M&A International Inc.
Real Estate M&A and the State of the Commercial Real Estate Markets: Opportunities Abound

2010

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Executive Summary

As a result of the recent credit crisis, real estate investment activity fell to its lowest since 2003. The sector swung from boom to bust when massively leveraged asset values (2006–2007) suffered an important decline caused by the credit tightening (2008–2009). However, most markets now believe the worst is over with credit availability slowly improving and investments increasing, reflected in stabilizing property values this year.

M&A activity overview

Impacted by the global downturn, real estate M&A activity was adversely affected in 2008 and 2009 with total deal value declining to $105 billion in 2009, 72% below a 2007 high of $381 billion. However, supported by improved investor confidence, deal activity in H1 2010 increased 44% in value compared to the same period last year.

Since 2007, real estate M&A transactions have been concentrated in Europe, with the region accounting for the largest share (45%) based on transaction value, followed by North America (27%) and Asia Pacific (25%). The US, UK, Germany and China accounted for over 50% of total deal value between 2007 and YTD 2010.

Major targets in the real estate sector were real estate management & development firms and non-residential companies, which comprised around 79% of total deal value between 2007 and YTD 2010. Since late 2009 when deal activity began to recover, greater investment interest can be seen for properties located in prime locations generating high returns.

Financing availability and trends

Transaction activity in the sector was particularly high during the 2006–2007 boom due to low interest rates and easily available bank financing. However, as a number of real estate names went under in the US and economic conditions deteriorated, the credit worthiness of the sector came into question. Thus, bank financing to the sector became scarce with loan-to-value (LTV) ratios falling to less than 60% in some cases, while loan disbursal to the sector generally fell sharply. In addition, due to a higher risk profile, loan spreads applicable to the sector increased with spreads over LIBOR more than doubling from 158bps in 2007 to 328bps in 2009, although overall benchmark interest rates decreased to record lows, reducing the total cost of financing.

With credit conditions now easing and market sentiment improving, bank financing to the real estate sector has begun to improve, albeit slowly. Total loans disbursed to the sector rose by around 16% in H1 2010 compared to the same period last year. Interest rate spreads applicable to the sector have also declined over the last three to four quarters while LTV ratios have begun to improve moderately, especially in Europe and Asia Pacific. This trend is likely to continue in H2 2010 and 2011 as liquidity improves and confidence in the real estate sector returns.

However, several economies in Asia Pacific (Australia and China) and the Americas (Canada and Brazil), which have recently experienced rapidly rising real estate values, are likely to face increasingly tight credit conditions to prevent sector overheating.

Outlook

We believe that over the next couple of years, real estate investment activity will increase for the following reasons:

- **Economic growth:** most major economies worldwide have begun to recover, with higher growth expected in emerging markets. Stronger economic growth would benefit all sections of the real estate sector, particularly commercial real estate, which should grow as a result of higher employment, stronger consumer spending and more robust industrial growth.
- **Better financing availability:** since H2 2009, most countries have reported a slight increase in lending to the real estate sector supported by historic low interest rates and a modest rise in LTV ratios. As business confidence improves, lending norms like the LTV ratios are likely to continue their cautious improvement in most developed regions.
- **Valuations at reasonable levels:** we believe this is an opportune time for buyers/investors to look for opportunities in the sector due to the fact that real estate assets are currently trading at reasonable levels compared to the highs witnessed during 2006/2007. Potential buyers can also take advantage of a still low investor interest, thus reducing the possibility of paying a valuation premium. Potential sales of distressed properties by financial institutions, especially in the US and Europe, will also offer attractive buying opportunities. At the same time, the market has recovered enough to be attractive again for sellers of prosperous assets as there is little offering and increased demand for this kind of real estate. Therefore, valuations of such assets have mostly stabilized and are tending to slightly increase again.

Real Estate – A Cyclical Turnaround

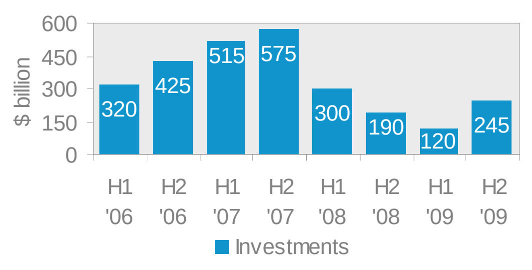
The real estate sector is currently undergoing a cyclical turnaround. Performance in 2008–2009 was severely impacted by the credit tightening; the sector's performance is closely correlated with the availability of credit because around 60% of the value of the global real estate market is debt financed.

In the following paragraphs we highlight some key trends that are emerging or are likely to emerge in the sector.

Investment activity down but recovering

Commercial investments fall to historic lows – Compared to the market peak in 2007, investment activity in 2009 was minimal. Global commercial real estate investment volumes fell 67% last year to $365 billion from $1,090 billion in 2007. (Figure 1)

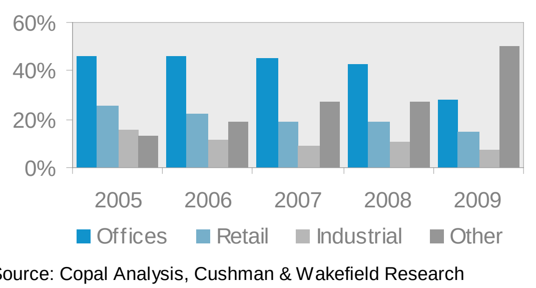
Figure 1: Commercial real estate investments



Source: Copal Analysis, Cushman & Wakefield Research

Within the commercial real estate sector (i.e. office, retail, industrial and other), "other property" performed most strongly in 2009 (Figure 2), particularly with regard to land deals in China in connection with government land sales and regulatory changes encouraging bank and insurance funds to invest in real estate for the first time.

Figure 2: Commercial investments by sub-sector



Source: Copal Analysis, Cushman & Wakefield Research

Signs of investments recovering – Despite the overall decline in real estate investments over the past two years, there are now signs that activity is reviving. For example, following three consecutive half-year periods in which commercial real estate investment activity declined, it instead increased 104% between the first and second half of 2009 (Figure 1). Still, despite the substantial percentage increase, overall global transaction activity volumes remained low at around $250 billion in H2 2009 compared to nearly $600 billion at the top of the cycle in H2 2007. During 2009, China, the UK, Japan and France were the most active markets worldwide, although most deals in China related to public land sales. We expect the recovery which began in late 2009 to accelerate during 2010 with global commercial real estate investments forecasted to rise 30% to $478 billion, driven mainly by a reviving US market.

Global capital and rental values pick up

The CB Richard Ellis Global Capital and Rental Value Index stabilized in Q1 2010 compared to Q4 2009, potentially indicating that the recent fall in valuations worldwide is now over. The EU and Asia reported increasing values, although some areas of the US and Pacific posted modest declines. In particular, property values for high quality investment grade assets are rising, resulting in declining cap rates, although pricing remains under pressure in second and third tier markets.

Amongst developed economies, residential property values in many countries increased in Q1 2010, with Australia surpassing Canada due to increases in property values. Inflation-adjusted average home prices rose 17.1% year-over-year (YoY) in Q1, a sharp acceleration compared to the increase of 11.4% reported in the previous quarter. In Canada, average inflation-adjusted home prices rose 16.6% YoY during the first three months of this year. In addition, the UK housing recovery is also gaining traction. Even in the US, home prices fell by only 1.1% in Q1 2010 compared with 4.6% in Q4 2009.

Rental values have also increased with prime rents in Q1 2010 rising slightly in major cities worldwide. For example, prime rents increased in London (1.1% YoY), Atlanta CBD (3.3% YoY) and Houston (1.9% YoY) during the first quarter of this year. Prime rental values also recovered in Asia with office markets in Beijing, Shanghai, Hong Kong and Taipei posting a quarter-over-quarter (QoQ) increase.

With investor sentiment improving and the market accepting that property values are finally bottoming, increased investment activity within the sector is now likely, especially from cash rich investors currently sidelined pending optimal entry timing. We believe the market will experience a primary transaction period during 2010–2011 with most switching from declining to rising capital and rental values. Nevertheless, movement in capital values, especially in the US, is likely to remain largely unchanged as additional foreclosed properties are sold into the market. In addition, high vacancy rates in both the US and Europe should persist in 2011 with significant commercial supply now available. Asia Pacific will be the first market to experience broad improvements this year with currently oversupplied markets, including Singapore, beginning to attract new occupiers. Pricing, presently unclear, is likely to become much more obvious during 2010 as transactions increase sharply.

Bank lending expected to improve, albeit slowly

Debt, the largest funding source – Real estate lending sources can be divided into four broad categories: private equity, public equity, private debt and public debt. According to most measures, public and private debt represent over 60% of the global real estate market, although this share varies considerably by country based on the state of development of debt and equity markets in each region.

In emerging markets such as South Korea, India and China, for example, public debt and equity markets are relatively undeveloped, with private transactions representing most market activity. Conversely, Australia's well-developed REIT market results in public equity comprising a higher share of the overall real estate sector than in any other major market. The US reports the same situation with its public debt market being significantly larger (in percentage terms) than in any other major market.

Lenders report increased confidence – During 2009, all sources of capital declined compared to 2008, with private equity worst hit. With credit markets stagnant, both private and public debt issues in the real estate sector declined.

