

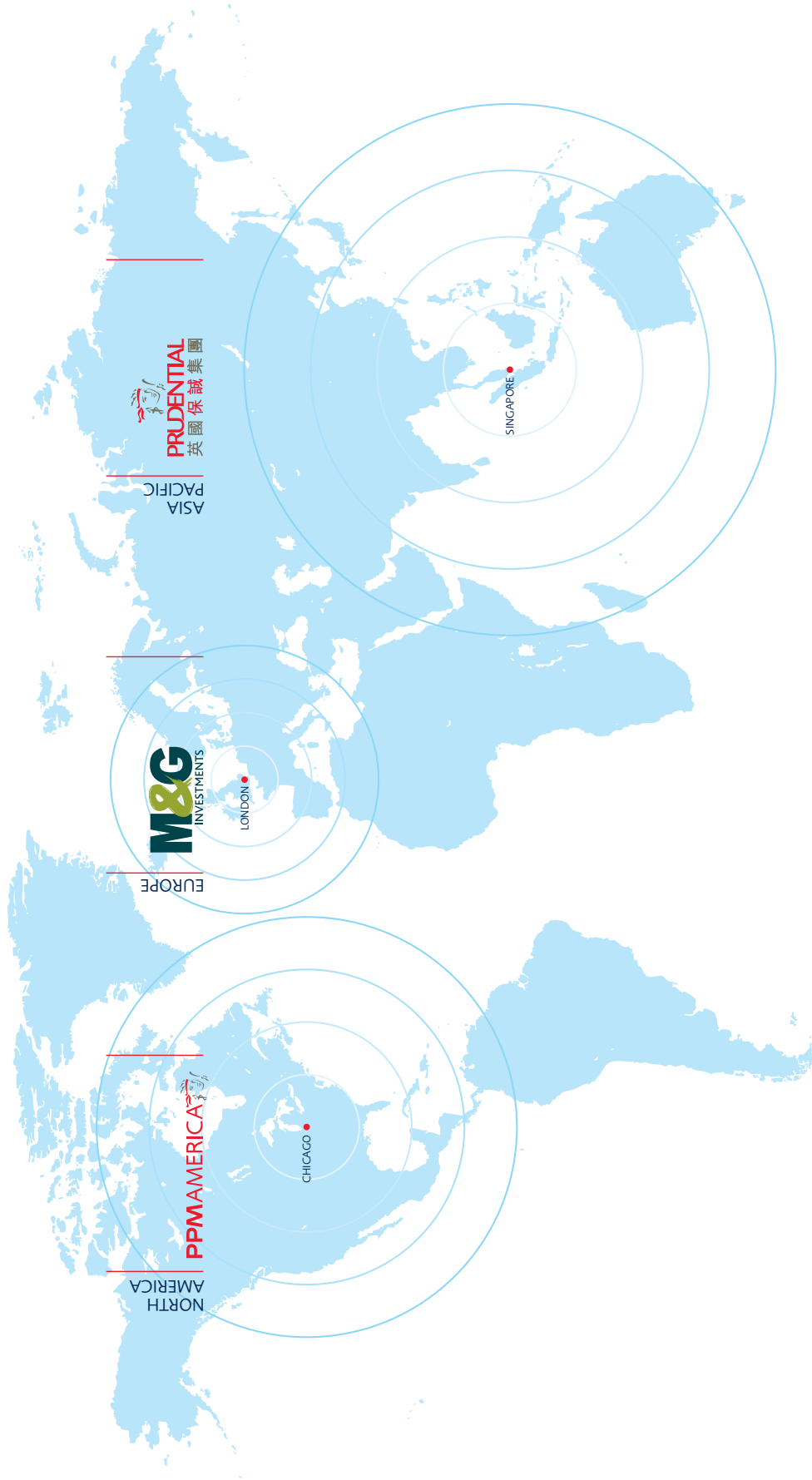
REAL ESTATE
INVESTMENT
MANAGEMENT

INTERNATIONAL
REAL ESTATE PERSPECTIVE
MAY 2009



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
Chicago	Lyon	New Jersey	San Francisco
Hong Kong	Metz	New York	Seattle
London	Miami	Ottawa	Seoul
			Singapore
			Sydney
			Toronto
			Vancouver

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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 £14 billion of real estate assets, of which over £3 billion is invested internationally in North America, continental Europe and Asia Pacific. We are invested in over 800 properties with more than 4,500 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 11-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.

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Unless otherwise specified all data and commentary is as at end May 2009.

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



Seattle



Sydney



Los Angeles



Cannes

EXECUTIVE SUMMARY

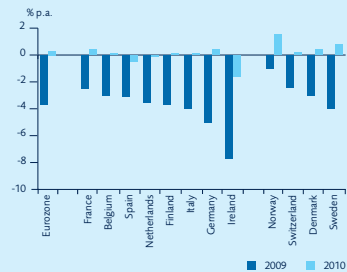
EUROPE

- The eurozone economy contracted sharply over the first quarter of 2009 as GDP fell by 2.5%; significantly faster than the UK and US. However, leading indicators recorded a deceleration in the rate of decline for the third consecutive month in May, supporting hopes that the worst may be over.
- Occupational markets have deteriorated significantly, and demand for space is rapidly declining. As businesses experience reduced turnover and correspondingly thinner profit margins, landlords are faced with tenants seeking

to reduce occupancy costs wherever possible. Consequently, rents are either static or, as in most office markets, falling with the pace of decline increasing.

- Transaction volumes fell around 50% compared with the already depressed levels recorded in the last quarter of 2008. Investment activity fell particularly among foreign investors, leaving domestic players to dominate the market. Investor retrenchment is most prevalent in the office sector, whilst the small lot size of shops is currently attracting private wealth capital.

European GDP Forecasts



Source: Consensus Economics (May 2009)

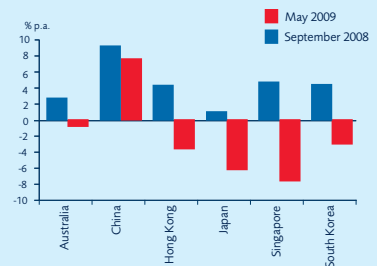
ASIA PACIFIC

- Asian economies are now possibly experiencing their toughest economic period in decades, seeing exports plunge sharply, industrial production come to a standstill and economic growth turn negative in mature economies. The global financial cataclysm has clearly befallen Asia.
- Reflecting the broad trend in macroeconomic conditions, the outlook for the occupier market is worsening as demand for space is falling across all property sectors. Downward pressures on rents and property values are mounting

significantly, particularly for Singapore and Hong Kong offices where the high level of supply coincides with declining demand.

- Since mid-2008, yields have moved outwards between 50 to 100 basis points in most markets. Clearly, with increasing economic uncertainties, this trend is not expected to stabilise any time soon. Looking ahead, the combination of falling rents and expanding yields is expected to deliver significant negative returns over this year in many of Asia's markets.

