



# Market Commentary

*Japan – The Aftermath*

**March 16, 2011**

**The Global REIT index has declined year to date, returning -2.38%** as of February 15th 2011. The year started off on strong fundamentals and while global economic conditions improved, securities and direct property values performed well.

The Japan Earth Quake that hit on March 11th 2011 struck the world by surprise. The Global REIT Index dropped -5.58% and Japan REIT index dropped 19.35% since the quake. The implications of such massive destruction on an already financially weak Japanese economy is catastrophic. What we have seen in the last couple of days include:

- The Japanese government has expanded its asset purchase program by ¥45tn
  - ¥ 450 Billion targeted at ETFs
  - ¥ 50 Billion targeted at REITs
  - This has been done to calm financial markets and halt excessive yen appreciation and equity fire sale
  
- The Yen has appreciated 2.66% since the earthquake struck:
  - Expectations that Japanese firms will repatriate funds to pay for claims
  - Traditional safe-haven currency status as global turmoil over the quake unfolds
  - Japanese Investors may be redeeming money from investment firms abroad to focus on rebuilding their home country
  
- The S&P 500 dropped -2.89% since the earthquake which is the least compared to most developed markets:
  - Japan Accounts for just 4.7% of U.S. exports in 2010
  - Merchandise exported to Japan account for 0.4% of GDP
  - While supply chains are going to be hit → substitution will take place and sales will not dampen.
  
- Japan REIT index is down 19.35% since the quake
  - Most investment funds that have invested in Japanese real estate have reported minor damage as buildings are built to withstand earthquakes
  - Property prices could tumble if economic repercussions result in lower demand for office space, stores and hotel rooms.



This may create a unique buying opportunity:

- Fire Sale of Japanese Equities after the quake creates many buying opportunities in oversold equities
- Liquidating of Japanese owned assets abroad
  - Allows savvy investors to source and buy assets at discounts given the fast liquidity the Japanese require

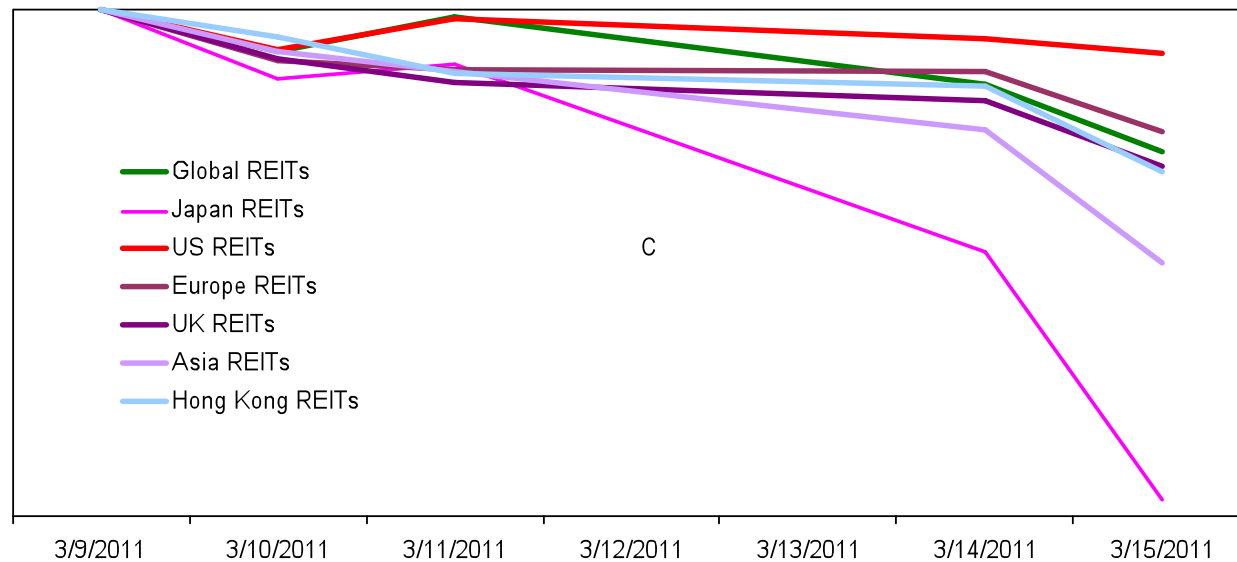
Our portfolio was positioned well:

- We had an overweight in U.S. REITs, and a massive underweight in Japanese REITs.
- U.S. REIT market performed the best compared to global REIT indices

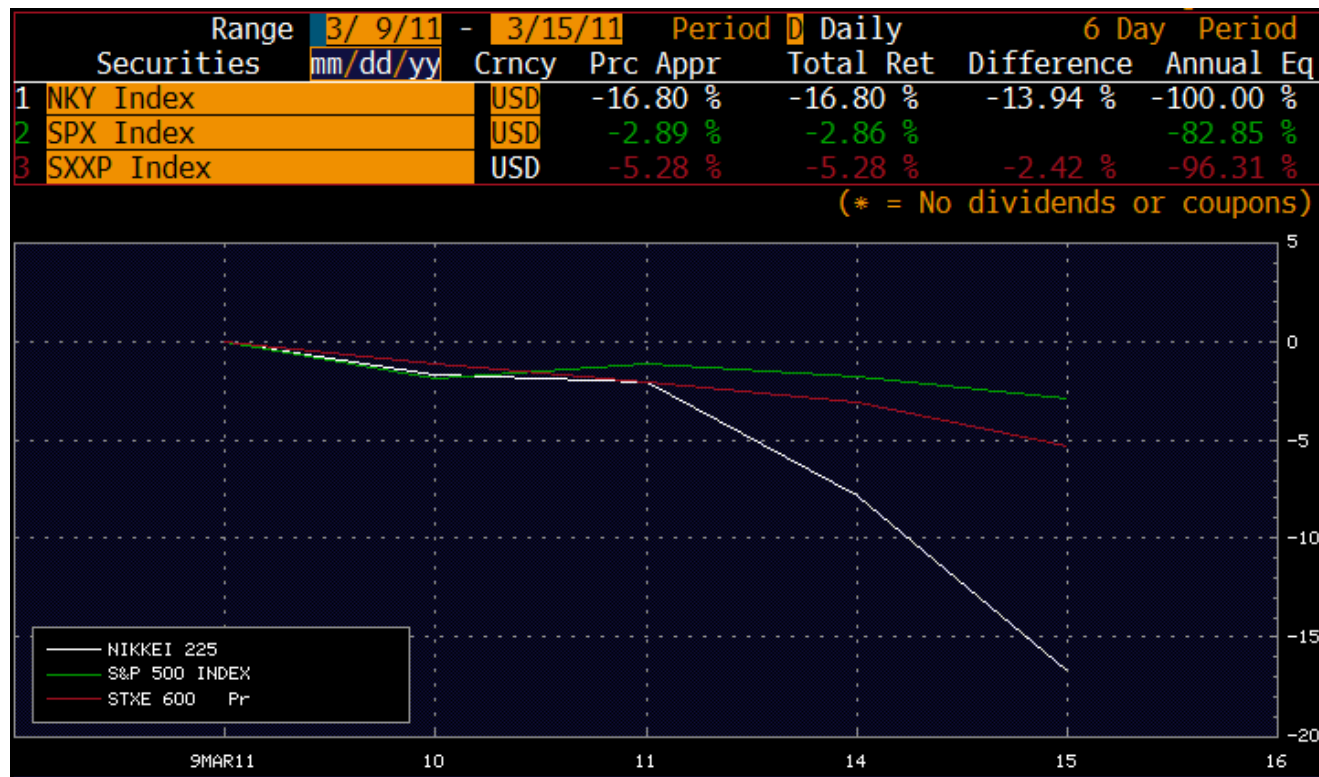
Going Forward:

- Look further into **buying opportunities** in Japanese real estate securities after the massive sell-off