However, the DTZ lender survey for 2010 reports that two-thirds of lenders expect gross new lending to increase this year with none forecasting a decline; in last year's survey, approximately 50% of lenders expected reduced gross lending volumes in 2010. In addition, more lenders believe LTV ratios will increase rather than decrease, unlike last year's survey where the situation was expected to remain largely unchanged.

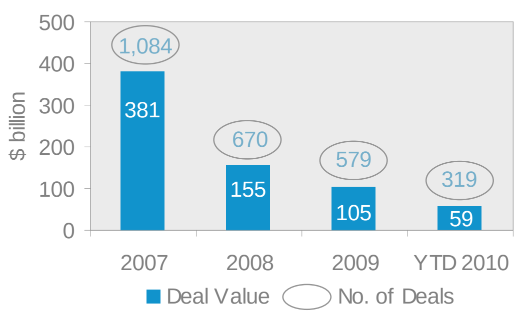
Despite a positive sector outlook, we believe banks, particularly in the US and Europe, will be cautious to lend to the real estate sector as they still need to address **two key challenges**. These are (a) to reduce exposure to real estate and (b) work through large-scale bad loans.

In the US, banks with portfolios weighted in favor of hotel and retail loans may face particular problems, with these two property types remaining most distressed. High exposure to commercial real estate loans is also problematic for European banks. We believe such high exposure and the prospect of significant refinancing over the next five years may limit banking sector appetite for issuing new loans to the sector in general and, as a result, restrict leverage to some extent.

M&A and Financing Overview & Analysis

The real estate sector has been adversely affected by the global economic downturn, with overall deal volume in 2009 down by around 47% compared to 2007, accompanied by a corresponding decline of over 72% in deal value (Figure 3). However, with an improvement in business conditions worldwide, deal activity in H1 2010 increased by 48% in volume and 44% in value compared to the same period last year.

Figure 3: Real estate M&A activity

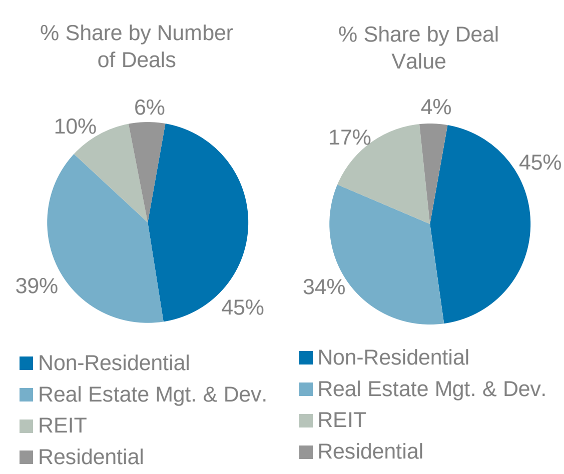


Source: Copal Analysis, Thomson Reuters
Note: (1) Throughout this report "YTD 2010" includes the period 1 January to 24 June 2010.
(2) Deals greater than $20mn are only considered for the purpose of this report.

Most transactions involved the acquisition of firms owning and operating non-residential properties including office buildings, shopping centers and business parks as well as companies engaged in the development and management of residential and non-residential properties. Real estate management and development and non-residential targets comprised approximately 84% of deal volumes and 79% of deal value between 2007 and YTD 2010 (Figure 4).

Unlike the overall decrease of 14% YoY in total real estate transaction volumes during 2009, acquisitions involving non-residential properties reported a marginal decrease of six deals (Figure 5). Improved activity within this sub-sector is due to investor interest in acquiring long term income generating properties against properties under development which have a comparatively higher risk profile. Greater interest was visible for properties located in prime locations generating high returns.

Figure 4: M&A activity by target type

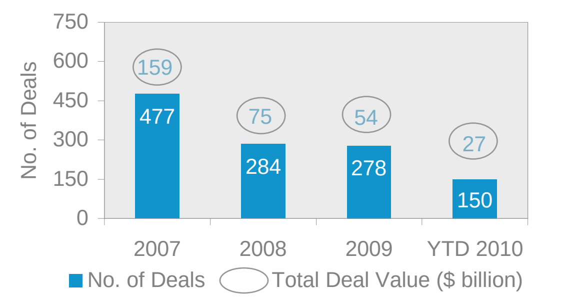


Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

Deal value in the real estate management and development segment decreased by 49% and 34% YoY in 2008 and 2009 respectively.

Highly impacted by the downturn, acquisitions of Real Estate Investment Trusts (REITs) decreased to $11 billion in 2008 and $8 billion in 2009 from a high of $88 billion in 2007.

Figure 5: Deals involving non-residential targets – deal volume and value

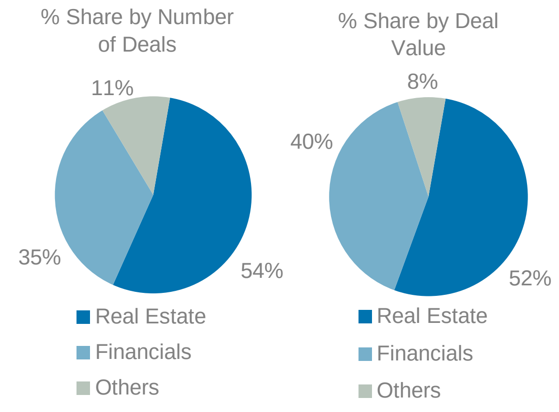


Source: Copal Analysis, Thomson Reuters

M&A deal makers

Most M&A deals in the real estate sector were concluded by pure play real estate firms, including REITs. Financial investors were ranked a close second, accounting for over one-third of total M&A deals between 2007 and YTD 2010 (Figure 6). Other firms, including industrial, consumer products, retail and materials companies, have mainly acquired real estate companies in China (representing 35% of total deals involving "Others") based on attractive growth opportunities resulting from buoyant economic activity in China.

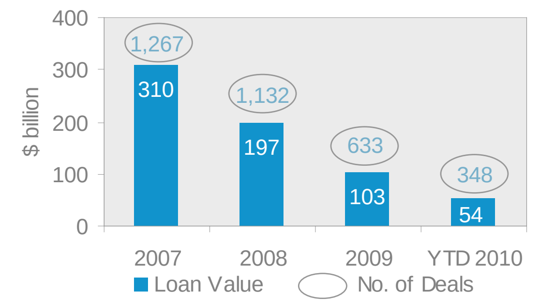
Figure 6: M&A activity by buyer type



Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

Bank financing activity overview

Figure 7: Real estate financing activity

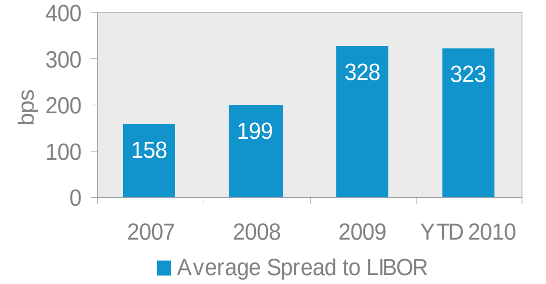


Source: Copal Analysis, Thomson Reuters

Sector severely impacted by reduced bank financing – During the 2006–2007 boom, banks financed almost 100% of a property's value, i.e. finance was readily available. However, during the past two years bank finance for the real estate sector has become scarce with LTV ratios falling below 60% in some cases, while loan disbursal to the sector generally fell back sharply, seriously impacting transaction activity. As shown in Figure 7, bank financing to the real estate sector was significantly affected during the slowdown with loan disbursals falling by 67% in 2009 compared to 2007.

In addition, consistent with a higher risk profile and the credit crunch, the sector's loan spreads over LIBOR more than doubled between 2007 and 2009 (Figure 8). However, for loans taken on LIBOR rates as base, the total cost of financing during the same period decreased by 187bps due to a substantial decline in LIBOR rates.

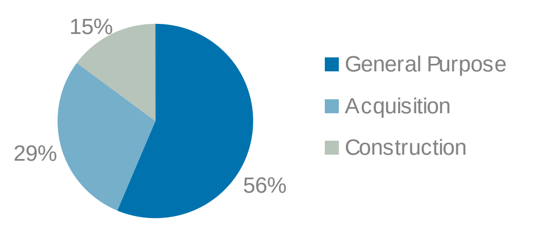
Figure 8: Real estate financing loan spreads



Source: Copal Analysis, Thomson Reuters
Note: Based on 1,273 loans offered with LIBOR as base rate.

Most loans granted for general corporate purposes – A further analysis of total loans provided to the sector shows that loans provided for general purposes, including working capital requirements, represented over 50% of loans financed between 2007 and YTD 2010 (Figure 9). Loans for acquisition finance accounted for 29% of the total loans granted. Due to fewer global M&As in the real estate sector and a tighter lending environment, loans for acquisitions decreased by 86% in 2009 from $114 billion in 2007. This decrease was much higher than the 67% reduction in overall financing to the real estate sector during the same period.

