إستراتيجيا
STRATEGIA
Investment Company للاستثمار

Real Estate Commentary

4th Qtr

January 2009

Global REIT Markets

2008 Theme: flight to safety, de-leveraging.

Global REITs showed signs of a bottom November 20, 2008 as credit turmoil and economic slowdown fears may have peaked. U.S. REITs lead the rise from November (+16%). Economists believe the U.S. economy began the downturn and may lead other regions in an upturn sometime in 2009.

NAREIT U.S.	+16.39% Dec	-37.7% 2008	stimulus help, began the downturn, may lead upside
EPRA NAREIT Asia	+4.82% Dec	-52.48% 2008	economy slowing and investors reduce risk
EPRA NAREIT Europe	+7.64 Dec	-51.13% 2008	weakening economy, UK heavy in financial industry

2008 Total Return

U.S. REITS were up YTD Sept.
Global -9.26%

Lehman (key provider of credit to RE)
Files Bankruptcy September
CDS Market sent into turmoil

U.S. Equity REIT Index leads the
December bounce. +16%
CMBS still frozen

Global REIT Index +9.66% Dec.

European REIT Index +7.64% Dec.

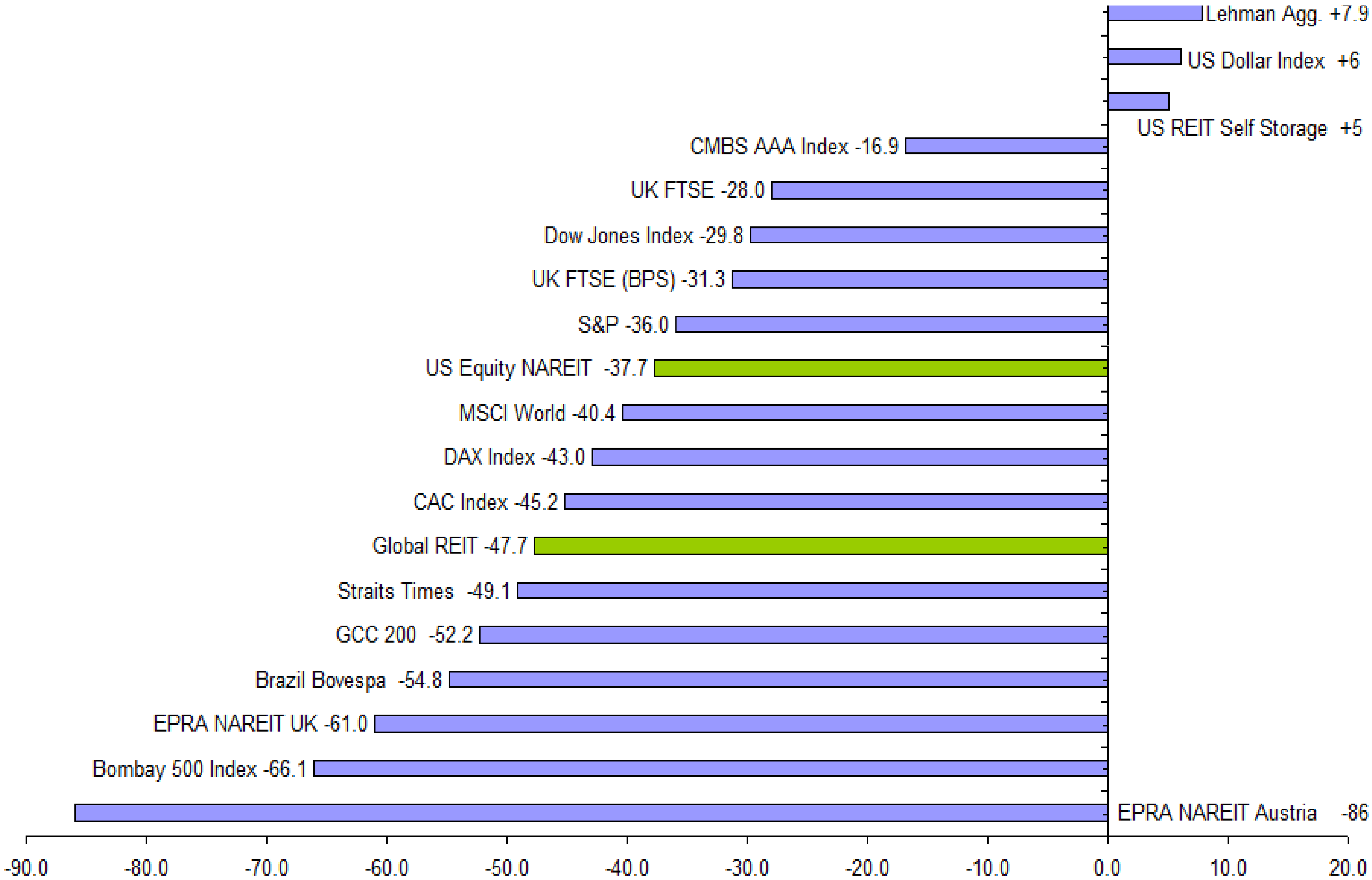
Asia REITS +4.82% Dec.

