World Expo — Building the Foundations for Shanghai’s Future
Shanghai has spent over USD 95 billion on infrastructure investment in preparation for the 2010 World Expo. To reflect the theme of “Better City, Better Life” – the Expo investments will make Shanghai a more integrated and more accessible city. The real legacy of the event will come from the opportunities that this new infrastructure creates across Shanghai in all commercial and residential property sectors. Indeed, the foundations for a new decade of growth and expansion for the city of Shanghai have been put in place.

In this paper, we seek to answer three questions:

- What opportunities does the 2010 World Expo hold for Shanghai real estate?
- What are the specific impacts on each property sector?
- What are the longer term opportunities that result from the city’s infrastructure investment?

To unveil a modern city to the world, including an estimated 70 million domestic and international tourists, new infrastructure development has put first-rate hardware in place that more closely integrates Shanghai with its suburbs, neighbouring cities, and the surrounding region. At present, urban regeneration in the city centre and along the waterfront is being spearheaded by iconic developments. In addition, the Expo has given Shanghai an opportunity to implement stricter environmental protection and an occasion to beautify its surroundings, making the city a more attractive place to live, visit, and conduct business.

The making of a better city

The Expo has played a central role in driving the infrastructure build out which is transforming Shanghai. Similar to Beijing’s experience with the Olympics, the Shanghai government has mobilised enormous resources to ensure that all projects are completed on time, and the city can show its best face to the world. As of November 2008, the total infrastructure investment committed through 2010 was estimated at RMB 500 billion (USD 73 billion). Another RMB 150 billion (USD 22 billion) were newly allocated by the Shanghai government in conjunction with the Central government’s 2008/2009 fiscal stimulus plan – part of the response to the global financial crisis. The construction projects themselves have boosted employment and economic growth in the short term while laying the foundation for the city’s future in the decades to come. Over the last two years, the scale and pace of infrastructure development in Shanghai surpasses anything the world has ever seen.
The Metro Network: a Critical Component

The build out of the Shanghai Metro over the last five years will ultimately be the most important legacy of the Expo. In 2005, the city had only three metro lines and by 2008 a total of eight lines were operating. On the Expo's opening day, the 1st of May 2010, 12 lines will be running with a total network length of 420 km (Map 1). The Metro's long-term plan calls for a total of 20 lines to be completed by 2020 that would extend across 960 km. This would make the Shanghai Metro one of the most extensive subway systems in the world. Along with a stated goal of developing Shanghai's suburbs and satellite cities, a multi-centre city, city planners are aiming for a more efficient transport system in the high-density urban areas. For the property sector, the expanding network will enable new, affordable homes located in the suburban areas to be connected with the traditional downtown core. The metro network is also triggering more sophisticated forms of real estate development around the city’s new hubs – the Metro stations – where opportunities abound for further development.

Regional Transportation Links: Shanghai and the Yangtze River Delta

Together with the massive Metro system development, investment in inter-city rail projects in the Yangtze River Delta has also intensified. The heavily travelled Shanghai-to-Nanjing corridor saw high-speed trains introduced in May 2007; in addition, a new bullet train, capable of speeds up to 380 km/h, will be launched on 1 July 2010. The new line, which will provide both express and local passenger service, frees up the existing line for dedicated cargo usage — capacity that is sorely needed as manufacturing moves further inland. Trains capable of similarly fast speeds from Shanghai to Beijing and Shanghai to Hangzhou will be completed in 2011, connecting the three capital cities in the Yangtze “economic circle” with the Bohai Bay region.

Map 1: Metro Lines
The cornerstone of the regional rail network will be the new Hongqiao Transportation Hub, which sits adjacent to the Hongqiao International Airport. The hub will be the main transfer point between intercity and express trains, the Metro, the Maglev, long-distance buses, urban bus services, and the airport. In March 2010, Hongqiao airport opened a second terminal with expanded domestic and international service. The Transportation Hub is expected to provide a large boost to the development of Shanghai’s western edge for years to come.