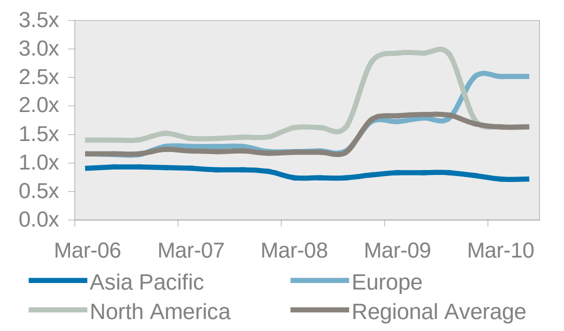
Figure 9: Bank financing by type



Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

Gross leverage at the corporate level has been reduced, but is still at an elevated level – An analysis of regional (Asia Pacific, North America and Europe) top 20 quoted real estate management and development companies by market capitalization (excluding REITs) reveals that the average LTM debt-equity ratio has fallen consistently between Q1 2009 and Q1 2010. Average gross leverage for all three regions reduced from 1.83x to 1.63x during this period, signaling a reduction in fresh loan issuances and increased debt repayments. This augurs well for the sector's balance sheet. However, looking purely at the last four years historically, gross leverage is still high (this compares with a debt-equity ratio of 1.16x and 1.21x in Q1 2006 and 2007). Surprisingly, Europe is an exception to this trend as here gross leverage increased over the same period from 1.73x to 2.52x. This is in sharp contrast with North America, where debt-equity ratios have seen the steepest declines to the more manageable level of 1.63x in Q2 2010 (Figure 10).

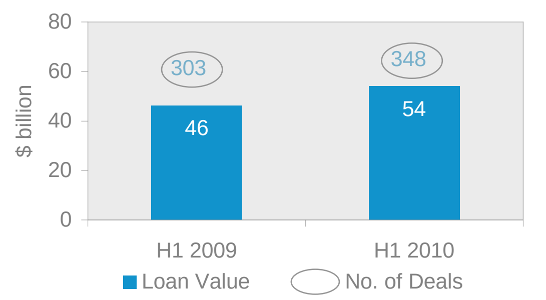
Figure 10: Debt-equity ratio



Source: Copal Analysis, Capital IQ

Lending environment improving – With the credit crunch now receding and market sentiment improving, bank financing to the real estate sector overall has begun to increase slightly. The total amount of loans disbursed to the sector increased by around 16% in H1 2010 compared to the same period last year (Figure 11). We expect loans granted to the sector will slowly increase in H2 2010 and in 2011; however, at the same time, the quantum of increase can significantly vary across regions.

Figure 11: Recent uptick in bank financing



Source: Copal Analysis, Thomson Reuters

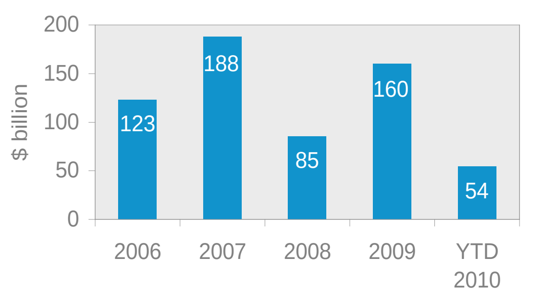
Moreover, analysis of bank financing trends to the real estate sector for the specific countries studied in this report also shows positive signs with bank financing in most countries improving since H2 2009 and interest rate spreads falling substantially.

Based on the balance sheet strength of the banking system and the corporate sector, the region which is the most likely to see higher lending is Asia Pacific, followed by the Americas. Europe is expected to lag behind these regions due to the high leverage in the sector.

With bank loans declining in 2009, the real estate industry turned to equity financing – After declining in 2008, real estate equity financing improved substantially in 2009 (Figure 12). During Q2 2009, the industry even witnessed the highest number of follow-on offerings since 2006. IPO activity began increasing in the second quarter of 2009 after falling to nearly zero in Q1 2009 (the number of IPOs issued in Q1 2009 fell to four compared with an average of around 35 new offerings per quarter over the last four years).

While the sector still has problems ahead, increased equity financing, especially follow-on offerings, clearly underscore greater confidence among equity investors in the recovery of the sector.

Figure 12: Equity financing



Source: Copal Analysis, Thomson Reuters

Valuation analysis

As a result of the reduction in real estate transactions during the last two years, valuations of real estate assets also witnessed a decline in many markets. However, considering the extent of the reduction in transaction volumes, property values held up well. In contrast, equity valuations of real estate companies were badly affected.

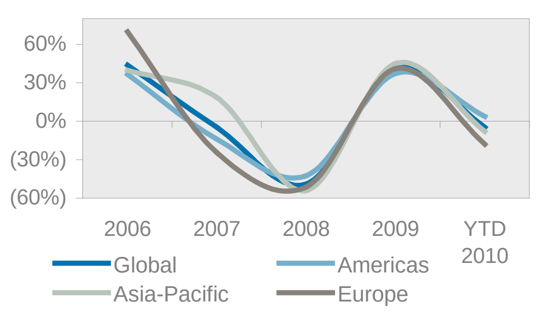
Over the last two to three quarters, capital and rental values have mostly stabilized and even improved for prime assets. Equity valuations also followed a similar trend and have moved up from their recent lows, although remain clearly well below sector highs.

We believe this is a good time for buyers/investors to look for opportunities in the sector as real estate assets are currently trading at reasonable levels compared with their historical highs. Another factor which can benefit potential buyers is that investor interest is still slowly returning to the market yet is nowhere near its 2006 or 2007 levels. There is, therefore, less likelihood of paying a premium due to buyers outbidding each other. In addition, this is also a good time for cash starved sellers looking to avoid distress sales as valuations have mostly stabilized and are tending to slightly increase again.

Equity markets retreat to reflect fundamentals – Real estate companies' equity valuations have mostly moved ahead of the fundamentals, both in terms of the extent of decline and the expected recovery.

After two consistent years of negative returns, the FTSE EPRA/NAREIT Global Real Estate Index yielded positive returns of 41.3% in 2009 (Figure 13), largely due to improved investor and business sentiment and expected rapid economic recovery. However, so far this year the sector has instead posted negative returns, especially Europe, which has been affected by sovereign debt issues since the beginning of 2010. Concerns regarding high inflation and expected increases in interest rates have left investors cautious in the Asia Pacific region.

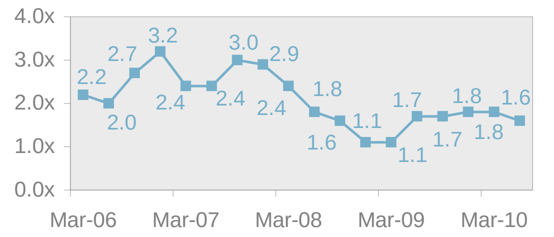
Figure 13: FTSE EPRA/NAREIT global real estate index returns



Source: Copal Analysis, FTSE, EPRA
Note: Returns based on US$.

Industry trading at reasonable valuations – We have analyzed Price to Book Value (P/B) multiples on a geographical basis (Americas, Asia Pacific and Europe) for the top 30 real estate companies (including REITs) to understand the industry's valuation levels. Based on the regional average, currently the sector is trading at a reasonable valuation; P/B multiples are higher than their recent lows (global average P/B ratio of 1.6x in Q2 2010 compared with 1.1x in Q2 2009). At the same time, valuations are still much lower than their historical highs (P/B of 3.2x in Q4 2006, Figure 14). Looking at the current multiples, we believe valuations are quite reasonable for both the buyers and sellers. Nevertheless, any judgment on valuations has to be made on a case by case basis due to different market dynamics across each region.

Figure 14: Regional average P/B multiple

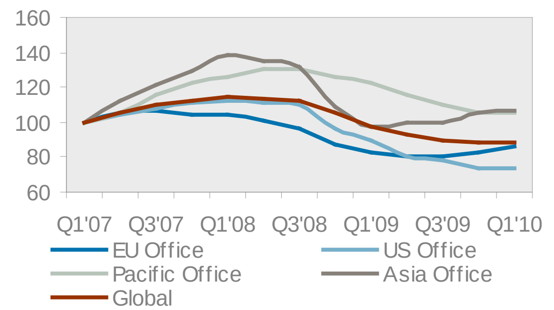


Source: Copal Analysis, Capital IQ

Commercial property values are likely to pick up gradually – Figure 15 indicates the CB Richard Ellis Global Commercial Capital Value Index along with indices for major regions. The global index stabilized in Q1 2010 compared to Q4 2009, potentially indicating that a bottom in valuations has been reached.

However, this trend is not universal. Two regions – the European Union and Asia – reported increasing prices, while the US and Pacific continues to post modest declines. In particular, property values for high quality investment grade assets are rising, resulting in declining cap rates, although pricing remains under pressure in second and third tier markets. Within each region there are some instances of property markets that are either moving up or others that are still declining. While a clear trend will still take some time to evolve, we believe that prices will most likely improve going forward.

Figure 15: Commercial property value index

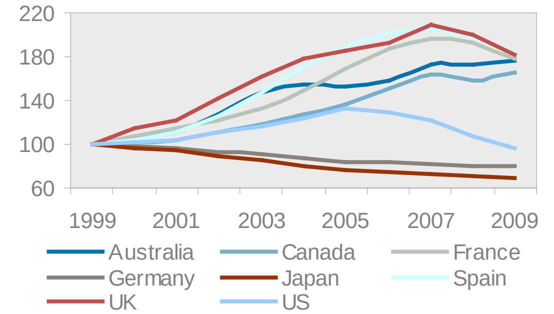


Source: Copal Analysis, CBRE

Residential capital values are also likely to follow a similar trend – On a global level, residential capital values also witnessed a decline during 2008–2009. Among the eight major developed economies covered in this report, residential property values during 2008–2009 have declined by around 8% since 2007. With the exception of Australia and Canada, property values declined in the remaining six countries, with the quantum of the decline at its highest in the US and the UK at 21% and 14% respectively (Figure 16).

