

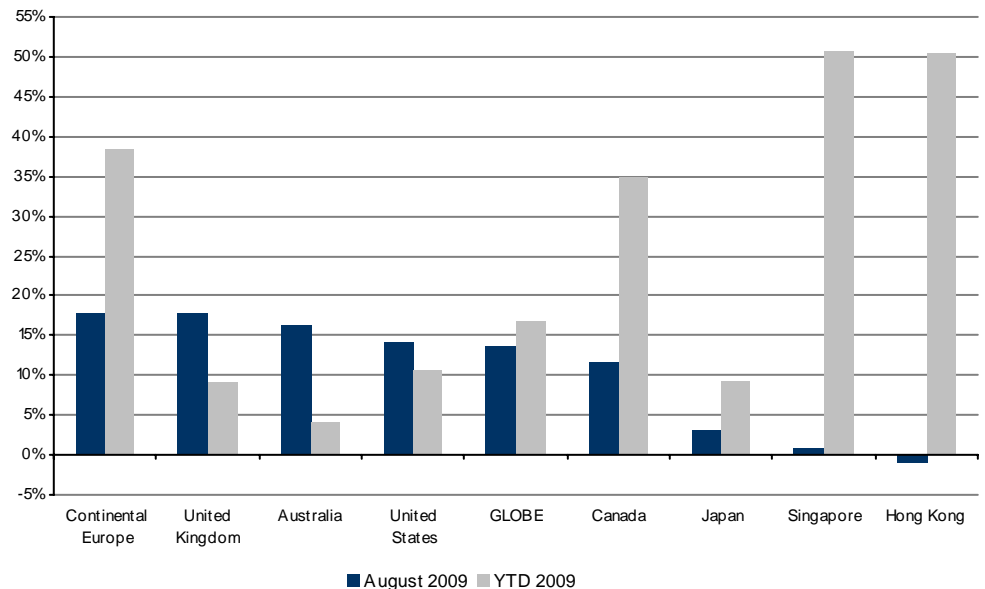
Monthly Review

End of August 2009

A good month for real estate stocks

Global real estate stocks moved ahead strongly in August, with almost every major market posting gains in the month. The UBS Global Investors Index of real estate stocks produced a positive total return of 13.5% while the MSCI World Equity Index of broad-market stocks was up 3.8%. (All returns are stated in local currencies.) Year-to-date, global real estate stocks are up 16.9% versus a positive return of 17.3% in the broad global equity market.

UBS Investors Index -- Performance of Global Real Estate Securities¹



Less pessimism on the economy

U.S. REITs produced a total return of 14.2%, with all subsectors gaining more than 10% except health care, up 9%. Office, industrial, and regional mall companies led the way, gaining about 20% in the month. Two major trends are continuing: the perception that the economy may be moving closer to renewed growth, and the ability of a broad spectrum of companies to access the capital markets at favorable rates.

And better access to capital

These trends are also continuing in the U.K. and Continental Europe, each up 17.8%, the best market performances in the month. Another positive factor is unexpectedly good GDP performance in Germany and France in the second quarter, with both economies showing positive growth. Earnings reports continue to be generally in line with estimates. Like-for-like rental growth was generally positive, though occupancy rates were down slightly. Capital values decreased, but at a far lower pace compared to the end of 2008. Cash flows were generally helped by lower debt costs, reflecting the strong decrease in interest rates.

Australian real estate stocks were up a strong 16.2%. Australia seems less affected by the global downturn than most other economies, and is expected to escape a technical recession. After a series of equity raising activities beginning in late 2008, most of the major A-REITs have recapitalized and the gearing of the companies have come within a healthier range. With better balance sheets, companies have shifted to prepare themselves for growth in the coming quarters.

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

Japanese real estate stocks rose 2.9% in August. The economy remains weak, though recent signs are favorable. The first-ever merger recently announced between two J-REITs (Advance Residential and Nippon Residential) creates a precedent for other potential mergers or acquisitions. While Singapore and Hong Kong real estate stocks trailed in the month (up 0.9% and down 1.0% respectively), they are market leaders for the year, with each group gaining just over 50% to date in 2009. The companies are benefiting from recovering economies being helped by the effects of economic stimulus in China and the region.

Economics and Fundamentals

There was added evidence in August that the bottom of the world economic recession may be in view, with positive GDP growth for the second quarter reported in countries as diverse as France and Hong Kong. Economists' revised projections were modestly more optimistic in August, with global GDP estimated to fall by 2.4% in 2009 and then grow by 2.3% in 2010. Consumption is expected to follow the same path, down 1.0% in 2009 and then up 1.3% in 2010.

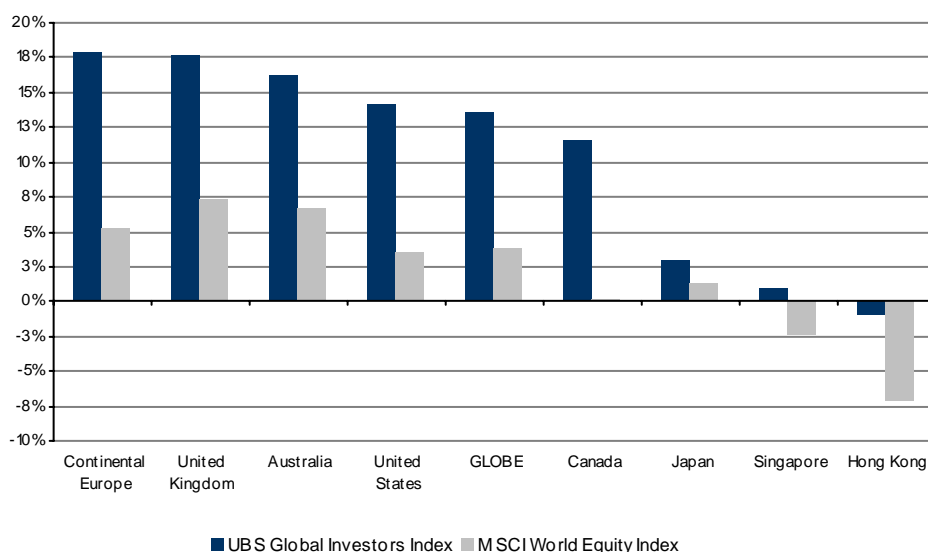
A good portion of this is the result of government stimulus, but an increasing amount is likely due to businesses and consumers coming to believe that they have seen the worst of the recession and are now ready to begin planning for the recovery. In the U.S., housing prices are up for the first time in a number of quarters; sales are increasing as well. Residential markets are also expanding in Hong Kong and Singapore.

A slow recovery in operating results

While the economy may be turning around, operating improvements in the real estate sector will take some time. Most global real estate companies reported second quarter that met or exceeded analysts' projections, but 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 think the great majority of public real estate companies will continue to be profitable in absolute terms during this period and most will improve their financial flexibility as economic recovery progresses.

Both equity and debt capital markets have opened up to real estate companies. Since late 2008 almost \$50 billion USD of new public equity has been raised by more than a hundred global real estate companies. Early in the year only the best companies could place debt; now the market is open to companies at the low end of investment-grade ratings as well. Although property values are significantly lower than they were at this time last year, good pricing on debt is likely to have a favorable impact on value going forward.

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



Outlook

Current dividend yields continue to be attractive compared with the current return on most investment alternatives. We think real estate asset values may be beginning to stabilize and that they will increase once 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.

² All Index returns for Global Real Estate Companies are expressed in the UBS Investors Index (local currency, gross dividends) or its sub-indexes.

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