



# Market Commentary

April 30, 2011

**The Global REIT index has done well this year +8.25% YTD April 28. Cap rates are incredibly low in top markets.... Time to seek CASH FLOW.** Cashflow opportunities are still excellent in Core RE property and securities. Healthcare property, Build to suit NNN and Liquid REITS/ Infrastructure securities, 7% to 9% with low risk.

March 16 Commentary:

“Fire Sale of Equities”... after the Japan tsunami our second largest holding was +8% March 16 to April 28  
Liquidating of Japanese assets accelerated ...(Morgan Stanley fund “foreclosed” on over \$3B property 4/15)

Our portfolio was positioned well so far, but more defensive, less volatile than broad indexes:

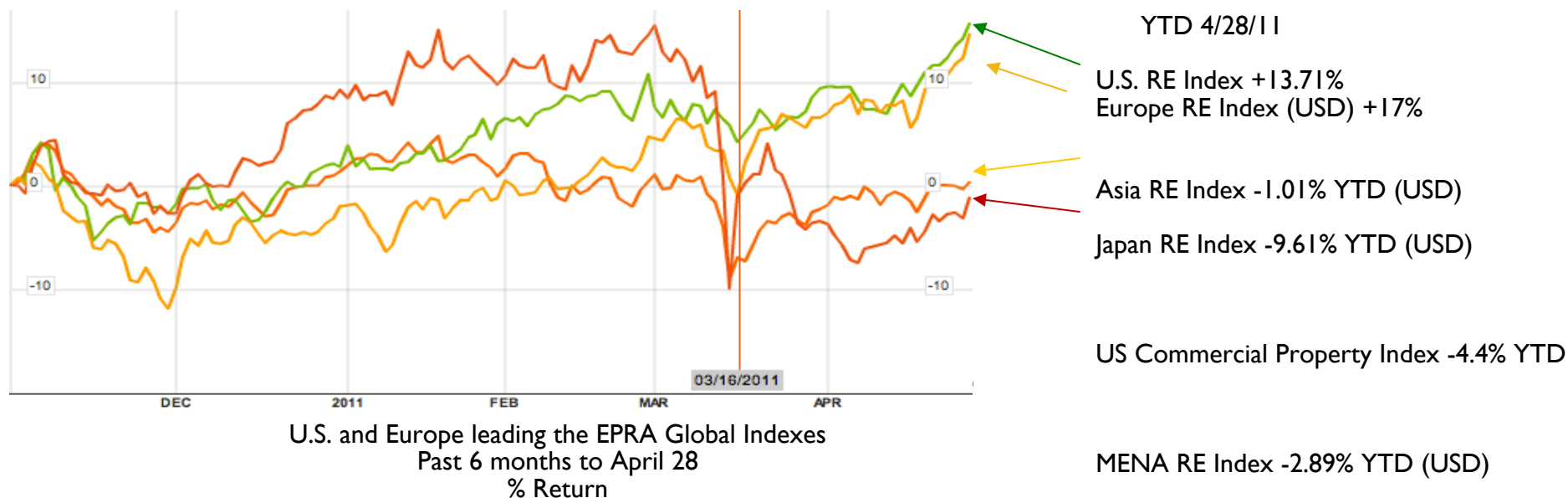
We are overweight in U.S. REITs, took profit on infrastructure (+27% and +33% annualized)

European ER index performed the best compared to global REIT indices in part due to USD weakness

November to April is often a very good time for REITs, this time +10% in that short time in a volatile global economy.

