

January 2010

Asia Pacific Property Cycle Monitor

Table of Contents:

1. Economic Context.....	2
2. Office	4
3. Retail.....	9
4. Industrial	13
5. Appendix.....	17

Executive Summary

As 2010 begins, the global economic landscape appears stable, though hardly rock solid. Worries persist that recovery could become caught in the mire of expiring stimulus packages or struck by the blows of sudden loan defaults. Despite these concerns, overall prospects remain cautiously optimistic, and Deutsche Bank forecasts a global economic expansion of 4.0% in 2010. Pulling the global economy forward is Asia (ex-Japan) where improving consumer and business sentiments have underpinned a robust forecast of 7.7% growth in 2010. Even excluding China and India, the region is still on track for a hefty 5.7% expansion. This growth will be frontloaded, with economic deceleration occurring as the year wears on. Rising inflation and higher interest rates appear likely in China and India, where the risk of overheating looms largest.

Asia's office markets in Hong Kong, Singapore, Seoul, Sydney, Melbourne and Shanghai are poised for recovery in 2010. Volatile office cycles in Hong Kong and Singapore have now positioned both markets for perhaps the strongest upside potential, at least in the near term. Within China, Shanghai is best positioned at the front of the recovery curve, especially as compared with Guangzhou, which will take considerably more time for fundamentals to regain balance. China's relative economic resilience is working to the benefit of both Hong Kong and Shanghai markets as well, providing a platform for recovery. On the upside, Seoul, Sydney, and Melbourne have manoeuvred through the past year with relatively light office downturns due to limited construction and only modest demand disruption. This contrasts with Tokyo where rents lost more ground in 2009 than initially expected. In India, the extensive construction pipeline in the major cities met the global downturn with unfortunate timing, thus delaying recovery prospects despite India's otherwise dynamic economic growth. Elsewhere in the Asia Pacific region, office fundamentals in Taipei, Kuala Lumpur, Manila and Bangkok point to delayed recoveries with modest to moderate rental growth.

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Performance is mixed across **Asia's shopping centre markets**. Bleak fundamentals in India's major cities (due to oversupply) and in Tokyo (due to stagnant demand) pose significant near-term challenges to recovery. This contrasts sharply with Hong Kong and Singapore, where the retail cycle is turning quickly and a burst of rental growth seems likely in the immediate future. Other shopping centre markets – especially Shanghai, Sydney, Melbourne, and Seoul – have eased through this property cycle with little if any damage to rental levels, but the recoveries in these markets may lack the near-term vigour of Hong Kong and Singapore. Fundamentals are still stabilising in other markets like Beijing, Taipei, Kuala Lumpur and Bangkok, putting their recoveries somewhere between Asia's retail leaders and laggards.

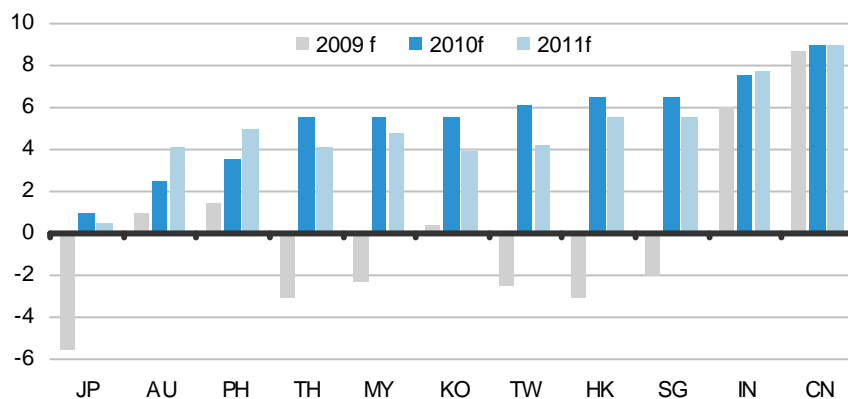
Fundamentals in **Asia's industrial markets** continue to be in disarray in early 2010. The disruption of global trade flows has rippled beyond gateway markets and throughout the rest of the region. Singapore's rents will likely be cut to half of peak levels by the time the market bottoms out. Demand has picked up modestly in China's major cities, but in other cities like Tokyo, conditions continue to weaken.

1. Economic Context

The global economy closed out 2009 with a 1.1% contraction – a somewhat better result than the 1.5% loss that had been anticipated at mid-2009. As 2010 kicks off, the global economy seems to have found stable, if not totally solid, footing. Worries still persist of a global economic landscape dotted with the quicksand of expiring stimulus packages or hidden landmines that explode in the form of loan defaults. Despite these potential obstacles, overall prospects remain cautiously optimistic, and Deutsche Bank forecasts a global economic expansion of 4.0% in 2010.

The notable milestone in this forecast is the absence of the perennial varsity players. Deutsche Bank's 2010 economic forecasts for the US (3.6%), the Eurozone (1.5%), the UK (1.5%), and Japan (1.0%) all lag the world outlook. Pulling the global economy forward is Asia (ex-Japan), where improving consumer and business sentiments have underpinned a robust forecast of 7.7% growth in 2010. Even excluding China and India, the region is still on track for a robust 5.7% expansion. This growth will be largely frontloaded, with economic deceleration occurring as rising inflation and higher interest rates inevitably kick in.

