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Reducing Real Estate Costs: New Motives, Old Objectives

**Asia Pacific
Corporate Real Estate Impact Survey (CREIS)
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EXECUTIVE SUMMARY

Reducing real estate costs remains an objective, but the motive for it has changed from managing through a downturn to maintaining competitiveness in a growing market. From a CRE perspective, this has resulted in an increased focus on longer-term cost containment strategies to support the business.

In addition to this motivational change and the fact that much of the “low hanging fruit” has been picked, the focus has shifted to more strategic issues with three major components to CRE strategy currently being implemented:

1. The integration of CRE and other functions to provide a combined business infrastructure platform. There is also a growing desire for more integrated offerings from real estate services providers.
2. The continued offshoring of activities to cheaper locations such as India, China and the Philippines, and a broadening of the activities considered suitable for offshoring to include more research and development activities.
3. A growing interest in a wide range of alternative workplace strategies (AWS) being driven not only by cost but also the desire to increase employee productivity and assist in attracting and retaining staff.

INTRODUCTION

Reducing real estate costs and increasing the value that an organization derives from its real estate portfolio remain the perennial challenges facing CRE executives across Asia Pacific. While the objectives may remain the same, the motivation driving them and the resulting strategies tend to vary over time, in response to varying business and economic conditions.

Taking aggregate GDP levels as a broad indicator of business activity, Figure 1 shows:

- Since the Asian financial crises in 1998/1999 GDP growth in Asia Pacific has exceeded the global average every year.
- The regional data hides significant variations between different countries across Asia.

For example, Japan’s lackluster economic performance has acted as a drag to the rapid expansion of the Indian and Chinese economies in recent years. There are, however, emerging signs that the economic situation in Japan may turn around relatively quickly.

- Economic activity peaked in 2004. While the forecasts remain positive, the rate of growth is projected to fall away over the next two years.

Figure 1: Changes in GDP (Real Terms PA)



Source: Economist Intelligence Unit (EIU)

Not surprisingly, these trends have been reflected in the attitude of companies towards their real estate holdings.

During 2001/02, the mantra was to cut costs across all areas (including real estate) to allow companies to survive in the generally deteriorating business climate. With economic conditions generally picking up in 2003/04, the pendulum has swung away from cost reduction and towards seeing how real estate can support the growth of the business.

Although many firms have continued to expand in Asia Pacific during 2004/2005, the results of this survey (CREIS 4), suggest a renewed focus on minimizing costs. The motivation for this has shifted to one of maintaining competitiveness, with a corresponding concentration on longer-term, more strategic CRE measures.

These findings are consistent with those of the latest RICS survey of global occupier sentiment¹. This suggests that while occupiers are still expanding, they are becoming more cautious than in previous

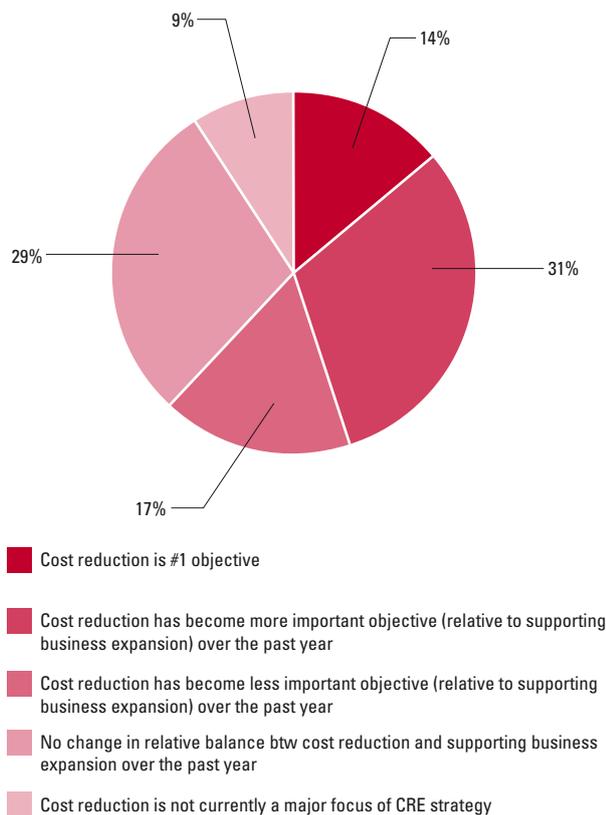
¹ Global Property Survey – RICS (September 2005)

years in most areas around the globe. Interestingly, emerging Asia remains the region where occupiers are most optimistic, with a small increase in sentiment being recorded since the previous RICS survey in early 2005.

BALANCING COST AND GROWTH STRATEGIES

31% of respondents indicated that cost reduction has become a more important objective relative to supporting business expansion over the past year, compared to 17% where the focus has moved away from cost savings to supporting business growth.

Figure 2: Balance between Cost Reduction and Supporting Business Expansion



Source: CREIS 4

Reflecting the need for most CRE teams to balance a range of objectives, only 14% of respondents suggested that cost reduction was their single most important objective. Cost reduction is one component in the equation for the vast majority of respondents, with just 9% suggesting that cost reduction is not a major focus. This is in line with the findings of previous CREIS surveys, with CRE

The cost reduction objective remains, but the major motivation has shifted from managing through a downturn to maintaining competitiveness in a growing market.

From a CRE perspective, this has resulted in an increased focus on longer-term cost containment strategies to support the business.

Even though business conditions remain positive in most parts of Asia, global pressures are driving prices down for many products and services. Companies are therefore seeking further cost reductions from their real estate portfolios to improve their competitive position and raise margins.

This renewed focus on cost underpins many of the CRE strategies that are currently being implemented including integration of CRE and other functions, offshoring activities to cheaper locations and the growing interest in a wide range of alternative workplace strategies (AWS).

teams listing cost savings as their number one objective varying between 10% and 20% over the past three years.

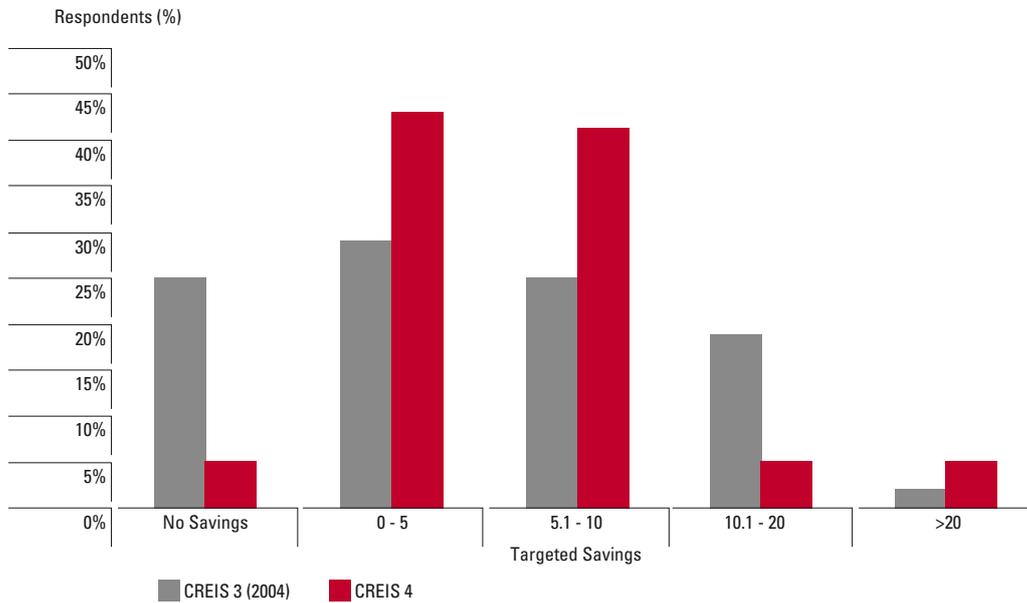
Almost all corporates are looking to achieve cost savings in some areas of their portfolio, with over 80% targeting overall savings of 0%-10%. This finding is consistent with recent surveys of US-based CREs², where approximately 75% of respondents were seeking total savings of up to 10% from their real estate portfolios.

