

Global Real Estate Securities: The Outlook for 2010 and Beyond

March 2010

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Introduction

The past two decades have been dominated by one or two major themes that have shaped or dictated the direction of both the public and private real estate markets. Some of the key themes have been massive overbuilding in the late 1980s/early 1990s combined with a major recession, a bursting of the tech bubble in the early 2000s and a mild recession resulting in investor rotation towards real estate as an asset class, and more recently a global financial meltdown and deep economic recession in 2008 and 2009. The last event has been largely capital-market driven, resulting in sharp valuation declines across both securitized and private real estate.

The evaporation of credit beginning in late 2007 has not been easy for the real estate sector and the past couple of years will be among the worst years for the industry as a whole. While private real estate continued to tumble through 2009, the REIT market¹ put in a strong showing last year. In this annual RREEF Research report, we provide an update of the market conditions surrounding REITs globally. After the introduction, we cover some of the broader themes in a global context. After a review of how REITs fared globally, we drill down to each of the regions starting with the US, then Asia-Pacific followed by the European region. Concluding remarks and implications for investors close the report.

Prepared By:

Asieh Mansour, Ph.D.
 Managing Director
 San Francisco
 USA
 (415) 262-2044
 asieh.mansour@rreef.com

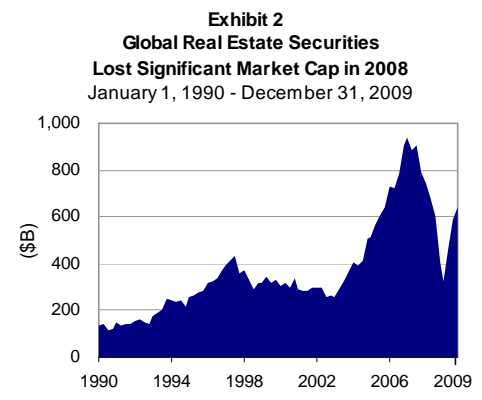
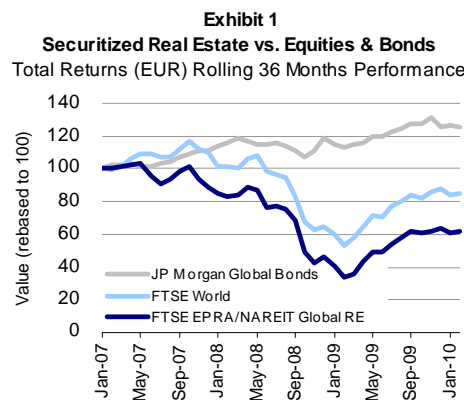
Jaimala Patel
 Vice President
 New York
 USA
 (212) 454-1752
 jaimala.patel@rreef.com

Stella Yun Xu
 Assistant Vice President
 San Francisco
 USA
 (415) 262-7715
 stella-yun.xu@rreef.com

Production By:
 Michelle Woods

Global Overview

Since the onset of the world-wide financial crisis starting in 2007, global real estate securities have been at the mercy of an equity bear market and deteriorating real estate fundamentals. Real estate securities underperformed both equities and bonds on a global basis. (See Exhibit 1.) The erosion of value also impacted the REIT market capitalization on a global basis. Investors were quick to link commercial real estate to the over-supplied residential market as well as associating the sector with the highly-levered financial companies.



¹ REITs also refers to REOCs and the overall listed real estate market throughout this report.



For many of the non-dedicated real estate securities investors, in particular, REITs were viewed as highly correlated to the broader financial sector which was ground zero for the collapse in the equity markets. The dearth of financing added to concerns regarding real estate securities, as a dysfunctional credit market drove further price corrections given elevated refinancing risks and fears of foreclosures.

During 2007 and 2008, global real estate securities as measured by the FTSE EPRA/NAREIT Developed Index, generated a total return of -7.0% and -47.7% respectively. The pricing of REIT shares became highly dependent on each company's balance sheet strength. Commercial real estate is an inherently capital intensive asset class which has been highly levered. Companies that had excessive debt maturing and facing refinancing risk were hit the hardest (as in the case of General Growth Properties). REIT returns became highly volatile during this period despite the fact that real estate securities have traditionally been considered as a haven from volatility given the steady nature of their underlying long-term contractual income streams. The extreme volatility in REIT share prices was not only because of the refinancing risk but was also driven in part by a surge in trading by exchange-traded funds (ETFs), including a large proportion of short sellers who painted REITs with the same brush as the battered housing and banking sectors.

The year 2009 started out dismally for real estate securities, following the path of the preceding two years. But by March of last year, the REIT market began to rally across the board, delivering a 38.3% total return by year end. For 2009 as a whole, global real estate securities outperformed the broader equity markets despite the heightened volatility. (Please refer to Exhibit 3.)

Exhibit 3
Global REIT Relative to Other Asset Classes
(As of December 31, 2009)

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>10 Year Std Dev</u>
Public Real Estate					
FTSE EPRA/NAREIT Developed*	38.3%	(12.4%)	2.0%	9.2%	25.7%
Private Real Estate					
Global Direct Real Estate**	(10.9%)	8.3%	11.0%	9.6%	8.9%
Stocks					
MSCI World	30.8%	(5.1%)	2.6%	0.2%	21.9%
Bonds					
Lehman Global Aggregate	6.9%	7.0%	4.6%	6.5%	6.0%
Private Equity					
Thomson VentureXpert***	(17.9%)	2.8%	9.8%	8.3%	27.6%
Infrastructure					
UBS Developed Infrastructure & Utilities	11.6%	(1.7%)	8.2%	8.7%	21.6%

*Note: Total Returns in USD

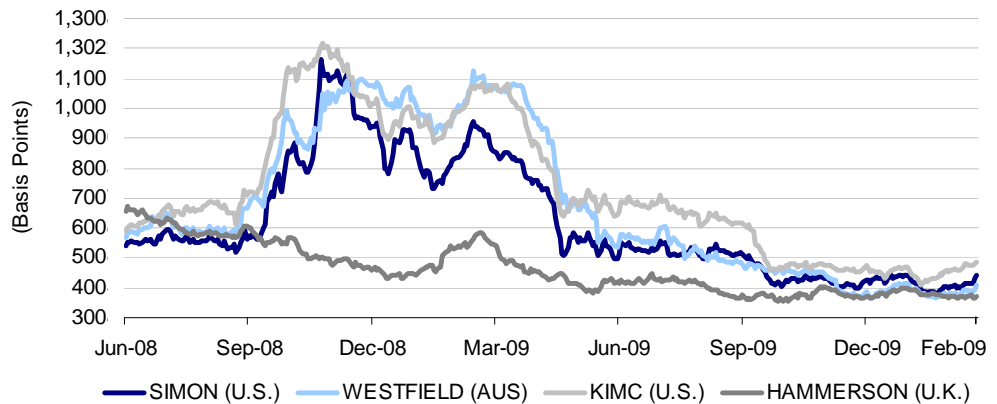
**RREEF constructed the Global Direct Real Estate Total Returns based on the aggregate market performance weighted by market size for North America, Western Europe, and Asia.

***As of June 30, 2009

Source: RREEF Research, Bloomberg, IPD

The recovery in the listed real estate markets last year was in part driven by the recovery in the corporate debt markets. In comparison to their private equity counterparts, REITs were in a much better position to access the credit markets via multiple sources. Management across most public real estate companies took advantage of such enhanced credit availability to recapitalize their balance sheets. (Please refer to Exhibit 4.) This recapitalization trend was a common theme across most regions, starting in Australia, followed by the UK and finally in the US.

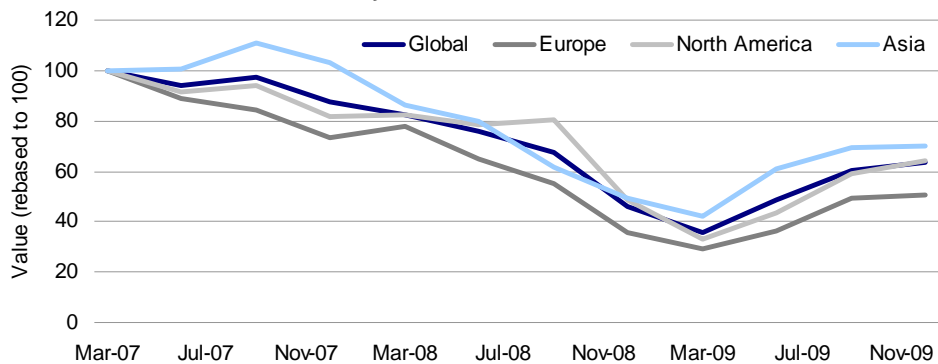
Exhibit 4
REIT CDS Spreads: Compression in Debt Costs Allowed REITs to Access the Debt Markets



Source: Bloomberg, RREEF

The synchronized support by monetary authorities globally provided the time required by REIT management teams to renegotiate and work out loans and raise equity, hence, repairing balance sheets in a highly-favorable interest rate environment. On a regional basis, Asia outperformed both the US and Europe, led by real estate shares in Hong Kong which disproportionately benefited from Chinese capital flows, low interest rates, a more positive economic outlook and limited residential supply. Europe lagged the other regions due to a big drop in property values, led by the UK.

Exhibit 5
Regional Variation in Real Estate Securities Performance
January 1, 2007 - December 31, 2009

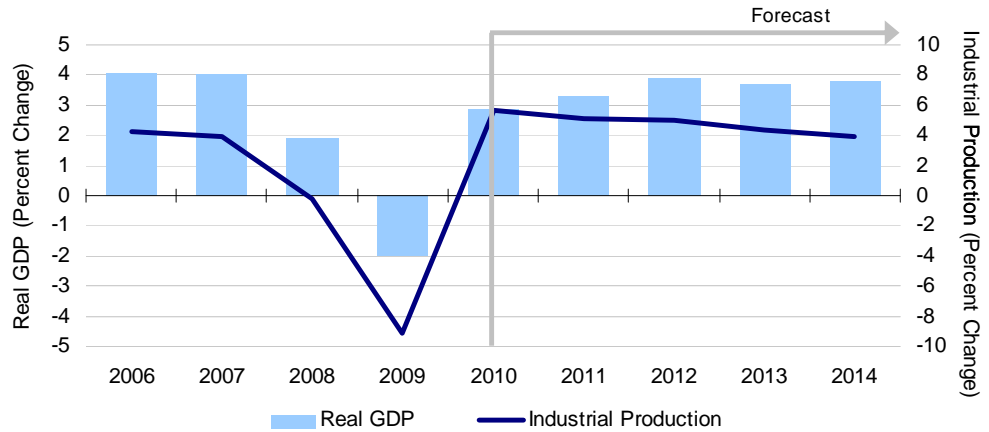


Source: RREEF Research, Bloomberg, FTSE EPRANAREIT Total Return USD Series

We enter 2010 with a more positive outlook for real estate securities than just one year ago. With a nascent recovery in the debt markets and a global economic recovery well underway, REITs are well-positioned to grow underlying net operating income as well as transitioning from balance-sheet repair phase to the opportunistic and accretive acquisitions phase. The three factors driving better REIT performance in 2010 are described below.

- **Improving Fundamentals:** First, the global economy is on the mend. We are recovering from the most severe global economic recession in 60 years. On a global basis, economic growth resumed during the first quarter of 2009, led by a rebound in emerging markets across Asia. By the end of 2009, a majority of the larger economies across the world were growing. An expansion in output activity led to a resurgence in industrial production, world trade, and a rally in commodity and equity markets.

