

GLOBAL *listed property review*

November 2011

Overview

STAMFORD

Scott Westphal, CPA, CFA
 Dave Wharmby, CFA
 Nem Marjanovic
 Bill Gustafson, CFA, CPA
 James Johnng
 Masayuki Ozaki, CFA
 Bill Pekowitz
 Rene St. Marie
 Jennifer Avery, CIPM

AMSTERDAM

Guido Bunte
 Henry Burgers, CFA

HONG KONG

Rico Kanthatham
 Anna Zhong, CFA

Global equity markets experience sharp downturn in August

- ▶ Debt ceiling overhang and credit downgrade in the U.S.
- ▶ Continued problems with European sovereign debt
- ▶ Meaningfully lower expectations for global economic growth

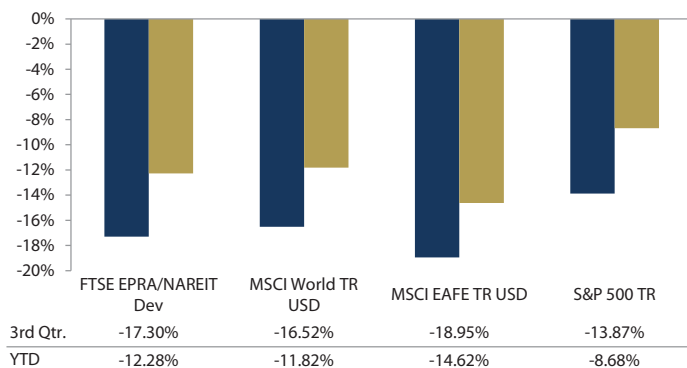
Global real estate securities not immune to selling pressure

- ▶ Flight to higher quality names with sound balance sheets and attractive dividend yields
- ▶ Global real estate fundamentals remain solid with limited new supply and modest demand growth

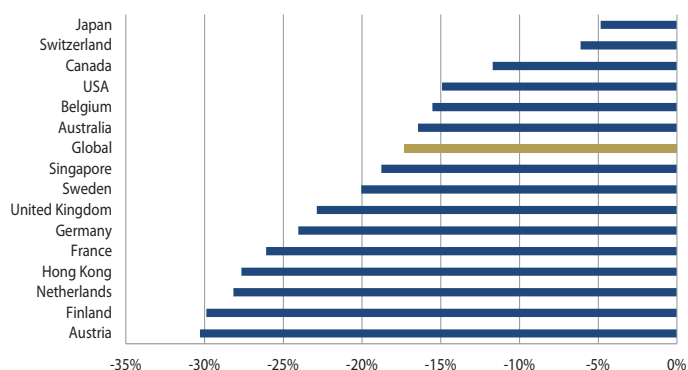
Outlook

- ▶ Global real estate securities valuations should remain stable due to low interest rate environment
- ▶ Real estate fundamentals expected to remain solid globally
- ▶ The sector looks attractively valued relative to most other asset classes for long-term investors

Listed Real Estate Relative Performance



Third Quarter Index Performance



Sources for both: Bloomberg, Cornerstone

Market Performance

For the third quarter, the FTSE EPRA/NAREIT Developed Total Return Index (“Index”) recorded a total return of -17.30%. Within the Index, North America was the strongest region on a relative basis with a total return of -14.59%. Both Asia and Europe underperformed the Index, with a total return of -18.08% and -23.27%, respectively. Among individual countries, Japan was the top performer with a total return of -4.85%, followed by Canada’s -11.70%. On the other hand, Hong Kong was the biggest underperformer, returning -27.66%. Not surprisingly, many of the European countries had a difficult quarter including France (-26.10%) and the U.K. (-22.88%).

Global Equity Markets Tumble

Global equity markets experienced an emphatic reversal and moved downward starting in August, coinciding with the debt ceiling overhang and credit downgrade in the U.S. and the continued problems with European sovereign debt. Moreover, as economic data grew progressively weaker throughout the quarter, investors began to consider greater odds of

