Market Commentary

October 1, 2010

REACHING

The Global REIT index was nearly unchanged in August as economic worries rose, but September provided one of the best monthly returns of the year in securities and property. There is strong investor demand Reaching for Yield, and REITs provide this very well compared to other assets. U.S. REIT yield is now 3.69%, same as at the end of 2006. While MSCI World index is +3.5% YTD 9/29/10,   U.S. REITs +18% with 3.78% dividend, down from 7.56% dividends in 2008. So are REITS cheap now? Certainly not.

Talk of double dip global economic downturn has subsided, and policy risk in Asia and Western economies have subsided, but prices and yields of Bldgs and securities have changed dramatically from Q1 '10.

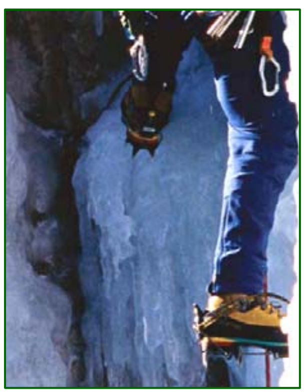
In the U.S. market, Small Cap REITS vastly outperformed Large caps, by 700 bp YTD 9/29.

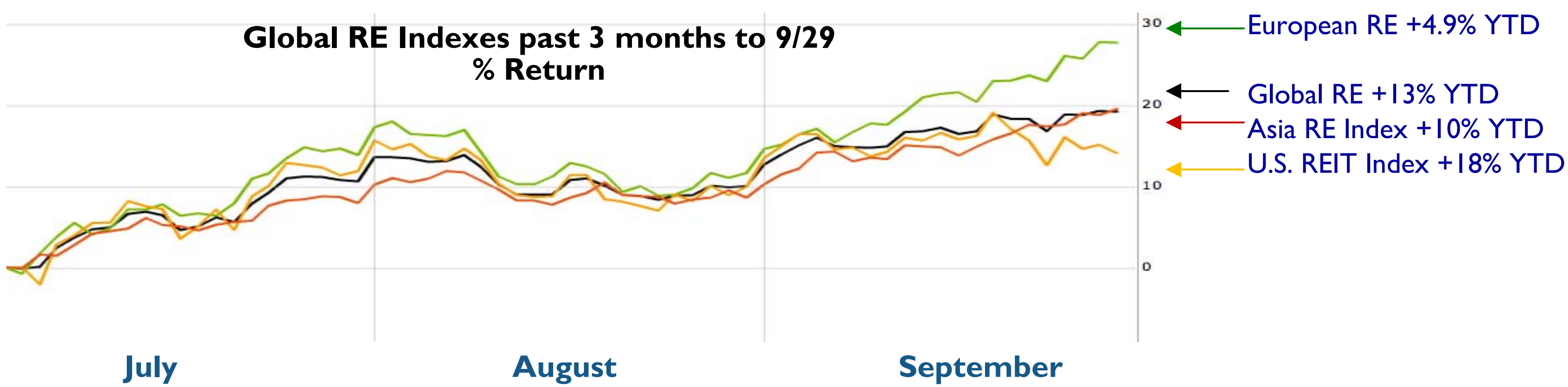
Core RE funds are probably lagging REITS (+1% Q1 vs REITS +3.96% Q1) but should show 2010 was excellent. We added to Infrastructure as a "cheap" alternative to REITs in 2010, the index +9.44% YTD

We added to Brazil RE for growth opportunities in 2010 +39% Q3 '10.

In Q3 we added to income securities soften the volatility of REITS. (large acct **+9.16% YTD August**)

Global RE index **13.43% YTD** 9/30/10   On Sept 20 the Global RE index surpassed level of "pre-Lehman"

