On the pulse of
the property world

IPD Global Cities Performance Commentary, Issue 2

May 2012

Key analytical findings from the IPD Global Cities Report of real estate performance data across 60 cities worldwide

Prepared by IPD

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Introduction

If 2010 represented a comeback year for global property markets, then 2011 must have given real estate investors pause for concern. The year kicked off with a bang – severe flooding in Australia, a wave of political instability across North Africa and the Middle East, and a cataclysmic earthquake and tsunami in Japan. Investors remained patient at first, but by mid-year, confidence began to unravel as more issues mounted.

A key concern was that policymakers in Europe and the US appeared increasingly unable to manage their respective fiscal situations. As leading indicators retreated, economists began incrementally scaling back their forecasts. As all of this unfolded, financial markets fell into a downward trajectory that lasted until late 2011.

So how did this pattern of economic events impact the world's property markets in 2011?

Very little it appears, at least on the surface. The IPD Global Annual Property Index, measuring the combined performance of 24 national real estate markets, showed an increased total return of 9.8% in 2011, up from 9.4% in 2010.

The full city level dataset available in the IPD Global Cities Report goes further to analyse the performance of 60 global cites in these 24 countries. Performance data included in the global index and Global Cities Report covers the four major property types – retail, office, apartment and industrial.

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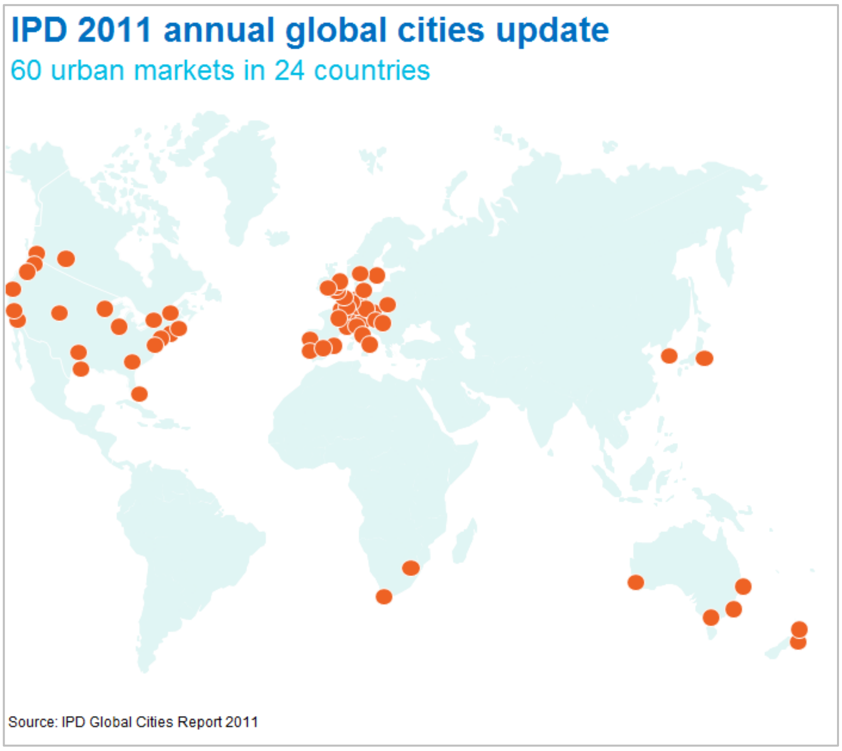


The geographic composition of IPD's weighted All Property global index may partially explain why commercial real estate across national markets fared so well in 2011.

- Firstly, the US economy in late 2011 was less fragile than initially perceived.
- Secondly, large markets like Canada and Australia continued to find swift demand for their exports.
- Thirdly, the initial economic dent caused by Japan's earthquake showed signs of stabilizing by year-end as the country geared up for reconstruction in affected areas.
- And finally, recession in Europe masked significant geographic differences in growth between those peripheral Eurozone sovereigns which had fallen into deep recession, and the core markets of North Central Europe where economic indicators were considerably less dire, especially in the first half of 2011.

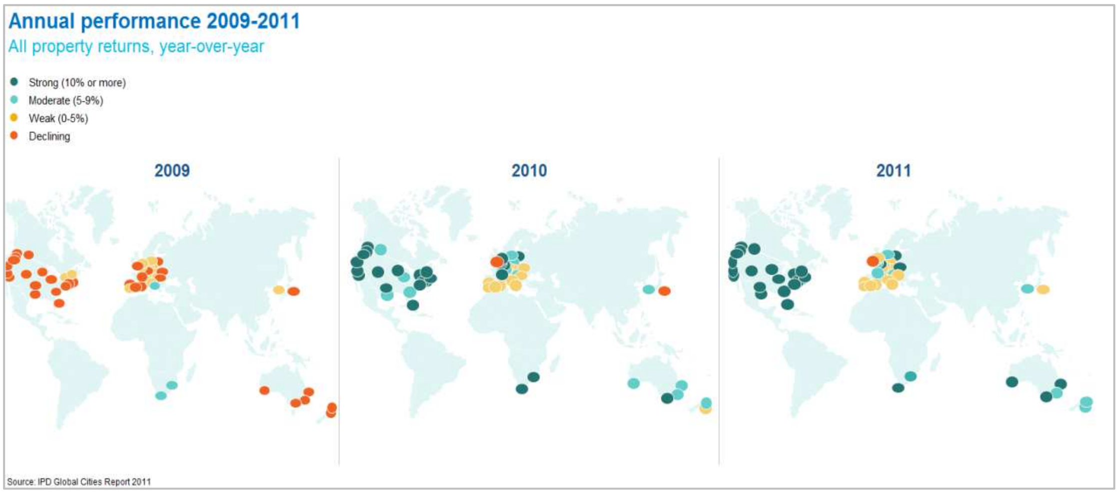
As we did for the previous update to the IPD city level performance dataset, we have disaggregated the year's commercial property performance across 60 cities globally.

All trends shown in this performance commentary are based on performance in local currencies. By keeping performance in local currency, the intent is to highlight pure property dynamics alone, without regard to currency fluctuations or repatriation of returns.

IPD compiles operating data from more than 60,000 individual assets worldwide, valued at US$1.3 trillion, to measure the overall performance of property sectors and markets.

