



Invesco Real Estate House View

Global Market Outlook

H1 2012

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Executive Summary

Invesco believes uneven revenue growth will drive divergent investment performance.

“The only thing we know about the future is that it will be different.” The reality of these words by management educator Peter Drucker rings true for global real estate because the key driver of value among developed markets has already shifted. Unlike 2010 and 2011 when value recovery was largely driven by yield compression, we believe that best relative value over the next few years will be distinguished by revenue growth. The basis for and implications of this belief are summarized below:

Economic conditions

The global economic outlook diverges across regions.

- Europe is likely to weaken before improving over the mid term as sovereign debt challenges persist.
- Continued improvement of US economic growth is expected, yet a prolonged season of deleveraging will likely place a ceiling on the pace of growth.
- Asia-Pacific will likely be tempered by constrained global conditions, but monetary easing in China and improving growth in the US should support economic expansion.

Local economies will vary based on growth drivers and risk exposures.

- Markets with outsized exposure to new media, energy, technology manufacturing and health care are expected to see better relative growth, as are emerging markets with greater exposure to retail trade.
- Markets with outsized exposure to the public sector and financial services are anticipated to experience slower relative growth.

Temperate growth pushes the risk of inflation and higher interest rates into the mid term.

- Global economic growth is not expected to match the pace of past expansions. Thus, monetary policy should remain accommodative and keep interest rates from rising meaningfully until late 2013 or 2014. Yet, the expected timing varies across regions.
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Real estate market conditions

The risk appetite for core is broad-based; demand for riskier strategies is more selective.

- Investors are expected to continue favoring high quality core assets in the strongest markets, exerting further pressure on core/prime pricing.
- Preference for value-added and opportunistic investing should remain strong in Asia-Pacific due to better relative growth.
- Currently narrow capital flows for value-added and opportunistic strategies in the US should widen as economic conditions improve and the Commercial Mortgage-Backed Securities (CMBS) market re-emerges.
- Distressed buying opportunities should emerge among developed economies, particularly in Europe.

Yields are likely to remain stable or expand; thus revenue growth should drive total returns.

- Recent yield convergence in office should drive better relative value in the stronger growth markets within Asia-Pacific and the leading US markets.
- Higher logistics yields in Europe and lower yields in the US are offset by the regions' respective outlooks for growth, resulting in comparable outlooks for total returns.
- Higher growth expectations favor Asia ex-Japan retail markets.
- Residential yields globally are the lowest among all property sectors and thus could be more sensitive to rising interest rates as economic conditions improve.

Strategic implications

Asia-Pacific

- Income-oriented investors could continue to focus on Australia and Japan, driven by higher income returns, positive carry and recovering leasing conditions.
- Strong capital flows to the best quality assets may create opportunities to acquire well-performing "next quality" assets (e.g., Class B office) at more favorable pricing.
- Forward commitments to substantially leased projects provide opportunities to assume additional near-term risk for better relative returns.
- Strategies further up the risk curve include filling the capital void for development and non-income producing assets in China, Australia, Korea and Japan.

Europe

- Income preservation is a key priority given current conditions. In the short term, the Nordics, Germany and the UK should provide greater stability and relative value.
- France and Central Europe should provide good relative value in the mid term.
- Office and retail are expected to deliver similar return profiles over the outlook horizon with office performing better in the short term before new construction delivers, and retail outperforming in the mid to long term.
- The financing gap provides opportunities to acquire well-located distressed real estate, with a primary focus in the major cities.

US

- Apartments are anticipated to deliver better relative performance in the near term, and then moderate as currently low development levels rise over the mid term.
- Office performance will likely be uneven across markets, but should provide strong relative performance in the best markets, particularly in the gateway cities and markets with high employment concentrations in technology and energy.
- Industrial opportunities are focused in port markets located in high density, highly populated cities.
- Structural shifts including online retailing compel a high quality, high barrier focus for retail acquisitions.

Listed real estate could offer upside.

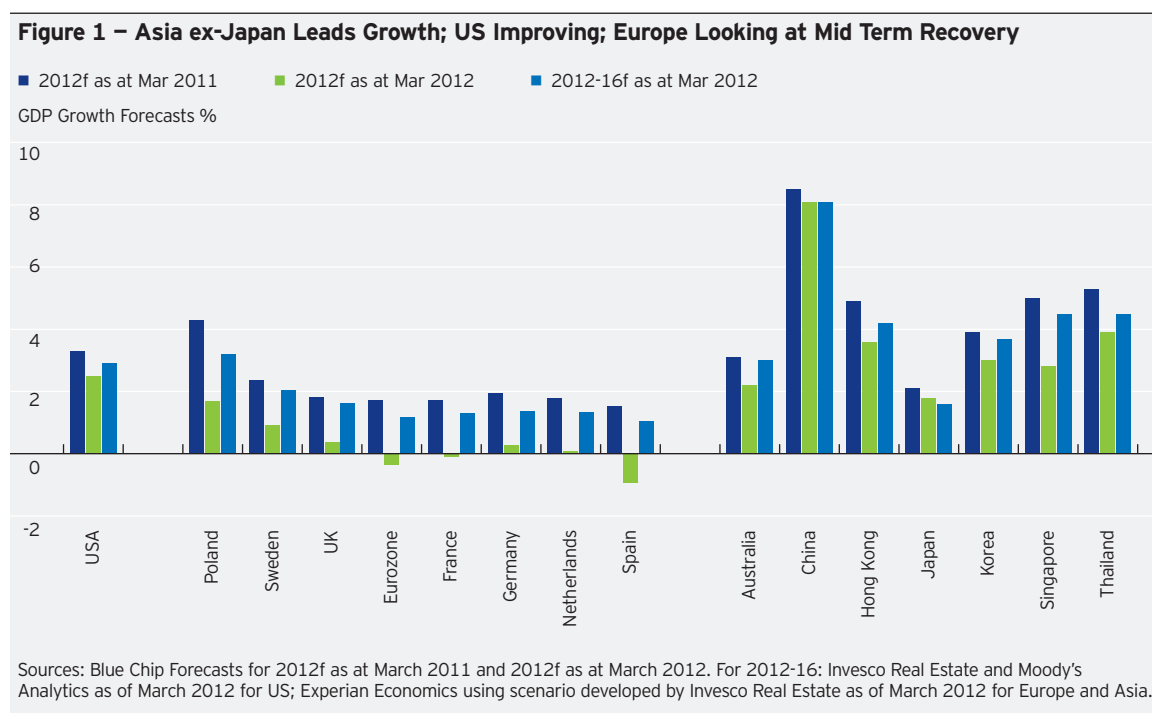
- European and Asian listed equities trading at particularly wide discounts to net asset value (NAV) are likely unjustified given underlying private market valuations.
- Legacy CMBS mezzanine classes from earlier vintage trusts appear to offer relatively high total return expectations with a level of interest rate protection.
- European banks are likely to continue to liquidate UK CMBS to meet liquidity needs and capital requirements, thus creating an opportunity to acquire selective bonds at attractive expected returns.
- Real estate corporate bond markets in certain regions outside the US still provide high income yields with a stable economic growth profile.