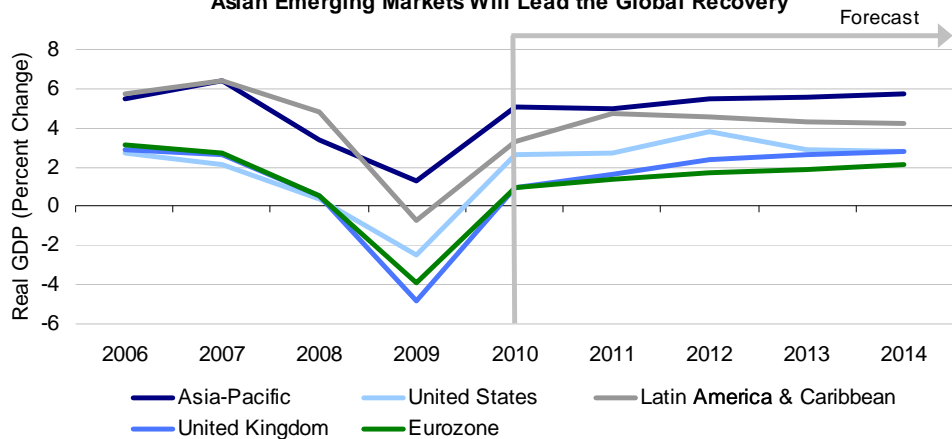
Exhibit 6
The Global Economy on the Mend



Source: RREEF Research, Global Insight, February 2010

For 2010, global growth should continue on track. After contracting by an average 2.0% in 2009, global growth should recover by roughly 3.0% in 2010. With a recovery in equity markets, consumer and business confidence has improved across regions, and the financial markets have normalized. Regional recoveries, however, should diverge. Asian and Latin American economies have already recovered strongly. The US will follow this year, yet a full recovery for Europe and Europe's Emerging markets are not expected until 2012. In the case of Japan, a meaningful recovery is not in sight until 2013.

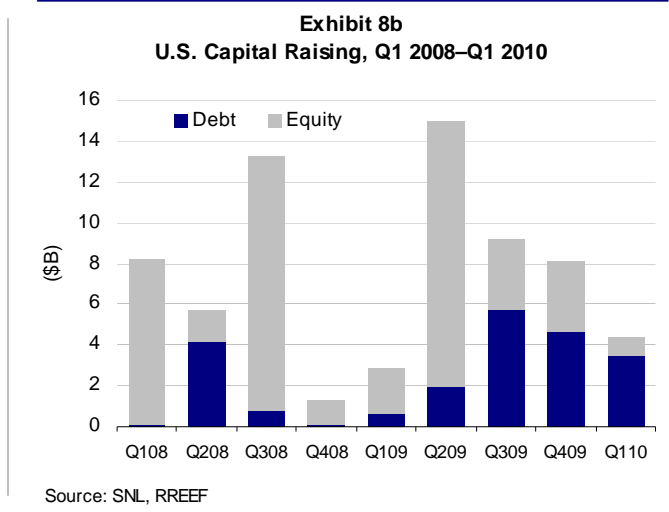
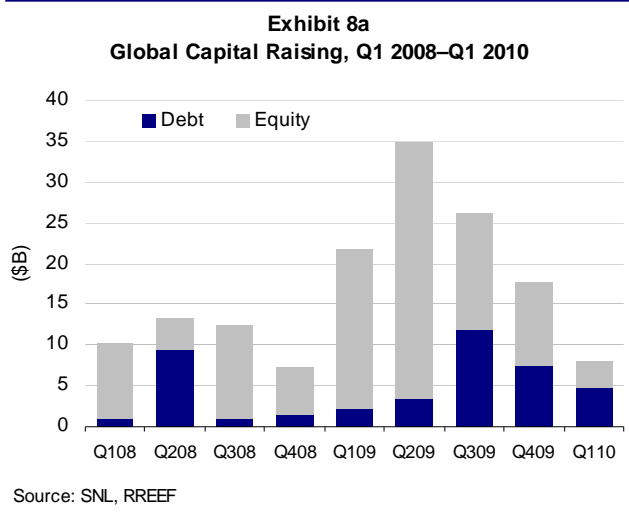
Exhibit 7
Asian Emerging Markets Will Lead the Global Recovery



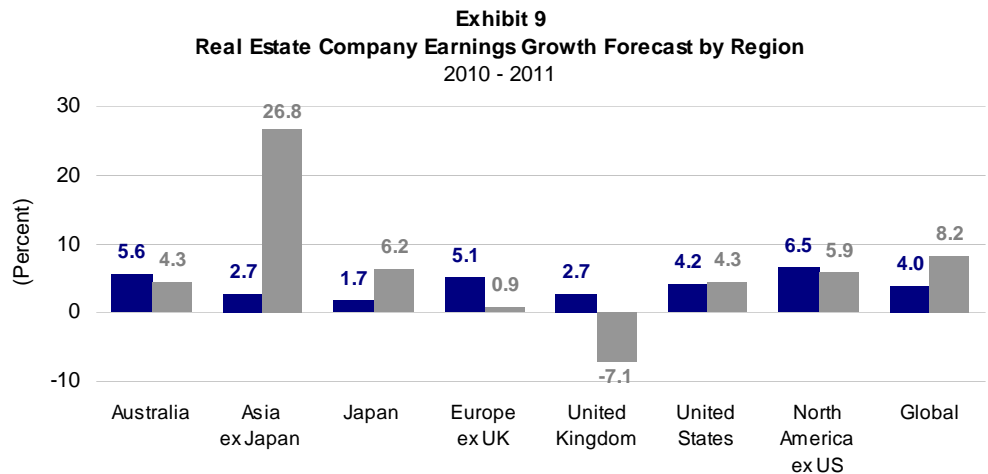
Source: RREEF Research, Global Insight, February 2010

The recovery in global growth, however, has not yet been accompanied by employment growth. Real estate fundamentals that drive NOI recovery are correlated with a recovery in jobs. The recovery in jobs lags overall economic growth and should happen this year. An upturn in employment this year should go a long way in supporting real estate fundamentals since this is one cycle where widespread overbuilding has not been the cause of the downturn. We expect a stabilizing operating environment for real estate in 2010 and stronger improvement in 2011. The key economic risk, however, is higher interest rates. For now, most central banks are cautious and waiting for a full-fledged economic recovery before raising rates. Inflation across the developed countries is subdued in the near-term.

- Access to Capital:** A second driver of REIT performance going forward is access to capital. The recovery in the corporate debt market and normalization of the broader capital markets have led to an improved availability of credit to public companies. REITs were able to raise a record \$55.7 billion in equity last year. In contrast to the private real estate operators, REITs have much better access to equity and debt capital and at more attractive pricing, especially in the unsecured market. This is very similar to what occurred back in the early 1990s in the US whereby the public markets evolved as the least expensive form of capital. This should provide REITs with a comparative advantage in capitalizing on the global economic recovery and the ability to execute on any distressed opportunities. There should be greater distressed transaction activity as debt matures and refinancing becomes troublesome. The CMBS market is also just showing very early signs of life. After repairing balance sheets through much of 2009, REITs have begun targeted acquisitions. The outlook for 2010 REIT acquisitions, however, is highly dependent on whether distressed assets do come on the market at attractive pricing.

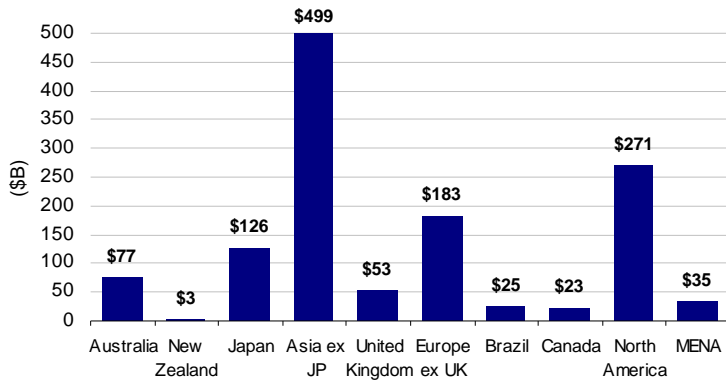


- Improvement in Earnings:** Finally, the trajectory for earnings is a key driver of REIT returns. Across regions, the outlook for real estate company earnings has improved considerably. The lack of excess supply, firming of demand, and stabilization in capital values have led to improved prospects for REITs in 2010. The availability of cheaper financing and increased access to debt capital has served to reduce negative impact on earnings from refinance risk as well as the drag from further dilutive equity raises.



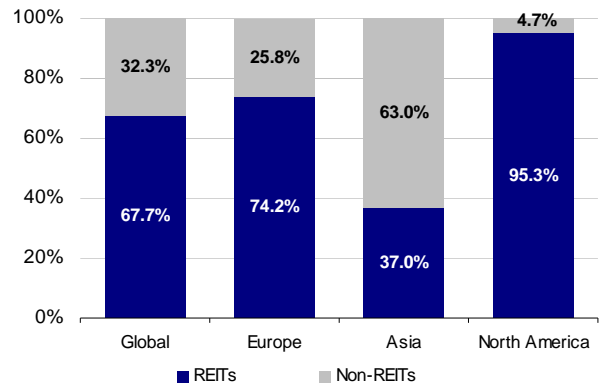
The recovery in fundamentals, better access to credit and improved earnings should fuel the growth of the securitized real estate market globally. As of January 2010, the broad universe of real estate securities market had a total capitalization of \$1.3 trillion (Exhibit 10a). The Asia region, which includes Australia and New Zealand, constitutes a majority of the global real estate securities universe at 54% followed by the Americas region at 25%, including Brazil and Canada. The Europe region, which includes the United Kingdom, reflects 18% of the broad universe. While REITs constitute most of the real estate securities universe in the North America region, it is roughly 75% of real estate securities in Europe and only 37% in Asia (Exhibit 10b).

Exhibit 10a
Global Real Estate Securities Market Cap



Source: RREEF Securities, March 2010

Exhibit 10b
FTSE EPRA/NAREIT Indices Listed RE vs. Non-Listed RE



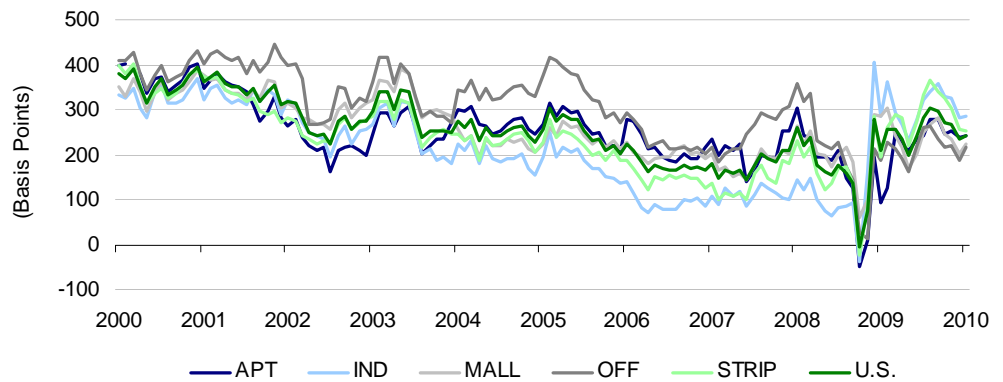
Source: EPRA as of December 2009

The Americas Real Estate Securities Market

US

In line with the global markets for securitized real estate, market conditions and sentiment for US REITs changed dramatically through the course of 2009. Hit by a sharp decline in credit availability, fears of refinancing risk, economic recession, and widening risk premia, US REITs performed miserably during the early months of last year. By March of 2009, however, public companies' ability to raise capital and the normalization in broader financial conditions set the stage for a strong rebound in US REIT share prices. The recapitalization trend led to tightening of spreads as well. With the availability of multiple sources of debt, US REIT management moved from purely repairing balance sheets to acquisition mode.