Freer movement within the CBD is a major contributor to improved quality of life for those working downtown.

Unveiling the opportunities in property

The Office Sector: Accessibility drives value

In the CBD, buildings with direct subway access will be increasingly differentiated from those without similar access as the metro system expands and more employees commute to work underground. Higher accessibility drives higher demand and rent which in turn, drives higher capital values. In addition to the metro – tunnels and new road configurations are having a similar effect. Lujiazui has already experienced a surge in popularity due in part to the second wave of infrastructure for the area, including three new tunnels and a reconfiguration of the internal road network. Freer movement within the CBD is a major contributor to improved quality of life for those working downtown. As the city grows in both population and area, the metro will ease traffic congestion by providing a viable alternative to driving (Figures 1 & 2). Similar to Hong Kong, this will prove to be an important competitive advantage for Shanghai compared to other major cities in China. The gains in efficiency and ease of doing business due to convenient transportation cannot be overstated.

Decentralised offices become practical

The expanded metro system is facilitating the development of Grade A quality office space in decentralised areas around Shanghai. Most employees use public transport to get to work and now decentralized locations are increasingly becoming more convenient, accessible, and attractive options. In the past, a move to a decentralised location, usually to take advantage of lower rents, meant risking high staff turnover, but better accessibility going forward will result in less employee opposition to such moves. CBD office rents recently began a new cyclical upward trend; and this, without a doubt, creates opportunities for landlords and developers of buildings in decentralised areas. Since more than half of the existing tenants in decentralised Grade A buildings are former CBD tenants, the CBD will face strong competition from the booming
decentralised Grade A office market, which will continue to offer highly competitive rents for years to come. The development of decentralised Grade A buildings is a natural progression in the maturation of Shanghai’s office market — closely following a process witnessed in mature markets around the world.

Rapid growth ahead
At end-2009, the decentralised Grade A office market comprised only 415,000 sqm of space. This small market will grow to nearly 1.8 million sqm by the end of 2013 (Figure 3) – a volume that will put it in the same league as the more established CBD Grade A markets. The districts of Hongkou, Zhabei, Putuo, and outer sections of Changning will form the majority of the decentralised market. The Changning office market will get a boost from its proximity to the Hongqiao Transportation Hub which will feature prominently in most domestic business travel.

The early stages of the decentralised market’s development already show clear demand patterns. Cost-sensitive occupiers recognize that today’s relatively low CBD rents will not last forever and decentralised office needs to be part of their long-term strategy. Decentralised Grade A space is the most common choice for tenants in the manufacturing, technology, logistics, and trading sectors, as well as other industries that do not require a high-profile location. Grade A buildings in Shanghai’s CBD still host tenants that would traditionally choose decentralised space in mature markets. CBD tenants will account for as much as one-half of the net absorption in new decentralised Grade A buildings. In addition, tenants in nearby Grade B buildings will take the opportunity to upgrade to new Grade A quality offices.

The Retail Sector: Increased opportunities for international retailers
Bolstered by some of the world’s strongest consumption growth, Shanghai’s sophisticated, trend-setting shoppers are highly appealing to international retailers. The Expo accelerated the expansion plans of international brands seeking exposure to the expected 70 million, predominantly domestic, visitors. These Chinese tourists will naturally be drawn to stores that are not yet in their hometowns. The brand recognition these retailers establish will make it easier for them to find acceptance once they expand into new cities in China.
Brands have acted quickly to open new shops in some of the city’s high-profile developments. As many retailers use Shanghai as their launching pad for China, a wave of new brands across the retail spectrum are now making their debut. Apple, opening company-owned flagship stores, The Gap, making their market debut, Berluti, new in the luxury sector, D&G, Dolce & Gabbana’s bridge line, Bershka, Zara’s younger brand, and Carl’s Jr, an American hamburger chain, show the wide range of examples. All of Shanghai’s main retail areas will benefit from increased foot traffic during the Expo as well as spillover from major tourist destinations like the Bund, Nanjing East Road, and Oriental Pearl Tower.

