

Global Real Estate Securities Commentary

October 2009

NORTH AMERICA

The FTSE EPRA/NAREIT North America index provided a negative return of 4.6% in October. After a few consecutive months of broadly positive returns, investors took some gains and turned to investments deemed more defensive, such as stocks with healthcare exposure. Access to capital for REITs remains a major theme. We thus saw some secondary issues of shares, including one by Macerich. This company owns shopping centres and did not take part in the first wave of issues. It is now clear that REITs will have an advantage over private competitors, which should enable them to benefit from impending investment opportunities – if they actually materialize.

On the economic front, a marked improvement in the job market is proving slow to take shape, and this seems to have had a negative impact on consumer confidence. We received some disappointing economic data on this front during the month. The sectors most heavily dependent on the recovery have obviously suffered, especially the industrial and hospitality sectors.

After surprising financial results in the second quarter, due mainly to better cost management, investors will now focus their attention on the status and revenue growth potential of various companies. In addition, comments from executives on the coming recovery's impact on their companies bear watching. The past week's financial result announcements brought fewer positive surprises this time.

FTSE EPRA/NAREIT North America Index Performance

	\$US	Local Currency
United-States	4.76%	4.76%
Canada	3.42%	-3.07%

Source: Bloomberg, October 2009

EUROPE

The FTSE EPRA/NAREIT Europe index rose 2.7% in October. The trend toward a lower discrepancy in returns between countries, observed in September, continued into October. However, a change of trend was observed in two traditionally defensive markets, with Belgium rising sharply (5.1%) and Switzerland experiencing a decline (-1.3%).

United Kingdom

In the United Kingdom, we again witnessed some asset sales by listed companies. This leads us to believe that the expected rebound could take longer than anticipated. However, British Land has made its first small office sector acquisition in the City. Analysis of this property over several years suggests a

rather muted performance. On the rental front, a major lease was signed by Macquarie for the occupation of more than 200,000 square feet of office space. This 15-year lease includes four years of free rent. This type of incentive does not provide a very encouraging outlook for the profitability of new developments.

Continental Europe / Euro Zone

Most Continental European companies have released their third-quarter results and, generally speaking, cash flows remain slightly positive. Company executives' confidence is stronger when it comes to asset valuations, but there is some caution regarding cash flow growth in 2010 due to rent indexing that, on average, will be nil.

FTSE EPRA/NAREIT Europe Index Performance

	\$US	Local Currency
United Kingdom	3.53%	0.46%
France	3.38%	2.42%
Netherlands	1.46%	0.51%

Source: Bloomberg, October 2009

ASIA-PACIFIC

The FTSE EPRA/NAREIT Asia index rose 0.6% in October.

Hong Kong/China

For the second month in a row, real estate securities in the Hong Kong/China region performed positively. Securities exposed to the Hong Kong office sector continue to benefit from the prospect of potential rent increases over the coming months. On the residential side, increases in selling prices that began very strongly last March are showing signs of slowing even though nominal growth remains positive.

Singapore

Singapore's real estate securities had a generally positive monthly performance, benefiting specific companies rather than broad real estate sub-sectors. The region's largest developer, CapitalLand, performed very well after announcing the potential sale of certain assets, which will allow them to post major gain.

Australia

After a very strong performance in September, Australian stocks underperformed the Asia-Pacific region in October. The Australian central bank was the first in the OECD to raise its rate, and the unemployment rate gave a positive signal at 5.7%, compared to a consensus forecast of 6.0%. This is encouraging news for the recovery of the office sector in Sydney and Melbourne, whereas the Brisbane and Perth areas continue to suffer from excess supply.

Global Real Estate Securities Commentary

October 2009

Japan

The news was concentrated towards the end of the month in Japan: some J-REITs announced share issues to purchase assets from their parent companies, while others announced merger and acquisition activities. These events are positive since they suggest higher transaction levels for the real estate sector. We believe developers will benefit more from a gradual recovery in the real estate sector because they are generally able to get worthwhile profit margins from their projects.

