

Global Real Estate Securities Commentary

September 2009

NORTH AMERICA

The FTSE EPRA/NAREIT North America index provided a total return of 7.2% in September. In the wake of improved credit conditions, REITs have benefited and they have continued cleaning up their balance sheets. Investors now seem willing to assume greater risk in this context, particularly if valuations do not reflect companies' future ability to take full advantage of the operating leverage provided by improved balance sheets. As such, the hotel and residential sectors outperformed the index during the month, mainly because of the potential for a rapid recovery provided by short-term rents.

September is generally a busy month in terms of corporate activities. We attended a number of conferences and met many companies during the month. These meetings indicated to us that, despite companies' tempered optimism, investors remain very cautious about the strength of the recovery in the U.S. and more specifically about consumer spending. Without substantial job creation, it is harder to justify some of the current valuations. Moreover, the retail sector was under pressure throughout the month and showed the worst relative performance.

The last quarter of 2009 opens in a cautious atmosphere. The market seems to be relying on positive expectations regarding employment recovery and the effects of government stimuli. Disappointment on these fronts could call the recent market rise into question. This bears watching.

FTSE EPRA/NAREIT North America Index Performance

	\$US	Local Currency
United-States	7.14%	7.14%
Canada	8.11%	5.65%

Source: Bloomberg, September 2009

EUROPE

The FTSE EPRA/NAREIT Europe index rose 3.1% in September. However, the difference between continental Europe (+6.7%) and the United Kingdom (-2.4%) indicates a market troubled by the rebound in stocks since March that led company values to double. Among the countries heavily weighted in the index, Belgium and Sweden underperformed during the month while Germany moved upward.

United Kingdom

As discussed last month, British Land finally announced the sale of a 50% stake in its largest asset, Broadgate. In addition, Land Securities announced the sale of its stake in the Bullring shopping centre. Also, Liberty International took advantage of

the momentum in listed securities to issue shares for a second time, garnering £280 million. These three events are signs that confirm our doubts as to the strength of the recovery in the direct market. Investors have taken the strong asset appreciation into account, and our verifications lead us to believe that investors could be disappointed.

Continental Europe / Euro Zone

With regard to the continental European market, the sustained recovery in equity markets in general has led to higher share values. Reasonable valuations and a stronger economic environment are encouraging investors to invest in securities that continue to offer attractive dividends and that have good growth potential. In a context of low interest rates, securities with high dividend yields continue to attract capital flows.

FTSE EPRA/NAREIT Europe Index Performance

	\$US	Local Currency
United Kingdom	-2.35%	-0.49%
France	7.28%	5.32%
Netherlands	6.23%	4.29%

Source: Bloomberg, September 2009

ASIA-PACIFIC

Asia continued to perform well in September following the publication of relatively positive economic data, particularly compared to the data posted by western countries. Revenue growth prospects, combined with low debt levels, continue to support the valuations of real estate securities in the region.

Hong Kong/China

Real estate securities in the Hong Kong/China region resumed their upward trend in September. The Hong Kong residential market continues to be supported by favourable mortgage credit conditions, while the office sector shows signs of stabilization following the signing of several major leases. In addition, concerns about the Chinese government's restrictive policies toward the residential market seem to be fading. This contributed to the positive performance.

Singapore

September was marked, in particular, by government policies aimed at reducing speculation in the residential sector. Accordingly, the performance of shares in real estate developers, while positive, was weaker than that of REITs, which are appreciated now by investors for the stability of their high dividends.

Australia

The Australian stock market continues to move higher, supported by a strong currency. Economic news remains very

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positive. Forecasts of strong economic growth are also reflected in the financial forecasts of real estate companies. In addition, there seems to have been a change in the market's attitude toward risk, with a preference for riskier and more highly leverage business models. We remain confident about Australia's economic growth since it is broadly supported by Chinese growth.

Japan

The yen remains very strong, creating a sizable obstacle to growth in the country's exports. This is casting a shadow on the outlook for economic recovery in the coming months. In this regard, the economic figures published in September, including retail sales, were all more negative than expected. This leads us to believe that the country has entered a period of sustained deflation, even though the government is implementing programs to support households and consumption. In terms of real estate, the office vacancy rate is showing marginal signs of improvement, although rents continue to head downward. JREITs have been somewhat more stable recently, supported by various government measures. However, we remain cautious toward this vehicle, which needs capital to grow and which remains highly dependent on rent levels to support dividend payments. On the other hand, the major developers generally have the most sought-after commercial sites, where we saw an initial decline in vacancy rates in Class A and S¹ buildings in September. They are also benefiting from condo sales, which have been showing encouraging signs in recent months.