The level of savings that corporates are seeking to extract from their real estate portfolio varies in line with shifts in the overall balance between costs and supporting business expansion. Figure 3 shows that the number of companies seeking some form of savings has increased from 75% (CREIS 3) to 95% (CREIS 4). However, the level of required savings has trended down, with 84% of respondents seeking savings of 0%-10% pa. The number of firms seeking savings in excess of 10% has declined from 21% (CREIS 3) to 10% (CREIS 4).

While the desire to reduce costs is almost universal, the strategies selected to achieve this vary

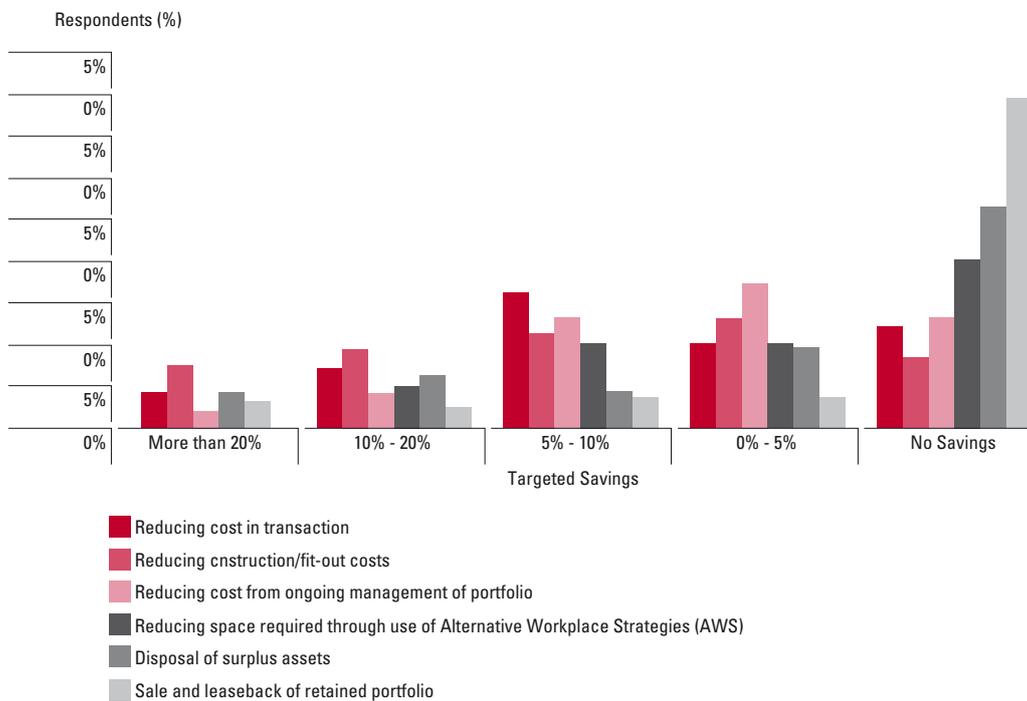
² Survey of US Corporates undertaken at Leading Edge events – Jones Lang LaSalle (2005)

Figure 3: Targetted Cost Savings Across Real Estate Portfolio



Source: CREIS 3 & 4

Figure 4: Seeking to Reduce Costs Over Next 12 Months



Source: CREIS 4

significantly. Reducing construction/fit-out costs is the most common tactic used, with over 80% of respondents seeking some savings in this area (30% seek savings of 10% or more).

The use of alternative workplace strategies (AWS) is seen increasingly as a means of reducing real estate

costs, with almost half (48%) of the respondents indicating they were looking at such initiatives. The growing interest in this area confirms the findings of our recent US survey, where 37% of firms listed AWS as the strategy that offered them the greatest potential to reduce real estate costs.

Figure 5: Cost Containment for CRE



- Clearly understand the needs of the business, particularly in terms of areas of growth and contraction, in order to be able to effectively plan the location and capacity of the portfolio.
- Focus on maximizing flexibility in buildings acquired, work practices and lease terms.
- Ensure centralized control for CRE, supported by accurate portfolio data. CRE sign-off on all real estate decisions and best practice tools and processes.
- Benchmark costs against other CRE teams, particularly occupancy costs and capital expenditure.
- Transfer risk to third party service providers.

Source: Jones Lang LaSalle

Cost reduction strategies typically involve a balance between short term measures (quick wins) and longer-term (strategic) initiatives. The greater use of AWS is a good example, offering both short-term benefits from reduced space to a longer-term shift in working practices to how the organization operates.

EVOLUTION OF CRE TEAMS

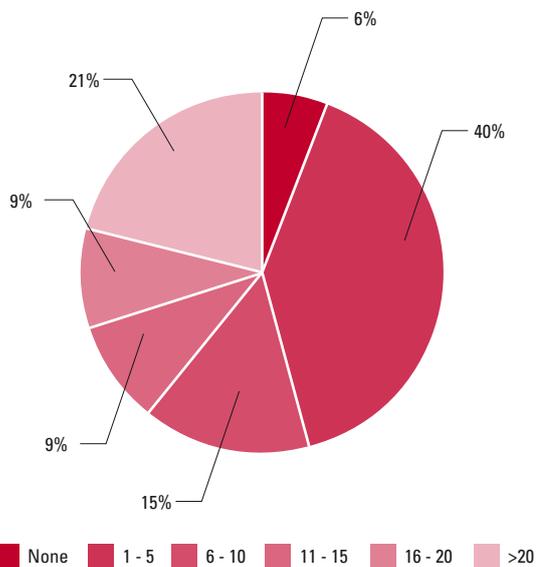
There has been a change in the role of CRE teams over recent years - they have been increasingly outsourcing tactical day-to-day activities and focusing more on strategy and client relationship management with their businesses where there is the opportunity to add value. Among the major trends occurring as part of this transition is a shift from internal to external management of real estate.

This has allowed many firms to reduce the size of their internal real estate team. There is a significant variation in the size of internal CRE teams among respondents to CREIS 4. 6% of firms have no

dedicated CRE staff in the region, while 20% have more than 20. A small number employs over 100 CRE staff. The typical size of the in-house AP CRE team is 13, with 55% of respondents having between 0-10 staff.

