



Real Estate Commentary

July 31, 2009

July buyers chased market upward. Global REIT market top 8/5, Asia index +34% YTD Aug 5.
 Theme: Balance sheets improved, but not growth prospects. Some Office rent may roll down 9%
 REIT valuations are not Cheap. Direct buyers becoming slightly more active.
 CMBS activity has increased, sector is no longer Cheap, Bonds that were 12% are now 6% yield.
 Direct property with investment grade tenants, 8% CAP rate with rent escalations is Very attractive.

	July	
EPRA NAREIT Global index	+10.01%	
EPRA NAREIT Asia Index	+ 8.75%	
EPRA Europe Index	+11.95%	
U.S. NAREIT Equity Index	+10.47%	Large Cap -27.2% but Small Cap US REITS +15.07% YTD

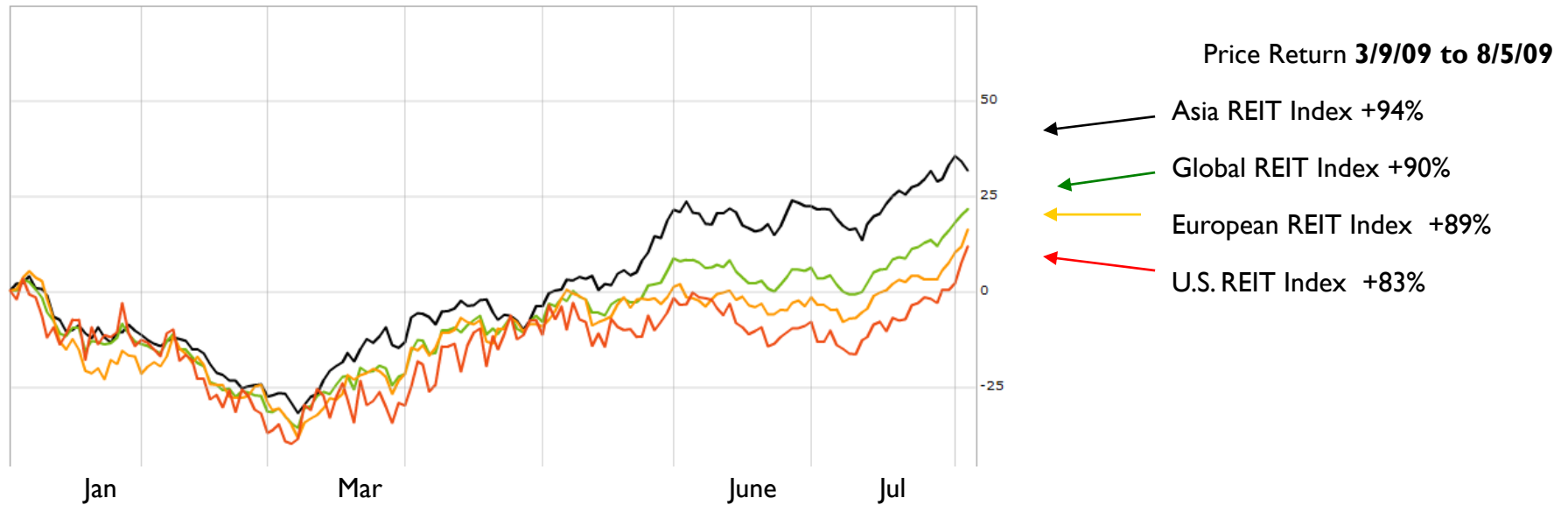


Chart: EPRA NAREIT Indexes 3 Months, % return to 8/5/09

Market Drivers:

Global economy is at or near bottom,
 Asia economy is reacting very well to the government stimulus, increasing chance of global benefits.
 U.S. REITS have benefited from improved Case Shiller housing index, GDP and economic outlook.

DC Office more resilient than NYC

	NYC Midtown Office		DC Office	
	Rent (\$/sfyr)	Chg%	Rent (\$/sfyr)	Chg%
12/05	\$47.80		\$41.59	
12/06	\$59.46	24%	\$43.10	4%
12/07	\$77.57	30%	\$48.13	12%
12/08	\$83.61	8%	\$50.37	5%
3/09	\$77.37	-7%	\$50.85	1%

DC Office Vacancy 8.5% 3/09

U.S. Office Vacancy 12.3% 3/09

REIT rally but NYC rent falling

US RE:

Hotel companies generally lowered guidance for the full calendar year.
 Expectation among analysts for further dividend cuts and weakening Apartments NOI

Global RE securities:

