

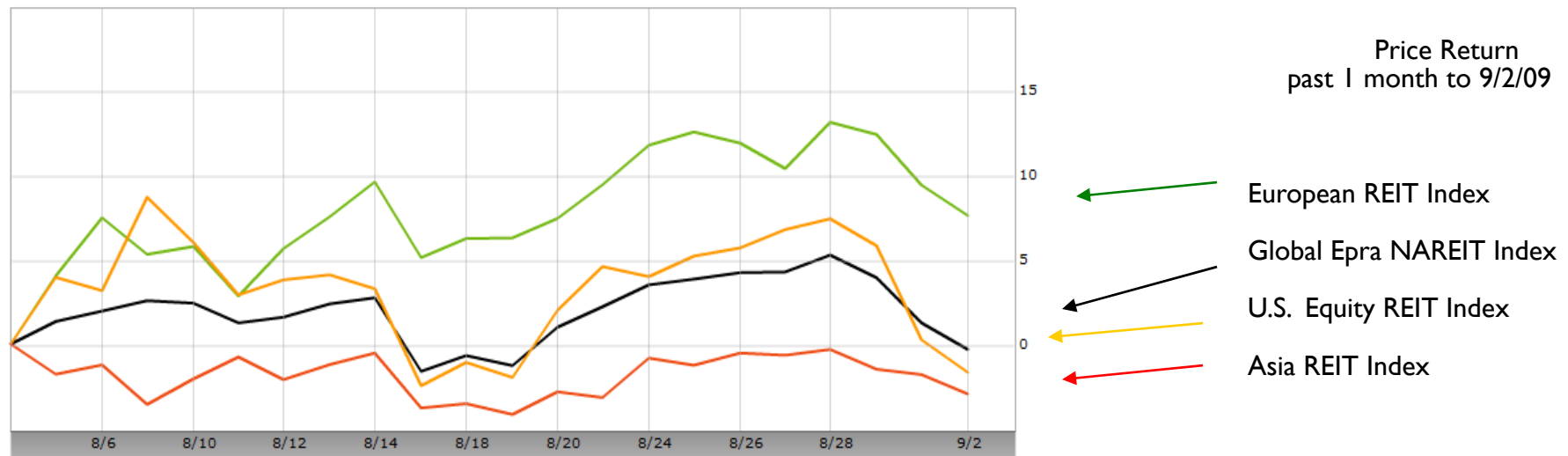


# Real Estate Commentary

**August 31, 2009**

August buyers began to question the sustainability of the Asia rally and bought laggards like Industrial and Europe. Global REIT market top dropped 5% from 8/6 to mid month and resumed climb. Theme: Balance sheets improved, but investors need to see catalyst for further upward move. REIT valuations may be stretched as stocks got swept upward with “Financial Sector” buyers and under invested funds became compelled to add exposure. CMBS buying activity has increased, sector is no longer Cheap, Bonds that were 10% are now 5% yield. Direct property 100% occupied with investment grade tenants, 8% CAP rate is Very attractive.

	August
EPRA NAREIT Global index	+ 7.65%
EPRA NAREIT Asia Index	- .74%
EPRA Europe Index	+16.87%
U.S. NAREIT Equity Index	+13.39%



**Chart: EPRA NAREIT Indexes 1 Months, % return to 9/2/09**

past Month has been choppy since 8/4

## Market Drivers:

Global economy is at or near bottom,

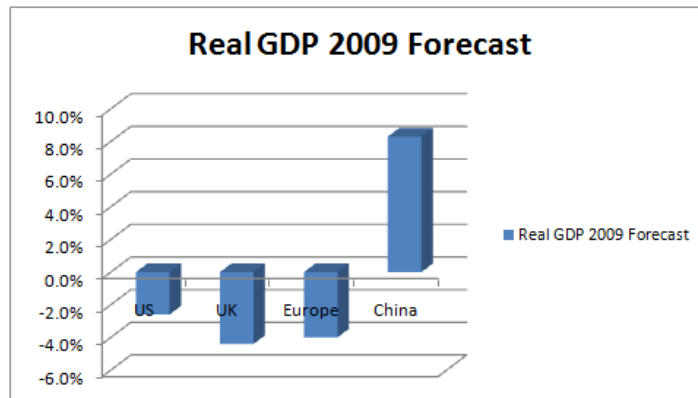
Asia economy reacted well to the government stimulus, investors left wondering results if stimulus ends.