However, in the last two to three quarters most countries have witnessed either a reduced rate of decline or, in some cases, even an increase in property values. For example, house prices in the US fell by only 1.1% YoY in Q1 2010 compared with 6.3% YoY in Q3 2009 and 4.6% YoY in Q4 2009.

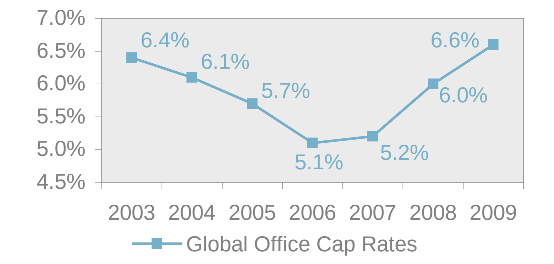
Figure 16: Residential property value index



Source: Copal Analysis, Global Economic Research Report

Cap rates set to compress but concerns remain – Global office cap rates peaked at around 6.6% at the end of 2009 (Figure 17) after bottoming at 5.1% in 2006. Low cap rates during 2006–2007 were driven by high market liquidity. As the global economic slowdown impacted the sector, cap rates started moving higher from the beginning of 2008, with the main drivers behind the upward move being restricted financing and increased investment risk, resulting in lower property values.

Figure 17: Global office cap rates

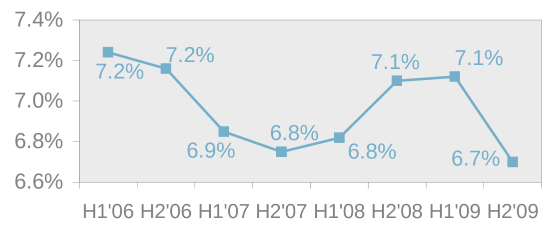


Source: Copal Analysis, RREEF Research

Although global cap rates rose in 2008–2009, both the rate and range differ globally. For example, many European markets moved closer to their upper historical ranges, although these were low compared to the US and Asia Pacific as the European historical range is much narrower. In contrast, although US cap rates increased sharply, they did not move closer to their upper historical range. Asia Pacific was the most diverse with rate compression in major markets; cap rates in Seoul, Hong Kong and Singapore moved toward near-record lows while Beijing reported its lowest ever historical cap rate.

Yields are now stabilizing in many areas. The global average yield fell 20bps in H2 2009 and a further decline of 25–50bps is expected in 2010. We expect a gradual compression in global cap rates in 2010–2012. Nevertheless, rates should remain relatively high due to concerns surrounding rising inflation and interest rates as well as an increasing number of distressed properties over the next two to three years.

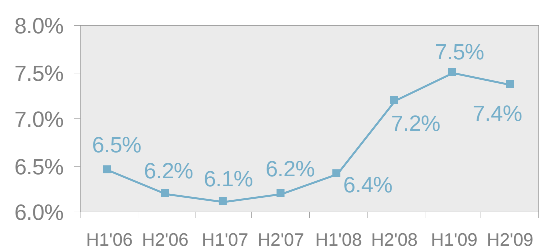
Figure 18: Asia Pacific commercial cap rates



Source: Copal Analysis, Cushman & Wakefield

The economic and property market recessions in Asia Pacific proved less severe than feared and the investment market has regained lost ground very quickly. As a result, commercial property cap rates in the region witnessed a compression during the latter half of 2009 (Figure 18). The rate of rental decline also eased significantly in the latter part of 2009, particularly in the retail sector, and some markets saw modest return to growth, such as Hong Kong, Taiwan and India. With renewed business activity in most markets, we believe cap rates compression will continue to accelerate in Asia Pacific, except Japan.

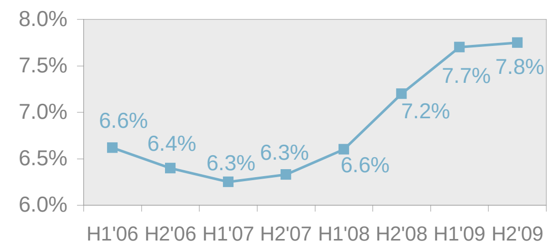
Figure 19: Europe commercial cap rates



Source: Copal Analysis, Cushman & Wakefield

As 2009 progressed, with increasing liquidity and greater risk tolerance, more investors came back into European markets. This brought more stability to rising yields and indeed minor yield compression to some markets, most notably the UK (Figure 19). The current correction in yields was also supported by the attractive initial return offered by property compared to historic highs as well as other asset classes. However, even though leasing activity will likely increase this year, it will still be a tenants' market with limited net absorption. Consequently, we expect yield compression to continue into 2010 but at a very slow rate and more so in Grade A properties.

Figure 20: US commercial cap rates

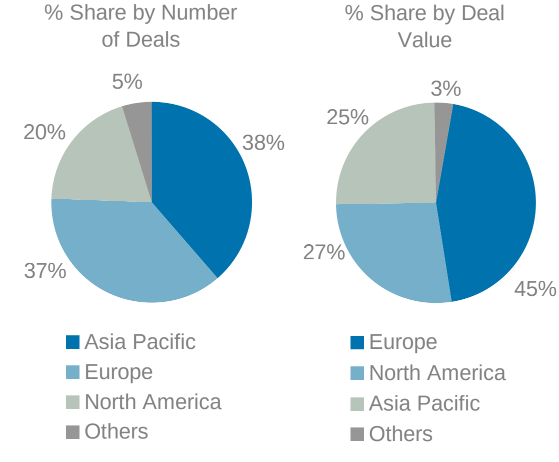


Source: Copal Analysis, Cushman & Wakefield

While North America has lagged behind the recovery seen elsewhere, sentiment has improved. Commercial property yields are now more stable for all but the riskiest assets (Figure 20). We believe significant yield compression will still take time in North America as more distressed assets are likely to be released to the market restricting any demand-led rise in capital values.

M&A and Financing Trends & Opportunities by Region

Figure 21: M&A activity by region



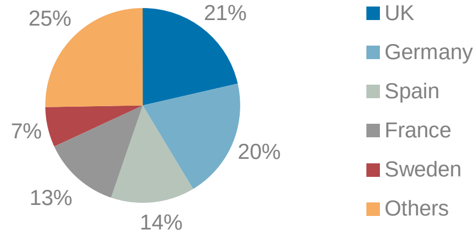
Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

Over the past three years, real estate transactions have been concentrated in Europe, with the region accounting for the largest share by deal value (45%), followed by North America (27%) and Asia Pacific (25%). However, based on the number of deals, Asia Pacific accounted for the highest share (38%), mainly dominated by China and followed closely by Europe (37%) and North America (20%). This variation in deal value and volume by region reveals much larger average ticket size deals in Europe and the US compared to Asia Pacific (Figure 21).

1. Europe

M&A deals in the sector occurred throughout much of Europe with the UK, Germany, Spain, France and Sweden representing 75% of deal value, with 31 countries accounting for the remainder (Figure 22).

Figure 22: Europe – M&A deal value by country

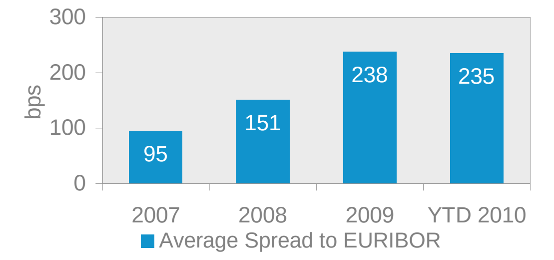


Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

In line with global trends, European M&A deal volumes in 2009 fell by over 57%, while total deal value declined 77% compared to 2007. However, the sector has recently shown positive signs of recovery with deal volume increasing in H1 2010 by 35% compared to 72 deals in H1 2009, while at the same time value declined slightly by 4%.

Bank lending also fell substantially during the slowdown to $21 billion in 2009, down 77% from $93 billion in 2007. However, with liquidity issues receding worldwide, financing to the real estate sector has also improved slightly in Europe. For example, total outstanding loans for house purchases in the euro zone increased slightly from $5,077 billion in 2009 to $5,131 billion in Q1 2010. Interest rate spreads, after increasing consistently over the previous two years, have also stabilized in 2010 (Figure 23).

Figure 23: Europe – real estate loan spreads



Source: Copal Analysis, Thomson Reuters
Note: Based on 127 loans offered with EURIBOR as base rate.

In addition, according to CB Richard Ellis, loan-to-value covenants granted by banks have increased modestly with maximum ratios in all key European markets now at or above 65% (Figure 24).

Despite the lack of sufficient evidence to show a clear momentum shift in bank financing to the sector, the financing situation has certainly not deteriorated further. At the same time there are visible signs indicating a positive, albeit cautious, investment outlook for the sector in Europe.

Figure 24: Europe – key lending terms

Country	Maximum Loan Size	Maximum LTV	Margin over LIBOR / EURIBOR swap
France	$107mn	65%	180bps
Germany	$72mn	70%	130bps
Italy	$72mn	65%	200bps
Netherlands	$57mn	70%	150bps
Spain	$72mn	65%	250bps
UK	$119mn	70%	175bps

Source: Copal Analysis, CBRE Research
Note: (1) On a new five-year loan based on the maximum underwriting ability of a single lender.
(2) For the purpose of this report, exchange rates as at 31 December 2009 are used for currency conversions to US$.