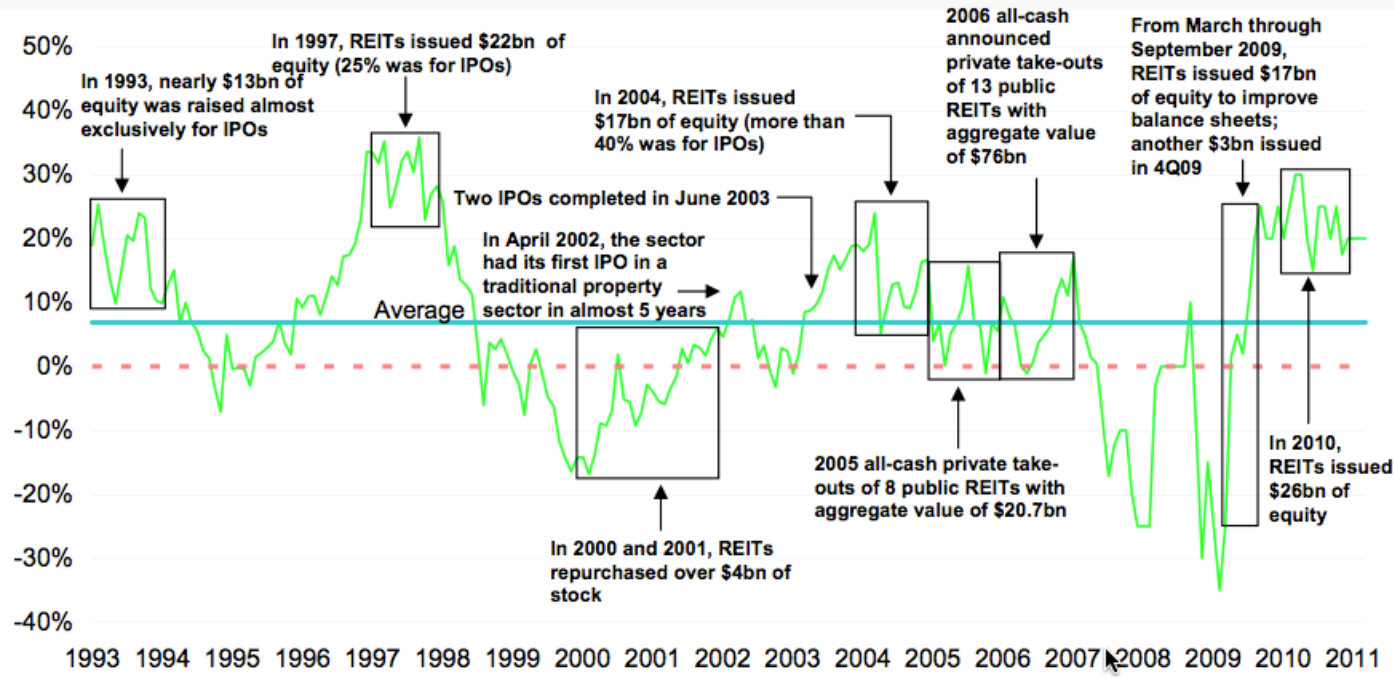
Best “core” property may be Medical Office bldgs. We would like to discuss if clients are interested.