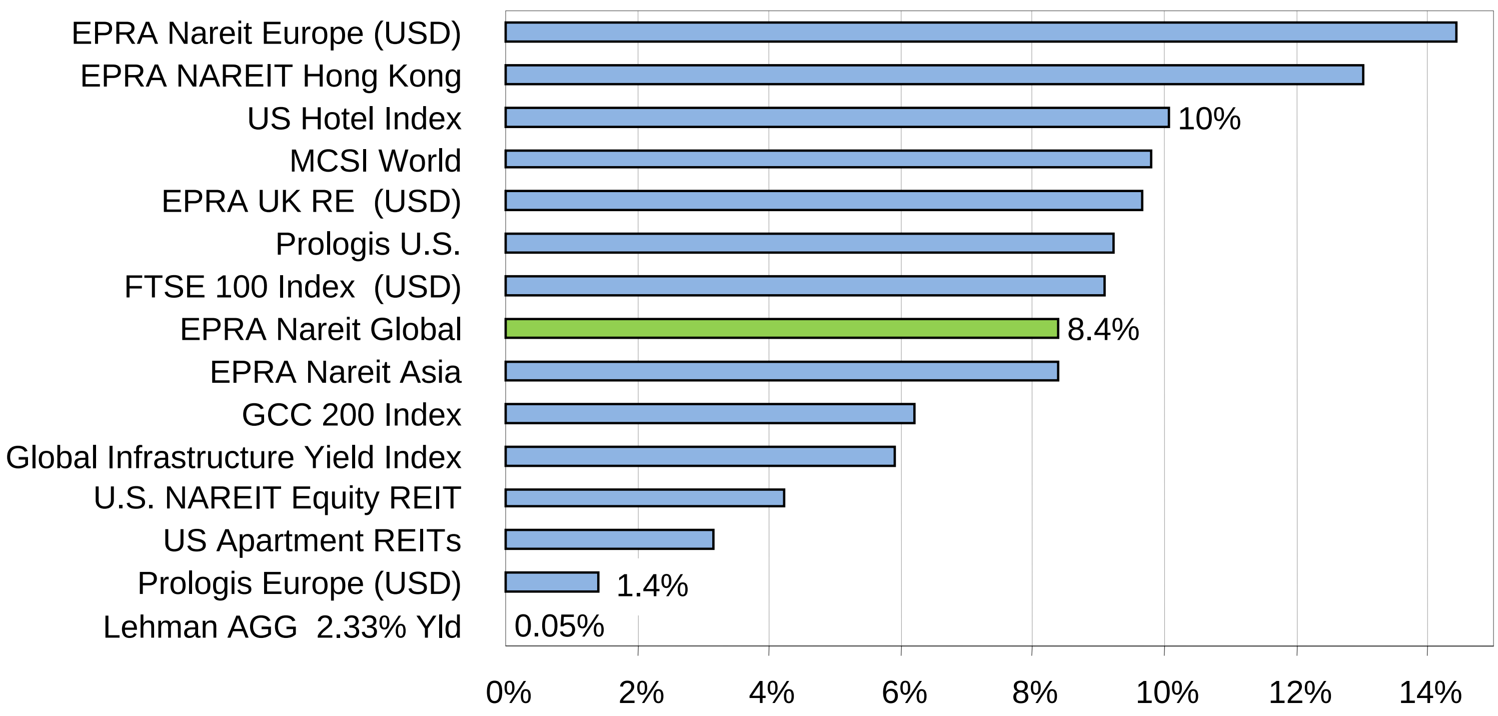




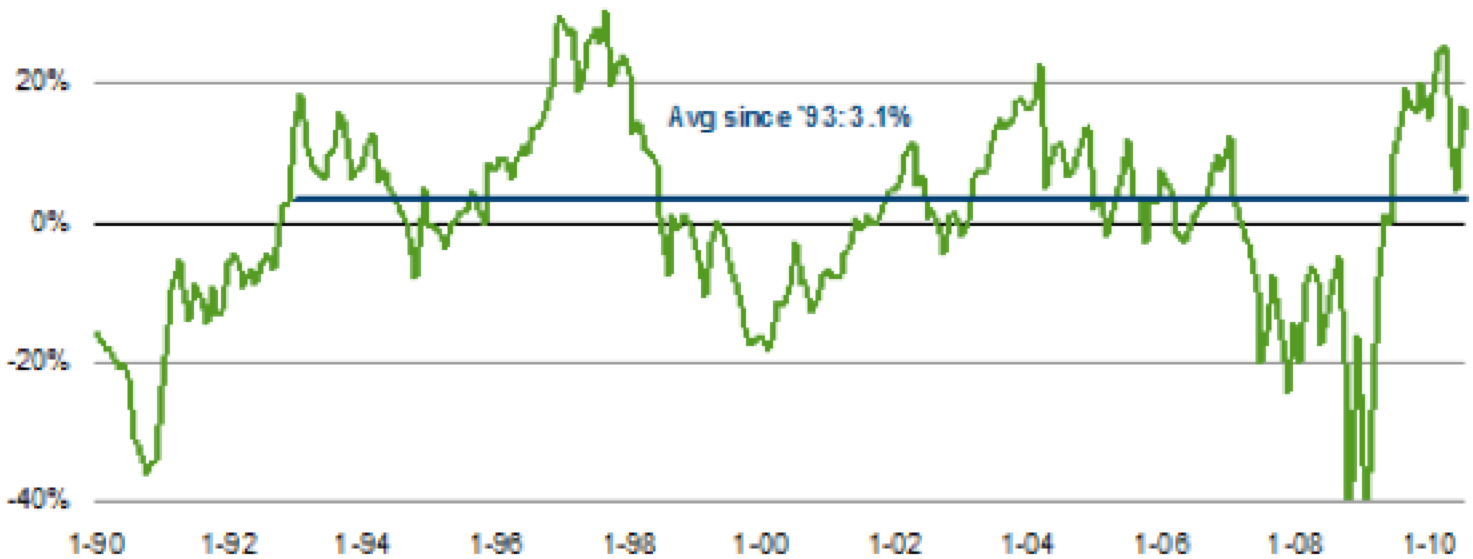
Good news… Global Public securities up nicely in September