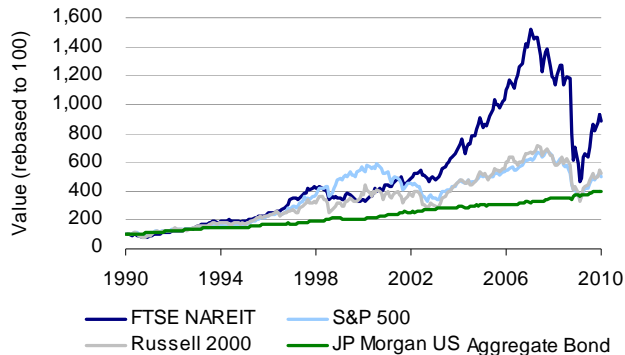
Exhibit 11
U.S. IRR less BBB Bonds Yields



Source: Green Street, Bloomberg, RREEF

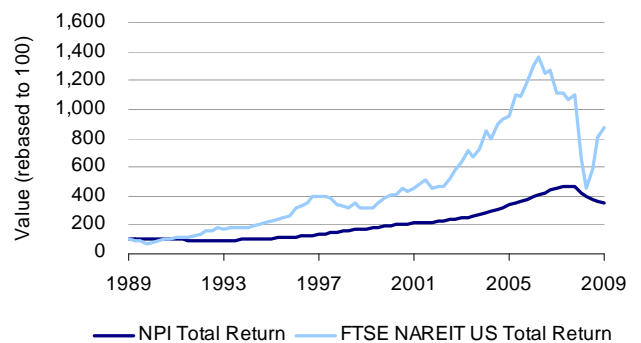
The volatility in US equity REITs relative to broader equity and fixed income benchmarks is presented in Exhibit 12. The volatility relative to private equity real estate returns is apparent in Exhibit 13.

Exhibit 12
US Total Returns Benchmark



Source: RREEF Research, Bloomberg

Exhibit 13
US FTSE NAREIT vs NCREIF NPI



Source: RREEF Research, NCREIF, Bloomberg

After falling by more than 40% during the first 9 weeks of 2009, the NAREIT Equity REIT index finished with a 28% total return for the year, outperforming the other benchmarks. By contrast, private real estate returns as measured by the NCREIF Property Index (NPI) fell by 16.8% in 2009. The public real estate markets saw a much quicker and sharper correction in share prices relative to the private markets, paralleling the pattern set back in the early 1990s. REIT share prices collapsed after the Lehman bankruptcy and implied cap rates for the most highly-

levered US REITs approached 11%. The rally in REIT share prices that commenced last March is well-ahead of any recovery in property-level fundamentals, however. The initial catalyst for the REIT recovery was stabilizing financial market conditions and the realization that the US financial system was not falling off a cliff. With a return in investor confidence and optimism, capital flowed back to risk assets, REITs included. As the healthier REITs began issuing new equity and raising debt capital, implied cap rates in the public markets came down even as the underlying net operating incomes (NOIs) deteriorated. In the US, the largest existing 20 companies are listed in Exhibit 14.

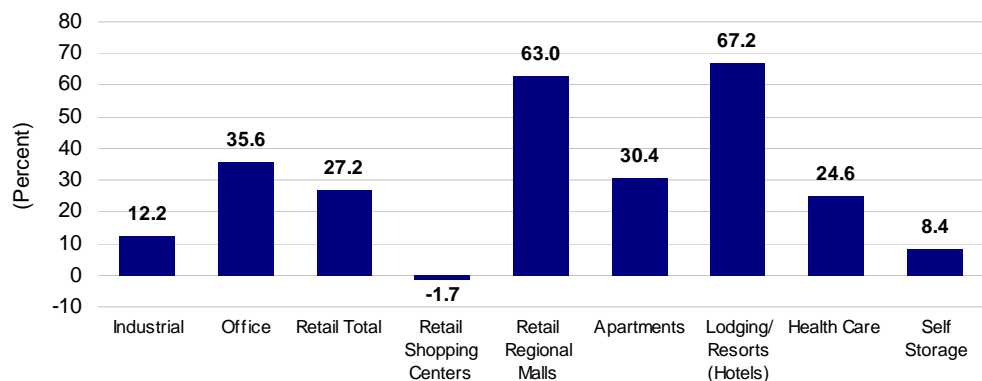
Exhibit 14
FTSE EPRA/NAREIT North America Developed Index - Top 20 Constituents

Company	Investment Focus	Sector	Country	Free Float Mkt Cap (EUR m) 12/31/09	Free Float North America (% Weight 12/31/09)
Simon Property Group	Rental	Retail	US	15,928	8.74
Vornado Realty Trust	Rental	Diversified	US	8,762	4.84
Public Storage	Rental	Self Storage	US	7,246	4.00
Equity Residential Properties	Rental	Residential	US	6,502	3.59
Boston Properties	Rental	Office	US	6,476	3.58
HCP	Rental	Health Care	US	6,239	3.44
Host Hotels & Resorts	Rental	Lodging/Resorts	US	5,009	2.77
Ventas	Rental	Health Care	US	4,771	2.63
AvalonBay Communities	Rental	Residential	US	4,660	2.57
Prologis	Non-Rental	Industrial	US	4,515	2.49
Health Care REIT	Rental	Health Care	US	3,800	2.10
Kimco Realty	Rental	Retail	US	3,789	2.09
Brookfield Properties	Rental	Office	US	3,195	1.76
Riocan Real Estate	Rental	Retail	US	3,169	1.75
Federal Realty Inv Trust	Rental	Retail	US	2,875	1.59
Nationwide Health Props	Rental	Health Care	US	2,752	1.52
SL Green Realty	Rental	Office	US	2,690	1.48
Digital Realty Trust	Rental	Specialty	US	2,659	1.47
AMB Property	Rental	Industrial	US	2,604	1.44
Liberty Property Trust	Rental	Office Mixed	US	2,491	1.38

Source: EPRA, as of December 31, 2009

The overall market performance in 2009 masks the varied performance of the REIT property sub-sectors. Exhibit 15 provides the sector returns for 2009. With a recovery in business and consumer confidence, the most pro-cyclical property sectors delivered the strongest returns.

Exhibit 15
2009 Year-end FTSE NAREIT Equity REIT Index - Performance by Sector



Source: NAREIT as of December 31, 2009, RREEF Research

The highly-volatile hotel sector was the top performer last year. The lodging sector reported a 67.2% total return in 2009. Hotels' short-term, daily leases and higher beta (sensitivity) to economic conditions drove the share prices higher. This was followed by regional malls which delivered a highly respectable 63.0% return. The laggards in 2009 were the defensive sectors such as self-storage, industrial, and healthcare. The retail shopping center sector was also hit by worries regarding the overleveraged US consumer and the deteriorating income profile of households. Office and apartments were average performers last year. Share prices of the more economically-sensitive REIT property sectors have discounted a recovery well-ahead of any actual improvement in NOIs as has been the historic pattern of the public sector in past cycles.

Going forward, the direction of economic growth and the state of the capital markets will be key drivers of the global securities market. Below is our house view regarding the outlook for the US economy, interest rates, and fundamentals across the four major property sectors.

- The Outlook for the US Economy:** For the US economic output growth, 2009 ended on a fairly strong note. The inventory cycle supported 5.9% real GDP growth during the fourth quarter of 2009. Export growth has resumed in view of the lower value of the dollar and stronger growth in the emerging markets. Job growth, however, a main determinant of real estate space use, continues to deteriorate, albeit at a slower pace. Despite the sharp retrenchment in economic growth, we do not see a sharp recovery as in past business cycles. Even though the financial sector has stabilized, credit conditions remain tight. Consumers are also under pressure, given the weak job market and declining housing and stock market wealth. We project the US economy to grow 2.6% in 2010, slow by historic standards.

Exhibit 16
Forecast Highlights: US Economy 2009–2011
 (Annual Percent Change, Unless Noted)

	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>
Real GDP	(2.4)	3.0	2.8	Consumer Price Inflation	(0.3)	1.9	1.7
Consumption	(0.6)	2.4	2.7	Payroll Employment Growth	(4.3)	(0.7)	1.5
Business Fixed Investment	(17.9)	1.5	7.2	Unemployment Rate (%)	9.3	9.9	9.3
Equipment & Software	(16.9)	9.8	12.6	Federal Funds (%)	0.2	0.2	1.7
Exports	(9.9)	9.7	6.3	Ten-Year Treasury (%)	3.3	3.8	4.0
Imports	(14.2)	10.3	7.5	30-Year Fixed Mortgage (%)	5.0	5.2	5.6

Source: Global Insight and RREEF Research, as of February 2010

- Inflation is not an immediate concern given the on-going deleveraging that is in process, but it has emerged as a key risk for the medium term. Headline inflation has turned higher given the rise in commodity and food prices. The Fed will be very cautious before raising rates, however, and will put off any rise in the fed funds rate until a recovery in jobs is well underway. Our expectation is that the Fed will begin hiking rates by the last quarter of 2010. While it may be too soon to call it a bear market in bonds, yields have reached their lows in this cycle.

- **US Property Market Fundamentals:** Since real estate lags the recovery in the economy, property market fundamentals are expected to deteriorate through 2010 before improving in 2011. Rent and occupancy declines are expected for all sectors in 2010, underpinning our outlook for weak fundamentals and pressures on NOI this year. Exhibit 17 presents RREEF's projections for US vacancy rates through 2014.

Exhibit 17
National Vacancy Rate Trends
As of December 31, 2009

	2007	2008	2009	Forecast				
				2010	2011	2012	2013	2014
Apartment	5.7%	6.7%	8.3%	8.6%	7.5%	6.2%	5.6%	5.5%
Industrial	9.4%	11.3%	14.0%	14.4%	13.4%	11.9%	10.8%	10.2%
Office	12.6%	14.0%	17.3%	18.5%	17.8%	15.9%	14.0%	13.1%
Retail	7.2%	8.7%	10.4%	10.9%	10.5%	9.8%	9.1%	8.3%

Note: Forecasts are of the market and not a RREEF product.

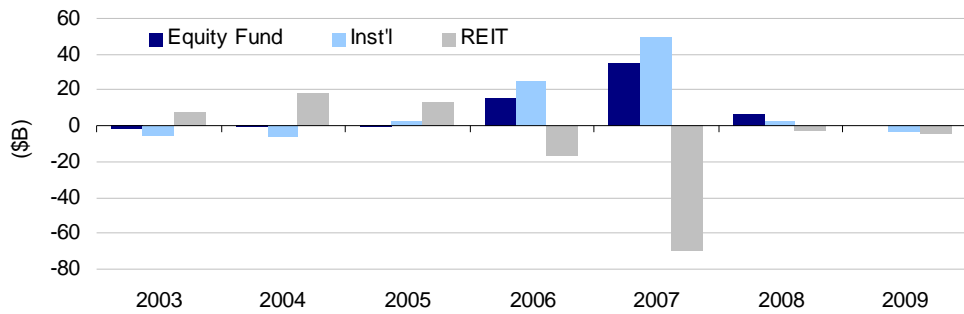
Source: REIS Reports, CBRE-EA, RREEF Research

The performance of fundamentals should vary by sector, however. Apartments, which were hammered by over 8 million job losses, should be the first property sector to recover. Vacancy rates are rising at a smaller rate than the other sectors, and most of the pain is concentrated in the overbuilt housing markets where excess supply is competing with rental units. After apartments, the industrial sector should deliver steady performance by the end of 2010 and 2011. Limited supply and drivers of warehouse demand such as a recovery in global trade, an inventory rebound, and higher high-tech output should strengthen demand for this property type and drive improving NOI. Retail and office will be harder hit. The retrenchment in the financial services industry does not bode well for the office sector near term. Retail is also tied to the US consumer, who will be trying to shore up depleted savings and continues to face a deteriorating income profile. Office absorption is likely to be hindered by underutilized shadow space that accumulated as companies shed employees, but not space. This has the potential of delaying recovery in this sector.