Bear Stearns bailout
March '08

November 21, '08
NAREIT U.S. Equity REIT
Index
Dividend yield reaches
12% was 5% in Sept.

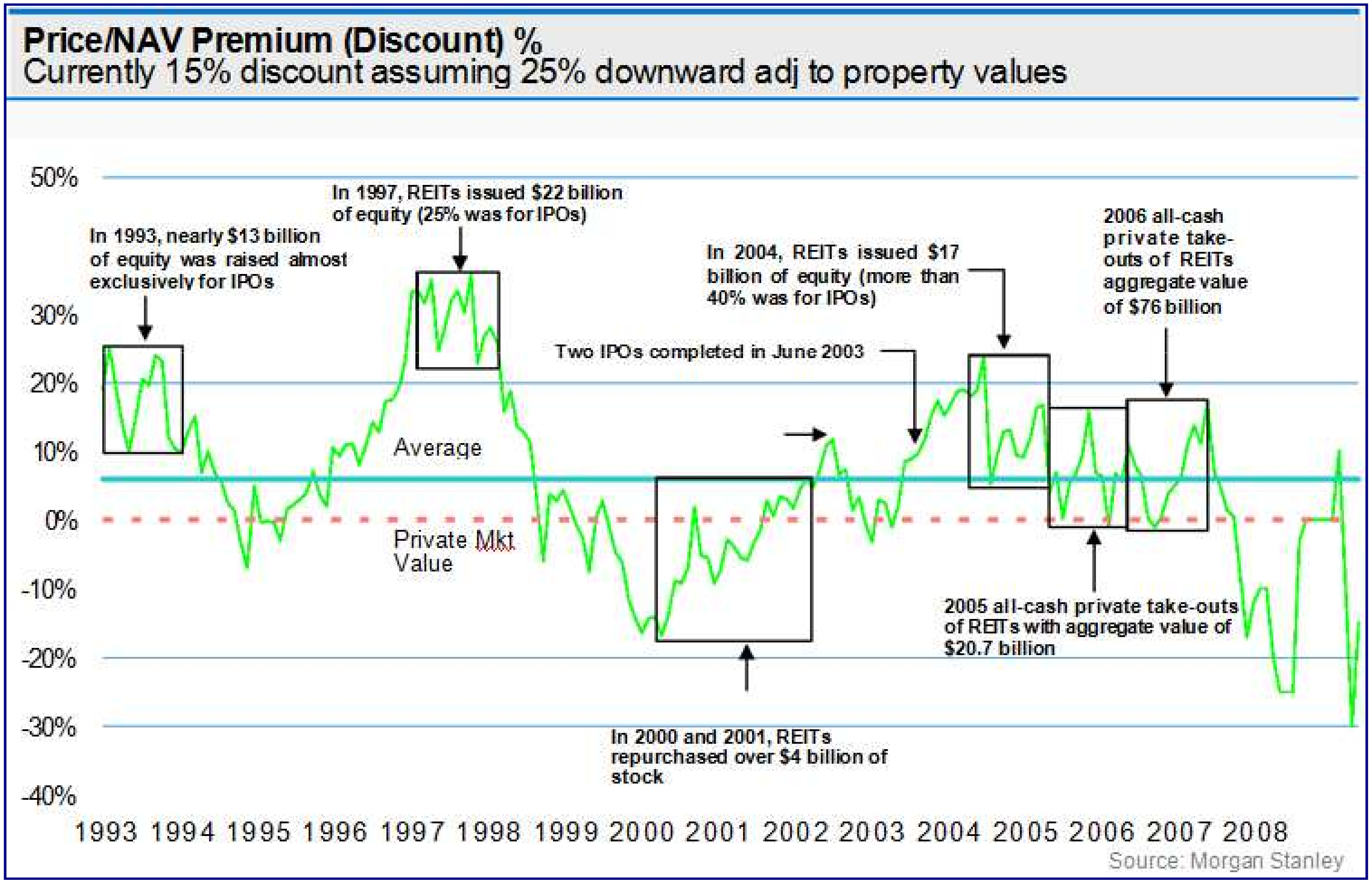
Index returns

YTD December 31, 2008 with World Major Indexes
Global Deleveraging and Commodity Weakness brought a re-pricing of Risk
Mostly in Q4 '08