U.S. REITS have benefited from sector investments in Financials as REITS swept upward with Bank sector.

US and Asian Real Estate companies are feeling the benefits of less leverage and fresh capital.

Defensive so far, but could bring Offensive moves for the lower leverage RE Public companies to buy property from over levered private investors and institutions in distress. So far very little “forced selling”.

Forecast of below trend Real GDP has not hurt RE  
Security performance this year



Global economy not in the clear yet but  
investor cash coming in and momentum has  
carried markets farther and faster than most.

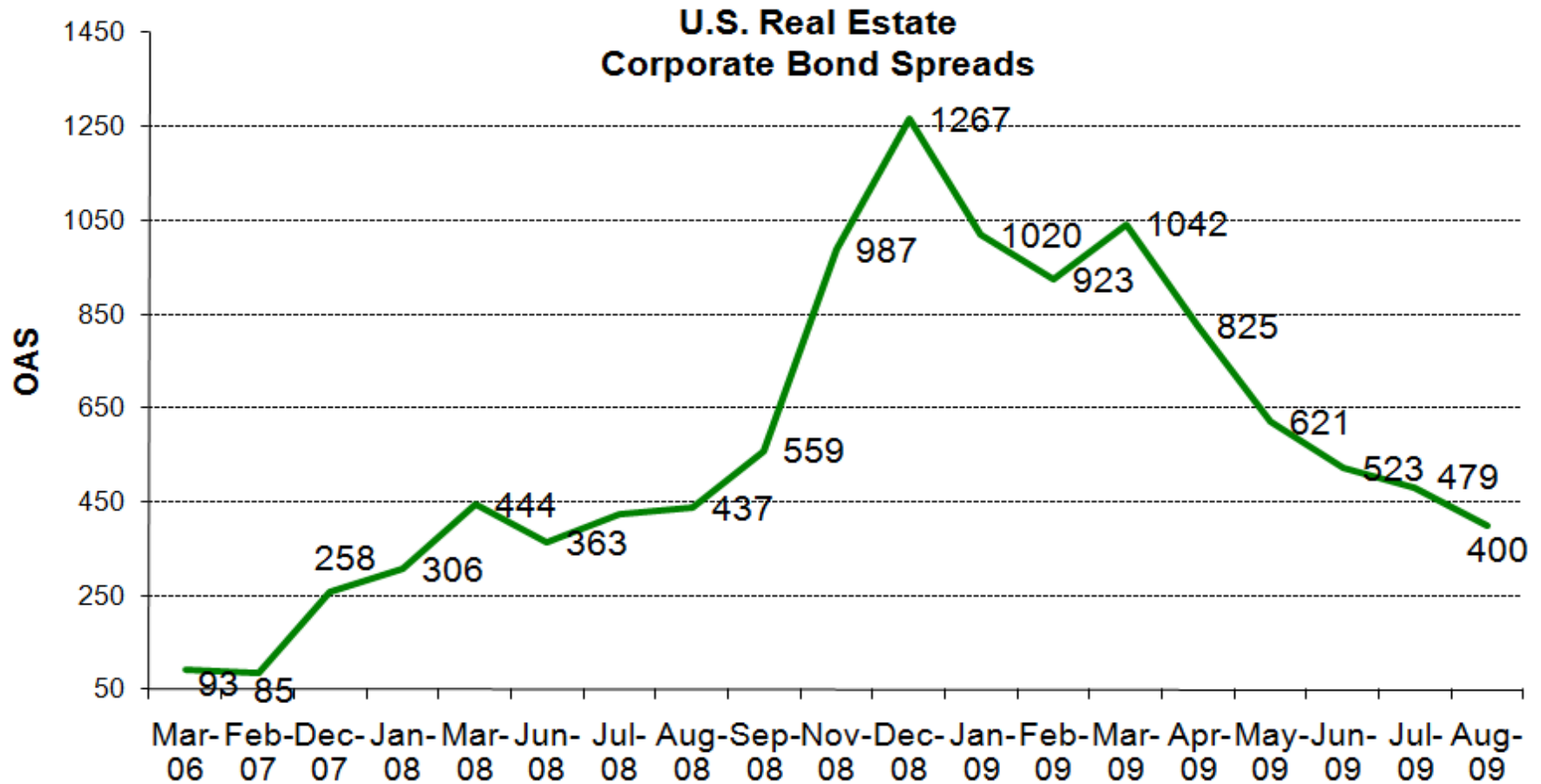
China growth expected (economist consensus)  
to grow +8.3% real GDP  
Epra Nareit Hong Kong RE index +62.47 %YTD

