REAL ESTATE
INVESTMENT
MANAGEMENT

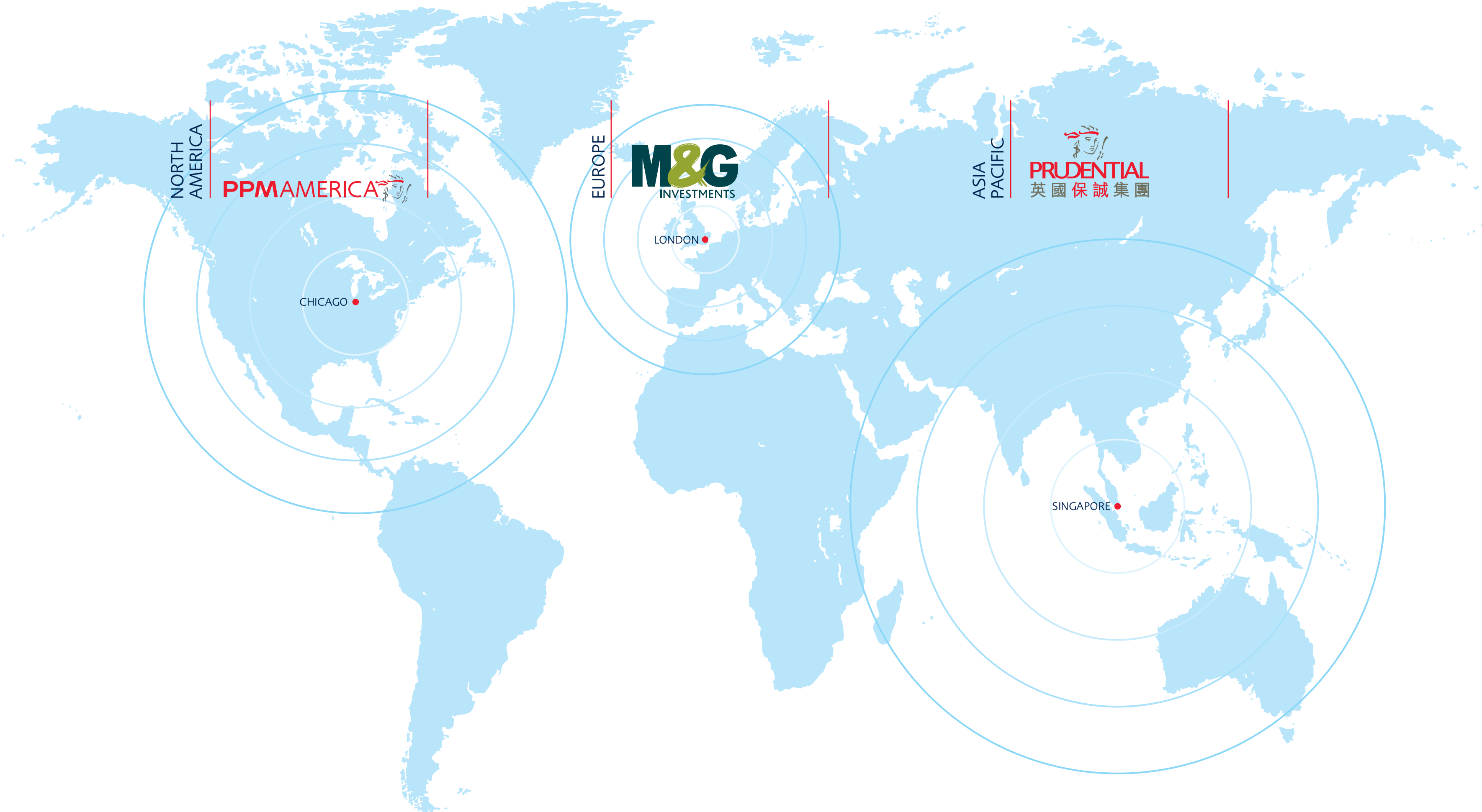
INTERNATIONAL
REAL ESTATE PERSPECTIVE
3RD QUARTER 2008

Part of the M&G Group

PRUPIM

GLOBAL PRESENCE

PRUPIM is a significant force in UK real estate investment management and its global influence is growing rapidly.



Cities directly invested in

Cannes	Los Angeles	Milan	Paris	Singapore
Chicago	Lyon	New Jersey	San Francisco	Sydney
Hong Kong	Metz	New York	Seattle	Toronto
London	Miami	Ottawa	Seoul	Vancouver

CONTENTS

ABOUT PRUPIM

PRUPIM is one of the leading real estate investment managers in the United Kingdom. We form part of the M&G Group of Companies which is the asset management arm of Prudential plc in the UK and Europe.

We manage over US$37 billion of real estate assets, of which over US$6 billion is invested internationally in North America, continental Europe and Asia Pacific. We are invested in over 1,000 properties with more than 6,000 property occupiers.

We manage real estate investments for a wide variety of clients, providing core services and expertise in fund management, asset management and property management. These services are offered individually, or on a fully integrated basis.

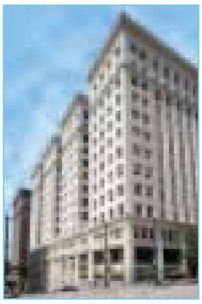
Our major activities are driven by powerful research, managed by the Global Property Research Team. Our considerable scale and diversified activities allow us to draw on our own multi-dimensional inputs which give us an unrivalled information advantage.

We evaluate the macro-economic environment working as part of the global research capability of Prudential. We receive detailed property related data generated by our on-the-ground surveyors. This is fed into proprietary modelling systems which form the basis of our analysis.

The 10-strong Global Property Research Team was formed in 1987 and is comprised of property economists and performance measurement analysts who work together to provide quality property analysis and commentary on the UK and international property markets.

Unless otherwise specified all data and commentary is as at end June 2008.

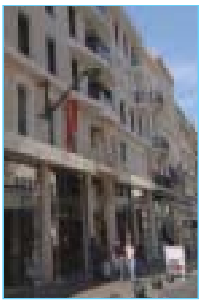
For further information please visit our website: www.prupim.com



Seattle

Sydney

Los Angeles



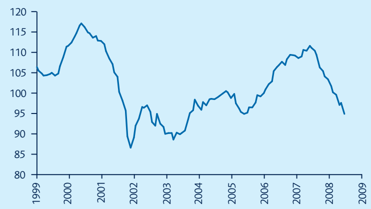
Cannes

EXECUTIVE SUMMARY

EUROPE

- In line with the global slowdown, the economies of Western Europe are also decelerating. For the moment, their occupier markets remain fairly robust, with healthy take-up in retail and logistics and, to a lesser extent, offices. However, forecasts for future growth are being downgraded and surveys of economic sentiment are now at their lowest level since mid-2005, suggesting future rental growth is set to weaken.
- In the investment markets, yields continue to move out, particularly in Spain and Ireland. To date, the correction across Europe has been far less dramatic than that seen in the UK. This is partly due to pricing being less stretched initially, but it also reflects sellers not yet being willing to crystallise lower prices. This, combined with financing being difficult and costly to obtain, has led to a sharp contraction in transaction volumes compared to the same period 12 months ago.

Eurozone Economic Confidence

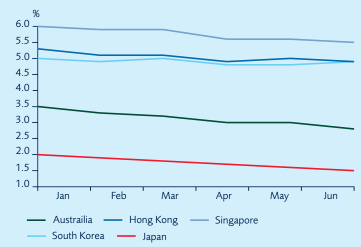


Source: European Commission (June 2008)

ASIA PACIFIC

- In general, the real estate fundamentals remain pretty robust – especially when considered within a global context. Demand side variables are still relatively solid and the supply pipelines in most markets are fairly subdued.
- However, although economic weakness has not come through significantly in the data as yet, sentiment and expectations are weakening steadily. Confidence in the notion that Asian economies are insulated from current global economic weakness seems to be fading. Add to this persistently high levels of inflation and you have the rationale for downgrades to economic growth around the region.
- These fundamental factors combine with a heightened level of risk aversion and uncertainty in the debt markets to create upward pressure on yields in many of the region's property markets. Although this momentum, in general, is much more subdued than in the UK, particularly in markets such as Australia and Singapore, there is the potential for it to gather pace.