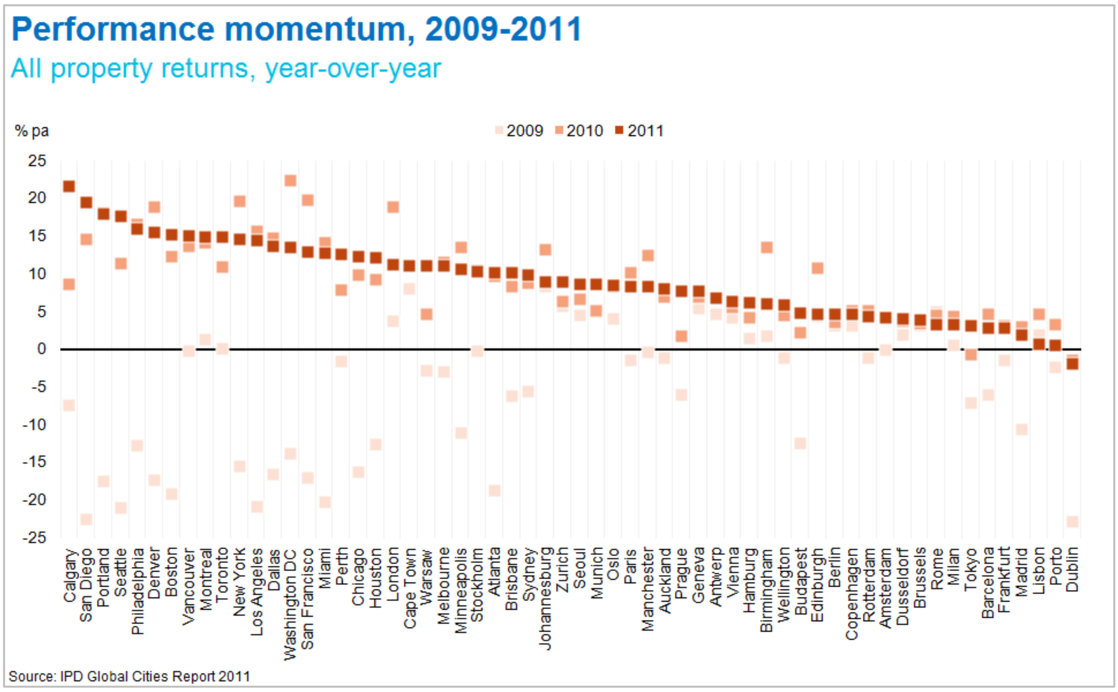
Like all of IPD's datasets, the 2012 edition of the IPD Global Cities Report draws data from the extensive depth of coverage in our national databases, and is intended as an analytical tool for portfolio managers, global strategists, and risk managers.

2011: The year in review



While 2010 ushered in a clear cyclical recovery across global city property markets, 2011 provided more nuance. The year's most palpable shift was the strengthening of urban property markets across Canada.

The below chart positions Calgary as one of the world's most improved markets, with total returns of 8.7% in 2010, shooting up to 21.6% in 2011. An energy-driven economic boom in Alberta, Calgary's home province, generally benefited the city, and brokers reported prime office space in the central business district to be near full occupancy at year-end.



Total returns in the US and Australia offered mixed indicators of momentum in 2011. In the US, a few cities like San Diego and Seattle built steadily on their already solid returns from a year ago. Chicago and Houston also strengthened, though the gains were less robust.

Elsewhere, several major US cities that had turned in stellar performance in 2010 began to lose momentum during the year. Washington, San Francisco, and New York were among those US markets with lower performance in 2011.

In Australia, most of the upward momentum in 2011 could be traced to Perth. A year ago, Perth's All Property total return of 7.8% lagged behind Melbourne, Sydney, and Brisbane, but in 2011 the city's All Property return rose to 12.7%, catapulting Perth ahead of its domestic rivals on the eastern side of the continent.

In Europe, the UK markets ceded considerable ground in 2011. All Property total returns in Manchester, Birmingham, and Edinburgh fell back into single digits from strong double-digit performance a year earlier.

London also lost ground, though its total return of 11.2% in 2011 left it perched in the double digits; enough to keep it ahead of weaker cities in the US (Minneapolis, Atlanta) and Australia (Melbourne, Brisbane, Sydney).

Total returns in the rest of Europe were relatively stable, though a few cities – including Paris and all of the Iberian cities – did pull back from their year-ago returns. At the same time, total returns still edged up marginally across most German cities (Frankfurt was an exception). Eastern European cities also stirred in 2011, with total returns rising in Warsaw, Prague, and even Budapest.

In Asia, All Property total returns strengthened in Seoul, from 6.7% in 2010 to 8.7% in 2011. Of the 60 global cities IPD covers, Seoul's performance stood almost exactly at the 2011 median, positioning it ahead of most of Europe but still trailing all North American cities.

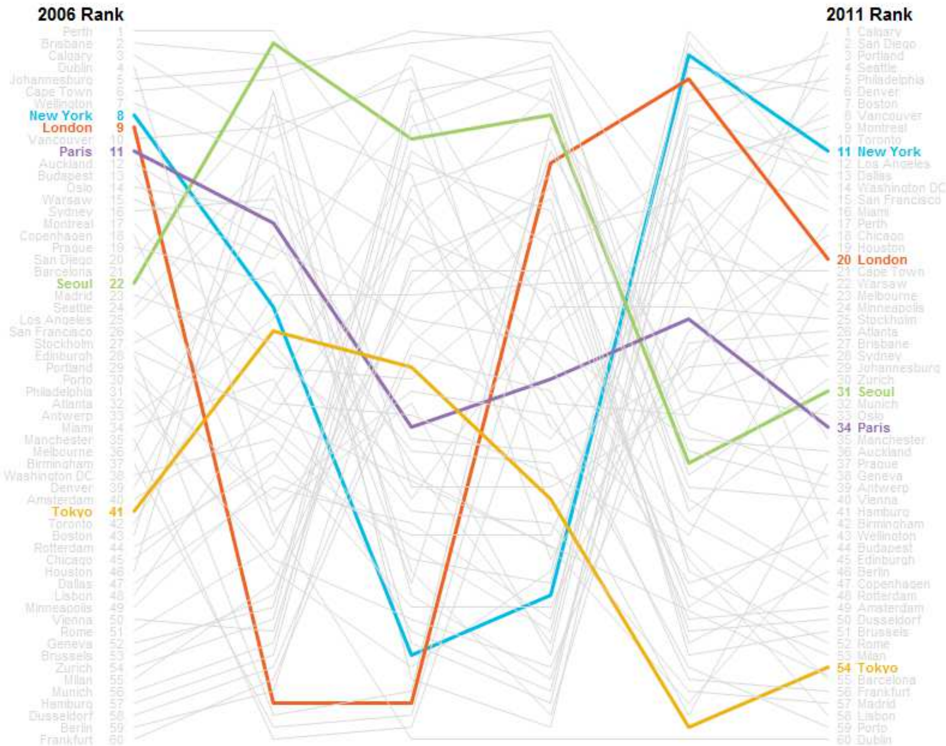
Only four cities in Europe – London, Warsaw, Stockholm and Zurich – provided higher returns in 2011 than Seoul. Tokyo's All Property total return moved into positive territory in 2011, leaving Dublin as the only city with declining overall performance among the 60 observed. Investors will keep a close eye on Tokyo in 2012. A construction overhang looms over the city's office sector in 2012, but in the industrial sector fundamentals have shown solid improvement.

Two subtle trends can be gleaned from the 2011 dataset in IPD's Global Cities Report.

The first underscores the divergence of cyclical patterns across property markets. Variations in cyclical timing can force dramatic shifts in the relative ranking of cities based on their total returns. As an example, consider five key property markets spanning three continents – London, New York, Tokyo, Paris and Seoul as outlined below.

