

Global Real Estate Securities Monthly Commentary

November 2009

GLOBAL

The FTSE EPRA/NAREIT Developed Index generated a 1.9% return in November, despite a difficult month-end following the announcement of Dubai World's request for a moratorium to renegotiate a December debt maturity. The highly publicized financial difficulties of this Dubai entity briefly led to fears of financial contagion across the world banking system. The news created a rise in demand in lower-risk markets such as the United States and Japan. We expect investors will take a pause in December before coming back with greater assurance in the markets early in the new year.

NORTH AMERICA

The FTSE EPRA/NAREIT North America Index recorded a total return of 6.7% for November. After a negative month of October, the upward trend seen since March has returned in strength following solid economic data in the manufacturing sector and in retail sales. However, a return to job creation remains key to a sustained recovery. Despite a marked improvement in this regard, the job market remains uncertain.

In the real estate sector, the semi-annual NAREIT conference was held in Phoenix early in the month. In contrast to the exuberance of the June conference, most speakers seemed quite realistic regarding what is still a tough environment facing REITs over the next few years. The coming year may in fact be a year of negative growth in profits, and a return to positive growth may not be seen until 2011.

Some companies are ready to take advantage of investment opportunities, but they no longer seem to expect the previously hoped-for bargains. One of the most popular topics of conversation at the conference was the possible acquisition of bankrupt shopping centre company GGP by its competitor Simon Property. The latter has said publicly it views this as an incredible opportunity that it cannot help but examine. We will see in the next few months if Simon Property can benefit from this and put to use the \$7 billion in liquidities it has available.

FTSE EPRA/NAREIT North America Performance

	US\$	Local currency
United States	6.87%	6.87%
Canada	5.02%	2.79%

Source: Bloomberg, November 2009

EUROPE

The FTSE EPRA/NAREIT Europe Index declined by 1.7% in November. The European market has been rudderless for the last three months, moving up and down within a limited

range. In this context, stock selection takes on greater importance, and the most solid companies seem to be the most appreciated. Austria had a difficult month, while Switzerland had a good one. The other countries had a more homogeneous performance.

United Kingdom

In the United Kingdom, results for the last quarter have shown signs of an initial rise in prices, dominated by top-quality assets. The liquidities of opportunistic funds, combined with the purchasing potential of listed companies, have led to prices rebounding despite an occupancy market that continues to be tough. Some companies may now have to pay higher prices for assets or go into new sectors to be able to invest their resources after selling massively at the bottom of the market. We remain cautious toward valuations that seem to have fully taken into account price increases.

Continental Europe

In Continental Europe, the latest quarterly results have been published, and the trend remains healthy. The weakness of the occupancy market is offset by long-term leases and by interest rates that are moving down. Acquisitions by listed companies are starting to emerge, and the confidence of executives is rising.

FTSE EPRA/NAREIT Europe Performance

	US\$	Local currency
United-Kingdom	-2.38%	-1.95%
France	-1.16%	-2.86%
The Netherlands	0.23%	-1.50%

Source: Bloomberg, November 2009

ASIA-PACIFIC

The FTSE EPRA/NAREIT Asia-Pacific Index fell 0.9% in November. This decline was caused primarily by a 3.7% drop in the Japanese real estate market.

Hong Kong/China

Performance was relatively neutral in November, with China slightly outperforming Hong Kong. In general terms, companies with quality assets were favoured, especially in the retail and office sectors. Good economic news related to retail sales in Hong Kong and mainland China, as well as a marked improvement in job prospects, contributed to this stronger performance by companies with rental buildings.

Singapore

As in Hong Kong, Singaporean companies owning real estate assets provided stronger performances than developers. The

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stocks of companies in the office sector continued to rise due to a gradual improvement in occupancy rates and a stabilization of rent levels.