Economic Conditions and Outlook

Markets with exposures to growth industries like high-tech, new media and energy should outpace a slowing global economy.

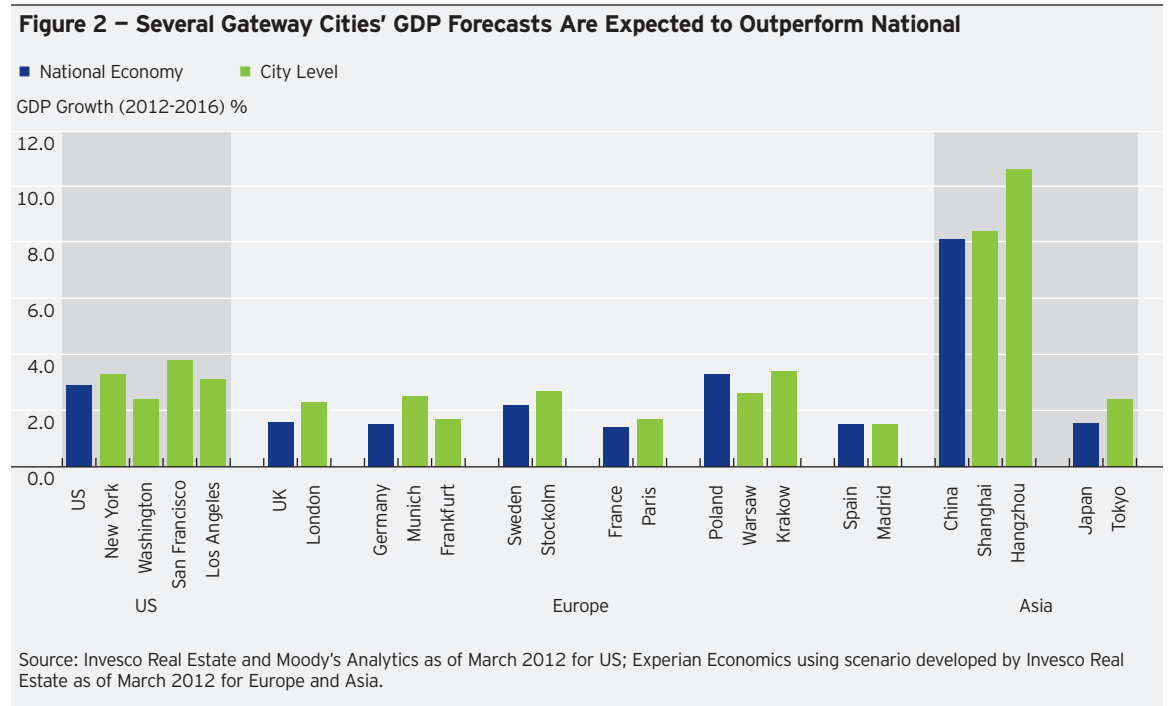
Last year's sovereign debt events in Europe and the US evoked an initial response of broad risk aversion. But as late 2011 transitioned into early 2012, the major global investment economies started to follow different paths given their unique drivers and constraints, creating an uneven growth outlook.

Economic outlook diverges across regions. Our current outlook for GDP growth in 2012 is uniformly lower than a year ago (Figure 1) while major countries and regions vary in direction and pace of growth.



- *Europe likely to weaken before improving mid-term.* Europe will likely remain in recession in 2012. Ongoing sovereign debt travails have slowed growth in the north and impaired conditions in the south. The recent Greek bailout agreements and European Central Bank intervention should limit the downside and lead to mid-term recovery. Yet, we anticipate diverse rates of country growth across Europe.
- *Improving US economic growth faces constraints.* The US economy posted mild growth through the second half of last year and has since strengthened, albeit only to trend-like levels. While we expect further improvement into 2013, US economic growth will likely remain below the pace of past economic recoveries as it faces a prolonged season of deleveraging.
- *Slowing Asia-Pacific growth should respond to monetary easing.* Asia-Pacific has seen its previously stellar pace of growth moderate due to uncertainty in Europe, weak demand from the US, and softer domestic investment sentiment and supply constraints caused by the natural disasters in Japan and Thailand last year. While monetary loosening and better US-based demand should support economic growth going forward, future trend levels are expected to be lower for larger economies, particularly China.

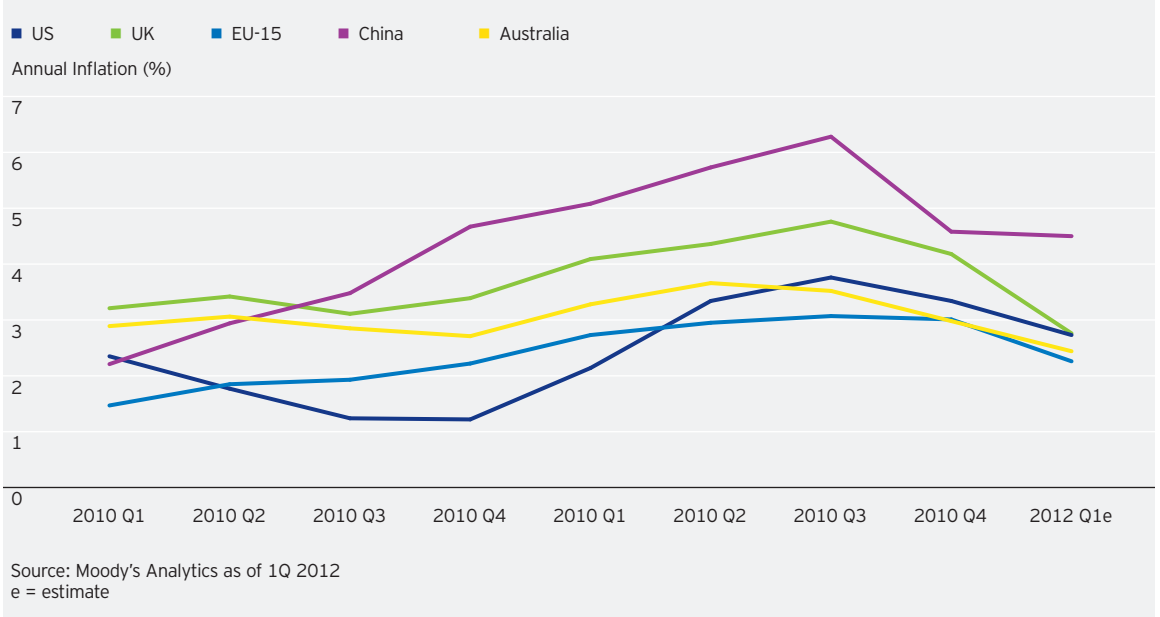
Local economies are shaped by growth drivers and risk exposures. The following trends regarding growth drivers and risk factors shed light on where we expect to see better relative economic growth and tenant demand across global gateway markets. (Figure 2)



