

# Global Real Estate Securities Monthly Commentary

February 2010

Listed real estate securities exceeded the return of the MSCI World Index by 1.5% in February, with the FTSE EPRA/NAREIT Developed Index providing a 3% return. After a difficult month of January, it is too early to tell if this shift in trends that began in early February is going to last. Concerns persist in the financial community, fed by factors such as the sovereign credit situation of certain countries. This uncertainty is creating worthwhile investment opportunities, especially in Asia, a region where we remain overweight compared to the United States and Europe. The U.S. appears to be on the road to recovery, while in Europe an eventual decline in the euro could help support export levels. We are keeping a watchful eye on further indications that could point to these scenarios solidifying. As regards real estate, published results suggest that occupancy rates are nearing a low point in several parts of the world, which is a positive sign for company valuations.

## NORTH AMERICA

The FTSE EPRA/NAREIT North America Index provided a total positive return of 5.5% in February. The month was marked mainly by the announcement of fourth-quarter results for 2009 by most U.S. real estate companies, as well as some Canadian firms. Results are generally in line with market expectations, but profit outlooks for 2010 have left the market somewhat disappointed. This is especially true of companies in the multi-residential sector, which continues to suffer operationally because of weakness in the job market. Despite this darker outlook for 2010, robust profit growth for apartment owners is expected for 2011. This sector's outperformance during the month appears to indicate that the market is already focusing on expectations for 2011.

The other main topic of discussion during the month was Simon Property Group's buyout offer for shopping centre giant General Growth Properties (GGP) at a price of \$9 a share, amounting to an implicit capitalization rate of 7.7%. Following this announcement, Brookfield Asset Management revealed a proposal to recapitalize GGP which would value the company at \$15, amounting to an implicit capitalization rate of 7.2%. It is hard to foresee the result of this process, but the interest shown in the shopping centre sector has already resulted in a strong 15.3% performance for the month of February, during which companies such as Macerich and Taubman substantially outperformed their peers.

FTSE EPRA/NAREIT North America Performance

	US\$	Local Currency
United States	5.66%	5.66%
Canada	4.36%	3.53%

Source: Bloomberg, February 2010

## EUROPE

Real estate stocks stabilized in February after a weak performance at the start of the year. The FTSE EPRA/NAREIT Europe Index recorded a -3.0% return. The market's attention has turned to sovereign risk, with Greece's difficulties highlighting the risks of investing in certain countries such as Spain, Portugal and even the United Kingdom. The rise in government debt levels should, over time, give way to a pattern of budgetary caution in many developed countries.

At the corporate level, year-end results showed that prices in the United Kingdom are definitely on the rebound. Accordingly, Hammerson indicated an 11% rise in the value of its British portfolio. We believe, however, that the rebound in real estate asset prices will quickly lose strength, due in particular to the economic challenge the country faces. For continental Europe, the earnings period got off to a bad start when Unibail announced a stable, but below expectations, profit forecast for 2010. Other companies have broadly similar outlooks.

FTSE EPRA/NAREIT Europe Performance

	US\$	Local Currency
United-Kingdom	-4.19%	0.85%
France	-4.85%	-3.09%
Netherlands	-0.29%	1.56%

Source: Bloomberg, February 2010

## ASIA-PACIFIC

The FTSE EPRA/NAREIT Asia-Pacific Index generated a 3.2% return in February. During the month, several Australian companies published their results for the second half of 2009. Retail sales data remain positive in Australia, but companies with assets in the United States are noting lower revenues from that country. Real estate asset prices in Australia seem to have hit a low point, with the capitalization rates used by independent evaluators having stabilized.

After a difficult start to the year, real estate companies in Hong Kong and China performed well in February. Sales volumes of residential units in these regions rose slightly during the month, leading us to believe that investors' fears regarding the Chinese government's restrictive real estate measures may have been exaggerated.

Japanese companies did less well than those in the rest of Asia during the month after an excellent January performance. Some of the more indebted companies have had to sell off assets at prices that were relatively advantageous for buyers, the latter being in better financial health. This consolidation is

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improving the medium-term outlook for Japan's real estate sector.

FTSE EPRA/NAREIT Asia-Pacific Performance

	US\$	Local Currency
Japan	-0.07%	-2.04%
Hong Kong	7.52%	7.49%
Australia	2.15%	1.37%
Singapore	-1.42%	-1.28%

Source: Bloomberg, February 2010

## EMERGING MARKETS

Stocks in emerging countries have turned around since the end of January, with a performance of 2.9% in February. Despite this change in direction, it is becoming increasingly obvious that there are risks to be considered in certain countries and companies. In Mexico, the normally resilient residential sector for low-income families began showing signs of vulnerability in the last quarter of 2009. After experiencing an annual growth rate of more than 10% over

the last decade, residential developers must now adjust their operations in the face of more limited access to debt financing in Mexico. The country's residential developers, even the largest ones, must adjust their growth rate downwards to ensure that growth can be financed internally. More effective management of working capital is also a major factor of success. Despite these short-term challenges, the outlook for the sector remains favourable thanks to strong internal demand, a solid government program for access to mortgage financing and improved macroeconomic fundamentals. We also see good investment opportunities in companies that continue to show leadership in volumes built, execution and efficiency.

FTSE EPRA/NAREIT Emerging Markets

	US\$
Americas	7.98%
EMEA	2.71%
Asia-Pacific	-0.84%

Source: Bloomberg, February 2010

Past performance is not indicative of future performance.

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