2009 GDP Forecasts Downgraded (Asia Pacific)



Source: Consensus Economics (September 2008 and May 2009)

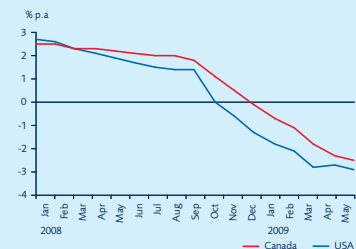
NORTH AMERICA

- The US economy is currently suffering from severe recession, though the Federal Reserve has suggested that the worst of the financial crisis has passed, with the pace of decline slowing. Modest economic recovery may be expected in 2010.
- The effects of the declining economy have been reflected by recent trends in the property market. With demand for space well down, vacancy rates have been rising and rents have begun to fall. Weaker fundamentals have driven acceleration in the pace of yield

expansion. Total returns on the NCREIF index were -6.5% over 2008, and 2009 is expected to fare worse, with a capital decline of 8.7% seen in the first quarter alone.

- Canada's economy is also contracting sharply and the property market has seen the downturn take hold in recent months with yield expansion accelerating and rental growth slowing substantially. Rents are expected to fall in many markets, while yields continue rising, driving further capital decline throughout the rest of 2009.

2009 GDP Forecasts Evolution (US & Canada)



Source: Consensus Economics (January 2008 to May 2009)

GLOBAL REVIEW

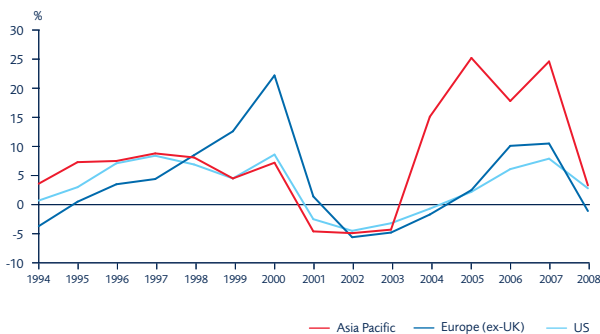
Mature world economies contracted more sharply over the first quarter of 2009 than commentators expected, whilst major developing economies saw a significant slowdown in growth, fuelling concerns that this downturn will be deeper and more protracted than originally anticipated. Across the regions, GDP forecasts have been downgraded and comparisons between this downturn and the Great Depression have been drawn. Fortunately, the speed, size and scale of the policy response is such that the likelihood of another Great Depression is rapidly diminishing.

This said, the events of today's recession are comparable to the sequence of effects of a debt bubble bursting, depicted by economist, Irving Fisher's debt-deflation theory, modelled on the Great Depression: debt liquidation and distress selling, contraction of the money supply, a fall in asset prices, a greater fall in the net worth of businesses, precipitating bankruptcies, a fall in profits, a reduction in output, trade and employment, pessimism and loss of confidence, hoarding of money, a fall in interest rates and a rise in deflation. Fisher claimed that the predominant factor leading to the Great Depression was over-indebtedness and deflation. Cheap debt fuelled over-indebtedness, leading to over-investment and over-speculation.

and in some markets are expected to reach their highest on record as net stock absorption continues to decline. At best, rental growth has been modest, but clearly growth is stagnating and rental declines are beginning to be recorded, especially among those volatile markets which enjoyed rampant bull runs.

"For real estate markets, recession has turned into a second wave of property gloom. What began as a real estate capital market crisis is now turning into an occupier market crisis."

Rental Growth Slowing in Global Office Markets



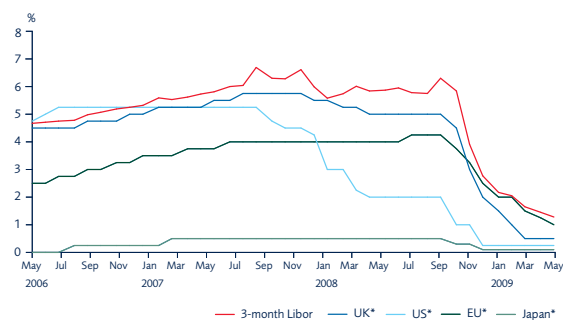
Note: Averages represent prime rental growth in core markets in each region (28 markets in Europe, 26 in US and 7 in Asia Pacific)
Source: DTZ Research (April 2009)

Similar conditions exist today. While there are regional variations in the speed and severity, global demand has plummeted, leading to a sharp deceleration in major industries worldwide. Today's global recession is characterised by a marked fall in financial and business services output, declining house prices, plummeting imports and exports, rapidly falling consumption, flagging retail sales as well as the continued deterioration of asset values. The response has been almost universal: "a fall in interest rates" and "a rise in [the threat of] deflation".

For real estate markets, recession has turned into a second wave of property gloom. What began as a real estate capital market crisis is now turning into an occupier market crisis; tenant defaults now hold the biggest risk for landlords. Fortunately, diminishing demand has come at a time when new supply levels are relatively low. However, the global "reduction in output, trade and employment" will undoubtedly lead to a shedding of existing stock. Consequently, vacancy levels are rising,

Meanwhile, the widespread re-pricing of risk continues as does yield expansion, albeit to varying degrees across the regions. In North America, the pace of expansion has picked up, whilst in Asia only moderate rises have been recorded so far. In the UK, expansion is slowing, whereas Western Europe, skewed by the German market, is still in denial to some extent. Clearly, on an aggregate level, this clouds the reality that each bear cycle has a unique flavour, making local markets very different and difficult for anticipating recovery timelines. Ongoing yield expansion, now coupled with prospective rental declines, has resulted in further price falls. Despite cheaper borrowing rates, lower loan-to-value ratios, higher margins, higher fees and stricter lending conditions are keeping leveraged players out of the market. As such, only equity-rich players are able to take full advantage of the opportunities that are emerging. Preference is still for smaller lot sizes and prime, if not trophy, assets.

Borrowing Costs Down



* Official government interest rates
Source: Bloomberg, 3-month Libor, UK, US, EU, Japan Central government interest rates (May 2009)