European REIT rally, but interesting that Nomura just signed a lease with 6 months “free Rent”  
in London. That is largest concession to a tenant in a long time.

## News

- September 1      Nomura has obtained a rental agreement on its new London HQ under which the investment bank will not have to pay rent for almost six years. - FT. The bldg is owned by UBS/Oxford /Ontario Pension Fund
- August 31      Kumho Investment Bank, Korea, completed the acquisition of the AIG headquarters Paid \$192 million, initial offer was \$155 million in July.
- August 31      8 trillion more to go... The Federal Reserve granted \$2.15 B in loans to purchase comml mtgs, August was 2nd month comml mtgs in TALF program.
- August 31      The default rate on commercial mortgages held by U.S. banks more than doubled Q2 '09 from 1.18% last yr to 2.88%. Banks hold 1.087 trillion of comml ppty loans., CMBS accounts for 3.5 trillion in comml RE debt.  
Non accrual doubled to 27.76 billion, but still very low total default rate.  
- Real-estate Econometrics co,
- August 26      Mezzanine foreclosures newest: 100 Church St, earlier this yr John Hancock Tower, 1331 Ave of the Americas
- August 1      Hyatt registered for \$1.15 billion IPO. company posted a loss of \$36 million, in the first half of 2009, vs a year-earlier profit of \$173 million. Revenue fell 19% to \$1.64 billion.

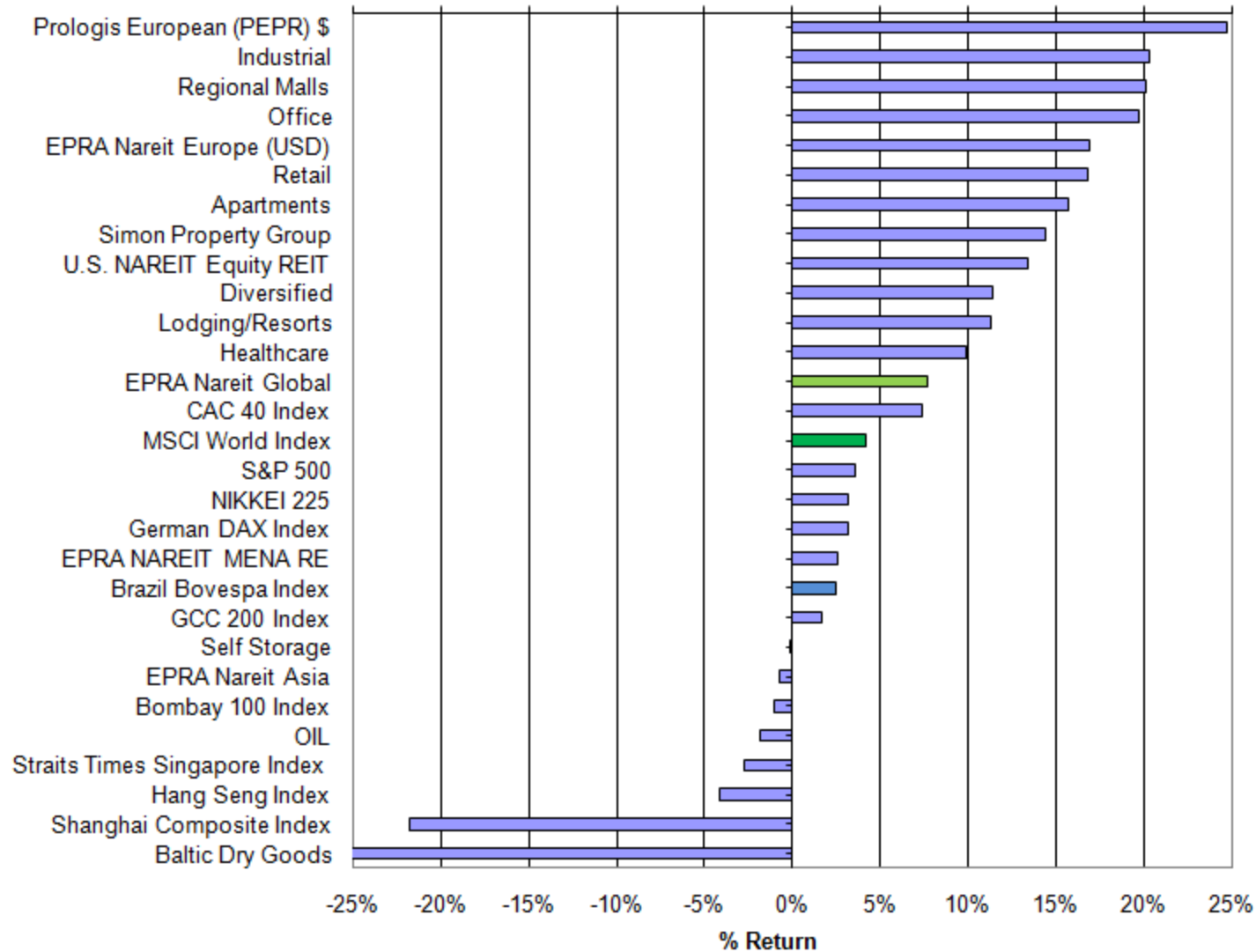
**Corporate Bonds Issued by RE Companies and REITS  
reached 14% Yield Q4 '08 now 6.4% Yield August 31 2009**