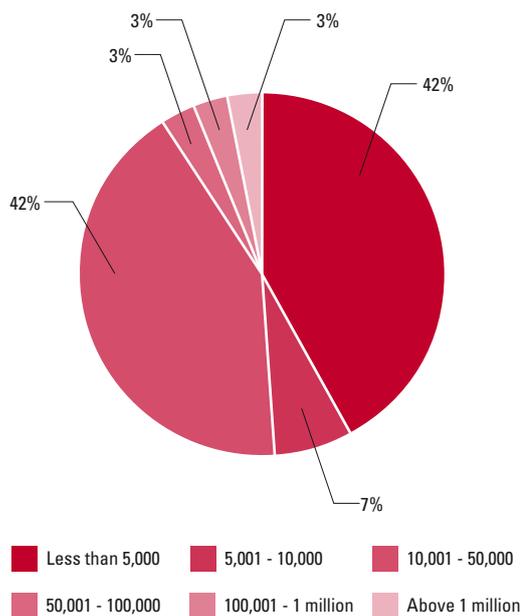
There is also significant variation in the ratio of CRE staff per sqm. in the real estate portfolio. Just under half of respondents employ one CRE staff per 10,000

Figure 6: Number of CRE Staff in AP Region



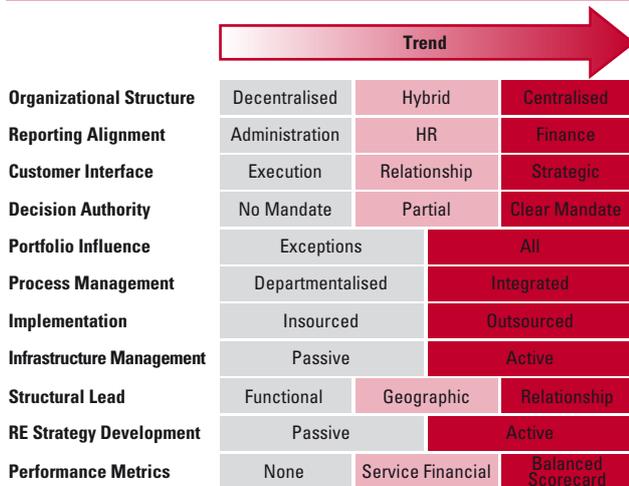
Source: CREIS 4

Figure 7: Ratio of Office Portfolio to CRE Staff in AP Region



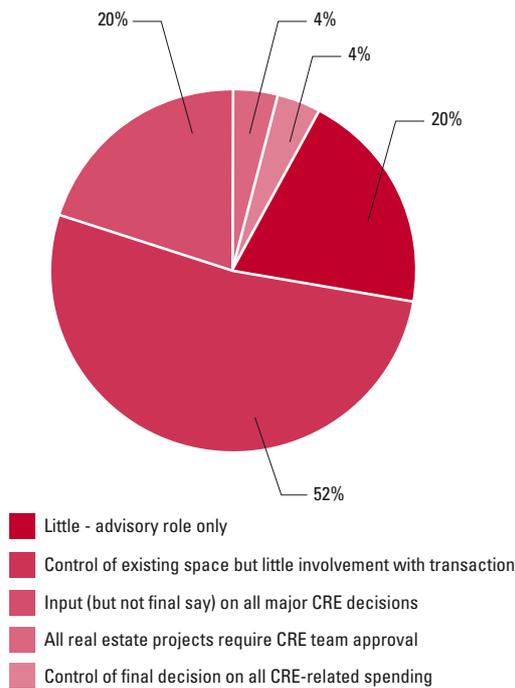
Source: CREIS 4

Figure 8: Trends in CRE Teams



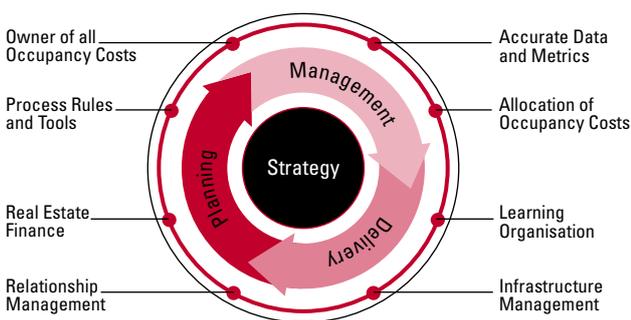
Source: Jones Lang LaSalle

Figure 9: Control of CRE Team on RE Spending



Source: CREIS 4

Figure 10: The Eight Traits



Source: Jones Lang LaSalle

sqm of office space, with a further 42% employing one CRE executive per 10,000 – 50,000 sqm of office space. Only 9% occupy more than 50,000 sqm of office space per CRE employee. Firms with large industrial portfolios tend to employ less dedicated CRE staff per sqm of space than those with office-based portfolios as industrial sites often tend to be managed by on-site engineering and Facilities Management (FM) staff within individual business units.

Real estate (RE) has become a more centralized function in recent years due to the need for cost reduction, improved governance and control. Most corporates that operate in more than one country organize real estate on a regional/global basis. Over 40% of respondents to CREIS 4 report to their global head of real estate. The second most common reporting line was to CFO's (28%), compared with only 10% of respondents who report directly to their country manager or MD.

Reflecting the increased range of responsibilities of CRE executives, 35% of the respondents to our survey use some form of matrix management structure. While this creates new challenges, it also provides positive opportunity for CRE teams to align their services more closely with the overall business.

While 52% of respondents indicated that their CRE team had to approve all real estate projects,

Tips for increasing CRE mandate:

- Centralize all real estate costs to show the impact of real estate assets and liabilities on the P&L and balance sheet, and the potential impact of decisions on the company finances.
- Illustrate value add - measure the performance of projects, the portfolio and CRE team over time and against peers.
- Establish a clear and simple client relationship program with individual business lines to understand their strategies and provide proactive solutions – take them “gifts” eg. opportunities to exit buildings, consolidate, move to lower cost locations, access better labor pools.

only 20% suggested they had final control over real estate spending. One of the issues facing many CRE executives is how they can achieve greater control within the confines of their existing mandates.

From work undertaken by Jones Lang LaSalle in EMEA and the United States, eight traits of successful CRE teams have been identified. Using these traits as a basis, Jones Lang LaSalle has developed a 'best practice audit tool' that enables companies to be benchmarks against industry benchmarks and to identify differing perceptions across their teams. This enables companies to determine what they are doing well and where there are opportunities for improvement.

Two big trends impacting on the structure and operation of CRE teams in the future revolve around aspects of service integration.

It's all about integration. There are two main trends occurring around the theme of integration. At the macro level, more corporates are looking to create combined business infrastructure departments by integrating their real estate functions with other support activities such as IT and HR. On a more micro level, CRE service providers are being asked to offer a more integrated service by providing additional benefits to corporates through a combined transaction, lease administration, projects and FM service offer.

1. Integration of real estate with other business infrastructure services

Procter & Gamble is one of the furthest advanced down this path with their "Enterprise-wide functional integration".

