

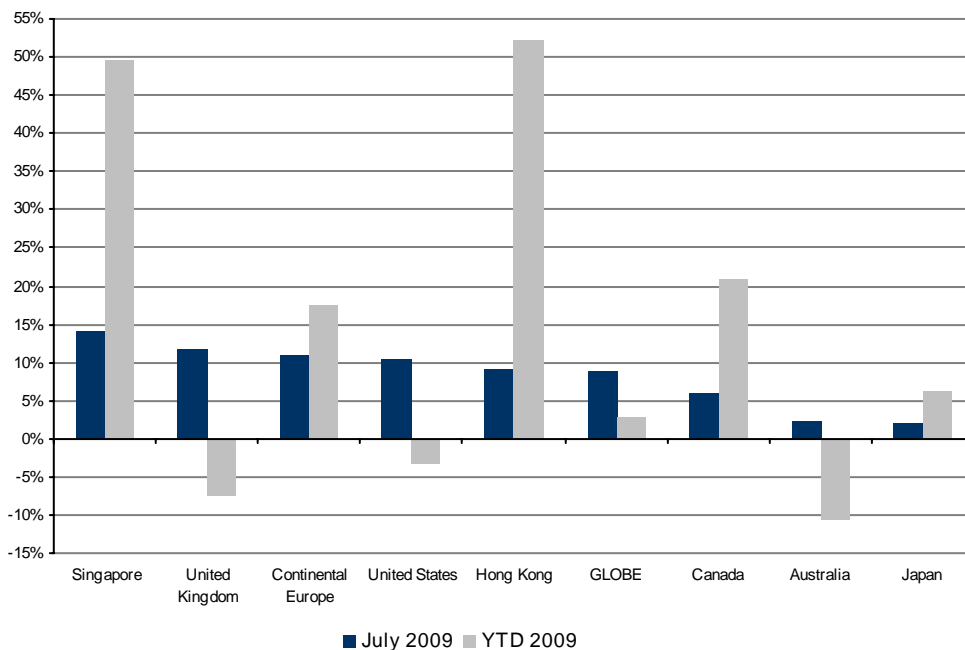
Monthly Review

End of July 2009

Solid Gains

The second half of 2009 started off with solid gains in both global real estate stocks and the broad market. Every major market posted gains in the month. The UBS Investors Index of real estate stocks produced a positive total return of 8.9% in the month while the MSCI World Equity Index of broad-market stocks was up 7.4%. (All returns are stated in local currencies.) Year-to-date, global real estate stocks are up 3.0% versus a positive return of 13.0% in the broad global equity market.

UBS Investors Index -- Performance of Global Real Estate Securities¹



U.S. again positive

U.S. REITs returned to positive performance in July, up 10.6%, and with all subsectors in positive territory. Health care REITs led the way, with analysts thinking that they may do relatively well as the health care industry is reorganized. Office and lodging companies were helped by the perception that the economy may be moving closer toward recovery. Second quarter earnings are generally meeting or exceeding analysts' expectations. U.S. home prices rose for the first time since mid-2006. The level of short sales increased slightly, and remains at a relatively high level.

And are the other regions

U.K. real estate companies were up 11.7%. While the U.K. economy remains very weak, negative economic indicators were offset by better than expected retail sales volume and generally more positive comments from the public companies' quarterly reports. Segro completed a 250 million GBP equity raise to complete its purchase of Brixton. Continental European real estate stocks were up 10.9%. Reporting companies' results are generally in line with analysts' expectations thus far, with increases in rents still being reported due to indexation. Reported asset values are declining as expected. Shopping center investor Deutsche Euroshop raised EUR 67 million this month in an equity issuance.

¹ All Index returns for Global Real Estate Companies are expressed in the UBS Investors Index (local currency, gross dividends) or its sub-indexes.

Australian real estate stocks were up 2.4%. After a quarter filled with equity raising, there was no equity raising in Australia in July, although Dexus had a small bond issuance (\$160 million USD). We believe that most of the larger A-REITs have recapitalized and are ready for expansion if the opportunity arrives. Japanese real estate stocks rose 2.1%. Rents and occupancy levels continue to decline across the main rental property classes; condominium sales, however, are higher. There was more news of the possibility of a Public-Private Joint Venture Fund to provide REITs with liquidity and help them meet refinancing obligations.

