



# Market Commentary

“ Jolt of Stability”

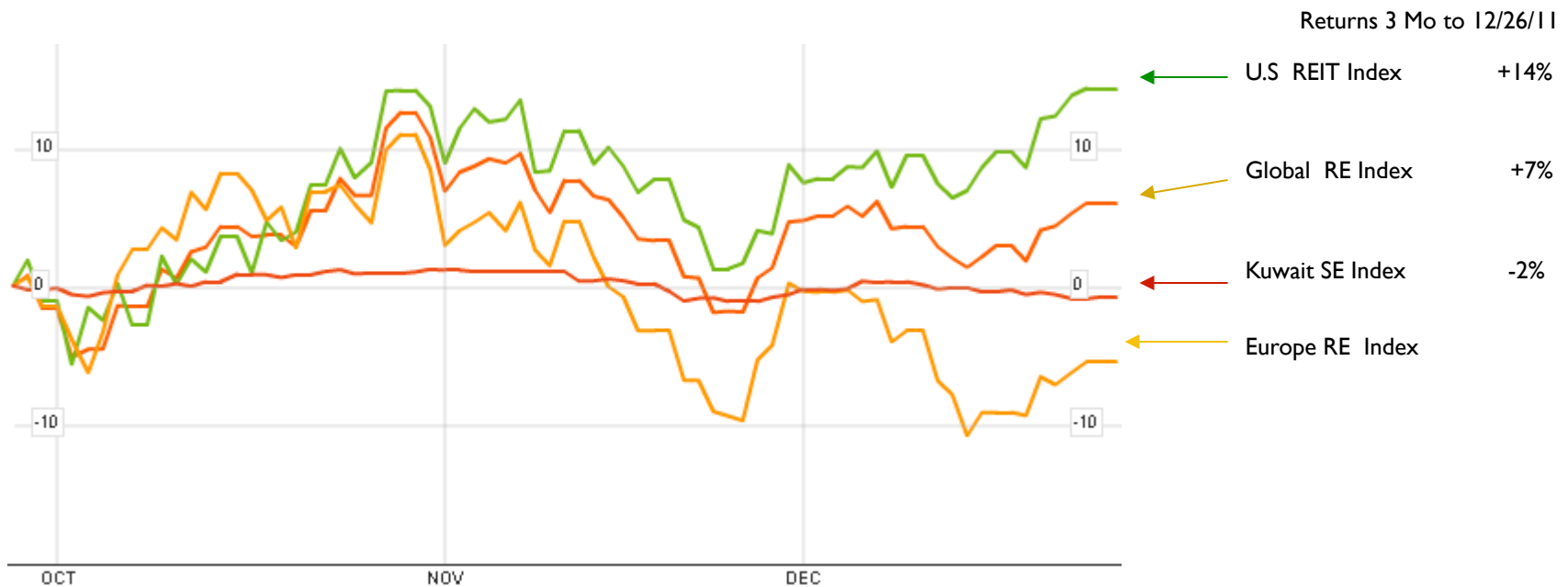
December 27, 2011

The Global RE equity index rose sharply on the news that the ECB injected more capital into the banking system in December, than during the credit crisis of 2009. Q4 2011 has been generally Up, but volatile on political news while Real Estate fundamentals continue to be stable or improving. Many property buyers and REITS are pleased with property performance YTD however, but getting vast capital deployed at ever narrower yields is presenting a challenge.

The last week of October was the best rally in 28 months. Outperformers QTD are Hotels, US REITS, Global Infrastructure.

With Global Bond market Yield at a paltry 2.3%, it is not surprising that investors moved to real estate securities yielding 5% and Buying NYC Office property with avg Yield 5.1%. Global RE index is +7.73% Q4 to 12/26.

As discussed in our September 24 commentary, Crisis = risk + OPPORTUNITY. Hong Kong RE securities +9.44% QTD 12/26/11. Long term investors should consider continuing to scale in High Income RE securities. We would like to discuss real asset market dynamics and strategies for investing for Current INCOME.