In the late 1990's Procter & Gamble consolidated internal support services to form Global Business Services (GBS). This "one stop shop" internal function provided a wide range of support to the Global Business Units and Market Development Organizations that comprise P&G globally. The GBS group offered purchasing, HR, finance and accounting, real estate, workplace services (a blend of IT and FM), meeting services and business information services. It's objectives were to:

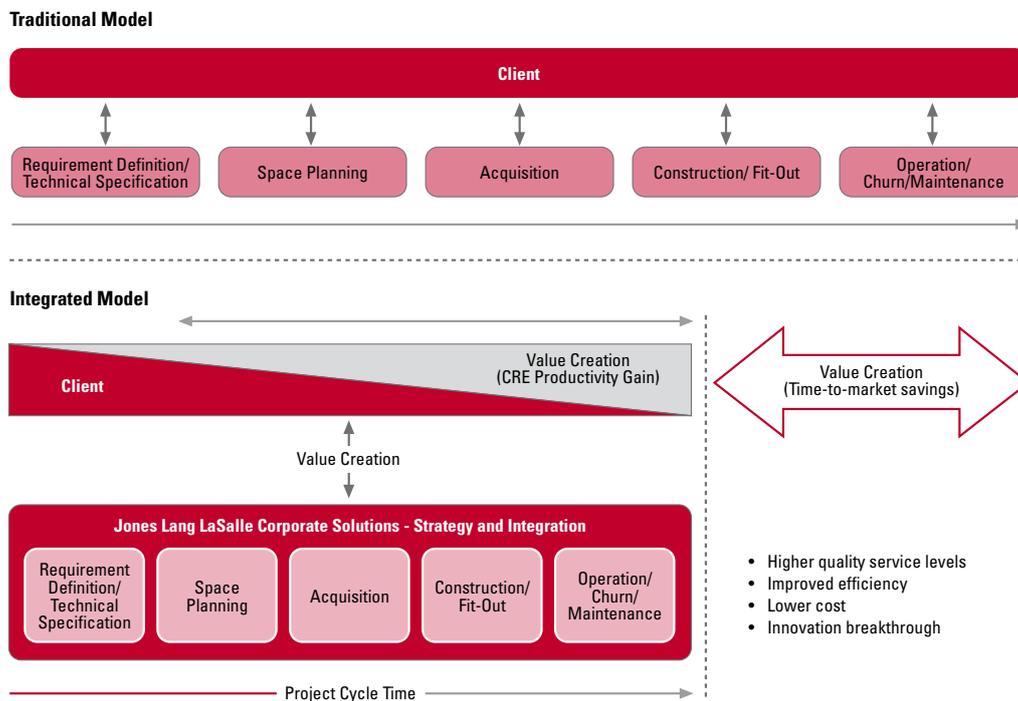
- blend digital and physical infrastructure.
- implement consistent 21st century workplace guidelines.
- maximize the value of corporate assets.
- reduce real estate operating costs.
- enhance end-user productivity.

Having established the "power of one", to further rationalize and enhance the core expertise in the support areas, P&G sought to outsource GBS in 2000. Market analysis identified that no one service provider had the level of expertise across the breadth of service delivery that P&G required. The result was three strategic alliances:

- Workplace Services - Jones Lang LaSalle.
- IT & Accounts Payable - Hewlett Packard.
- Employee Services - IBM.

P&G now looked to the service providers to deliver services in an integrated manner whilst retaining a small core team within GBS to govern the respective contracts. The collaborative approach on the scale of P&G presents a "learning curve" for all service providers in order to meet customer expectations in a truly seamless manner.

Figure 11: Integration Model



Source: Jones Lang LaSalle

2. The Power of Integration.

The integrated services model offers a number of attractions to corporates, including:

- Lower delivery costs due to more efficient delivery mechanism.
- Single point of accountability with service provider/client simplicity.
- Seamless process providing reduced cycle times and faster decision-making.

OFFSHORING

There has been a marked increase in offshoring activity over the past three years, with 50% of respondents to CREIS 4 indicating they currently offshore activities to lower cost locations within Asia Pacific (compared to 31% in CREIS 3). This is broadly in line with the findings of our survey of US based firms³, which found 58% had already offshored some office activities.

Almost 45% of respondents reported they had become more positive about offshoring over the past 12 months and were planning to offshore more activities as a result of their growing confidence.

By contrast, no respondents reported being less positive or had plans to reduce their current level of offshoring activity. This is likely to be due to a combination of increasing skill levels in offshored destinations and greater confidence due to learning gained from previous experience.

There are two major drivers of offshoring: **cost reduction** and access to a sufficient pool of **skilled labor**. As such, offshoring forms part of a strategic change in a company's business model rather than being just a short-term measure to drive down labor costs. While real estate is rarely the driving factor for the decision to offshore, once this decision has been made, the CRE team is likely to be heavily involved in the implementation process.

While demand for offshoring is likely to increase over the next two to three years, this is not a universal phenomena. Approximately 30% of respondents having no plans in this direction.

Offshoring is seen as a less attractive option for companies operating in just one market and for government agencies, where the negative political backlash outweighs the advantages of lower cost service provision. In contrast, almost two-thirds of firms in the banking and finance sector indicated

³ Survey of US Corporates undertaken at Leading Edge events – Jones Lang LaSalle (2005)

they planned to do more offshoring over the next three years. Only less than 20% of firms in this sector having no plans to offshore activities.

As the offshoring market matures and skill levels in offshoring destinations increase, the range of activities that companies are looking to offshore is also increasing.

A number of offshoring pioneers (eg. GE in India) have now developed sufficient confidence and expertise in managing the process that they are now comfortable in offshoring higher value activities. Respondents to CREIS 4 indicated they were planning to increase the level of offshoring in each of the following categories:

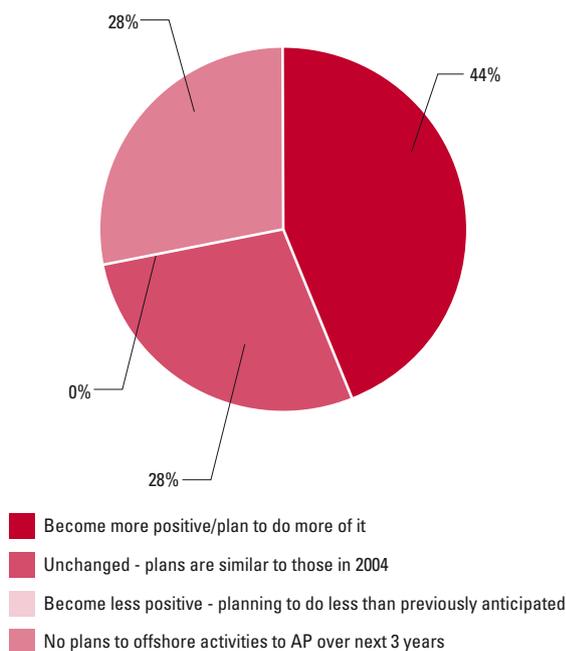
- **Back Office Processing:** About 55% of the respondents are currently offshoring back office processing. This is expected to increase to 69% over the next three years. Offshoring of back office activities is particularly prevalent among firms in the banking and finance sector, with 88% already offshoring some of these functions.
- **Call Centers:** About 47% of the respondents are currently offshoring call centers. The percentage will increase to 54% over the next three years.

Expect further growth in offshoring activity.

Offshoring has been one of the most pervasive corporate real estate trends over the past two to three years. It has driven a major part of the demand for space in the markets of India, China and the Philippines. While the rate of growth is likely to slow, we have not yet reached the crest of this particular wave, bringing with it an increase in both the range of activities that are being offshored and the number of potentially suitable locations.

- **IT/Software:** About 61% of the respondents are currently offshoring IT/Software activities. The percentage will increase to 74% over the next three years. It is interesting that IT/Software is the function that respondents offshore most. This reflects the ability to work these activities from remote locations and suggests the cost differential between equally skilled staff between donor and destination markets is greatest in this area. The level of offshoring of IT/software is likely to increase as technological changes allow a wider range of functions to be offshored from the firms' manufacturing or customer base.
- **R&D:** About 41% of the respondents are currently offshoring R&D. The percentage will increase to 62% in the medium term (next three years). The current level (41%) represents a significant increase from the 19% that outsourced their R&D activities in CREIS 1 (2003). This suggests that issues with Intellectual Property (IP) protection can be managed or are insufficient to offset the benefits that can be obtained. This increase has been particularly noticeable regarding firms in the technology/ telecommunications industry.