Exhibit 1: Real GDP Growth (%)



Source: Deutsche Bank, "Asia Economics Monthly" 18 January 2010; Deutsche Bank, "Global Economic Perspectives" 20 January 2010; "f": forecast

All countries in the Asia Pacific region could see some degree of economic growth in 2010, but Japan's may be the most tenuous. Japan's recovery that began in the second quarter of 2009 has produced lacklustre growth so far. This modest expansion will sputter through 2010, but it could be hampered as stimulus spending lapses. Meanwhile, the high value of the Japanese yen has stymied the country's exporters, and a chaotic transition of political power in the latter half of 2009 has done little to boost confidence.

Australia managed to eke out modest economic growth in 2009 and narrowly avoid recession. From this soft landing, the economy has begun a slow acceleration. In 2010, GDP growth should be just ahead of Japan – modest by Asia Pacific standards – but poised to gain more speed by 2011.

Modest economic performance in Japan and Australia will be overshadowed in 2010 by the region's current stars, China and India. While much of the world was trying to find a trough in 2009, China's economy grew by 8.7%. Recent forecasts indicate the country is on track to match or exceed that pace in 2010 and 2011. Overheating is a real concern, and increasing liquidity in property markets has recently led China's governing State Council to tighten restrictions on real estate lending practices.

India is on track for 7.5-8.0% growth over the 2010-2011 period. Inflation presents the biggest obstacle in the near term, with increases in food prices being especially worrying for the Reserve Bank of India (RBI). Consumer prices rose less than 2% in 2009, but the next two years are likely to see annual spikes of up to three times that pace.

As small countries with open economies, vibrant financial services centres, and

extensive infrastructures for international trade, Hong Kong and Singapore hold much in common, so not surprisingly their recessions and recoveries share some similarities. Hong Kong, awash in liquidity, benefits from its proximity to China. Demand from China has reaped dividends for Hong Kong's tourism, retail sales, and overall business activity. Real GDP in Hong Kong will rise by 6.5% in 2010 before settling back to around 5.5% in 2011. Singapore's growth in 2010 and 2011 should be nearly identical as it bounces back from its worst recession on record. The country's growth will be frontloaded in 2010 as its mega-construction projects wind down. The length of the ramp-up phase needed for Singapore's new resort/casino/hotel ventures remains uncertain.

South Korea eked through 2009 with marginally positive growth compared to Taiwan's contraction of 2.5%. Both countries are on track for stellar economic recoveries in 2010 which should boost Taiwan's economy by 6.1% and South Korea's by 5.5%. Weaker currencies in both countries have produced a swift recovery for exports, industrial production, and investment.

Among the ASEAN countries, all but the Philippines are likely to surpass 5% growth in 2010. Quickly enacted public policies guided the Philippines to a soft economic landing in 2009 with marginally positive GDP growth, but the focus in 2010 will be on restoring fiscal order. Meanwhile, the Philippines will lack the same output bounce this year that its ASEAN peers are likely to enjoy. Even Thailand, which in recent years had been the weakest performer of this group, is now set for healthy export-led economic growth of 5.5% in 2010. Ongoing political instability and uncertainty continue to be the primary risk to Thailand's performance. Malaysia depends heavily on exports. Its reliance on the external sector was the primary reason its economy took a 2.3% hit in 2009, but the upside is that exports will steer it toward positive growth in 2010 of around 5.5%.

2. Office

Asia faced potential pressures in 2009 across several fronts. These challenges ranged from an over reliance on external demand to poorly timed construction pipelines in Singapore, China, and India. But over the course of the year, the region's office markets showed remarkable resilience, and by year-end, a half-dozen of Asia's office markets had already moved into recovery. Rental levels and capital values in many markets have bottomed out, and others are positioned to follow soon. But with every cycle, comes a reshuffling of the key players, and this time is no different, especially with regard to investors. Foreign investors from Europe and the US have stepped back from the deal table as domestic and intra-regional Asian investors have stepped forward to dominate property transactions.

Among the **Mature Asian Markets**, Hong Kong and Singapore faced the sharpest downturns in 2009. With rents in both markets expected to bottom in the first quarter of 2010, the peak-to-trough rental declines in the two cities are likely to be steep: in excess of 40% in Hong Kong and perhaps as much as two-thirds in Singapore. Weaker demand from global financial firms cut sharply into both markets, especially Singapore, which got caught amid a construction boom. New developments should add about 600,000 sqm of new Grade A office space through 2012 in Singapore's core submarkets, thus moderating the pace of rental recovery. By 2014, rents should climb back to about half the level of their 2008 peak. The vacancy rate, which was squeezed to a mere 1% in 2007, will end up peaking at double digits this year.

Hong Kong's office market could also take in a wave of about 400,000 sqm between 2010 and 2013, but unlike Singapore, most of this will be added outside its core submarket (Central). Proximity to mainland China and the timing of significant infrastructure investments will give the Hong Kong office market a key advantage during its recovery phase. The development of East and West Kowloon continues to cause a tenant shuffle among Hong Kong's submarkets. The centrepiece of the West Kowloon build-out, the 118-floor mixed-use International Commerce Centre (ICC), is set to open its final phases in 2010. Hong Kong's vacancy rate will top out under 9% this year, allowing rents to resume double-digit growth again as soon as 2011. Hong Kong and Singapore – both particularly volatile markets – present strong upside potential for well-timed opportunities.

