

Global Real Estate Securities Monthly Commentary

May 2010

In May, the performance of the FTSE EPRA/NAREIT Developed Index was -8.4%, marked by reduced appetite for risk following events related to the euro zone. Concerns centred around risks of insolvency and anticipation of slower growth in this region. In this context, fears linked to further measures by the Chinese government aimed at holding back the rise in residential property prices were less significant in May, particularly since early data appear to indicate that the initial measures taken by the government have had a certain impact. The fragility of the global recovery may lead some central banks to wait longer before raising their rates, which would have the effect of leaving mortgage rates at affordable levels and enabling real estate companies to continue obtaining financing at low rates.

NORTH AMERICA

The FTSE EPRA/NAREIT North America Index provided a total return of -5.6% in May. After three consecutive months of positive returns, the North American listed real estate market did not escape the effects of the European credit crisis.

Stocks in sectors more closely linked to economic recovery, such as companies owning industrial or hotel assets, suffered more, with a decline exceeding 10% for the month. In contrast, stocks in the health care sector, regarded as defensive, were clearly preferred by investors in this time of uncertainty, recording a much gentler decline (-1.8%). There were some real estate transactions during the month, notably in New York, where SL Green was active in buying and selling buildings. Transaction prices show an improvement in valuations for high-quality office assets in the city, with realized capitalization rates ranging from 5.5% to 6.5% (\$500 to \$600 per sq. ft.).

In brief, the REIT sector continued to outperform North American indices as a whole. In the current context, we continue to prefer well capitalized companies with hard-to-replace assets and experienced management teams.

FTSE EPRA/NAREIT North America Performance

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

Source: Bloomberg, May 2010

EUROPE

May was a difficult month for Europe, with a return of -12.4% in U.S. dollars. The top factor was doubtless the rise in sovereign risk relating to Greece and its potential spread to the rest of Europe. Despite the implementation of support measures by the IMF and the European Union early in the

month, investors continued to express fears related to government debt, not only toward Greece but also toward several other countries, including Spain, Italy and Portugal. This situation caused the euro to retreat, and investors tried to reduce their exposure to European economies. Several governments have already announced austerity measures to reduce deficits in the coming years. For the moment, it seems the negative effects of these measures might be offset by the stimulative effects of the euro depreciation.

Despite these events related to sovereign balance sheets, the operations of real estate firms did not suffer from the uncertainty. Results posted by companies in continental Europe continue to present a stable situation, with cash flows in line with last year's numbers. In the United Kingdom, recent results from the two largest publicly traded companies showed prices up sharply during the first three months of 2010. However, there appears to be a consensus that the rebound in asset prices could undergo a pause, especially in areas where rents are still under pressure.

FTSE EPRA/NAREIT Europe Performance

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

Source: Bloomberg, May 2010

ASIA-PACIFIC

In the wake of financial setbacks in Europe, real estate stocks in the Asia-Pacific region suffered a difficult month in May, with a return of -10.0% for the FTSE EPRA/NAREIT Asia-Pacific Index.

Anti-speculative moves by the governments of China and Hong Kong in the residential sector seem to be bearing fruit, with declines in volumes and sales prices observed during the month. As a result, the prices of most stocks in the residential sector continued their decline. We note some exceptions however, especially among high-quality developers that have the liquidity needed to face the market slowdown. The share prices of these companies actually rose in May.

Following a positive start to the year, real estate companies in Australia and Japan experienced a more difficult time during the month. Investors seem to feel that the austerity plans announced by a number of European governments risk undermining the world economic recovery and, as a result, affecting exporting countries such as Japan and Australia.

In Japan, vacancy rates in Tokyo office buildings are taking longer to stabilize. This has affected the performance of

Global Real Estate Securities Monthly Commentary

May 2010

companies owning these types of assets. The bankruptcy of Commercial RE Co., a Japanese real estate company, had a somewhat negative effect on investors' appetite despite this company's very small size.

Despite a robust economic recovery in Australia, fears of a slowdown in Europe have caused currencies sensitive to natural resource prices to decline. In a single month, the Australian dollar lost close to 9% of its value compared to the U.S. dollar. This had a negative impact on the relative performance of Australian real estate securities on a global basis.

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, May 2010

EMERGING MARKETS

The FTSE EPRA NAREIT Emerging Markets Index delivered a performance of -8.6% in May. The performance of real estate

stocks and currencies in emerging countries was affected by a general increase in risk aversion, even though the latest indicators show that fundamentals in these regions remain strong.

A number of developers in Brazil announced solid quarterly results, with strong year-over-year income growth. Even though developers can dilute their fixed costs due to a broader revenue base, some of them are starting to feel the effects of higher costs for construction materials and labour. The developer PDG Realty has announced that it intends to acquire Agre with the aim of diversifying its product offering, which is linked primarily to the affordable residential sector. If the transaction goes through, its product offering will also include the middle-class residential sector. PDG Realty would then become one of the country's largest residential developers.

FTSE EPRA/NAREIT Emerging Markets Performance

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

Source: Bloomberg, May 2010

Past performance is not indicative of future performance.

Presima inc. declines any responsibility with respect to direct or indirect damages or consequences of the inaccuracy of the information reproduced in this document, or for any actions taken in reliance thereon.

No information or data contained herein may be reproduced by any process whatsoever without written consent.

Certain statements made in this document may be forward-looking statements. These forward-looking statements are based upon current assumptions and beliefs in light of the information currently available, but involve known and unknown risks and uncertainties. Our actual actions or results may differ materially from those discussed in the forward-looking statements, and we undertake no obligation to publicly update any forward-looking statement.

Presima inc., an indirect affiliate of the *Caisse de dépôt et placement du Québec* (Caisse), conducts its business and investment activities on a separate basis from the Caisse and its affiliates. Consequently, in accordance with National Instrument 62-103 Respecting The Early Warning System and Related Take-Over Bid and Insider Reporting Issues and the Aggregation Relief described in Part 5.1 of such Regulation, Presima treats securities it controls separately from securities owned or controlled by the Caisse or by its other affiliates.