(Source: ML index)

# U.S. and Europe Gains in August:

August Month Total Return  
% USD



## **Good News:**

***AFIRE members plan to invest much more in RE later this year. Asian investors active.***

***Capital Markets open, balance sheets better and now IPO market is working.***

***Asia government stimulus has been of great benefit to China property market and stock.***

***Japan reported 0.9% positive economic growth for Q2, the 1st time in 12 months.***

***Direct property at 8% Cap rates represent Value, buyers hoping to get 9% CAPs are not able to get quality property. Quality seems pegged at 7% Cap***

## **Caution:**

***Structured Finance remains broken.***

***Asia RE securities may have little upside near term.***

***Growth engines: increasing rent and increasing occupancy are not prevalent***

***A Bank Headquarters on London leased up, when owner gave 6 yrs free rent to tenant (Nomura)***

# Real Estate Commentary

## 2009 Outlook: until the jobs increase and CMBS market is functioning Defense/Liquidity

REIT:

Rally in REITs was justified, just the amplitude may be in question.

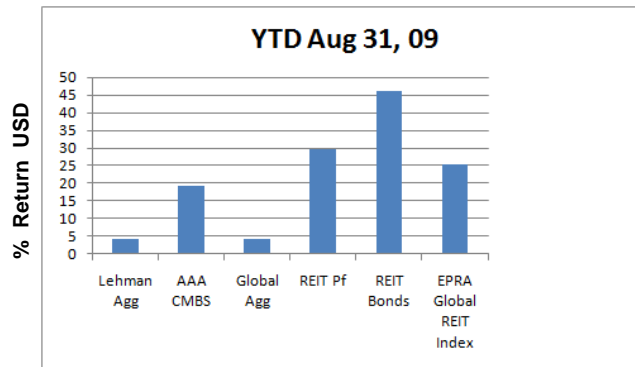
Dividend yields were 10%, now 2% to 4%. Direct is ok relative value for cash flow buyers.

Direct Commercial Property:

Great Opportunities now are to buy property far below Replacement Cost.

CMBS/ REIT debt:

Risk and reward balance treated debt investors well. Better upside in REITs than CMBS now.



Long/Short::

Opportunities now in separate accounts as a vehicle to add Transparency and Liquidity.

A fund introduced at Strategia March Conference in Kuwait is now +73% YTD Aug. 31

We welcome Client questions and requests for further details.

- Harry Milne, Managing Director

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