

Global Real Estate Securities Monthly Commentary

June 2010

In June, the performance of the FTSE EPRA/NAREIT Developed Index was -1.9%. Returns on stocks were volatile during the month. This seems to show that the appetite for risk remains uncertain in a context of economic recovery facing major challenges such as a low level of job creation in the United States and various economic problems in the euro zone.

In mid-June, China announced it would permit greater flexibility in the fluctuation of its currency. This should give the Chinese greater purchasing power and enable other parts of the world to be more competitive. Previously announced measures aimed at rising housing prices are bearing fruit, and it is likely that the Chinese government will be more discreet in announcing further measures covering this sector.

NORTH AMERICA

The FTSE EPRA/NAREIT North America Index provided a total yield of -4.9% in June. Following a sharp drop in May, the North American market in listed real estate stocks presented a neutral performance in June as it continues to await signs of job creation in the United States.

This was the hesitant market context in which the semi-annual NAREIT meeting took place in Chicago. One interesting point raised at the conference involves the multi-unit residential sector. A faster-than-expected recovery seems to be under way in this sector. However, the optimism of various REIT executives appeared to be moderated by the slow pace of economic recovery. In addition, acquisition opportunities remain rare, meaning that companies now have to plan what to do with the high levels of cash on their balance sheets.

Although the real estate fundamentals appear to have hit bottom in most sub-sectors, we believe that job creation expectations continue to exert pressure on stocks in the real estate sectors. We thus remain conservative in our evaluations.

FTSE EPRA/NAREIT North America Performance

	US\$	Local Currency
United States	-5.48%	-5.48%
Canada	-6.99%	-3.65%

Source : Bloomberg, June 2010

EUROPE

In Europe, returns were positive for June, with the FTSE EPRA/NAREIT Europe yielding 1.5%. Continental Europe outperformed the United Kingdom thanks to a slight upturn in appetite for risk. Attention has moved away from Greece's problems with the announcement of an emergency budget in the United Kingdom submitted by the newly elected

government. Spending cuts and the efforts sought from taxpayers provide a reminder that problems in financing public deficits are a matter of concern in most developed countries.

In continental Europe, Citycon, which operates in the retail sector, proved that the market for financing remains open to quality companies. The company concluded two funding rounds of 50 million euros each at a cost below 4% for a five-year fixed term. In the United Kingdom, the direct market experienced a slowdown. Accordingly, some assets that were for sale have been withdrawn from the market. We thus believe that downward pressure on prices could be felt over the coming months.

FTSE EPRA/NAREIT Europe Performance

	US\$	Local Currency
United Kingdom	-11.50%	-6.77%
France	-13.99%	-6.75%
Netherland	-15.97%	-8.94%

Source : Bloomberg, June 2010

ASIA-PACIFIC

The FTSE EPRA/NAREIT Asia Index generated a total return of 0.3% in June.

One week before the G20 summit in Toronto, the Chinese authorities finally announced that they would gradually let the Chinese currency fluctuate. This decision, clearly a symbolic act, will probably have a number of positive long-term repercussions on Asian real estate stocks. First, since more than half of China's imports come from the Southeast Asia region, a stronger renminbi increases the competitiveness of these countries in terms of exports to China, while raising the purchasing power of Chinese consumers. With demand for space positively correlated with manufacturing activity in various countries, notably Japan, Korea, India, Taiwan and Vietnam, adjustment of the currency should have a major impact on the sustainability of the global economic recovery and the direction taken by listed real estate stocks. The recent Chinese opening, following growing pressure, especially from the United States, improves investors' perceptions of China.

The rapid slowing of sales volumes, combined with a recent decline in the prices of housing projects in China, makes it unlikely that the Chinese authorities will continue to harden their tone toward speculators. We thus expect a recovery in this sector in this second half of the year.

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FTSE EPRA/NAREIT Asia-Pacific Performance

	US\$	Local Currency
Japan	-12.83%	-15.59%
Hong Kong	-6.45%	-6.17%
Australia	-13.35%	-3.84%
Singapore	-7.65%	-5.66%

Source : Bloomberg, June 2010

EMERGING MARKETS

The FTSE EPRA/NAREIT Emerging Markets Index generated a performance of 1.5% in June. Stocks in Brazil generally outperformed those in Mexico. GDP growth in Brazil reached 9%, which is high for that country. The possible adjustment of the Chinese currency could also benefit Brazil in terms of exports.

In Mexico, figures from Infonavit, a government entity that issues most mortgages for people with low incomes, show that it has issued more mortgages than expected since the beginning of the year. We continue to keep a close watch on

how effectively developers manage their working capital, particularly since access to long-term financing in Mexico remains difficult. Developers that can manage their working capital effectively and that can get financing through equity issues in Mexico or bond issues in the United States, when required, should continue to see their market share grow. Geo, a developer recognized for sound management of its working capital, issued US\$250 million in 10-year bonds in the United States in June, primarily to refinance part of its short-term debt. In the last few months, developers have instituted a number of measures aimed at more effective internal recycling of their capital. The effect of these measures should have an impact on their cash flows in the coming months.

FTSE EPRA/NAREIT Emerging Markets Performance

	US\$
Americas	-7.01%
EMEA	-7.76%
Asia-Pacific	-10.10%

Source : Bloomberg, June 2010

Past performance is not indicative of future performance.

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