### U.S. and Europe leading the EPRA NAREIT Real Estate Indexes for past 6 months



# U.S. REITs now trading at some what of a premium vs their underlying property value, Asian discounts widened

**Price / NAV Premium (Discount) %  
US Equity REITs \***



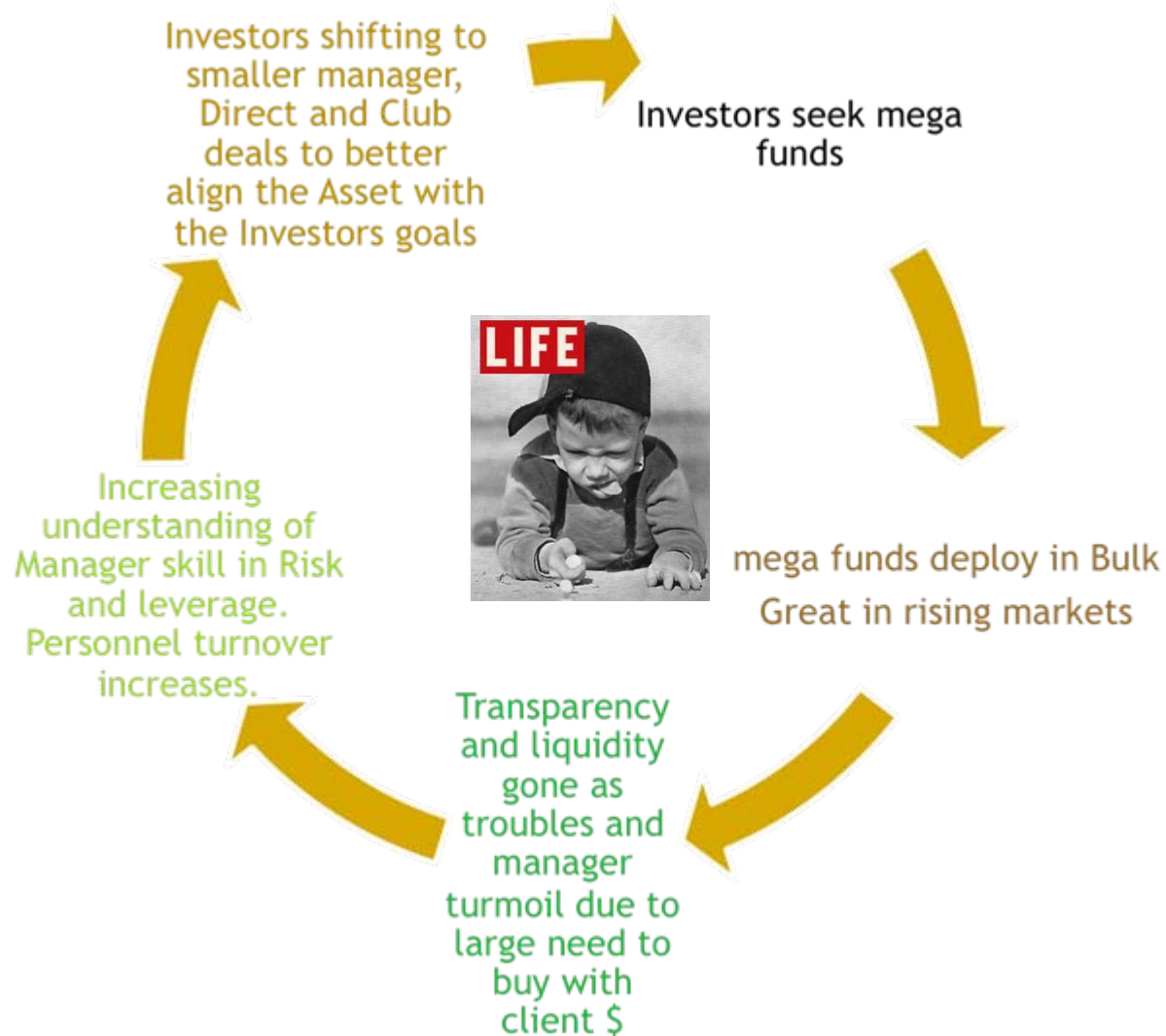
Estimated Price / NAV Premium (Discount) %	
U.S. REITs	20%
Australia REITs	nil
HK REOCs	-25%
UK	-5%
Europe ex-UK	4%
Singapore REOCs	-18%
Japan REOCs	-20%

Source: \*Morgan Stanley

## News

- Apr 4 Yale professor claims that record S&P earnings jumps show quickest economic recovery in more than a Century.
- Apr 15 \$4.2B MSREF V fund missed its deadline to repay Loan on \$3.3B on a tower in Tokyo which has seen its value plunge. Paid 140B yen '04, Owes 278B
- Apr 21 US Multifamily occupancy continued to improve with tight supply. National Vacancy 82 markets now 6.2%
- Apr 21 Research by Humpries shows U.S. Home values down -32 from peak '06. Was -27% during 1st 5 yrs of the Great Depression.
- Apr 22 Prologis bid for PEPR 6.10 EUR vs NAV per Epra standards 6.32 EUR NAV. Prior bid from APG was 6.20 EUR. More bidding expected.
- Apr 27 Housing prices in the city, ranked the world's most expensive place to buy a home by Savills Plc (SVS), have gained more than 65 percent in the past two
- Apr 29 First ever REIT Yuan denominated 2x oversubscribed. \$3B market Cap Drops -9.35% first day. Yuan near highest vs USD in 18 yrs.