- **Industry concentrations matter.** Markets with outsized exposure to new media, energy, and health care are expected on average to experience better relative growth. Also, retail is a particular growth driver in Asia ex-Japan given the region's expanding consumer sector. Markets with these exposures include the Bay Area and New York City in the US; Munich, Stockholm, and Krakow in Europe; and Hong Kong, Shanghai, Tokyo and Brisbane in the Asia-Pacific.
- **Global gateway status mitigates financial services risk.** Markets with outsized exposure to financial services, particularly in the overleveraged developed economies, will likely face challenges to growth. That said, the depth and diversified tenant demand profile of certain global gateways such as London, Paris, New York City, Hong Kong and Singapore should help mitigate downside risk in these cities.
- **Euro risk impacts growth.** The lingering challenges for the euro may lead to divergent growth trends over the near term as investment capital seeks safe and sustainable yields. US gateway cities and London are the likely beneficiaries as well as non-euro based European markets, such as Stockholm.
- **Sovereign debt to be a drag on growth.** Capital cities that are either implementing government austerity spending programs or retain excessive debt relative to their respective GDP will likely see slower growth going forward than in years past. Beyond the most troubled capital cities in Southern Europe, other examples include London, Paris, Tokyo and Washington DC.

Modest inflation anticipated in slow growth environment. We expect inflation to remain modest through at least 2013 given the backdrop of trend global economic growth combined with elevated unemployment and subdued wage growth. The short term could see upside volatility from energy prices due to continuing Gulf tensions, particularly in Iran, and agriculture, but we expect labor market slack to limit the sustainability of these increases.

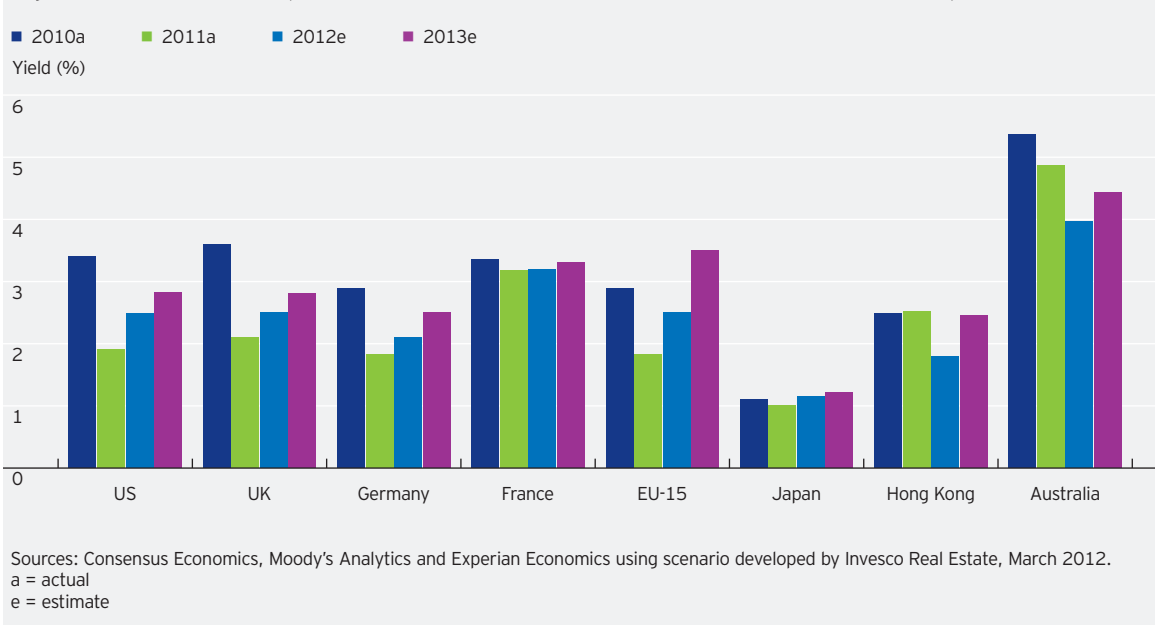
Figure 3 – Inflation Has Moderated in Major Economies



Thus, inflation should remain at or below the targets set across many central banks. In the longer term, once the global economy shifts to expansion, the significant level of money supply injected into economies via quantitative easing will need to be carefully withdrawn from the monetary system else it will run the risk of creating inflationary pressures.

Steady interest rates expected until global growth accelerates. Interest rates are not anticipated to rise meaningfully until late 2013 or into 2014 given slower near-term growth expectations and accommodative monetary policy across much of the globe. Over the longer term, bond yields are likely to increase as global economic growth improves and risk aversion wanes. Yet, the expected timing and magnitude of this shift varies by region.

Figure 4 – Bond Yields Expected to Remain Low in Short Term, Then Rise as Growth Improves



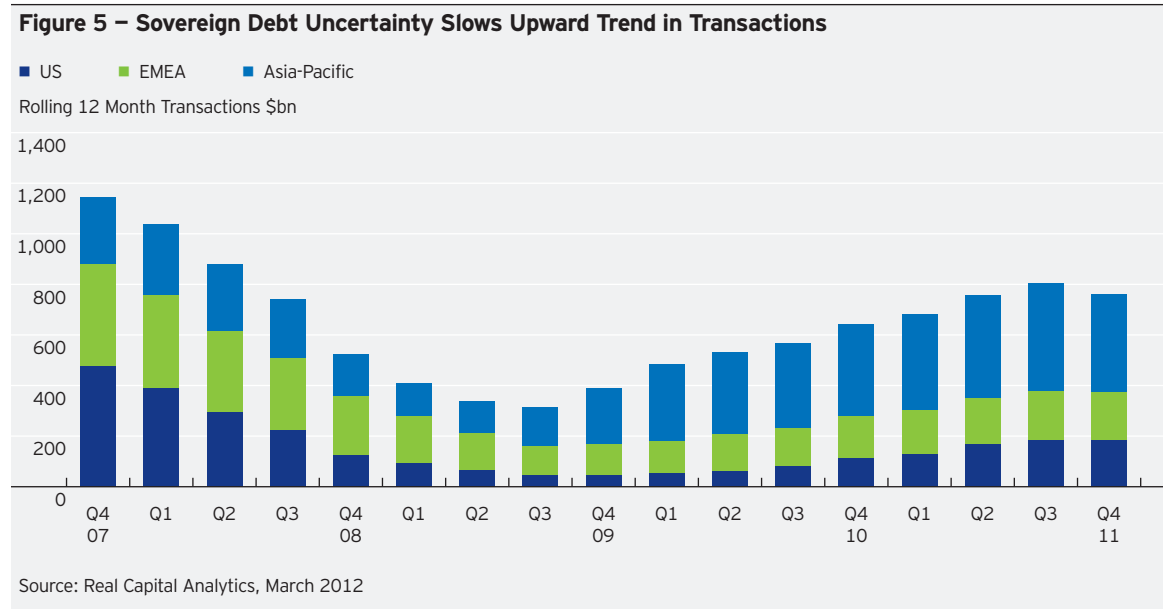
- **US rates should remain “exceptionally low” through 2014.** With 10-year Treasury yields holding near 2%, it seems the only direction is up, which was reinforced in March as yields quickly rose above 2.3%. Assurances by the Federal Reserve Bank to keep the federal funds rate at “exceptionally low levels” through 2014 suggest that, while Treasuries could rise, yields will likely remain artificially low in the near term, pushing the typical rise that accompanies economic growth further into the future.
- **UK and European bond yields likely to normalize by 2016.** Core European bond yields are expected to remain at low levels over the next 18 months as growth fluctuates around zero, causing investors to remain risk averse and central banks to continue quantitative easing policies. European Central Bank intervention has pushed down yields in Italy, Spain and Ireland, but spreads to the bond remain wide. As the region emerges from recession and the debt crisis, yields are expected to move toward equilibrium levels.
- **Accommodative policy to keep Asia-Pacific yields low.** Central banks across the Asia-Pacific are concentrated on supporting growth, likely keeping interest rates low over the near term. The Reserve Bank of Australia has lowered interest rates twice since November and both the Bank of Japan and Bank of Thailand have been easing after natural disasters. In addition, the People's Bank of China signaled a policy shift in December by lowering its required reserve ratio for the first time in three years.