1.1 UK – a gradual recovery

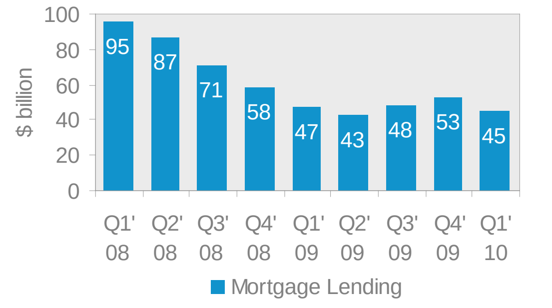
Accounting for over one-fifth of M&A deals in Europe, the UK is the center for real estate activities within the region. While the UK reported a substantial YoY decline of 72% in deal values in 2008, it also posted a rise of 51% in 2009, mainly in the second half as investor sentiment improved. Deal activity continued to improve in H1 2010 with volume almost doubling and value increasing by 7% compared to H1 2009. However, compared to H2 2009, deal activity fell in H1 2010. Average deal values in H1 2010 were fairly low compared to H2 2009 with only one deal approaching $1 billion (compared to four deals exceeding $1 billion in H2 2009); this was the demerger by Liberty International PLC, a London-based real estate investment trust, of its London focused property division to its shareholders in a transaction valued at $969 million.

Consistent with changes in deal activity, real estate investments in the UK recovered more sharply than its global counterparts. For 2009 overall, and in contrast to a decline in global real estate volumes, investment volumes in the UK remained at their 2008 levels at approximately $42 billion. UK transaction volumes were supported by a strong inflow of cross-border investments and greater interest as investors regarded UK properties as attractive assets. However, the uptrend apparent in the last two quarters of 2009 was short-lived with investment volume once again declining in Q1 2010 to almost half its level in Q4 2009.

Greater investor interest in the sector during the second half of 2009 was supported by a sharp decline in property prices and rental values during the downturn. With investments moving into the sector, cap rates for prime properties in the UK began to fall in Q3 2009. Still, it has been estimated by DTZ that around 60% of UK markets are currently at or below fair value, suggesting available attractive investment opportunities.

Lending activity to the UK real estate sector is currently mixed. According to the Bank of England, gross mortgage lending by major UK lenders for house purchases improved slightly by 12% in H2 2009 compared to H1 2009 (Figure 25). However, debt problems in the euro zone have kept financing low in Q1 2010, a trend which is likely to reverse in Q2 2010 with May posting a 13% increase in lending over April 2010. Moreover, the effective interest rate on mortgages remained low at around 3.7% in June 2010, with a possible slight increase in the coming months as CPI inflation remains high.

Figure 25: UK – mortgage lending for house purchases



Source: Copal Analysis, Bank of England

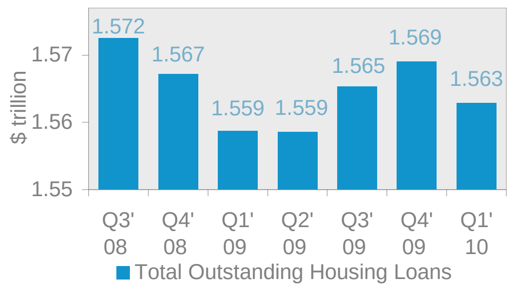
Although lending activity has not clearly recovered, international investors and European lender sentiment has improved with investors and lenders expecting higher business activity in 2010 than 2009. However, with the economic recovery still fragile and refinancing requirements estimated at $178 billion (on loans granted by banks) and $93 billion of Commercial Mortgage Backed Securities (CMBS) over the next four years, we expect the UK real estate market to recover only gradually with little evidence of a clear shift towards growth.

1.2 Germany – cautious optimism

In Germany, real estate M&A deal value fell by 74% YoY in 2008, and by a further 74% YoY in 2009. However, with improved economic activity, M&A transactions recovered in H2 2009 with deal volume and value increasing by 200% and 350% respectively over H1 2009 (albeit from a very low base). Deal activity in H1 2010 again declined slightly compared to H2 2009 due to euro zone sovereign debt concerns impacting investor sentiments in the second quarter of 2010. Foreign investors accounted for approximately 50% of transactions in the first half of 2010. Relatively higher investments since the second half of 2009 have caused prime yields in the five leading local markets to largely stabilize with signs of modest softening.

Increased investments were supported by improved sector financing. Housing loans increased by $10.5 billion in the second half of 2009 after five consecutive half-year periods of decline. Loan data was not so impressive in Q1 2010 due to sovereign debt problems across the euro zone (Figure 26), restricting risk-taking by banking institutions.

Figure 26: Germany – outstanding housing loans

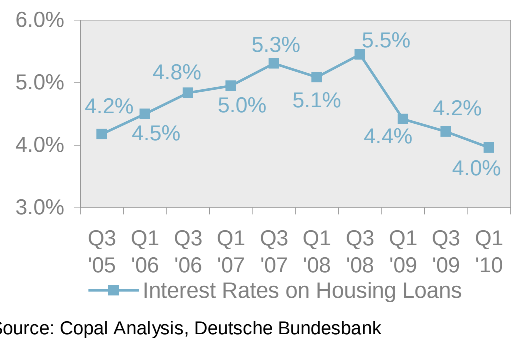


Source: Copal Analysis, Deutsche Bundesbank

However, interest rates on housing loans are currently at a decade low which could stimulate growth in real estate investments (Figure 27); the interest rate in April 2010 decreased by around 157bps from a high of 5.5% in August 2008. Moreover, interest rates are expected to remain at current levels during Q3 2010 providing an opportunity to invest in prime residential properties at a low financing cost.

The outlook for M&A transactions within the sector is more positive for Germany than elsewhere in Europe. The country's real estate sector is one of the most stable in the region, demonstrated by the modest decline in its property market. Based on an E&Y survey, over 80% of investor groups consider Germany an attractive destination for real estate investments. While the crisis is not yet over and various concerns including the slow economic recovery and high unemployment rate remain, we still expect positive momentum in the German real estate market with greater activity in the premium and standard properties segment.

Figure 27: Germany – interest rates on loans



Source: Copal Analysis, Deutsche Bundesbank
Note: The values correspond to the last month of the quarter.

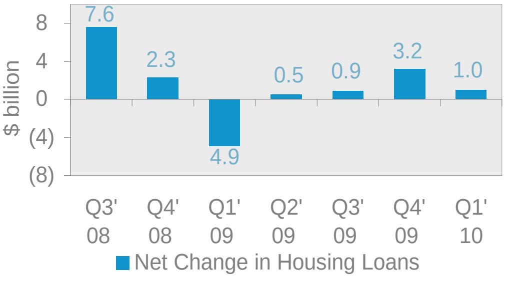
1.3 Spain – weak investment climate

During 2009, Spain reported a decline in M&A deal values to $5 billion, down 62% compared to 2008. While many markets in Europe experienced an improved investment climate in the later part of 2009 and in 2010, Spain has emerged as one of the worst affected markets during the same period. With the country at the forefront of the euro debt crisis, the situation is aggravated resulting in a riskier investment scenario leading to declines in deal value and volume of 74% and 54% YoY respectively in H1 2010.

The Spanish real estate market remains weak due to oversupply. For example, property prices have continued to decline into 2010 with the average price of a house in Spain down 5% to $2,675 per square meter (sqm) in Q1 2010 compared to the same period last year. Commercial real estate investment activity, however, improved QoQ in Q1 2010, but remains low due to a lack of foreign investment. Nevertheless, it is widely believed that the real estate market in Spain is close to stabilizing with limited downside potential going forward.

Tight financing standards applicable to the sector remain largely unchanged compared to recent quarters, with loans for house purchases increasing by only $1 billion in Q1 2010, 70% less than the increase that occurred in Q4 2009 (Figure 28). However, lending rates remain low at 2.4% in May 2010, down 10bps compared with March 2010 and 323bps from a high of 5.7% at the end of 2008.

Figure 28: Spain – net change in housing loans



Source: Copal Analysis, Bank of Spain

Apart from sovereign debt issues, Spain is also struggling with a slow economic recovery and a high unemployment rate. These economic issues, combined with low property demand and huge oversupply, are expected to ensure a dormant real estate market in 2010 and 2011. We therefore anticipate nominal real estate deal activity in Spain during the next few years.

1.4 France – markets should stabilize in 2010

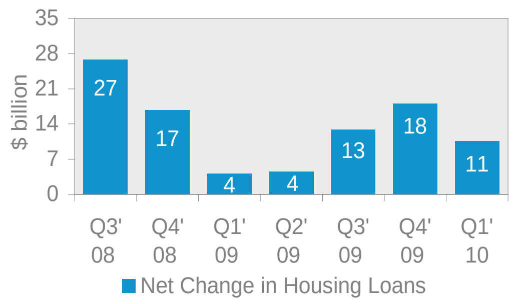
Better economic conditions since Q3 2009 resulted in higher real estate M&A deal value in 2009, which increased by 71% to $7 billion compared to 2008. In 2009, the sector reported one of the highest value deals in the last three years at $2.8 billion with an investor group, led by French state-owned Société Nationale Immobilière, acquiring the housing division of Icade SA, a Paris-based provider of real estate sales and leasing services.