All property return rankings for 5 major global cities since 2006

Timing of cycles varies widely



Source: IPD Global Cities Report 2011

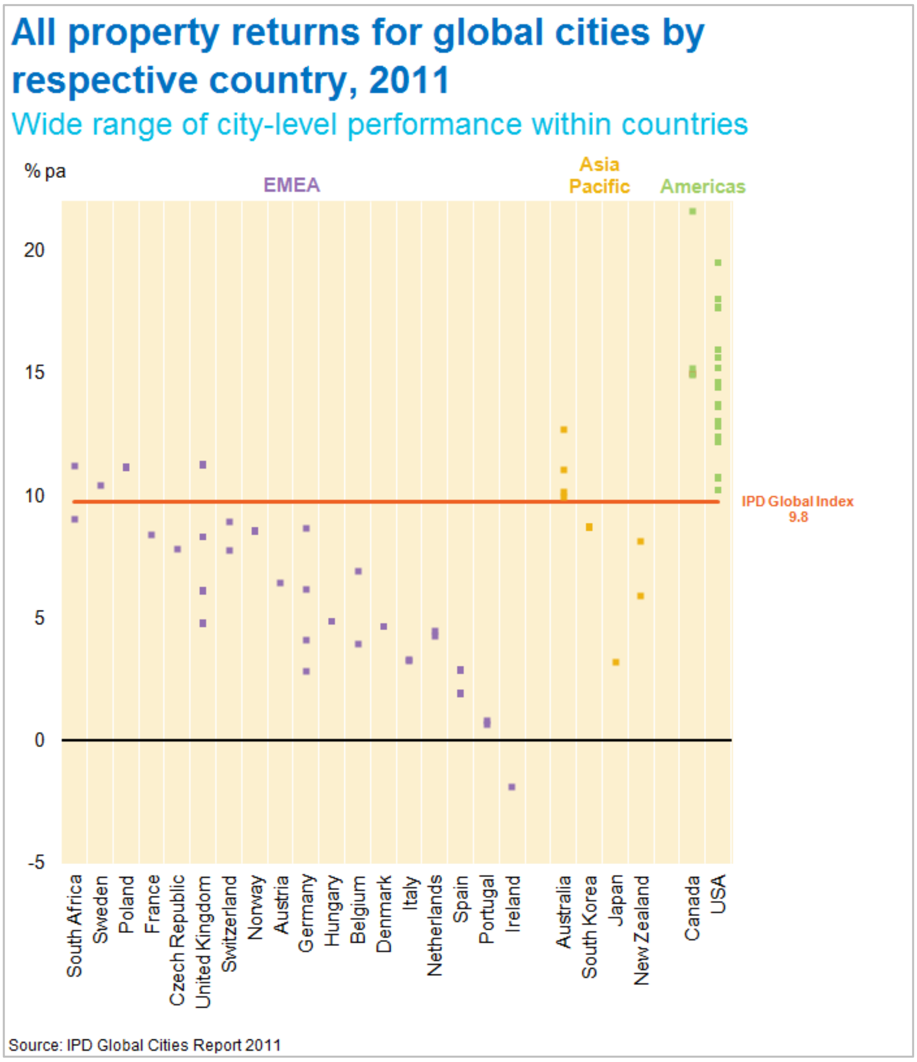
In 2006, major markets like New York, London and Paris were among the best performing of the 60 cities IPD measures.

In 2007, with the global property cycle beginning to turn, these three cities tumbled quickly in the rankings, especially London which fell out of the top 10 to the 57th position in a single year.

From 2007 through 2009, cities like Seoul filled the void left behind. For three consecutive years, Seoul ranked among the 10 best performing urban markets as the global economy stumbled. Though it was always lower in the annual rankings than Seoul, Tokyo's property market still followed a similar trajectory over the past cycle, rising up in the rankings as more volatile cities slipped back.

Now skip forward to 2011. The shifts in ranking over the past year are notable for their subtle similarities to 2007. London, New York and Paris again slipped down in the rankings in 2011, just as Seoul and Tokyo began moving up the chain in relative performance.

A second trend that can be illuminated in the 2011 city level dataset is the variation in property market performance within countries, as shown below.



Calgary's 21.6% total return and Dublin's -1.9% represented the two extremes of the global market in 2011. The performance of these two cities was separated by 2,350 basis points (bps). It is often assumed that much of the variation across markets can be explained by country performance and that cities within individual countries vary only marginally from each other.

IPD's global city performance data shows this is not necessarily the case. In the handful of countries – Australia, Canada, Germany, the UK, and the US – where IPD's coverage extends to three or more cities, a relatively wide range of intra-country performance could be observed in 2011. In the US, for example, the city with the best performance (San Diego) was separated from the worst (Atlanta) by 928 bps. These US city variations alone equated to 39% of the global performance range in 2011.

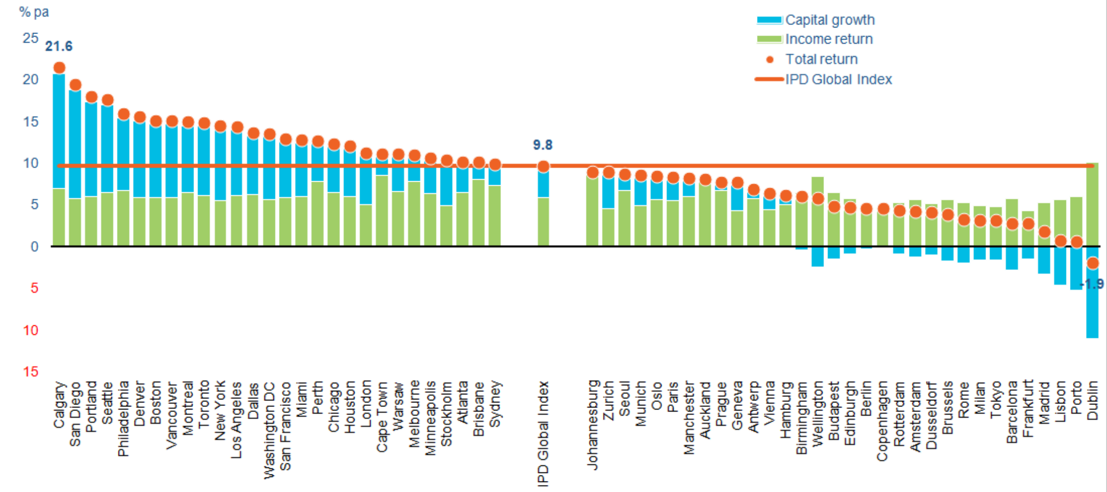
Smaller countries than the US also showed significant variation across their domestic urban markets. The range of city performance in Canada (666 bps) and the UK (647 bps) each took up about 28% of the global spectrum. German cities, separated by 585 bps from best (Munich) to worst (Frankfurt), sprawled over 25% of the global range, and Australian cities (280 bps) stretched across 12% of global performance bandwidth.