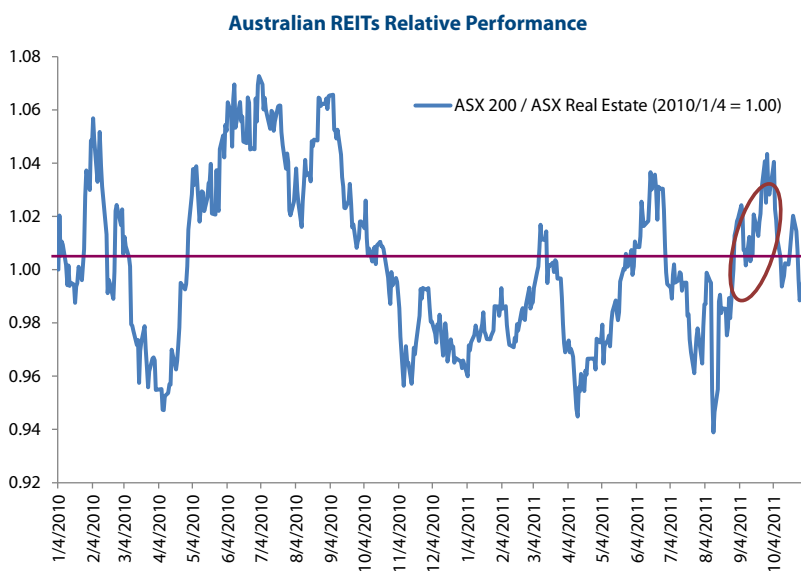
a recession in 2012 placing future earnings growth in question. Navigating the global equity market in the third quarter was extremely difficult. In addition to underwriting macroeconomic and company specific fundamentals, investors were forced to try to forecast government policy reaction globally. Making matters worse, these policies seemed to be ever changing resulting in violent swings in valuations from day to day. This was particularly evident in Europe where statements of politicians dominated the news globally, and continually whipsawed global equity markets.

The U.S. economy remained on edge with pockets of strength, but is struggling to withstand headwinds posed by Eurozone sovereign debt concerns, public sector austerity measures domestically, and the ailing housing sector. Confidence took a beating with consensus expectations for 2012 US GDP growth falling through the course of the year from over 3.2% in January to 2.1% in August to just 1.8% today. Just-released third quarter GDP growth of 2.5% will boost sentiment heading into the holiday season but the global recovery is fragile. Job growth remains weak and is expected to maintain current pace next year near 1%, implying no substantive improvement in the unemployment rate. Prospects for a more typically balanced business cycle recovery have been pushed out towards 2013, and we project continued lackluster economic performance in 2012.

The real economic performance is also retracing in Europe. Consumer confidence fell to its lowest since August 2009. Other economic indicators also softened. The ECB choose to leave the policy unchanged, although the inflation expectations were lowered. The bank tried to solve the funding difficulties of banks with a USD liquidity operation. While the economic sentiment decreased in the UK, as well, the Bank of England also left the policy unchanged. The U.K. consumer price index indicated that inflation is still not under control. A significant event was the announced floor of 1.2 EUR/CHF by the Swiss National Bank, which is a significant effort to tackle the strong Swiss Franc.

In the Asia-Pacific region, while China’s economy grew 9.5% YoY in 2Q11 and is expected to remain well above 9% in 3Q11, the country continues to face the twin task of maintaining economic growth while

Defensive Australian REITs begins to outperform broader market in September as economy slows



Source: Bloomberg, Cornerstone

containing inflation, with September CPI coming in at 6.1%, which slowed only slightly from the recent peak of 6.5% in July. We saw a clear tightening bias during 1H11 in China but there were some early signs of easing during



3Q11 amid a global slowdown. Hong Kong's GDP showed a sharp drop, growing 5.1% YoY in 2Q11 versus 7.5% in 1Q11, with a slowdown in trade contributing to the weakness. The global economic and financial uncertainties triggered declining business and consumer confidence in Australia, as well. The job creation pace in 2011 has been tepid compared to the above average pace witnessed in 2010, and there is growing anticipation of a rate cut by the Australian central bank. If China were to slowdown in a meaningful way, it would negatively impact Australia's important resources sector. Japan is on a recovery path from the Fukushima natural disaster. While domestic growth will be supported by Government spending, export growth may be at risk with the stubbornly strong Yen and slowdown in global demand.