U.S. REIT Value vs NAV

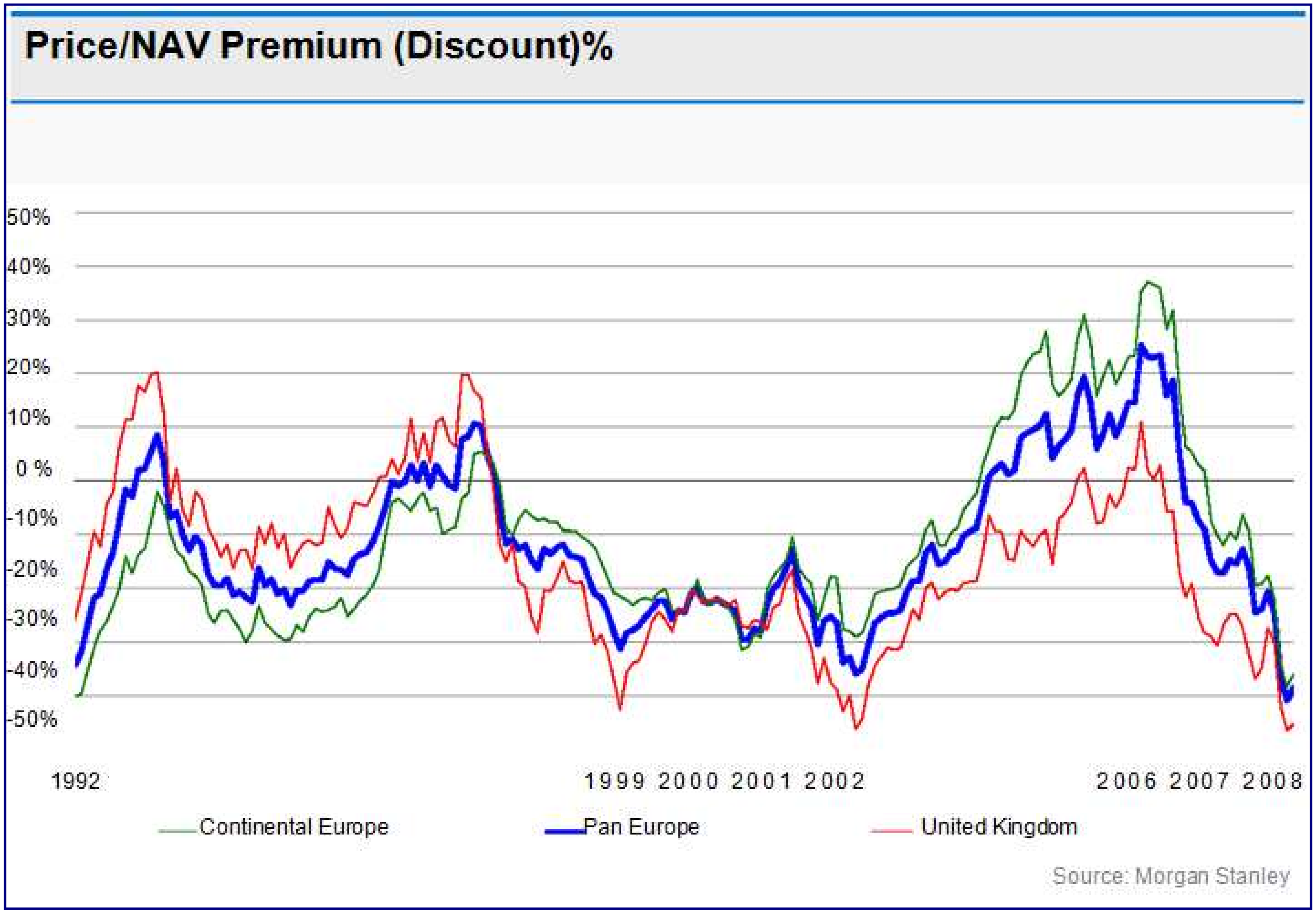
at historic levels Q4 '08 market "bottomed" November 20 2008