Per Brookfield, for the first five months of the calendar year, net inflows totaled €2.28 billion.
 Interestingly, the diverse geography of subsequent acquisitions by the funds suggests increased interest in non-European markets such as North America and Asia

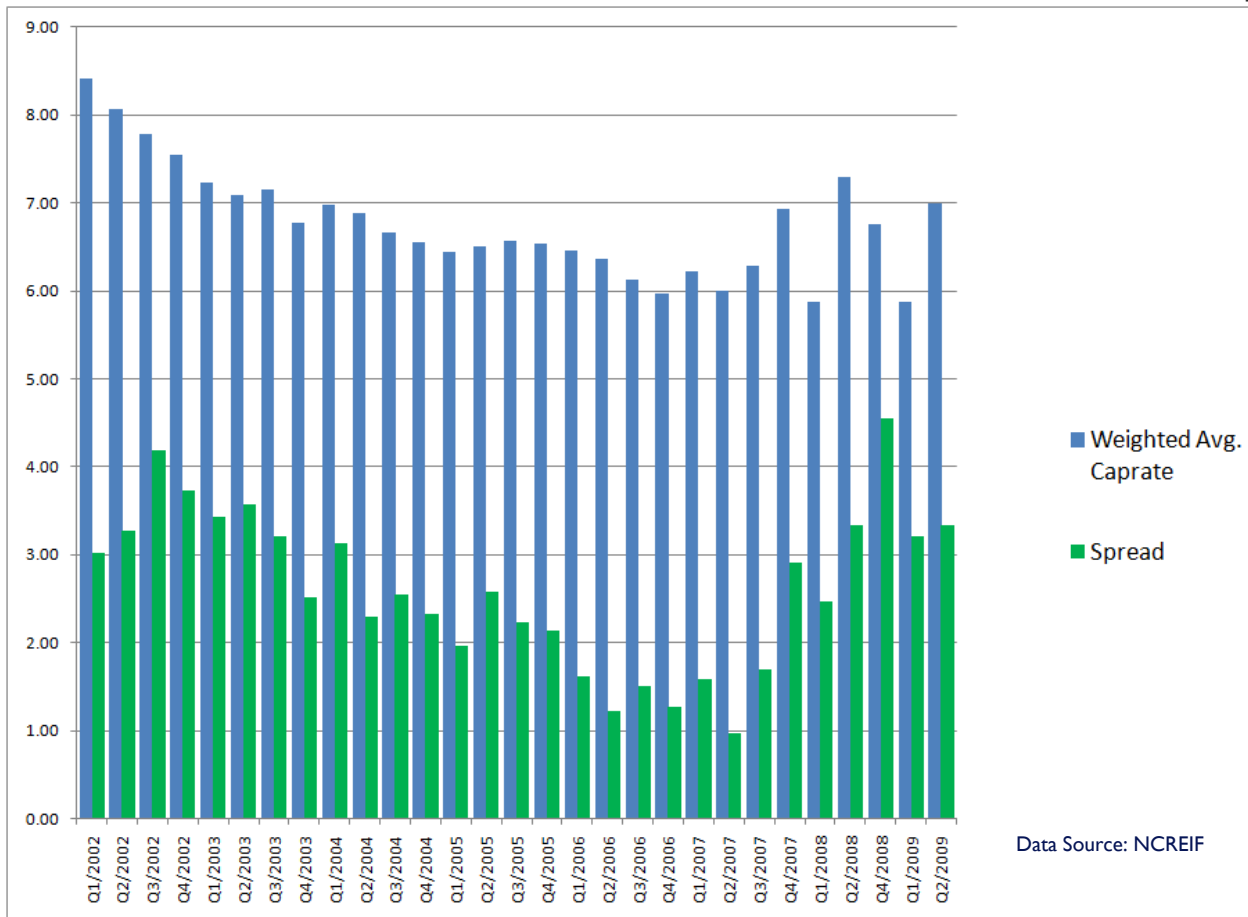
Market Drivers:

Lending is increasing, but if lenders want +400 spread and Cap Rates for apts are 7% transactions will be limited.

Cap Rates U.S. Apts 2002 to Q2 '09 Market is back to 7-8% CAP Rates

Markets now more driven by Cash Flow not Proforma.