Mall upgrades have redefined downtown retail
With Shanghai’s ultra-low retail vacancy rate, retailers must compete for prime downtown locations where premium rents are the norm. With limited space to build new malls downtown, many older shopping centres have undergone renovations to modernize and expand their trading area to maximize their asset value. Malls that are five to ten years old have been able to increase their net lettable area while maintaining the same footprint. At the same time, they have adjusted their tenant mix by steadily improving the brands on all levels of the mall, moving to higher-end positioning in most cases. Retailers are finding a growing range of schemes that match their brand image and market positioning.

Grand Gateway and Super Brand Mall emerged from the repositioning process as retail powerhouses in Shanghai. Two Huaihai Road properties, Lippo Plaza and Hong Kong Plaza, have completed renovation and upgrade works recently, with Louis Vuitton and Ermenegildo Zegna entering Lippo Plaza, and Coach opening its largest store in China in Hong Kong Plaza. Tiffany, Apple, Cartier, and Longchamp are also set to enter Hong Kong Plaza. Meanwhile, Hermes is opening a flagship store in an historic multi-story building nearby.

Beyond prime and into decentralised
The Expo’s impact on the retail sector will be more lasting than the six-month increase in tourism. Just like the office market, the expansion of the subway network is also opening up a vast decentralized shopping market. Increased foot traffic around the new metro stations is creating opportunities for retail and mixed-use developments at these natural gathering points. In the outer areas of the city, subway stations are the preferred locations for community shopping centres, typically anchored by a hypermarket. With the metro network’s rapid and continued expansion, many more new developments of this type will appear in the next three to five years in areas such as Minhang and Putuo districts.

Between the suburbs and the city centre, many metro stops are ideal points for larger regional shopping centres with catchment areas encompassing all of the outlying stations, potentially catering to over one million residents. These locations provide ideal opportunities for international and domestic mass-market brands to reach consumers closer to their homes. Cloud Nine in Zhongshan Park and Daning Life Hub in Zhabei district are two examples that have already proven successful. In fact, their catchment areas continue to grow with the extension of the subway lines: the northward extension of Metro Line 1 in
late-2007 and the westward extension of Metro Line 2 in late-2006 and again in March 2010 have put hundreds of thousands more consumers within the reach of these malls. New contenders in the regional shopping centre space include Sky Mall, located at the point Metro Line 1 ends and Metro Line 5 begins, and Plaza 96, which lies at the crossroads of four metro lines at the Century Avenue station in Pudong.

International fast-fashion brands have included these emerging decentralised shopping centres in their footprint with greater frequency. For instance, H&M has three stores in prime downtown locations and five in decentralised areas. C&A has three prime locations and another five in decentralised areas. For both retailers and developers, decentralised retail in Shanghai truly captures the opportunity to cater to China’s emerging middle class.

The Logistics Sector: Short-term demand, long-term growth

During the Expo, the needs of exhibitors and visitors will sustain a high volume of freight throughput and demand for warehouse space. Direct demand for logistics services during the Expo will come from the high volumes of inbound items – such as water, food, paper products, exhibit brochures, and other consumables – and, correspondingly high volumes of outbound trash. Ensuring that sufficient quantities of food and beverages reach the site throughout the day will be critical as the average daily visitor arrivals are expected to be at 400,000, which doubles to 800,000 during peak days (Figure 4).

The large volume of Expo-related cargo will lead to a temporary increase in warehouse demand during the event. The Expo’s Organizing Committee has built three temporary warehouses with a total area of 37,500 sqm at the Expo site. However, once the Expo ends and the exhibits are shipped back to their home countries, the temporary warehouses will be demolished. The movement of goods through the city’s ports will be facilitated by temporary customs regulations to streamline the import process (Table 1).