Among Asia's mature office markets, Seoul experienced the softest landing, with rents in the three core submarkets declining only 5 or 6%. Before the global financial crisis took hold, Seoul's office market was near full occupancy with a vacancy rate below 2% in 2008. Additions to stock through 2013 will add 1.3 million sqm to the market and will keep the vacancy rate edging upward over the next three to four years, especially in the CBD and YBD where the construction pipeline is the strongest. The balance of supply and demand over the coming years will leave little room for a robust recovery. RREEF Research expects overall Grade A office rents to grow at 3% p.a. from 2011-2014, with the expectation that inflation could rebound during this period. Despite its low volatility, Seoul's stable, resilient demand carries the prospect for steady income returns.

The Australian economy resisted recession in 2009, and this benefited the CBDs of Sydney and Melbourne. In both of these office markets, demand has been relatively quick to recover and the construction pipeline has remained under control. Vacancy rates should peak in both markets in 2010, allowing rental growth to resume. Rents lost a bit more ground in Sydney in this cycle than in Melbourne, so the bounceback there may be comparatively stronger in the near term, with rental growth in both markets eventually converging at around 4% p.a. by 2013-2014. Like Seoul, low volatility in this cycle and resilient demand pave the way for stable income prospects in both Sydney and Melbourne.

Rapid deterioration of the Japanese economy in the winter of 2008-2009 put significant near-term pressure on office rents in Tokyo, and to a lesser extent, in the country's secondary cities. Tokyo's recent era of limited construction and steady rental growth hit a crescendo in 2007 and then quickly unwound, with the vacancy rate shooting back up to match its historical high of 8%. Rental levels tumbled by about 14% in Tokyo last year and could soften more through 2011 before rebalancing. Meanwhile, yield spreads in this market have moved to their highest level since 2003.

At the peak of this cycle, offices in Tokyo commanded rents as much as double those

of secondary cities. Because they lacked significant upward momentum in this past cycle, rents in Osaka, Yokohama and Nagoya face somewhat milder rental corrections in 2009 than Tokyo. Ample supply pipelines in some of these secondary cities – especially the railyard redevelopments adjacent to Osaka and Umeda Stations – will also limit opportunities for anything more than modest rental growth in the outer years of the forecast. As a result, Tokyo will be relatively better positioned for rebound during the recovery.

With the exception of Shanghai, the office sectors of the **Emerging Asian Markets** all remained in contraction by year-end 2009. By 2011, however, all but Guangzhou should move into recovery. In China, where the economy continues to expand briskly, the eventual recovery of offices should be vigorous.

Leasing activity had resumed in Shanghai by year-end 2009, rebounding especially in Pudong, where vibrant demand will be needed to absorb the supply pipeline. Pudong together with the Puxi submarket will add 2 million sqm between 2010 and 2013. Construction also poses near-term obstacles in other Chinese cities. Beijing added 1.7 million sqm to its office stock in 2009 and boosted its Grade A office stock by nearly one-quarter. Like Shanghai, rents in Beijing fell by more than 20% during 2009, but the rental recovery here may lag Shanghai by a few quarters. Demand in Guangzhou's office market showed signs of stabilising in the latter half of 2009, but construction holds the market's recovery in jeopardy. The vacancy rate has risen sharply, and could top out above 25% in 2011 before rental growth resumes. Meanwhile, Guangzhou's submarket shuffle continues as tenants shift from traditional office submarkets to recently constructed offices in the new, emerging submarkets of the Pearl River New Town and Tianhe CBD.

Even as India's economy continues to see brisk growth, collateral damage from the global economy still managed to seep into India's major cities in 2009. Prospective tenants curtailed pre-leasing of under-construction projects, backed out of pre-leases, or renegotiated existing leases, thus sending rental levels down at a double-digit pace during the year. This disruption of demand would have been less resonant had the construction pipeline not been so sizable. With property fundamentals left in disarray, Bangalore and Chennai are likely see rents decline by well beyond 25% peak-to-trough, and in Mumbai and Delhi, the declines could be in excess of 50% from peak. Even though each of these markets will need to absorb significant construction pipelines, India's economy and political stability continue to surprise on the upside. Market fundamentals may sputter over the next few quarters before stabilising, but should realign by mid-2011, first in Mumbai, and soon after in the other cities.

The cyclical downturns in Emerging Asia's other office markets lack the sudden severity of contractions in India, but like India, their recoveries may be pushed back. Taipei's centrally located Xin-Yi district remains a highly favoured location with a large share of the city's Grade A stock, and rents lost less ground here in 2009 than in the Taipei market overall. A moderate amount of new supply additions occurred in Xin-Yi in 2009 as well as peripheral submarkets. Meanwhile, Taiwan's recovering economy should clear the way for new tenant demand in 2010 with rents stabilising by 2011. The vacancy rate in Xin-Yi is currently about the same as in the market overall, but this is likely to change during recovery. By 2014, RREEF Research expects Xin-Yi's vacancy to decline faster than the overall rate, and Xin-Yi rents should likewise outperform the overall Taipei market.

By 2014, Kuala Lumpur's office market should grow by more than one-third over its 2008 level. The majority of this new stock will be added in areas of the central core like the Golden Triangle, just northeast of the CBD. The surplus of office space in the construction pipeline will push the vacancy rate of KL (city) closer toward convergence with vacancy rate in the decentralised areas over the next few years. Although leasing remains sluggish, the cumulative rental correction in this cycle is likely to be held below 10%; however, this still pushes Kuala Lumpur's recovery well behind most other markets. Rents are unlikely to pick up again until 2013.