Figure 12: Change in Views towards Offshoring in the Past 12 Months



Source: CREIS 4

There has been no major shift in the preferred locations for offshoring activities over the past 12 months. India remains the prime target for Business Process Outsourcing (BPO) and call centre activities (major providers such as Accenture and Convergys continue to expand in this market). China continues to emerge as a major destination for R&D and software centers (major corporates such as Honeywell, Roche, DuPont, GE, Sony and Motorola already occupy R&D centers in Shanghai).

Tips for successful offshoring strategy

- Understand the major business drivers - are these the same between different business units?
- Consider the wider impact of offshoring on how the company operates, not just the immediate cost savings.
- Undertake business location analysis to quantify and compare attractiveness of different cities.
- Assess the timeframe over which the impact will be assessed as there are new potential destinations emerging.
- Adopt a top down approach, identifying suitable cities before consideration of individual sites or developments.
- Establish a series of matrices against which the success of offshoring strategy can be evaluated.

The tendency for offshoring activities to cluster in “hot markets” has put pressure on labor supply and has started to drive labor costs up in some locations. A recent study by the McKinsey Global Institute⁴ shows that salaries for project managers in India’s IT sector have increased by 23% pa over each of the past four years, while programmers have enjoyed average salary increases of 13% pa over the same period.

Addressing this same issue in a recent White Paper, Jones Lang LaSalle⁵ examined the potential of Tier III cities in India, suggesting that cities such as Ahmedabad, Chandigarh, Kolkata, Indore and Nagpur represent the future of offshoring to India and offer significant cost savings over more established offshoring locations.

India and China continue their domination as the preferred locations for offshoring. No respondents to CREIS 4 currently offshore to less established markets such as Sri Lanka and Vietnam.

While the emergence of Tier III cities in India (eg Ahmedabad, Chandigarh, Kolkata, Indore and Nagpur) and new locations in China (eg. Dalian, Wuhan, Xian and Chongqing) are likely to keep

these countries at the forefront of the offshoring wave, we do expect to see the emergence of new locations across the Asia Pacific (possibly in Sri Lanka, Pakistan, Vietnam and islands outside of Luzon in the Philippines) in the longer-term (beyond the next five years).

Firms in the banking and finance sector regard Tier III cities in India as their preferred location for future offshoring (replacing their current preference for Tier I and II cities). This is likely due to the increasing costs in the more mature markets. Among firms in the IT/telecommunications sector, Chinese cities are taking over from those in India as the preferred location for future offshoring activities.

ALTERNATIVE WORKPLACE STRATEGIES

More companies are adopting AWS initiatives.

The use of AWS initiatives has certainly increased over the past few years. This trend is expected to continue. The percentage of firms that allocate a dedicated work point for all their office-based staff is expected to decline from 82% to 69% over the next three years. Consistent with this trend, the ratio of work points to staff has been decreasing. More than 25% of respondents to CREIS 4 indicate they are planning to have more staff than workstations within three years, compared to just 7% three years ago.

Floorspace per person has decreased over time.

Partly as a result of the increased use of AWS initiatives, almost 50% of companies have decreased their floorspace per person over the last three years. This trend is forecasted to continue, with 67% of respondents planning to reduce their floorspace per person still further over the next three years.

Cost reduction is the primary driver for increased use of AWS initiatives.

41% of respondents indicated that the major reason for introducing AWS within their organization was to reduce costs. This finding is consistent with that of our recent US survey where 37% of respondents indicated the increased use of AWS represented the most effective means by which they could reduce real estate costs. While cost is often the initial driver, our experience suggests that other (and sometimes unexpected) benefits emerge once AWS strategies have been implemented.

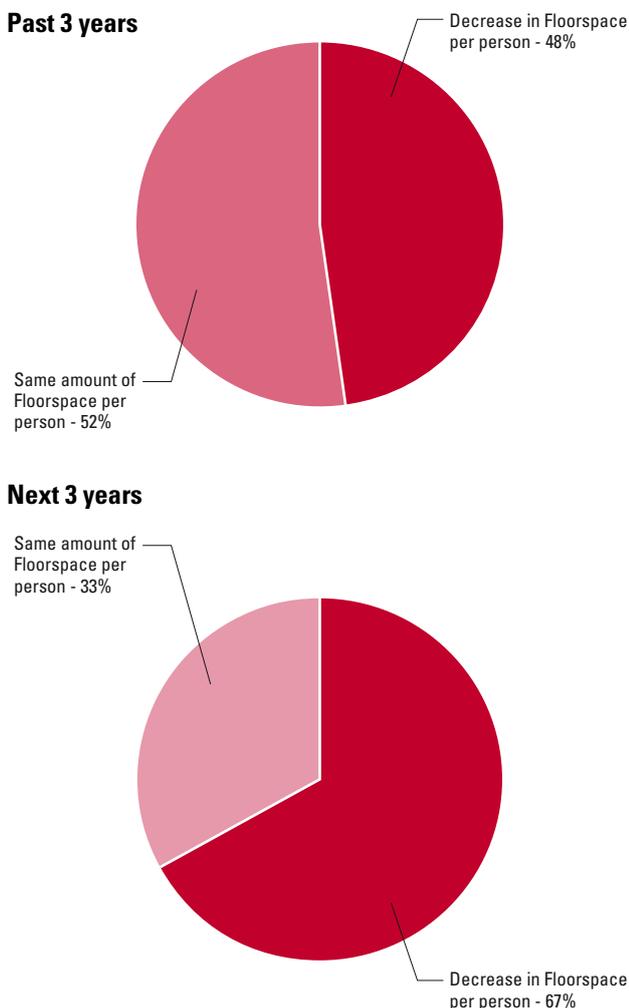
⁴ Ensuring India’s Offshoring Future - McKinsey Quarterly (2005)

⁵ Tier III Cities in India: The Next IT Offshoring Location - Jones Lang LaSalle (2005)

AWS offers potential to do more than just reduce costs. While less immediate and often more difficult to quantify, almost 60% of respondents suggested the primary driver of AWS initiatives was something other than cost saving. A range of other benefits indicated included increased staff productivity (20%), increased interaction between staff (15%), increased innovation and change in corporate culture (each at 12%).

The majority of respondents indicated that AWS has met the objectives established with more than 50% of respondents stating that AWS had positive results in each of the objectives set out for it. This provides further evidence that firms are likely to increase their utilization of such strategies in the future. The area where objectives have been least satisfied is in respect of changing corporate culture, reflecting the long term nature and difficulty of measuring such changes.