The recovery in the real estate market fundamentals may be two years away, but the public sector has already discounted that outcome. Markets are looking beyond the prospects for lower cash flows and higher capital costs (higher interest rates). At the same time, massive amounts of real estate loans mature over the next several years, and the CMBS market has yet not recovered but for the plain vanilla type of deals. In this capital-constrained environment, public companies are viewed as having better access to capital and therefore able to take advantage of buying opportunities over the next several years. Unlike their private counterparts, US REITs were also very selective in acquisitions over the past several years and were actually net sellers during the low cap rate period in 2006 and 2007. (Please refer to Exhibit 18.)

According to transactions data from RCA, between 2006 and 2009, the public sector has been a net seller of real estate assets. As a group, the public sector took advantage of elevated real estate valuations, especially in the peak year of 2007, to sell assets. Overall, US public companies did not try to compete for acquisitions late in the cap-rate compressed cycle against private opportunity funds, in particular.

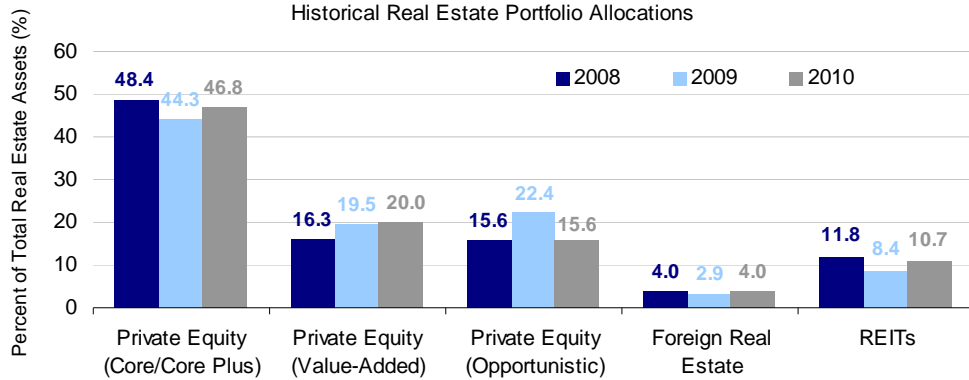
Exhibit 18
Acquisitions Less Dispositions



Source: RCA, RREEF Research, as of December 31, 2009

The stabilization in the capital and space markets in addition to the public companies access to debt and a better acquisition/disposition track record should increase capital flows to this sector in 2010. According to the latest Kingsley Plan survey, US institutional investors in real estate plan to increase allocations to REITs as a way of gaining an efficient exposure to real estate. (Please refer to Exhibit 19.) The survey does indicate a greater migration to the public markets after the poor performance of direct real estate over this cycle. Moreover, the higher liquidity of REITs had been underappreciated. REITs are a public vehicle that provides access to real estate. While REIT share prices have been pummeled during the onset of this crisis, especially in the US, REITs were able to maintain their liquidity and transparency. This will make them increasingly attractive to US institutional investors in 2010 and beyond.

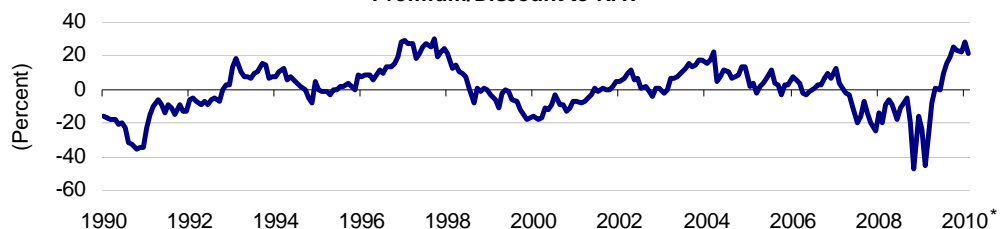
Exhibit 19
Investors Increase Targets to REITs
Historical Real Estate Portfolio Allocations



Source: CBRE, Institutional Real Estate, Inc. and Kingley Associates

Stronger balance sheets, a better acquisition track record, and a more sanguine outlook for economic growth favor the REIT sector and REIT share prices. Not surprisingly, REITs are currently trading at a modest premium to underlying NAV.

Exhibit 20
Premium/Discount to NAV



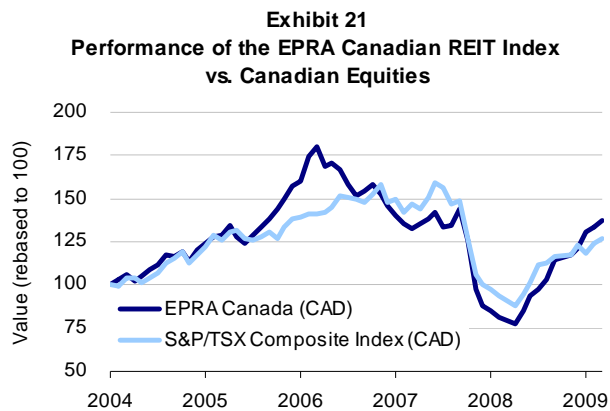
Source: Green Street and RREEF Research

*as of February 1, 2010

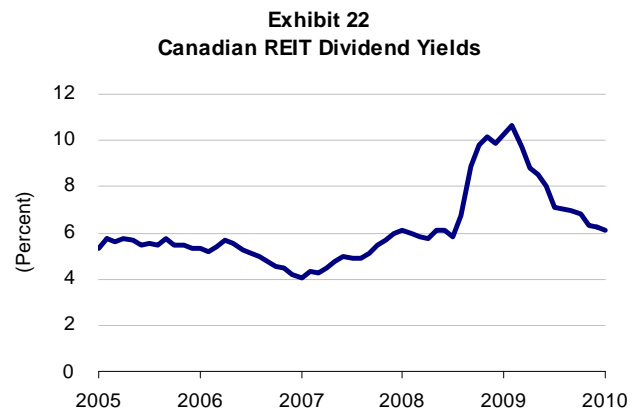
Canada

Although the Canadian REIT market represents a small fraction of the global REIT universe, its strong fundamentals and unique profile have raised its interest amongst equity investors. Unlike the US and its peers, Canadian REITs suffered less at the hands of the simultaneous housing, credit/financial and economic crises. Housing has surpassed prior peaks in terms of pricing, the credit crisis was short-lived, and the economy seems to be on a stronger footing, with jobs growth occurring quicker than in the US. Between February 2007 and March 2009, the peak-to-trough decline of the EPRA Canadian REIT index was 57%-- a severe drop but still not as tumultuous as other markets which experienced 75%+ drops (Exhibit 21). Since the market bottomed-out at the end of first quarter 2009, Canadian listed properties have gained 78% in value as of February 2010, outperforming the broader equity market.

The REIT market in Canada has been primarily driven by the thirst for yield coupled with positive capital markets fundamentals. High yields offered by listed real estate companies have garnered strong retail capital flows. Whereas other global real estate securities markets are dominated by institutional investors, retail investors comprise a significant share of the Canadian market. Currently, dividend yields are just above 6% (Exhibit 22) but have been as high as 10.7% a year ago.



Source: EPRA, Bloomberg, as of February 2010



Source: EPRA, as of February 2010

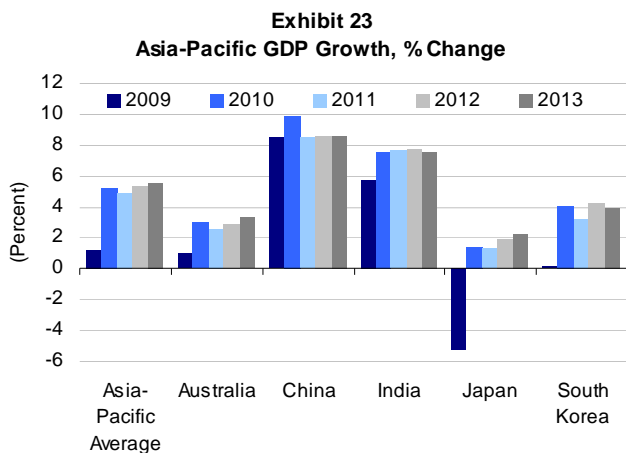
Additionally, attractively priced credit is providing support for both listed real estate valuations and private company valuations. The Canadian banking sector has remained fully intact and its ability to provide affordable capital to real estate is uncompromised. Whether on the secured or unsecured portion, debt capital availability has provided Canadian REITs the ability to raise both offensive and defensive capital.

Retail and multifamily property types, which comprise most of the listed property sector, should continue to benefit from Canada's anticipated modest recovery. Improving operating fundamentals and debt costs should also bolster the sector. While regulatory changes are underway to recast the broader income trust regulation which REITs are under, expected changes for most of the core REITs should be modest, if any.

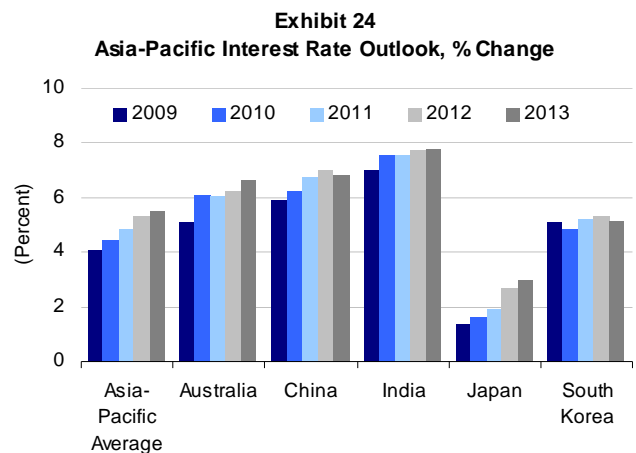
The Asia-Pacific Real Estate Securities Market

The Asia-Pacific region began to emerge from the global recession half way through 2009 as the slump in exports and investment confidence strengthened under the influence of massive government stimulus. Inflation, which peaked in the third quarter of 2008, bottomed over the summer of 2009 when nearly 10 Asian countries experienced outright deflation. This disinflationary trend, however, appears to have ended as several countries saw inflation pick up towards the end of 2009. Regional inflation is expected to remain near 1.5% in 2010 and only crossing 2.0% in 2011. Meanwhile, regional GDP growth is expected to reach an average of 5.2% in 2010 and 4.9% in 2011 (Exhibit 23). In the near term, the region remains vulnerable to a relapse led by a global withdrawal of aggressive monetary and fiscal policies.

The excessive liquidity brought about by monetary easing has led to concerns over whether asset prices in the region have been over-inflated. Apprehension over asset price bubbles has led a number of Asian countries to adjust their monetary policies and impose measures to tighten property lending last year. Going forward, we expect to see a gradual tightening cycle as policymakers seek to maintain a balance between providing support to the market and keeping asset prices under control (Exhibit 24).