EUROPEAN MARKET DYNAMICS

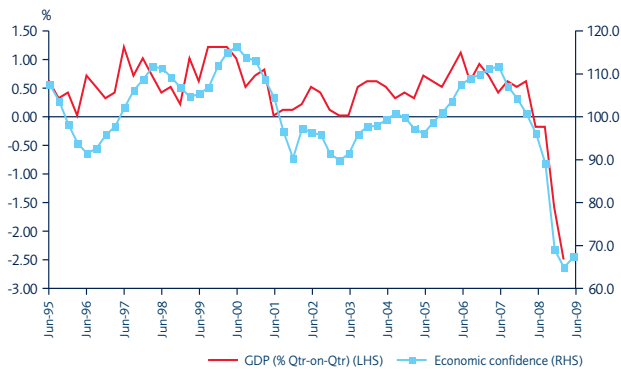
	RENTAL	INVESTMENT
Office	<ul style="list-style-type: none"> ■ Economic contraction and the fallout from the financial crisis have led to a sharp fall in office employment. Occupier demand has weakened significantly, causing involuntary under-occupancy for office markets across Europe. ■ Despite low levels of new supply, occupier retrenchment amplified by pressures on disposal of surplus space has resulted in falling take-up levels and rising vacancy rates. In turn, accelerated rental declines have been recorded across almost every market. 	<ul style="list-style-type: none"> ■ Office yields continue to expand, albeit at a moderated pace for primer assets. The marked deterioration in occupational markets has led to rental declines being aggressively priced in, suppressing capital values across the European office markets. ■ Investment sentiment remains poor towards the office sector, especially as the credit squeeze continues to keep leveraged buyers from the market. Generally, the larger lot sizes of office buildings are currently unavailable to most investors.
Retail	<ul style="list-style-type: none"> ■ Prospects for consumers are uncertain as the beneficial effects from lower inflation and interest rates have been offset by concerns over mounting job losses. Consequently, retail sales figures have worsened and resistance to occupancy costs is increasing. ■ Rents on most high streets have resisted downward pressure so far. Only in Italian and Spanish shopping centre and retail warehouse markets have rents declined. The pipeline poses a real risk with stock expected to expand significantly in many shopping centre markets in 2009-10. 	<ul style="list-style-type: none"> ■ Small lot sizes offering higher liquidity have led to prime high street retail being relatively attractive to investors. In particular, yields in Germany have remained stable. That said, with transaction volumes down, evidence is scarce and valuations may not reflect transaction pricing. ■ The shopping centre and retail warehouse segments show no such robustness, with yields in all markets at or above their 10-year averages as investors shun larger or riskier deals.
Industrial	<ul style="list-style-type: none"> ■ As global demand weakens so does industrial output and trade activity. Manufacturers are trying to address excess capacity, while distributors are actively trying to secure efficiency gains down the supply chain. ■ Industrial rents are mostly stable, but are now falling rapidly in Italy and Spain. The market balance is shifting in favour of occupiers as landlords and developers have to be flexible in terms of the leases, incentives and the rental levels they offer. 	<ul style="list-style-type: none"> ■ Demand for industrial property has cooled since the beginning of the financial crisis, as investors have become increasingly risk-averse. The subsequent weakening of trade and consumption fundamentals has pushed the required risk premium up further. ■ Discounts are now large on secondary assets. However, demand is relatively robust for strategically well-located distribution hubs and modern warehousing facilities since their current high yields look attractive against the long-run value that these assets present.
Residential	<ul style="list-style-type: none"> ■ The credit crunch and the knock-on effects on the global economy have led major economies in Europe into recession. In turn, housing markets across Europe are suffering from rapidly falling demand, as well as oversupply in some cases. ■ Although the currently illiquid housing market is supporting growth for rented accommodation, declining employment prospects are placing downward pressures on this area of the market too. As such, the rental market is likely to suffer restrained growth. 	<ul style="list-style-type: none"> ■ Across Europe housing markets remain depressed, recording either stagnant or falling values. Having experienced the greatest booms, Ireland, Spain and parts of the Nordics are now seeing the sharpest and most rapid declines. ■ Even countries that did not experience housing booms, such as Germany and Austria, are also recording declining house prices. As house prices fall further, risks to investors and lenders holding mortgage debt increase, keeping the market subdued.

EUROPEAN OUTLOOK

By spring 2009, the recession in Europe deepened. The statistical office, Eurostat, reported a larger-than-expected fall in GDP of 2.5% over the first quarter, reflecting a contraction of 4.6% compared to the previous year. Economic performance within Western Europe was varied; export-led economies such as Germany (-3.8%) and Netherlands (-2.8%) having taken the biggest hits, whilst France's more diverse economy held up relatively better (-1.2%).

However, some glimmers of hope are arising as various economic indicators show the pace of decline easing since hitting an all-time low in February. Confidence has picked up in the industrial, services and consumer sectors, providing support for the view that economic contraction may ease over the second quarter. Even so, expectations are for European countries to experience their worst economic period since the Great Depression, with the 2009 eurozone GDP outlook at -3.3% according to Consensus Economics.

Eurozone GDP Growth and Indicator of Economic Confidence



Source: European Commission (GDP data to March 2009, Economic Confidence to May 2009)

As the downturn begins to take its toll on domestic economies across Europe, the drop in external and internal demand is having a detrimental effect on profit margins and increasing resistance to occupancy costs in both industrial and retail sectors. Meanwhile, job cuts in the financial and business services sector are leading to excess office space in many centres. While tenants cannot shed space in line with the decreasing numbers of staff, the expectancy is that a substantial amount of grey office space will come onto the market in the near term, placing further pressure on rents.

"Some glimmers of hope are arising as various economic indicators show the pace of decline easing since hitting an all-time low in February."

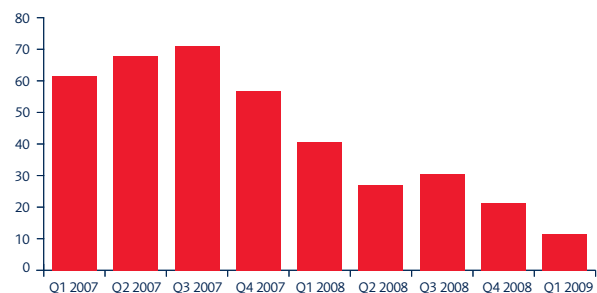
Surprisingly, prime office rents in continental Europe have shown little weakness compared to the major UK markets. While rents have started to edge down in many European office markets, double-digit declines have only been recorded in Spain so far, where oversupply is a major issue. In most other office markets, the development pipeline is relatively small or already committed, which makes rents largely determined by local demand dynamics. Thus, over the next couple of

years as modest demand returns office markets with limited supply are expected to outperform.

By nature, rents in the retail and industrial sectors are less volatile than offices and, accordingly, few markets have recorded drops in prime rents so far. Particularly in the high street, where prime units are limited, rents have remained at 2008 levels. That said, the market balance has clearly shifted in the tenant's favour, and landlords are making more concessions in terms of rent-free periods, flexible lease terms and asking prices on new and renewal leases. While the fundamentals for the industrial and retail warehouse markets are likely to weaken further, rents for prime high street locations and shopping centres should remain relatively resilient.

The dynamics of the European investment market are more diverse. While there is a growing list of banks receiving government bailouts, those with headquarters in the eurozone are holding up better compared to those in the US or UK. The global credit drought and tight financial conditions over the past eighteen months have instigated the re-pricing of risk, and is dividing investment markets across Western Europe. Yields, which converged to low levels, are expanding and are now beginning to diverge.

European Investment Volumes (2007 to 2009)



Source: Cushman & Wakefield (April 2009)

Risk premia in Spain and Ireland have rocketed as economic fundamentals deteriorated, and yields are now more than 200 basis points higher than at their lowest point in 2007. Other markets where prices have responded quickly are Paris and the Dutch markets. In contrast, yields in the German and Italian markets are very sticky. While it is true that German yields never moved far away from their historic averages, another explanation may be that investors are still simply waiting for distressed stock to come to the market and that valuations will eventually face the reality of lower prices.