Performance and pricing

Positive total returns could be found in 59 of the 60 global cities in 2011, with Dublin the sole exception as shown below.

Total global returns by city, 2011

Annual results based on local currency



Source: IPD Global Cities Report 2011

The year's solid performance owed greatly to income returns, which offset lagging capital growth. Capital value declined in 20 of the 60 cities in 2011. These included all of the cities in the troubled Eurozone markets of Ireland, Spain, Portugal and Italy. Capital values also slipped in parts of Germany and the Benelux region, as well as in Tokyo.

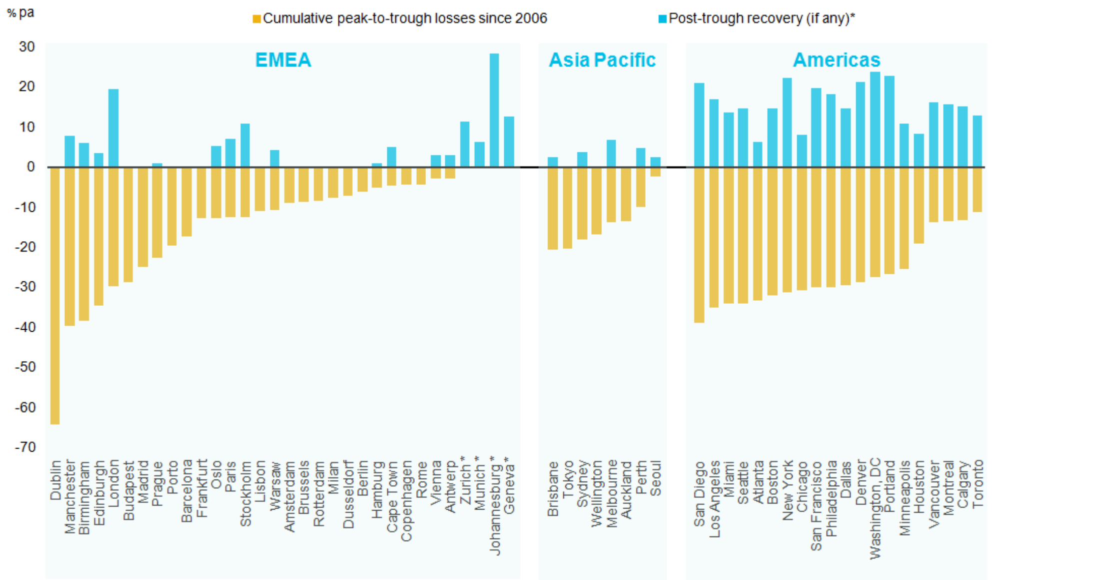
In only 18 of the 60 markets did capital growth actually exceed income return in 2011, and of these cities, 16 were in North America. The two remaining cities were London and Stockholm.

A surprising feature of 2011 performance was the sheer scale of income returns, especially in some of the underperforming markets. Dublin's unprecedented 10.1% income return exceeded the year's global total return of 9.8% a result of write downs in capital values rather than improving fundamentals. Cities in New Zealand and South Africa also turned in relatively high income returns.

The capital losses experienced across cities varied considerably over the course of the cycle. Dublin suffered the worst decline, with values falling by more than half from peak to trough. Among the other cities, the steepest declines were mostly in the UK and the US, as the chart below illustrates.

Cumulative cyclical capital value losses and subsequent recovery

Full recovery in Canadian markets / progress in US / EMEA and AP still a long way to go



*Note: For those markets that did not experience a cyclical trough in capital values after 2006 (i.e., Geneva, Johannesburg, Munich, Zurich), the "recovery" shown is cumulative growth since 2006.
Source: IPD Global Cities Report 2011

While Dublin has yet to recover any of its losses, the UK and US cities have shown varying degrees of progress. The regional UK cities (Birmingham, Edinburgh, and Manchester) and US cities with relatively sluggish economic recoveries (Atlanta) have reclaimed little of their lost values to date. Other cities like London and Washington have made progress, but capital values still have a long way back to 2006 levels.

Property in Canadian cities lost less cumulative value than in the US, and recovery in these markets is now well advanced.

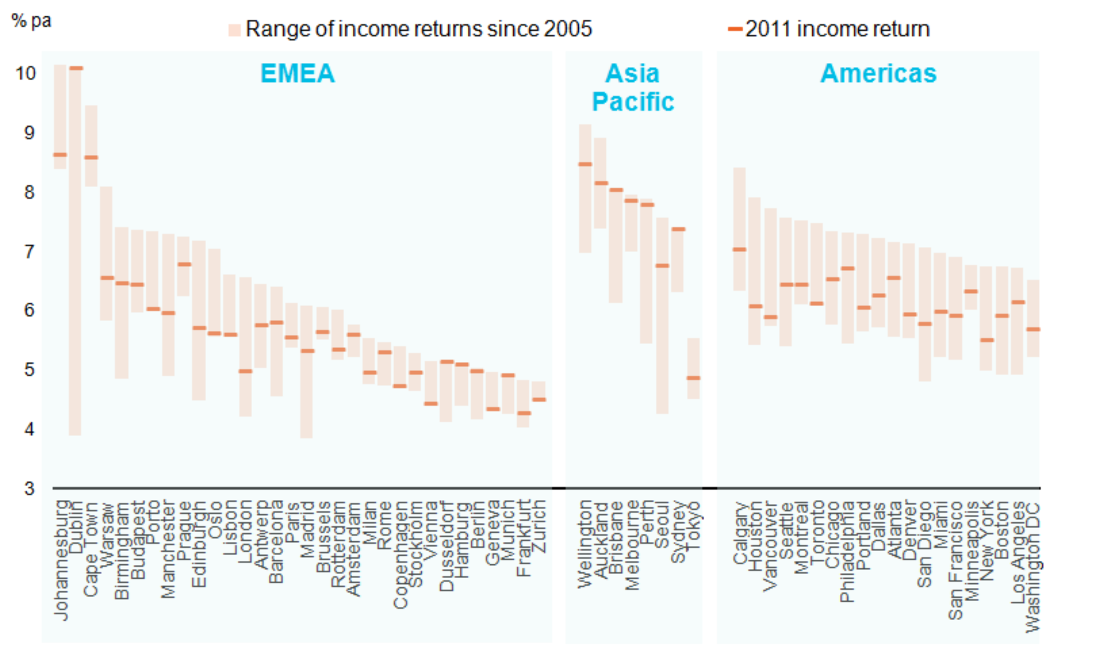
In Asia, the same is true for Seoul where peak-to-trough losses were marginal, and small subsequent gains in capital growth have been enough to offset most of the cumulative losses.

In Europe, it was mostly Alpine cities – Geneva, Zurich, Munich and Vienna – where property values held up well in the downturn. Even modest recoveries in capital growth in these cities put them in good position relative to other markets. South African cities, especially Johannesburg, have also shown solid capital growth, though high levels of inflation during the past few years may negate some of this performance in real terms.

Dublin's extraordinary All Property income return of 10.1% in 2011 is the highest in this Irish city's recent history, and Dublin's range of income return since 2005 is unmatched by any of the other 59 cities as shown below.

