

Cohen & Steers European Real Estate Securities Strategy

INVESTMENT COMMENTARY

NOVEMBER 30, 2011

We would like to share with you our review and outlook for the European real estate securities market as of November 30, 2011. For the month, the FTSE EPRA/NAREIT Developed Europe Real Estate Index had a total return of -7.6% (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 -3.8%. Year to date, the indexes had total returns of -9.1% and +3.5%, respectively.

INVESTMENT REVIEW

European real estate securities had a negative return for the month following an exceptionally strong October. After seeing progress on the debt crisis and a surprise rate cut by the European Central Bank, optimism faded amid rising financial stress in Italy, as bond yields spiked above 7%. Investors feared that a default by Italy would overwhelm even the largest of the proposed rescue plans, potentially leading to a costly breakup of the euro. The installation of new fiscal-minded governments in Italy and Greece provided little hope, as rapid economic deceleration across the continent put additional strain on government budgets.

Equities rallied in the final days of the month following the announcement of a coordinated effort by major central banks to lower currency swap rates, providing much-needed liquidity to European banks and significantly reducing the probability of a run on bank deposits. Global markets also responded positively to encouraging U.S. economic data and news that China cut its reserve requirement ratio for the first time in three years.

Great Britain and Belgium showed resilience

The U.K. (-2.2% total return¹) felt the effects of Europe's fiscal struggles, as well as its own decelerating economy. Companies with significant development operations or exposure to Continental Europe generally underperformed. In contrast, companies focused on London's prime office and retail markets were more resilient, as these properties continued to attract investment capital seeking a haven from global uncertainty, while growing demand and scant new supply kept fundamentals relatively stable.

Belgium (-0.4%) declined less than other property markets despite a downgrade by Standard & Poor's, as rival political parties finally settled on a budget and agreed to re-establish a new government.

Economic concerns pulled the Continent lower

In France (-5.5%), returns reflected vulnerability to deteriorating capital markets, as yields on French sovereign debt rose. Also, sentiment for the French residential market declined when the government announced new austerity measures eliminating housing incentives. Unibail-Rodamco, the largest French REIT, continued its recent trend of outperformance, benefiting from strong access to capital, good properties and relatively high earnings quality.

Germany (-4.5%) declined as the debt crisis began to take a toll on the country's economy, with GDP, employment and consumer sentiment indicators coming in worse than the market expected. Signaling investors' demand for higher risk premiums, an auction of 10-year bunds with a 1.98% yield received bids for only 65% of the amount tendered. GSW outperformed after it released details of its acquisition of Gagfah's Berlin portfolio, which suggested the deal would be more accretive than previously expected.

INDEX PERFORMANCE (USD)

Period	FTSE EPRA/NAREIT Developed Europe Real Estate Index (Net)
November 2011	-7.6%
YTD	-9.1%
1 Year	1.2%
3 Years	13.9%
5 Years	-11.6%
10 Years	9.3%

Total returns of the FTSE/EPRA NAREIT Developed Europe Real Estate Index (Net), an unmanaged portfolio of the Europe region. 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 return is a blend of net and gross. 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.

INDEX CHARACTERISTICS

Discount to Net Asset Value	-8.9%
Premium to Dividend Discount Model	9.5%
Dividend Yield	5.0%
Price/Cash Flow (2011E)	17.6x
Cash Flow Growth (2011E vs.2010)	0.6%
Cash Flow Growth (2012E vs. 2011E)	4.3%
Long-Term Cash Flow Growth	2.1%
Weighted-Average Market Cap.	\$5.3B
Total Market Capitalization	\$148.9B
Number of Securities	83

Source: Cohen & Steers.

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

¹ Country returns are in local currencies as measured by the FTSE EPRA/NAREIT Developed Europe Real Estate Index.

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The Netherlands (-10.2%) significantly underperformed, weighed down by companies with properties located in economically challenged markets. Sweden (-4.5%) also declined, despite better-than-expected GDP growth in the third quarter.

INVESTMENT OUTLOOK

Our global macro view has turned more positive given the recent shift toward monetary easing in Asia Pacific and emerging markets, as well as U.S. economic data confirming slow but positive growth. However, we expect Europe to struggle in the intermediate term as austerity measures introduced by a variety of governments continue to hinder growth.

We believe the final outcome of the debt crisis will be tighter fiscal integration with verification and enforcement capabilities, but implementing such a structure will likely be extremely difficult and may include the departure of at least one member from the eurozone. While recent actions to improve dollar liquidity are positive, we do not expect to see much improvement in lending, as banks remain under heavy pressure to raise capital. In this challenging economic environment, we continue to focus on companies with high-quality assets and strong balance sheets trading at meaningful discounts to their property values.

We remain selectively positive on the U.K., where we favor REITs with sensible development strategies that own prime retail locations or West End offices. We also like the Scandinavian region, as we believe it is likely to experience more stable growth as an independent non-eurozone region.

French and German property markets are likely to hold up relatively better during a slowdown, in our view, although we are underwriting greater financial risk in France, as its AAA credit rating remains under pressure. Among property types, we have a favorable outlook on the French retail and German residential markets, as well as prime offices in Paris and Germany.

We continue to avoid southern Europe, and remain cautious toward the Netherlands' secondary office market, which has been hindered by structural vacancies of around 14%. We maintain our underweights in Belgium, Austria and Switzerland.

INDEX PERFORMANCE BY COUNTRY

	November 2011		YTD	
	Local	USD	Local	USD
Switzerland	-2.5%	-6.7%	5.8%	8.4%
United Kingdom	-2.2%	-4.7%	-3.0%	-2.5%
Belgium	-0.4%	-3.9%	-3.8%	-3.5%
France	-5.5%	-8.8%	-9.2%	-8.9%
Sweden	-4.5%	-8.4%	-14.3%	-14.6%
Germany	-4.5%	-7.9%	-15.4%	-15.1%
Finland	-5.2%	-8.5%	-18.0%	-17.7%
Norway	-10.9%	-14.8%	-23.9%	-23.3%
Netherlands	-10.2%	-13.3%	-24.9%	-24.6%
Austria	-12.8%	-15.8%	-25.5%	-25.3%
Greece	-14.6%	-17.5%	-43.9%	-43.7%
Italy	-28.0%	-30.5%	-47.8%	-47.6%
Spain	-20.9%	-23.7%	-54.9%	-54.8%

Source: Bloomberg.

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