Global Real Estate Equities Index and Kuwait SE Index  
3 months to 12/26/11  
% Return

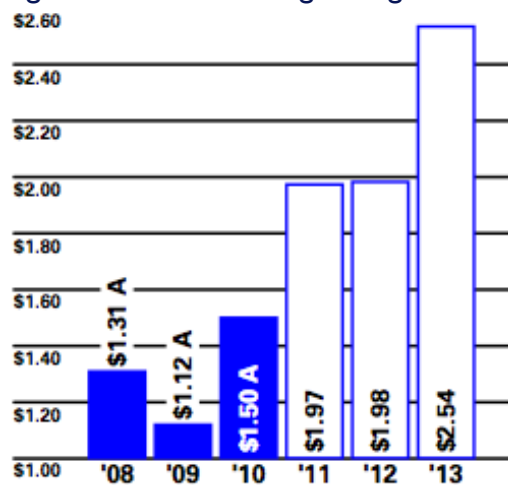
## Growth & Income views

U.S. Hotel sector up nearly +29% Q4 to 12/23/11, consider Income  
...consider high Income equities, Infrastructure and REITS yielding over 6%

Some of the Best growth this year has been in niche real assets like pipelines, tower properties and hotels.

We continue to favor Income strategies for clients seeking attractive returns with less volatility for 2012.

Hotel sector “bottomed” in '09.  
Earnings and REVPAR now growing example:

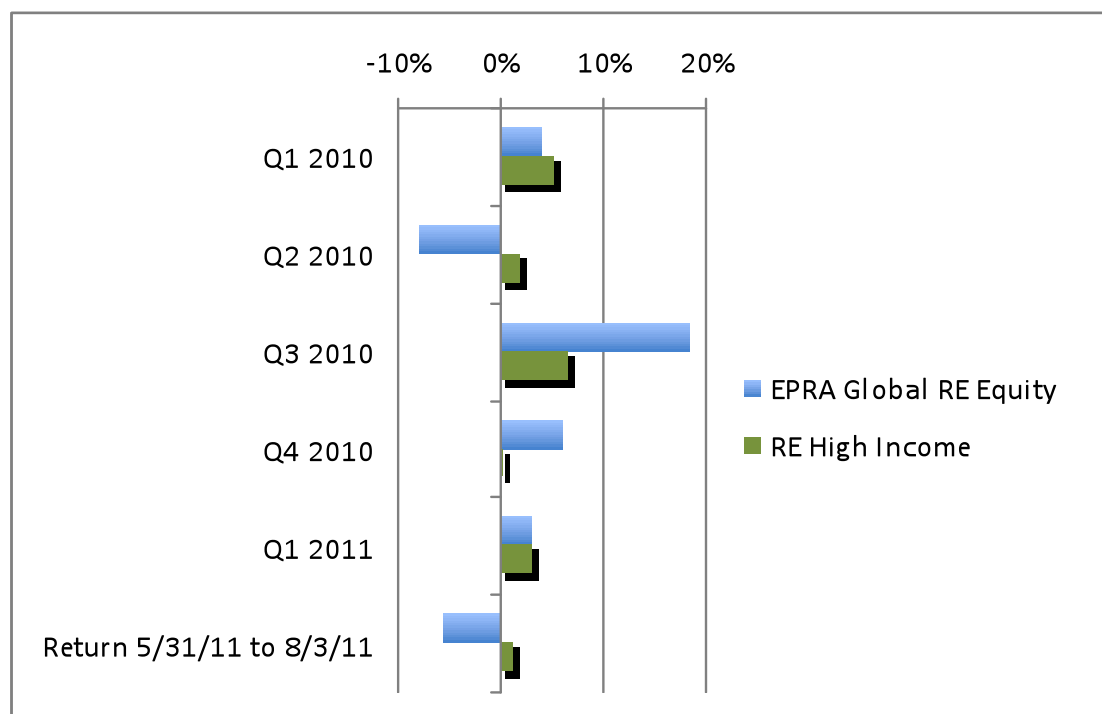


Source:  
First Call actual and projected earnings

## HIGH INCOME RE securities

With dividends over 4% and Cap rates compressed near 4%... consider now, a portfolio yielding 7%, Liquid securities