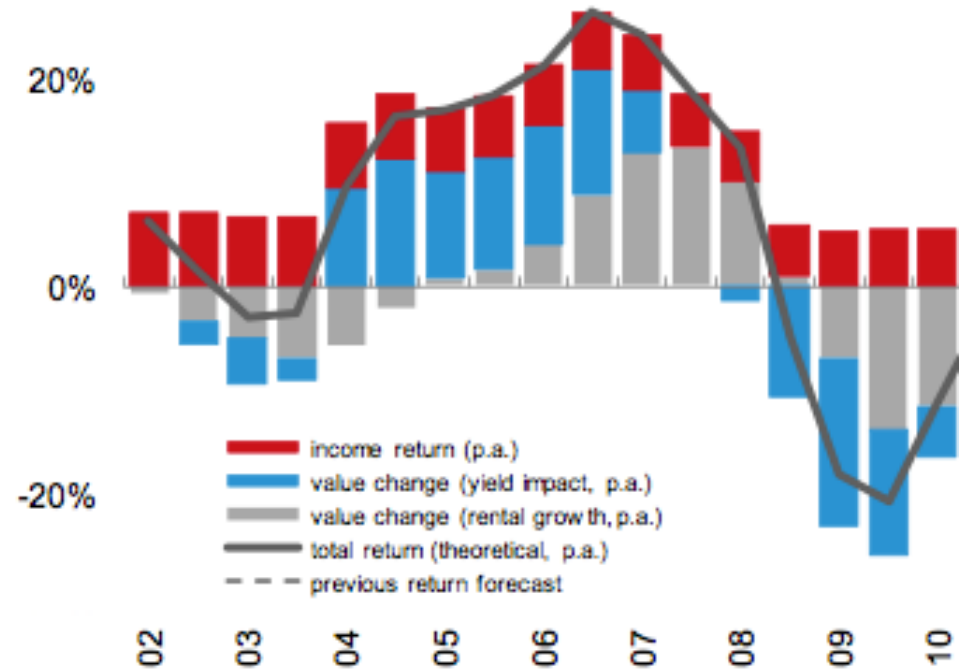
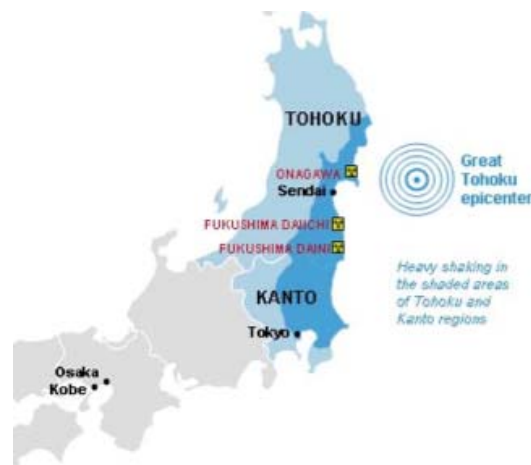
... we have favored Liquid securities since Q1 '08 but with implicit cap rate on REITS near 4.9%  
Now is time to look for other “cash cows” and Direct opportunities



Myths being tested: Bigger is safer, mega funds have the only Access, Platform means safety, small funds (under \$2B) lack Skills  
the “value of a bldg is determined by how much Leverage can be applied” – mega fund Jan '10 4/15 MS defaults on \$3.3B

If Japan turmoil resolves very quickly ...  
Add J REOCs.