Office demand in Manila finally softened in 2009, with JLL reporting existing tenants in prime developments requesting rent reviews. The greater threat to fundamentals lies not with demand, but with new construction deliveries which risk pushing the office stock up by two-thirds over the next five years. Sensing this threat, developers have scaled back future plans, thus easing the way for rents to resume moderate growth of 3-5% p.a. from 2011 onward.

Domestic political and economic turmoil began tripping up Bangkok's office market in

2007 while most of its Asian peers were still booming. Three years later in 2010, rents still continue to slide and the vacancy rate has now surpassed 20%. By year-end 2009, demand showed some signs of stirring, and this will help stabilise rents in early 2010. A modest supply pipeline, however, will hold office rents to just 1-3% growth p.a. growth during the recovery.

Exhibit 2: Asia Pacific Office Market Cycle

Office Market Cycle						
Emerging Markets		Forecast Years				
YE09	YE10	YE11	YE12	YE13	YE14	
GRW			GRW	GRW	GRW	
PGW						
REC		REC				
CON	CON					
GDP Growth*	6.7%	8.7%	7.9%	8.0%	8.0%	8.1%
% Vacant	19.9%	22.4%	19.7%	17.2%	14.9%	13.9%
Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase+	Increase

Mature Markets		Forecast Years				
YE09	YE10	YE11	YE12	YE13	YE14	
GRW			GRW	GRW	GRW	
PGW						
REC		REC				
CON	CON					
GDP Growth*	-3.8%	1.7%	2.1%	2.9%	2.8%	2.7%
% Vacant	8.8%	9.1%	8.4%	7.5%	6.5%	6.3%
Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Stable

* Weighted by the size of GDP at the national level in US dollar

Key: REC = Recovery GRW = Growth PGW = Post Growth CON = Contraction

Source: RREEF Research, Deutsche Bank Research, and Global Insight, January 2010

Office Sector Outlook

Drivers

- Limited construction and resilient demand in Seoul, Melbourne, and Sydney offer stable income prospects.
- Large yield spreads make Tokyo more appealing than fundamentals might suggest.
- Planned construction in some markets (India, China) could be postponed or cancelled, thus hastening the recovery.
- Domestic economic resilience in China provides a demand bounce for major office markets, including Hong Kong.

Constraints

- High levels of new construction depress rents throughout the region, with particularly dramatic declines in India and some markets in China.
- Global demand fizzles as stimulus packages expire.

Implications: Timing of changes

- Volatile cycles in Singapore and Hong Kong provide strong upside potential in the near-term.
- Soft landings for Seoul, Sydney, and Melbourne bring early, albeit mild, cyclical recoveries.

Exhibit 3: Asia Pacific Office Market Anticipated Performance

Out-Perform	Average	Under-Perform
Singapore	Tokyo	Mumbai
Hong Kong	Osaka	New Delhi
Seoul	Yokohama	Bangalore
Sydney	Nagoya	Chennai
Melbourne	Taipei	Manila
	Bangkok	Guangzhou
	Beijing	Kuala Lumpur
	Shanghai	

Source: RREEF Research, January 2010

Exhibit 4: Asia Pacific Office Market Table

			Forecast				
YE 2009			2010	2011	2012	2013	2014
Emerging Markets	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase+	Increase
Beijing	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase+	Increase+
Shanghai (Pudong)	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase+	Increase+	Increase+
Shanghai (Puxi)	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase+	Increase+
Guangzhou	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Stable	Increase	Increase
Mumbai	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase+	Increase+
New Delhi	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase	Increase
Bangalore	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase	Increase
Chennai	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase	Increase	Increase
Kuala Lumpur	Stage	Contraction	Contraction	Recovery	Recovery	Grow th	Grow th
	Rent Momentum	Decrease	Decrease	Stable	Stable	Increase	Increase
Bangkok	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease	Stable	Stable	Increase	Stable	Stable
Manila	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Increase	Increase	Increase	Increase
Taipei	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Increase	Increase	Increase	Increase
Mature Markets	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Stable
Hong Kong	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Increase	Increase+	Increase+	Increase+	Increase
Seoul	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Stable	Stable	Stable	Stable
Tokyo	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Stable	Increase	Stable
Yokohama	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Decrease	Decrease	Stable	Increase	Increase	Stable
Nagoya	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Stable	Stable	Stable	Stable	Stable	Stable
Osaka	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Decrease	Stable	Stable	Stable	Stable	Stable
Singapore	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase+	Increase+	Increase	Increase
Sydney	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Increase	Increase	Increase+	Increase	Increase
Melbourne	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease	Stable	Increase	Increase	Increase	Increase

Source: RREEF Research, January 2010

3. Retail

Over the long haul, Asia's retail property markets benefit from a convergence of positive growth factors, including increasing jobs, incomes, middle-class populations, retail sales, urbanisation and tourism flows. The global economic contraction in 2009 created a speed bump, but not a road block, to the growth of shopping centre markets in the region. Asia's demand drivers have already begun to stabilise and at least half of the region's major shopping centre markets will move into recovery in 2010. Among individual cities, the near-term obstacles vary. Rampant oversupply hampers India's major cities while sluggish demand presents a more immediate challenge for Tokyo.