GDP Forecast Evolution 2009

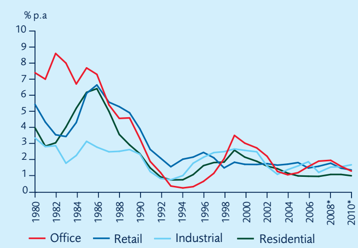


Source: Consensus Economics (January 2008 to June 2008)

NORTH AMERICA

- The US is teetering on the brink of recession, though GDP growth has remained positive, and expectations are of only a fairly modest downturn compared to those of the early 1990s and at the turn of the millennium. The economic slowdown is clearly feeding through into weakening demand for real estate space. However, new supply of commercial space has been fairly restrained, causing low vacancy rates and helping to boost rental growth prospects going forward.
- With property's rental fundamentals still holding up, it is the capital markets that have had the biggest impact on real estate's return prospects. Pressure on pricing has eased and cap rates have risen by around 50 basis points since summer last year.
- Canada's robust economy means that its property markets are fundamentally sound. Across the sectors, demand and supply remain balanced, suggesting positive rental growth going forward. However, investment sentiment is evidently weakening and yields are expected to drift outwards.

US Additions to Space



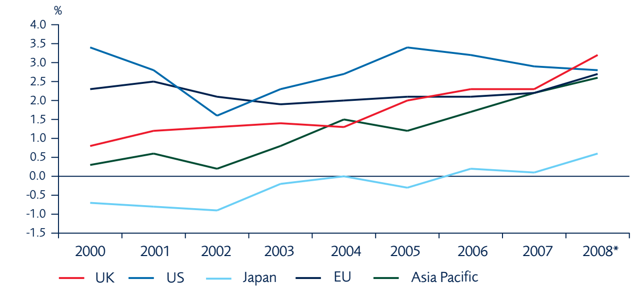
* Forecast
Source: Torto Wheaton Research, REIS (US Top 50 Metros), LaSalle Investment Management (June 2008)

GLOBAL REVIEW

Economic forecasts have been downgraded steadily over the past quarter for almost all the major world economies. Policymakers are struggling to steer a course between inflation and economic weakening. US policymakers have sought to focus on defending the economy through aggressive interest rate reductions whereas, in Europe and parts of Asia, the focus has been on controlling inflation by raising interest rates. Linked to this is a general crisis of confidence and desire for risk aversion amongst banks, which is both reducing the availability and increasing the cost of credit. In this environment, both businesses and manufacturers are struggling to grow and, for much of the world, consumer confidence is being undermined by worsening job prospects and falling house prices. Even Asia is feeling the pinch. Confidence in the view that the region had, by virtue of its intrinsic dynamics, gained a measure of immunity from wider economic travails, is fading.

Weaker economic growth is undermining tenant demand for properties. Thankfully, the "credit crunch" (alongside spiralling construction costs) helped nip "in the bud" a burgeoning development boom in many countries. As such, the problem for most global rental markets remains more one of "under demand" than "over supply". The tenant markets performing most strongly still tend to be those supporting commodity-based economic regions; those performing the most weakly tend to be world city finance and banking office centres.

Inflation Rising Globally



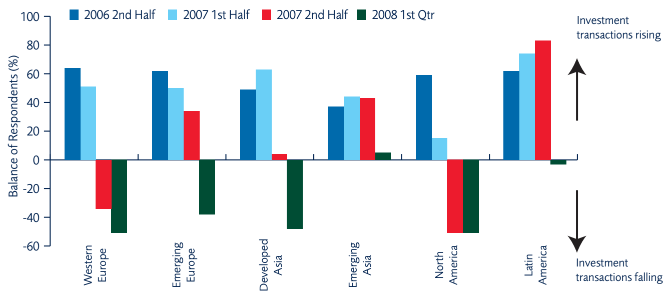
* Forecast
Source: DTZ (June 2008)

However, property markets are not only being impacted by weakening prospects for rental growth, they are also being hurt by a general re-pricing of risk. Real interest rates may be falling in the "flight" to risk-free assets. However, increased banking margins are pushing borrowing costs higher. Similarly, risk premia for property assets, especially if they carry any extra risk (like weak location or covenant, or impending lease ends), are also being increased. In line with this, there is a growing expectation that the reduction in the "risk premia gap" generated by the pressure to invest in recent years could well unwind, with pricing for secondary assets and markets being disproportionately hit. This fear is being expressed in mature property markets around the world.

"….property markets are not only being impacted by weakening prospects for rental growth, they are also being hurt by a general re-pricing of risk."

Not surprisingly in this environment, liquidity, as measured by turnover in the market, is down substantially around the globe. In Europe, it is down by around 30% from levels at the end of 2007. Vendors are still coming to terms with the new pricing regimes and, as "headwinds" continue to buffet most other asset classes, there is much head scratching going on as to what one would do with sales proceeds in any event.

Global Commercial Property Investment Demand



Source: RICS Global Commercial Survey (June 2008)

On the buying side, those with equity have the advantage, especially if they are unfettered from any need to couple it with debt, and can choose their moment to re-enter the market. Meanwhile, leveraged investors are effectively on the side lines in most markets with loans generally costly, difficult to obtain or simply unavailable as banks rebuild their loan books.

"Yields are rising in nearly all regions and in all sectors around the globe…."

With this background, yields are rising in nearly all regions and in all sectors around the globe. Even the US market, which must have benefited from interest rate cuts, has still seen yields rise by c.50 basis points in the last 12 months. European yields are now clearly on the way up and even in Asia, especially Japan and Australia, there is a pronounced softening in pricing occurring.

EUROPEAN MARKET DYNAMICS

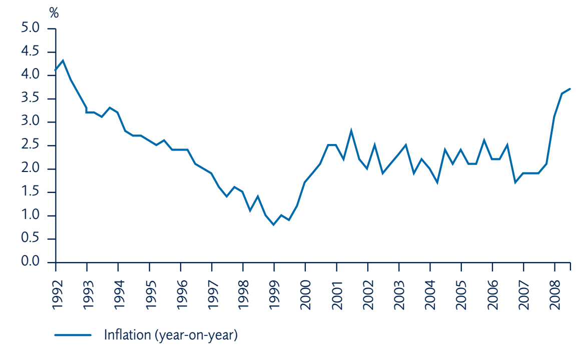
	RENTAL	INVESTMENT
Office	■ With a deteriorating economic outlook, demand for office space is generally weakening. Distinct variations among European countries are emerging as the gap between financial and non-financial centres widens. ■ Availability continues to fall despite a substantial reduction in take-up activity. Vacancy rates are moderating, though areas exposed to significant new supply, like Barcelona, are recording increases. Rents in most markets are beginning to stall as the rate of rental growth slows.	■ Offices are generally perceived to be the most vulnerable and least preferred investment sector. ■ There is particular concern over "world city" office markets. Linked to the problems in global financial markets, these have also seen the most development activity and rental rises in recent times. ■ Yields are expected to move out by around 40-50 basis points over the course of 2008, with yields moving higher in nearly all main markets.
Retail	■ In line with slowing economic growth and rising inflation, retail spending continues to moderate, particularly in Spain and Ireland where consumers are highly indebted. ■ Despite this, demand for space continues to grow in most countries and rents remain under upward pressure due largely to a lack of supply. ■ Shopping centres in Portugal and Italy are the exception, experiencing falling prime rents driven by a strong supply of stock.	■ Despite concerns over consumer retrenchment and modest income growth, the retail sector remains the most in favour amongst investors. It is rightly perceived as more stable and there is the added benefit of structural change in both formats and occupiers. This is helping maintain demand for modern stock. ■ As such, far fewer markets are expected to see extreme outward movements in yield over the medium term compared to other sectors.
Industrial	■ Boosted by increasing levels of trade, take up of logistic units remains healthy especially for those that are well located. ■ In turn, prime rents edged higher over the first quarter of 2008, albeit modestly compared to the office and retail sectors. ■ With supply fairly elastic and in the face of a weakening consumer market to which the industrial market has recently been evolving, future rental growth is likely to be limited but stable.	■ Recently, European logistics investment yields have been compressed unsustainably towards local office yields. This is a concern given the cost of finance, which underpinned much of this movement, is now rising. ■ In a number of key locations these concerns are partly offset by the continuing need for new, high-quality stock to support the maturing logistics infrastructure. ■ Yields are expected to rise by around 40 basis points over the next 12 months.
Residential	■ Inflation-induced interest rate rises combined with oversupply and stricter lending conditions are exacerbating already weakening demand, in turn fuelling a marked slowdown in sales activity. ■ Spain and Ireland, in particular, are the most vulnerable, as the downturn in their respective residential markets gathers pace. Mortgage approvals are falling as potential buyers struggle to secure loans. These struggling buyers, however, could prove highly advantageous to the rental market.	■ The era of rampant house price inflation is nearing an end as the risks of price falls begin to unravel. ■ Having said this, the limited amount of information available suggests that residential price growth has slowed substantially across Europe with some markets, Ireland and Spain in particular, seeing marked falls in the first half of 2008.