Source: Global Insight, RREEF Research, February 2010



Source: Global Insight, RREEF Research, February 2010

The public REIT model has evolved to become an increasingly accepted vehicle for accessing core property in the Asia-Pacific region over the past few years. Consequently, REIT legislation, which has an impact on the liquidity position of REITs such as gearing restrictions, management of capital structure and distribution requirements, has been developing in the emerging Asian market. Exhibit 25 shows an overview of Asian REIT legislations. Looking forward, it will be interesting to see how the REIT regimes in Asia will evolve to capitalize on the growing market through developing incentives for converting to REITs, launching new REITs and changing the costs and barriers associated with the organic growth of REITs. Additionally, the tax treatment of distributions to non-resident investors will be a key differentiating factor between building national REIT regimes and regimes that can attract global investment.

Exhibit 25
Select Asia-Pacific REIT Legislation Overview

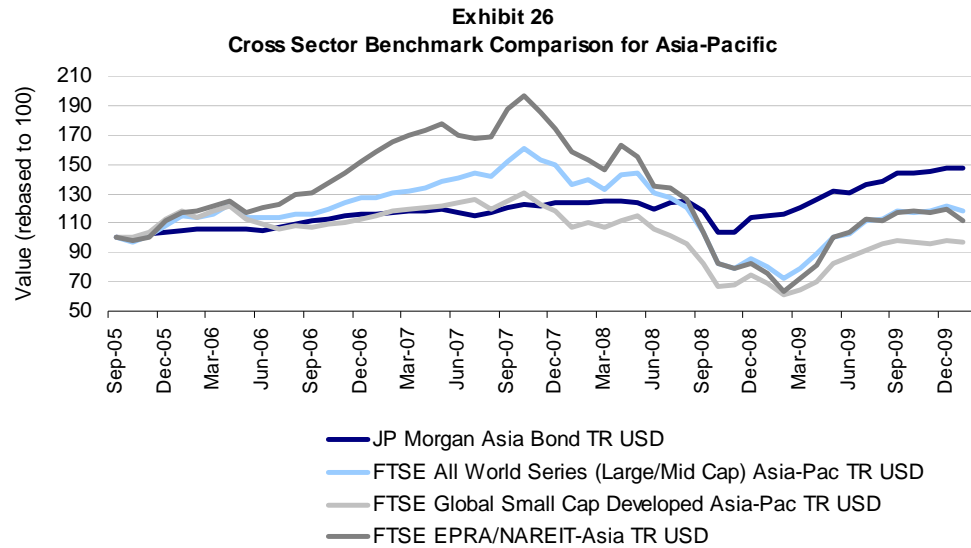
	JAPAN	SINGAPORE	HONG KONG	SOUTH KOREA	TAIWAN	THAILAND	MALAYSIA	AUSTRALIA
Structure	Trust or corporate (listed REITs are all corporations)	Collective investment scheme (Unit trust) or corporate	Unit trust	Corporate-Restructuring, Entrusted Management, Development-Specialised, Self-Managed	Trust (Real estate asset trust or investment trust)	Closed-end mutual fund	Unit trust	Unit trust
Management Structure	External	External	Internal/External	Internal/External	Internal/External	External	External	Internal/External
% Invested in Real Estate	For listed J-REIT, at least 75% of assets must be invested in real estate	At least 70% of deposited property should be invested in real estate or real estate-related assets	Only invest in real estate	At least 70% in real estates or corporate restructuring related properties	Cash, government bonds, property, property-related rights, beneficiary securities or ABS issued under Real Estate Securitization Act/ Financial Asset Securitization Act (RESA/ FASA) must form at least 75% of the NAV	Must invest at least 75% of NAV in property	At least 50% of a fund's total asset value must be invested in real estate and/or single-purpose companies at all times	No minimum. Investment should be primarily in real estate to derive passive rent.
Geographical Restrictions	No restriction under the Investment Trust and Investment Company Act, but no overseas acquisitions have been made as the requirements on real estate appraisal of overseas properties are ambiguous	None	None	None	No restriction under the RESA; subject to approval	Thailand only	No restriction basically, subject to approval from SC and relevant authorities	None
Property Development	Restricted – at least 50% of total assets are income producing and unlikely be sold within one year	Property developments and investments in uncompleted projects should not exceed 10%	Prohibited, but H-REIT may acquire uncompleted units comprising less than 10% NAV	Allow	Allow for urban renewal, infrastructure or public amenities construction; investments should not exceed 30% of NAV	May acquire properties over 80% completed but prohibited to invest in dormant land (for PFPO)	Prohibited, but may enter into conditional forward purchase agreement	2008/2009 government introduced a new rule allowing for a 25% safe-harbour investment allowance for non-rental, non-trading income from investments in land.
Leverage	No restriction	Over 35% of total assets permitted with disclosed credit rating (capped at 60%)	Capped at 45% of gross asset value	REITs are permitted to have exceptional borrowing up to 1000% of equity capital, upon special approval of shareholders	Ratings of twAA or above by two credit rating agencies: 50%; ratings of twA or above: 35%; those with credit ratings: 25%	Not more than 10% of NAV	50% of total asset value (revised from 35%)	Unlimited, subject to general thin capitalization rules
Dividend Payout	At least 90% of distributable income to qualify for tax deduction	At least 90% so as to enjoy exemption from paying corporate tax	At least 90% of annual net income after tax	At least 90%	At least 90% of distributable income	At least 90% of net profits	Not specified in the M-REIT guideline	Typical distribution of 100% of trust's income as defined in the trust's constitution

Source: RREEF Research and CBRE, 2010

Asian stock and bond prices plunged in late 2008 as headwinds facing the Asian economies appeared to strengthen. Many of Asia's markets suffered greater losses compared to the West during the sell-off of 2008. Luckily, unprecedented government stimulus measures and a quicker resumption of economic growth sent investors back to the region en masse a few months after. With far less debt than their Western counterparts, Asian banks, corporations and consumers were able to spend and invest more. The Asian markets rebounded strongly in the second and third quarters of 2009. With the exception of Japan, stock markets in Asia rocketed after touching lows in March, with some gaining 70 percent or more for the year.

Similarly, the Asian real estate securities market also suffered a difficult period beginning in 2008. Following the bankruptcy of New City Residence in October 2008, investors became concerned about debt refinancing of Asian REITs, particularly for REITs in Japan and Singapore. Some highly levered Asian REITs experienced more than 80% price declines. As the recession evolved, Asian real estate securities profits were pressured by declining rentals and a thinning of tenants. Conditions began to ease beginning with the second quarter 2009, however, following government injections of capital into the banking system (Exhibit 26). The

easing of credit conditions spurred re-financing activity amongst large Asian REITs which were in better financial condition while banks voluntarily agreed to defer refinancing for a number of small REITs. Most Asian REITs thus managed to survive the credit crunch, and market sentiment has shifted from panic to cautious optimism. Asian real estate securities outperformed broader Asian equity indices last year. At a ten year time frame, the FTSE EPRA/NAREIT Asia index returned 7.5% compared to 1.8% for the Asian Mid-Large Cap index.



Source: RREEF Research, Bloomberg

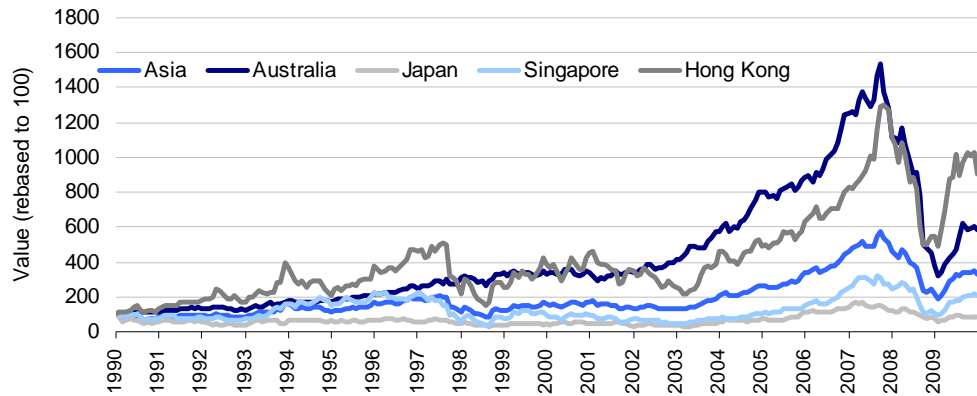
A year and a half since the global financial collapse, the Asian real estate securities market is holding up rather well compared to their peers in Europe and the United States. The FTSE EPRA/NAREIT Asia index recorded a 43.4% gain for 2009 compared to 38.4% for the FTSE EPRA/NAREIT Developed (Global) index. Generally speaking, there were three distinct periods of performance for Asian real estate securities last year – decline in the first quarter, strong gains in the second and third quarter, and broad consolidation in the fourth quarter.

Within the region, the FTSE EPRA/NAREIT Hong Kong and Singapore real estate securities provided the strongest returns in 2009 at 88.7% and 82.6% respectively (Exhibit 27). Hong Kong real estate securities rose from an influx of capital from China and an improving economic outlook. Specifically, the FTSE EPRA/NAREIT Hong Kong REITs index rose 64.6%. Real estate securities in Singapore buoyed amid rising residential transaction volume and improving fundamentals. Last year, the Monetary Authority of Singapore (MAS) offered to assist S-REITs in the refinancing of maturing debt in light of the financial crisis. MAS stated that any refinancing of existing debt by REITs would not be construed as incurring additional borrowings which permitted REITs to refinance earlier than the actual maturity date. The government's support for S-REITs led to a recovery in bank lending to the sector in the second half of the year. The FTSE EPRA/NAREIT Singapore REITs index rose 84.4% in 2009.

The FTSE EPRA/NAREIT Asia index was held back by a modest 1.4% return from Japanese real estate securities in 2009. Specifically, the FTSE EPRA/NAREIT Japan REITs index declined 6.8% last year. The J-REITs declined in early 2009 due to bankruptcy concerns. Like Singapore, the Japanese government also sought to create a market safety net to ensure that J-REITs were able to obtain sufficient financing. The government improved lending capacity and additional capital to J-REITs by providing additional funding to the Development Bank and Shareholding Purchase Corporation. Soon after, the Japanese credit market began to thaw and borrowers with adequate credit quality were able to access the loan market. Looking forward, there may be consolidation in the J-REIT sector amid regulatory changes on taxation

of M&A transactions, and stake acquisitions in addition to falling property prices. The FTSE EPRA/NAREIT Australia index gained 33.3% in 2009, strengthening in the wake of recapitalizations leading the trend for UK and US real estate securities. Similarly, the FTSE EPRA/NAREIT Australia REITs index improved 33.4% last year. Australian real estate securities also benefited from improving fundamentals as the economy turned a positive corner sooner than expected.

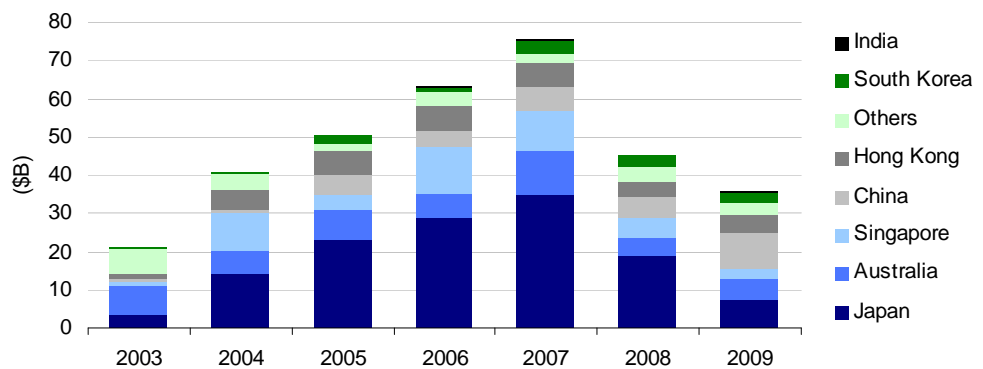
Exhibit 27
Asia-Pacific FTSE EPRA/NAREIT Indices Performance



Source: RREEF Research, Bloomberg, FTSE EPRA/NAREIT Total Return USD Series

Looking at the Asian Commercial Property sales volume over the past few years, it is clear that a majority of transactions have taken place in Japan (Exhibit 28). However, when land-auction deals are taken into account, China becomes the dominant player. The massive stimulus plan announced by Beijing in 2008, which included a splurge of new state-directed lending by the big banks sparked a revival of land and property purchases in China last year. Market momentum in China is unlikely to run out of steam anytime soon, barring a government clamp down.