Figure 13: Change in floor space per person

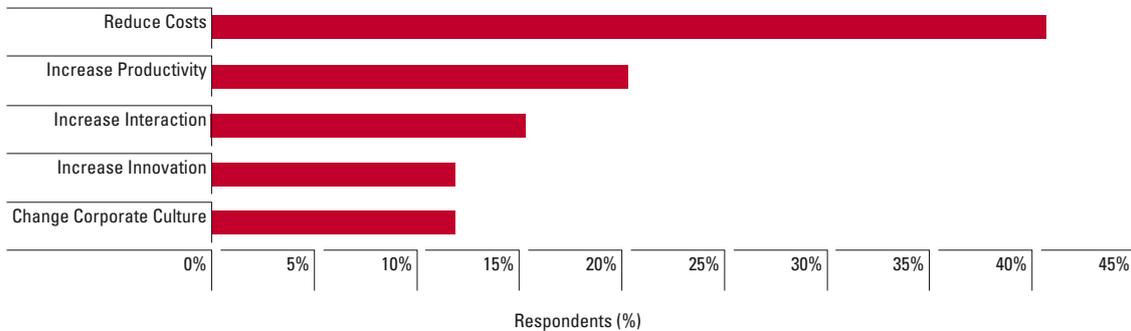


Source: CREIS 4

Implementing AWS

- Have clear projections on investments and returns on investments.
- Get senior level buy-in and establish mechanisms to avoid “roadblocks” from middle management.
- Use pilot projects and document results/benefits against predefined criteria.
- Recognize that different activities/functions require blend of different types of AWS. There is no “one size fits all” solution.
- Recognize that resistance is likely. Develop and implement a change management strategy.
- Bring staff along with you by active communication during planning, implementation and post implementation. Listen to concerns and address these wherever possible.
- Identify and communicate employee benefits from new styles of working.
- Ensure space and technology is tested before moving everyone in.
- Train employees on new workplace and changes to working practices that will be required.
- Continuously refine and improve. AWS is a journey, not a one-off change.
- Encourage regular change to address aspects of new workspace that are not working in practice (avoid fixed preconceptions).
- Consider how AWS strategies can help in attracting/retaining staff and accommodating generational change in the workplace.

Figure 14: Major Reason for Introducing AWS



Source: CREIS 4

While far from being universally used, there has been increased acceptance of AWS over the past few years. During this time, it has evolved from a somewhat novel/radical departure to a more mainstream, practical and effective component of corporate real estate strategy. There is evidence that this trend will continue, as more corporates seek to take advantage of technological developments and other changes in working practice to restructure both the location and design of their workspace.

The search to redefine the workplace and introduce alternative workplace strategies (AWS) is playing an increasingly important role in the real estate strategies of many companies. While these strategies offer the potential for reduced real estate costs in the short- to medium-term, the long-term impact may also be increased employee productivity and assistance in attracting and retaining staff (the global war for talent).

CORPORATE SOCIAL RESPONSIBILITY

Corporate Governance, including but not exclusively relating to Sarbanes-Oxley Act (SOX) have started to have a major impact on the operation of many CRE executives. The other two areas of corporate social responsibility (CSR) that are emerging on many CRE radar screens are related to labour/workplace conditions and environmental issues.

45% of respondents thought the introduction of SOX in Jan 2005 had already resulted in a major effect on the level of reporting required. Other areas where the impact of SOX was being felt include the timing of CRE decisions (ability to act in a timely/agile manner) and policies aimed at reducing risks in the CRE strategy. (Around 20% of respondents reported a major impact in both of these areas.)

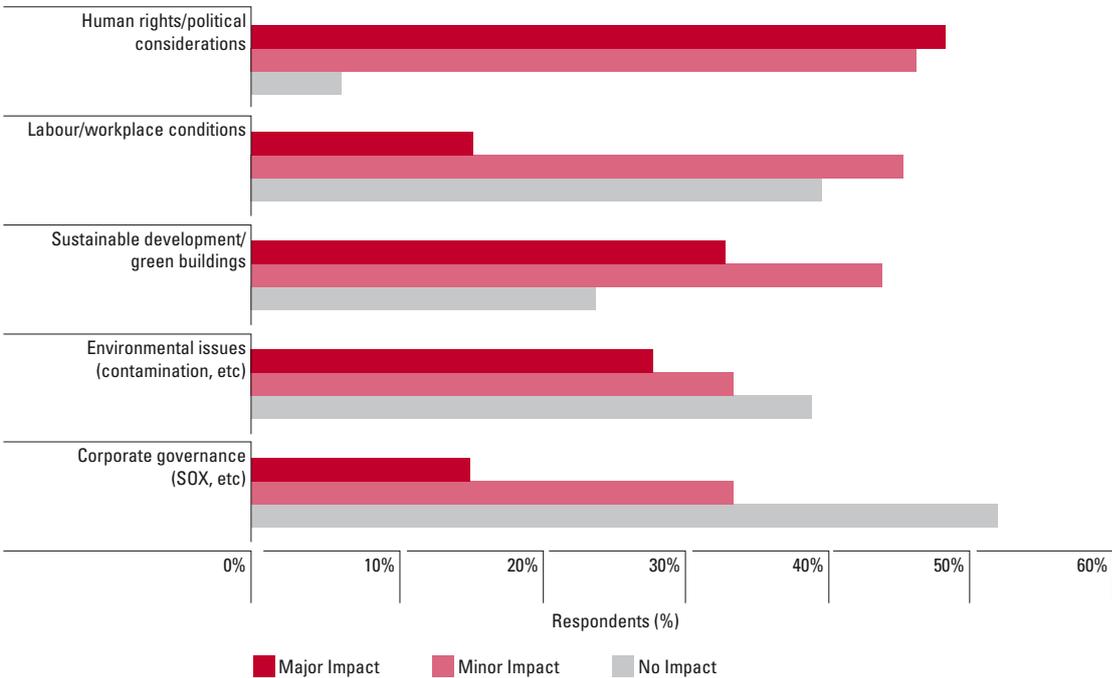
The centralization of CRE activities, the use of external service providers and best practice has been less impacted by SOX. Only 10% to 20% of respondents reported a major impact in these areas to date.

Tenants are not currently prepared to pay more for buildings with Environmentally Sustainable Development (ESD) sustainable features. While more corporates are introducing sustainability as one component in their selection of premises, only 11% of respondents said they would pay more for greener/more sustainable buildings.

With 28% of respondents expecting that the introduction of more ESD features in a building should reduce total occupancy costs over the duration of their tenancy, the challenge that currently faces building owners is to demonstrate how more sustainable buildings can result in financial as well as non-financial savings to tenants.

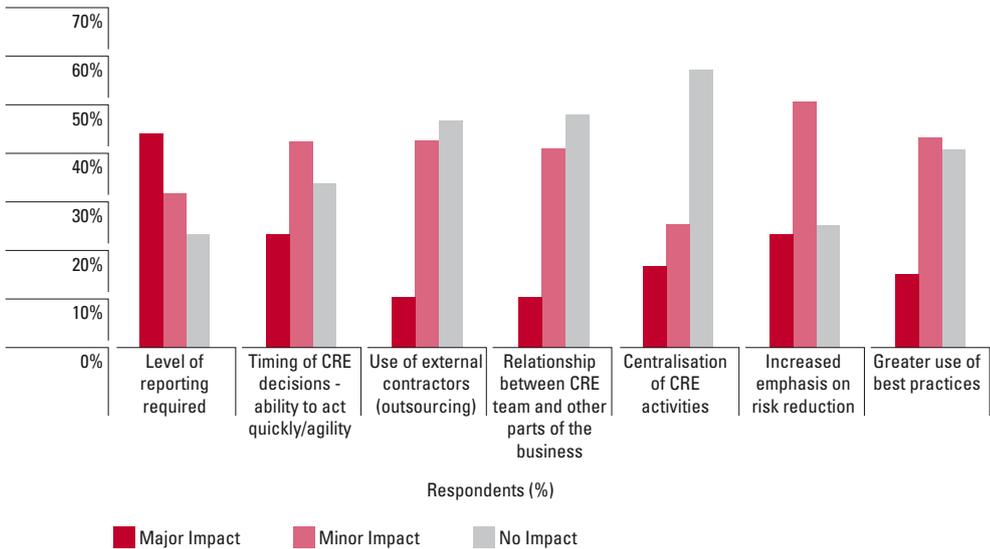
Other research suggests that this situation is likely to change over the next five to ten years. In a forthcoming White Paper from Jones Lang LaSalle, we have concluded that tenants will become more selective in their choice of premises in the future, resulting in an increase in the value of buildings where owners have invested in more sustainable building systems.

