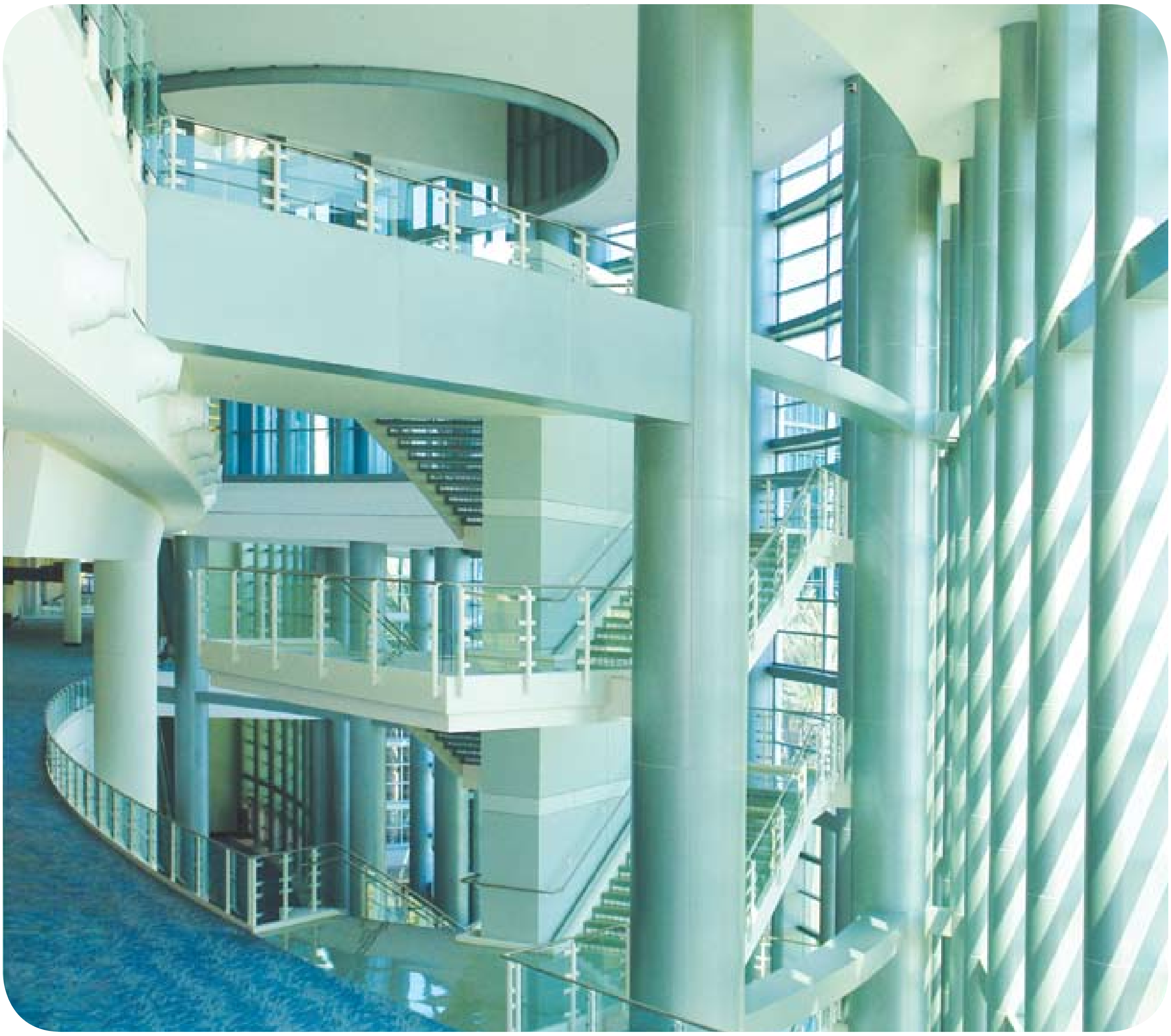

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