

Global Listed Real Estate Commentary

June 2009

The month of June was characterised by a tapering off of the outperformance in the Asian real estate sector, a clear trend towards straightening balance sheets and an increase in the appetite for risk. Economic data continues to support a turnaround in the global economy.

A number of specific geographic factors support renewed interest for real estate as a global asset class, in spite of significant regional discrepancies.

North America

The FTSE EPRA/NAREIT North America Index dropped 2.9% in June. Investor appetite for the recapitalisation of this sector weakened after three months of aggressive equity issues with over US\$12 billion raised. Moreover, the economic theme based on improvements in negative news lost some of its momentum with the release of some lacklustre data. There remains some scepticism in the market regarding the impact of government measures to minimize the effects of the residential real estate crisis. In fact, vacant houses and home foreclosures have reached record high levels.

During NAREIT's biannual meeting, we noted a somewhat excessive optimism considering the uncertain times we are experiencing. Real estate company senior officers, particularly those of New York City based REITs, seem to be ignoring local fundamentals, which are still deteriorating at a steady pace. We believe recent securities performance created the illusion of a tangible improvement in economic conditions.

Nevertheless, the first real estate transactions are emerging. Although many consider them to be fire sales, these transactions are indicating some return of investor interest for this asset class. However, we don't believe these prices should be considered as an indication of current conditions.

We continue to believe the residential sector is risky, on the grounds that there is a surplus of houses available driving rents down. Well capitalised companies that are positioning themselves to benefit from a consolidation of quality assets also seem appealing.

FTSE EPRA/NAREIT North American Index Performance

	USD	Local Currency
U.S.	-3.02%	-3.02%
Canada	-1.42%	4.48%

Source: Bloomberg

Europe

In June, the FTSE EPRA/NAREIT Europe Index lost 2.3% after experiencing strong gains in April and May (+19.8% and +7.9% respectively). The return of generalist investors to the listed

real estate market in the United Kingdom and some profit-taking in Continental Europe, where securities had outperformed earlier this year, remain the preferred themes.

During the month, some significant news drew attention. SEGRO announced a conditional purchase offer of its struggling industrial competitor Brixton. Hammerson announced significant asset sales, which had been expected since the beginning of the year. Transactions are made at prices nearing the low for this cycle, which is considered a positive sign by some market participants. There are still equity issuances being made, the majority in Scandinavia. Reducing financial leverage and improving balance sheets remain the main objectives.

In the United Kingdom, transactions made on the direct market are tending towards a certain stabilisation of capitalisation rates. However, uncertainty remains high regarding rents, which are expected to continue deteriorating for many months. In Continental Europe, values have not yet fully incorporated the increase in capitalisation rates. On the other hand, we believe the risk is a lot lower for rents, as the occupancy cost of spaces relative to the revenues of tenants is lower in Continental Europe than it is in the United Kingdom.

FTSE EPRA/NAREIT Europe Index Performance

	USD	Local Currency
U.K.	1.92%	-0.20%
France	-5.82%	-4.96%
Netherlands	-2.14%	-1.25%

Source: Bloomberg

Asia Pacific

Following three consecutive months of high returns on the Asian real estate market, the FTSE EPRA/NAREIT Asia-Pacific Index appreciated by 3.3%. Some investors are increasing their allocation to the real estate asset class, notably in Japan and China, and profit-taking has been observed in Singapore and Hong Kong.

Hong Kong/China

The number of transactions on residential units continued to increase significantly. The environment remains very positive for residential developers, who are now in a position to increase sales prices, particularly in major cities such as Shanghai and Beijing, where inventories of residential units are relatively low. We are keeping a close eye on the Chinese government's attitude towards real estate, as it remains resistant to a price boost in the residential sector resulting from speculation.

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Singapore

June was marked by some secondary equity issues by REITs in the industrial and office subsectors. These issues, which totalled several million dollars, were very well absorbed by investors, and signal a certain appetite for risk and the real estate asset class. Activity on the Singapore residential market is showing signs of improvement after a difficult year in 2008.

Japan

Japanese real estate securities were the best performers in the Asian region in June. Condo sales are still increasing, which contributes directly to the revenues posted by developers. The vacancy rate in office buildings in Tokyo has increased and has reached levels similar to those of the recession earlier this decade. However, some important real estate transactions were made in this sector with sales prices higher than market expectations. Consequently, we think investors will be looking to some improvement in fundamentals.