Investment implications of what we expect to be divergent growth patterns globally will be addressed in more detail in the following section.

Real Estate Market Outlook

Rising interest rates and uneven growth means fundamentals should drive performance.

Equity appetite for core is broad-based; selective demand for riskier strategies. Global demand for real estate investment continues to improve as evidenced by an 18% increase in global transaction volumes in 2011 (Figure 5). While activity paused late last year in reaction to sovereign debt concerns, initial volume for 2012 suggests that investors, while still cautious, are seeking to place capital.



A deeper look reveals that while investors' risk appetite for core (or prime) assets is broad-based, demand for value-added and opportunistic strategies remains greatest in the Asia-Pacific region and runs reticent by degrees across Europe and the US.

- Asia-Pacific's 2011 volume of \$386 billion is 45% higher than 2007 when global activity peaked, reflecting the broadening of interest across the risk spectrum. The lack of a significant re-pricing and recession during the global financial crisis has led investors to take more risk domestically than their US and European counterparts.
- EMEA (Europe, Middle East and Africa) volume in 2011 of \$189 billion is up 16% from 2010, but remains 53% lower than 2007 peak levels. Moreover, the recent improvement in 2011 was concentrated in a few areas, namely the core markets of London and Germany, and the emerging Central European countries. This implies that capital demand is currently focused on the markets showing the most fiscal discipline and emerging growth markets, and reflects investor selectivity.
- US volume in 2011 of \$184 billion is up 61% from 2010, yet remains 61% lower than its 2007 peak. This reflects strong demand for core assets and early movement up the risk curve, yet also the lack of CMBS capital for riskier assets and tertiary locations.

Given moderating economic growth in Asia-Pacific, recessionary conditions in Europe, and constrained growth in the US, all amidst lingering macro risks, we expect that:

- Capital demand will continue to broadly favor high quality core assets in the strongest markets.
- Demand for value-added and opportunistic investing should remain strong in Asia-Pacific due to better relative growth. Currently narrow demand in the US should widen as economic conditions improve and the CMBS market re-emerges.
- Distressed buying opportunities should emerge among developed economies, particularly in Europe.

Investor appetite between core and riskier strategies is also seen in debt. Further evidence supporting broad-based core demand is found in financing trends where debt capital for core assets is abundant and all-in financing for most developed countries is well inside current real estate yields. (Figure 6) Core plus, value-added and development financing is selectively available in Asia-Pacific and the US for well-located assets in high barrier locations and assets with a compelling execution strategy for creating value.

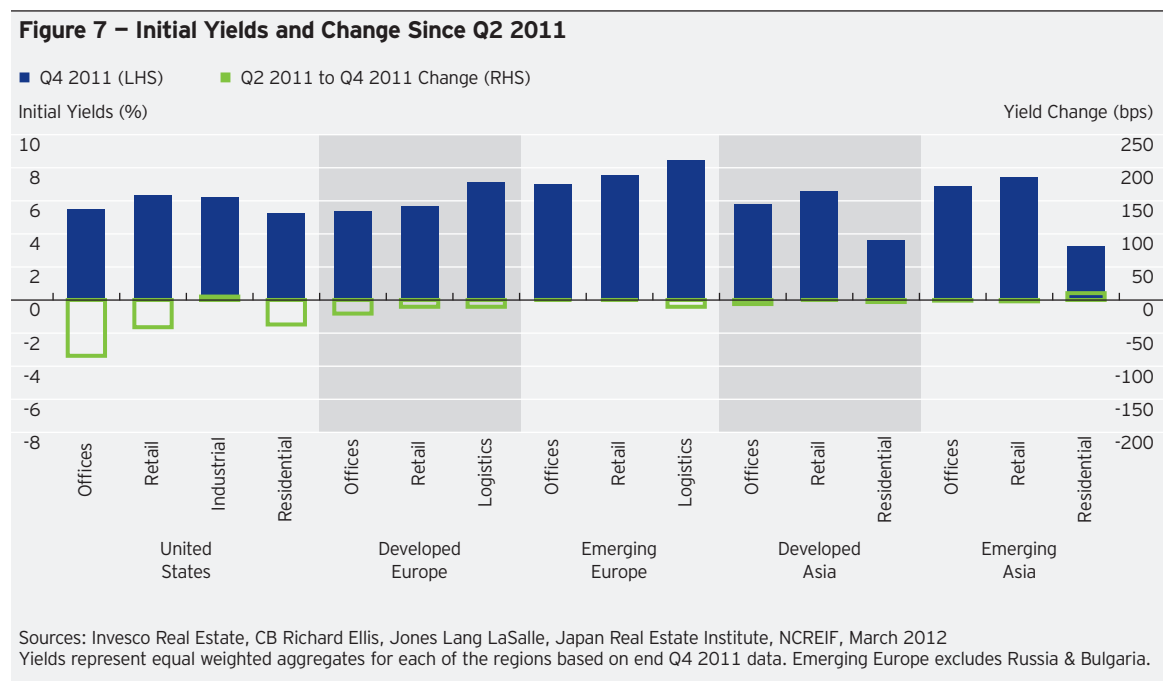
Figure 6 – Indicative Financing Costs for Class A Office Assets

Country	Base	Base %	Assumed LTV	Margin	All-In Financing
United States	5-Year US Treasury	1.10%	<50%	240bps	3.50%
United Kingdom	5-Year SWAP	1.40%	<40%	250bps	3.90%
France	5-Year SWAP	1.30%	<40%	140bps	2.70%
Germany	5-Year SWAP	1.30%	<40%	120bps	2.50%
China	1-Year PBOC base lending rate	6.56%	Up to 50%	130bps	7.86%
Japan	5-year SWAP (to LIBOR)	0.50%	<40%	68bps	1.18%
Australia	Official Cash Rate	4.25%	Up to 65%	200bps	6.25%
Hong Kong	3-Mth HIBOR	0.40%	40-50%	275bps	3.15%

Source: Invesco Real Estate, March 2012

The selectivity of debt capital has created a funding gap for development and non-performing assets. While this gap has narrowed in Asia and the US over the past year, the gap remains wide in Europe. Over the near term, closing this gap will likely mean providing development capital to parts of Asia and acquiring distressed assets globally, particularly in Europe.