ASIA PACIFIC MARKET DYNAMICS

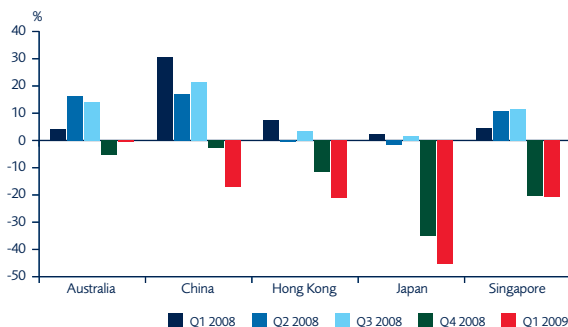
	RENTAL	INVESTMENT
Office	<ul style="list-style-type: none"> ■ The ongoing financial and economic turmoil is placing enormous pressure on office rents in many Asian markets. Being heavily dependent on financial and business services, Singapore and Hong Kong are expected to experience the sharpest rental contraction. ■ Although having retrenched earlier, rents in Tokyo are expected to decline further, albeit at modest rates. Historically stable markets, such as Seoul and Kuala Lumpur, are yet to enter their rental downturn. 	<ul style="list-style-type: none"> ■ Amid further deterioration in occupier markets and correspondingly poor rental prospects, sentiment is expected to remain weak and yields to expand further. Large and secondary assets are almost completely out of favour, with a rising number of assets available for sale. ■ Across the region, investment activity remains low, characterised by isolated and small transactions in certain markets. Overall transaction volumes are expected to decrease and stay low in the short term.
Retail	<ul style="list-style-type: none"> ■ With economic conditions deteriorating rapidly over the past two quarters, it is unsurprising that Asian consumers are tightening their belts, causing negative impacts on demand for retail markets and falls in rental growth. ■ Reflecting the weakening fundamentals, prospects for retail occupier markets are deteriorating significantly across the region, notably in Hong Kong, Singapore and Tokyo. In contrast, retail markets in Australia appear to be relatively resilient. 	<ul style="list-style-type: none"> ■ Retail yields continued to shift out in most markets, albeit to a lesser extent in comparison to the office sector. ■ In recent months, most investment activities observed were for prime and small high street assets in good locations, while shopping centres and superstores were almost unable to transact. Until economic conditions start to recover and consumer spending starts to rise, this trend may well continue in the short term.
Industrial	<ul style="list-style-type: none"> ■ Hit hard by the fall in global demand, and the corresponding decline in export activities, industrial occupiers are seeking to reduce operating expenditures wherever possible. Consequently, demand for industrial space is weakening quickly. ■ Despite the lack of quality logistic stock, especially in the Tokyo market, the lack of demand is undeniably increasing pressures on rental markets across Asia Pacific. As such, growth expectations are diminishing, with further rental falls anticipated in the medium term. 	<ul style="list-style-type: none"> ■ Reflecting the falling demand in occupier markets, investment sentiment towards the industrial sector is set to remain weak. According to CBRE, transaction volumes over the first quarter of 2009 were down by almost 90% in comparison to the same period last year. ■ In the current environment, yields are expected to expand further across the region. However, prime logistic facilities are generally preferred to manufacturing factories, reflected by higher investment volumes and relatively more stable yields.
Residential	<ul style="list-style-type: none"> ■ Residential markets are also seeing tenant demand swiftly evaporate. With corporate housing allowances being cut and expatriates being trimmed by multinational companies, the prospects for the high-end occupier markets remain gloomy. ■ However, Hong Kong and Tokyo, supported by the short supply, are expected to be more resilient in comparison to the rest of the region. Meanwhile, Singapore and Kuala Lumpur appear to be suffering the most, seeing rents already declining substantially. 	<ul style="list-style-type: none"> ■ As confidence falls, investors become more cautious and appetites for residential markets generally are fading away. Evidently, developers are increasingly prudent about entering emerging markets like Thailand and Vietnam, reflecting changes of risk attitudes and the ongoing difficulties in the credit markets. ■ In response to the significant pricing correction in Hong Kong's luxury residential market, bargain hunters have been witnessed in recent months, suggesting that this market may be beginning to stabilise.

ASIA PACIFIC OUTLOOK

Events at the start of 2009 left little doubt that the Asian economies are now almost completely coupled with the economic recession in the West. By the end of the first quarter of 2009, economic data confirmed that the Asian economies were performing far worse than previously expected. Exports plunged sharply, industrial production came to a standstill and economic growth turned negative in mature Asian economies, such as Japan, Hong Kong and Singapore, whilst growth in the developing economies slowed significantly. The global financial cataclysm has clearly befallen Asia.

In many ways, this severe impact was unexpected. Asian financial institutions did not indulge in the excessively leveraged practices which led to the serious problems in the banking systems of advanced economies. However, the region's heavy dependency on trade has made it vulnerable to economic performance in developed nations, especially where domestic demand has failed to grow sufficiently to offset the fall in foreign demand. Subsequently, the decline in exports has been dramatic. In response to worsening economic conditions, companies and institutions continue to rationalise their operations. Job losses are mounting. As a result, consumer confidence and household consumption have deteriorated noticeably.

Year-on-Year Exports Growth (%)



Source: Bloomberg (April 2009)

Reflecting the broad trend in macroeconomic conditions, the outlook for commercial real estate markets has weakened significantly. Increasing unemployment rates and the cancellation of companies' business expansion plans are leading to lower demand for office space. Unsurprisingly, office vacancies are heading towards record levels, especially in markets highly exposed to the financial sector, such as Hong Kong and Singapore. Meanwhile, falling retail sales and shrinking export-driven production will continue to negatively affect both retail and industrial demand. As such, the fundamental balances between supply and demand across all sectors are tipped towards an imbalance of oversupply, mostly from shadow stock, met with under-demand, exerting downward pressure on rents and property values over the short term.

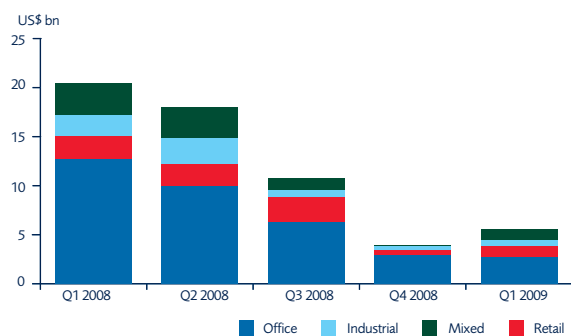
Conditional on the state of local market fundamentals, clearly some markets are expected to suffer worse than others. With the high level of new supply coinciding with declining demand, the Singapore office market is seeing a sharp rise in vacancy rates. As a result, prime rents are expected to fall by as much as 50% over the course of 2009 and the

recovery path will be subdued due to existing stock being placed back onto the market. In contrast, with low vacancy rates and a moderate supply pipeline, the luxury residential market in Hong Kong and the prime office market in Tokyo are expected to be in a better position, and able to give a stronger performance when the markets start to recover.

"Since mid-2008, yields have moved outwards between 50 to 100 basis points in most markets and, with increasing economic uncertainty, this trend may well remain in the short term."

Reflecting weakening rental market prospects, overall investment sentiment remains very cautious across the major markets. Since mid-2008, yields have moved outwards between 50 to 100 basis points in most markets and, with increasing economic uncertainty, this trend may well remain in the short term. Looking ahead, the combination of falling rents and expanding yields is expected to deliver significant negative returns over this year in most markets.

Asia Pacific Investment Volumes



Source: DTZ Research (April 2009)

However, the distressed markets may provide investors with opportunities to acquire prime assets at cheaper prices. Nevertheless, as banks in Asia continue to lend very conservatively, applying low loan-to-value ratios whilst requiring stricter borrowing conditions, debt financing remains difficult to procure for many investors. As a result, equity investors seem to be the most likely prospective buyers to potentially benefit from acquiring distressed sales. Buyers today are undoubtedly bearing the risk of "catching a falling knife" as the market could fall further than currently expected and the road to recovery may be prolonged.