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Detail</th>
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<tbody>
<tr>
<td>Central Management &amp; Customs Clearance Facilitation</td>
<td>Cargoes certified for the Expo will be managed separately, and the customs clearance process of these cargoes will be accelerated.</td>
</tr>
<tr>
<td>Time Extension for Temporary Admission</td>
<td>Temporarily admitted, Expo-related cargoes are allowed to be re-exported within one year after the first entry, instead of the standard six months.</td>
</tr>
<tr>
<td>Cargo Guarantee System</td>
<td>The Shanghai Expo’s Organizing Committee will guarantee inbound cargoes in order to simplify the import procedure.</td>
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<tr>
<td>Dedicated Customs Office</td>
<td>A customs office will be established within the Expo site to provide a one-stop service for all Expo-related cargoes.</td>
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Source: Shanghai Customs District, People’s Republic of China

Figure 4: Daily Visitor Arrival Forecast

Source: Transportation System Planning of Shanghai Expo 2010, School of Transportation Engineering Tongji University
Opportunities for more warehouse development

The Expo’s long-term impact on the logistics sector will come from the numerous infrastructure improvements to Shanghai’s highways and ports. Entrances and interchanges for newly completed highways provide ideal locations for new warehouses. Distribution centres serving the Greater Shanghai area will have a wider range of sites to choose from because of the expanded highway network. Residential and retail development in Shanghai’s rural and suburban areas will drive demand for these new distribution facilities.

Residential Sector: A bright future for waterfront residential development

The redevelopment of the Expo site itself will play an important part in the event’s long-term impact on the residential market. After the Expo concludes, most of the pavilions will be dismantled and the vast site will form the single largest downtown landbank for residential construction. Many of the key cultural facilities built for the Expo will be preserved and with the tranquility of the riverfront and generous provisions for public green space, the multi-square kilometre site is an ideal location for high-end and luxury residential towers. With strong links to the Puxi CBD area, the northern (Puxi) portion of the Expo site adds developable land in a part of the city centre with an extremely limited land supply due to the high compensation and relocation costs of existing residents, costs which have soared in recent years. Meanwhile, the southern (Pudong) portion of the Expo site, which will likely witness the emergence of new mass-market and high-end residential projects, is referred to in official documents as a future “Urban Residential Mixed Development Zone.” Both the northern and southern portions of the Expo site will enjoy some of the best waterfront views in Shanghai – a feature that would command significant premiums in other parts of the city such as Lujiazui. Land auctions for parts of the Expo site will be an important trend to watch in the next two years.

A few important short-term effects will also be felt in the city’s leasing market. Some estimates put temporary job creation from the Shanghai Expo to be as high as 220,000 jobs, of which 100,000 will be in the service sector. In any case, many temporary jobs will be filled by workers from other provinces. This creates a large boost in leasing demand in areas close to the Expo as well as in the traditional tourist areas.
Neighbouring areas are already redeveloping
Beyond the borders of the Expo site, residential development is already starting to flourish in the neighbouring riverfront areas. Collectively known as the Binjiang (Riverfront) areas, they span the northern banks of the Huangpu in Luwan, Huangpu, and Xuhui districts. These areas are undergoing a transition from warehouses and stockyards into luxury residential properties. For the next decade, investment opportunities in new luxury apartments will increasingly be found in these areas. Luwan Binjiang will be the first to reach maturity as it has already undergone major new construction and launches over the last two years. The Huangpu and Xuhui waterfront areas are also set to experience dramatic urban renewal in phases over the next ten years. In spite of a potential waterfront condominium boom, the future luxury residential stock in Shanghai is expected to remain small relative to the size of the overall market, thus helping ensure its potential for long-term capital appreciation. Nearby neighbourhoods within a kilometre of the Huangpu, which currently comprise older housing stock, are likely to experience a wave of gentrification due to the high incomes of new residents.