### Returns Comparison: High Income, less Risk



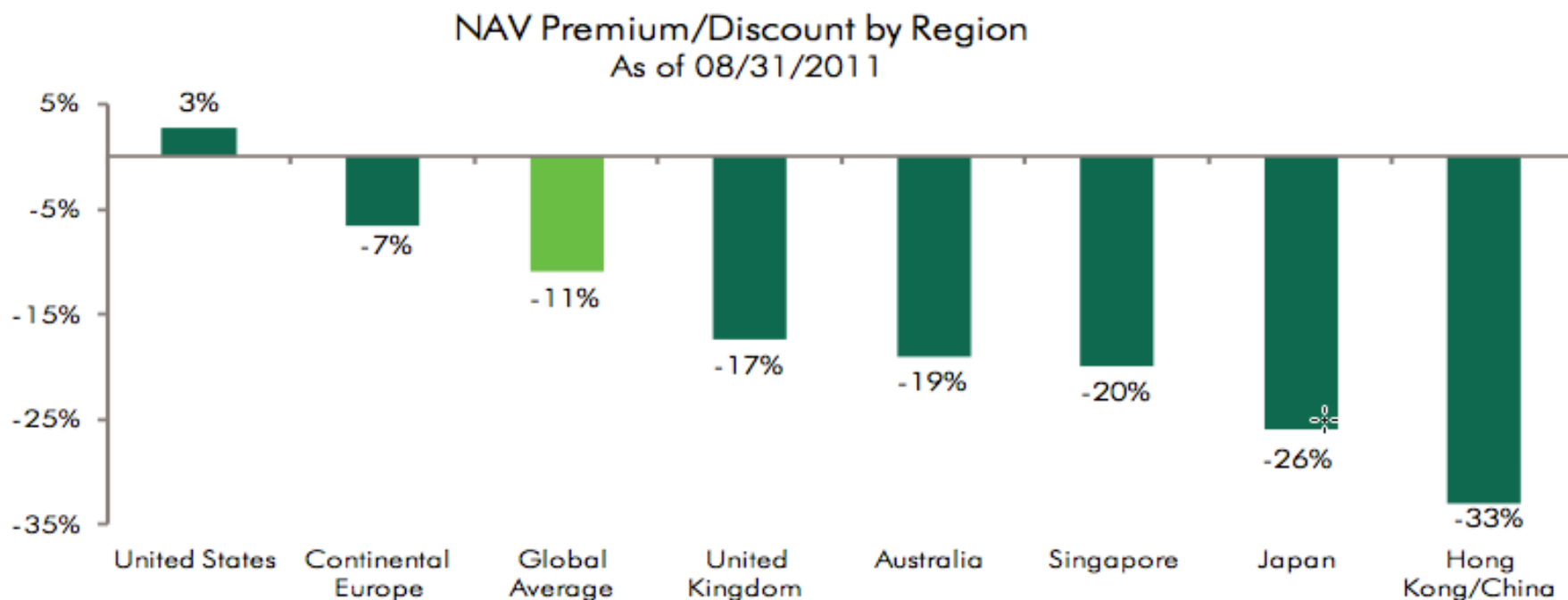
## INCOME, CF, LIQUID

Example index returns for the strategy: less Volatile than equity, similar Return 5/7/10 to 10/30/11 RE High Income +13% Return, includes 6.95% current income.