NORTH AMERICA MARKET DYNAMICS

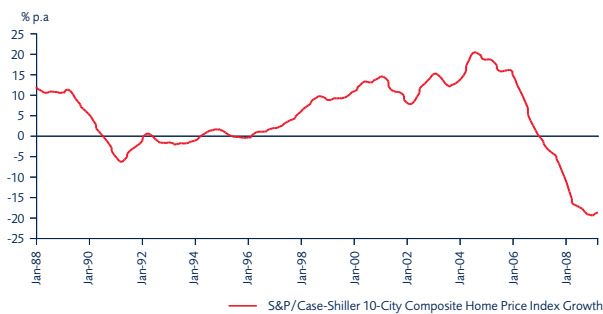
	RENTAL	INVESTMENT
Office	<ul style="list-style-type: none"> ■ With job losses mounting, especially in the financial and business sectors, demand for office space in the US has fallen significantly, driving vacancy rates higher. However, a relatively light supply pipeline has limited the rises. Rents are falling, particularly in financial centres. ■ The Canadian office markets have seen vacancy rates rise, and rental declines are beginning to be seen, though falls are expected to be far less than in the US. 	<ul style="list-style-type: none"> ■ US office cap rates have seen dramatic rises recently, with secondary assets in less core markets proving less popular among investors and thus seeing more yield expansion. Offices continue to see more transactions than in the other sectors. ■ In Canada, offices have seen yield expansion take hold, though the sector recorded less capital decline, at -2.7% over the year to March 2009, than retail or industrial according to IPD's Canadian Index.
Retail	<ul style="list-style-type: none"> ■ The level of US consumer indebtedness before the recession took hold means that consumers now have little choice but to cut back and increase their saving, particularly as many are worrying about their job security. As such, the retail downturn is deeper than in previous cycles. Rents are falling as vacancy rates rise. ■ Canada's retail fundamentals remain more resilient to the global economic downturn, though vacancy rates are on the up and rental growth has slowed considerably. 	<ul style="list-style-type: none"> ■ US retail has seen investor interest wane for all assets – large malls are shunned amid problems with financing deals for such large lot sizes, while the weaker fundamentals for secondary type strip centers has hit investor sentiment. Cap rates have accordingly risen substantially. ■ Yields are rising across the Canadian retail markets as the appetite from investors ebbs due to weaker fundamentals and restricted credit availability.
Industrial	<ul style="list-style-type: none"> ■ With both imports and exports down and reduced demand for consumer goods, demand for US industrial space has dropped dramatically. Vacancy rates have risen sharply and rents are generally falling across the country, though the West coast markets, with tight supply, are holding up better. ■ In Canada, with demand hit by slowdowns in both the manufacturing and resource sectors, new industrial supply has been exceeding absorption, and vacancy rates are ticking up. 	<ul style="list-style-type: none"> ■ The sharp weakening in fundamentals has caused abatement in investor sentiment for US industrial assets. The sector has seen cap rates move sharply up, and has recently recorded the poorest performance of the property types. Secondary assets let to weak covenants are being shunned in particular. ■ Canadian industrial assets are seeing yields rise as investor appetite wanes. As in the US, the primer end of the spectrum is holding up better.
Residential	<ul style="list-style-type: none"> ■ The economic downturn, and particularly rising unemployment, combined with a large supply of vacant single family homes, has caused apartment demand to slow significantly recently. Average rents are drifting lower, though longer-term fundamentals, driven by population growth and household formation, remain fairly sound. ■ Similarly, Canada's declining economy has driven weakening demand for rented accommodation, though the construction of new homes has fallen, limiting the amount of vacant space on the market. Rental growth has slowed. 	<ul style="list-style-type: none"> ■ The price of the average US home is around a third of the peak three years ago. A recovery in the market still seems some way off, as prices need to fall further before value emerges. With weaker fundamentals, investors continue to wait on the sidelines. ■ In the Canadian residential market, the balance has tilted away from sellers and it is now a buyers' market. Prices have begun to decline, though a crash is by no means anticipated.

NORTH AMERICA OUTLOOK

The US economy has been suffering from severe recession recently. House price rates of decline have hit new highs at almost 20% per annum, job losses have been mounting at a rate of over half a million each month with unemployment at its highest for over 25 years, industrial production is plummeting and consumer confidence has plunged, driving down consumer spending. Economic contraction was estimated at 6.1% on an annualised basis over the first quarter of 2009, following a 6.3% annualised drop over the final quarter of last year.

Though severe, recession has likely been prevented from turning into depression by massive ongoing intervention from policymakers. Well over a trillion dollars has been committed to recapitalising the banks through schemes such as TARP (Troubled Asset Relief Program), TALF (Term Asset-backed Loan Facility, now extended to include legacy CMBS (commercial mortgage-backed securities) in an effort to kick-start real estate credit markets) and a huge government fiscal stimulus, while interest rates have been effectively zero since the end of last year. The Federal Reserve has commented that it believes the worst of the financial crisis has passed, with the pace of decline slowing.

US Home Price Annual Growth



Source: Standard & Poors (May 2009)

The current consensus view sees mild economic recovery in 2010, though even this depends on a number of factors, such as recovery in the banking sector, stability in the housing market and a consumer recovery. If these preconditions are not met, then there is the possibility of a much more prolonged slump and stagnation, similar to the "lost decade" suffered by Japan in the 1990s. Certainly, deflation has already reared its head in the US, though most commentators do not expect this to become entrenched. A more likely scenario is high inflation a couple of years down the line.

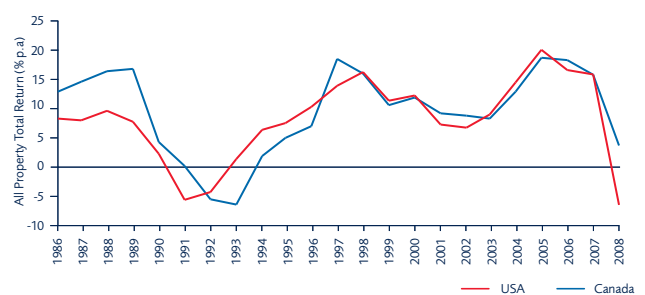
"...the Federal Reserve has commented that it believes the worst of the financial crisis has passed, with the pace of economic decline slowing."

The effects of the declining economy have been reflected by recent trends in the property market. With demand for space well down, vacancy rates have been rising, and rents have begun to fall. The more

volatile office markets are liable to larger declines, though all sectors are expected to see further fairly substantial drops. Weaker fundamentals in the occupier markets were pre-empted by a downturn in the real estate investment market. With the credit crunch restricting access to financing, buyers have had to withdraw from the market. Transaction volumes have plunged and although cap rates have been rising for a while now, the pace of yield expansion has accelerated since it became evident that the wider economy was in sharp decline. Total returns on the NCREIF Index were -6.5% over 2008, and 2009 is expected to fare worse, with capital decline of 8.7% seen in the first quarter alone.

North of the border, Canada's economy is also contracting sharply, though not to the same extent as in the US. The financial system has held up better than all other G7 economies, while the housing market was not as overpriced, meaning that the downwards pressure has been driven almost exclusively by contagion from the US and other economies. With export volumes dramatically down, the manufacturing and primary sectors are struggling, and domestic retail sales have recently plunged as consumer confidence has fallen and unemployment begins to rise.