FTSE EPRA/NAREIT Asia-Pacific Index Performance

	\$US	Local Currency
Japan	-1.94%	-0.86%
Hong Kong	6.54%	6.54%
Australia	-6.99%	-9.16%
Singapore	4.39%	3.61%

Source: Bloomberg, October 2009

EMERGING MARKETS

The FTSE EPRA/NAREIT Emerging Markets index fell by 4.5% in October. The central banks of emerging countries kept interest rates stable, but some governments took initiatives to cool investors' enthusiasm. Brazil reintroduced a 2% tax on trading in stocks and fixed-income securities with the aim of slowing its currency's appreciation. Meanwhile, India raised the liquidity level required of its banks from 24% to 25%.

Mexico

From an economic standpoint, despite government agreement on a slight increase in tax levels, investors and rating agencies see Mexico as facing structural weakness with respect to its ability to increase revenues to reduce its deficit. The deficit could reach 4% of GDP and the rating agencies could lower the country's credit rating from BBB+ to BBB. The financial results of residential developers were widely divergent. Developers are currently seeking an optimal balance between growth and cash flow generation. As such, the consensus on these companies' optimal future growth rate seems to be around 10% to 15%.

Malaysia

The government has reintroduced a capital gains tax on the sale of houses, and some banks have begun raising their mortgage rates, which were at historically low levels. While seemingly negative, these measures are a sign that volumes of housing sales are solid enough to support such changes. The office sector is performing well, and quality office space has occupancy rates of 95% to 99% in the Kuala Lumpur area, where the supply of quality office space is limited. At present, we prefer companies with exposure to affordable housing development, a sector likely to be less affected by the news of the residential capital gains tax.

FTSE EPRA/NAREIT Emerging Markets Index Performance

	\$US
Americas	-1.99%
EMEA	0.54%
Asia-Pacific	-8.02%

Source: Bloomberg, October 2009

MACROECONOMIC VIEW AND INVESTMENT STRATEGY

Investors maintained their appetite for risk in October. This trend resulted in a surge for Asian stocks and for the Canadian and Australian currencies, combined with a decline in North American stocks and the U.S. dollar.

The end of the month was marked by profit-taking worldwide in a context of markets still waiting to see positive economic data come out of the developed countries, which would confirm that a recovery is truly under way. In this regard, while the industrial sector already seems to be in recovery mode nearly everywhere in the world, recovery in jobs is slow to come.

The FTSE EPRA/NAREIT Developed index provided a negative total return of -1.1% in October, preserving a 31.0% positive performance since the start of the year. In 2009, the real estate index outperformed the MSCI Global index by 7.9%, a significant recovery considering that the FTSE EPRA/NAREIT Developed index was underperforming the MSCI index by -10.3% on March 31.

Presima continues to favour the China/Hong Kong region over the Americas and the United Kingdom, despite the valuation levels of real estate stocks in China/Hong Kong. Government authorities in China and Hong Kong continue to issue clear signals that they will keep supporting their real estate sector while attempting to avoid situations of intense speculation. Moreover, some rating agencies have recently expressed positive opinions on the China/Hong Kong region's outlook, pointing to its favourable financial situation.

The U.S. economic situation seems to be showing prospects of a return to economic growth, in particular when looking more closely at figures from the Institute for Supply Management. However, the job situation remains problematic. Also, the G20 does not seem to have taken a clear position on the U.S. dollar.

In a market that has seen a price rise as dazzling as the decline that preceded it, a focus on modelling the specific risk of real estate companies, in absolute and relative terms, lies at the heart of Presima's concerns. Accordingly, Presima's stance favours going overweight in France and the Netherlands as well as with some limited positions in Brazil and Mexico.



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

Global Real Estate Securities Commentary

October 2009

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.