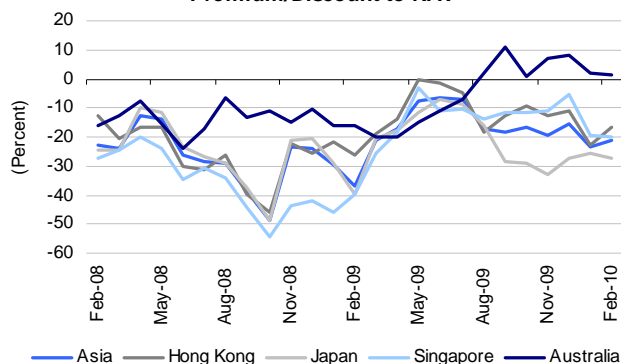
Exhibit 28
Asia-Pacific Commercial Property Sales, 2003-2009



Source: RREEF Research

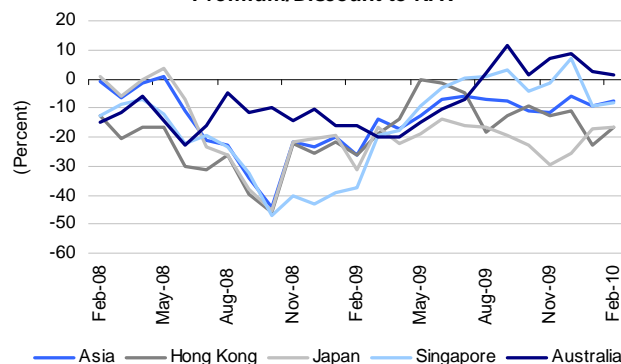
As of December 31, 2009, the majority of the FTSE EPRA/NAREIT Asian real estate securities indices were still trading at a discount to underlying NAV (Exhibit 29a). Many of the Asian REITs indices however, were trading at a premium (Exhibit 29b). The FTSE EPRA Hong Kong REITs Index was buoyed by a sharp rise in Link REITs. Since the end of last year however, Asian real estate securities on the whole have fallen due to concerns regarding stimulus withdrawal in China. China unexpectedly raised reserve requirements for banks recently, indicating that credit tightening might arrive sooner than previously expected.

Exhibit 29a
FTSE EPRA/NAREIT Developed Asia Indices
Premium/Discount to NAV



Source: RREEF Real Estate Securities

Exhibit 29b
FTSE EPRA/NAREIT Developed Asia REIT Indices
Premium/Discount to NAV



Source: RREEF Real Estate Securities

In term of its composition, the Asia Real Estate Securities market continues to be dominated by Hong Kong listed firms, followed by Australian and Japanese firms. The top 20 constituents of the FTSE EPRA/NAREIT Asia index, which includes Australia, are listed in Exhibit 30 below. As of the end of last year, the largest three constituents represent nearly a quarter of the index.

Exhibit 30
FTSE EPRA/NAREIT Asia Developed Index - Top 20 Constituents

Company	Investment Focus	Sector	Country	Free Float Mkt Cap (EUR m) 12/31/09	Free Float Asia (%) Weight 12/31/09
Sun Hung Kai Properties	Non-Rental	Diversified	HK	20,105	10.78
Westfield Group	Rental	Retail	AU	18,140	9.72
Mitsubishi Estate	Non-Rental	Diversified	JP	11,539	6.19
Mitsui Fudosan	Non-Rental	Diversified	JP	10,281	5.51
Capitaland	Non-Rental	Diversified	SG	6,612	3.54
Sumitomo Realty & Dev	Non-Rental	Diversified	JP	6,198	3.32
China Overseas Land	Non-Rental	Residential	HK	6,018	3.23
Stockland Trust Group	Non-Rental	Diversified	AU	5,900	3.16
Hongkong Land Hldgs	Rental	Office	HK	5,820	3.12
Hang Lung Properties	Non-Rental	Diversified	HK	5,697	3.05
Henderson Land Dev	Non-Rental	Diversified	HK	5,635	3.02
Wharf Holdings	Non-Rental	Diversified	HK	5,535	2.97
New World Development	Non-Rental	Diversified	HK	4,145	2.22
City Developments	Non-Rental	Diversified	SG	3,914	2.10
Link REIT	Rental	Retail	HK	3,885	2.08
GPT Group	Rental	Diversified	AU	3,518	1.89
Sino Land	Non-Rental	Diversified	HK	3,266	1.75
China Resources Land	Non-Rental	Residential	HK	2,990	1.60
Nippon Building Fund	Rental	Office	JP	2,865	1.54
Mirvac Group	Non-Rental	Diversified	AU	2,761	1.48

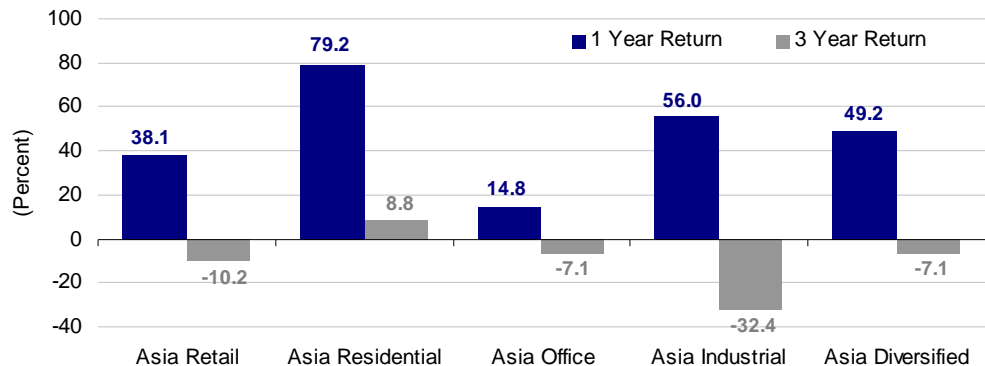
Source: EPRA, as of December 31, 2009

The Asian property leasing market showed signs of approaching the bottom in third quarter of 2009. Low interest rates stimulated real estate investment in the region and signs of rental improvement appeared across several market sectors. Exhibit 31 shows real estate securities sector-level performance for the Asia-Pacific region.

Declines in the unemployment rate for the Asia region indicate that the regional office market was close to a bottom in fourth quarter of 2009. The employment market stabilized as companies in the region began rehiring staff in light of improving economic prospects. Historically, office vacancy has trailed closely behind the unemployment rate for many Asian developed economies. The Asia real estate securities office sector returned 14.8% in 2009, the lowest among all sectors. From a three year perspective, the sector is still down 7.1%. The key retail markets in Asia either saw an uptick or a reduced rate of decline in the second half of 2009. The regional retail sector has improved on the back of rising consumer confidence and revival of the stock market. Policy interventions implemented by Asian governments have also been successful in supporting domestic consumption. The sector returned 38.1% last year. Specifically, mass market chains and the fashion and food retailers continue to dominate leasing activity.

While the industrial sector showed a 56.0% return last year, leasing activity for industrial properties remained sluggish for most of 2009. Many industrial property occupiers remained conservative regarding real estate expenses for the year despite a rise in export volume. On the upside, many Asian cities have already seen a pause in industrial rental declines. Despite a substantial recovery last year, the sector is still down 32.4% at a three year time frame. This sector shows the most volatility among all sectors over the same time period. The Asia residential market was clearly the top performer last year showing a 79.2% return. Easy access to lending facilities and low financing costs led to a strong resurgence in the second half of last year. Concern over risks associated with potential over-investment in the region however, has led several Asian governments to take steps to restrain the market in the near-term.

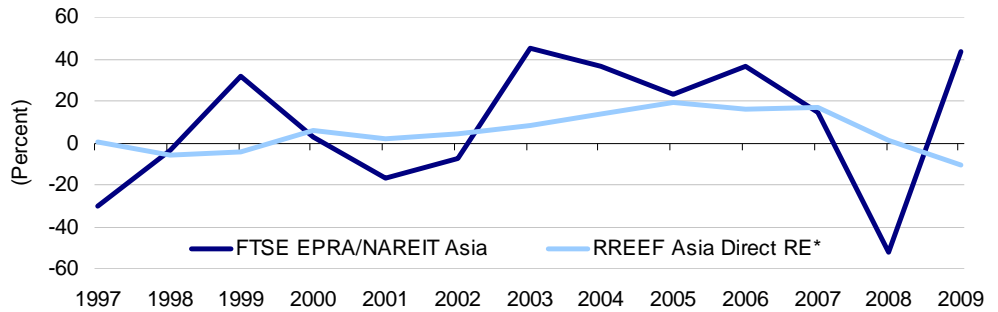
Exhibit 31
2009 Year-End FTSE EPRA/NAREIT Asia Performance by Sector



Source: FTSE EPRA/NAREIT TR USD as of December 31, 2009

Exhibit 32 compares the change in annual total return for public and direct real estate investments in the Asia-Pacific region. In 2009, the FTSE EPRA/NAREIT-Asia index returned 43.4% and based on our estimate, the Asia direct real estate market index returned -10.3%. At a three year time frame however, the Asia direct real estate index leads at -6.0% while Asia real estate securities index delivers a return of -7.9%. As expected, the listed property index appears more volatile because it is priced daily to the market. Often times listed property can act as an indicator on the directionality of direct property markets as real estate securities liquidity allows for greater pricing transparency and faster information transfer than less-liquid direct markets. Based on this assumption, the upswing seen in the Asia-Pacific listed market in 2009 may suggest that the Asia-Pacific direct market should be on an upward path over the coming quarters.

Exhibit 32
Asia Real Estate Securities vs Asia Direct Real Estate Returns
 (Annual total return, YOY% change)



*Note: Asia Direct Total Returns is constructed as the aggregate market performance weighted by market size for Australia, China, Hong Kong, Japan, New Zealand, South Korea, and Singapore.²

Source: RREEF Research, Bloomberg, IPD

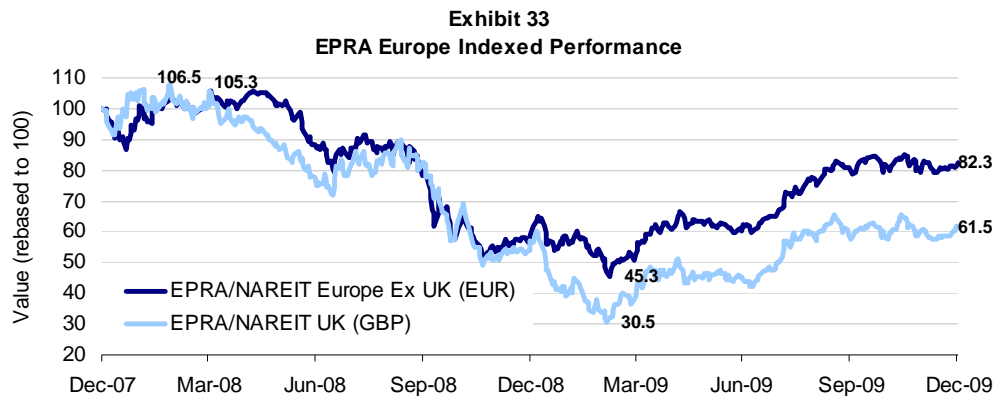
The worst is likely over for the Asian real estate market. While there is still a large amount of debt sitting on the balance sheets of Asian REITs, refinancing risk has eased. Many Asian REITs will continue to focus on reducing financial leverage, especially for those with assets which have experienced a deep price correction that may lead to potential breach in LTV ratio covenants. While we expect the market's large oscillations over the last two years to dampen somewhat, volatility in Asian real estate securities pricing is likely to remain elevated in the short to mid-term.

