

Global Real Estate Securities Monthly Commentary

December 2009

GLOBAL

The global real estate index generated a positive return of 3.6% in December 2009 as the North American real estate sector bounced back (all figures are in US\$, unless otherwise specified). With a 2009 performance of 38.3%, the global real estate sector picks up where it left off at the start of October 2008. Between October 2008 and December 2009, the sector first dipped by 56.3% but later recovered by 115.1%.

NORTH AMERICA

The FTSE EPRA/NAREIT North America Index provided a total positive return of 7.1% for December. The sector's positive run-up clearly shows the change in investor mentality. After spending much of 2009 focused on balance sheets and financial leverage, investors are now turning their attention to the gradual improvement in the U.S. economy and to a potentially vigorous recovery in the job market. In addition, refinancing and leverage reduction efforts are giving reasons to predict external growth, due in particular to a high potential for transactions.

In this regard, Simon Property set the ball rolling in spectacular fashion by acquiring the company Prime Outlet for US\$2.3 billion. Simon Property ended up using the cash it had accumulated during 2009 to finance this acquisition of 22 shopping centres (8.2 million square feet) with 92% occupancy, at a capitalization rate of approximately 8%. This transaction strengthens our view that there will be no large-scale fire sale and that only well capitalized companies with experienced management teams can benefit fully from profitable investment opportunities.

The year 2010 is thus off to a more solid start than 2009. We expect to see an emphasis essentially on commercial real estate fundamentals, alongside economic developments. A faster-than-expected rise in interest rates, both in Canada and the United States, is a possibility, as is the return of inflation. Both these factors have clear effects on investor behaviour toward the real estate sector.

FTSE EPRA/NAREIT North America Performance

	US\$	Local currency
United States	6.92%	6.92%
Canada	8.46%	7.85%

Source: Bloomberg, December 2009

EUROPE

In December, the FTSE EPRA/NAREIT Europe Index advanced 0.8%. Following a poor start to the month, the European market benefited from a late-month thrust, ending December in slightly positive territory. For 2009, the index posted a total

return of 40.5%, with the United Kingdom underperforming continental Europe by nearly 15.0%.

United Kingdom

The number of direct real estate asset transactions continues to rise, confirming a price recovery which had begun earlier in the summer of 2009. Hammerson was especially active, purchasing a shopping centre in Glasgow and disposing of its single and last office building in France. In addition, some major leases were signed during the month, giving reason to expect the start of a recovery in rental prices. This good news, combined with encouraging economic numbers, enabled U.K. real estate stocks to outperform their European peers during the month of December.

Continental Europe

The market for transactions was less active than in the United Kingdom, but rumours of a major portfolio acquisition by Unibail surfaced during the month. Unibail is in a position of strength, with substantial buying capacity, and it will probably try to benefit from opportunities that could arise in 2010. Moreover, an initial merger of major companies should be completed soon with the coming together of ImmoEast and ImmoFinanz, two Austrian companies that have suffered greatly since the start of the financial crisis.

FTSE EPRA/NAREIT Europe Performance

	US\$	Local currency
United-Kingdom	3.79%	5.48%
France	-1.81%	2.75%
The Netherlands	-0.27%	4.36%

Source: Bloomberg, December 2009

ASIA-PACIFIC

Hong Kong/China:

The region's real estate stocks have generally provided a slightly positive performance. Companies that own shopping centres have performed especially well following the publication of highly positive numbers on retail sales in Hong Kong and mainland China.

Singapore

Real estate developers in Singapore had an excellent month. The successful launch of several residential projects, combined with the sustained rise in housing prices seen in the last few months, has certainly contributed to this positive performance.

Australia

The prices of companies in the office sector continue to rise in a context of sustained growth for the Australian economy.

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Major transactions have also been announced, in particular the purchase of the Aurora Place building in Sydney by a Korean pension fund. Meanwhile, the stocks of residential developers have suffered from the prospect of new rises in the Australian central bank rate.

Japan

Japanese real estate companies experienced a turnaround in December with a highly positive performance of 8.8% in local currency. The decision by Japanese government authorities to slow the rise in the currency led to a correction in the value of the yen, moderating the performance in U.S. dollars. Developers in the residential and office sectors performed relatively well due to expectations of imminent stabilization in real estate fundamentals. The attraction for top-quality buildings also seems to be making a strong comeback. The Pacific Century Place building, located right next to Tokyo Station (a major rail and subway hub), was purchased at a very interesting capitalization rate, rumoured to be around 3.0%.

FTSE EPRA/NAREIT Asia-Pacific Performance

	US\$	Local currency
Japan	0.67%	8.80%
Hong Kong	1.40%	1.45%
Australia	1.42%	3.22%
Singapore	4.11%	5.53%

Source: Bloomberg, December 2009

EMERGING MARKETS

The FTSE EPRA/NAREIT Emerging Markets Index rose by 1.3% in December. For the year as a whole, the FTSE EPRA/NAREIT Emerging Markets Index had an outstanding performance, up 91.2%. In spite of this rise, the outlook for 2010 is good, and GDP growth forecasts in the emerging countries top those of many developed countries. Higher retail consumption levels remain an important factor in emerging countries, and shopping centre companies, as well as residential developers, should benefit from this.

Malaysia

In Malaysia, residential demand has remained high since March 2009 due to the highest level of affordability in the last 20 years, thanks to low mortgage rates and promotions by developers. Demand in the luxury residential segment has shown signs of recovery despite the reintroduction of a 5% capital gains tax on housing owned for less than five years. Well-located top-quality office space in downtown Kuala Lumpur should continue to have an occupancy rate of about 97% because of limited downtown supply and lower rents than elsewhere in Asia.

Mexico

Residential developers have announced their income and profit targets for 2010. Companies are saying that moderate income growth of between 8% and 14% should enable them to generate the necessary cash flows for continued growth. In 2010, companies will begin publishing their results based on a new accounting standard, with income recorded after property titles are transferred to buyers. This accounting change will not have an impact on the cash flow operations of the companies themselves, but income recognized by companies will be more robust.

FTSE EPRA/NAREIT Emerging Markets Performance

	US\$
Americas	0.17%
EMEA	2.38%
Asia-Pacific	1.78%

Source: Bloomberg, December 2009

INVESTMENT STRATEGY

The year 2010 will be a time to cast a careful look at the impact of a possible withdrawal by interventionist governments following their extensive support plans. Also to be considered is the real probability of a substantial interest rate hike at the global level. This phenomenon would clearly have direct effects on real estate and financial markets. Inflation will also be a major topic to watch in 2010, precisely in response to the multiple cash injections made by governments.

We believe that the broad market turnaround in 2009 will force an emphasis on stock selection in the future, as the themes from 2009 are now things of the past. There will be a need to focus on adding value through security selection, with a particular emphasis on real estate fundamentals, which seem headed for stabilization.

At the beginning of this new year, we are reviewing our geographic positioning, but relative global valuations and the growth outlook seem, at least for now, to be promoting the status quo: underweight in America and Britain and overweight in Asia-Pacific. We remain aware of the risks of this strategy: exposure to the potential creation of a bubble in real estate assets in China and a major rebound of the U.S. dollar, as well as the U.S. economic outlook. We remain vigilant in these regards.

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