

# Cohen & Steers Asia Pacific Real Estate Securities Strategy

## INVESTMENT COMMENTARY

OCTOBER 31, 2011

We would like to share with you our review and outlook for the Asia Pacific real estate market as of October 31, 2011. For the month, the FTSE EPRA/NAREIT Developed Asia Real Estate Index had a total return of +12.0% (as measured in U.S. dollars, net of dividend withholding taxes). By comparison, U.S. REITs, as measured by the FTSE NAREIT Equity REIT Index, had a total return of +14.4%. Year to date, the indexes had total returns of -11.3% and +7.5%, respectively.

### INVESTMENT REVIEW

After two months of steep declines, Asia Pacific real estate securities turned sharply higher in October. The sovereign debt crisis in Europe that had plagued global markets since the summer showed encouraging signs of resolution, and economic data out of the U.S. was generally more positive. Furthermore, inflation appeared to moderate in most Asia Pacific markets, sparking hopes that governments would begin to cut interest rates. Within this backdrop, cyclically sensitive stocks that had been hardest hit in recent months saw the strongest rebounds.

In Hong Kong (+19.4% total return<sup>1</sup>), developers with operations in China were among the strongest performers across the global listed real estate market. Secondary housing transactions in Hong Kong declined 10% from September, as government policy measures and economic uncertainties continued to deter potential buyers. However, departing Hong Kong chief executive Donald Tsang provided a modest boost to property stocks when, in his final address, he made no mention of additional measures to restrict the housing sector. Inflation remained elevated, due in large part to higher residential rents. Offices, on the other hand, saw a deceleration in rent growth, with the Central district showing a marginal decline.

Japan (+3.0%) had more muted results due to declines among J-REITs. The Bank of Japan provided less support for J-REITs than the market expected, cutting its average daily purchase volume by more than half. Most property developers saw solid profit growth on the back of improving condo sales. The contract ratio for new condos was a healthy 78%—well above the 70% mark that indicates strong demand. On the macro front, a soaring yen prompted the Ministry of Finance to stage the largest currency intervention in recent history, buying dollars to weaken the yen and help the country's export-dependent manufacturing base.

Australia (+3.6%) also underperformed, as the economy struggled despite strength in the mining sector. Inflation showed a material deceleration to its slowest rate in more than a decade, offering hope that the central bank might actually cut interest rates, which it did following the month's close. Residential developers, which are particularly sensitive

### INDEX PERFORMANCE (USD)

Period	FTSE EPRA/NAREIT Developed Asia Real Estate Index (Net)
October 2011	12.0%
YTD	-11.3%
1 Year	-8.8%
3 Years	14.5%
5 Years	-2.1%
10 Years	10.3%

*Past performance does not guarantee future results.* This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index. Total returns of the FTSE EPRA/NAREIT Developed Asia Real Estate Index (Net), an unmanaged market-weighted total return index which consists of many companies from developed markets whose floats are larger than \$100 million and which derive more than half of their revenue from property-related activities. Periods greater than one year are annualized. Returns from 02/28/05 to the present are calculated net of dividend withholding taxes. As the index does not calculate the net return prior to 02/28/05, the 10-year returns is a blend of net and gross.

### INDEX CHARACTERISTICS

Discount to Net Asset Value	-4.6%
Discount to Dividend Discount Model	-6.3%
Dividend Yield	3.9%
Price/Cash Flow (2011E)	14.5x
Cash Flow Growth (2011E vs. 2010)	13.7%
Cash Flow Growth (2012E vs. 2011E)	-1.3%
Long-Term Cash Flow Growth	3.4%
Weighted-Average Market Cap.	\$12.3B
Total Market Capitalization	\$337.8B
Number of Securities	72

Source: Cohen & Steers.

Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE EPRA/NAREIT Developed Asia Real Estate Index and are subject to change over time.

<sup>1</sup> Country returns are in local currency as measured by the FTSE EPRA/NAREIT Developed Asia Real Estate Index.

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to interest rates, were the best performers. Retail landlord Westfield announced the sale of its 50% stake in the Cairns shopping center at an attractive rate, suggesting that although consumers have been spending less, investors remain interested in well-placed retail properties.

Singapore (+8.8%) outperformed, buoyed by reports that third-quarter GDP growth was better than expected at +5.9% from the prior-year period. The country's three largest developers were standouts, as residential prices continued to rise, albeit at a somewhat slower pace. Among REITs, those with more cyclical businesses, including office and hotel owners, had strong rebounds, while defensive names underperformed.

### INVESTMENT OUTLOOK

Economic growth throughout Asia Pacific continues to outpace that of the U.S. and Europe, driven in large part by demand from China. We do expect growth rates to moderate as the global slowdown weighs on exports, but this has also reduced inflation expectations. As a result, several governments have already cut interest rates, and we expect more to follow suit. We continue to focus broadly on high-quality companies with low leverage and stable cash flows.

Hong Kong's high employment rate should continue to support positive fundamentals for office and retail landlords. Demand for office space has cooled amid global economic uncertainty, but the lack of supply has provided support for rents. Residential developers appear more challenged due to tight restrictions on home purchases and rising mortgage rates that have affected housing affordability.

We remain cautious toward Japan, as the property market is likely to continue to struggle amid a difficult operating environment. We continue to favor residential developers in Japan, as we believe the condo market will remain on a recovery track over the next couple years. J-REITs may see further pressure as commercial tenants continue to seek rent reductions.

Australia's rate cut at the beginning of November may bolster consumer confidence. With inflation now likely to remain consistent with the central bank's 2–3% target, we may see at least one more reduction in the near term given continued moderation in China and European growth. Potential beneficiaries include retailers, whose share prices were hurt by slowing consumer spending, and home builders, as demand for mortgages may recover if rates do decline.

### INDEX PERFORMANCE BY COUNTRY

	October 2011		YTD	
	Local	USD	Local	USD
New Zealand	-1.4%	4.8%	9.1%	13.4%
Australia	3.6%	13.1%	-1.9%	1.5%
Japan	3.0%	1.8%	-15.4%	-12.0%
Singapore	8.8%	13.3%	-16.0%	-14.0%
Hong Kong	19.4%	19.7%	-17.4%	-17.3%

Source: Bloomberg.

Total returns of the FTSE EPRA/NAREIT Developed Asia Real Estate Index, an unmanaged market-weighted total return index which consists of many companies from developed markets whose floats are larger than \$100 million and which derive more than half of their revenue from property-related activities. Periods greater than one year are annualized. Past performance does not guarantee future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index.

Singapore's export-dependent economy is more vulnerable to the global slowdown, and we remain cautious toward historically cyclical office and hotel operators. Tenants of retail landlords tend to be more focused on domestic consumption, which we believe will be relatively resilient. The government is likely to keep a high priority on restraining home prices, increasing publicly funded housing supply that could exert meaningful pressure on developer's profit margins.

*Past performance is no guarantee of future results. The performance information in the preceding commentary does not reflect the performance of any fund, product or account managed or serviced by Cohen & Steers. The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this presentation will be realized. This material should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment.*