The retail outlook for **Mature Asian Markets** has improved in the past six months, and within this group the prospects for Hong Kong appear strongest. Cumulative peak-to-trough rental losses totalled just 12% during the downturn and the market now appears positioned to turn. The vacancy rate is likely to top out below 6% this year – a slightly better showing than the 6-7% peak that had been anticipated as recently as mid-2009. Improvements in the economy, consumer sentiment, retailer interest, and tourist arrivals should all serve to boost retail demand amid a manageable construction pipeline. Rents could rise by 8-9% p.a. by 2011-2012.

While Hong Kong can turn to booming next-door China to keep tourist arrivals buoyant, Singapore must draw its tourists from farther afield. Schemes to attract these visitors included ample upgrades and additions to the Orchard Road shopping district in 2009 as well as two new casino/resort complexes set to open in 2010, one in the Marina Bay reclamation area and the other on Sentosa Island. While the cyclical timing for these shopping centre developments may have been unfortunate, retailers do not seem overly deterred. As of late 2009, the newly opened ION Orchard was reported to be 90% leased and the Marina Bay Sands Shoppes had already reached an 80% pre-lease threshold in advance of its 2010 opening. Despite a substantial dent to its economy in 2009, Singapore's retail vacancy rate never nudged above 3%. As retail sales growth revives in 2010, Singapore is well positioned to resume moderate rental growth of 2-3% in the near term, accelerating to 3-4% by 2012.

The downturn for retail property has proven relatively mild in Sydney and Melbourne, where low vacancy rates, modest (and mostly pre-committed) construction, and restrictive planning laws have kept the markets constrained. With consumer sentiment beginning to improve in Australia, rents should post modest gains of 1-3% p.a. in 2010 and beyond. At the surface, the fundamentals of Seoul's shopping centre market look similar to Australia, with flat rents expected in the near term and up to 3% annual growth rates in 2011 and beyond. Foreign investors, however, may find Seoul a bit more challenging to navigate. The shopping centre stock tends to be either owner-occupied or controlled by conglomerates.

Japan's retail market suffers largely on the demand side. The most recent year-over-year retail sales figures through November 2009 showed consistent declines for chain stores (6.6%), shopping centres (8.2%), and especially department stores (11.2%). Nor does the dismal state of consumer confidence seem likely to improve. Nikkei RIM's closely watched consumption forecasting indicator shows that the bleak outlook for the retail sector is unlikely to change in the next six months. Consequently, Tokyo's retail rents should continue their downward slide through 2010 and into 2011.

Rising levels of affluence in **Emerging Asian Markets**, especially China and India, have lured retail developers who foresee ever-rising levels of consumer demand. While recent setbacks in the global economy have not erased GDP growth in China and India, these setbacks have nevertheless slowed growth enough to disrupt the balance of retail fundamentals, especially in India, where supply now significantly outstrips demand. Of the major cities in these two countries, Shanghai's retail market has been best able to minimize disruptions to shopping centre fundamentals. Construction delays and postponements have kept the supply pipeline at bay, and on the demand side, international retailers have incentive to set up shop in advance of the mid-2010 opening of the World Expo. Shanghai's retail rents barely budged in 2009, but looking ahead to the 2011-2014 period, growth of 5-8% p.a. now seems reasonable. Beijing has fared comparatively less well in this cycle, with rents expected to lose about 20% from their 2008 peak. The city's substantial pipeline of planned projects is one part of the problem and the other is tenant demand. Despite considerable interest from expanding international retailers, these tenants lack the

sense of urgency to enter the Beijing market after the Olympics as they currently have in Shanghai. Given these unfavourable fundamentals, rents are unlikely to stabilize until 2011. Like Shanghai, Beijing's recovery could bring 5-8% p.a. rental growth, but investors may have to wait one to two years to get to that point.

Ample construction in India's major cities has undermined fundamentals, especially in Mumbai and Delhi, where peak-to-trough declines are likely to be near 50%. The atmosphere of uncertainty has understandably left many retailers on the sideline, waiting to see how it all shakes out. This hesitancy thus dampens near-term demand even more. By 2012, both markets should eventually revert to annual rental growth rates near 5%, with perhaps a slightly larger bounce for Mumbai.

Retail fundamentals in the rest of Asia show neither the volatility of Mumbai and Delhi nor the resilience of Shanghai. Fundamentals instead lie somewhere in between. Taipei, for example, will see about a 20% peak-to-trough decline in rents as it struggles with weak domestic demand. As the Taiwanese economy roars back to life, retail rents should follow as well. Taipei's rental growth will be marginal this year but a gradual acceleration over the forecast could at last push rental growth to 5% or more by 2013. In Kuala Lumpur, a moderate supply of new suburban shopping centre space and modest consumer demand will likely keep rental growth in the range of 1-3% p.a. in the years ahead. Bangkok's retail market has stabilised and rents are unlikely to lose any ground in 2010. Thai domestic demand shows early signs of revival but an unexpected boost in tourism arrivals this year could provide the market with a much-needed kickstart. Otherwise, shopping centre rents are unlikely to rebound until 2011, when they should resume growth of 2-4% p.a.