EUROPEAN OUTLOOK

The outlook for most European economies is weakening as GDP forecasts are downgraded; the exception being Germany which continues to experience a period of slow recovery. According to Consensus Forecasts, the expectation for eurozone GDP growth has been revised up to 1.7% from 1.6% for 2008.

Surging oil and food prices have fuelled eurozone inflation to double the 2% target, reaching its highest level since the 1999 formation. With the European Central Bank's interest rate policy focused on controlling inflation, interest rates in the eurozone recently hit a seven-year high. As parts of the region witness a sharp growth deceleration, rates are likely to remain stable in the short term as the ECB balances soaring inflation and slowing economic activity.

Eurozone Inflation



Source: Bloomberg (June 2008)

In recent years, low levels of interest rates and the easy availability of credit have inadvertently encouraged imprudent borrowing. Subsequently, development and transaction volumes in many of Europe's real estate markets reached record levels with strong yield compression. The financial crisis, however, has all but halted the flow of credit and, therefore, yield expansion is expected to continue; most so in offices, least so in retail.

Residential markets are also being impacted. Climbing interest rates and tougher lending conditions are driving down house price expectations, especially in the UK, Spain and Ireland. With falling consumer confidence, spending is expected to slow, in turn weakening prospects for the retail occupier market.

"The earlier re-pricing in the UK market could help to divert floating capital away from continental European markets...."

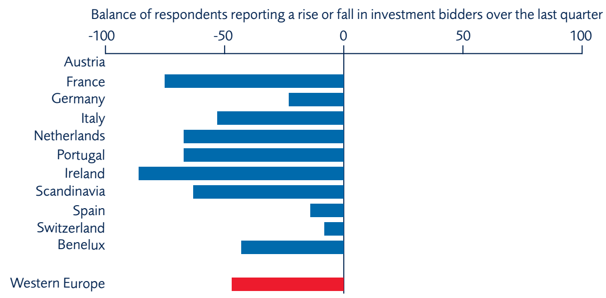
For offices, occupier caution, fuelled by stockmarket volatility and financial sector uncertainty, is weakening demand for office space. Job losses are being reported, but, so far, this is being offset by recruitment. Company expansions are on hold and take-up has fallen significantly. Although stock levels have increased, the development pipeline is moderating as completions are downgraded.

Industrial demand is also softening as soaring oil prices contribute to increased transportation and operating costs, in turn reducing occupiers' profit margins. The strength of the euro is proving beneficial for imports, but at the expense of exports. In general, occupier affordability is being squeezed, and warehouses poorly located will suffer most.

By and large, rental growth across the sectors is expectedly to ease markedly, with greater disparity between the regions. Rental decline is anticipated for countries already recording stalling rents. Meanwhile, those less exposed to the financial sector and less vulnerable to the housing downturn are expected to see positive, albeit moderate, growth.

Conditions continue to weaken in the investment market and yields are moving higher quite noticeably now. The availability of debt remains particularly constrained, with loans subject to far greater scrutiny. Equity buyers are cited as having the "whip hand". However, what is less clear is the extent to which many of these buyers require reasonably priced debt in order to achieve the levels of return they require. There is also increasing commentary about the extent to which the earlier re-pricing in the UK market could help to divert floating capital away from continental European markets.

Investment Bidders Down



Source: RICS Global Commercial Property Survey (June 2008)

Investment volumes are certainly down dramatically; 20-30% lower than the levels seen in 2007, generally across all property sectors and most country markets, with France identified as seeing a particularly sharp reduction in liquidity. There is a general feeling that vendors have yet to fully appreciate the movement in pricing levels. Investor preferences seem to be towards the more stable and structurally evolving European retail and, to a lesser extent, industrial markets, and away from the more cyclical and finance affected office markets. In terms of country preferences, the German and Nordic markets are most regularly identified as better prospects, with Spain and Ireland seen as being in some distress over the medium term.

ASIA PACIFIC MARKET DYNAMICS

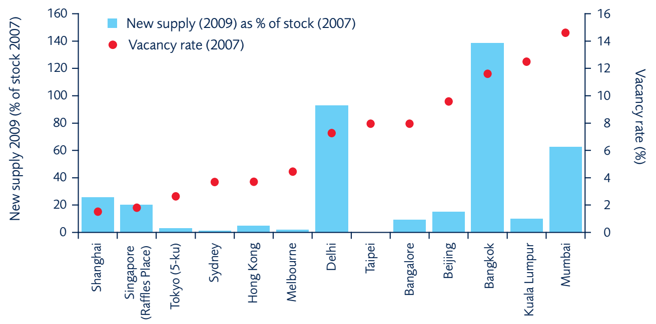
	RENTAL	INVESTMENT
Office	■ Asian markets have experienced very strong rental growth, driven by the rapid expansion of financial and professional services. The momentum is now weakening but the general expansionary trend should continue over the next few years. ■ In the more constrained markets of Hong Kong and Singapore, rental growth will remain relatively strong through the remainder of 2008. However, as the supply response starts to materialise into 2009, rental growth should weaken.	■ Whilst all sectors are susceptible to outward yield movement in this current economic environment, offices could arguably be the most exposed – particularly in the "world cities" that have greater exposure to world financial markets. ■ Here, the sector is not only exposed to the deteriorating investment sentiment but also weaker prospects for rental growth from the demand side. Singapore has further issues with a significant supply pipeline in the next few years.
Retail	■ Demand side factors remain strong across most of Asia supported by strong growth in jobs, retail sales and tourism. These drivers are expected to be maintained over the next few years, although they may weaken in the short term in line with the global economic backdrop. ■ In the more mature markets of Hong Kong and Singapore, supply remains tight with vacancy rates below 4% and 1% respectively. A strong factor supporting the demand side in these markets is tourism.	■ Strong long-term fundamentals are not likely to be enough to shield the retail sector from weakening global investment sentiment. ■ Tight labour markets in developed Asian economies, and a lack of quality retail provision in emerging markets, provide some support for income growth but the generally weakening economic environment is likely to dominate in investors' decisions to invest, at least in the short term.
Industrial	■ Strong demand side factors are helping provide rental momentum. In Singapore and Hong Kong, land available for industrial use is particularly constrained, compounded by Singapore's conversion of business park space into back office uses. ■ Driven by the commodities markets, Australia is also experiencing rental growth, but a larger supply pipeline will hold rents back slightly in Sydney. ■ In Tokyo, the more lacklustre economic environment is failing to provide the impetus for rental growth.	■ Strong medium to long-term fundamentals are outweighed by short-term investor uncertainty of economic outlook. ■ The maturing nature of this sector should provide a medium to long-term downward shift in yields to reflect improving investability of stock – even in developed economies like Japan and Australia. However, over the short term, volatile debt markets and uncertainties around the economic environment are seeing yields begin to shift outward here too.
Residential	■ The Hong Kong luxury residential market enjoyed strong rental growth over the last year, with no reduction in corporate headcounts – not even amongst the global investment banks. ■ Current fundamentals look supportive for rental growth going forwards. However, the health of the financial sector, the main pillar of support, is a concern. ■ The Singapore market is in a similar position, although the future supply pipeline is estimated to be more significant and may pose more problems.	■ Although fundamentals, in general, seem relatively sound, uncertainties surrounding the economic environment and problems in the debt markets are causing investors to adopt a wait-and-see stance. As a result, investment volumes and values have been steadily falling since beginning of the year. ■ Until debt markets settle and uncertainty dissipates, it is likely that investment activity will continue to decline, or at least remain subdued.