## Tokyo Office Total returns analysis attribution 2002 to 2010



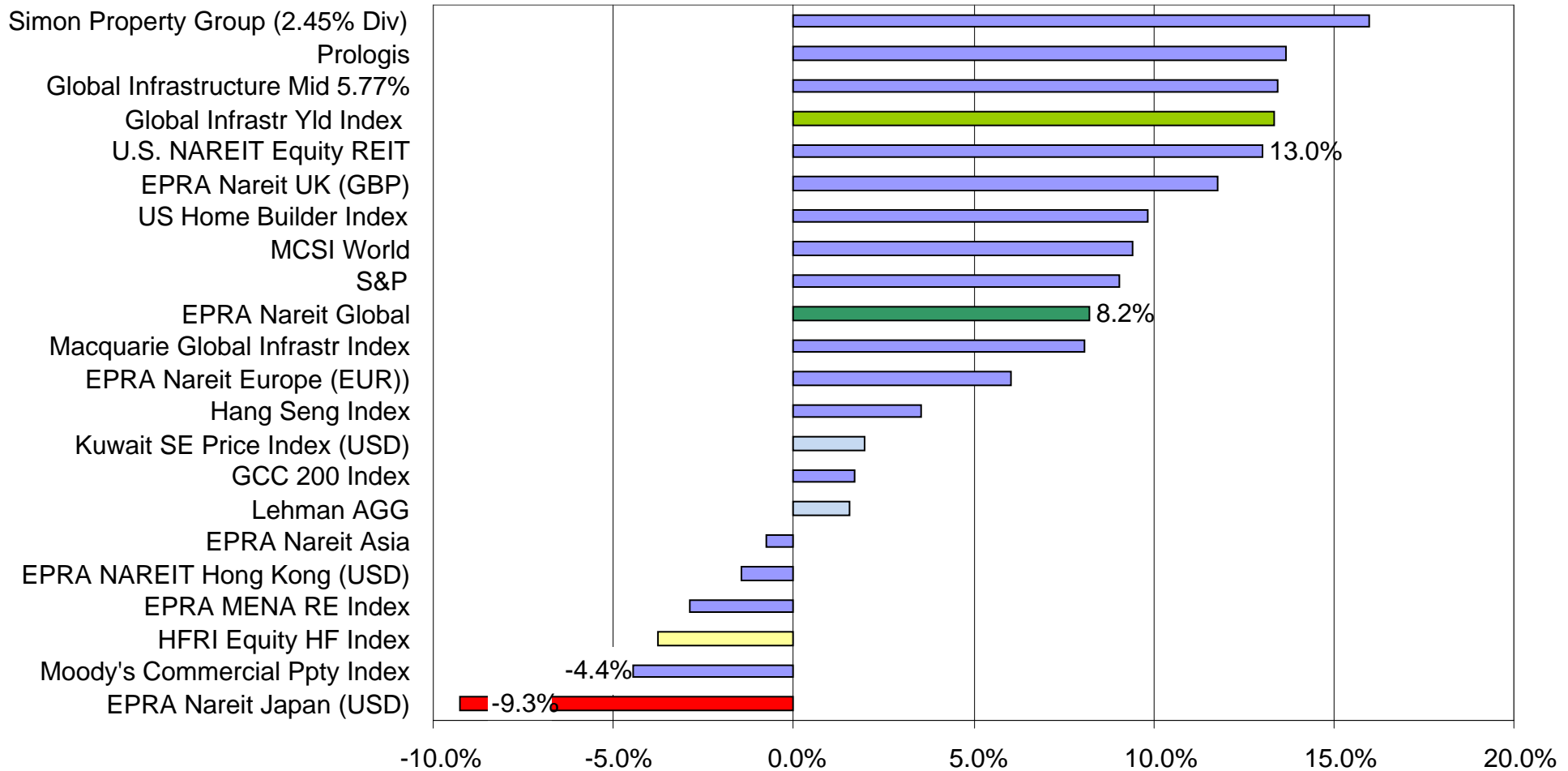
# Huge increase in Buying of Property

Institutional investors favoring assets with 4%+ Cash flow

Market	Volume (\$mil) 12 mo. To Aug '09	Volume (\$mil) 12 mo. To Apr '11	Cap Rate Aug '09	Cap Rate Apr '11	Property value up (down) based on Cap
Hong Kong	4,325	21,400	4.8%	3.3%	30%
London Metro	11,238	31,200	7.0%	6.1%	13%
NYC Metro	10,935	25,300	6.7%	6.3%	7%
DC Metro	4,185	15,400	7.2%	6.7%	6%
Singapore	3,326	24,200	6.6%	6.8%	-3%
Paris	6,222	15,400	6.4%	6.8%	-6%
Tokyo	16,295	21,100	4.9%	5.7%	-15%