Exhibit 5: Asia Pacific Retail Market Cycle

Retail Market Cycle						
Emerging Markets		Forecast Years				
YE09		YE10	YE11	YE12	YE13	YE14
GRW	PGW			GRW	GRW	GRW
REC	CON	REC	REC			
GDP Growth*	6.7%	8.7%	7.9%	8.0%	8.0%	8.1%
GDP Per Capita *	5,630	6,226	6,865	7,652	8,399	9,212
Rent Momentum	Decrease+	Stable	Increase	Increase+	Increase	Increase+

Mature Markets		Forecast Years				
YE09		YE10	YE11	YE12	YE13	YE14
GRW	PGW			GRW	GRW	GRW
REC	CON	REC	REC			
GDP Growth*	-3.8%	1.7%	2.1%	2.9%	2.8%	2.7%
GDP Per Capita *	33,576	38,041	39,548	42,562	44,980	47,089
Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase

* Weighted by the size of GDP at the national level in US dollar

Key: REC = Recovery GRW = Growth PGW = Post Growth CON = Contraction

Source: RREEF Research, Deutsche Bank Research, and Global Insight, January 2010

Retail Sector Outlook

Drivers

- Above-average GDP growth continues to expand middle-class populations in China, India, and parts of Southeast Asia.
- Planned construction in some markets may be postponed or cancelled,

paving the way for quicker retail recoveries.

- International retailers end the wait-and-see period currently keeping them on the sidelines in China Tier 1 and Tier 2 cities.

Constraints

- Income growth and retail demand languish in Japan.
- Development of intra-regional tourism markets lags in the short-term, especially China-to-Taiwan and the Middle East-to-Singapore/Malaysia.

Implications: Timing of changes

- Peak-to-trough rental levels will decline most in Mumbai and Delhi, giving them good upside potential for staging a later recovery.
- Singapore rolls the dice in 2010, as it opens two new resort/casino complexes and waits to see the world's response.
- Relative domestic economic strength in mainland China funnels steady tourism into Hong Kong.

Exhibit 6: Asia Pacific Retail Market Anticipated Performance

Out-Perform	Average	Under-Perform
Hong Kong	Taipei	New Delhi
Singapore	Beijing	Mumbai
Sydney	Kuala Lumpur	Tokyo
Melbourne	Bangkok	
Shanghai	Seoul	

Source: RREEF Research, January 2010

Exhibit 7: Asia Pacific Retail Market Table

			Forecast				
			2010	2011	2012	2013	2014
Emerging Markets	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase+	Increase	Increase+
Beijing	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase+	Increase+	Increase+
Shanghai	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Increase+	Increase+	Increase+	Increase+	Increase+
Mumbai	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Increase+	Increase+	Increase+
New Delhi	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease+	Stable	Increase+	Increase+	Increase+
Kuala Lumpur	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease	Decrease	Stable	Increase+	Increase	Increase
Bangkok	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase+	Increase	Increase
Taipei	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase	Increase+	Increase+
Mature Markets	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Hong Kong	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Increase+	Increase+	Increase+	Increase+	Increase+
Seoul	Stage	Post Grow th	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Increase	Increase	Increase	Increase
Tokyo	Stage	Contraction	Contraction	Contraction	Recovery	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease+	Decrease	Stable	Increase	Increase
Singapore	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Sydney	Stage	Post Grow th	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Stable	Increase	Increase	Increase
Melbourne	Stage	Post Grow th	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Stable	Increase	Increase	Increase

Source: RREEF Research, January 2010

4. Industrial

Fundamentals in the Asian warehouse and logistics market continue to be in disarray in early 2010. The disruption of global trade flows has rippled beyond gateway markets and throughout the region. Singapore's rents will likely be cut to half of peak levels by the time its industrial market finally bottoms out. Demand has picked up modestly in China's major cities, but in other cities like Tokyo, conditions continue to weaken.

Industrial properties in the **Mature Asian Markets** offer mixed prospects for recovery, and Singapore, the world's top container port, currently finds itself in perhaps the most challenging position of the region's markets. When its industrial property cycle peaked in 2008, Singapore's space-starved office tenants were spilling over into business-park properties as they awaited new office blocks being constructed. Singapore's high-tech industrial properties faced a one-two punch from the subsequent downturn as the flow of new office and industrial tenants disappeared simultaneously. RREEF Research expects a total rental correction in Singapore of over 50% from the cyclical peak – by far the largest correction of any Asian industrial market. Recovery could be delayed until 2011, when rents should return to about 3% p.a. growth after the initial bounceback.

As the primary transshipment centre for the Pearl River Delta, Hong Kong's industrial market draws its tenants from freight forwarders active throughout the region. Recent leasing activity from this tenant base helped stabilise rents by year-end 2009. But even as this was occurring, the market was already experiencing some degree of cap rate compression (as was Singapore). RREEF Research projects that Hong Kong's industrial rents will stay mostly flat this year, following a 13% peak-to-trough correction. Rental growth should resume by 2011 and move into the next few years at a 2-5% p.a. growth pace.

One side effect of the global downturn was a sharp appreciation in the value of the Japanese yen. Currency appreciation and the disruption of external demand stung Japan's manufacturers and drove industrial production down sharply in 2008 and early 2009. Even though industrial production has since stabilised, its sudden collapse a year ago still lingers in the property market. Industrial rents will likely lose more ground in 2010 before eventually flattening in 2011. Modest growth of 2% p.a. is not likely to return until at least 2012.

Australia's industrial market is underpinned by a long-term lease structure with regular reviews, good transport infrastructure, and high quality stock. Current construction pipelines in both Sydney and Melbourne appear manageable, which is fortunate since tenant demand has not yet revived. In this cycle, industrial rents corrected by 10-15% and RREEF Research expects 2010 to be a period of little change in rental levels. By 2011, the recovery should bring moderate rental growth of 2-5% for Australia's two primary industrial markets.