Best September since 1939 for the S&P
and U.S Recession was declared "ended"
Europe and Asia caught up

Month of September 2010
Returns to 9/29 (USD)



REIT valuation…
no longer "cheap" as in 2009 and earlier in 2010



Avg 3.1%

now near 20%

U.S. REIT share valuation vs NAV 1990 to Sept. '10
Premium (Discount)

*Source: Greenstreet

Real Estate returns driven by the Debt…

Forensic look at a large Office property acquired by a non-U.S. Investor

	August 2007	2010	Gain (loss)
NOI	$ 34,850,000	$ 30,668,000	-12%
Vacancy	15%	30%	
Net Op Income per sf	$ 21	$ 18	-12%
Size sf	1,700,000	1,700,000	
Cap rate vs original cost	4.1%	3.6%	-12%
Cap vs "current" value		6.6%	
Price / sf	$ 500	$ 272	
Value	$ 850,000,000	$ 462,317,073	-46%
NOI drop		(4,182,000)	
Price multiple vs NOI	24	15	
Loss if were "all cash" investo	-46%		
Actual Loss to Mezz Lender	-41%		
new Mezz price / LTV		82%	

NOI slightly lower,
-12% 2007 to 2010

CAP Rate widened slightly to 6.6%

Mezz investor lost 40%

Equity Gone 100% Loss if 70% debt

Source: *Brookfield Inv Mgt

If Private Equity funds are chasing
too few deals with TOO MUCH Capital,

why not add Income? + Liquidity
Strategia bought for client, 9.3% cash flow in Q3

CMBS issues and Bank lenders are Vary aggressive… some loans now 4.6% interest rate

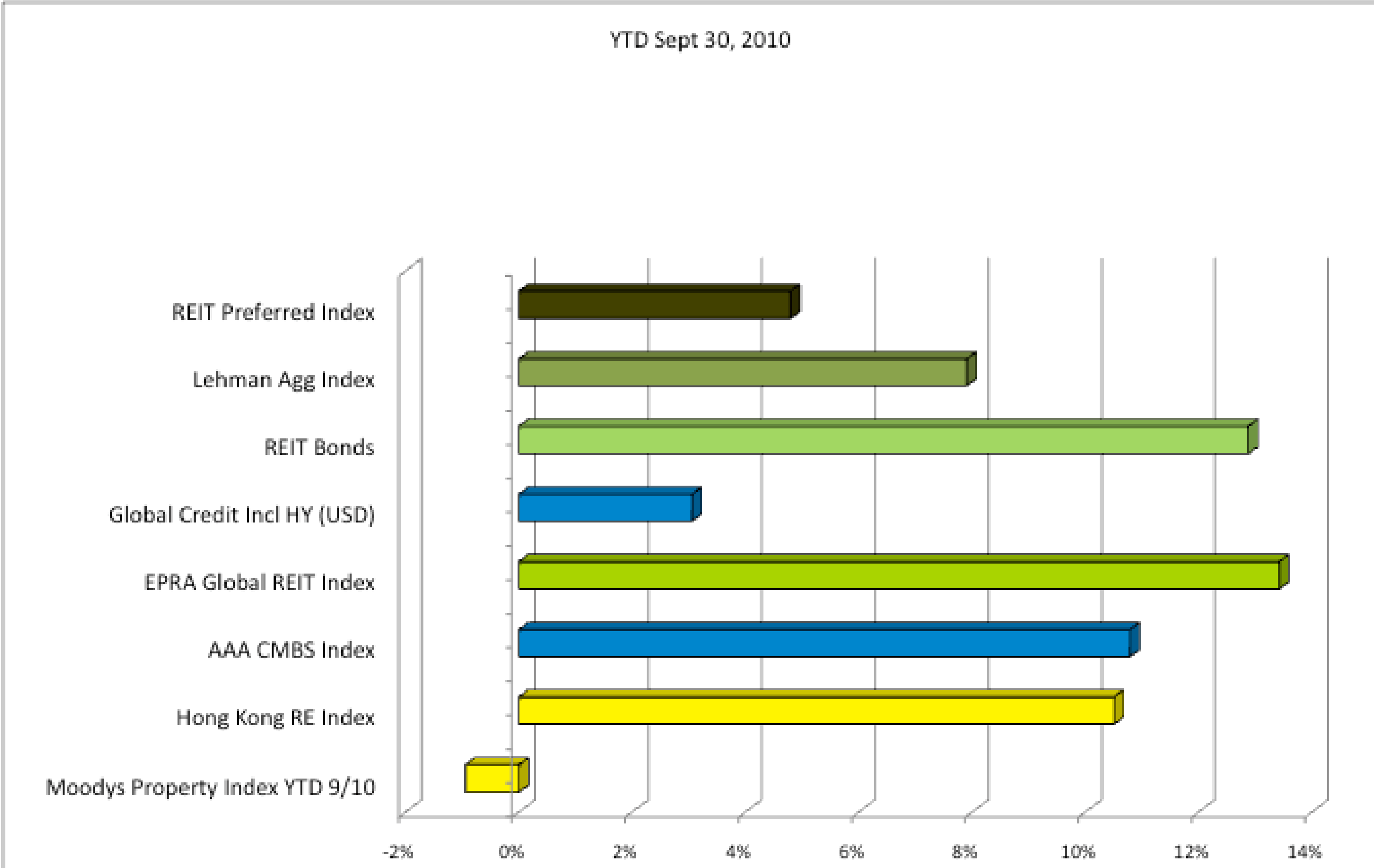
Bids are propping up prices for core and distressed assets
a “Core” buyer paid 5.7% CAP just because he could borrow at 4.7%,