In H1 2010, transaction activity largely remained unchanged at $4 billion YoY. During H1 2010, most commercial real estate investments in France occurred in the Greater Paris Region, mainly in the offices segment. Buyers remain selective in buying properties, focusing generally on prime assets. This has in turn led to a reduction in yields on prime properties, while those on secondary assets increase or remain constant.

The improvement in real estate investments during 2009 was also reflected in higher financing to the real estate sector. For example, net loans for house purchases began to increase in Q3 2009 (Figure 29), after falling sharply in the first two quarters of 2009. Although, Q1 2010 saw net loans falling back, financing conditions remain favorable due to low interest rates. Effective interest rates on loans for house purchases were around 4.72% in Q1 2010 compared with 5.87% in Q1 2009.

The outlook for the real estate sector is closely related to economic growth. Over the past few months, GDP data suggest France is officially out of recession. Although the increase in GDP was only 0.1% in Q1 2010, various institutions expect growth to accelerate to an average of around 1.3% in 2010. At the same time, it is widely believed that the economic recovery remains insufficient to generate a substantial rise in demand for commercial property. Vacancy rates continue to rise, although more slowly, while rents are generally still declining. However, the Paris region is defying this trend with investment interest second only to London and rents moving upward. Overall, the real estate market in 2010 is expected to consolidate with some improvement anticipated in investment activity, especially in prime properties. Greater investment interest is likely with economic recovery accelerating in 2011.

Figure 29: France – net change in housing loans

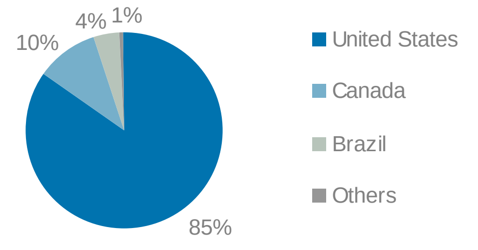


Source: Copal Analysis, Bank of France

2. Americas

Most M&A transactions in the real estate sector in the Americas are concentrated in the US, which accounted for 85% of deal value between 2007 and YTD 2010 (Figure 30). Canada and Brazil comprised most of the remainder, representing 14% of total deal value.

Figure 30: Americas – M&A deal value by country



Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

In 2009, M&A deal volumes and value in the Americas fell by 62% and 86% compared to 2007. However, growth was strong in H1 2010 with deal volumes increasing by 61% YoY and value by over 300% YoY to $17 billion. Also, sequentially deal value increased 21% in H1 2010, although volumes fell back suggesting increased average deal sizes.

Higher real estate transaction activity in 2010 was supported by slightly improved availability of financing to the sector in contrast to 2008 and 2009. Total loans to the real estate sector reached $20 billion in H1 2010, up 19.3% in comparison to H1 2009. However, this figure still remains substantially low in comparison to $84 billion in loans granted during H1 2007.

2.1 US – transaction activity improving slowly

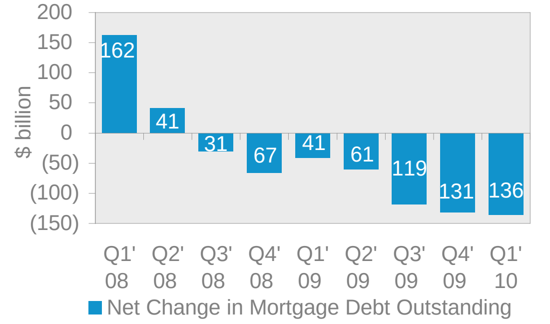
The US real estate market, which was at the center of the economic downturn and the subprime mortgage crisis, experienced a substantial reduction in M&A transactions during 2008–2009. In 2009, deal value fell almost 90% to $14 billion compared to 2007, with transaction activity at a virtual standstill in H1 2009 (i.e. 29 deals compared to 119 in H1 2007). This corresponds to the highest three-year decline in US GDP (6.4%) in Q1 2009. However, given improved economic growth and business confidence, deal activity in the real estate sector also began to recover, albeit lagging behind other global markets. Transaction activity has increased for two consecutive half-years with deal value in H1 2010 ($14 billion), increasing more than fourfold compared to the corresponding period in 2009, although from a very low base. The high increase in H1 2010 was backed by a $3.9 billion deal announced by an investor group comprising Fairholme Capital Management LLC and Pershing Square Capital Management to acquire 54.5% interest in bankrupt General Growth Properties Inc., a Chicago-based real estate investment trust.

Recently improved transaction activity is supported by a slight increase in financial market liquidity. While lending institutions remain reluctant to lend to the real estate sector due to their continued overexposure, progress continues, mainly for less riskier assets. For example, first mortgage loans of up to $100 million at LTV rates of around 60% of current property values are becoming generally available for prime properties offering strong rental returns. At the same time, debt availability falls sharply for non-stabilized properties or projects under development.

Another positive for the sector is declining interest rate spreads; by April 2010, CMBS interest rate spreads over the benchmark risk-free rate had narrowed by more than 700bps since historic highs in the spring of 2009. With markets slowly re-pricing risk and institutional competition increasing, the spread is likely to narrow further. Concerning conventional home mortgages, interest rates have changed little over the past year with stagnant LTV ratios of around 74%.

Although real estate sector fundamentals have been improving, the outlook remains weak, with major growth drivers including consumer spending and bank lending generally fragile and their anticipated recovery likely to be slow (Figure 31). Occupancy levels are still expected to trend downwards, a development which generally lags trends in employment, which is expected to remain flat in 2010. House prices continue to decline, although less slowly, signaling an imminent market bottom.

Figure 31: US – net change in mortgage debt



Source: Copal Analysis, Federal Reserve Bank

Another critical factor helpful in determining the outlook for the real estate sector is the estimated $1,400 billion in real estate loans set to mature over the next four years and the banks' decision on whether to extend loan maturity further or to foreclose collateral. For the banks, declining operating income resulting from deteriorating fundamentals and the prospect of increases in interest rates over the medium term will make it more difficult to extend troubled loan maturities for a prolonged period. Furthermore, pressure is building from regulators to encourage banks to be more aggressive in dealing with maturities of troubled loans. This indicates a likely increase in distressed property sales in the near term.

Overall, going forward, we expect transaction activity in the US to improve moderately in 2010 and 2011 mainly due to (a) a reduction in bid-ask spreads, (b) better opportunities to acquire real estate at distressed prices, and (c) improved economic growth.

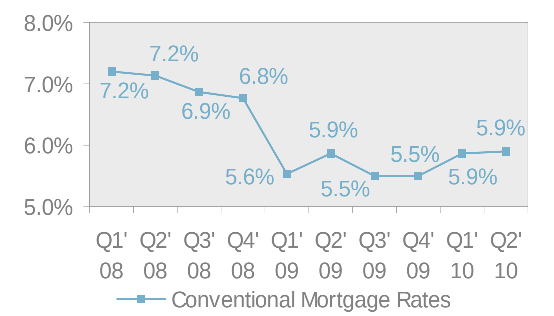
2.2 Canada – moderate growth ahead

In line with developments in the US, real estate M&A deal value in Canada fell substantially in 2009, by 85% compared to 2007. However, with a comparatively better economic outlook and improved investor sentiment, deal value in H2 2009 and H1 2010 increased 32% and 157% YoY respectively.

With Canadian financial institutions facing relatively few liquidity problems during the recent economic slowdown, real estate credit has remained generally available with outstanding mortgage credit increasing moderately. The recent improvement in investment activity was further supported by a reduction in interest rates to record lows. For example, the five-year mortgage rate declined from around 7.5% at the beginning of 2008 to nearly 5.4% in February 2010 (Figure 32).

Unlike the US, the effects of the recession did not persist in Canada's housing market, as shown by rising residential property prices over the past year. Average inflation-adjusted home prices in Canada rose by a substantial 16.6% YoY in March 2010. Apart from low interest rates, improved consumer confidence has also probably stimulated the market. Canadian business confidence has improved considerably since the beginning of 2009. This has resulted in a revival of commercial and retail real estate activity. Leasing demand is improving together with office-based employment (e.g. finance, insurance and real estate, professional and engineering services, and information technology), strengthening business confidence and improved access to capital. Thanks to the substantial new supply expected in 2010–2011 which will probably increase vacancy rates, market conditions are increasingly favoring tenants for the first time in many years.

Figure 32: Canada – conventional mortgage rates



Source: Copal Analysis, Bank of Canada
Note: The values correspond to the last month of the quarter.

Going forward, the recent uptrend in residential real estate activity is likely to level out as rapidly rising capital values exert pressure on interest rates. A slight increase in mortgage rates has already occurred with the five-year mortgage rate increasing by 40bps to 5.9% in June 2010 from historical lows. In addition, the government has also applied various restrictions including increasing down payment requirements for non-owner occupied properties and lowering the LTV ratio for refinancing mortgages.