The Binjiang Area
The Binjiang refers to the waterfront area in Puxi that spans the southern ends of Luwan and Huangpu districts, and the easternmost portions of Xuhui district. To its north lie the historical Bund area, the Core CBD, and Xujiahui. At the time of writing, several luxury residential offerings in the Binjiang area were priced in the range of RMB 50,000–100,000 per sqm or higher, with older projects having appreciated considerably. For instance, Hong Kong New World Garden launched its first phase prior to the announcement of the World Expo plan in 2002. During that time, the asking price for the project’s offering was in the range of RMB 4,000–6,000 per sqm. At present, the second hand apartment price in Hong Kong New World Garden stands at RMB 20,000–30,000 per sqm. Phase II of the project, known as Dynasty on the Bund, launched in April 2010, and the asking price was about RMB 60,000–70,000 per sqm. Well-established developers such as Greentown, Greenland, and Glorious Property already have luxury residential projects in the Binjiang Area. Several key examples of which are:

- The Greentown-developed Bund House, which is located 1.7 km from the Expo site. It launched 88 units on August 8, 2009, and sold 85 units by the end of that year at an average transaction price of RMB 53,160 per sqm.
- Greenland, which launched 63 units at their Hysan project at the end of September 2009 sold 37 units by the end of the year with an average price of RMB 73,609 per sqm.
- Glorious Property’s Shanghai Bay has witnessed a sharp, upward price trend: February 2008 – RMB 28,000 per sqm; January 2009 – RMB 38,000 per sqm; and August 2009 – RMB 55,000 per sqm.
**Driving value on the urban fringe**

Far beyond the Huangpu riverfront, the metro system build out and road infrastructure development have supported the frenetic growth of the suburban mass market residential sector. As Shanghai’s peripheral areas have become integrated with the city centre, they now account for 80% or more of new apartment sales. With new subway lines and extensions opening in the last few months, four of Shanghai’s nine major satellite districts have now become easily accessible via the Metro: Songjiang, Jiading, Luodian, and Chuansha. Opportunities abound for more amenities and facilities to serve these growing suburban populations. In addition, demand from residents relocated out of the city centre has further accelerated the development of suburban housing estates both in the open market and in the price-controlled economic housing markets.

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**Opportunities abound for more amenities and facilities to serve growing suburban populations.**

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**Sanlin Property Surge**

Beyond the south side of the Expo site, the area known as Sanlin is going through a major transformation. Extending southward from the site all the way to the Outer Ring Road, the area largely consisted of nondescript relocation housing for residents displaced by Puxi CBD projects in the 1990s. Until recently, the area was considered remote. But the Expo’s proximity, as well as metro access from the recently built Lines 6 and 8, has changed that perception as Sanlin witnessed the emergence of at least 15 high-profile residential developments and a 90,000-sqm shopping mall. As development took off in late-2007, ten projects totaling RMB 6.5 billion were announced within the Pudong Sanlin area. The area has also seen the entry of additional hypermarkets and a New World Department Store. New apartments are now transacting in excess of RMB 25,000 per sqm, which is above the city average price level.
Hotels Sector: Bringing in the MICE

A turning point for the industry?

For 5-star hotels in Shanghai, 2005 marked the height in RevPAR (Revenue per Available Room, a combined measure of occupancy and average room rate), which reached over RMB 1,200 that year. By 2009, with the combined impact of new supply and the global economic crisis, RevPAR for 5-star hotels was only RMB 607, which is just half of the 2005 level (Figure 5). The significant decline in room revenue, which makes up more than 50% of total revenue, has triggered low profitability and has put heavy pressure on hotel owners and management. As a result, all eyes are on Shanghai’s World Expo to help spur hotel demand and revenue that many have been waiting for. While the verdict of the Expo’s impact on the hotel industry is still being speculated, we can assess some of the short-term and long-term effects that are already taking shape.