Range of income returns since 2005

Annual all property income returns by city, sorted on peak year



Source: IPD Global Cities Report 2011

Dublin property delivered an income return of just 3.9% in 2007. Only one other city of the 60 in IPD's dataset has delivered a lower income return in the past seven years and that was Madrid with 3.8% in 2008.

Income returns in European cities drifted in different directions in 2011. Like Dublin, income returns in the German cities of Berlin, Dusseldorf, Hamburg and Munich were at, or near, seven-year highs in 2011 (Frankfurt was an exception).

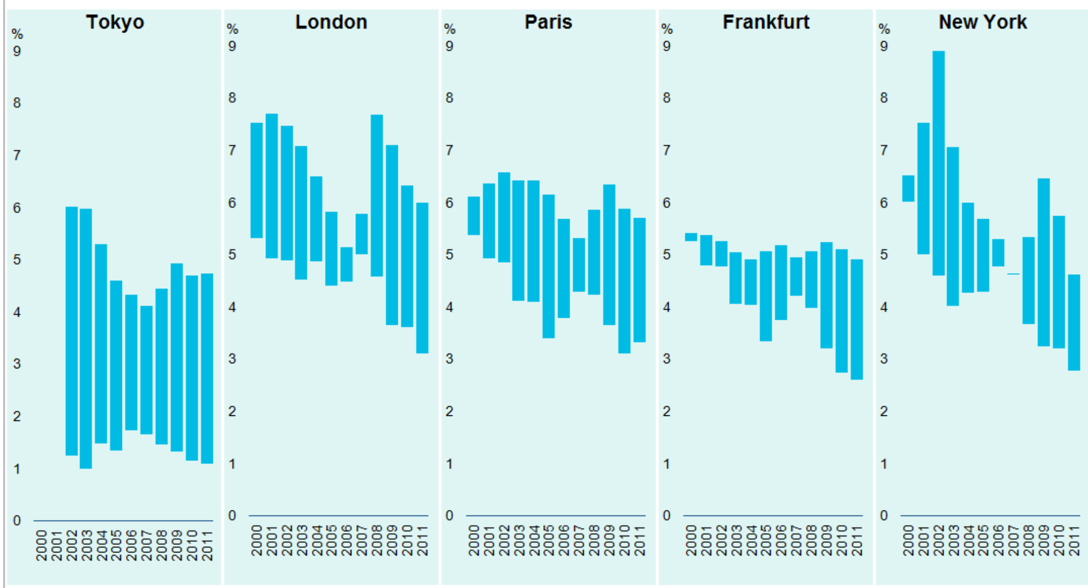
In a few other European cities, income returns fell to seven-year lows. This occurred in Oslo, Copenhagen, Vienna, Zurich and Geneva, as well as in Lisbon and Porto.

Outside of Europe, income returns in most markets fell between the upper and lower bounds of the past seven years. The exceptions were in the four Australian cities, where income returns edged close to record highs, and in Vancouver and Toronto, where income returns stood at near-record lows.

Yield spreads in the world's major financial capitals – Tokyo, London, Paris, Frankfurt and New York – offered attractive opportunities to investors in 2011.

Relative pricing trends in selected major cities

Spread between IPD all property local yield and 10-year national bond yield



Note: All property yields shown here follow local market conventions and practices and may not necessarily be consistent across all markets.
Source: IPD Global Cities Report 2011; OECD

- Over the past decade, Tokyo has maintained consistently wide spreads. Even though Tokyo's low yield signals expensively priced real estate, the spread investors enjoy over Japan's rock-bottom interest rates gives the market some of its ongoing allure.

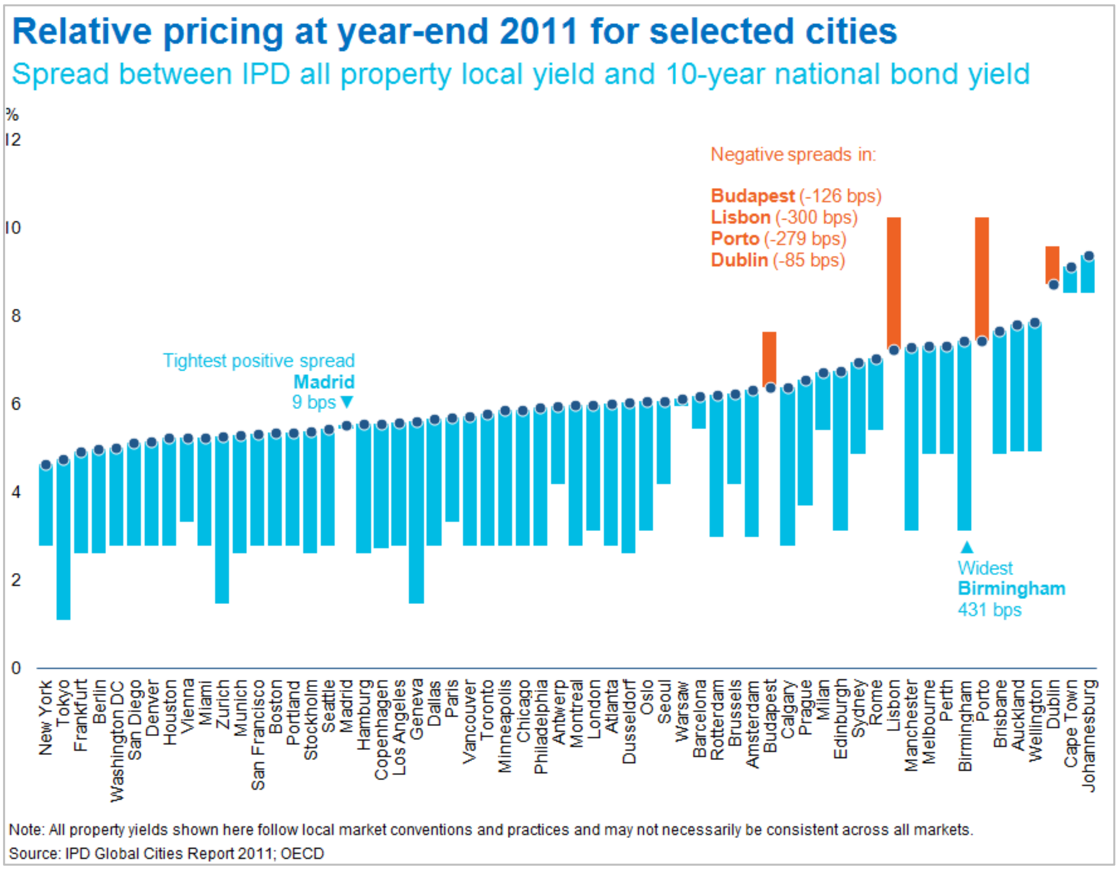
- In London, a falling All Property yield in 2011 was matched by a similar drop in interest rates. London's spreads have held relatively steady for the past four years, with yields and interest rates moving mostly in the same direction.