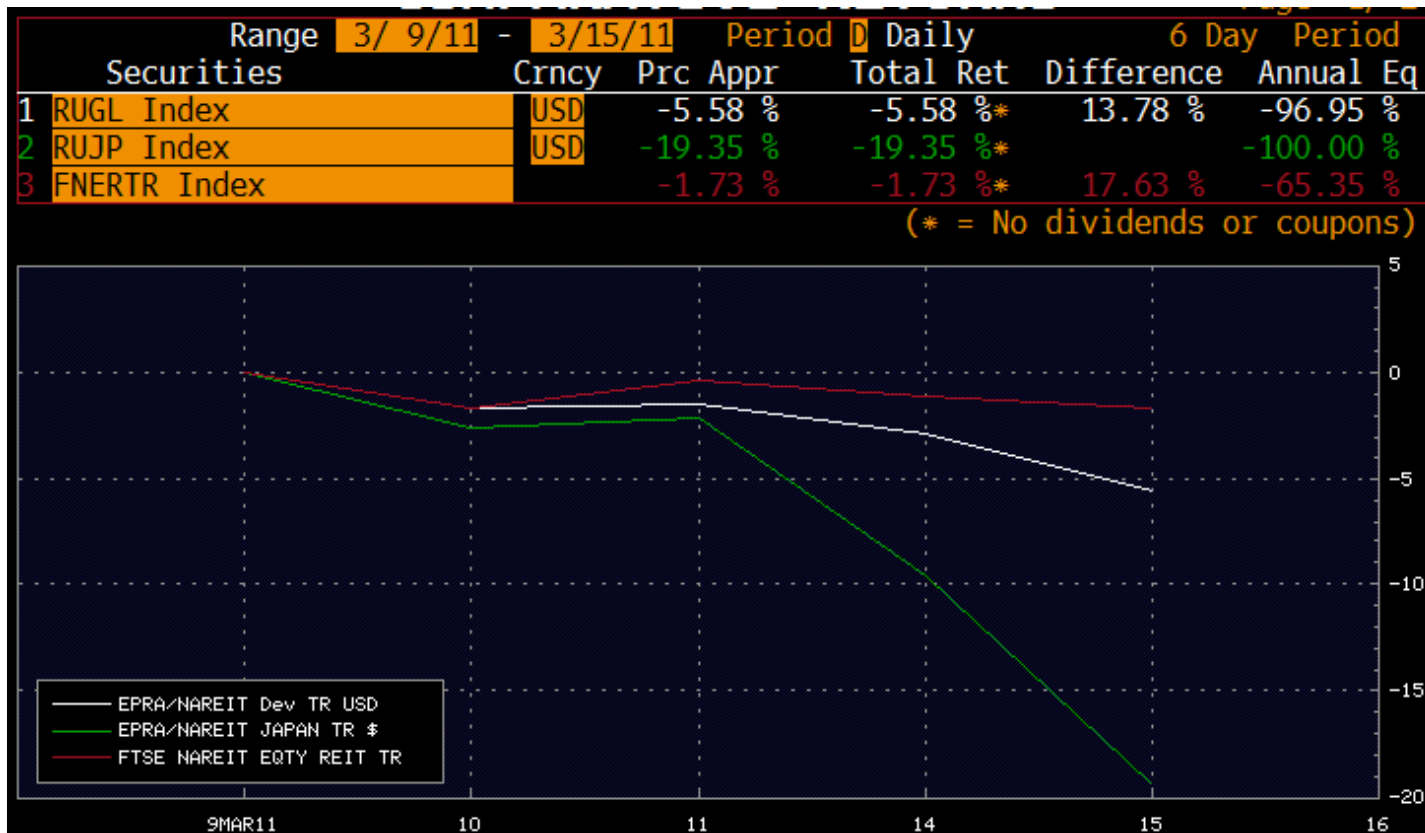
REIT Index Performance  
(as of Japanese Earthquake)