Global AGG yield is now only 2.4 %

## RE securities, especially Asia... Were Cheap to NAV Oct 1

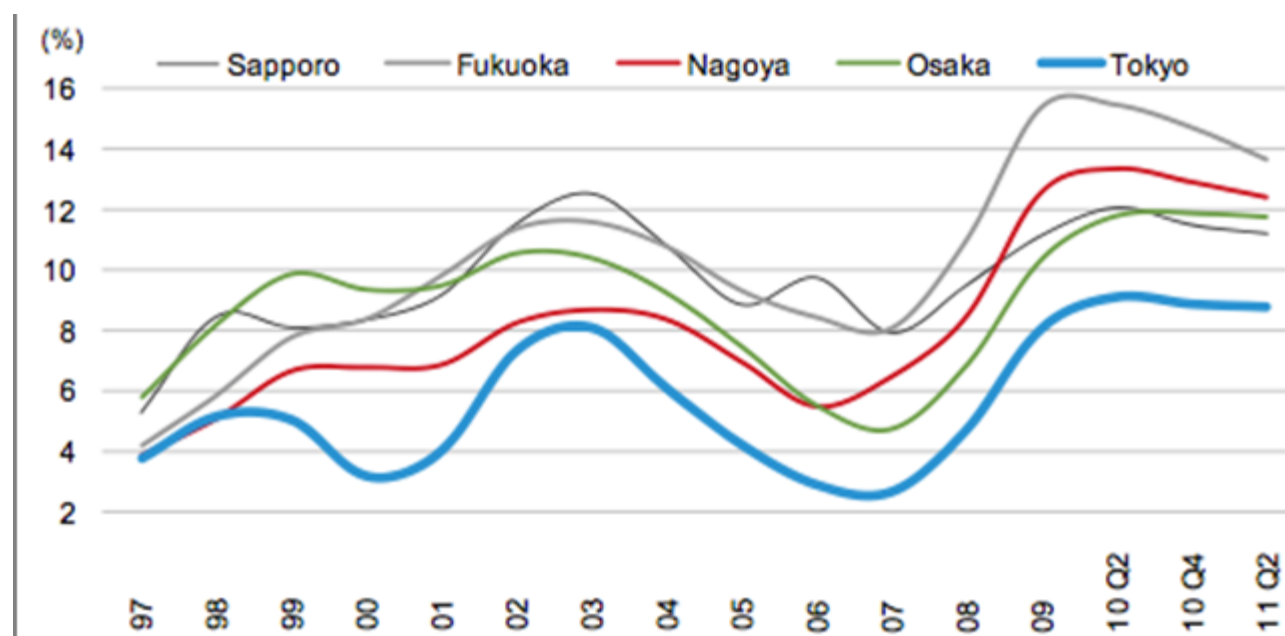
With Tokyo Cap rates near 3% and public securities 26% cheap to the property Asia performed well +14.74 MTD 10/28, compare vs GCC real estate or GCC200 index +1.49% MTD 10/30/11.



Quality property in Hong Kong 5.1% Cap rate... Equity, liquid Honk Kong RE securities imply 6.4% Cap Rate  
We added Asia exposure in October, look to add further as appropriate