Australia

June was characterised by a second wave of equity issues which followed the program initiated in 2008. These issues allow companies to reduce debt levels, which is a positive sign in a market where credit is not yet readily available. In this perspective, and given the improving fundamentals in the residential market, Australian securities posted a positive performance.

FTSE EPRA/NAREIT Asia-Pacific Index Performance

	USD	Local Currency
Japan	6.58%	7.73%
Hong Kong	1.31%	1.28%
Australia	4.90%	3.83%
Singapore	-2.30%	-2.13%

Source: Bloomberg

Emerging markets

The FTSE EPRA/NAREIT Emerging Index was up 1.6% during the month. Following three months of strong stock price performance and fund inflows into the emerging markets, the index's performances in June was virtually flat. June saw the first outflows of funds from dedicated Emerging Market equity funds after 15 consecutive weeks of inflows. Most notably, the markets of Brazil and India appeared to experience some profit-taking as investors digested new capital raisings and continue to focus on concrete signs of improving real estate market fundamentals.

Brazil

June was an important month for capital raisings by Brazilian real estate companies with three majors announcing new equity issues. Given strong stock price performance, companies were given a window to come to the market to raise cash for either working capital needs in the case of residential builders or as a war chest for potential acquisitions in the case of mall companies. Residential sales remained robust, driven by the government's earlier announced housing package, historically low interest rates, and early signs of an improving economy. Of importance to mall companies in Brazil, the government released national retail sales figures which continued to show a stable to improving trend which should be reflected in companies' results for the second quarter of 2009.

Mexico

Despite a continued deceleration of macroeconomic figures during the month (i.e. falling remittances from abroad and downward revisions of 2009 real GDP growth) the Mexican residential market, which targets affordable homes, continues to show significant resilience. In addition, the country's largest mortgage provider announced that revenues for 2009 were in line with 2008 figures despite the severe slowdown in the economy, which highlights the resilience of the sector.

FTSE EPRA/NAREIT Emerging Index Performance

	USD
Americas	0.67%
EMEA	4.79%
Asia-Pacific	0.52%

Source: Bloomberg

India

Following two strong months of stock price performance, listed Indian developers continued to restructure debt and successfully recapitalize with new equity issues. Over the last two months, it is estimated that US\$ 2.0 billion of equity has been raised by Indian developers. On the terrain, developers have reported a recent pick-up in sales which has been driven by: (i) improving general sentiment, (ii) lower financing rates and (iii) lower sales prices. Despite these improvements, affordability continues to be a challenge and investors generally believe that home sales and stock prices are being driven more by sentiment than a change in fundamentals. One segment which has been identified as having a huge demand is the affordable/entry level residential segment. However, the challenge remains for all developers to profit from this sector given the low selling prices and increased efficiencies which are needed to succeed.

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Investment strategy

In early March, equity markets around the world were affected by a major change in the management approach used by investors. For one thing, appetite for risk, literally non-existent in 2008, made a swift turnaround, which benefited small caps, riskier in nature (credit and balance sheet) in the current environment.

Although we are exposed to a higher active risk and have increased our portfolios' beta, we remained present in liquid institutional quality assets, a position which altered the cumulative outperformance we had enjoyed during the first quarter of the year.

We continue to gradually increase our active risk and beta in an environment of high volatility, while our conviction level increases in line with the economic news being released.

Moreover, the purpose of our investment strategy is to position our portfolios to benefit from a global recovery, where China will continue to benefit from the implementation of its significant fiscal and monetary incentive packages. The strength of the Chinese economy should also have a positive impact on the currencies of commodity producing countries such as Canada and Australia.

As for the United States, they should also benefit from the injection of capital in the economy, although at a lower level, while the potential for growth has diminished substantially over the last few years. Also, as in the United Kingdom, reforming the financial system could require more time than expected. Over the long term, taxpayers could see this have an impact on their financial situation, which would potentially have a negative effect on consumer psychology, habits and household spending.

This strategy involves risks related to some degree to market sentiment, and if pessimism should spring up again, the US dollar and Japanese yen could once more become safe-haven currencies. Deflation could also reappear, which would potentially have a negative impact on commercial real estate.

However, most economic data released globally continue to support our assumption of a global economic recovery.

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