Elsewhere in Mature Asia, Seoul continues to experience a relatively flat industrial cycle, through good times and bad. Rents will budge very little in 2010, but by next year should move toward modest rental growth of 1-2% p.a. over the subsequent recovery period.

Industrial rents in some of the **Emerging Asian Markets** – especially Shanghai, Beijing, and Kuala Lumpur – are positioned to bottom-out in 2010. Peak-to-trough rental declines ranged from 15% in Shanghai to 25% in Beijing. As the downturn began, Beijing already had industrial rents at a level lower than Shanghai, but the crisis has widened this differential even more. Beijing struggled more with its construction pipeline in 2009, while in Shanghai a number of projects were sufficiently postponed or delayed. Shanghai's geographic advantage is its position as the distribution hub for the Yangtze River Delta, which allows it to capture airborne and seaborne trade flowing into and out of central China. As an inland national administrative capital perched at the edge of Inner Mongolia, Beijing lacks many of Shanghai's geographic advantages of central location. Nevertheless, China's resilient domestic retail consumption growth provides significant opportunities for both cities. Over the longer term, the prospects for China's industrial markets look positive. Rising levels of domestic consumption, urbanisation and industrial production point toward significant long-term demand for logistics and distribution facilities. This growth will be further supported by China's commitment to upgrade and expand its

transportation infrastructure to a state-of-the-art status. RREEF Research projects industrial rents in Shanghai and Beijing to remain stable through the remainder of 2010, with growth resuming next year. Net effective industrial rents in the Shanghai market are likely to recover at a 2-5% p.a. pace in 2011 onward while Beijing's recovery will be more on the order of 1-3% p.a. growth.

Among other industrial centres in Emerging Asia, rents are still falling in Taipei and Bangkok where peak-to-trough rental corrections will be on the order of 10-15% by the time they hit bottom later in 2010. Kuala Lumpur, on the other hand, managed a soft landing in this cycle. Rents there corrected only 3% over the downturn and have stabilised already. As a consequence, KL's recovery will show little bounce. Contrast this with the shape of Taipei's recovery, where beginning in 2011, rents will gradually accelerate through a range of 2-4% over the next few years.

Exhibit 8: Asia Pacific Industrial Market Cycle

Industrial Market Cycle						
Emerging Markets						
YE09		Forecast Years				
GRW	PGW	YE10	YE11	YE12	YE13	YE14
REC	CON	REC	REC	GRW	GRW	GRW
GDP Growth*	6.7%	8.7%	7.9%	8.0%	8.0%	8.1%
Industrial Production Growth*	7.7%	13.1%	11.7%	9.9%	10.4%	9.9%
Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase

Mature Markets						
YE09		Forecast Years				
GRW	PGW	YE10	YE11	YE12	YE13	YE14
REC	CON	REC	REC	GRW	GRW	GRW
GDP Growth*	-3.8%	1.7%	2.1%	2.9%	2.8%	2.7%
Industrial Production Growth*	-16.3%	11.3%	6.7%	6.1%	4.3%	2.2%
Rent Momentum	Decrease+	Stable	Increase	Stable	Stable	Stable

* Weighted by the size of GDP at the national level in US dollar

Key: REC = Recovery GRW = Growth PGW = Post Growth CON = Contraction
 Source: RREEF Research, Deutsche Bank Research, and Global Insight, January 2010

Industrial Sector Outlook

Drivers

- Limited supplies of industrial land (Singapore, Hong Kong) boost the recovery prospects for major markets.
- Lack of good quality warehouse and logistics properties push rental values upwards in many emerging markets as the economy recovers.

Constraints

- Relatively weak economic recoveries in Europe or North America delay the rebound for export-led demand in Asia.
- Lacklustre demand in Tokyo lingers longer than anticipated.

Implications: Timing of changes

- Sharp downturns in major logistics markets like Hong Kong to be followed by relatively brisk recoveries, making them ripe for opportunity plays.
- Supply pipelines revive too quickly in China and Australia, spoiling an otherwise healthy rental recovery.

Exhibit 9: Asia Pacific Industrial Market Anticipated Performance

Out-Perform	Average	Under-Perform
Sydney	Shanghai	Singapore
Melbourne	Beijing	
Hong Kong	Kuala Lumpur	
	Bangkok	
	Seoul	
	Taipei	
	Tokyo	

Source: RREEF Research, January 2010

Exhibit 10: Asia Pacific Industrial Market Table

			Forecast				
		YE 2009	2010	2011	2012	2013	2014
Emerging Markets	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Beijing	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Shanghai	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Kuala Lumpur	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Stable	Stable	Stable
Bangkok	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease+	Stable	Stable	Stable	Stable
Taipei	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease+	Stable	Increase	Increase	Increase
Mature Markets	Stage	Contraction	Recovery	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Stable	Stable	Stable
Hong Kong	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Stable	Increase	Increase	Increase
Seoul	Stage	Post Grow th	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Stable	Stable	Stable	Stable	Stable	Stable
Tokyo	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease	Stable	Stable	Stable	Stable
Singapore	Stage	Contraction	Contraction	Recovery	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Decrease+	Increase	Increase	Increase	Increase
Sydney	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase	Stable	Stable
Melbourne	Stage	Contraction	Recovery	Grow th	Grow th	Grow th	Grow th
	Rent Momentum	Decrease+	Stable	Increase	Increase	Increase	Increase

Source: RREEF Research, January 2010

5. Appendix

The existence of property cycles provides an opportunity to forecast performance based on fundamental demand and supply drivers. As with other regions, our forecasting process in Asia Pacific is based on a thorough “top-down” and “bottom-up” approach. However, data limitations and the immaturity of many markets means less reliance can be placed on econometric techniques than in the more mature markets of the US and Europe.