- Yield compression also occurred in Paris in 2011, even as sovereign borrowing costs were rising. This resulted in Paris's All Property spread narrowing to its lowest point since 2008.

- Over the last decade, Germany's long-term interest rates have fallen, but Frankfurt's All Property yield has moved little in the same period. Over time, Frankfurt's spread has grown increasingly wider.

- In the wake of the technology boom more than a decade ago, New York's yield pushed out to a relatively high level. Between 2002 and 2007, yield compression occurred so quickly that it nearly wiped out the city's spread. The market corrected, but four years later, the city's yield has compressed again, moving right back where it was in 2007. With US interest rates falling, New York still offers around a 200 basis point spread, but that margin has certainly narrowed since 2009.

Of these five financial capitals, the local All Property yields in New York, Tokyo and Frankfurt were the lowest of the 60 global cities in IPD's dataset in 2011. At the other end of the spectrum, Dublin's high yield was exceeded only by Cape Town and Johannesburg as shown below.



Negative spreads could be found in four of the 60 global cities in 2011. All of these cities – Lisbon, Porto, Budapest and Dublin – were in countries facing daunting fiscal difficulties.

In many other markets, wide spreads were apparent. Tokyo and Calgary, plus all of the regional UK cities (Birmingham, Manchester and Edinburgh) and the Swiss cities (Zurich and Geneva) maintained spreads of at least 350 bps in 2011.

Property sectors and risk

Earlier in this paper, we highlighted the wide ranging differences in city-level All Property returns within individual countries. Digging even deeper into individual city performance, one can find even more diversity lurking just beneath the surface. As an example, consider the two poles of the US market in 2011.

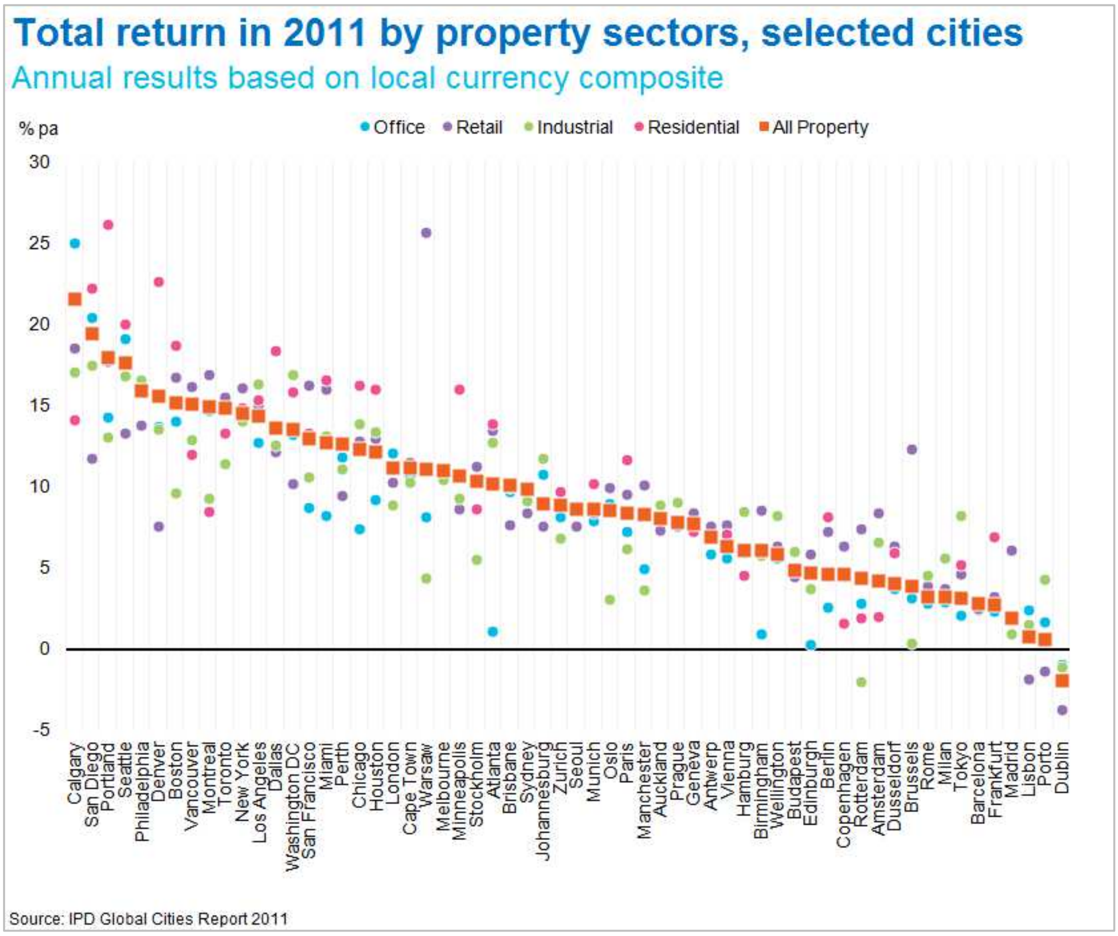
San Diego's 19.5% All Property total return was separated from Atlanta's 10.2% by 928 bps points. The property sectors within these two cities, however, did not move in lock-step. San Diego's residential (apartment), office, and industrial sectors tracked close to the city's All Property average, but retail lagged behind.

More than 1,000 bps separated the city's best and worst performing sectors—an even wider margin than the one separating San Diego's All Property total returns from Atlanta. In fact, San Diego's retail sector even underperformed Atlanta retail. San Diego's performance was not an isolated occurrence.

Now consider Atlanta. Even though the city's All Property total returns lagged other US cities, three property sectors (apartment, retail and industrial) all performed reasonably well with returns of 12% to 14%.

Atlanta's overall performance was held back by its office sector. Of the 58 cities in which IPD could tabulate performance for the office sector, Atlanta ranked 54th with a total return of just 1.1%. The office sectors in Dublin, Madrid, Edinburgh, and Birmingham were the only ones providing a lower return to investors in 2011 than Atlanta.

In seven out of 60 cities worldwide, the best and worst performing sectors were separated by at least 1,000 bps as shown below.



In addition to San Diego and Atlanta, the other cities were Calgary, Portland, Denver, Warsaw and Brussels. Of these, the widest performance differential across sectors occurred in Warsaw, with more than 2,000 bps separating the industrial sector from retail. Warsaw provided investors with the best performing retail sector in 2011 of all the cities IPD analyzed.

Poland's resilience to Europe's sluggish economic environment has attracted the attention of cross-border retailers eager to tap into a perceived European growth market. Yet the lack of existing available space (and only a limited supply of heavily pre-let new construction) has confounded those entering or expanding in this market.

Tight retail fundamentals have sent rents shooting up, a trend that IPD's performance data seems to confirm.

Close examination of the city/sector data in the above chart can also inform our broader perspectives of national and global performance.

- Firstly, the apartment sector has provided a tremendous lift to the All Property performance of US cities. Following years of lacklustre performance in the for-sale housing market in the US, the country's apartment fundamentals have strengthened. Omit the apartment sector from All Property total returns in US cities, and the margin of outperformance in 2011 narrows.