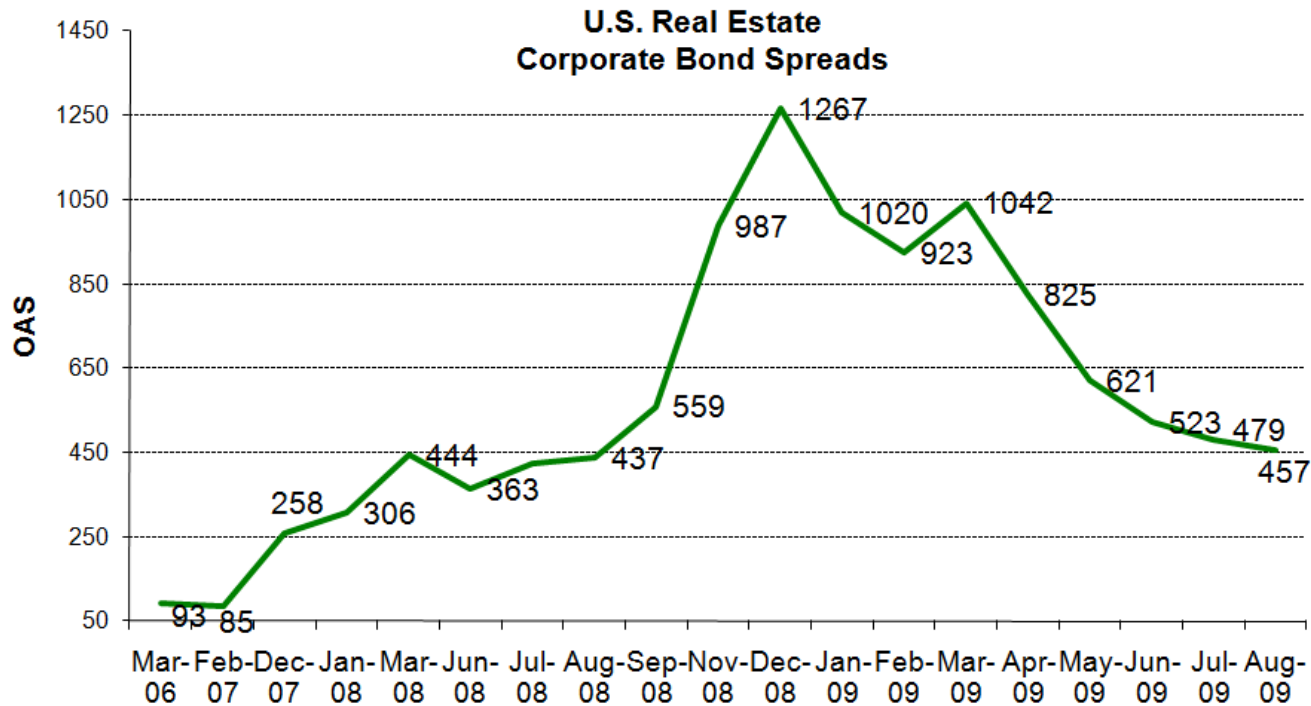
Recent sale of Class A Apts in DC was 7% Cap Rate



News

- August 6 UK Commercial Property values increased for first time in 2 yrs (per CBRE)
- August 4 Hong Kong: the value of homes sold jumped +73 July vs yr ago.
Hang Seng Property Index +63% YTD 7/27/09
- July 22 8 trillion more to go... 2 recent RE financings in Europe raised \$1.3 billion in debt,
Citigroup estimates \$8 trillion of assets globally were financed by this kind of securitized debt.
- July 3 Hong Kong's retail sales declined for a fourth month in May
from a year earlier, dropping 6.2 percent . Unemployment in the 3 months to May 31
reached the highest level in more than three years. Per CLSA