European and UK REIT Equities

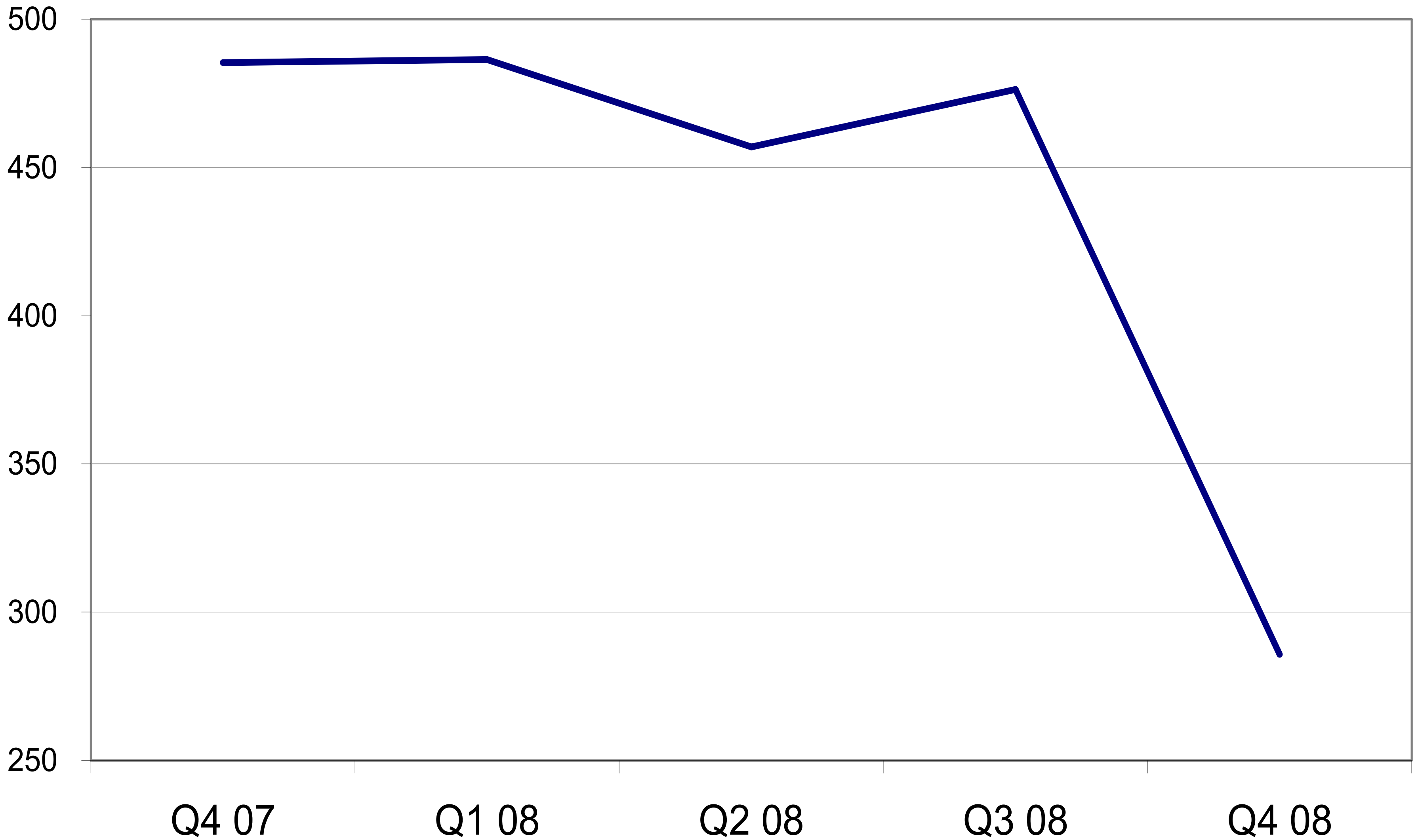
Companies reach historic Discount to NAV not seen since the "value" days of 2002

Worst performance for Global REITS were in Norway and Spain both down over 70%



U.S. REITs

Mostly, had One Bad Quarter in 2008



New Credit Supply to Real Estate

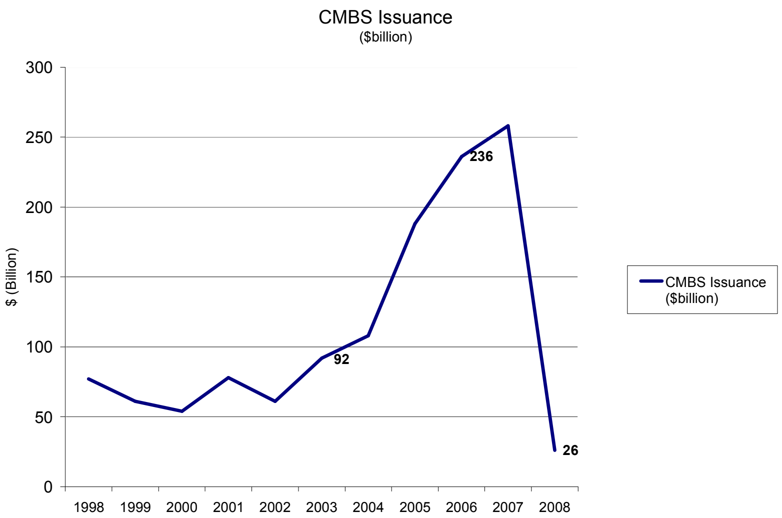
Mostly from Insurance Companies and Pension Funds

Lending standards have improved and focus is on refinancing of their existing loans

Hedge Funds are opening up to lend and securitize, but in early stages.