Global Real Estate Securities Not Immune

Global real estate securities were not immune to the selling pressure with the Index down 17.30%. In this uncertain and volatile market environment, the general trend seemed to point to increased concern and a flight to higher quality names with sound balance sheets and attractive dividend yields. Indeed, in the U.S., not surprisingly, defensive sectors such as manufactured homes, self-storage, and healthcare were the best performing sectors during the third quarter. Conversely, lodging and industrial sectors, which are most closely tied with global economic activity, lagged. Similarly, in Australia, the AREIT sector rallied throughout the quarter as its perceived defensive characteristics became favored. After underperforming the broader domestic equity market by 2.6% and posting performance of -6.6% in July,

AREITs closed out September 2.4% better than the broader domestic equity market, delivering a negative 4.5% return for the month. In Hong Kong / China and Singapore, despite solid economic

fundamentals and attractive stock valuations, performance has been weak due to government policy overhang and liquidity outflow from emerging markets into developed markets. Also in Japan, the more defensive JREIT sector outperformed the cyclical developers during the quarter. Valuations have become attractive in many markets, including Europe; particularly real estate companies with exposure in the weaker European countries. However, we still see downside risk in the market due to the sovereign debt crisis / banking crisis, and should be mindful of possible value traps until we receive more evidence that these weaker countries can survive.

Global real estate market fundamentals have thus far remained solid in most global markets despite the uncertain macro-economic environment. Demand for space may have downshifted from the strong pace experienced in the first half of the year, but the lack of new supply allowed landlords to continue raising rents during the third quarter. Supply growth for all major property types in the U.S. is at historic lows. In London, after the shutdown of development pipelines in 2008, we again see a decreasing appetite to start or finance development plans. It is currently doubtful if London city can expect supply until 2013-2015, depending on how the economy performs and recovers over the next few years. Steady improvement is also seen in the Australian office sector due to favorable supply-demand conditions. Effective rents are on the rise and vacancy rates are dropping in major urban centers where new supply has been limited due to difficulty in securing development lending. The one exception is in the Tokyo office sector, where Tokyo

CBD will continue to see elevated supply until the spring of 2012 and office fundamentals will likely remain sluggish.

In China and Hong Kong, the government's efforts to contain the local residential markets finally seem to be paying off. The central government in China continues to maintain a tight policy stance on both the property market and bank lending in order to contain property prices. The most effective measure has been "Home Purchase Restrictions (HPR)," which artificially lowers demand. With weak demand and developers' reluctance to reduce prices, transaction volume has been declining. However, some projects are still selling well due to end-user demand, and we are now seeing diverging performance by different cities and projects. In Hong Kong, on-going government initiatives as well as the newly announced measures to increase public rental housing and low cost Home Ownership Scheme (HOS) housing units, combined with banks' raising of mortgage rates are at last having the desired impact on the residential market. Residential property prices seem to have peaked in 2Q11, with Centaline's latest CCL index showing overall residential prices down 1.6% in Oct11 from the high reached in Jun11.

As global capital markets and economy struggled through another difficult and uncertain period over the last few months, many investors are concerned that real estate securities could once again experience a sharp decline similar to the significant decline experienced in late 2008 and early 2009 post the Lehman bankruptcy. Unlike the period of the global financial crisis, however, we have not seen indications of a complete breakdown in the credit markets, lenders continue to aggressively provide loans to high quality assets in core markets, and we believe that the balance sheets for many global real estate companies are in better shape than they were in 2008. What's more, unlike the peak occupancies and EBITDA values that were used in 2008, current levels, while improved off of their lows, would likely have a smaller decline if economic growth were to slow considerably. In addition to having less debt, global real estate companies generally have fewer near-term maturities and less unfunded development projects. While we would have preferred to have

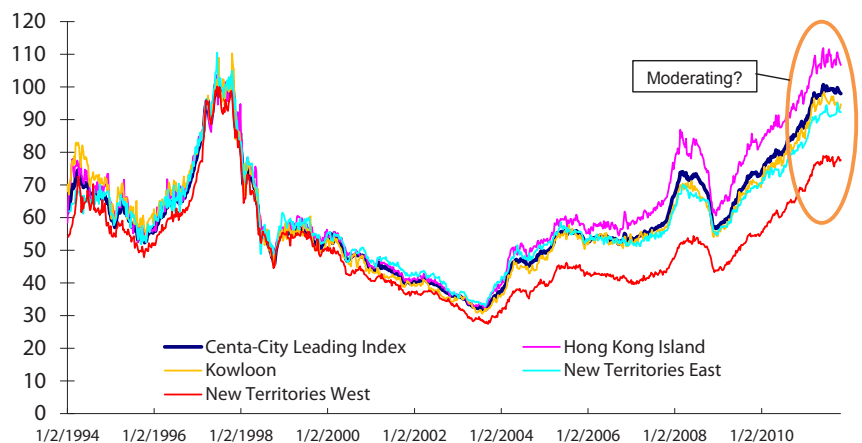
seen even further improvement in credit metrics over the last few years, this improvement should allow global real estate securities to better withstand any potential dislocations in the credit markets and unlikely to experience a repeat performance in the near future.