Commercial Property Performance



Source: IPD, NCREIF (May 2009)

Canada's property market has seen the downturn take hold in recent months, with yield expansion accelerating and rental growth slowing substantially. The rental outlook is not helped by a bulging supply pipeline in certain markets, notably Calgary and offices in Toronto. With a pick-up in occupier demand still a long way off, rents are expected to fall in many markets, while yields continue rising, driving further capital decline throughout the rest of 2009.

In the wake of the current financial downturn, conventional financial institutions worldwide have seen widespread depreciation in asset values. By contrast, The Banker's top 500 Islamic financial institutions saw assets managed in compliance with Shariah law grow by a remarkable 28% on the value recorded by the top 500 the previous year. In 2008, the value of Shariah compliant assets under management reached almost \$650billion¹, following a decade of annual growth at 15% to 20%.

While conventional financial institutions have seen the taking of excessive risks resulting in unprecedented losses, the more ethical approach to Islamic investing has shown greater resilience to the current financial crisis. As such, Shariah-compliant products are attracting increasing attention not only from the world's 1.6 billion Muslims², but also to others who are beginning to appreciate the risk sharing philosophy of Islamic finance.

Over the past decade the Islamic finance and banking industry has become one of the fastest growing niche markets globally, fuelled by investor demand, product innovation and the deep pools of capital from oil and gas revenues in the Gulf Cooperation Council states³. In turn, there has been a burgeoning of private wealth accumulation among Islamic investors, who form the natural catchment for Islamic products.

1 Source: The Banker

2 Source: www.islamicpopulation.com

3 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

WHAT IS SHARIAH INVESTMENT?

Shariah products are underpinned by the principles of Islamic law, derived from two primary sources – the Quran, Islam's Holy Book, and the Sunnah, the Sayings and Acts of the Prophet Mohammed. Islamic principles strictly prohibit investment in pork products, pornography, conventional financial services, arms and munitions, cinema, tobacco, alcohol and anything involving gambling (maysir) or uncertainty (gharah).

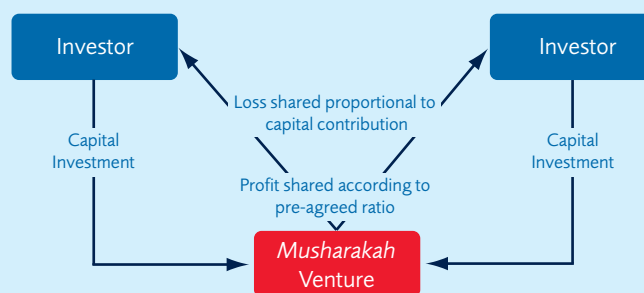
"Shariah: "The Clear Path" – it is the term for the rules that govern the Islamic way of life – the path to Islam is the Shariah."

At the heart of Islamic financial practice lies the prohibition of usury (riba). This strictly forbids the payment and collection of interest, and also prevents the exchange of any guaranteed risk-free return. Thus, Islamic finance structures have an intrinsic preference for equity rather than debt, and are generally based on tangible, real physical assets. As such, activities such as short selling, speculation and investment in highly

leveraged assets are generally forbidden, and risk sharing is highlighted as one of the quintessential features of Islamic financial practice.

Real estate is an attractive investment for Islamic investors, since the asset class is more favourable to Shariah investment criteria, compared to other asset types. In particular, Islamic investors seeking stable, periodic income streams – equivalent to interest incomes on conventional bonds or loans – find real estate a suitable investment vehicle because of its rental stream. Hence, a leased property makes a straightforward Islamic investment as it offers a relatively fixed and periodic cash flow.

Musharakah – Risk and Reward Sharing Partnership

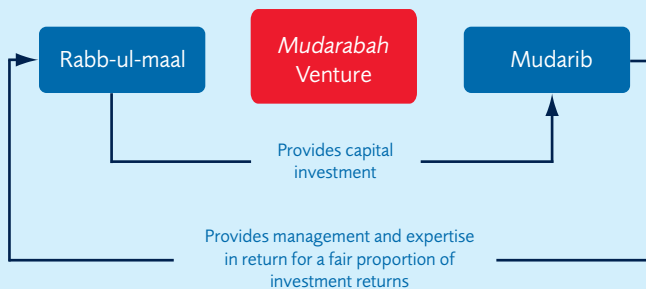


A real estate fund can be easily packaged into a product that complies with Islamic principles. Structurally, there is little difference between a Shariah-compliant real estate fund and its conventional non-g geared peer. For example, the Musharakah, risk and reward sharing partnership, is analogous to a joint venture partnership, while the Mudarabah, investment partnership, is akin to the conventional arrangement between fund manager and its investors. In a Musharakah, all partners contribute funds and have the option to participate in the management of the venture. Losses are borne proportional to each capital investment, but profits are distributed in accordance to a pre-agreed ratio. In a Mudarabah, however, only one partner (rabb-ul-mal) provides capital investment whilst the other (mudarib) provides the expertise. The mudarib manages the venture and makes investments on behalf of the rabb-ul-mal, earning a predetermined share of the profits. If no profit is made, the loss is borne by the rabb-ul-mal and the mudarib does not earn a fee.

Clearly, tenancy and contractual agreements require some amendment to ensure all parties and transactions comply with the Shariah. The disparity between typical and Shariah-g geared funds is far greater, due to the distinctions that lie between Islamic and conventional financing methods. There exist several methods of financing Islamic investments that are permitted under Shariah law,

such as Murabahah (purchase and resale), Qard Hassan (an interest-free loan) or Ijarah with diminishing Musharakah, which is similar to a mortgage agreement.

Mudarabah – Investment Partnership



Shariah-compliant real estate investments, like other ethical investments, require careful stock and tenant selection. According to the principles that underpin Islamic investment, a real estate fund is strictly prohibited from investment in and lettings to businesses that trade in the forbidden practices. Ideally, lease arrangements should include controls for landlords to be able to restrict changes of use to such businesses. Operationally, this may be difficult to achieve in practice. However, a degree of pragmatism is allowed; some commentators suggest that large portfolios may be up to 5% invested non-compliantly. For example, a shopping centre may have a small unit that sells tobacco. This element of non-compliance must be offset by donations to a Shariah approved charity – a process known as "portfolio purification".

All Shariah-compliant structures must undergo full examination by a Shariah board (a panel of at least three Islamic scholars who are experts on Islam and finance). Each corresponding transaction whether acquisition, disposal or letting, as well as cash flow arrangements, must also gain Shariah approval from the Shariah board. The board can also provide guidance on fund structure, investment guidelines and portfolio purification, and undertake an independent periodic audit of all transactions to ensure that a Shariah-compliant fund has met the requirements of Islamic investment principles.

Islamic financial markets and the Shariah approval process are currently unregulated by a global central body. However, driving growth and transparency in Islamic finance are two leading independent international organisations, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). These were established to help promote and maintain Shariah-compliant standards for Islamic

financial institutions, participants and the overall industry, thus helping to standardise definitions and certification.