Figure 15: Aspects of CSR that have Impacted CRE Activities



Source: CREIS 4

Figure 16: Impact of SOX on Operation of RE Activities



Source: CREIS 4

Given the increased importance that tenants will place on occupying buildings with high sustainability scores in the future, the market will change from the current discussion of a “sustainability premium” to a “non-sustainability discount”. Buildings that are not able to offer the features major tenants are demanding will be

increasingly marginalized and unable to attract tenants.

Different markets will experience this transformation at different times. Markets such as Australia, with high levels of institutional ownership, are likely to reach this tipping point within the next five years⁶.

⁶ Assessing the Value of Sustainability - Jones Lang LaSalle (2005)

CSR Initiatives will become a major driver of CRE Strategy over the next five to ten years.

“By 2010, the issues of sustainability, CSR and triple bottom line accounting (people, planet, profit) will likely be well integrated into mainstream corporate business models and will significantly influence the business processes of corporate real estate (CRE).”

“Sustainability issues and related performance requirements will have a major impact on the location of buildings and in the way that they are designed, constructed and occupied by 2010.”

CoreNet 2010⁷

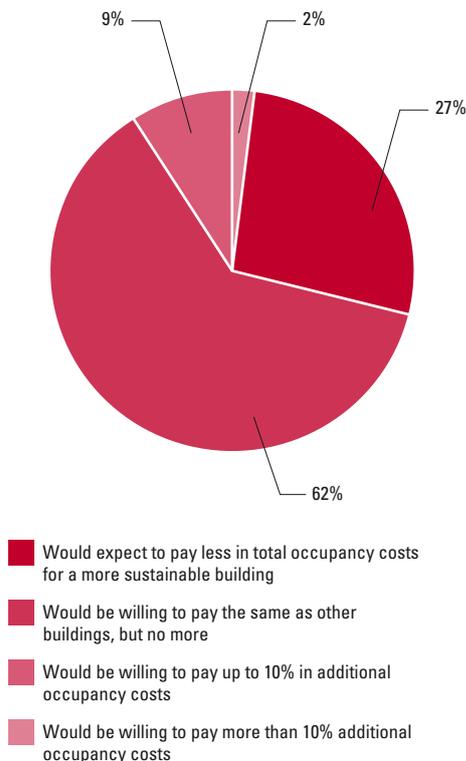
OWNERSHIP OF REAL ESTATE

Limited levels of ownership - 43% of respondents indicated they currently own no real estate in the Asia Pacific region. Only 14% own more than half the space they occupy. Most companies plan to broadly maintain the current level of ownership, with no significant change in the ownership profile expected over the next three years.

Sale and leaseback has been widely used to reduce exposure to real estate. Over 40% of respondents to CREIS 4 used this strategy over the past three years. While the level of future use is expected to decline, it remains the preferred means of reducing direct ownership.

A small minority of forward-looking corporates is considering other approaches. These include the sale of properties into REITs and other listed vehicles, and use of private finance initiatives to sell properties.

Figure 17: Willingness to Pay Additional Cost to Occupy a More Sustainable (Green) Building



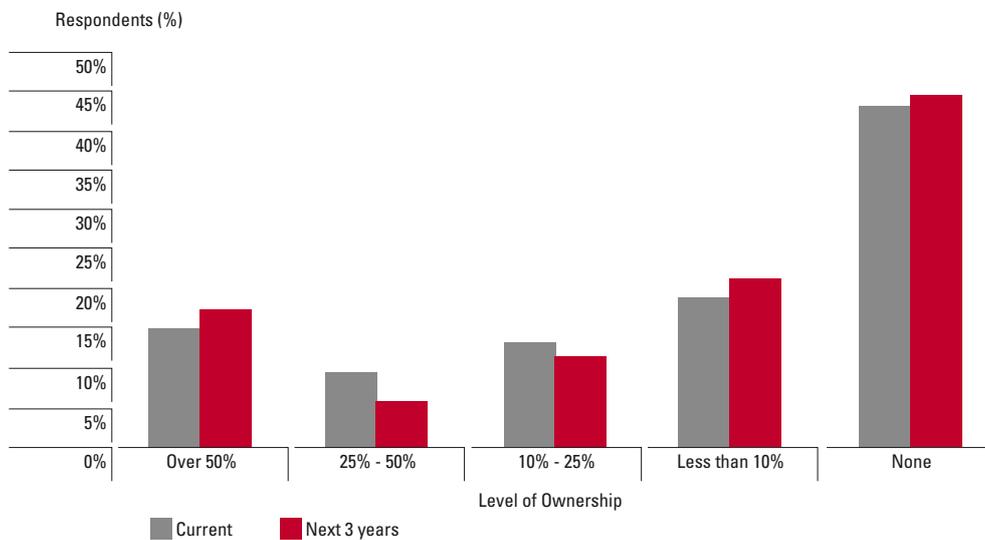
Source: CREIS 4

Corporates generally own less space in Asia Pacific than in other regions. This limits their ability to realize major future savings from sale and leaseback or other strategies in this area. The adoption of new global accounting standards is also likely to limit the scope for some of the more creative structures that have been used in the past (eg. synthetic leases).

The challenge facing corporates is how to take advantage of the increasing innovation, transparency and maturity of the real estate investment market to support their expansion strategy in major growth markets such as India and China.

⁷ Sustainability & Corporate Social Responsibility – CRE2010 Research Report – CoreNet (2004)

Figure 18: Ownership of RE in AP



Source: CREIS 4

Figure 19: Ownership Strategies



Source: CREIS 4

FUTURE DEMAND FOR REAL ESTATE

Demand for space has increased in most markets over the past 12 months. The strongest demand remains focused on the major Chinese cities of Shanghai and Beijing with respondents strongly positive towards both of these markets. Reflecting an increased interest in offshoring facilities, Chinese cities outside of Shanghai and Beijing recorded the third most positive net demand for office space.

Indian cities also remain in favor, claiming five of the top eight slots in terms of net demand. As with

China, this reflects a combination of continued demand for offshoring facilities and the emergence of a stronger domestic market that is generating additional demand for office premises.