- Secondly, with North American cities mostly outperforming their global counterparts in 2011, it becomes convenient to think of the US and Canada as a uniform block. But again, look closely at the property sectors, and apartment performance clearly differentiates US cities from those in Canada. Where the apartment sector lifted US performance, it clearly proved itself the laggard of urban commercial property in Canada. Total returns fell below the All Property average in all four Canadian cities and it was the worst performing sector in three of the four cites in 2011.

- Thirdly, total returns to retail are notable in Europe as well as Australia. In Europe, retail properties generally outperformed the All Property averages in most markets. There were a few exceptions, the most notable ones being Dublin, Porto and Lisbon. In most European cities however, retail returned more to investors than the All Property average indicates.

  The situation in Australia is quite different. The country's skewed exchange rate has deterred international tourists and sent residents scrambling to find foreign internet retailers who can provide much better bargains than their local shops.

  Even as a boom in mining investment is driving the country's economic growth, Australia's retail employment has curiously declined as this sector's vitality has waned. Again, IPD's performance data seems to confirm this larger structural trend. In at least three Australian cities, retail was the worst performing property sector.

The chart below shows that, for the year as a whole, the North American markets provided nine of the ten best performing city/sector combinations (Warsaw retail was the other). Of these ten city/sector outperformers, half of them were US apartment markets.

Conversely, the year's lagging performers were all in Europe. Seven of these ten lagging city/sector combinations could be pinpointed in Dublin or the Iberian cities.

Outlier performance in 2011

The 10 highest and lowest total returns for selected cities and property types

		Office	Retail	Industrial	Residential
EMEA	Amsterdam	4.1	8.4	6.6	2.0
	Antwerp	5.9	7.6	-	-
	Barcelona	2.5	2.5	-	-
	Berlin	2.6	7.2	-	8.2
	Birmingham	1.0	8.6	5.8	-
	Brussels	3.2	12.4	0.4	-
	Budapest	4.7	4.5	6.1	-
	Cape Town	10.7	11.5	10.3	-
	Copenhagen	4.5	6.3	4.5	1.6
	Dublin	-1.0	-3.7	-1.1	-
	Dusseldorf	3.8	6.4	-	6.0
	Edinburgh	0.3	5.9	3.8	-
	Frankfurt	2.3	3.2	-	6.9
	Geneva	7.8	8.4	-	7.2
	Hamburg	6.0	6.2	8.5	4.6
	Johannesburg	10.8	7.6	11.8	-
	Lisbon	2.4	-1.9	1.5	-
	London	12.1	10.3	8.9	-
	Madrid	1.0	6.2	1.0	-
	Manchester	5.0	10.2	3.7	-
	Milan	2.9	3.7	5.6	-
	Munich	7.9	8.4	-	10.2
	Oslo	9.0	10.0	3.1	-
	Paris	7.2	9.6	6.2	11.7
	Porto	1.7	-1.3	4.3	-
	Prague	7.6	-	9.0	-
	Rome	2.8	3.9	4.6	-
	Rotterdam	2.8	7.5	-2.0	2.0
	Stockholm	10.6	11.3	5.6	8.6
	Vienna	5.6	7.7	-	7.1
	Warsaw	8.2	25.7	4.4	-
	Zurich	8.2	9.1	6.9	9.7
Asia Pacific	Auckland	7.7	7.3	8.9	-
	Brisbane	9.7	7.6	10.0	-
	Melbourne	10.9	-	10.5	-
	Perth	11.8	9.5	11.1	-
	Seoul	8.8	7.6	-	-
	Sydney	9.3	8.4	9.2	-
	Tokyo	2.1	4.6	8.2	5.2
	Wellington	5.6	6.3	8.2	-
Americas	Atlanta	1.1	13.5	12.7	13.9
	Boston	14.1	16.8	9.6	18.8
	Calgary	25.1	18.6	17.1	14.2
	Chicago	7.4	12.8	13.9	16.3
	Dallas	13.8	12.2	12.6	18.4
	Denver	13.7	7.6	13.6	22.6
	Houston	9.2	13.0	13.4	16.0
	Los Angeles	12.7	15.1	16.3	15.4
	Miami	8.2	16.0	13.2	16.6
	Minneapolis	-	8.7	9.3	16.0
	Montreal	14.8	17.0	9.3	8.5
	New York	14.6	16.2	14.1	14.9
	Philadelphia	-	13.8	16.6	16.1
	Portland	14.3	17.8	13.0	26.2
	San Diego	20.4	11.8	17.5	22.3
	San Francisco	8.8	16.3	10.6	13.3
	Seattle	19.2	13.4	16.9	20.0
	Toronto	15.6	15.5	11.4	13.3
	Vancouver	15.1	16.2	12.9	12.0
	Washington DC	13.2	10.2	17.0	15.9

= 10 highest returns in 2011

= 10 lowest returns in 2011

Source: IPD Global Cities Report 2011

Although our review of property sector performance in this commentary focuses largely on 2011, in the chart on page 15 we extend our lens on city/sector dynamics back over the past 10 years to assess risk. We found that the highest volatility markets (as measured by the standard deviation of total returns) were spread across all three global regions.

Outlier long-term risk, 2002-2011

The 10 highest and lowest volatility scores* for selected cities and property types

Region	City	Office	Retail	Industrial
EMEA	Amsterdam	3.8	4.0	4.8
	Antwerp	-	-	-
	Barcelona	6.9	-	-
	Berlin	1.8	2.6	-
	Birmingham	12.5	13.0	12.4
	Brussels	-	-	-
	Budapest	-	-	-
	Cape Town	8.6	11.1	9.0
	Copenhagen	4.2	3.0	-
	Dublin	18.1	23.5	15.5
	Dusseldorf	1.0	2.5	-
	Edinburgh	10.8	12.3	11.8
	Frankfurt	2.4	2.7	-
	Geneva	1.3	1.6	-
	Hamburg	2.1	1.7	-
	Johannesburg	7.4	7.8	9.6
	Lisbon	1.9	6.5	3.2
	London	14.2	12.8	11.9
	Madrid	8.5	9.4	11.3
	Manchester	12.1	13.1	12.9
	Milan	3.8	-	-
	Munich	2.5	1.4	-
	Oslo	8.1	5.8	-
	Paris	7.6	9.1	7.7
	Porto	1.7	7.6	-
	Prague	-	-	-
	Rome	3.1	-	-
	Rotterdam	4.9	3.7	5.2
	Stockholm	7.3	8.0	9.2
	Vienna	-	-	-
	Warsaw	-	-	-
	Zurich	1.2	2.0	-
Asia Pacific	Auckland	8.2	7.8	6.1
	Brisbane	15.2	-	10.2
	Melbourne	6.1	-	8.1
	Perth	15.3	-	-
	Seoul	-	-	-
	Sydney	7.8	-	7.4
	Tokyo	-	-	-
	Wellington	9.8	-	-
Americas	Atlanta	9.9	13.2	11.8
	Boston	14.5	11.3	7.9
	Calgary	13.6	8.0	8.8
	Chicago	8.4	12.0	9.5
	Dallas	11.2	-	9.2
	Denver	13.6	-	9.9
	Houston	13.9	-	-
	Los Angeles	15.8	13.6	12.7
	Miami	12.7	10.1	13.6
	Minneapolis	-	-	8.9
	Montreal	5.9	7.3	6.0
	New York	14.7	-	9.8
	Philadelphia	-	-	-
	Portland	-	-	-
	San Diego	15.6	-	13.1
	San Francisco	-	-	12.1
	Seattle	-	-	-
	Toronto	5.6	5.7	7.6
	Vancouver	8.7	6.6	8.3
	Washington DC	11.2	-	-