ASIA PACIFIC OUTLOOK

A year after the "credit crunch" hit, its effects are being felt as keenly as ever. Major banks continue to announce massive write downs forcing many to implement capital raising programmes. Asia was widely expected to weather this storm far better than economies in the West. Whilst this has occurred, the region hasn't escaped completely unscathed. Debt markets have tightened significantly in some countries – particularly Japan and Australia. However, the effects have been more subdued, and less pervasive on the whole, in Asia due to lower levels of leverage and less exposure to securitised debt markets.

The region is not immune to economic problems, however. Inflation has been a worry for some time now. With prices of food, fuel and raw materials rising quickly, nearly all the region's central banks have raised interest rates. Combined with higher lending margins, this will inevitably provide a drag on economic growth through subdued lending and investment.

Vacancy Rate and New Supply in Asia Pacific Region



Source: DTZ (June 2008)

Notable exceptions to rising interest rates have been Hong Kong and Singapore. The currencies of these economies are pegged to the dollar so they have followed the aggressive rate cutting seen in the US over the last months. In spite of this expansionary monetary policy, economic growth forecasts have been downgraded like the rest of the region's economies.

"….yields are now softening in many markets and sectors across the region."

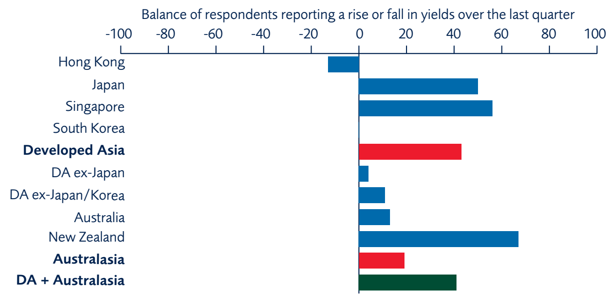
Since the extent of these downgrades has been less pronounced than for the other regions, Asia is expected to remain the engine of global economic growth, sustained by intra-regional trade. The region's economic fundamentals are supported by very favourable demographics over the medium to long term. However, recent evidence suggests that the insulation protecting the Asian region may not be quite as thick as many commentators suggested. Economic sentiment has recently deteriorated, particularly in economies more heavily integrated with the West, namely Australia and Singapore.

Against this backdrop, yields are now softening in many markets and sectors across the region. This trend is no where near as aggressive as that seen in the UK and it is likely to remain so, given lower levels of leverage and better fundamentals.

On the occupier side, the weakening economic environment is beginning to affect rental growth expectations. The heavy momentum in rents seen in Hong Kong and Singapore was, in the main, a supply constraint story, although very strong demand no doubt contributed. This momentum is easing, helped by a reduction from the demand side but also due to expectations of future supply. Growth will remain robust in the immediate term until new supply eventually comes through from 2009, at which point rents should start to fall back again when supply meets a weaker demand environment.

In most other mature office markets, softening demand will generally lead to more subdued levels of growth over the next few years. The extent to which growth is expected to weaken varies across markets according to their supply pipelines. Melbourne will experience new supply additions in the short term, but Sydney's market is likely to be more constrained. After years of undersupply, Tokyo had a much needed delivery of space in the last couple of years but this was fully occupied immediately. With a moderate supply pipeline for the next couple of years, rental growth is expected to slow, but not excessively so.

Overall Investment Yield Movement



Source: RICS Global Commercial Property Survey (June 2008)

The long-term fundamentals for the retail sector in Asia look extremely good, but the economic environment in the short term is likely to be less supportive for rental growth. This sentiment is also true of the industrial sector. Demographics and structural change arguments can be made in support of this sector over the medium to long term, but weaker global economic growth will inevitably reduce trade volumes which must reduce pressure on rental growth in the short term.

NORTH AMERICA MARKET DYNAMICS

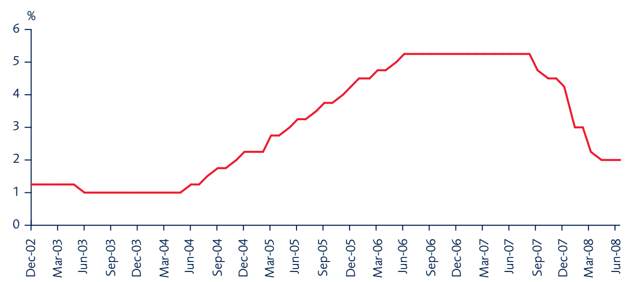
	RENTAL	INVESTMENT
Office	■ As the economy slows, demand for US office space is moderating, particularly in more secondary markets, but companies were relatively conservative in taking space in recent years, so we are not seeing a bubble bursting. Financials in CBD office markets are at greater risk of weak demand. That said, constrained supply remains supportive of rents. ■ Overall, the Canadian office market remains relatively strong. Supply is limited, and employment growth, especially in the Western provinces, means demand is fairly stable.	■ As transaction levels have plummeted recently, suburban offices in secondary markets in the US have seen the largest cap rate rises of all types of property. Core CBD offices have held up better, with supply-constrained coastal markets having perhaps the best prospects. ■ While Canadian office yields have been broadly stable recently, significantly declining transaction volume suggests that pressure on yields is waning. Nevertheless, core office markets remain attractive for investors, especially in Vancouver and downtown Toronto.
Retail	■ With consumers being hit by the housing downturn and squeezed by high energy and food prices, discretionary spending in particular is suffering. While smaller, local stores selling necessities are holding up, larger format retail outlets and power centres selling a variety of goods are seeing weaker demand. Modest supply limits the downside risk to rents, however. ■ In Canada, unusually cold weather drove weak retail statistics in the last quarter. That said, sound fundamentals continue to support rental markets.	■ Despite the consumer slowdown driving weaker fundamentals, retail cap rates in the US have so far moved out only fairly modestly, with regional malls and prime assets in core locations holding up relatively well. However, further yield expansion is expected, reflecting the underlying occupier markets. ■ Though yields have now stabilised, healthy fundamentals mean Canada's retail assets remain attractive to investors, especially across the Western provinces.
Industrial	■ Import growth in the US has fallen as consumers rein in spending and the dollar remains weak. Consequently, demand for logistics and warehousing space continues to abate, particularly in Southern California. As such, vacancy rates have risen recently. ■ Hampered by a strong Canadian dollar and the US slowdown, demand for industrial space in Canada has weakened recently. Vacancy rates are now rising and rental growth has moderated, particularly in the Eastern manufacturing-dominated provinces.	■ As with all property types in the US, cap rates for industrial assets continue to rise. However, with some investors targeting the sector as part of a defensive strategy during the downturn, pressure on pricing remains, protecting somewhat against a sharp correction. ■ The widespread losses in Canada's manufacturing industry clearly have impacts on industrial property markets, with softening sentiments across the country. Nonetheless, tight supply and modest demand suggest stable yields going forward.
Residential	■ With many US families riding out the housing downturn by staying in rented accommodation, demand has been fairly strong and rents have risen. As house prices recover this will moderate in the short term, before fundamentals once again improve. ■ Canada's rental markets remain robust, supported by rising population inflows and reduced affordability for buyers. Prospective rent growth is fundamentally strong in the Western provinces, especially in Alberta where rent control policy is not currently applied.	■ With US house prices falling rapidly, value continues to improve. However, with the housing downturn expected to continue into 2009, investors are largely waiting on the sidelines until prices start to bottom out. ■ In Canada, there is evidence that the housing market has come off the boil. House price appreciation has decelerated recently as affordability has weakened. Investment activity is cooling in many of Canada's attractive urban housing markets, including Calgary and Edmonton.