Regional yield convergence in office; diverse yields across other sectors. Among developed countries, broad-based demand for core assets is further demonstrated in the recent convergence of regional office yields. This convergence of developed market office yields contrasts with average yields among other sectors. (Figure 7) Breaking down the similarities and differences sheds light on opportunities for better relative value.



Office: Yield convergence drives better relative value in growth markets. Average office yields across the major developed regions range from 5.3% in Europe to 5.8% in Asia-Pacific, with the US in the middle at 5.4%. With little differentiation among regional average office yields, better relative value for office should be found primarily in the higher income growth markets of Asia-Pacific, followed by the leading US markets. Slower growth markets in Asia-Pacific and Europe are expected to produce comparatively lower returns over the next five years.

Industrial/logistics: Yield disparity provides comparable tradeoff to growth. In developed markets, industrial/logistics yields average 6.1% in the US and 7.0% in Europe. While income growth in the US is anticipated to moderately outpace Europe, expected growth in Europe is enough to offset its higher yield and provide comparable value to US markets.

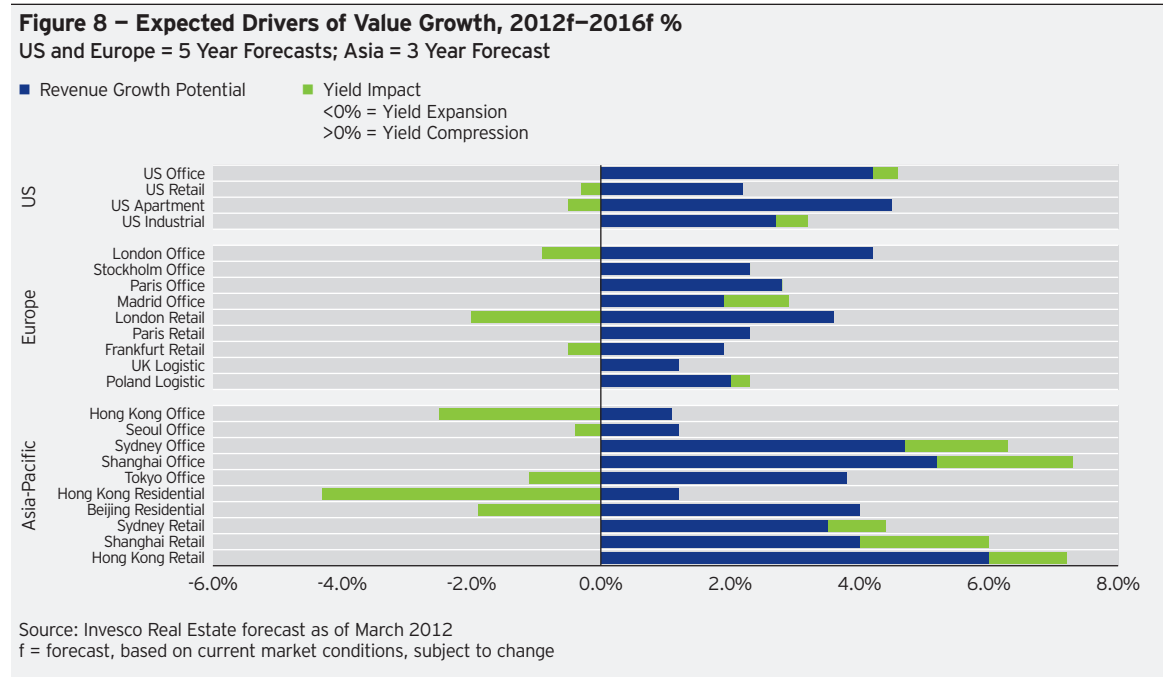
Retail: Higher growth expectations favor Asia ex-Japan. Retail yields in developed countries average 5.6% in Europe and 6.5% in Asia-Pacific, with the US at 6.25%. The Asia-Pacific average yield represents a blend of higher yields in Australia (where growth is low) and lower yields in Asia ex-Japan (where growth is high). Higher average rental income growth in Asia ex-Japan provides attractive relative value opportunities in the region, especially in China where consumption growth has been robust. The yield disparity between developed countries in Europe and the US may reflect differences in quality consistency across markets. Assets represented by the European yields are likely skewed toward high barrier, high density locations, whereas the assets reflecting the US yields include a broader range of high and low barrier locations.

Residential: Performance varies across markets. Residential yields for both Asia ex-Japan (3% average) and the US (5.2% average) are on the low end relative to the other property sectors. While interest rates are not expected to move significantly in the near term, residential may be more sensitive to potential increases in interest rates than the other sectors. The rental income stream of US residential is expected to remain strong for the next 2-3 years until new construction deliveries ramp up, mitigating a material unexpected rise in interest rates. The ownership condo market throughout much of Asia ex-Japan is seeing challenging pricing trends as governments enforce purchasing restrictions and lower loan-to-value limits to slow what had been the rapid rise in prices, which have since cooled.