## Japan recovery and HK Growth ... 2 speeds Hong Kong RE index was +19.7% in October

Top Japan Market Office Vacancy

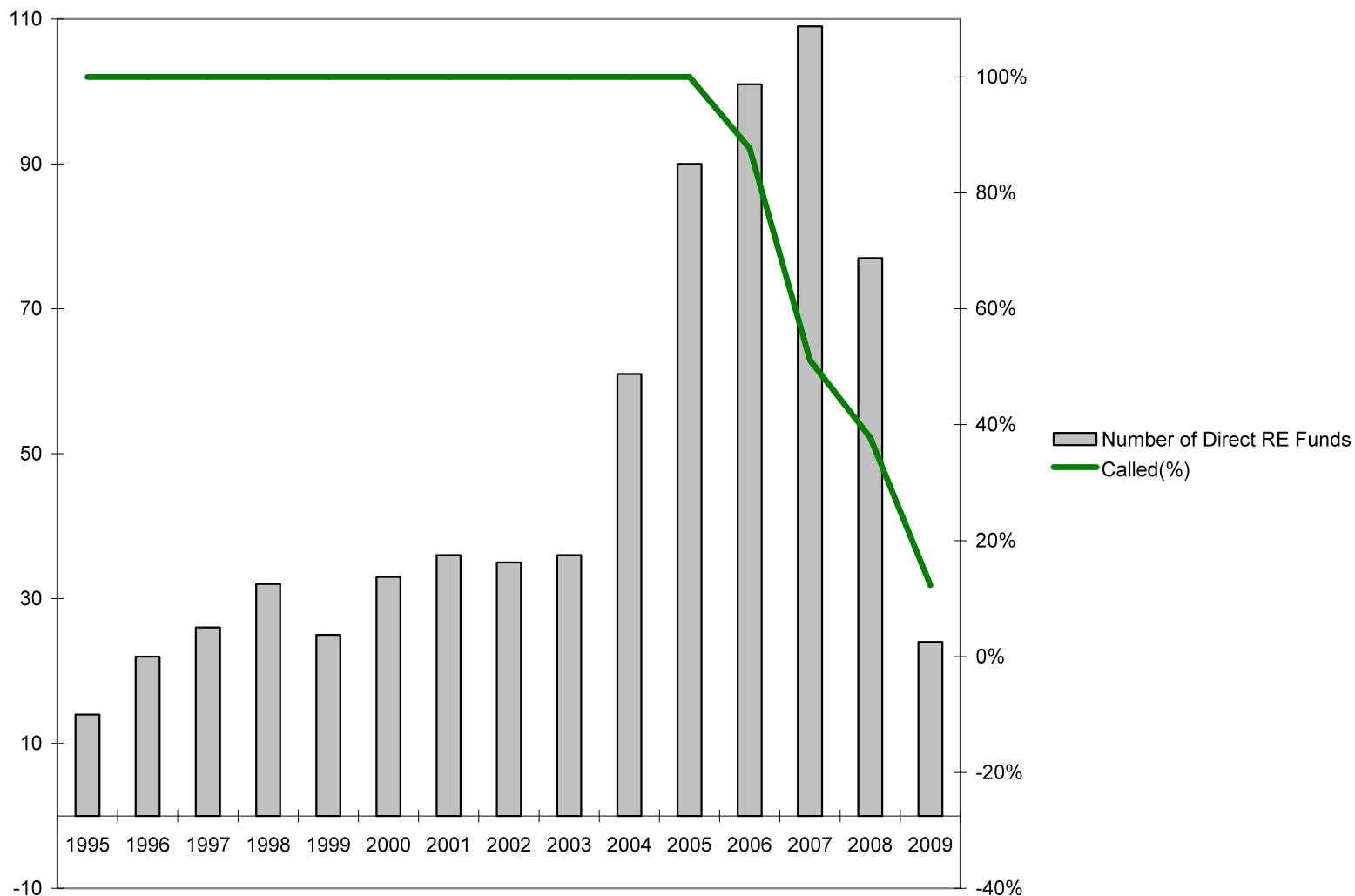


**Strategia reduced portfolio exposure to Asia in Q1 anticipating economic headwinds then added Oct 3, 2011 favoring ex-Japan region based on valuations and growth**

## Direct RE Funds Deployed most capital ... inopportune times

As Cap rates increased more funds deploy less capital, adding to risk side of risk/reward