MARKET POTENTIAL

The range of participants in Shariah funds is already expanding beyond traditional Islamic banks to conventional banks and financial institutions. For Shariah-compliant products to compete with conventional products in today's diverse market, they must operate on a level playing field, and be able to compete effectively on price and performance. The rapid growth of this sector has outpaced the pool of skills and expertise, which could limit the sector's future growth and development. With falling property prices, delayed or cancelled projects and the credit crunch, investors in the Gulf region are either sitting on cash or looking elsewhere for Shariah-compliant products. Hence efforts to nurture innovation will likely be rewarded by an influx of capital.

Islam is currently the world's second largest religion with 1.6 billion followers worldwide, comprising almost 25% of the global population. Islam is currently the world's fastest growing religion, growing at a rate of 1.8% per annum. Even if only a small fraction of the world's 1.6 billion Muslims demand Shariah-compliant products, the market potential is enormous.

GLOSSARY

IJARAH – ISLAMIC LEASE AGREEMENT

An Ijarah involves a contract where the bank buys an asset and leases it to a customer for a specified rental over a specific period of time. The duration of the lease, as well as the basis for rental, are agreed in advance. The bank retains ownership of the asset throughout the arrangement and takes back the asset at the end.

IJARAH WITH DIMINISHING MUSHARAKAH

In addition to granting a lease, the bank reduces their equity in an asset with any additional capital payment the customer makes, over and above their rental payments. The customer's ownership in the asset increases and the bank's decreases by a similar amount each time the customer makes an additional capital payment. Eventually, the bank transfers ownership of the asset entirely over to the customer.

MURABAHAH – PURCHASE AND RESALE

A Murabahah contract allows the customer to make purchases without having to take out a loan and pay interest. The bank purchases the asset for the customer, and resells it to them on a deferred basis, adding an agreed profit margin. The customer then pays this predetermined higher price, i.e. the sale price for the asset over instalments, effectively obtaining credit without paying interest.

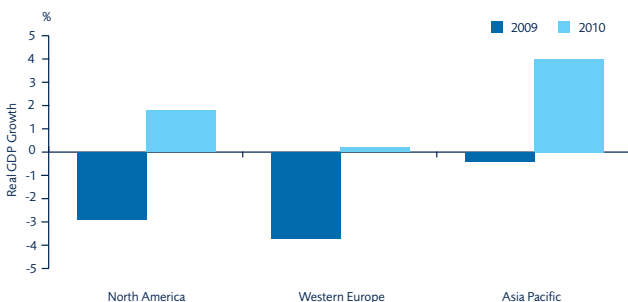
GLOBAL OUTLOOK

It has become clear in recent months that economies around the globe are suffering from severe synchronised downturns, far worse than most commentators were originally anticipating. The main cause of this global recession, the credit crunch and resultant financial crisis, is far from over, as lenders continue to restrict the flow of credit in their attempts to rebuild their balance sheets.

By recapitalising, the financial institutions hope to avoid bankruptcy; if another major bank were to follow in the footsteps of Lehman Brothers and fail, the entire financial system would be put under tremendous pressure. Under this scenario, full-scale economic collapse would be a possibility and the world could be plunged into another Great Depression.

However, the actions of policymakers around the world in response to the crisis have been on an unprecedented scale. Trillions of dollars worldwide are being poured into schemes aimed at recapitalising the financial sector, either through direct state investment or through various types of loans, both to the banks and to investors. In addition, governments have forged ahead with fiscal stimulus plans, in the form of tax cuts (or credits) and increased government spending. Finally, following the lead of the US Federal Reserve, the world's central banks have slashed interest rates, in many cases to record lows and even zero, to try to make borrowing cheaper and stimulate investment.

Consensus GDP Forecasts



Source: Consensus Economics (May 2009)

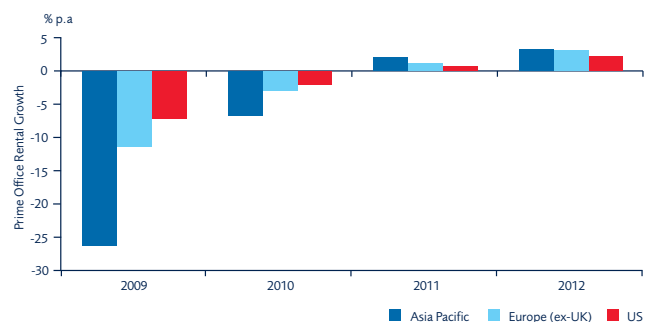
Most commentators now view the policy responses as having averted full financial meltdown, and the likelihood of any Great Depression scenario is looking increasingly slim. Indeed, recent stockmarket rallies have given credence to this view, and there have been some encouraging signs of "green shoots". However, a full recovery in the global economy still looks to be some way off, and even then is likely to be modest rather than a strong bounce-back. Under this backdrop, global real estate looks set to suffer from further strain, with plunging demand driving falling rents in almost all markets. Rental growth is not expected to return until 2011 at the earliest in most markets.

With a global downturn in demand, the economies that are suffering most at present are those that rely more heavily on exports, such as Japan and Germany. As demand for imported goods fell, many "producer nations" found that the goods they manufactured were not being bought, and as such, global trade plummeted as both imports and exports plunged, and recession spread across today's globalised world. It is the property markets in these battered exporter countries which are likely to see further large falls in occupier demand in the short term. Similarly, along with those markets in financial centres, such as New York, London, Singapore and Hong Kong. Markets with supply issues, such as Spain and a few of the Asian markets, will also see strong downward pressure on rents.

"...a full recovery in the global economy still looks to be some way off, and even then is likely to be modest rather than a strong bounce-back. Under this backdrop, global real estate looks set to suffer from further strain, with plunging demand driving falling rents in almost all markets."

On the investment side, significant yield expansion has already been seen in most markets, though few are near stabilisation. Ongoing financing constraints and continued risk aversion are coupled with weakening fundamentals, keeping upwards pressure on yields. The markets expected to recover earliest are those that entered the downturn first, such as the UK, and those that were least overpriced, while emerging markets, which saw unsustainable yield compression, generally have furthest to correct.

Global Office Markets to see Rental Decline



Note: Averages represent prime rental growth in core markets in each region (28 markets in Europe, 26 in US and 7 in Asia Pacific)
Source: DTZ Research (April 2009)

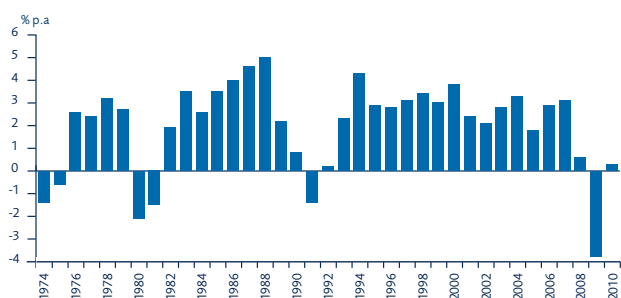
UK PROPERTY OUTLOOK

The UK economic recession remained severe over the first quarter of 2009, seeing GDP contract sharply by 1.9% as conditions in major economic sectors weakened further. Redundancies were being made across the economy and, against a background of declining household consumption, the Retail Price Index fell for the first time since 1960, raising concerns of the threat of deflation, the implication being stagnant consumer demand and a slow recovery for the UK economy. As such, the current consensus view is that the UK economy will contract by 3.3% in 2009 before a modest recovery in 2010 of barely positive growth at 0.3%.