Market Outlook

The sharp correction in global real estate securities valuations has resulted in the stocks looking more attractive relative to underlying fundamentals. Although we have modestly reduced our rent growth assumptions in most markets due to a weaker global economic outlook, fundamentals for commercial real estate remain relatively strong, with no new supply and modest demand growth, allowing most real estate companies to maintain and increase earnings and dividends over the next few years. Finally, unlike the global financial crisis of 2008, real estate companies globally have lower financial leverage and have fewer near term debt maturities over the next few years. Accordingly, we believe the current environment represents an attractive entry point for investors with a longer-term view. ■

Hong Kong residential prices finally moderating?

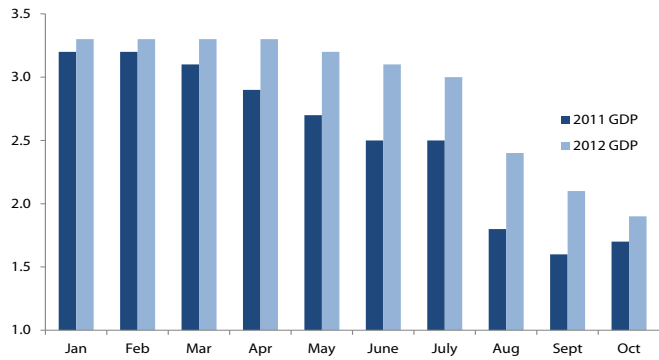
Hong Kong Residential Pricing Centa City Leading Index



Source: The Centa-City Leading Index is based on weekly residential contract prices in Centaline Property Agency Limited transactions and is a leading indicator of Land Registry trends.

US economic outlook continues to moderate

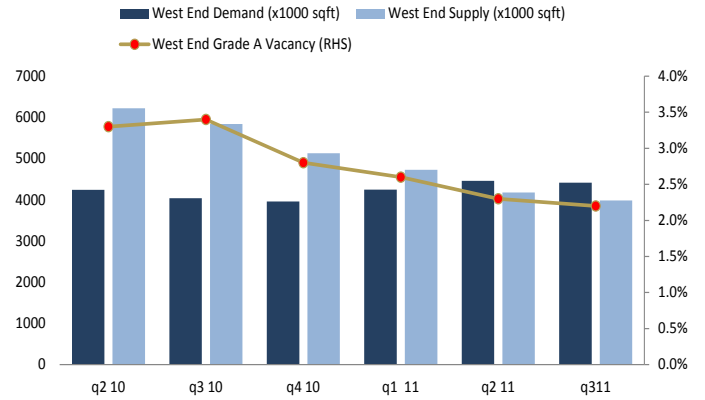
U.S. Consensus Forecasts (% annual change)