GIC reportedly funded a new fund with $1.5 Billion for Commercial RE loans and CMBS.

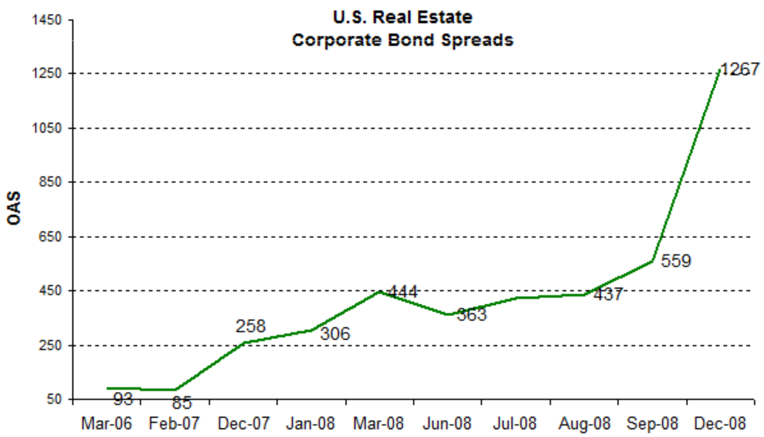
Corporate <u>Bonds</u> Issued by RE Companies and REITS reached 14% Yield Q4 '08, was 7% June '08



CMBS issuance nil for 2008

$235 billion in 2006

Source: Bloomberg



Real Estate Corporate Bond Spreads widen

S&P changes criteria for REIT credit ratings.

Preferred Stock now considered Debt for leverage calculation

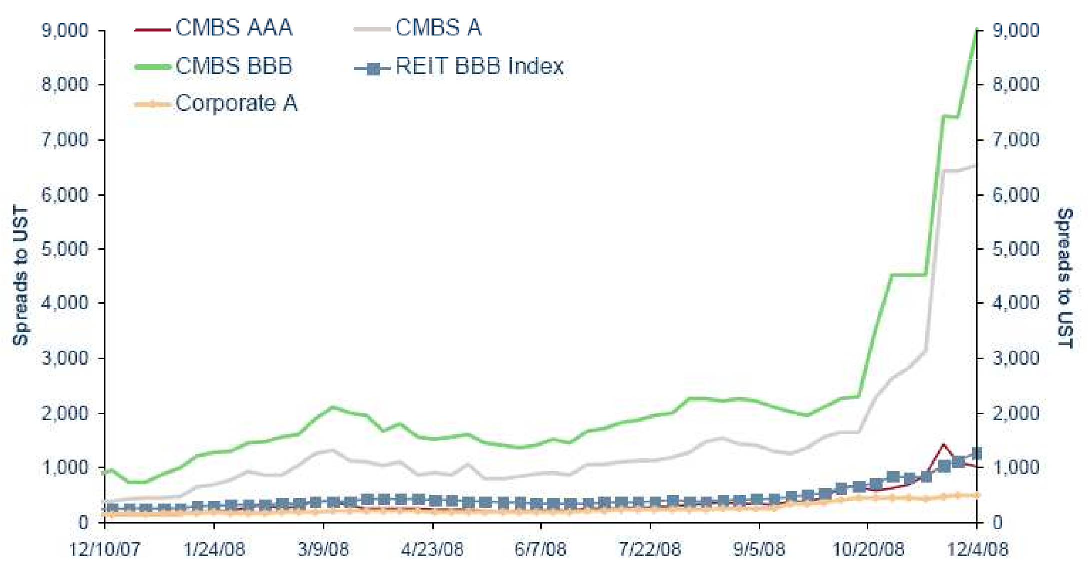
(Source: ML index 12/31/08)

***Structured Finance* is a Foundation … not Cheap until Q4**

Quote from Blackrock CIO:
There is "unbelievable value" in triple-A-rated commercial mortgage-backed securities, or CMBS, the global Chief Investment officer for fixed income at New York money management firm BlackRock said Q1 2008