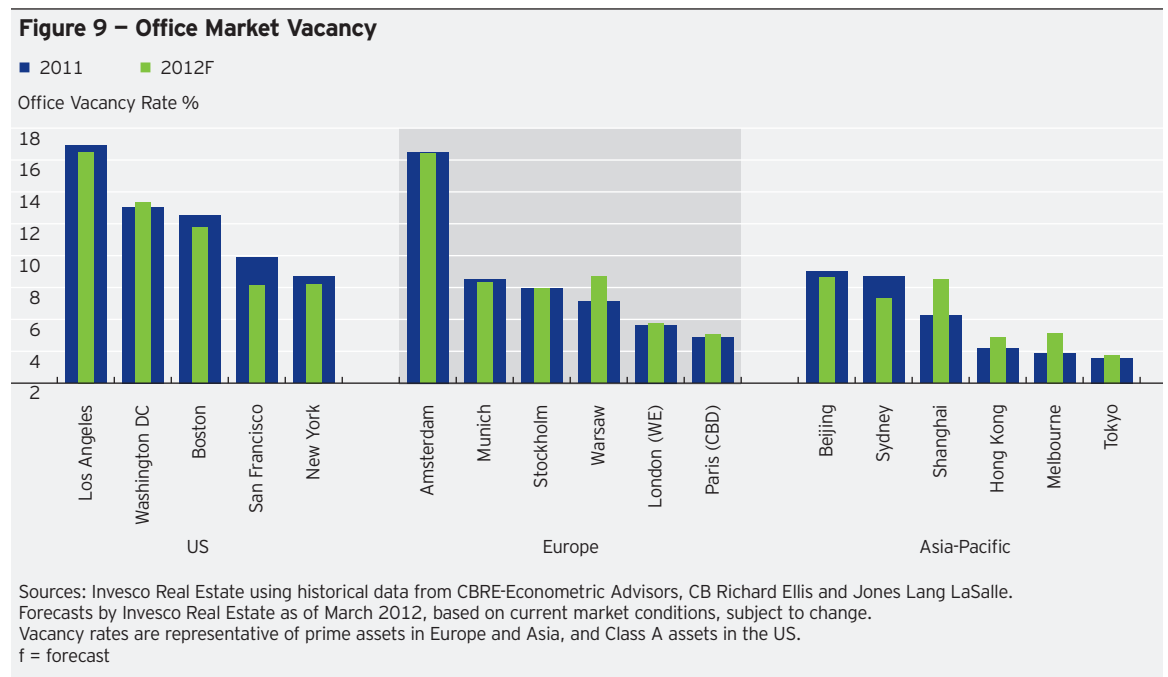
Improved mid-term economy could have diverse impact on real estate yields. Over the next five years, we expect that improving economic conditions will shape global real estate yields in at least three ways:

- **Improved growth should cause government bond yields to rise, placing upward pressure on real estate yields.** The yield gap between real estate and government bonds in the US and Europe has remained wide in recent quarters, despite falling real estate yields, because bond yields have been under downward pressure. However we caution that this may set the scene for the gap to be squeezed when bond rates begin to normalize during our forecast period. This is likely to be a force more notable in the US and Europe than in Asia-Pacific where government bond yields have not been under as much pressure.
- **Improved growth should cause investors to become less risk averse, influencing real estate spreads.** Regions with comparatively shorter lease terms including Asia-Pacific and the US could see the yield spread between real estate and government bonds compress as the impact of accelerating income growth is realized on a more timely basis. The combined effect between rising government bond yields and spread compression in these regions could be little net change in absolute real estate yields over the mid term.
- **Improved growth should enhance investor sentiment across a broader range of asset classes.** This is particularly the case in Western bond market yields, which could attract some of the capital that may otherwise be allocated to real estate, thereby moderating the potential for real estate yield compression.

Revenue growth will be the key to future performance. Given our belief that global real estate yields will, depending on region and market segments, either remain stable or rise over the mid term, revenue growth is expected to be the key driver of real estate values over the next five years. (Figure 8)



- **Markets with exposure to innovation, production and energy tenants are expected to lead growth.** Our near-term vacancy forecasts (Figure 9) reflect our expectation that leasing will be strongest in markets with outsized exposure to tenants in high tech, energy, and new media, and retail particularly in emerging markets including Asia ex-Japan and Central and Eastern Europe. Also, markets with limited exposure to the public sector (where austerity is expected to dampen job conditions) and financial services are likely to have better relative income growth.



- **Low construction helps the US and Europe.** Development pipelines continue to be subdued in the US and Europe as bank financing remains limited for speculative construction. If new starts remain low over the next couple of years, we expect that improving economic conditions will help occupancies tighten over the mid term and push rents upward.
- **Some markets could see yield expansion erode values.** Yield contraction is not expected to contribute meaningfully to total returns over the mid term. Moreover, we believe that yields in some markets could exit higher than current levels, leading to value erosion. The asset selection decision is critical in markets with greater exposure to yield expansion. Location quality, low exposure to lease expirations, and tenant strength are all key considerations.





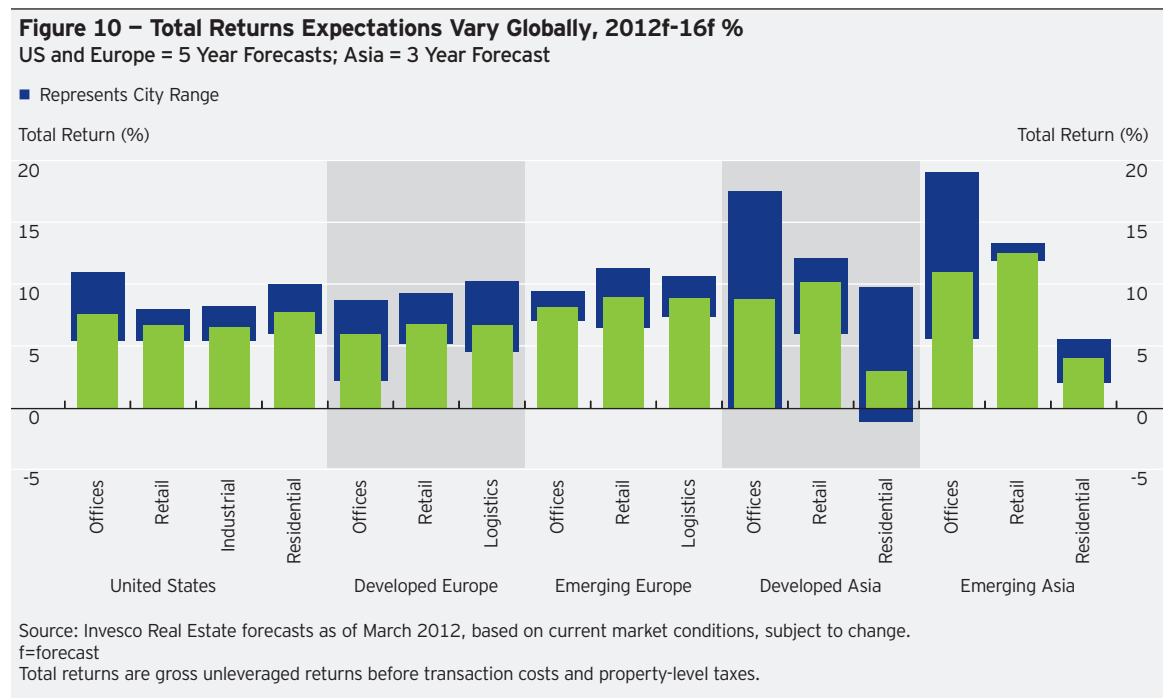
Conclusions and Strategic Implications

Best relative value is expected in Asia non-residential, the US, and Emerging Europe.