an “Opportunity” fund bought a bldg with a 4% Cap
*Distressed investing **was** Great in 2009….*
*"The question is whether this opportunity still exists going **forward**" - NEPC May 2010*

*" **Lack of supply is causing almost a feeding frenzy.***
People have real estate funds that are not on an
infinite time line -- they need to put capital to work.” -Kava of Goldman Sachs

*Source: past 12 mo RCA

Most of the gain in RE indexes this yr were in Q3



% return YTD 9/30/10

Good news:
Industrial, Residential. Office and Retail Buyers Benefitting:
values well below replacement and
Lack of New construction. 2009 was lowest in 25 yrs.
Ample bank lending for existing CF deals, not development.

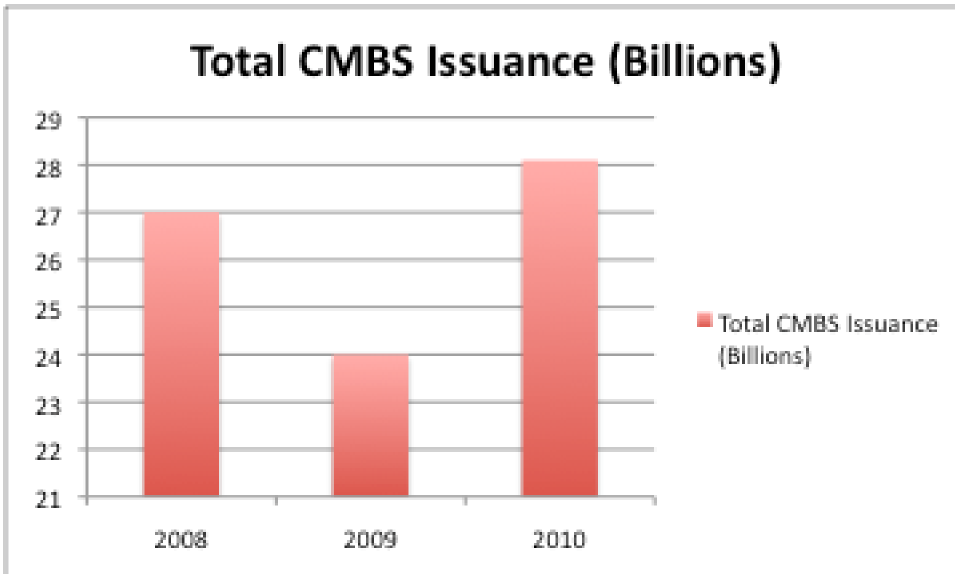
Industrial Property Top 30 U.S. Markets

Source: Prologis

Demand for CMBS "yield" has outstripped Supply

Some CMBS issues have 10x demand as yield of 4% is very attractive

CMBS AAA has returned nearly +10% YTD September /10



Good News:

Global Economy is recovering

Investor appetite for "current" Cashflow could help support valuations.

If the "bubble" of bonds bursts, capital could flow to RE

Corporate tenants have strong balance sheets

Q2 2010 was the best quarterly investment return (NCREIF) since Sept '07

Caution:

REITS are up nearly +100% since March 2009, yet global employment remains weak

Cap Rates are low for property and implied in REITS

October looks like a good time to switch from 10 yr US Treasuries yielding 2.49%

We welcome Client questions and requests for further details.

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