Differences with the Olympics

The World Expo’s projected impact on the tourism and hotel industries have often been compared to the Beijing Olympic Games. While both events will attract an extraordinary number of visitors, the nature of these two events is quite different, thus giving rise to different hotel needs. The Olympic Games is a two-week long sporting event, whereas the World Expo will span over six months with 200 participating countries promoting trade and commerce. The broad appeal of participants, industries, and interest groups would be far reaching and would have multi-faceted effects locally and on surrounding economies. With over 70 million expected visitors estimated by the Shanghai Tourism Bureau, hotels are likely to see an increase in hotel demand generated by leisure, MICE, and business travellers. Economy products, such as budget hotels, will benefit largely from domestic leisure travellers. MICE events will generate lodging as well as catering and meeting facility needs. Further, a fair amount of long-term stay demand will be generated by delegates and companies that would seek lodging facilities to host their employees and visitors in a common location throughout the Expo.

MICE events will generate lodging as well as catering and meeting facility needs.
Market pressures and risks
Despite the overall optimism regarding business opportunities to be generated by the World Expo, there are reasons for Shanghai hotels to remain vigilant. Government actions on travel policies before and during the Beijing Olympics had caused many hotels to adopt last-minute operating changes. Since the Expo spans a much longer period than the Olympics, many have questioned whether tight travel measures can be implemented. However, hotels remain careful with their projections and are anticipating short lead-time on bookings. In the long run, Shanghai hotels, similar to those in Beijing, will operate in a market with more competition. In 2010 alone, over 7,500 rooms of internationally branded hotels will be added in Shanghai (Figure 6). This will undoubtedly add pressure to the already cautious market. Large-scale events such as the World Expo and Olympics are exceptional opportunities for China to be seen and experienced by the rest of the world. Barring creating short-term interruptions and inconveniences, these events often propel and transform local economies with lasting impact. Shanghai has a strategic role in China’s overall economic growth. As such, its hotel industry will stand to benefit beyond the Expo and would continue its leading and gateway position.

Figure 6: Major Internationally-Branded Hotel Supply in Shanghai (Existing and New Supply)

Rooms
50,000
40,000
30,000
20,000
10,000
0


Existing Supply New Supply

Source: Jones Lang LaSalle Hotels
Construction stoppages will impact the downtown area.
Construction restrictions will be in effect from April to October as the city aims to create the best possible environmental conditions for the duration of the Expo (Map 2). Construction on real estate projects will be halted in a core area surrounding the Expo zone and a larger area will require the suspension of piling, foundation, and demolition work. For the real estate market, this means that many projects are being rushed to completion before the Expo across all sectors: office, hotel, retail, and residential. Several hundred thousand square metres of office space, for example, could enter the market in the second quarter of 2010. Those that miss the window will be part of the next block of completions expected in the first quarter of 2011. Fit-out work will also be halted near the Expo site, which will affect movement and relocation of office and retail tenants. This is expected to cause a surge in commercial leasing activity towards the end of the Expo due to the back-ups created by move-in restrictions. A change in rules is possible at any time. Areas along the border of stoppage zones may be subject to case-by-case interpretation of the rules. Additionally, based on previous experience with the 2008 Beijing Olympics, there remains the possibility of delays in pre-construction submissions and approval, power and telecom connection and upgrades, transportation of materials to the downtown area, and worker access to sites and buildings.

Map 2: Construction Restrictions
The Bigger Legacy

In the future, the Expo site will not sit as an empty reminder of the six-month event. While the foreign pavilions are, by tradition, temporary structures, the site will contain a permanent exhibition and conference centre on the Pudong side and a cultural exchange centre on the Puxi side. The former shipyard portion will also host a permanent modern industry museum. In addition, a generous amount of green space will be preserved to mark the area’s distinction as a community gathering point.

The long-term legacies of the event will be in the massive improvements to the city’s infrastructure. Investors and developers can look forward to tremendous opportunities in the city’s outlying areas – in office, retail, residential, and logistics – which were previously not feasible. Accessibility is driving higher rents for landlords, which, in turn, drives higher property values. The Shanghai Metro is improving quality of life by enabling free movement throughout the city, thus solidifying Shanghai’s position within China as a favourable place to live, work and play. After 15 years of rapid development, the city of Shanghai is far from complete. The Expo does not represent the end of Shanghai’s development; it merely lays the foundation for the city’s growth in the future.
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