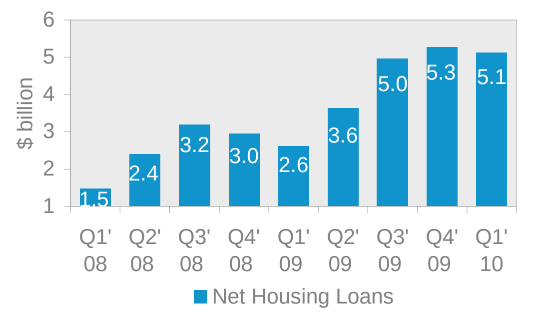
Despite the likely brakes on real estate activity as a result of the above measures, we expect it to remain robust, driven by higher economic activity. Moreover, improving investor confidence combined with favorable employment data in recent months should ensure moderate growth in the Canadian real estate sector over the next two years, especially in non-residential real estate.

2.3 Brazil – strong fundamental growth

Real estate M&A deal value in Brazil declined slightly by just 4% YoY to reach $3 billion in 2009, avoiding the high global decline of 32% YoY. Moreover, deal value in H1 2010 registered a growth of 8% compared to the whole of 2009. Similarly, commercial real estate investments increased substantially in Q2 2010, with investment volumes of $2 billion, a threefold increase over Q1 2010.

High real estate activity over the last 12 months reflected various government measures taken to stimulate the sector. These include initiatives such as an $18 billion housing stimulus and reduction in interest rates to decade lows. The SELIC rate (benchmark lending rate) was lowered gradually from 13.8% in December 2008 to 8.8% in July 2009, resulting in growth in bank lending activity (Figure 34).

Figure 34: Brazil – net housing loans



Source: Copal Analysis, Central Bank of Brazil

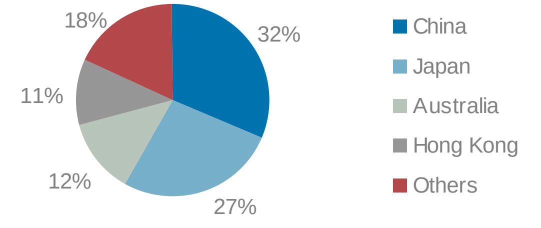
Given the continued increase in real estate investment activity, property prices have also continued to rise, e.g. capital and rental values of residential properties in major cities in Brazil rose around 20% YoY in Q1 2010. Rapidly rising property prices have forced the government to recently increase interest rates and introduce plans to reduce sector stimulus packages.

While such measures are expected to exert some short term control over prices as Brazil faces an inherent shortage of residential properties, we believe demand will remain relatively robust over the long term. In addition, high economic growth, an increasing working population and rising disposable income should also ensure continued high demand for commercial properties. The forthcoming FIFA World Cup in 2014 and the Olympics in 2016 should provide further support for high real estate activity.

3. Asia Pacific

Real estate M&A deal activity in Asia Pacific is highly concentrated within the four leading markets, China, Japan, Australia and Hong Kong, accounting for 82% of deal value between 2007 and YTD 2010 (Figure 35). Supported by government measures, primarily in China, real estate activity in Asia Pacific outperformed that in both Europe and North America during 2009. While M&A deal values in Europe and North America fell by 46% and 49% respectively in 2009, Asia Pacific maintained activity at 2008 levels.

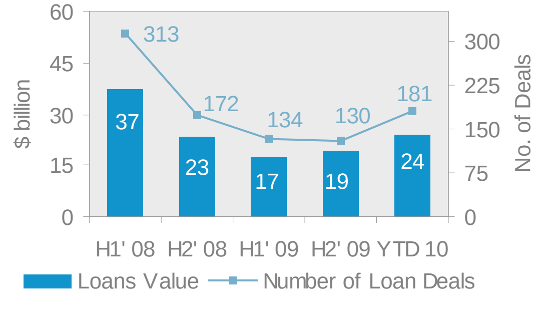
Figure 35: Asia Pacific – M&A deal value by country



Source: Copal Analysis, Thomson Reuters
Note: Based on cumulative data between 2007–YTD 2010.

Also avoiding the general global decline, commercial real estate investment in Asia Pacific reached $216 billion in 2009, an increase of around 39% YoY. The high real estate activity in 2009 was supported by improved financing availability. Lending activity in Asia Pacific slowed down but to a lesser extent than in other regions (Figure 36).

Figure 36: Asia Pacific – real estate financing



Source: Copal Analysis, Thomson Reuters

In Asia Pacific, the outlook varies between countries, from gradual growth in Japan to concerns regarding the risk of asset price bubbles in China. Although not all areas are expected to perform strongly, Beijing, Shanghai, Hong Kong, New Delhi, Mumbai, Sydney and Seoul enjoy a positive business outlook, stimulating real estate demand and pricing.

3.1 China – persistent growth despite global downturn

Supported by high economic growth and government measures, real estate M&A deal activity remained robust in China during 2009, at a time when the rest of the world was generally impacted by the global economic downturn. Total deal value was $20 billion in 2009, up 54% over 2008 compared to a marginal decline in deal value in Asia Pacific and to a 32% fall worldwide. Deal activity was supported in October 2009 by the largest deal announced since 2007, a $2.7 billion acquisition by Stellar Megaunion Corp of 100% of the assets of the investment company Guilherme Holdings (Hong Kong) Ltd. The assets included 100% capital of Shanghai Juyi Real Estate Development Co. Ltd. and Fung Seng Estate Development (Shanghai) Co. Ltd.

Following a similar trend to deal activity, commercial real estate investments in China increased by 143% YoY in 2009. This reflected government land sales and various government measures taken to ease monetary policy to revive growth.

These measures improved market liquidity and increased financing availability for the real estate sector last year, as shown by the growth in total outstanding loans to the sector, up 38% YoY to $1,100 billion at the end of 2009.

However, high liquidity and speculative investments have inflated asset prices in the Chinese real estate sector, raising concerns regarding an incipient asset bubble. For example, average property prices in China's 36 largest cities increased by 32% YoY in January 2010.

This presents a serious near term risk for the sector. Acknowledging this, the government has introduced various tightening measures to control sector growth, including increasing reserve requirements, raising down payment rates and restricting purchases of second and third homes. The LTV ratio has been restricted to 70% in various areas, including greater Taipei, since April. As a result, real estate activity slowed in Q2 2010, with commercial real estate investment in China decreasing by 62% QoQ to $10 billion in the quarter. This sharp fall was predominantly led by reductions in land sales for mixed-use development and follows several quarters of strong activity.

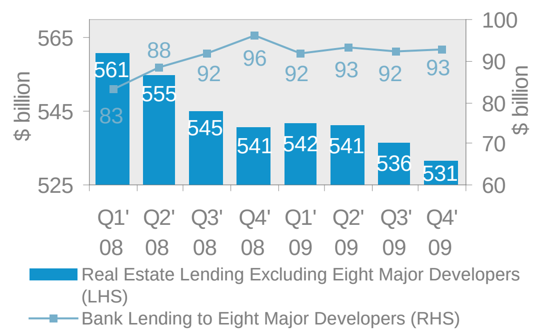
Despite concerns regarding overheating of the Chinese real estate sector, we believe that due to high economic growth and increasing urbanization there is only a very limited risk that China will face a property market crash similar to that experienced by Japan during the 1990s. Instead, we expect China to enjoy robust levels of transaction activity in the long term. Government initiatives to dampen activity within the property market should help stabilize the market and provide long term support. Property prices are expected to decline as financing falls slightly and an expected high supply of newly built homes enters the market. Nevertheless, buy-side deal activity should receive a boost from such a decline in property prices.

3.2 Japan – credit availability remains weak

Following robust deal activity in 2007, real estate transactions slowed considerably in Japan during 2008 and 2009, consistent with the global economic downturn. However, after hitting a record low in H2 2008, transaction activity has improved during each subsequent half-year period. Between January and June 2010, deal value increased by 21% YoY to $6 billion, mainly driven by higher activity in January to March, the final quarter of FY 2010 when domestic investors rush to close deals before the fiscal year end. Activity was much lower than anticipated in Q2 2010, with a single major deal exceeding $1 billion representing over 50% of total deal value.

The credit market in Japan remains relatively tight, reflecting similar global trends to those affecting the developed world. According to RREEF Research, bank borrowing by Japan's eight major developers remained flat during the last two quarters of 2009, while aggregate bank borrowings among all other developers and managers declined by around $10 billion in the same period (Figure 37). To avoid distress sales, many banks continue to maintain rather than tighten existing loan terms.

Figure 37: Japan – real estate lending



Source: Copal Analysis, RREEF Research

Due to the generally slow economic recovery and continued tight credit conditions, real estate fundamentals overall are deteriorating. Japan's office vacancy rates continue to rise, albeit slowly, probably resulting in further rental declines. Similarly, retail real estate also remains sluggish. Conversely, residential real estate has improved over the past three to four quarters with average sale prices of new and existing condominiums improving QoQ mainly due to lower supply.

Going forward, given continued weak sector fundamentals, deal activity in Japan is likely to remain relatively subdued in 2010 compared to the 2007 highs. However, with economic growth expected to resume, deal activity should also recover slowly. In addition, the sector appears increasingly attractive with a relatively high spread between yield and finance cost and with extensive investment grade opportunities, particularly involving the sale of distressed assets at below replacement cost.