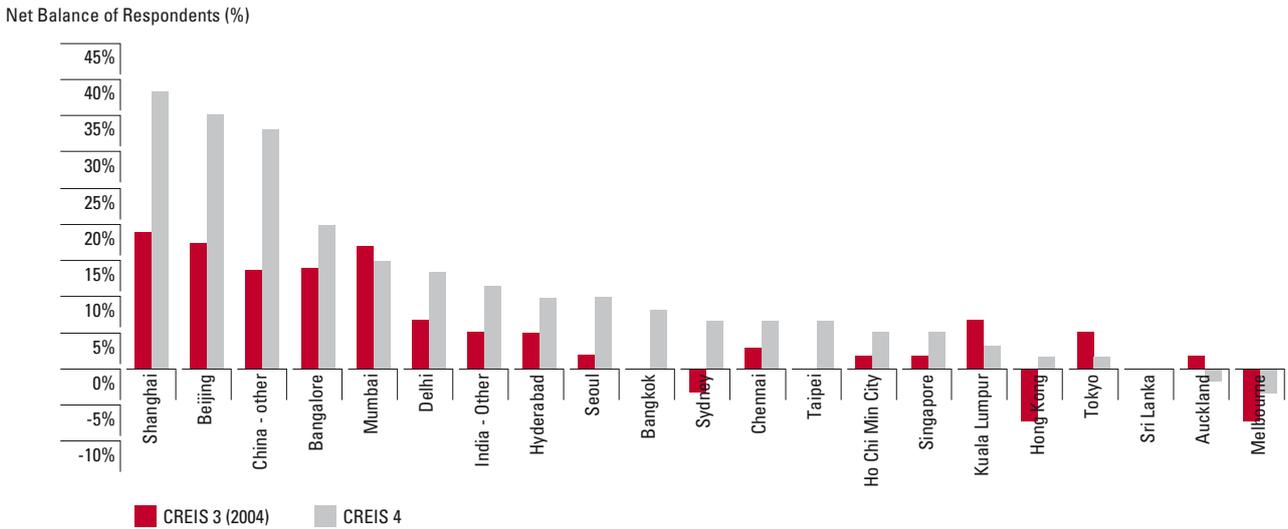
Seoul, Sydney and Bangkok recorded the strongest demand among the more established markets, with demand for space in both Sydney and Bangkok increasing over the past year. This reflects an increase in white collar employment generated by strong economic growth in these markets. The only cities where a net balance of occupiers are looking

to reduce their space requirements over the next 12 months are Auckland and Melbourne.

China also emerges as the favored location for future demand of industrial real estate. Of the respondents looking to increase industrial space, more than half (58%) chose cities in China (including Shanghai and Beijing) and 29% chose cities in India. The remaining 15% chose Singapore and Seoul. This reflects a combination of the growth in offshoring reported earlier (with China becoming more popular for R&D activities), as well as the continued interest in manufacturing to service the growing domestic market within China.

Occupiers remain positive about their short-term space requirements. Firms expect to increase the amount of office space they occupy in all but two of the 24 cities covered over the next year. The strongest demand remains focused on China, followed by cities in India, with these markets being driven by both local economic expansion and their continued attraction as offshoring destinations.

Figure 20: Strength of Office Demand



Source: CREIS 3 & 4

ABOUT THE SURVEY

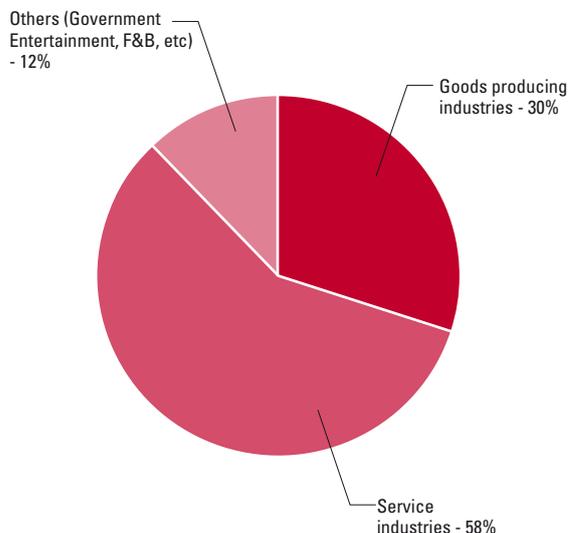
This report compiles the results of Jones Lang LaSalle’s annual Corporate Real Estate Impact Survey (CREIS). This survey was initiated in 2003 in response to the shortage of information on the Corporate Real Estate function in Asia Pacific. There are two major aims of the survey:

- Highlight current major issues impacting on Corporate Real Estate managers and how these issues are influencing CRE strategies; and
- Provide a regular indicator of trends impacting the CRE market to assist in the development of improved forecasting techniques to measure occupier demand across Asia Pacific.

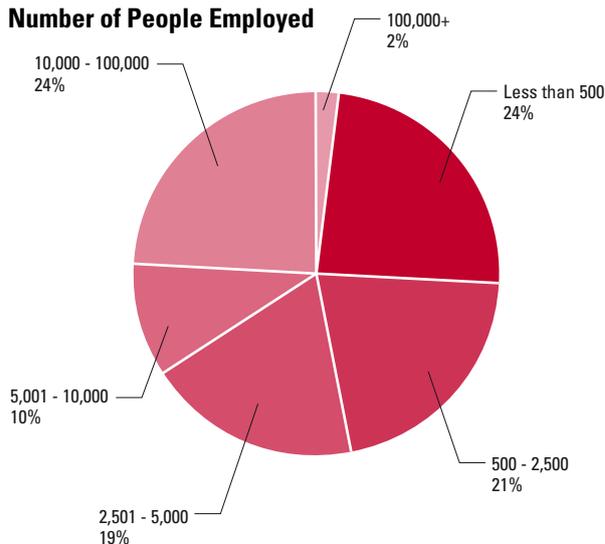
Data for this fourth survey was drawn from a wide selection of industries (Figure 20).

Figure 20: Survey Demographics

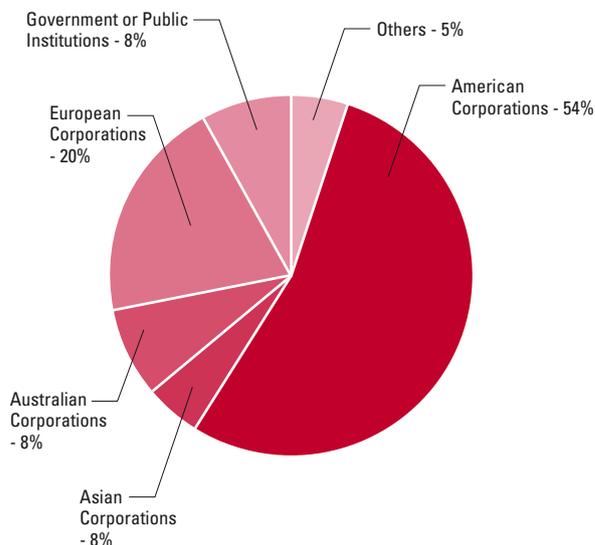
Types of Industry



Number of People Employed



Types of Corporates



ABOUT JONES LANG LASALLE'S CORPORATE SOLUTIONS

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- Account management
- Call centre management
- Critical environment management
- Procurement and tendering
- Expatriate housing
- Corporate finance
- Valuation and due diligence
- CRE organizational strategy
- Real-time reporting

ABOUT JONES LANG LASALLE'S RESEARCH

Jones Lang LaSalle Research is a multi-disciplinary professional group with core competency in economics, real estate market analysis and forecasting, locational analysis and investment strategy. The Research Group is able to draw on an extensive range and depth of experience from the Company's network of offices, operating across more than 100 key markets worldwide. Our aim is to provide high-level analytical research services to assist practical decision-making in all aspects of real estate.

The research team in Asia Pacific comprise more than 50 professional staff and supports our Corporate Solutions business through the analysis of real estate markets, forecasting of future market conditions and application of these trends for locational decisions and corporate real estate strategies. Our specialist Occupier Research group examines the factors influencing current and future occupier demands to assist clients prepare long-term occupation and investment strategies.

ACKNOWLEDGEMENTS

Jones Lang LaSalle gratefully acknowledges the assistance of those occupiers who participated in this survey. The respondents are privy to preview copies of the results before they are formally published. We welcome any feedback on the published results in order to continue to improve on future issues and make them as meaningful as possible for our readers. If you have any comments or would like to participate in future surveys, please email crystal.palar@ap.jll.com

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