NORTH AMERICA OUTLOOK

The US is teetering on the brink of recession, though so far GDP growth has remained positive (1% annualised in the first quarter of 2008, while the second quarter figure should be supported by households spending some of their recently received tax rebates). However, many economists are still expecting the US to suffer a mild recession over the next few quarters as the housing downturn intensifies, the fall-out from the "credit crunch" continues and job losses mount.

Despite the negative sentiment, the consensus view is that this downturn will be fairly modest compared to those seen in the early 1990s and at the turn of the millennium. The upswing over the last few years has been less pronounced or boom-like, with businesses appearing not to have over-hired or over-spent. Non-finance balance sheets remain surprisingly healthy, while domestic problems should be partly offset by a solid global economy and the weak dollar boosting exports. The Federal Reserve's slashing of interest rates to 2% will go some way to stimulating the economy, although the effects will only be felt further down the line, aiding in the recovery rather than alleviating immediate pain. Further rate cuts are unlikely given inflationary pressures, particularly now that the price of oil has surged through $145 per barrel.

US Interest Rates



Source: Bloomberg (July 2008)

The slowdown in the economy is clearly feeding through into weakening real estate demand. However, with construction over the last few years hit by rising costs and competition from residential development, new supply of commercial space has been fairly restrained, causing low vacancy rates and boosting rental growth prospects going forward. That said, growth will moderate over the next couple of years and may skirt negative territory, particularly in more secondary locations such as Phoenix, Las Vegas and parts of Florida, where the housing bust has been particularly acute.

"The slowdown in the economy is clearly feeding through into weakening real estate demand."

With property's rental fundamentals still holding up, capital markets have had the biggest impact on real estate's return prospects. Trading volume is dramatically down compared to a year ago and, with financing still both elusive and expensive, debt-backed buyers remain a rare beast. Pressure on pricing has eased and cap rates have risen by around 50 basis points since summer last year. As investors' risk appetites have abated, prime assets in core markets are being targeted. Therefore, the extent of further yield expansion is likely to be greater for more secondary real estate. Although retail is expected to suffer from the consumer slowdown, the relatively volatile office sector has perhaps more downside risk.

Subdued Construction in the US

Source: Torto Wheaton, REIS, JPMorgan (June 2008)

In the first quarter of this year, Canada suffered its first quarterly decline in GDP since 2003. However, the negative growth was largely driven by export deceleration (harmed by the strong Canadian dollar) and irregular widespread strikes in the auto industry (which caused a 13% decrease for auto output). This unexpected slump will be soon offset by buoyant domestic spending and solid gains in primary industries, notably energy, mining and forestry. Low unemployment and modest growth in household incomes and corporate profits are suggesting the underlying fundamentals of the Canadian economy are fairly robust. Nevertheless, mounting inflationary pressures, faced by many countries throughout the developed world, will force the Bank of Canada to be more cautious, so no further interest rate cuts are expected in the foreseeable future.

As with the macroeconomic condition, the Canadian property markets are fundamentally sound. The ICREIM/IPD Canadian Annual Index in March 2008 recorded a moderate decline in total returns to 15.5% p.a. from 16.1% in December. Across the commercial property sectors, demand and supply remain balanced, suggesting positive rental growth going forward. However, with transaction volume in the first quarter being at its lowest level since 2004, investment sentiment is evidently weakening. Pressure on pricing has moderated, though yields have been stable recently and significant yield expansion is not expected in the short term.

IN-FOCUS

CENTRAL LONDON OFFICES

Leanne Finesilver

In recent times, the UK, and in particular the London economy, has grown successfully. Growth for the UK economy as a whole has been at or above trend, with the London economy, boosted by the financial and business services sectors, a substantial driver. In turn, employment growth has been strong and company profits' healthy, leading to increased demand for office space in the capital.

Over much of this period of strong demand, the supply of office space has been limited. According to Property Market Analysis, in 2005 and 2006 combined, less than 2.5million sq ft of office space was delivered into the Central London office market. With the long-run average of completions in this market just under 4million sq ft per year, these two consecutive years of undersupply, which neither followed nor preceded a year of high completions, resulted in a shortage of space.

This strong demand combined with a lack of space resulted in a sharp rise in Central London office rents. IPD recorded rental growth in both 2006 and 2007 in excess of 10% across each of the Central London market segments. The cost of office space, therefore, increased substantially, particularly in the West End where rents were higher to start with and IPD recorded combined rental growth in 2006 and 2007 of 38%. This took top prime rents to well in excess of the £100 per sq ft mark for the very best properties.

"….for the West End, new space is still constrained and the speculative pipeline is much lower…."

The extent of the rental growth and the scarcity of new space resulted in cost-conscious occupiers increasingly being pushed out from the traditional City and West End markets to less core locations.

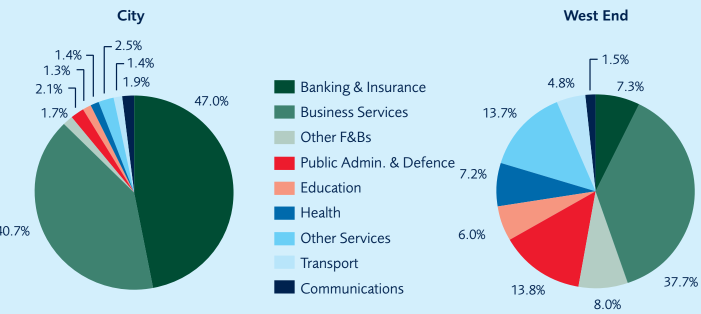
However, with the arrival of the credit crisis during the summer of last year, the Central London occupier market was thrown into turmoil. Initially, there was anticipation that this would be short lived but, with a continual stream of bad bank debts being revealed, this is no longer expected to be the case. Sentiment has now weakened substantially and the volatile financial and business services sector has already seen a sharp slowdown in growth. With London's, and especially the City's, high exposure to this sector, demand for office space has weakened dramatically with a further deterioration expected during the remainder of 2008.

This fading demand for office space is coinciding with the delivery of the large amount of Central London office completions which the market had, until the end of last year, been so desperately in need of.

According to PMA, a total of 11.5million sq ft of Central London office space is expected to complete either this year or next. Some of this space is pre-let, but the greater part is not.

However, this aggregate statistic hides a disparity between submarkets within Central London. The majority of speculative space is bound for the City (c.6million sq ft for 2008 and 2009 combined), which has a high exposure to the financial and business services sectors. With supply high and demand weakened, vacancy rates in this market have already started to rise and it is expected to struggle in the short term. However, for the West End, new space is still constrained and the speculative pipeline is much lower at 1.5million sq ft. Furthermore, relative to the City, the West End benefits from a more diverse range of occupiers. While it does have exposure to the financial and business services sectors, they represent a far smaller share of its employment at circa 7% compared to 47% in the City.