Relative Value Monitor

Exhibit 10: 10-Year Sector: CMBS, REIT and Corporate Spreads



Source: Credit Suisse

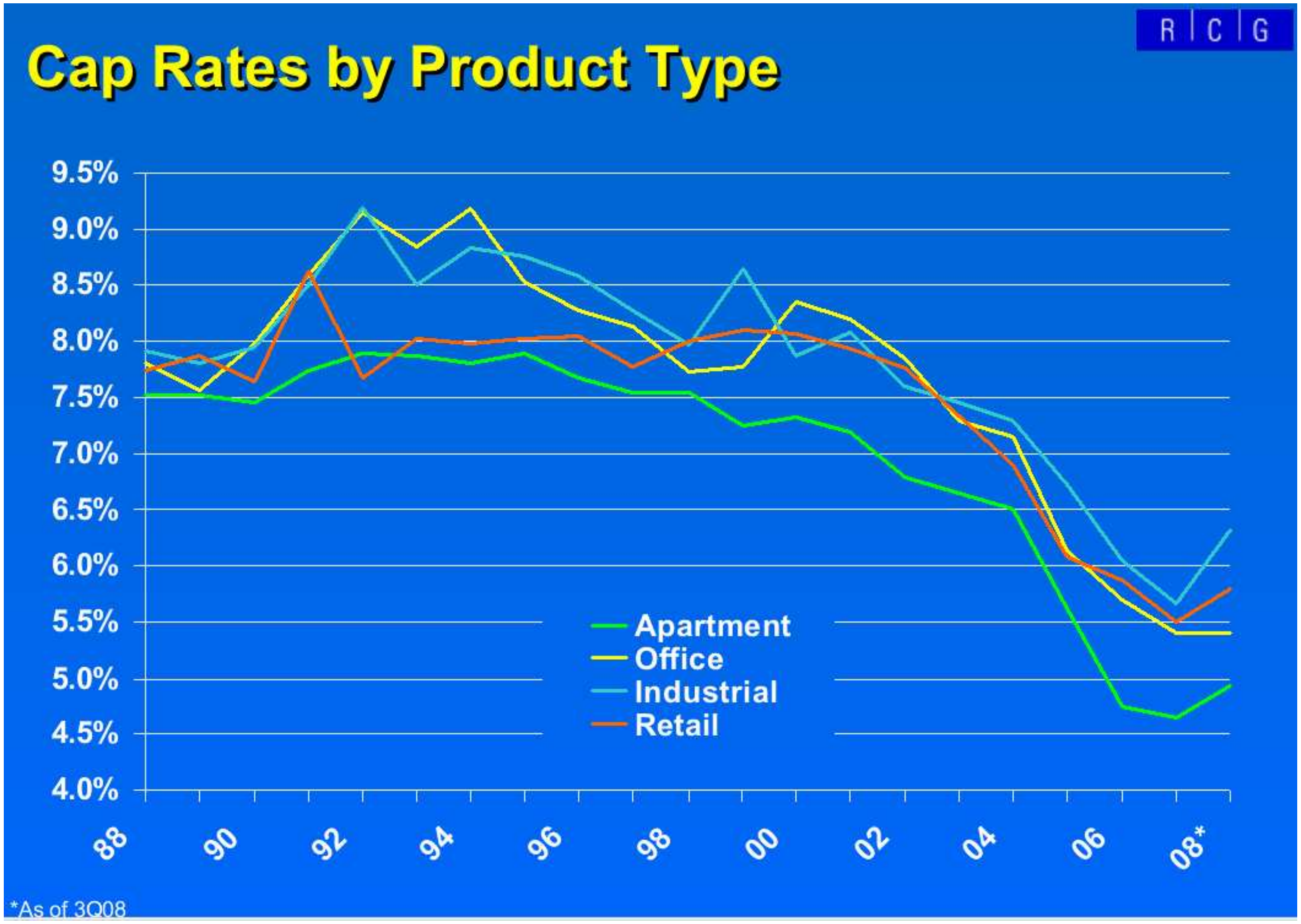
BlackRock's income was reduced by investment losses of $91m from investing its own capital in in real estate products.

Structured Finance *is the Foundation … it is frozen*

No.	Industry U.S.	Avg Rating	Avg Price		Avg Yield	Avg OAS
1	Real Estate	Baa2	$	71.52	**14%**	**1,240**
2	CMBS	AAA	**$**	**77.42**	**13%**	**1,173**
3	Banking	A+	$	90.51	**8%**	654
4	Consumer Cyclical	A-	$	91.11	**8%**	584
5	Energy	Baa2	$	93.52	**7%**	556
6	Brokerage	A+	$	94.39	**7%**	527
7	Technology & Electronics	A-	$	95.08	**7%**	527
8	Telecommunications	A-	$	97.67	**7%**	476
9	Utility	Baa1	$	97.23	**7%**	454
10	Consumer Non-Cyclical	A-	$	101.91	**6%**	378
11	Residential MBS Agency	AAA	$	103.58	**3%**	180
12	Agency	AAA	$	99.51	**2%**	97
13	Treasury	AAA	$	120.17	**2%**	0