Australia

Performance was relatively mixed in Australia, with the resource sector attracting greater attention from investors than the real estate sector. Trading volumes on the Sydney exchange were generally low. The Australian central bank remained a pioneer with its interest rate increase, a sign of the national economy's strength. This trend is also reflected in lower forecasts for unemployment, with a positive impact on the office space sector.

Japan

Our positioning in high-quality stocks was clearly beneficial during the month as Japan broadly underperformed the other Asian markets. Surprise fundraising announcements, both by banks and some real estate companies, have raised fears among foreign investors, especially considering the strength of the yen. The Japanese government has decided to intervene in order to ensure the availability of loans, to fight deflation and to slow the yen's recent rise against the U.S. dollar.

FTSE EPRA/NAREIT Asia-Pacific Performance

	US\$	Local currency
Japan	-3.66%	-8.31%
Hong Kong	-1.98%	-1.98%
Australia	2.57%	1.25%
Singapore	3.48%	2.49%

Source: Bloomberg, November 2009

EMERGING MARKETS

The FTSE EPRA NAREIT Emerging Markets Index rose 3.2% for November, slightly underperforming the MSCI Emerging Markets Index, which was up 4.3% in the same period. Many companies announced their third-quarter results, which generally matched or exceeded expectations. In Malaysia, the Philippines and South Africa, positive returns were seen in more defensive sectors such as office and shopping centres. The strong performances by more defensive companies were observed alongside the negative news from Dubai World and Vietnam, with the latter country devaluing its currency and raising interest rates. Despite the risk aversion seen in some markets, we nonetheless observe that some regional indices have hit new highs, notably in Brazil, Mexico and the Philippines.

Philippines

The shopping centre sector generally continues to perform well, with year-over-year revenues up 5% to 10%. Companies owning buildings which cater to the outsourcing industry have generated higher revenues with the delivery of new pre-rented spaces. This greater supply represents a future risk, however. A proposed law allowing REITs to be set up is already creating expectations among investors and corporations; first, because of the tax savings that listed assets could generate and; second, because assets could be listed at capitalization rates below current levels.

Brazil

Larger-cap companies in the shopping centre sector performed well in November thanks to strong third-quarter results, with greater profits produced by higher margins. Residential developers also announced strong third-quarter results, in part due to continued access to financing which is supported by government measures. This asset class should continue to perform well in 2010. Company revenues are coming from sustained residential market demand. In the medium term, a bigger revenue base should help dilute their fixed costs and generate higher profit margins.

FTSE EPRA/NAREIT Emerging Markets Performance

	US\$
Americas	10.07%
EMEA	3.47%
Asia-Pacific	-1.96%

Source: Bloomberg, November 2009

INVESTMENT STRATEGY

On the eve of 2010, we reiterate our positive view of the Asian region and the emerging markets. Accordingly, we are entering the new year by going overweight in the China/Hong Kong region. The Chinese government continues to support its economy cautiously. The primary risk remains large price movements caused by speculation. For the moment, the strength of fundamental data supports our positive view: the balance sheets of Chinese banks and condo unit sales volumes remain positive.

Some speculation suggests that the United States and Britain are currently running the risk of seeing their AAA credit ratings downgraded. While these economies will probably remain major pillars of the world economy over the long term, their fiscal positions and current economic growth suggest that we should continue to hold back for now in these areas.

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The emerging countries continue to draw our attention. We are attracted, among other things, by the growth and development potential of the real estate asset class in these countries. As an example, Brazil has benefited from strong industrial growth since early 2009, and government measures have been applied to limit currency appreciation. Mexico will, in the long term, benefit from economic recovery in the United States and from its favourable demography.

After a year marked by volatility and high discrepancies in returns between regions and countries in 2009, we are expecting returns to be more homogeneous in 2010, based on a more stable economic context. In this environment, the value added will be generated more by stock selection than by geographic allocation.

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Presima

1000, Jean-Paul-Riopelle Place | Montreal Herald Building, suite 400 | Montreal (Quebec) H2Z 2B6
t : 514.673.1375 | f : 514.673.1378 | www.presima.com