Hong Kong real estate stocks were up 9.1% in July. Office rents are still falling, but the pace is slowing; the same is true in exports. Retail sales and tourism are weak, but the residential market is seeing some strength. REITs in Singapore gained 14.2%, tracking the broad market in Singapore. Property transactions were reasonably active in the period, and housing data is positive.

Economics and Fundamentals

The world economy is well into recession, with many economists believing that the bottom is close at hand; a recovery is anticipated in 2010. Recent estimates have improved for most economies compared with projections made earlier in the year. Economists' projections remained stable in July, with global GDP estimated to fall by 2.6% in 2009 and then grow by 2.0% in 2010. Consumption is expected to follow the same path, down 1.0% in 2009 and then up 1.3% in 2010.

This recovery improves the property sector outlook, but actual growth in this cycle-lagging economic sector will not begin for several additional quarters, after the overall economy is well on its way to recovery.

Earnings meeting or beating estimates

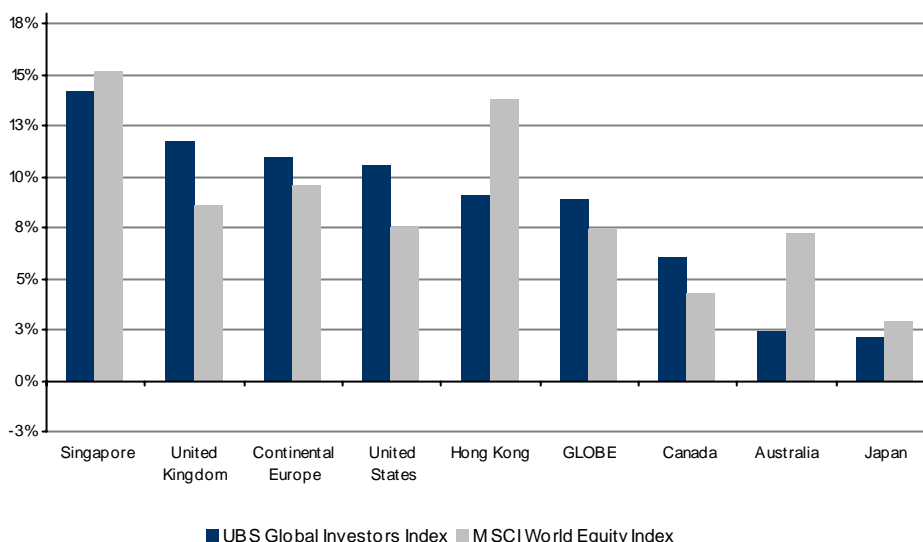
The bulk of global real estate companies reporting their second quarter results are meeting or exceeding analysts' projections. We expect earnings will fall this year and next, with declines of 4% or so in each year. Earnings recovery should commence in 2011. We emphasize that we expect most public real estate companies to continue to be profitable in absolute terms and continue to maintain adequate financial flexibility during this period.

Valuation

Based on our estimates of Net Asset Value, global real estate companies, as a group, are selling at a premium of a little more than 10% to the value of their real estate assets today. Real estate company dividend yields are quite high on both an absolute and relative basis versus yields in the broader equity and debt markets today.

Along with the stabilizing economies, the most encouraging factor this year in the environment for global real estate companies is the reopening of the capital market. More than \$40 billion USD of new public equity has been raised by nearly a hundred global real estate companies since the first of the year. New debt placement is difficult to quantify, but we believe it exceeds \$15 billion USD so far in 2009 for public real estate companies worldwide. This access to new capital is improving the stability of the public real estate industry and should enhance its competitiveness as attractive properties begin to come available in the next two-to-three years.

Global Real Estate Securities vs. Global Equities (July 2009)²



Outlook

We believe that the great majority of companies that are going to reduce their dividend rates have done so. Current dividend yields continue to be attractive compared with the current return on most investment alternatives. The prices of real estate stocks are not excessive compared with the value of their real estate assets, and we think these values will increase as the economy improves. While earnings are declining today, these declines are not dramatic, and we expect earnings will begin to increase in 2011 and beyond.

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