In addition to the limited amount of consistent, reliable market information and the low level of market maturity, the fundamental structural changes occurring in many markets also limit the relevance of econometric techniques. For these reasons, our top-down approach is based on a combination of quantitative and qualitative assessments to provide an initial projection of demand and supply drivers, vacancies and rents.

These top-down forecasts are discussed in detail with our local experts and advisors to arrive at a well-grounded “real world” view of market prospects. Such a “real world”, rather than a purely “econometric” approach, is entirely appropriate for these opaque and less mature markets. The systematic analysis of the fundamental drivers of performance for such markets produces a series of forecasts which are helpful in understanding broad trends in relative performance.

The analysis reveals that different cycles pervade across geographies in terms of degree and timing. These reflect the economic fundamentals driving demand and specific supply characteristics at the local level. This Asia Pacific Property Cycle Monitor includes forecasts for 21 cities across 11 countries in the region in the office property sector, 13 cities for the retail sector and 11 cities for the industrial sector. These markets are classified according to their respective stages in the cycle and their prospects over the coming five years.

In our European Property Cycle Monitor, geographic location is the main criteria used in distinguishing broad trends in market performance, with significant differences being experienced in “Western” and “Central/Eastern” Europe. In Asia-Pacific, this approach is less suitable given the wider range in levels of market maturity across the region. As a consequence, we distinguish broad trends in performance according to the level of market maturity rather than geography.

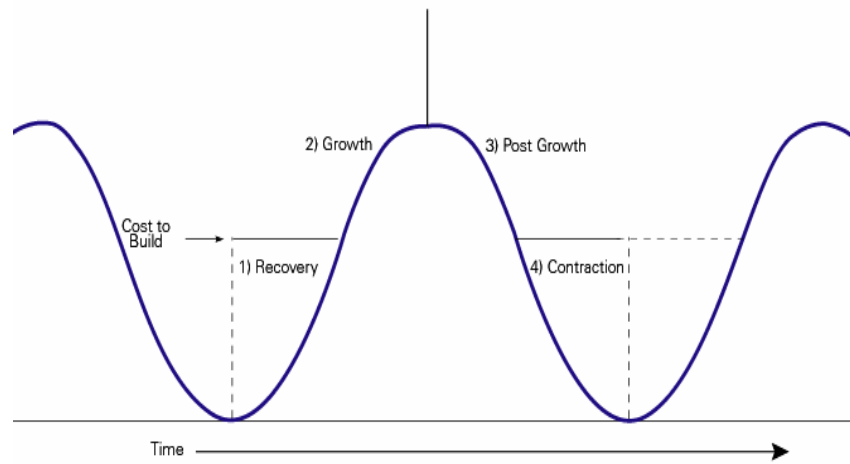
On this basis, the “Mature Asian Markets” group covers Australia, Hong Kong, Singapore, South Korea and Japan. It is clear that South Korea and Japan fall well short of the other markets in terms of their maturity, but recent changes in both markets and improvements in the institutional environment mean they are more similar to the “Mature” markets than the “Emerging” ones across the rest of the region. In contrast, China, India, Malaysia, Taiwan, Philippines and Thailand are clearly emerging markets and their behaviour, as well as the confidence that can be placed on any forecasts, need to be distinguished from the Mature group.

Given the different levels of economic maturity in Asia Pacific, two distinct market cycles are apparent. A separate cycle and overview is presented for mature and for emerging markets, together with an economic overview of the current and future prospects for each market.

Classifying the markets

Each property sector has a clearly identifiable cycle with four main phases: Recovery, Growth, Post Growth and Contraction (see Exhibit 11). The office market has the greatest volatility of the three main commercial sectors. The retail and industrial sectors are less volatile due to the relatively high levels of owner-occupation with less investment activity and limited modern supply, particularly in the industrial sector.

Exhibit 11: Property Market Cycle



Source: RREEF Research

Property market cycle

Stages	General conditions
1) Recovery	High but declining vacancy rates – stable to rising rents
2) Growth	Low and declining vacancy rates – rising rents supportive of construction
3) Post Growth	Low but increasing vacancy rates – rising/flattening rents
4) Contraction	High or increasing vacancy rates – falling rents

The position in the property market cycle is based on a combination of factors including the vacancy rate relative to the individual market’s historical average, change in vacancy rate and rate of rental growth. It is important to recognize that our analysis is based on movements in “headline” prime rents as data limitations prevent the systematic comparison of effective rents across markets. In general terms, effective rents will lead the recovery of headline rents, as a reduction in incentives tends to occur a number of months ahead of any movement in headline rents.

Rent cycle

In addition to its stage in the cycle, a “rent momentum” category is assigned to each of the markets for every year of the forecast period. This rent momentum, which helps establish the rate of growth at different stages of recovery, is based on the typology displayed in Exhibit 12. It is intended to show the general momentum behind potential changes in rent, not an absolute variation in rates.

Exhibit 12: Rent Categories and the Property Cycle

Momentum Category	Cycle Stage			
	Contraction	Recovery	Growth	Post Growth
Increase+			√	
Increase		√	√	√
Stable	√	√	√	√
Decrease	√			√
Decrease+	√			

Source: RREEF Research

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