Source: Consensus Forecasts, Cornerstone

London West End fundamentals remain solid

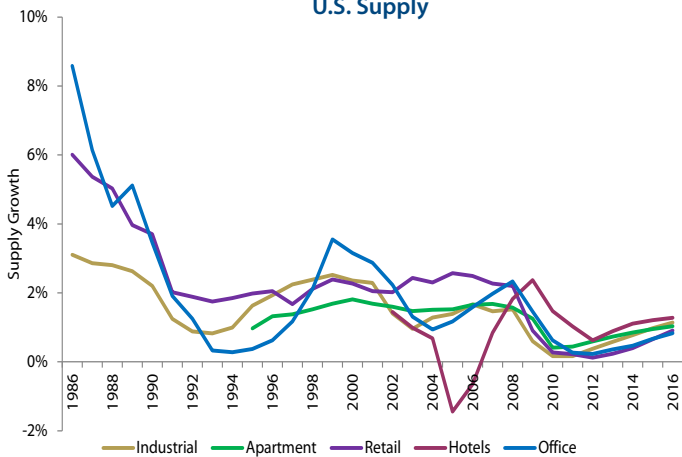
London West End



Source: JLL, Cornerstone

U.S. supply growth at an all-time low

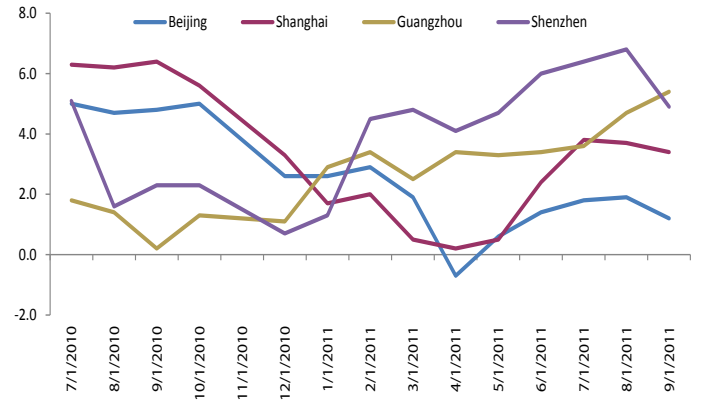
U.S. Supply



Source: CBRE Econometric Advisors, Cornerstone

Diverging performance in China's residential markets

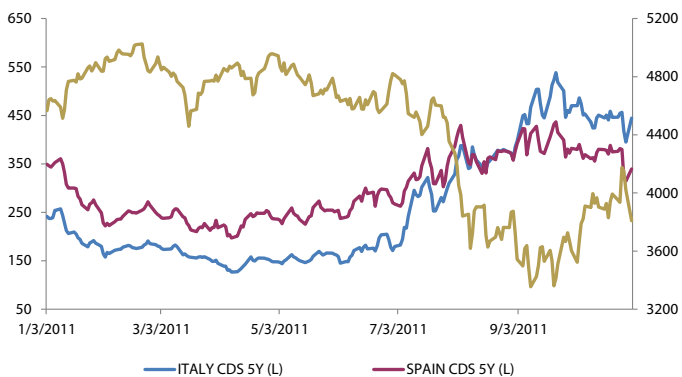
China Second-hand Residential Prices YoY



Source: Bloomberg, Cornerstone

European credit concerns weigh on equities

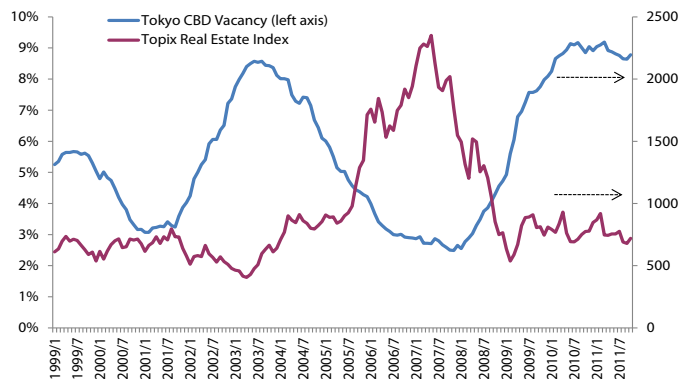
CDS Spread vs. European Equity



Source: Bloomberg, Cornerstone

Sluggish Tokyo office fundamentals cap developers' share prices

Tokyo CBD Office Vacancy vs. Developers' Share Prices



Source: Miki Shoji, Bloomberg, and Cornerstone

Scott Westphal, CPA, CFA
Managing Director, Portfolio Manager, Real Estate Securities

Dave Wharmby, CFA
Vice President, Portfolio Manager, Real Estate Securities

Nem Marjanovic
Vice President, Real Estate Securities

Bill Pekowitz
Senior Equity Research Analyst, Real Estate Securities

William Gustafson, CPA, CFA
Senior Equity Research Analyst, Real Estate Securities

James Johng
Equity Research Analyst, Real Estate Securities

Guido Bunte
*Director, European Real Estate Securities**

Henry Burgers, CFA
*Director, European Real Estate Securities**

Rico Kanthatham
Director, Asian Real Estate Securities+

Anna Zhong, CFA
Director, Asian Real Estate Securities+

Masayuki Ozaki, CFA
Equity Research Analyst, Asian Real Estate Securities

Rene St. Marie
Senior Portfolio Research Analyst, Real Estate Securities

Jennifer Avery, CIPM
Portfolio Research Analyst, Real Estate Securities

For more information, please contact:

Kevin P. Ryan, CFA Vice President, Client Relations
kevinpryan@cornerstoneadvisers.com
+1 610 213 0201

North America

333 Ludlow Street, Third Floor
Stamford, Connecticut 06902
U.S.A.
+1 203 326 7567

Europe

Cornerstone Real Estate Advisers
Europe Securities B.V. *
Zuidplein 36
1077 XV Amsterdam, The Netherlands
+31 20 7997837

Asia

Babson Capital Cornerstone Advisers
Asia Limited +
Edinburgh Tower, Suite 1907
15 Queen's Road, Central
Hong Kong S.A.R.
+852 2521 6255