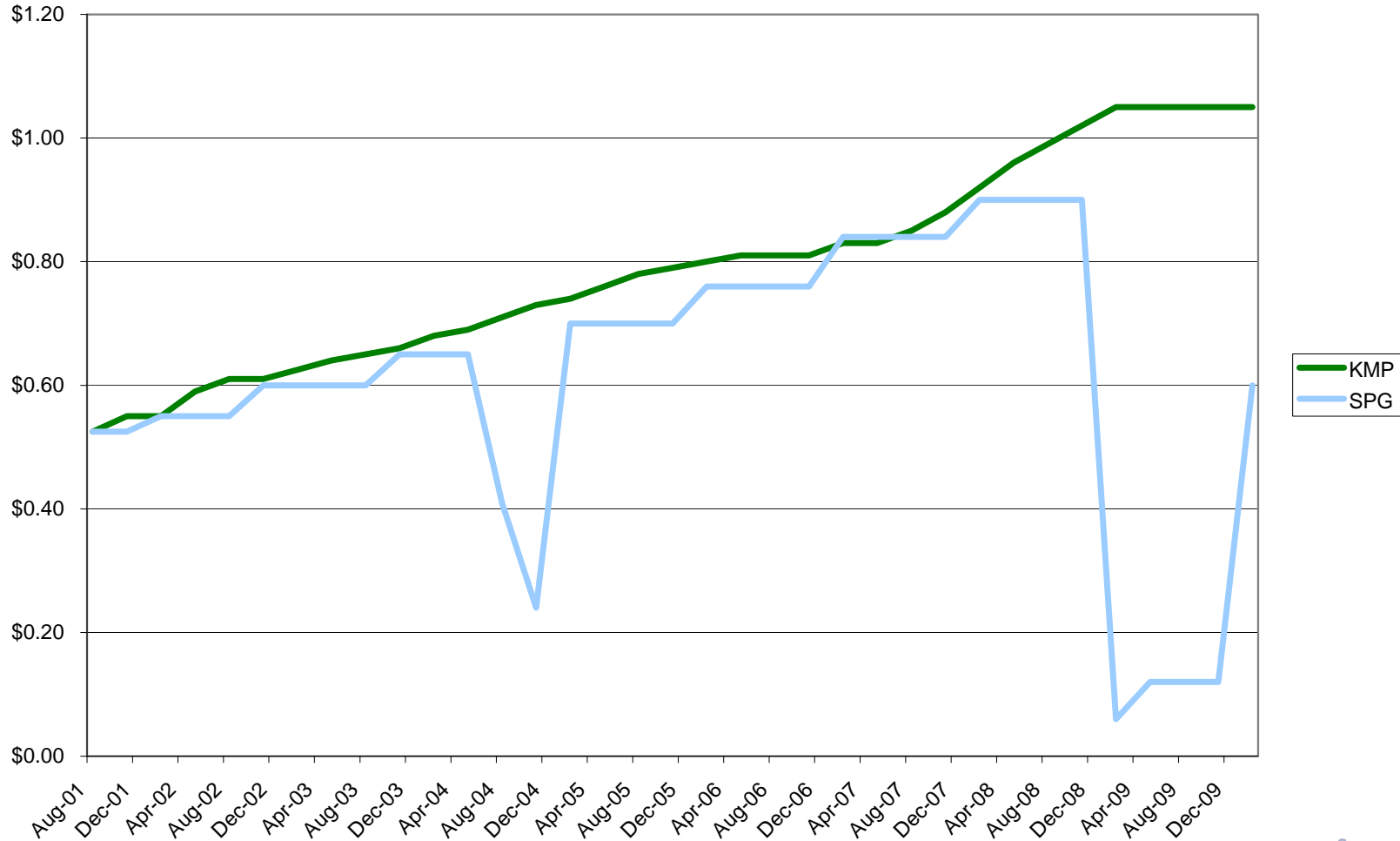
# View of Global Markets YTD 4/30/11

## Total Return YTD 4/30/11



If Global Economic Stimuli are withdrawn too early ...  
add Income.