Given our outlook for yield movement and income growth across the globe, we expect a diverse range of total returns over the next five years:

- Certain Asian office markets are poised to deliver the strongest returns.
- The US office market is expected to record stronger returns than European offices.
- European logistics and US industrial are forecast to post similar returns.
- Asia ranks highest across the retail markets, followed by emerging Europe.

These broad regional return characterizations, shown on the green bars in the chart below (Figure 10) mask the diverse performance we expect to see at the individual market level, as shown in the blue bars.



With this range of expectations, the remainder of our *Global House View* is devoted to highlighting some of what we believe to be the more compelling investment strategies by markets and sectors, and for the public equity and debt markets.¹

Asia-Pacific

The desire for stable income should continue to drive real estate investment activity in 2012. We have continued to see strong interest for prime properties in the Asia-Pacific region despite compressed yields. Looking ahead, we believe:

- Stabilized prime properties in core locations will attract strong capital flows, supporting prices despite softer income growth prospects in the short term.
- The trend to chase yield could drive a convergence of pricing across different markets in the region. For instance, yields in Australia and Japan could harden while those in Hong Kong could expand.
- A divergence in pricing between prime and non-prime properties could be driven by the disparity in financing availability. Limited financing to properties located in fringe areas and to development projects could force weaker owners to sell, tempering pricing for these projects.

¹ These strategies should not be construed as recommendations since all strategy executions must be evaluated in the context of individual portfolio objectives and constraints.

Given these expected trends, we believe the following opportunities are available to investors:

- Income-oriented investors could continue to focus on Australia and Japan. The higher income returns, positive carry and recovering leasing markets remain attractive for global investors.
- With a tide of equity chasing limited prime assets, investors may consider acquiring stable, performing properties in the next level of quality located in well-established business hubs at potentially more favorable pricing. These properties are also expected to receive favorable lending terms as banks compete for business.
- Forward commitments to substantially pre-leased projects present an opportunity to assume added risk for better expected performance.
- Investors with stronger risk appetites could target certain gaps in the market.
 - New developments are lacking in certain markets such as Hong Kong (all sectors) and development and re-development strategies could work.
 - In China, the tough market conditions have forced some domestic developers to the sideline and investors could target residential development projects to capitalize on the structural demand for housing at more reasonable land costs.
 - The reluctance by banks to lend to development / non-income producing projects has provided clear opportunities to take positions in these projects either via debt or equity participation, particularly in certain markets such as China, Australia, Korea and Japan.

Europe

While Europe as a whole is experiencing weak conditions, we expect better relative performance from the Nordics, Germany and the UK in the short term, followed by France and Central Europe in the medium term and Southern Europe in the long term. The implications from these varied recovery cycles include:

- We forecast modest rent growth in 2012 as economies begin to recover. A continued lack of development financing should keep pipelines subdued, benefiting mid-term rent growth in many markets. Secondary markets continue to suffer from a lack of investor and occupier interest with rent growth expected to lag 12-24 months behind primary markets.
- Supply-constrained gateway office markets are expected to deliver the best short-term returns, driven by rental growth. Longer-term, we expect development pipelines to erode rental growth, although development in most gateway markets requires long planning periods, so the risks can be offset through careful monitoring.
- Retail is expected to be strongest in dominant parks and shopping centers and on destination high streets where luxury brands continue to need a presence and should set higher rent levels. Weaker locations should be avoided as retailers continue to reduce their store counts.
- Logistics should continue to offer solid income returns and, long-term, the growth of Internet shopping is expected to benefit the logistics sector at the expense of retail.

Thus, we believe the following opportunities are available to investors:

- Office and retail assets are expected to deliver similar total return profiles, with retail stronger in the long term. Logistics and hotel offers access to strong income returns.
- Accessing real estate product is anticipated to be more difficult in 2012 as investors continue to focus on a narrow definition of "prime" and these assets are expected to attract considerable demand.
- Opportunities should continue to exist outside the narrow definition of "prime" to secure value-add opportunities and "manage to core". Assets with curable deficiencies are expected to continue seeing relatively less competition.
- Financing has grown more difficult although investors with good quality real estate and realistic business plans should find debt available.
- The European funding gap continues to offer debt investment opportunities.

US

While macro risks have reset return expectations, improved confidence and flight-to-quality appear to have strengthened the foundation for institutional real estate performance. Yet, uneven growth across industries is expected to create divergent performance across sectors, markets and assets, discussed below:

- For apartments, the best revenue growth in the strongest markets will likely occur this year with some tenants moving from Class A or Class B+ product as rents escalate. While tenant demand is expected to remain strong, the sources of demand are likely to shift, and a wave of new deliveries should start to moderate the sector's relative performance by 2014.
- Office offers the best mid-term opportunity for revenue growth. US office is expected to see uneven performance across markets, yet as a sector it is anticipated to outperform in 3-5 years when below-market rents on expiring leases roll-up to market rates.
- Industrial fundamentals are improving as the economy improves. Macro trends related to online retailing, international trade flows and the Panama Canal expansion are expected to impact market performance and the types of industrial space expected to be in greatest demand.
- Structural shifts require a focused retail strategy. Cyclical headwinds appear to have abated, yet long-term shifts in demographics, use of consumer credit, discounting, and online retailing should continue to challenge the sector, causing us to focus on stellar locations.

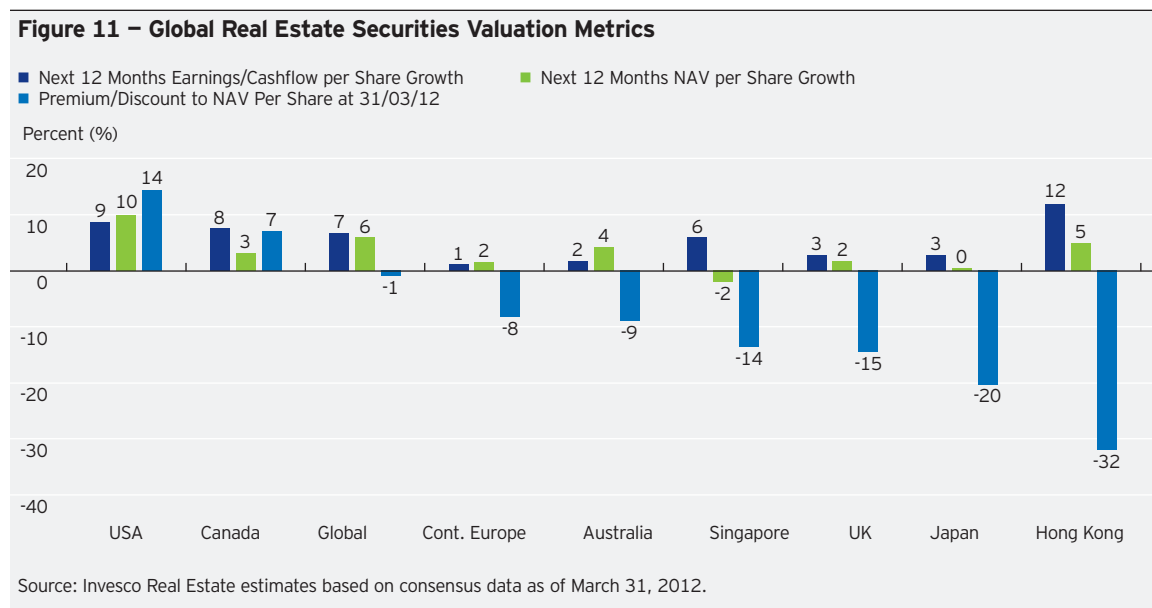
We believe asset and market selection may trump the importance of sector allocation over the near term, leading us to consider the following opportunities:

- Apartment markets presenting the best combination of strong occupancy trends, high relative housing costs, high barriers to construction and the entitlement process, and high household incomes relative to rent levels are most likely to outperform, such as the San Francisco Bay Area and New York City.
- Opportunities should also be considered in secondary apartment markets presenting an attractive combination of less aggressive pricing and better relative income growth.
- Three sets of office markets are expected to lead performance: primary markets with the best prospects for revenue growth (New York, San Francisco, Los Angeles and Boston); markets with outsized exposure to the technology and innovation industries (e.g., San Jose/Bay Area and most of the primary markets); and markets with strong exposure to the energy industry (e.g., Houston).
- Office opportunities should also be focused on higher quality, Class A assets in urban locations since occupancy recovery has progressed further in these segments and they are expected to continue to be favored by occupiers in recovery.
- Industrial opportunities are focused on assets in major port markets linked strongly to global trade and serving large populations, such as Los Angeles/Orange County, Riverside, New York/New Jersey, Houston and Miami. Also, we would selectively consider assets in preferred inland markets, like Dallas-Fort Worth, with key transportation linkages to port markets.
- Given the key role of technology and innovation in the economic recovery, warehouse opportunities in tech-oriented markets, namely Oakland and San Jose, as well as low cost markets serving as a low cost production location alternative (e.g., Phoenix) should also be considered.
- For retail opportunities, we believe any less-than-stellar locations bear outsized risk. The best outlook for performance is among densely infill grocery-anchored shopping centers, fortress malls and high street retail.

Listed real estate

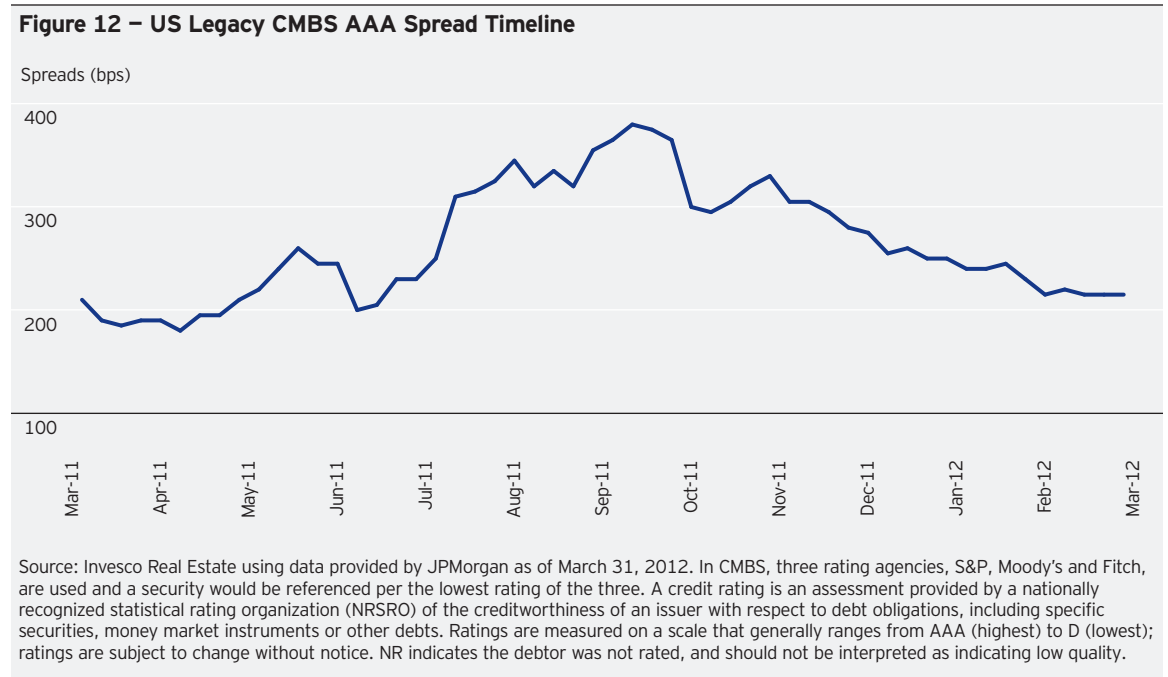
In the near term, listed real estate will likely be driven by the volatility of the wider capital markets. However, the long-term return correlation between listed real estate and direct real estate investments should remain as both are driven by the underlying fundamentals of the real estate market. These periods of divergence for equity and debt security pricing from the expectation for improving real estate fundamentals can create specific opportunities for entry at attractive valuations or income yields. It is our belief that:

- Listed equities earnings growth should remain positive in each major region during 2012, ranging from 8% to 10% over the next twelve months.
- While absolute returns over the last six months have been robust for listed equities¹, certain regions are exhibiting particularly wide discounts to the underlying private market value (NAVs) of their owned assets (Figure 11) which may not be justified given the view of generally recovering fundamentals.



¹ Listed equities experienced total returns of 21% on average for the six months ending March 31, 2012.

- The compression in yields for many senior classes of new issuance and legacy CMBS to 4% or lower (Figure 12) should enhance the financing environment in 2012 if conduit lenders gain confidence in the stability of market pricing.



- The likely increase in capital requirements through the implementation of Basel III could become a significant growth catalyst for the UK and European securitized markets which have historically seen low new issuance volumes.

Considering these expectations, we believe investors in listed real estate are presented with the following opportunities:

- European and Asian listed equities trading at significant discounts to NAV that are positioned to benefit from accommodative policy actions and increased market liquidity.
- Legacy CMBS mezzanine classes (classes B through D) from 2004 or 2005 vintage trusts offering yield expectations of 8% to 10% while providing a level of protection from potential losses. The shorter duration nature of these securities also insulates investors from a potential increase in overall interest rates.
- UK senior CMBS classes being liquidated by European banks to raise capital amidst the uncertainty of new regulatory requirements with yield expectations of approximately 7% to 10%, or 300 to 600 basis points above domestic securities.
- Real estate corporate bond markets in regions which still provide high relative base rates compared to the US, such as Australia, with yields remaining in the 6% to 7% range while also providing the potential for a more stable economic growth profile.

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