² Due to differences in the length of the time series for the individual countries' total returns, RREEF Research has back-cast some of them to 1990. The countries for which their series have been back-cast are: Japan and South Korea. RREEF have also constructed all-property return series for China, Hong Kong and Singapore.

European Real Estate Securities Market Overview

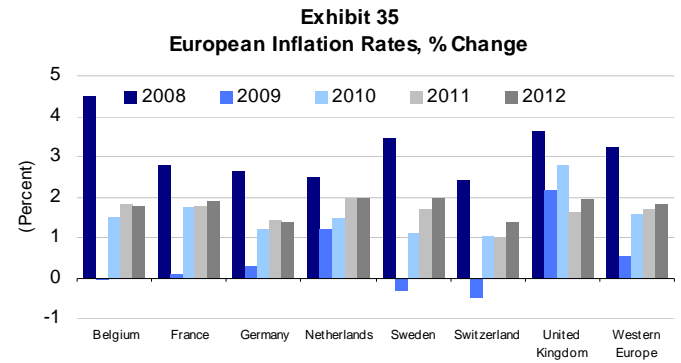
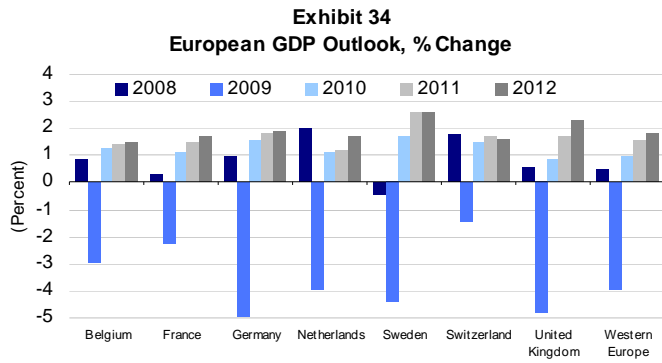
The European real estate securities market has evolved along similar themes this past year as both the North American and Asian markets. Beginning with the credit crisis in 2007, European REITs experienced unprecedented devaluation and a loss in confidence. Broader equity market contagion, the crash of the real estate market, widespread economic recession and deterioration in credit markets all took a toll on the sector which suffered a peak-to-trough decline of 57% between March 2007 and March 2009 in Continental Europe and a decline of 72% in the UK (Exhibit 33). The UK market fell more dramatically as values were loftier at the peak. Going into the downturn, European REITs were trading at a premium to NAV and were due for a correction; however, the severity at which stocks were battered rattled even the most seasoned investors.

Since the market bottomed out during the first quarter of 2009, European REITs have started to resurge. Sentiment towards the asset class is improving, and REITs have become a leading indicator of the recovery in property markets. Investors have shifted their strategies towards dividend producing stocks backed by quality assets. Transparency, liquidity, operational efficiency and corporate governance have also become key considerations for investors bringing them back to REITs. Notwithstanding these positive developments in the market, investors should note that REITs remain exceedingly volatile and are highly correlated with equities.



Source: EPRA, as of February 2010

Improving economic and capital market fundamentals have set the framework for the positive turn of events for European REITs. To begin with, Western European economies are finally emerging from recession (Exhibit 34). The recovery has been led by Germany, France and Portugal and followed by Italy, the Netherlands, Belgium, and Austria. Accommodative fiscal and monetary policies by the European Central Bank and Bank of England are also propping the region. Lending standards are improving and should continue to do so as recapitalized banks are in a better position to provide loans. Balance sheets have been shored-up and the pain of asset write-downs is over. Although many banks may become reluctant to carry high property exposure, for the most part they are still willing to provide credit for well capitalized REITs.



Europe's economy is not without its downside risks though. Lingering financial sector problems, significant unemployment and pressures on governments (especially Portugal, Italy, Ireland, Greece, and Spain) to reduce public deficits all pose a threat to the longer-term outlook. Recessions in Spain (which has a nascent REIT market) and Ireland will extend into 2010 because of the severity of their housing market crashes. There is also mounting concern over how monetary and fiscal policies will be managed going forward and what will happen once they are eventually unwound. So far, the ECB and BOE are expected to retain these policies in the near-term in order to fuel economic growth but the exit strategies for such measures are still to be reckoned with. Once quantitative easing ends, there is a threat of Europe enduring a double-dip recession.

In terms of its composition, the European REIT market continues to be dominated by UK listed firms followed by French firms. Combined, their 37 companies comprise two-thirds of market cap of EPRA listed real estate. REIT legislation is improving, although most European nations only have a handful of REITs. The hazard of this is that national REIT performance trends become attributable to less than half a dozen REITs as in the case of Norway, Austria, Italy, Finland, Greece and Switzerland. The table below outlines the top 20 constituents of the EPRA European REIT Index.

Exhibit 36
FTSE EPRA/NAREIT Europe Developed Index - Top 20 Constituents

Company	Investment Focus	Sector	Country	Free Float Mkt Cap (EUR m) 12/31/09	Free Float Europe (%) Weight 12/31/09
Unibail Rodamco	Rental	Diversified	FR	13,572	17.34
Land Securities	Rental	Diversified	UK	5,828	7.45
British Land	Rental	Diversified	UK	4,666	5.96
Corio	Rental	Retail	NL	3,642	4.65
Liberty International	Rental	Retail	UK	3,604	4.61
Hammerson	Rental	Retail	UK	3,326	4.25
SEGRO	Rental	Industrial	UK	2,848	3.64
Klepierre	Rental	Retail	FR	2,508	3.21
Fonciere des Regions	Rental	Diversified	FR	2,494	3.19
PSP Swiss Property	Rental	Office	CH	1,850	2.36
Swiss Prime Site	Rental	Office	CH	1,562	2.00
Derwent London	Rental	Office	UK	1,494	1.91
Gecina	Rental	Diversified	FR	1,422	1.82
Wereldhave	Rental	Diversified	NL	1,419	1.81
Icade	Rental	Diversified	FR	1,313	1.68
Cofinimmo	Rental	Diversified	BE	1,228	1.57
Castellum	Rental	Diversified	SE	1,161	1.48
Mercialys	Rental	Retail	FR	1,110	1.42
Silic	Rental	Office	FR	1,105	1.41
Befimmo	Rental	Office	BE	1,038	1.33

Source: EPRA, as of December 31, 2009

Pricing for European REITs has hinged on balance sheet strength. Public companies have benefited from a recapitalization of their balance sheets through issuance of new equity, delevering, retaining cash, and sales. According to DTZ, Europe's property companies have sold over €8.5 billion of assets in 2009, with an additional €5 billion raised through rights issues to support their balance sheets. This sell-off activity appears to be heading towards a slow-down now as many REITs are in acquisition mode. REITs are looking to expand their portfolio by acquiring existing assets and reviving their development pipeline. Opportunities are in place to take over distressed assets via banks, CMBS and loan markets. The table below outlines REIT M&A activity in 2009 for developed European nations.

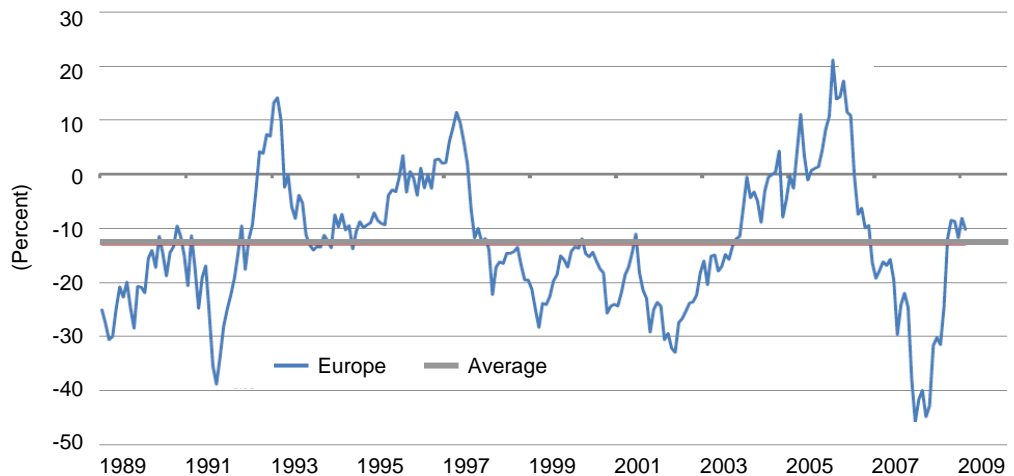
Exhibit 37
FTSE EPRA/NAREIT Developed Europe Index (billion EUR)

Total Transaction Volume	Q1	Q2	Q3	Q4	FY	YTD
	2.85	3.10	3.46	5.90	15.31	33.6% of Global EPRA transaction volume*
SELL	2.37	2.28	3.13	3.94	11.72	69.9% of Regional EPRA transaction volume
BUY	0.51	0.88	1.55	2.12	5.06	30.1% of Regional EPRA transaction volume
Net	<i>sellers</i>	<i>sellers</i>	<i>sellers</i>	<i>sellers</i>	<i>sellers</i>	
	1.86	1.40	1.58	1.83	6.67	

Source: EPRA, December 2009

Currently, REITs comprising the EPRA European Index are trading at a discount to published NAV of -10% (as of 1/31/10), just above the 20-year historical average of -13% (Exhibit 38). At its lowest point in 2008, the weighted average discount to NAV of the index was -46%. Two years earlier, the index was trading at a 21% premium to NAV. Across regions, Austria (-53%), Germany (-40%), Greece (-47%) and Italy (-42%) are all trading at heavily discounted prices to NAV. While Belgium (-1%), Norway (-1%) and the UK (0%) are trading just below or at parity to NAV. It is important to note these discount figures are against historic NAV. The UK currently trades at a premium to historic NAV, but at a discount to spot or future NAV, as values have recovered but are not yet in the published NAV. By property type, residential REITs have the largest discount to published NAVs (-46%) in Europe. The sector is still undergoing corrections after trading at more than an 80% premium to NAV in 2007. Retail and office properties only show a slight discount (-5%) to NAV while industrial and diversified REITs are trading at between -10% to -13% of NAV.