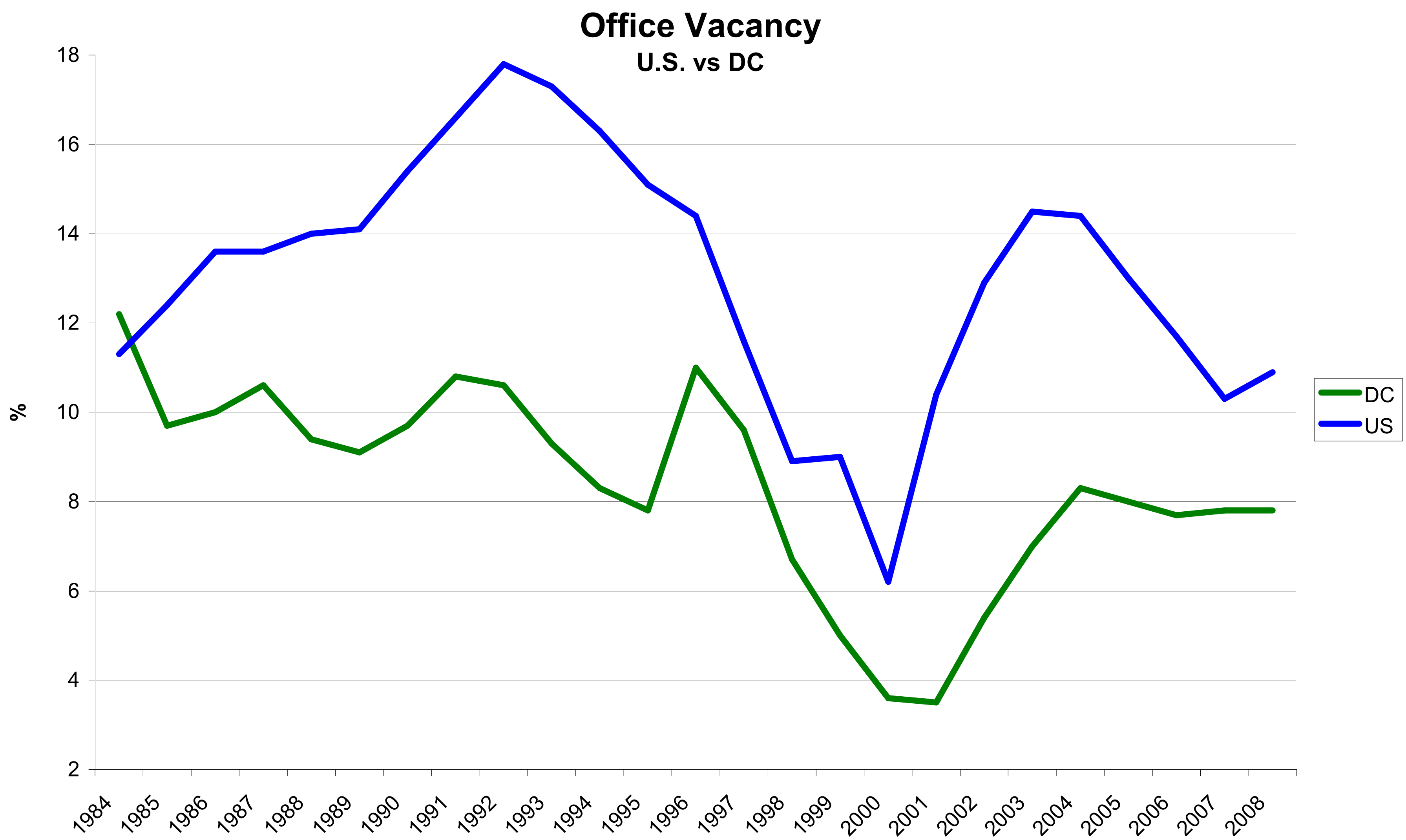
(Source: Merrill Lynch Agg and CMBS Indexes Jan 15, 2009)