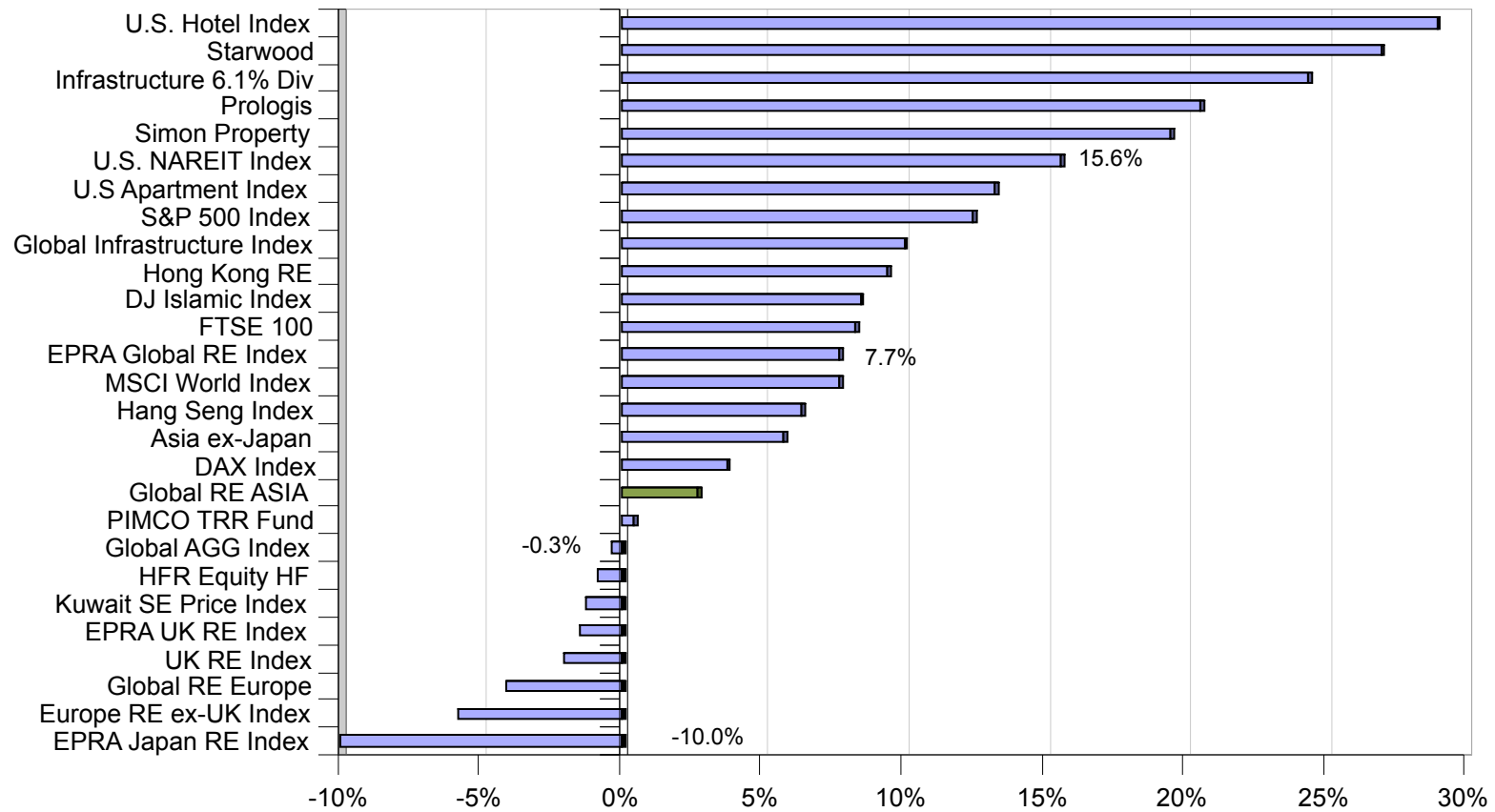
### Number of PE Funds and % called by Vintage