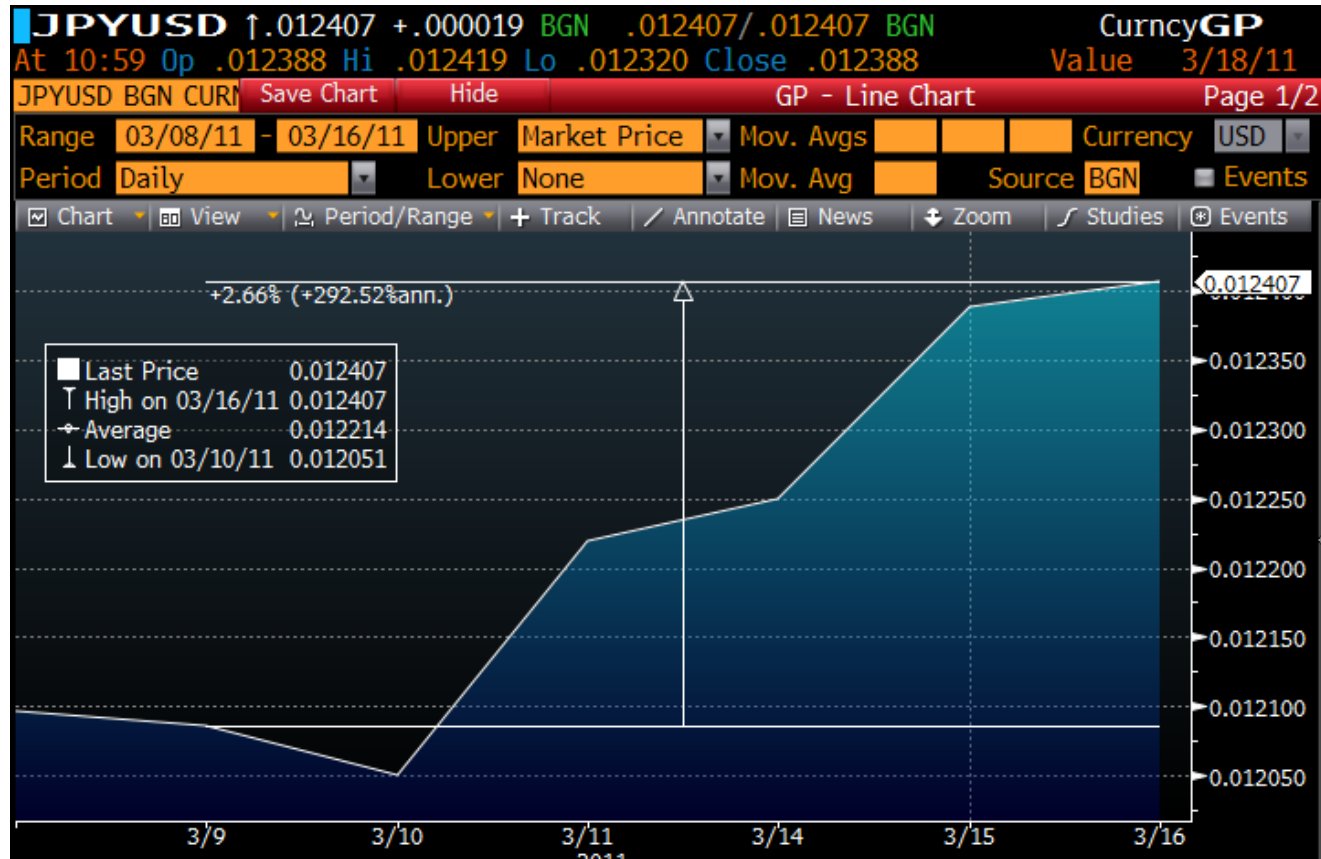
## Global Stock Indices Stumble as fears of Japanese economic shock might spread



## As Global REITs plummet – U.S. Very resilient



# Japanese Yen Appreciation following the Earthquake



## **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***

***Japan is a strong economy with a current account surplus, an opportunity is developing***

***Strategia’s largest allocation recently had 2.3% exposure to Japan, the index is 5x that***

## **Caution:**

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

***Starwood has significant presence in Japan, this represents only 2.0% of company portfolio***

***Re-building Japan will take years. AMB+ProLogis maximum impact about \$62 million loss.***

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

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