Office Employment 2007 (by sector)



Source: Experian Business Strategies (Spring 2008)

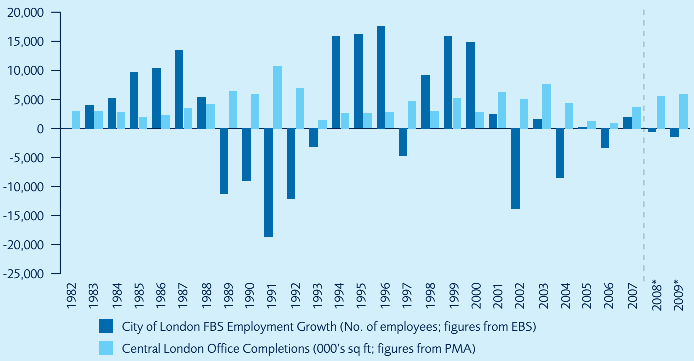
Speculative completions for this year and next outside of the City and Docklands markets sum to c.3.3million sq ft, according to Drivers Jonas, which, if compared to an annual average level of take up for the West End and Mid-Town markets of 4million sq ft, doesn't look so bad. Even if we make a bearish assumption that take-up this year and next will be at a similar level to the weakest take-up recorded over the past 20 years (c.2.2million sq ft recorded in 2002), this will total 4.4million sq ft, still higher than expected completions. Of course, this is a simplified example, as no account is taken of the release of second hand space or space already completed, but it does illustrate that the West End (and to a lesser extent Mid-Town) are likely to be riding a different cycle to the City.

What about the other Central London markets? The Docklands market, like the City, has a high exposure to banking and finance, and especially to the fragile US economy. New supply is low but the greatest concern relates to the potential release of second hand space. As yet, little space has been released but, given the concentration of

US banks in this market, if realised, the consequences would be similar to those in the City. In the smaller peripheral markets, speculative completion levels are also low, c.300,000 sq ft in Southwark, Kings Cross and Paddington combined.

However, in contrast to previous downturns, job losses are expected to be far less this time around. While job cuts have made dramatic headlines, so far the scale of these has been relatively small. According to Experian Business Strategies, net financial and business service job losses in the City of London are expected to be c.2,000 for this year and next. This compares to a total of 50,000 over five years in the 1990s and 21,000 between 2002 and 2004. There are of course downside risks to this forecast but a partial explanation of this low number is that, over recent years, job growth has been fairly flat, meaning that companies now have fewer workers to cut than they did in the past.

City of London Employment Growth Vs Central London Office Completions



* Forecast
Source: Property Market Analysis, Experian Business Strategies RPS (Spring 2008)

An additional important factor for us to remember is that, while there is a link between jobs and the occupier market, there is also a measure of independence. Since demand for office space is lumpy, in the same way that job growth does not always translate into demand for more space (as companies squeeze employees into existing space until they can no longer do so), job losses do not always imply a return of office space to the market. In contrast to previous cycles, due to the high costs associated with searching for new premises and relocation, anecdotal evidence to date suggests that companies would currently rather hold excess space until they expand again, rather than release it. Although this can't drive demand for new space, it goes part way to reduce the likelihood of "grey space" flooding the market, as it has done in previous cycles.

Another contrasting feature of the current market environment to previous times is that the reduction of credit, which in large part instigated the weakening in the occupier market, is simultaneously having a constraining effect on development supply. This is different from previous cycles when the driver of the slowdown has impacted only the demand side. The consequences of this are that developments, which do not yet have financing and/or have not yet started onsite, are less viable to build. This in turn will result in a lower level of completions in the medium term, allowing the balance of supply and demand to be re-established more quickly.

"....in the same way that job growth does not always translate into demand for more space.... job losses do not always imply a return of office space to the market."

However, what are the implications of all this? Given the current demand-supply imbalance in the City, it is clear that, for this market, there will be a tough couple of years ahead. For the West End (and to a lesser extent in Mid-Town), given the supply of space is still constrained and that demand is more diverse, rental growth is unlikely to suffer to the same extent. In fact, with the West End occupier market remaining robust and the rental differential between this market and others still large, this dynamic may well continue to assist rental performance in the smaller submarkets. Rents in Victoria, Paddington and Southwark currently range between £45 and £65 per sq ft compared to locations in core West End of above £100 per sq ft. West End occupiers may also be attracted by the lower rents and quality of new supply in the City, perhaps helping to cushion its fall.

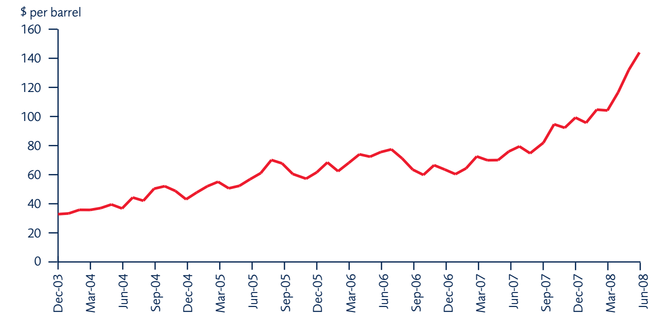
Finally, the restrictions on finance having a dampening effect on construction, combined with the general rise in construction costs (likely to come under further pressure before the Olympics in 2012), should ensure that this period of bleaker Central London rental growth is a shorter one compared to previous cycles.

GLOBAL OUTLOOK

The global economy has deteriorated in recent months, with slowing economic growth and rising inflation. With many financial businesses still suffering from the credit crunch, and consumers feeling the squeeze on disposable incomes, prospects have certainly weakened.

The price of oil has rocketed in recent times, more than doubling over the past year to a record high of nearly $150 per barrel. Food prices across the world have soared too. These have driven mounting inflationary pressures prompting the European Central Bank to raise interest rates, along with many Asian countries, while no further cuts are expected in the US or UK. This means that there will be no respite, in the near term at least, from the economic downturn.

Soaring Oil Price (US Light Crude Oil)



Source: Bloomberg (July 2008)

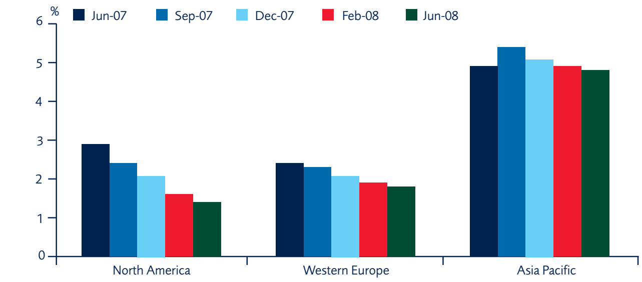
Against the weakening economic backdrop, demand for real estate space is set to moderate. Indeed, this is beginning to be seen in many markets, with rental growth slowing and vacancy rates starting to rise. However, construction has been generally subdued and the supply pipelines in most markets are fairly modest, boosting prospects for rental growth, or rather limiting the extent to which they will suffer. In comparison to previous cycles, there seems to have been more restraint on the preceding upswing – less overdevelopment and less aggressive expansion by businesses in their hiring of staff and taking space – which means that, for property's fundamentals at least, there is currently less of a bubble to burst during the downturn.

"When credit availability returns and property transactions recover, we may see a stabilisation, and possible reversal, of the current outward trend in yields."

However, many would argue that we have seen a credit and investment asset bubble around the world where cheap debt has been widely available to fund huge amounts of investments in all types of assets, driving prices up and yields down to unsustainable levels. Since the credit bubble burst last summer, we have started to see the unravelling of the property investment market. Rather than being a result of changed fundamentals, it is the state of the capital markets which has driven the re-pricing in property markets around the world, proving to be a catalyst in the correcting of prices that had become too stretched.