Mirroring the bleak economic environment, prospects for the property market are deteriorating further, especially in the occupational markets. As retail sales plunge, and companies fail or downsize, job losses are mounting. Consequently, demand for space is falling across all sectors. Even without a substantial increase in new supply, vacancy rates are rapidly rising due to existing occupied space being vacated and pushed back onto the market, placing enormous downward pressure on rents. Looking ahead, the Central London office markets will suffer most, due to contraction in the financial and business sector; rents here are expected to see the biggest declines.

In this weak rental environment, landlords are undoubtedly trying hard to commit tenants to space in order to secure the income flow. However, in a market driven by demand, or under-demand rather, tenants are evidently asking for and receiving increasing incentives, with flexible lease terms and effectively paying lower rents. Expectations are for rents to decline over 2009.

UK GDP Growth



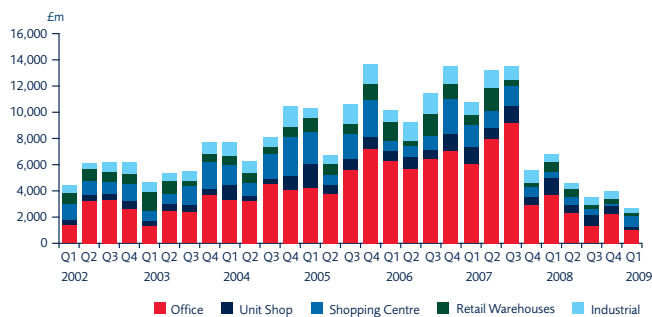
Source: ONS (December 2008), Consensus Economics 2009 & 2010 Forecasts (May 2009)

The UK property market was the first to re-price globally. Whilst it is true that UK property markets now offer attractive pricing owing to rapid yield correction, the investment markets remain very tight. According to PropertyData.com, transaction volumes in the first quarter of 2009 were down by almost 20% in comparison to the previous quarter, and down by almost 60% against the same period last year.

Events in the financial sector have also led to uncertainty in what banks may do with commercial property loan portfolios. The prevailing view is that, for a fee and an increase in borrowing rates, banks are generally willing to roll over those loans that are covering their interest payments, even if they have breached other covenants.

To do otherwise – call loans in and recycle stock onto a depressed market – is viewed by many as the least favourable option, as this could potentially create a new wave of forced sales, pushing asset values lower and eventually be more harmful to banks themselves.

UK Investment Volumes



Source: PropertyData.com (April 2009)

Clearly, with the door to credit markets still effectively shut to the majority of debt financing investors, it is hardly surprising that those with equity continue to dominate the market. Given the underlying economic uncertainty, their main focus will be on the best and safest assets available. As such, preference is for small lot size prime assets in prime locations, whilst secondary large lot sizes in secondary locations are shunned.

As rental falls become prominent and widespread, the benefits to value from yield expansion are being more than offset by declining rental growth prospects. Consequently, capital values are expected to remain depressed for most of this year. The path to recovery is likely to be rough and at a slow pace, rather than smooth and swift.

Reflecting this sentiment, the latest IPF Consensus Forecasts, published in May show a significant downgrade. The total return for 2009 is now expected to be -15.1%, compared to -5.3% published last November. Some commentators are suggesting that the UK property market will not stabilise until at least the second half of 2009, whilst others see the likelihood of any signs of recovery now stretching into 2010 at the earliest. In the medium term, the underlying risk to the property markets is the impact of the UK economy on occupier markets, and when and at what speed the recovery will be.

GLOBAL ECONOMIC AND MARKET OUTLOOK

The end of year rally petered out in the first week of January 2009, replaced by an overall mood of pessimism as ongoing problems in the financial industry plagued markets around the globe. The start of the results season also brought with it the expected onslaught of gloomy corporate news. Adding to investors' woes was a slew of poor economic data that indicated a potentially harsh recession in most industrialised nations. In the UK, the number of workers out of a job rose to nearly two million in January, the highest level in 12 years. That came on top of confirmation that the UK's GDP fell by an annualised 1.9% during the fourth quarter, making it the worst performance since 1980.

By the beginning of March, the FTSE All-Share Index had dipped below 1,800 points for the first time since 2002 while the US market had tumbled to a 12-year low, with developments here setting the tone for most major markets. However, the Asia Pacific region generally held up better than its Western counterparts, supported by optimism surrounding China's plans to boost government spending.

Meanwhile, government bonds were unsettled by the prospect of a significant increase in supply as governments committed to increase stimulus packages and many pledged further support to banks. While short dated bonds remained underpinned by historically low levels of official interest rates, longer-dated issues, especially those maturing in 15 or more years, fared less well. Corporate bonds were especially weak, weighed down by the poor performance of financials as a result of record bank losses.

However, since the depths of early March, investor sentiment improved following announcements by both the Bank of England and US Treasury that they would try to help revive their economies by purchasing government bonds as a means of pumping liquidity into the financial system. Policymakers also announced a public/private partnership investment programme aimed at clearing the toxic debt hangover from the US banking system. The measures triggered a rebound in government bonds as well as equity prices, with the return in investor risk appetite benefiting consumer related and mining stocks in particular.

Looking ahead, financial markets wait to see whether the staggering amounts of money that governments have thrown at addressing the global financial meltdown and economic malaise will actually work. The last few months have seen tentative signs that the pace of

deterioration in parts of the global economy may have bottomed out, and forthcoming economic data releases will be watched closely to see whether this trend continues. However, in a market where caution rules the roost, many investors continue to stand on the sidelines, holding steadfastly onto more liquid and low-risk assets such as government bonds and cash.

Nevertheless, risky assets have fallen to attractive levels and one could easily argue that investors would be well compensated for taking on risk. With the exception of Japan, equities in most markets are favourably priced, while investment grade corporate bonds present an even more interesting opportunity since their yield spreads (that is, the excess yield over a government bond of similar maturity) have widened to levels not seen since the Great Depression. Given the aggressive measures taken by governments thus far, a full re-run of the 1930s' Depression is unlikely, which means current investment grade bond yields are significantly overcompensating investors for the risk of default. This asset class is, therefore, in a position to do better than government bonds and cash over the next one to two years. That said, equities do offer the added attraction of being relatively more liquid.

For UK commercial property, the outlook is slightly more encouraging as the rate of decline of the IPD Monthly Index has slowed. However, this by no means implies a positive view since rental income has come under pressure as the occupier market adjusts to the implications of recession and tenant demand continues to fall. The security of rental income flows will be key for landlords as rental growth prospects remain weak. However, while the short term continues to look challenging, many commercial property assets are now attractively priced and yields are expected to peak later this year.

10-Year Government Bond Redemption Yields



Source: Datastream (March 2009)

FTSE World Index



Source: Datastream (March 2009)

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 May 2009, 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 May 2009, reflecting recent trends

Key				
Up ↑	Down ↓	Strongly up ↑↑	Strongly down ↓↓	Stable ↔

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ABOUT THE GLOBAL PROPERTY RESEARCH TEAM

PRUPIM's well known and widely respected Global Property Research Team, based in London and Singapore, comprises of 11 staff including seven property economists and three 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

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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.

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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.



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**REAL ESTATE
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