FTSE EPRA/NAREIT Asia-Pacific Index Performance

	\$US	Local Currency
Japan	-6.18%	-9.46%
Hong Kong	8.19%	8.19%
Australia	14.54%	9.42%
Singapore	8.71%	6.30%

Source: Bloomberg, September 2009

EMERGING MARKETS

The FTSE EPRA/NAREIT Emerging Market index rose 6.0% in September. An upward trend was observed for most countries in the index, with 75% of countries in positive territory. The strength of the real estate sector continues to be supported by higher land prices, improved sales volumes and strong growth in retail sales. Residential developers in Brazil and Mexico continue to benefit from government programs that

¹ Class A buildings are situated in mature office districts or potential business districts. Class S buildings are within the same areas and further to meeting the criteria for Class A are typically newer buildings, are landmark property, have distinctive functionality and are high grade.

are likely to meet their mortgage issuing goals by the end of the year. Residential developers in Asia are also benefiting from improved fundamentals and the return of buyers to the market. The stock prices of shopping centre companies rose due to higher revenues and following a decline in real estate capitalization rates. Some of the risks expected in the coming months are linked to a possible rise in inflation and the higher interest rates that could follow in several countries.

Brazil

In September, several real estate companies announced that they intended to recapitalize by issuing new shares. In the third quarter, US\$1.0 billion has already been issued by MRV, BR Malls and Multiplan. In the short term, an additional US\$2.8 billion or more should be issued by seven real estate companies. These issues taken together will represent an amount which is in excess of all funds raised for real estate IPO's in 2007. The equity that is issued should improve company balance sheets and should be used as working capital for land acquisitions and potentially for corporate acquisitions. In the short term, stock yields should be volatile, and they may suffer from excess offer on the market.

Philippines

After a two-year wait, the Pilipino government approved a bill allowing for the establishment of a REIT structure. One of the bill's major elements is that REITs must distribute at least 90% of their profits to investors for them to be tax-exempt. The remaining 10% should be taxed at the 30% corporate rate. The companies likely to benefit from the new legislation are those that hold real estate assets. From this perspective, we have a preference for the shopping centre sector. We should note that the companies in this sector have reaffirmed that they should be able to meet their revenue growth goals of 8% to 10% this year.

South Africa

Some real estate companies are observing an improvement in the payment of delayed rents. With signs that South Africa's economic situation has hit bottom, the chances that major tenants may go bankrupt are now limited. Average vacancy rates are currently in the range of 5% to 6% and are not expected to exceed 7%. The sector's yield currently averages 8.8% and is anticipated to grow to approximately 8% over the next year.

FTSE EPRA/NAREIT Emerging Markets Index Performance

	\$US
Americas	7.20%
EMEA	2.93%
Asia-Pacific	6.78%

Source: Bloomberg, September 2009

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GLOBAL ISSUES

With global investors wondering if the world economic recovery is sustainable, September was highly profitable if we bear in mind that financial markets, and publicly traded real estate companies in particular, provided total returns of about 4.6% (FTSE All World) and 5.6% (FTSE EPRA/NAREIT) respectively.

The FTSE EPRA/NAREIT index has more than doubled since March 2009, leading us to believe that stock prices are rather high with respect to the economic fundamentals that we are currently observing in our reference markets. Accordingly, we note that, in certain regions, the securities in our reference group are already trading at their discounted valuations for 2011 or even 2012. We therefore think that a pause is now appearing on the horizon, especially if the economic news for the third quarter of 2009 indicates that the global recovery may have to wait a few months longer or even get pushed back to 2011.

With that said, even if the markets are expecting an economic recovery in the developed countries starting in 2010, we continue to hold the view that it will not really materialize until 2011 but that the rebound could be especially strong in the United States and Britain. China, for its part, continues to be the engine of world economic growth while waiting for American consumers to start spending again.

At the economic summit held in Pittsburgh in late September, the leaders of the G20 countries reiterated their support for monetary and fiscal measures aimed at supporting the world economy over the coming year. They also put global reform of the banking sector on the table, with short-term risk-taking being more tightly controlled by regulatory authorities. At the end of the meeting, it became clear that the banking system should now be much more conservative than it was during the most recent economic cycle. The results of this will include more limited access to credit for certain financial institutions, especially speculative funds, and a slower pace in worldwide growth over the coming years.

In a context where emerging countries, especially China, remain on a solid growth trajectory, the developed world is awaiting better news regarding the real economy. We remain vigilant and continue to target buying opportunities, primarily in emerging markets, where we see valuations more in line with economic fundamentals.

INVESTMENT STRATEGY

We continue to believe that the China/Hong Kong region will keep on benefiting from the solid position of its financial system, taking account of factors such as current liquidity levels, despite the gradual use of these liquidities. It appears to us, however, that the government could gain by clearly expressing its support for the commercial real estate sector.

In contrast, we believe that the United States and Britain present major risks regarding the valuations of real estate securities, certain political issues and the structural problems of their respective financial systems.

Facing a market with overall valuations at levels commensurate with their theoretical intrinsic values, our selection of securities leads us more particularly toward Singapore and Mexico. In the case of Mexico, we have begun building a position in a stock in the single-family homebuilding sector. We believe, moreover, that other companies located in emerging countries are likely at present to offer higher risk-adjusted returns.

Sources: Bloomberg, CBRE, Macquarie.

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