**Corporate Bonds Issued by RE Companies and REITS
reached 14% Yield Q4 '08 now 7.2% Yield August 5, 2009**

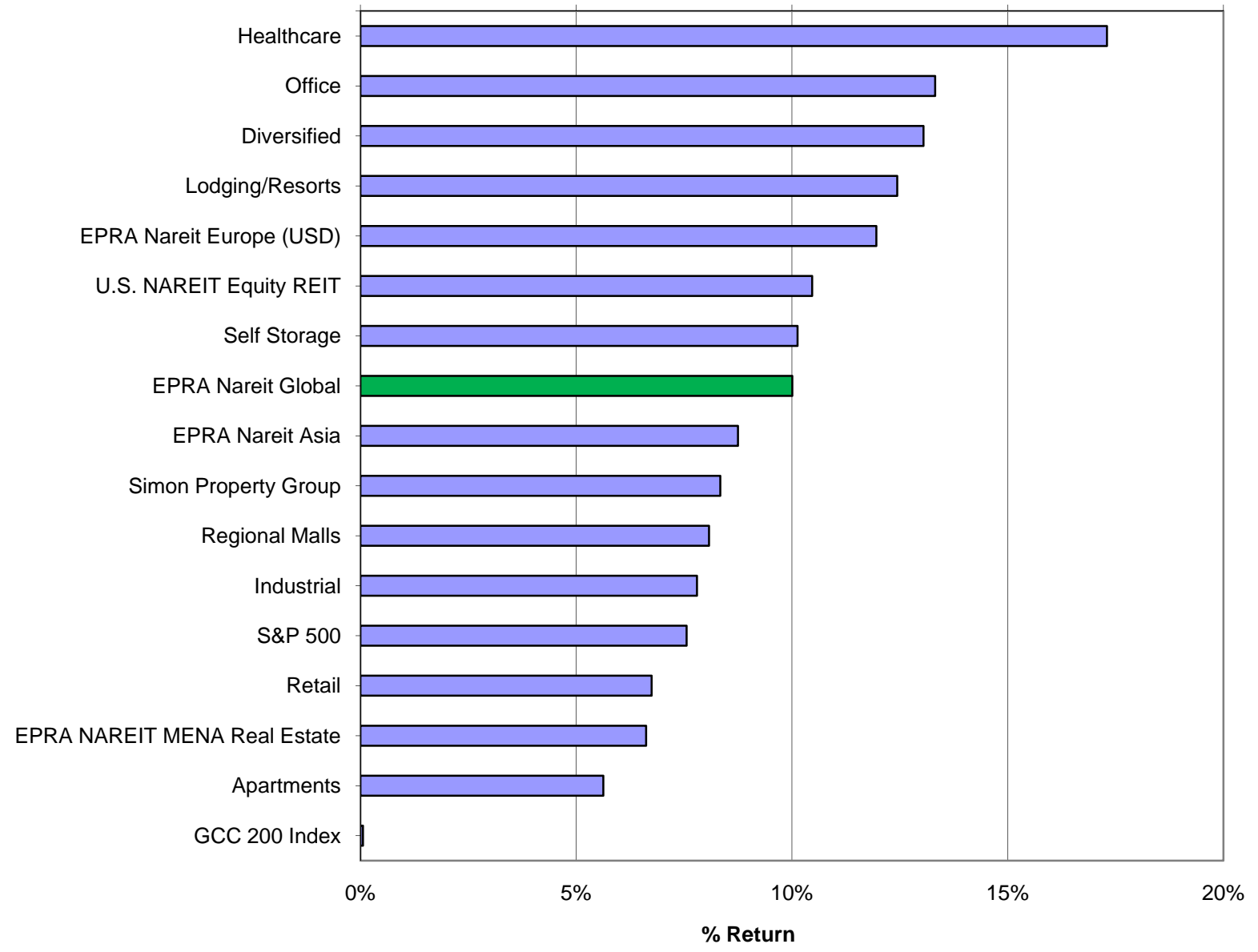


Real Estate Corporate Bond Spreads widened then tightened dramatically
As REITS are retiring debt and improving balance sheets dramatically.

(Source: ML index)

Solid Gains in July:

July Month Total Return % Return



Good News:

AFIRE members plan to invest 7x their YTD investment in RE later this year.

Capital Markets still open, balance sheets stronger in '09.

Reality of Asia growth brought hope and some real benefits to Global economies.

Debt spreads continued to tighten, TALF slated to help as debt solution for retail REITS

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

Caution:

Structured Finance remains a broken foundation for RE, talk of new CMBS at 40% LTV

Asia RE securities may have little upside near term (Sun Hung Kai +113% 3/9 to 7/31)

Global REITS +81% 3/9/09 to 7/31/09

Growth engines: + rent +occupancy are not prevalent

Real Estate Commentary

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

REIT:

Rally in EPRA NAREIT Asia Index looks extended.
Dividend yields were 10%, now 2% to 4%.

Direct Commercial Property:

Great Opportunities now are to buy property far below Replacement Cost.
According to AFIRE, foreign real estate investors projected their investments for the remainder of 2009 will place seven times more than current year-to-date investments. Overall, three quarters of the AFIRE respondents had not yet invested in 2009; more than two-thirds of them plan to invest in debt or equity in U.S. real estate before the end of the year.

CMBS/ RMBS:

CMBS yields have dropped 500+ basis points this year. This seems overly optimistic given Nearly \$8 trillion of Real estate can not be refinanced using securitized market.

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 +50% YTD,

We welcome Client questions and requests for further details.

- Harry Milne, Managing Director
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