### Infrastructure Dividend ...avg 6% increases annually



# HIGH INCOME RE securities

With dividends near 3% and Cap rates compressed... consider a portfolio yielding 7-8% in Liquid securities

## Returns Cumulative for the strategy 3/31/09 to 3/31/11



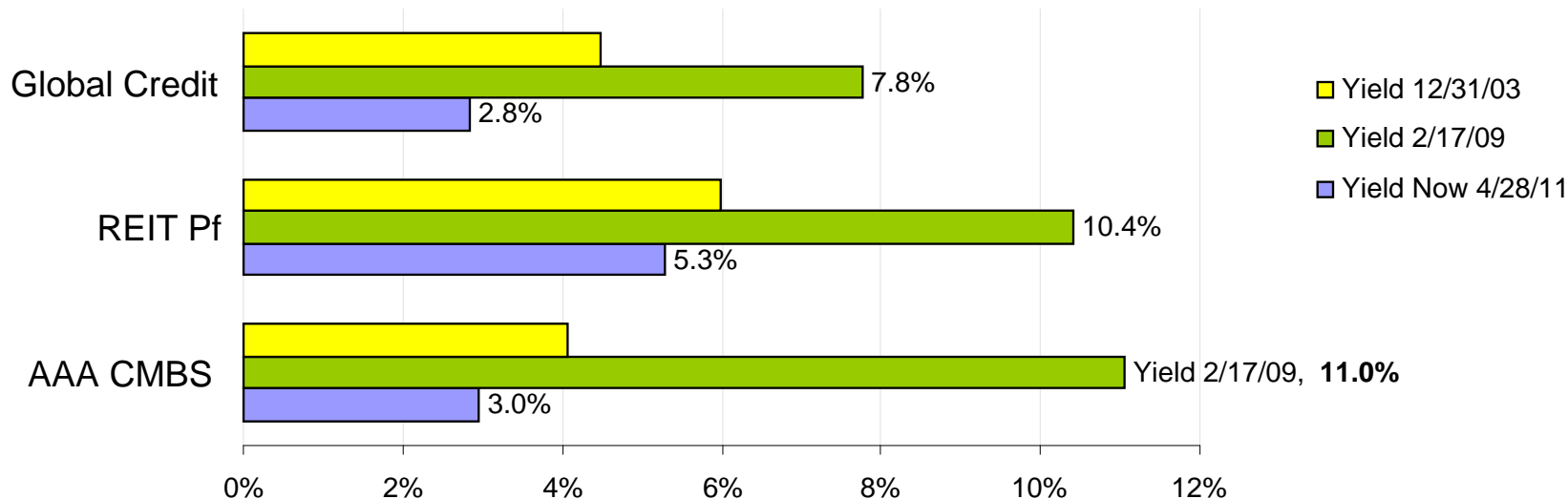
## NEW PRODUCT for INCOME, current pay, liquid securities, PREFERRED

Index returns annualized for the strategy less volatile than Equity More return than Bonds  
 12/31/07 to 3/31/11 +13.6% vs Global REITS -3.3% annualized  
 12/31/09 to 12/31 10 +14.0% vs Global REITS +20.4% annualized

# HIGH INCOME in Real Assets

With dividends near 3% and Cap rates compressed... consider a portfolio yielding 7-8% in Liquid securities