Many commentators are sensing that the worst is now over in the capital markets, with little further deterioration expected. The biggest question now is how long the recovery will take. While most assume the squeeze on credit will continue into next year, some do not expect a full recovery until 2010 at the earliest and, even then, credit availability will not be as widespread as it was up until the summer of last year. It is expected that transaction activity in property markets across the globe, which has fallen dramatically, will similarly recover to more normal (rather than exceptional) levels. When credit availability returns and property transactions recover, we may see a stabilisation, and possible reversal, of the current outward trend in yields.

Evolution of Forecasts: 2008 GDP Growth



Source: Consensus Economics (June 2007 to June 2008)

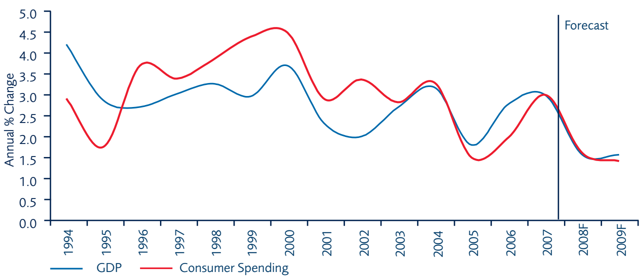
With stronger fundamentals, the Asian markets are expected to see better rental growth over the next few years, and indeed may experience less yield expansion. However, as sentiment amongst property investors ebbs, the riskier emerging markets such as China and India, as well as those in Central and Eastern Europe, are perhaps more in danger from re-pricing. Despite compelling fundamentals, many argue that the low yields now seen in these markets are unsustainable, having reached yields approaching those of prime assets in core markets. In the current risk-averse environment, we may see prices here adjust more, with a widened yield gap reasserting itself.

UK PROPERTY OUTLOOK

Following the turbulence at the end of 2007, recent months have shown signs of investor sentiment beginning to stabilise - despite rental growth beginning to slow. The pressure on pooled retail funds to sell has eased substantially. However, there are many unknowns ahead surrounding the implications of much tighter credit conditions for debt backed buyers, and how this could trigger a re-emergence of forced sales and obstruct investors re-entering the market.

In the first quarter of 2008, the economy grew by just 0.4%, its slowest quarterly rate for three years. IMF forecasts suggest GDP growth of 1.6% this year which, while positive, is nearly 1% below trend. Furthermore, with a similar growth forecast for 2009, the slowdown is now forecast to be "broader, deeper and longer" than previously thought. To date, the largest contribution to the slowdown has been in the financial and business services sector but, with Nationwide recently recording a sixth consecutive month of house price falls, and many forecasters saying there is worse to come, a sizeable contraction in consumer spending is also projected.

UK GDP and Consumer Spending



Source: Experian Business Strategies, IMF, April 2008

Not surprisingly, in the light of weaker economics, rental growth forecasts are also being downgraded. The principal driver behind recent rental growth trends has been the Central London office market. Given the "spike" of supply coming on stream, this market was always expected to slow. However, the substantial deterioration in the economy has now increased the downside risks.

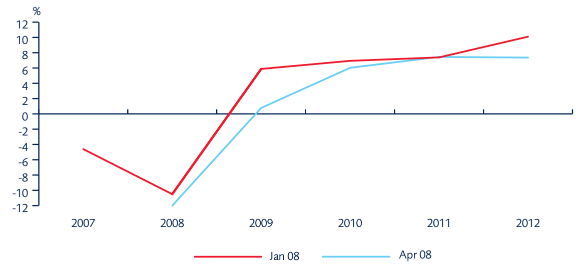
Weakening consumer confidence linked to falling house prices, combined with new stock being delivered at the highest level for many years, will depress retail rental growth. The industrial sector is also experiencing issues of oversupply, weakening demand and the impact of the new "empty rates" legislation.

However, on a more positive note, the same credit restrictions that are impacting the investment market are helping to curtail development. This, coupled with spiralling construction cost inflation which is forecast to remain high (particularly in London), will help shorten the current rental cycle.

Most commentators have reduced their forecasts of prospective returns for 2008, although opinions on levels vary widely. The March IPF Consensus survey, albeit a little old now, downgraded forecasts for 2008 to -2.6%, down from 0.9% in November 2007. It forecasts all sectors to show negative returns in 2008 with City offices faring worst and industrials best. In part compensation, the IPF Consensus has revised the 2009 forecast upwards to 6.5%. Meanwhile, pricing in the derivatives market is more dramatic, deteriorating to stand at -12.0% (from -10.5% three months ago) as a total return for 2008.

In summary, the forecast negative returns for 2008 reflect a perceived combination of yield expansion and deteriorating rental growth prospects. However, both the tenant and the investment markets remain dogged by uncertainty. It is equally hard to gauge how much equity is waiting in the wings to buy property or how much stock might be released as bank debt begins to roll over. However, despite being close to fair value, it is clear that direct property is in competition for capital against some other property-related markets where pricing is highly discounted. Furthermore, new lending to potential property investors will be very hard to secure. These factors, coupled with weakening rental market conditions, suggest there will no rapid "bounce" in market fortunes. Rather, like the economy, this market cycle will be deeper and longer than previously thought, with a growing expectation that it will not bottom out until the first half of next year.

Implied IPD Total Returns Forecasts from Derivative Contract Pricing



Source: Merrill Lynch (January and April 2008)

However, it is worth noting that, because of its rapid correction, the UK market is now amongst the most attractively priced in the world, providing substantial incentive for overseas investors to continue directing capital to the UK.

GLOBAL ECONOMIC AND MARKET OUTLOOK

Financial markets had a difficult second quarter of 2008. Having started the period worrying about a potential US recession affecting growth around the rest of the world, a surge in the price of oil, fuels and food caused the main focus of attention to switch to inflation. As inflationary pressures rose, investors started to believe that central banks would have to tighten, rather than loosen, monetary policy. Against this background, equity markets generally recorded modest losses while conventional bonds and property were the main casualties.

As we enter the second half of 2008, the dilemma facing many central banks is whether interest rates should be rising or falling. With inflation running well above target in most major economies, central banks are under pressure to increase interest rates. On the other hand, growth is undoubtedly slowing around the world, quite substantially in Western economies, as the "credit crunch" continues to play out and, with the exception of the US where interest rates have already been lowered significantly, there is an argument which calls for future cuts to stimulate growth.

This conundrum is demonstrated by the policy choices available to the Bank of England who are trying to balance the conflicting pressures of inflation at almost double its official target, a falling housing market, depressed consumer confidence and a slowdown in both manufacturing and service sectors. Putting up interest rates would slow the UK economy even more severely while reducing interest rates, or leaving them unchanged, may well fuel increased wages leading to even higher inflation. The government has stressed that it is imperative to ensure that rising inflationary expectations do not become embedded in wage settlements, and average earnings data may well hold the key to the future direction of monetary policy.

However, since rising commodity prices are, in effect, a tax on income, they should have a deflationary effect. As long as commodity prices do not continue to rise but generally stabilise then, in 12 months time, providing wage growth is under control, headline inflation should start to fall back closer to central banks' target levels. The threat of interest rate increases should, therefore, fall away by 2009. This means that the risks to growth are more likely to stem from rising unemployment, rather than inflation.

Turning to the implications for financial markets, both bonds and equities look good value following their recent falls. The markets' focus on headline inflation numbers is probably overdone, given that higher fuel and food costs have the effect of reducing disposable income. After their excesses, banks are slowly rebuilding their balance sheets although borrowing conditions remain very tight. Meanwhile, growth in major economies is slowing, as evidenced in weakening retail spending and falling house prices. Consequently, interest rates probably do not need to rise as much as investors are currently expecting. The focus in the coming months is, therefore, on markets where massive investor pessimism is reflected in asset prices.

Furthermore, current share valuations suggest that investors are generally overly gloomy about companies' profitability. In Europe, in particular, earnings are expected to fall sharply in view of potential increases in interest rates. While the European Central Bank has, in fact, raised its benchmark lending rate by 25 basis points at the beginning of July, President Jean-Claude Trichet has played down prospects of further interest rate increases.