= 10 lowest long-term volatility scores

= 10 highest long-term volatility scores

*Volatilty scores are based on 10-year standard deviations of total returns, 2002-2011
Source: IPD Global Cities Report 2011

Of the 10 city/sector combinations with the highest volatility, four were in Europe, four in the US, and two in Australia. Dublin was the only city to feature more than one high-risk property sector. The office sector accounted for eight of the 10 city/sector combinations.

It is also worth noting that volatility, which is sometimes mistakenly associated with smaller or less diverse markets, can just as likely strike the largest and most mature of the world's markets. As a case in point, the office sectors in London, New York and Los Angeles rank among the most volatile performers of the past decade.

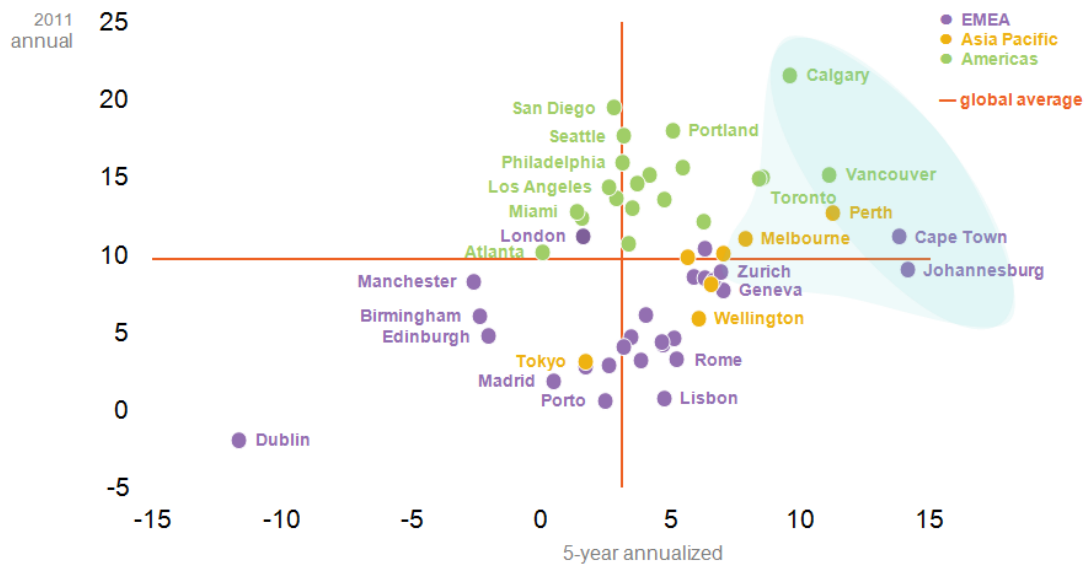
The least volatile city/sector combinations fell exclusively in Europe, six in the office sector and four in retail. Swiss and German cities accounted for eight of the ten, but the other two were in Portugal. Lisbon and Porto office properties showed little shift in total returns over the past decade, even though the retail sector in these two cities has been subject to much greater volatility.

The longer view: A look back across a turbulent cycle

If London and New York exemplify the volatile real estate cycle of the past few years, what can we say about those other cities that have coasted through the cycle with better overall performance?

Total returns by city

2011 performance vs 5-year annualized



Source: IPD Global Cities Report 2011

Most of these cities at the front line of performance, as illustrated by the shaded area in the above chart, have benefited from vibrant commodities markets. Calgary, Vancouver, Perth, Cape Town and Johannesburg have provided investors with the highest All Property annualized returns over the past five years.

Moreover, a second tier of high-performance cities can also claim an indirect association with the commodities boom. Melbourne is the home base for some of the world's largest mining firms, including BHP Billiton, Rio Tinto and Newcrest Mining. Barrick Gold and Yamana Gold are headquartered in Toronto.

Even Zurich can claim loose ties to this sector, with Xstrata, Glencore and Transocean among the companies based in its suburban canton of Zug.

While the commodities boom may not be the primary driver in these markets, it has certainly not detracted from property performance in these cities over the past five years.

Finally, looking back at the past decade, how did cities like London and New York perform over the long haul through more than one cycle?

True, both markets share about the same level of volatility, but for this level of risk exposure, New York provided a significantly higher annualized total return (9.9% vs. 7.5% in London) as the above chart illustrates.

The start of this 10-year period effectively captures the recovery side of the technology bust that occurred early in the last decade. This may help explain why San Francisco's return/risk relationship appears stronger than either New York or London.

Similarly, the cities in the best return/risk positions – Calgary, Perth, Johannesburg and Cape Town – reflect only the implied upside of the global commodities boom. Should this boom find an abrupt end, these return/risk relationships may change. One need only look at Dublin to see how dramatic such fallout can be.

Conclusion

This performance commentary summarizes the key analytical findings from the IPD Global Cities Report of real estate performance data across 60 cities worldwide.

In this second issue, we find wide performance variation across cities, property sectors, and components of total return, suggesting that multinational investors can find significant diversification benefits in their real estate portfolios.

There were also opportunities for positive returns to be found by investors throughout the economic downturn due to the unique drivers of performance in each market. In some markets, aggregated data can sometimes mislead or misinform portfolio decisions as All Property returns can mask opportunities (such as the retail sector in Warsaw) or disguise hidden risks (as in the office sector in Atlanta).

It is in this context that benchmarking of portfolios across global markets can be of such value to business leaders and risk managers. Such benchmarking provides insights into the structural drivers of performance and, more specifically, the effectiveness of strategic allocations across cities and property sectors. Property-specific decisions are critical but strategic choices do, as clearly demonstrated throughout this paper, have significant impacts on performance. Benchmarking provides the diagnostic insights into the effectiveness of these strategic choices.

Property portfolios are often structured with a mix of stable and volatile performing markets. Tactical positioning encourages investors to sell when volatile markets overheat, and to buy when those same markets crash. This overall strategy works when changes are cyclical and somewhat predictable (like London and New York), but can be less effective when changes are structural.

For readers of this IPD Global Cities Performance Commentary, we hope it sheds light on the real estate cycle, as well as those hidden structural impediments that can foil an investment strategy.

To receive the IPD Global Cities Report that informs this commentary, with full performance data on all 60 global cities, or for more information on IPD's services please contact:

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