'95 there were 14 Value-add or Opportunity funds, in 2007 there were 126

# Returns Comparison, Q4 has been 2<sup>nd</sup> best qtr in past 8 quarters

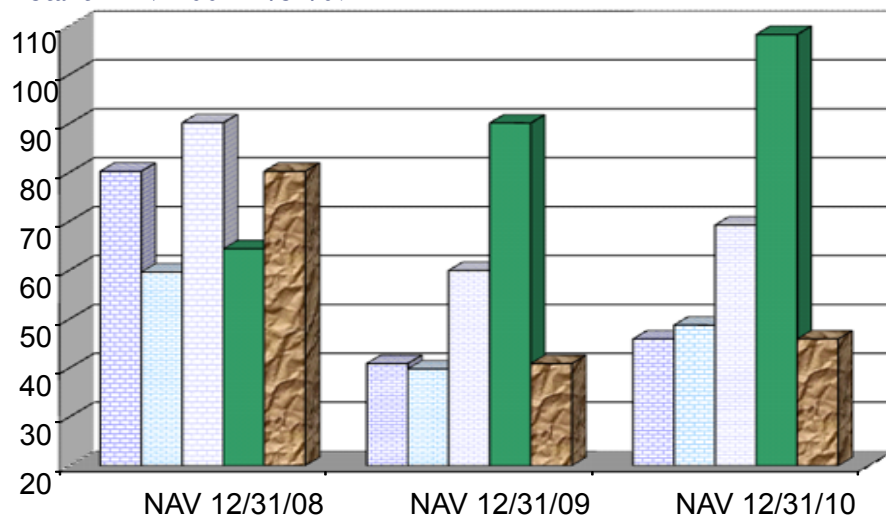
**Q4 2011  
to Dec 26**








# Direct Real Estate vs Liquid Securities...

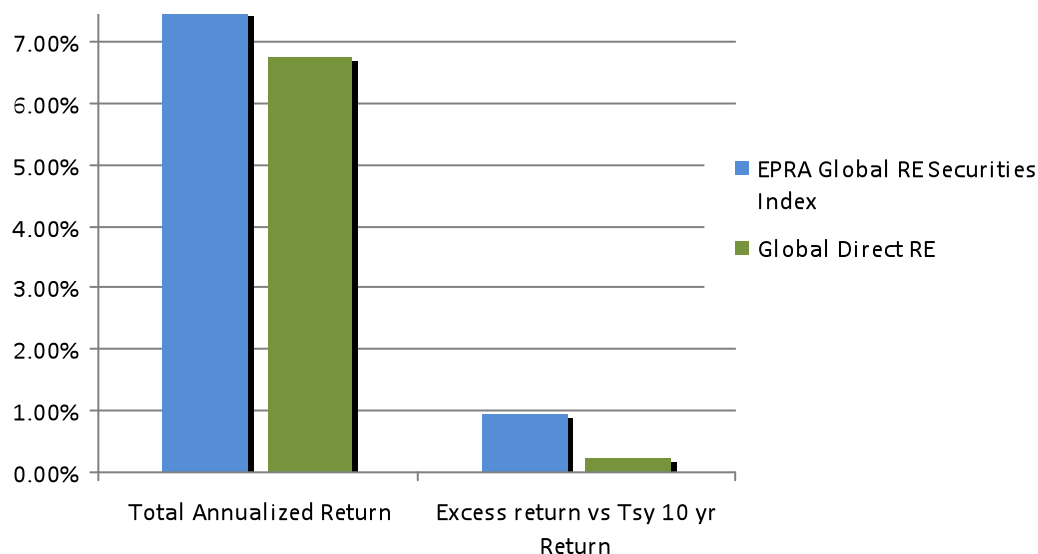
## Now may be a time for direct Core NNN and healthcare properties

Start NAV 100 12/31/07



-  Townsend Value Added Direct Funds Index est
-  Townsend Opportunity Direct Funds Index est
-  NCREIF Open End Core Direct Funds Index est
-  Strategia Separate Acct Liquid RE Actual Net of bank and mgt fees
-  Townsend Value Added Direct Funds Index est

EPRA Global RE Index vs Global Direct RE Index  
1989 to 2010



Sources: Townsend, IPD, NCREIF, EPRA  
t Index is equally wtd NCREAF, IPD UK, IPD Australia Indexes 1989 to 2010

**Good News:**

**China eased monetary policy**

**ECB injected 2<sup>nd</sup> largest ever monetary flow into Banks**

**U.S. Hotel REIT Index was +29% QTD**

**Near zero interest rate policy is driving investors to more risk assets**

**Investors can still get 6% + Current Income on securities and Real Assets**

**Caution:**

**EU debt resolution might take prolonged time, regional political and fiscal instability**

**Yen strength might be more damaging to Japan economy than a tsunami**

**Private Equity RE Funds are buying “proforma” 6% IRR**

**Supply / Demand imbalance is causing RE bubbles in top “gateway” markets**

**We welcome Client questions, would like to discuss current opportunities in Assets / Securities**

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