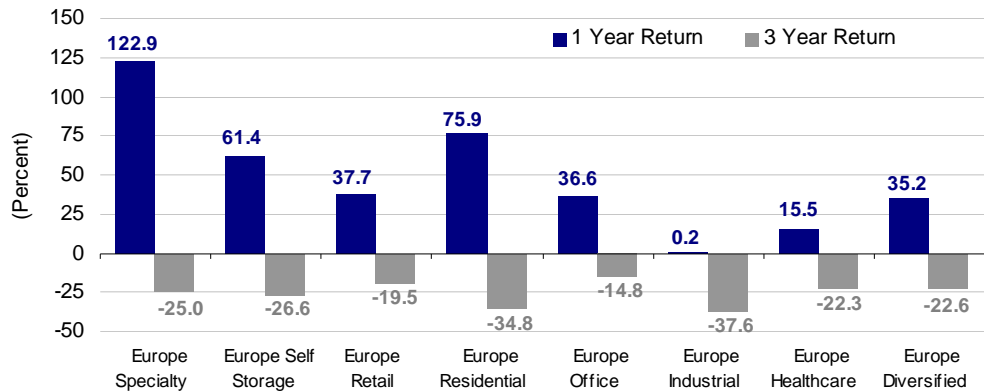
Exhibit 38
FTSE EPRA/NAREIT Europe Index Discount to Published NAV



Source: EPRA, January 2010

In terms of gross total returns, almost all sectors had robust returns over the past year with specialty real estate posting the most significant gains (123%) (Exhibit 39). Residential and self-storage were also out-performers achieving 1-year returns of 76% and 61%, respectively. REIT prices, having fallen to such low levels in the first quarter of 2009, had very little alternative but to go up as the bull market in Europe took hold. The only exception to this was industrial securities. The drop-off in industrial production and consumer demand led to a stalled performance of industrial REITs, producing a 1-year return of 0%. The three year returns remain negative across property types indicating that the gains in 2009 were not enough to off-set losses in 2007 and 2008.

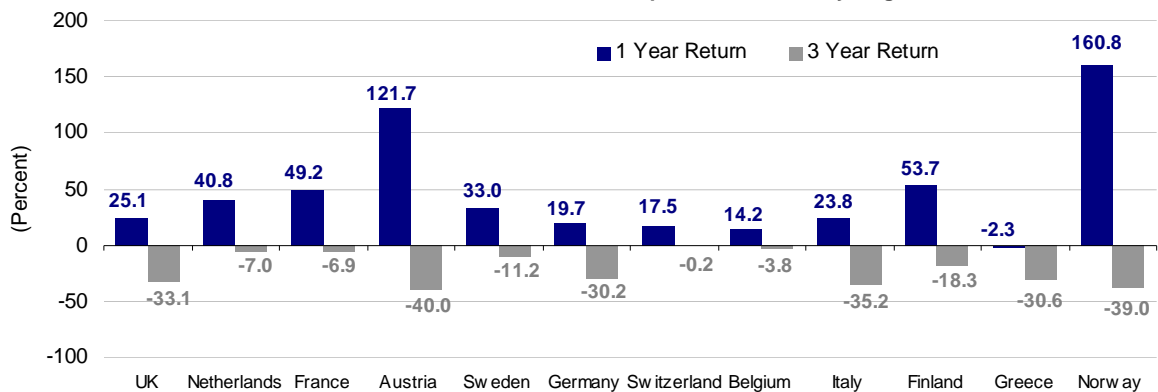
Exhibit 39
2009 Year-End FTSE EPRA/NAREIT Europe Performance by Sector



Source: EPRA, as of January 2010

All regions, except for Greece, have also had solid performance this year with Austria and Norway surpassing 100% returns. Greek REITs continue to be sold off due to sovereign debt concerns. Since the sample sizes for individual country REITs in the EPRA index tend to be so small, results are for illustrative, not comparative, purposes.

Exhibit 40
2009 Year-End FTSE EPRA/NAREIT Europe Performance by Region

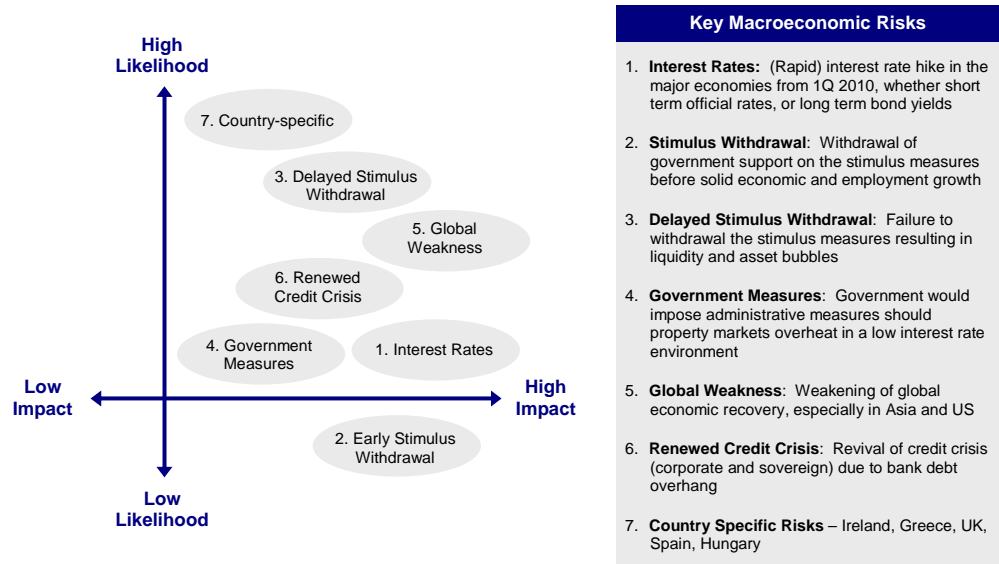


Source: EPRA, as of January 2010

Despite the recent rally in European real estate securities, a number of key risks face the sector whose outcomes will ultimately determine the performance of the asset class. Looking forward, we expect European REITs to return 8% for 2010 and remain roughly the same for a five year and ten year time-frame. These return estimates are lower than the other regions and reflect the following uncertainties.

As previously mentioned, the economic situation in Europe is still precarious. Although 2009 was indeed a recovery year for the region, further economic weakness is still a lingering possibility. Most nations should experience annual GDP growth of 1% to 3% between 2010 and 2012; however, these projections could be sidelined by stimulus withdrawal, rising interest rates and inflation (Exhibit 41). The resolution of debt burdens is also a paramount concern as fiscal deficits have impacted sovereign risk ratings and led to unrest in nations such as Greece and Spain.

Exhibit 41
Key Macroeconomic Risks Affecting Real Estate



Source: RREEF Research, March 2010

As for real estate fundamentals, weak growth is leading to rising vacancies and a deep and prolonged correction in rents, particularly across European office markets. Although industrial and retail rents are holding up better than offices, they are impacted more severely than in previous cycles. Across most of Europe, rental growth will remain negative in 2010 and 2011 but this will be followed by solid recovery, particularly for offices. The UK office market has already experienced rental rate growth and its bounce back could be very strong. On a positive note, real estate capital markets have started improving ahead of the rental markets, with most markets already reaching a trough and a number experiencing cap rate compression. A range of investors have returned to the market and these are set to drive cap rate compression this year and next. Cap rates will likely hold up in the medium-term due to rising inflationary pressures and bond yields.

Finally, there is still a lot of apprehension affecting the broader equity market which will have an impact on European listed property. Any indication of the negative risk factors already cited will weaken stocks, regardless of fundamental pricing. Real estate stocks appear to be close to fair value but is that enough to attract investor's attention vis-à-vis other equities?

There will likely be significant variations across markets in path towards recovery. Some regions/property types may falter while others thrive. REIT investors should note that these variations generally reflect the historic behavior of individual markets. Investors should also consider strategies that take advantage of distress and the reversal in values. Finally, investors are likely to benefit from pursuing securities in non-cyclical, defensive sectors such as health-care and student accommodation that are more stable and recession-proof.

Conclusions and Implications for Investors

The global securitized real estate market rebounded strongly in 2009, outpacing the broader equity and fixed income benchmarks. Regional performance varied substantially last year. Looking forward, we expect some divergence in returns across the Americas, Asia, Australia, and Europe, driven by underlying differences in fundamentals and macroeconomic trends. Exhibit 42 provides our estimates for total returns on a global and regional basis for a 1, 5 and 10 year time period.

Exhibit 42
Forecast Highlights: Global and Regional REIT Performance in 2010 and Beyond

	Global	Americas (US)	Europe	Asia	Australia
1 Year Annualized Expected Returns	13%	10%	8%	20%	11%
5 Year Annualized Expected Returns	12%	11%	8%	14%	12%
10 Year Annualized Expected Returns	10%	9%	8%	12%	10%

Source: RREEF Securities, February 2010

The return estimates reflect our in-house assessment of actual and warranted NAV premiums/discounts, NAV and earnings growth, multiple compression/expansion, and the outlook for dividends. In essence we incorporate a view of the fundamentals of the market as well as capital market assumptions by region. This year, Asia should outperform all regions. Based on our view of the fundamentals and macroeconomic drivers supporting local real estate market dynamics, Asian emerging markets are expected to outperform the more advanced economies. The spread differential is also a reflection of a higher risk premia for the Asian markets. On a ten-year basis, returns spreads should compress somewhat on a regional basis. Over the next ten years, total REIT returns on a global basis should average 10% per year on a risk-adjusted basis.

Accessing the fast-growing Asian markets has been challenging for many core-oriented real estate investors. Public real estate securities can provide investors an efficient method to gain exposure to Asian emerging markets. For real estate investors, the higher degree of volatility associated with such markets has made implementation of a global strategy hard to execute. There are few available global real estate investment vehicles for achieving core-type returns. Going forward, investors that seek core-type real estate returns across a globally diversified portfolio should implement at least some portion of their allocation to real estate securities.

Despite the enhanced volatility of REITs during the credit crisis, we expected mounting capital flows to the sector in 2010 and beyond. Real estate securities are real estate over the long run but have public-market liquidity and pricing transparency, characteristics that have been taken for granted for a very long time.

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Main Offices

Frankfurt

Alfred-Herrhausen-Allee 16-24
65760 Eschborn
Tel: +49 69 71704 906

Hong Kong

48/F Cheung Kong Centre
2 Queen's Road Central
Hong Kong
Tel: +852 2203 8888

London

1 Appold Street
Broadgate
London
EC2A 2UU
United Kingdom
Tel: +44 20 7545 8000

New York

280 Park Avenue
23W Floor
New York
NY10017-1270
United States
Tel: +1 212 454 3900

San Francisco

101 California Street
26th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Tokyo

Floor 17
Sanno Park Tower
2-11-1 Nagata-cho
Chiyoda-Ku
Japan
Tel: +81 3 5156 6000

RREEF Research

Peter Hobbs
Head of EMEA Research
+44 20 7547 4855

Asieh Mansour
Head of Americas Research
+1 415 262 2044

Europe

Maren Väth
Vice President
+49 69 717 04 466

Justin Curlow
Assistant Vice President
+44 20 7545 9682

Jarek Morawski
Assistant Vice President
+49 69 717 04 204

Asia Pacific

Tan Yen Keng
Vice President
+852 2203 8062

Koichiro Obu
Vice President
+81 3 5156 6522

Henry (Wei) Chin
Vice President
+852 2203 7908

North America

Alan Billingsley
Director
+1 415 262 2017

Andrew J. Nelson
Director
+1 415 262 7735

Brooks Wells
Director
+1 212 454 6437

Ross Adams
Vice President
+1 415 262 2097

Bill Hersler
Vice President
+1 415 262 2075

Jaimala Patel
Vice President
+1 212 454 1752

Terence Callahan
Assistant Vice President
+1 415 262 6432

Alex Symes
Assistant Vice President
+1 415 262 7746

Stella Yun Xu
Assistant Vice President
+1 415 262 7715

Publication Address:

RREEF
101 California Street
26th Floor
San Francisco, CA 94111
USA

Website:

www.rreef.com

Additional information is
available upon request

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