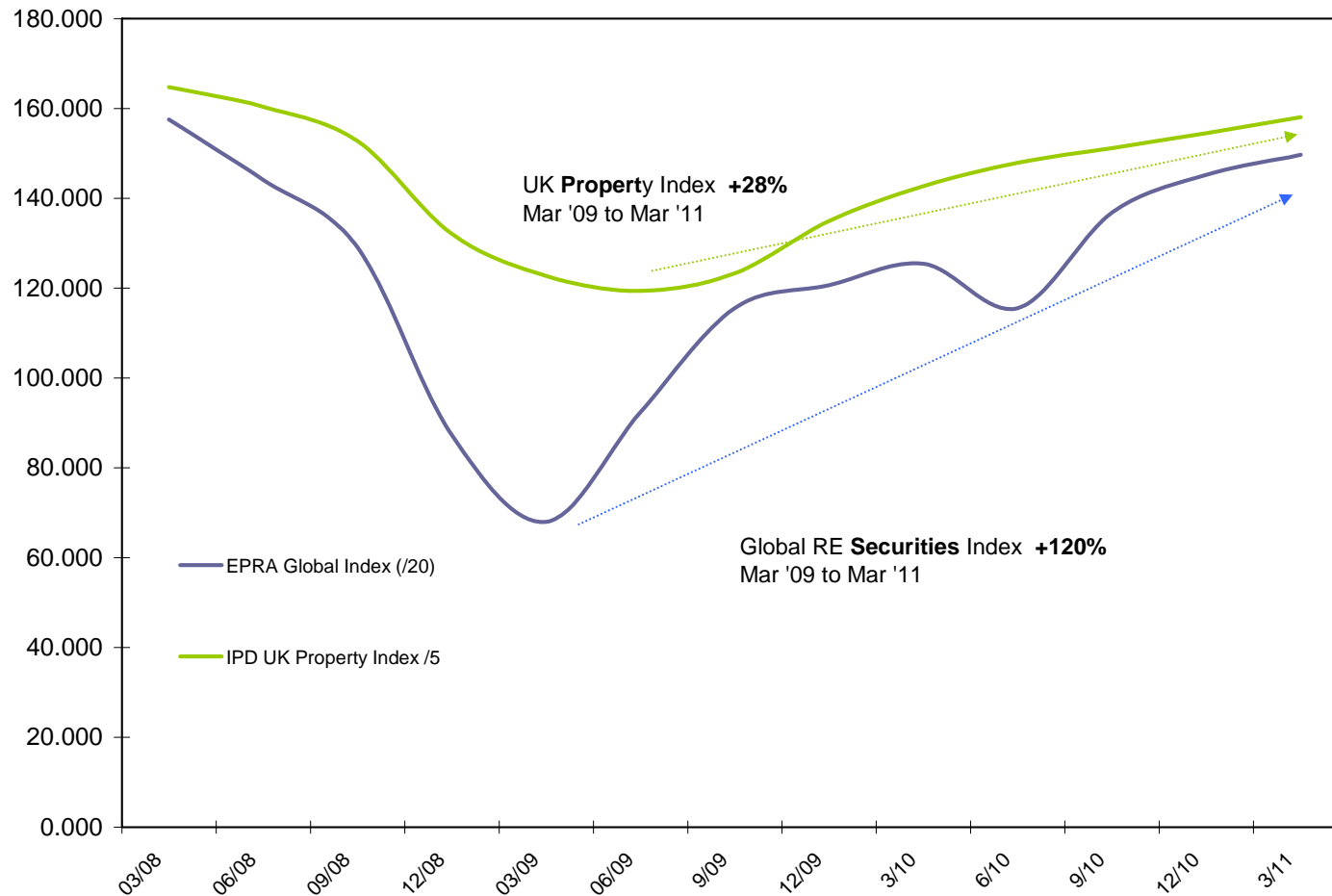
View of Current CF Yield sources



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 Dec '07 to Mar '11 +13.6% vs Global REITS -3.3% annualized  
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# Global RE Securities did well vs UK direct Property



Our return in 2010 reflects approx 10% exposure to Direct RE in UK bringing the return of our separate acct strategy downward vs equities to +20.11 Net of fees (approx 10% direct/ 90% securities)

## **Good News:**

**Global Economy is ok, “double dip” to 2009 values is probably Impossible**

**Investor appetite for Cashflow will add support property and infrastructure valuations**

**Buyers of property and Infrastructure and REITs have been WELL REWARDED since '09**

**Medical Office Bldgs and BTS look Very attractive**

## **Caution:**

**REITs +20% annualized since we spoke to clients in October (Nov-Apr is often best part)**

**Top Market RE values are up sharply, top hotels sell for 3.7% cap rate**

**Valuations in Securities and Property reflect very optimistic views and strong demand**

**Global unrest seem not fully reflected in a market up +24 ANNUALIZED**

We welcome Client questions and would like to discuss current opportunities.

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