The stockmarkets of Europe and UK are trading well below their historical average, and US stocks have also fallen to attractive levels. In Asia, markets in Singapore, Hong Kong, Taiwan, Thailand and Korea remain desirable, as do resource-rich countries such as Brazil and Australia. Japan, on the other hand, has been surprisingly strong in recent months and the market is not particularly cheap at this juncture given the weak economic fundamentals.

There are attractive opportunities too in the bond markets where investors may have exaggerated the need for monetary tightening over the next 12 months. Furthermore, prevailing credit spreads (difference in yield between government and corporate bonds) look interesting since they suggest levels of default similar to a depression scenario.

Given the situation, both equities and fixed income investments now offer good value, although commercial property probably still has some way to go.

10-Year Government Bond Redemption Yields

Source: Datastream (June 2008)

FTSE World Index

Source: Datastream (June 2008)

DATA AND STATISTICS

PRIME RENTS

Region	Residential	Industrial	Office	Retail
Belgium	←→	↑	←→	↑
France	←→	←→	↑	↑
Germany	←→	←→	←→	↑
Italy	←→	←→	←→	↑
Netherlands	←→	↑	←→	↑↑
Spain	↑	↑	↑	↑↑
Sweden	←→	↑	↑	↑↑
Australia	↑	←→	↑	←→
Hong Kong	↑↑	↑	↑↑	↑↑
Japan	←→	←→	←→	←→
Singapore	↑	↑↑	↑↑	←→
South Korea	←→	←→	↑	←→
USA	↑	←→	↑	←→
Canada	↑	↑	↑	↑

Source: PRUPIM research drawing on various sources based on data available at end June 2008, reflecting recent trends

PRIME INVESTMENT YIELDS

Region	Residential	Industrial	Office	Retail
Belgium	←→	↑	↑	↑
France	↑	←→	↑↑	↑
Germany	↑	↑	↑	↑
Italy	←→	←→	↑	↑
Netherlands	↓	←→	↑	↑
Spain	↑↑	↑	↑↑	↑
Sweden	↓	↑	↑	←→
Australia	←→	↑	↑	↑
Hong Kong	←→	←→	←→	←→
Japan	↑	↑	↑	←→
Singapore	←→	↑	←→	←→
South Korea	←→	↓	←→	←→
USA	↑	↑	↑	↑
Canada	←→	←→	←→	←→

Source: PRUPIM research drawing on various sources based on data available at end June 2008, reflecting recent trends

Key				
Up ↑	Down ↓	Strongly up ↑↑	Strongly down ↓↓	Stable ←→

CONTACTS

CONTACTS

PRUPIM
Governor's House (Registered Office)
Laurence Pountney Hill
London EC4R 0HH

City Place House
55 Basinghall St
London EC2V 5DU

Tel 020 7548 6600
Fax 020 7548 6999
Web www.prupim.com
Sarah Chan 020 7548 6861
(Team Administrator)

KEY PEOPLE

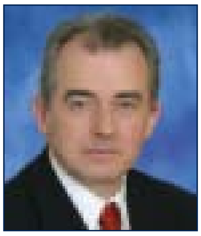
Paul McNamara, Director, Head of Research, BSc (Hons) PhD ASIP FRSA OBE
Scott Girard, Director, Research and Strategy, PRUPIM Singapore, B.Comm MAF
Leanne Finesilver, Analyst, BSc (Hons.)
Will Robson, Analyst, BA (Hons.) MSc
Richard Gwilliam, Analyst, BSc (Hons.)
Henri Vuong, Analyst, BSc (Hons.) MSc
Cuong Nguyen, Analyst, BSc (Hons.) MSc PhD
Nick Blakemore, Director, Performance Measurement
Katie Smith, Performance Analyst
Sarah Chan, Team Secretary, BA (Hons.)

ABOUT THE GLOBAL PROPERTY RESEARCH TEAM

PRUPIM's well known and widely respected Global Property Research Team, based in London and Singapore, comprises of 10 staff including seven property economists and two performance measurement analysts. The team engages in three main types of work namely; assessing the attractiveness of UK and international property markets, providing strategic recommendations and risk control measures for clients' funds, and conducting ad-hoc property related analyses on key issues as they emerge. The research team also assists in buy, sell and hold decisions by working closely with colleagues across PRUPIM to create a holistic approach to asset management.

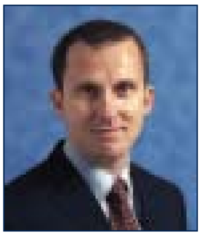
BIOGRAPHIES

Paul McNamara, Director, Head of Research BSc (Hons) PhD ASIP FRSA OBE



Paul is responsible for the overall direction of property research within PRUPIM. He is also a member of the PRUPIM Board. Paul joined Prudential in 1987. He is a Visiting Professor with the Centre for Estate Management at Oxford Brookes University. Paul was appointed Chairman of the Investment Property Forum (2005-6). He is Honorary President and a past Chairman of the Society of Property Researchers and a non-executive director of IPD Holdings Limited. In June 2003, Paul was awarded an OBE in the Queen's Birthday Honours List for services to the property industry.

Scott Girard, Director, Research and Investment Strategy, PRUPIM Singapore, B.Comm MAF



Scott has been active in Asian real estate capital markets since 2002. Previously based in Korea and Japan for Jones Lang LaSalle, he has been involved at senior levels in investments, corporate finance, research and property advisory for a wide range of clients. Scott started his career in Australia in 1995 with ANZ Funds Management before moving into the consultancy business. He graduated from Curtin University of Technology with a Bachelor in Commerce and holds a Master of Applied Finance and Investment from Macquarie University.

REGULATORY INFORMATION

For Investment Professionals only. No other persons should rely on any information contained in this document.

Past performance is not a guide to future performance and the value of investments can fall as well as rise. Property is valued by an independent valuer. However, valuations are subjective and may vary between valuers. Commercial Property is a specialised sector and has different characteristics to investments in equities, bonds or residential property.

DISCLAIMER

PRUPIM (Prudential Property Investment Managers Ltd) forms part of the M&G Group of companies. PRUPIM is an indirect subsidiary of Prudential plc, a company incorporated and with its corporate head office in the United Kingdom. Prudential plc and its affiliated companies constitute one of the world's leading financial services groups and is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

PRUPIM'S GLOBAL EXPERTISE

- PRUPIM takes a disciplined approach to real estate investment management, supported by high quality research and analysis.
- We have a long history of investing directly in international property markets, which provides a depth of experience to our current operations.
- Our international operations have been built on tried and tested processes that have made us one of the UK's leading real estate investment managers.
- We benefit from the local presence of Prudential's international asset management businesses by working closely with M&G, PPM America and Prudential Corporation Asia.
- As part of Prudential, we are recognised worldwide and share a reputation for size, strength and integrity. This is a considerable advantage in developing relationships and initiating deals.
- We have established a worldwide infrastructure, partnering with the best regional advisers who bring expert local knowledge and exceptional asset management skills.
- The size of the assets we manage makes us a significant and recognised participant in the markets we invest in.
- We have developed a considerable in-house strength in structuring property deals and tax planning; processes which are critical in maximising the returns available.

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
Cert no. SGS-COC-0620
www.fsc.org
© 1996 Forest Stewardship Council

This document has been printed in the UK onto paper that was manufactured using Elemental Chlorine Free (ECF) pulp. The paper is made from 50% recovered fibre and 50% virgin fibre and is certified by the FSC. The inks are vegetable oil based and the printing process meets the highest environmental standards.

REAL ESTATE
INVESTMENT
MANAGEMENT

Prudential Property Investment Managers Limited
Governor's House (Registered Office), Laurence Pountney Hill, London EC4R 0HH
City Place House, 55 Basinghall St, London EC2V 5DU
Tel 020 7548 6600 ■ **Fax** 020 7548 6999

www.prupim.com