Cap Rates seem headed for 9%



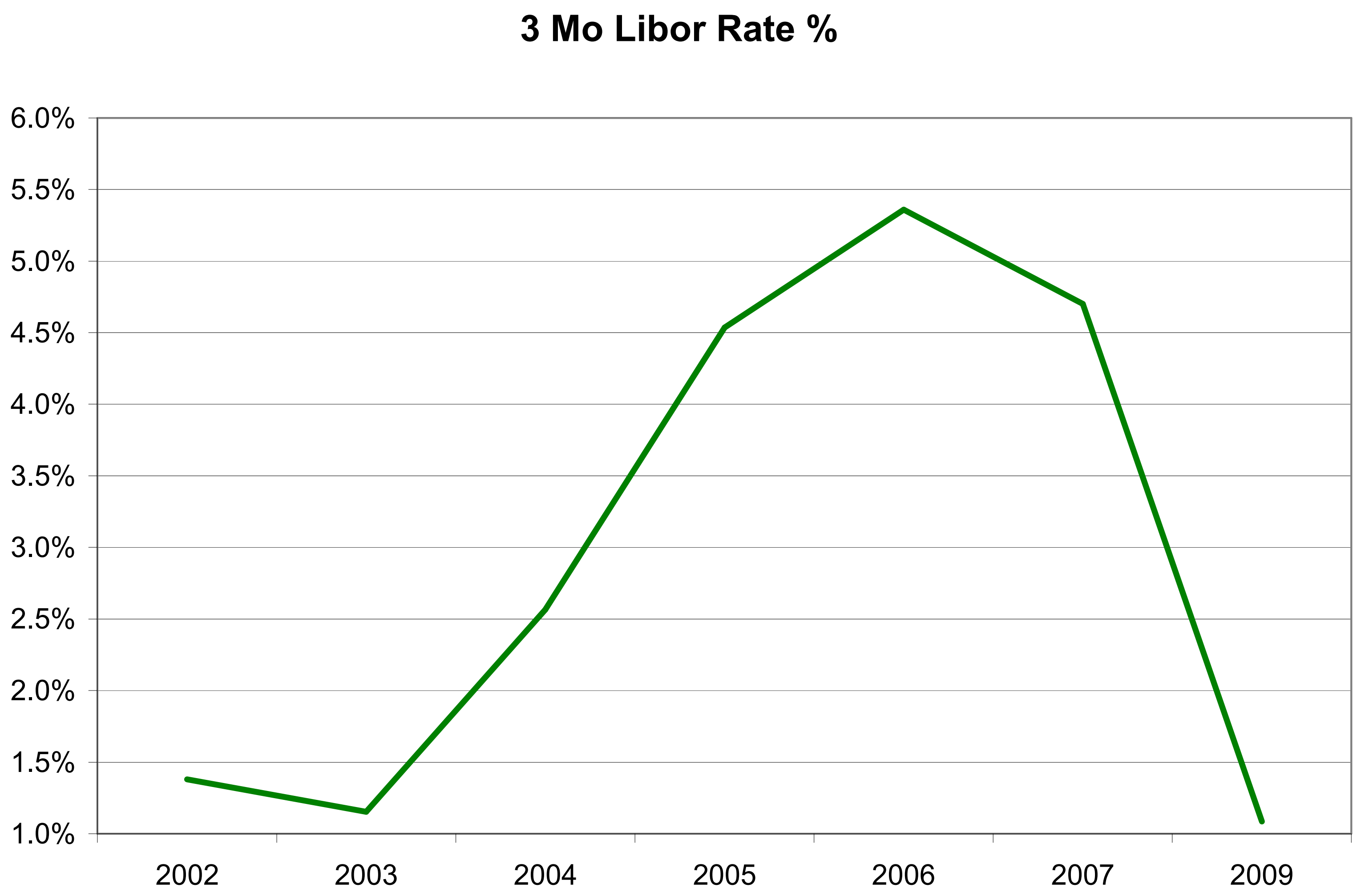
Source: Rosen Consulting

Good News:
U.S. Office Vacancies ok
Washington DC is perhaps best for 2009. Prices off about 20%, Vacancy better



Source: CBRE Office Vacancy Index

Good News:
Libor Improved dramatically



Source: Bloomberg to Jan 9, 2009

Good News:

Strategia allocation to defensive strategies has done well

Global L/S allocation exceeded market by 14%

U.S. L/S allocation exceeded U.S. market by 32%

European L/S allocation exceeded Europe market by 58%

Strategia's Funds:

> ***WRELF 2008 return exceeded EPRA/NAREIT Global Index by 13.38%***
>
> ***USPF 2008 return exceeded US NAREIT Index by 25.99%***

Real Estate Commentary

2009 Outlook: until the global economy and investor sentiment improves Defense/Liquidity

REIT:
Company balance sheet strength and liquidity should drive returns for 1 or 2 more quarters. Weakest balance sheets of companies exposed to fundamental weakness such as in General Growth Properties should result in a bankruptcy that could lead to an opportunity to buy strong REITs All could suffer from the market digesting of bad news. REITS globally have "value" as measured by NAV and other metrics, but investors should be patient to add exposure when "cheap". Cheap implies values skewed to high reward and lower or quantifiable risks. Best case would be if the CMBS market were to function well again.

Direct Commercial Property:
Uncertainty of financing, tenant strength, and occupancy could lead to the best results in NNN buildings and Apartments. Weakest results could be in Hotels and Office portfolios dependent on tenants from the financial industry. Opportunity funds might buy REITs.

CMBS:
Fixed income opportunities could reward investors well vs REITs and Direct as it can now offer Higher current Cash Flow, Liquidity, more senior position in capital structure/risk.

Long/Short:
Until economic conditions become clearer and credit markets flow to RE again, the best opportunities will be to strategies that can get long in severe drops and short severe rallies. Volatility can be taken advantage in hedge funds. Also, there are opportunities for 2009 in separate accounts as a vehicle to add Transparency and Liquidity.