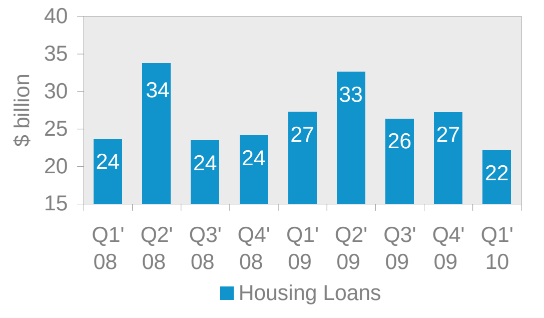
3.3 Australia – rising investment activity

Deal activity in Australia differed from both China and Japan. Between 2007 and YTD 2010, deal activity fell to its lowest level in 2008 ($2 billion) after a robust performance in 2007 ($16 billion). In 2009, however, activity improved during the second half, a trend which has continued into 2010. In H1 2010, deal value increased 132% YoY and 9% QoQ.

Similar trends were visible in commercial real estate investments with transactions worth $6 billion in H1 2010, an increase of 55% over H1 2009. Offices continue to be the favored asset class, accounting for 58% of total commercial real estate investment in H1 2010.

This increase in investment activity since 2009 reflected government measures to stimulate the real estate sector including a $1.5 billion grant for first home owners in October 2008. In addition, interest rates were also reduced by 370bps from Q2 2008 to Q1 2009, resulting in increased bank lending to the sector during H1 2009 (Figure 38).

Figure 38: Australia – new housing loans



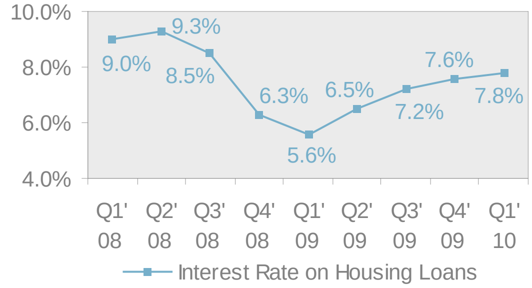
Source: Copal Analysis, Reserve Bank of Australia

However, such measures taken to stimulate real estate demand resulted in rapid increases of capital values. The established house price index for eight major cities in Australia rose rapidly from June 2009, by 6.6% YoY in September and 13.5% YoY in December 2009.

To control rapidly increasing prices and market liquidity, the government has taken various steps since Q3 2009, including raising interest rates (Figure 39) and tightening lending standards, resulting in a decline in lending activity. However, this reduction does not appear to have had any substantial effect on real estate investment activity as shown by a solid 55% YoY increase in commercial real estate investments in H1 2010. While continued high investments are being driven by greater demand, they have also received support from several large deals (over $500 million) which represented over 35% of total deal value in H1 2010 (e.g. Westpac Office Trust was acquired by the Mirvac Group for approximately $1 billion), in addition to apparently already high capital values (e.g. the house price index hit a record high, rising 20% YoY in March 2010).

Despite rapid property price increases in recent quarters in Australia, we expect a slowdown in the coming months as the government removes support packages and lending conditions tighten further. However, given high demand due to the shortage of housing and a growing population, we expect real estate investment activity in Australia to remain high during 2010.

Figure 39: Australia – interest rates on housing loans



Source: Copal Analysis, Reserve Bank of Australia
Note: The values correspond to the last month of the quarter.

Transaction Case Studies

Role of M&A International:	Advisor to DAIMLER
Sector	Real Estate
Target	Daimler AG-Quartier Potsdamer Platz
Our role	Advisor to seller
Selling Company / Location	Daimler AG, Germany
Activity	Car and truck manufacturer and wholesaler
Acquiror/ Investors/ Location	SEB ImmoInvest, Germany
Activity	Real estate fund
Description of transaction	Mandated by Daimler AG to sell its Quartier Potsdamer Platz building complex in Berlin, comprising 19 properties, for $2 billion.

Role of M&A International:	Advisor to Charlemagne Capital
Sector	Real Estate
Target	A portfolio of three office buildings
Our role	Advisor to seller
Selling Company / Location	Charlemagne Capital Limited, United Kingdom
Activity	Independent asset management group
Acquiror/ Investors/ Location	DEGI, Germany
Activity	Manages property investments
Description of transaction	Exclusively mandated by Charlemagne Capital to sell a portfolio of three office buildings in Bucharest for $149 million.

Role of M&A International:	Advisor to Henry Group Holdings Limited
Sector	Real Estate
Target	50% stake in Winner Ever Limited
Our role	Advisor to seller
Selling Company / Location	Henry Group Holdings Limited, China
Activity	Investment holding company
Acquiror/ Investors/ Location	Capital Strategic Investment Limited, Malaysia
Activity	Investment holding company
Description of transaction	Advised Henry Group Holdings Limited in disposing of its 50% share in Winner Ever Limited, a Hong Kong-based property holding company, in a deal worth $7 million.

Conclusions

As a core contributor to the recent global economic slowdown in 2008–2009, the real estate sector was one of the most affected. The downturn had a serious impact on real estate transactions. Reduced demand resulted in a decline in capital and rental values in many markets, restricted construction spending and led to higher vacancy rates. However, with slowly improving economic growth and investor sentiment as well as easier liquidity conditions, real estate transactions in most markets have shown signs of stabilizing or improving since Q3 2009 (although activity is nowhere close to the 2007 highs).

As global economic growth accelerates over the next two years, we believe attractive opportunities will be available for investors seeking to enter or expand their real estate portfolio. Under commercial real estate, we expect the offices segment to first experience renewed investment activity as rising economic growth and declining unemployment rates stimulate leasing demand. Retail real estate will probably lag behind investments in the offices segment due to already higher vacancy rates and because consumer spending generally lags behind the economic recovery and higher employment. The industrial segment, that remained relatively resilient throughout the downturn, is expected to continue its moderate growth.

We expect investment activity in the sector to accelerate primarily due to the following factors:

- **Better availability of finance:** with the economic recovery beginning in H2 2009, most countries have reported slightly increased lending to the real estate sector supported by historic low interest rates. Lending standards, including LTVs, have also eased modestly in parts of Europe and Asia Pacific, especially for prime properties, which should result in higher investments in the sector as most real estate transactions are debt financed. As business confidence improves, lending conditions are likely to ease further worldwide, resulting in greater financing options and enhanced investment opportunities for real estate investors.

  However, in some countries including Brazil, Canada, China and Australia, which have already experienced a rapid rise in property prices in recent quarters, lending norms will probably tighten, which in the short term could impact investment activity but should provide long term support. In addition, the extent of real estate refinancing requirements, especially in the US and Europe, that may arise over the next few years could affect both bank lending and the cost of financing to the sector, restricting any rapid deal activity turnaround.

- **Attractive valuations:** although property values did not collapse during the downturn, they did witness a decline in many markets. Over the last two to three quarters, property values and yields have mostly stabilized and even inched up for the prime properties in some regions like the UK. However, values are still well below the sector highs witnessed during 2006–2007. This provides cash rich buyers/ investors with a good opportunity to invest in high quality income-generating assets. For low-grade assets in the US and some of the more developed countries in Europe, property values will still take some time to bottom out and therefore investor activity is likely to be weak for such assets.

  Moreover, we also believe this is a good time for cash strained sellers, who were trying to avoid distress sales, given that buying interest has returned to the market and property values have recovered from recent lows, especially in the case of income-generating properties.

About M&A International Inc.

M&A International Inc.'s members actively represent buyers and sellers in the real estate M&A market as well as those seeking to raise private equity and debt capital. They possess significant real estate domain expertise, industry relationships and experience in successfully executing complex transactions on behalf of their clients.

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M&A International Inc. Representative Transactions

DAIMLER
has sold its real estate portfolio "Potsdamer Platz" to
SEB ImmoInvest

Car and truck manufacturer and wholesaler
Advisor to seller
Germany

Charlemagne Capital
has sold a portfolio of three office buildings to
DEGI Deutsche Gesellschaft für Immobilienfonds
Allianz

Independent asset management group
Advisor to seller
United Kingdom/Germany

GAV YAM Property & Building Group IDB
issued bonds worth US$223m
the undersigned was a member of the underwriters' consortium in this transaction

Real estate development and management
Fundraising
Israel

alstria First German REIT
has sold an office building portfolio to
WealthCap

Invests in real estate in the seven largest German cities
Advisor to seller
Germany

EjendomsInvest
has acquired a real estate portfolio of five properties from
private individuals

Retail real estate agent and fund manager
Advisor to buyer
Denmark/Finland

A private individual
has sold land to
Wilmar Leisure Limited

Real estate
Advisor to seller
United Kingdom

Waterhouse Real Estate Invest Oy
has acquired a residential portfolio from
UPM Corporation

Real Estate
Advisor to buyer
Denmark/Finland

Charlemagne Capital
has acquired a 40% stake in an office building from
CASCADE GROUP

Independent asset management group
Advisor to buyer
United Kingdom/Romania

BLUEHOUSE
has acquired six office buildings from
ALPHA BANK

Banking
Advisor to seller
Romania

giltz & associates inc. REAL ESTATE • LAND DEVELOPMENT
& **HMC**
formed an equity joint venture to develop shadow-anchored retail centers

Develops, acquires, leases and manages retail and residential real estate
Joint venture
United States

HENRY GROUP HOLDINGS LIMITED 鎮科集團控股有限公司
has sold its stake in Winner Ever Limited to
CSI 資本策略

Investment holding company
Advisor to seller
China/Malaysia

GREEN PROPERTY
has been sold to
Rodinheights Ltd

Real estate development
MBO
Ireland

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