

# Cohen & Steers Asia Pacific Real Estate Securities Strategy

## INVESTMENT COMMENTARY

SEPTEMBER 30, 2011

We would like to share with you our review and outlook for the Asia Pacific real estate market as of September 30, 2011. For the quarter, the FTSE EPRA/NAREIT Developed Asia Real Estate Index had a total return of -18.1% (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 -14.7%. Year to date, the indexes had total returns of -20.9% and -6.0%, respectively.

### INVESTMENT REVIEW

Asia Pacific real estate securities declined sharply in the third quarter, a negative and volatile period for stocks broadly. Markets were roiled by reduced global growth expectations and intensified European sovereign debt concerns.

Hong Kong had a total return of -27.6%.<sup>1</sup> Developers and landlords alike were hit by signs of slowing global growth and the Chinese government's attempt to tighten the availability of financing. In terms of fundamentals, office rental growth decelerated—third quarter Grade A office rents rose 2.3%, compared with 6.3% in the previous quarter. However, retail sales growth remained strong (rising 29.1% over the past year) and the unemployment rate fell to 3.2% in August, from 3.4% in July.

Japan (-9.2%), which had more pessimism priced into its market heading into the period, outperformed. The market partly benefited from the Bank of Japan's continued purchase of J-REIT shares as part of its asset-support program; names that were on the bank's buying list held up much better than those that were not.

In Australia (-8.0%), the central bank left interest rates unchanged at 4.75%, having last raised rates in November 2010. Investors began to gain confidence in the possibility that rates could actually fall (the country currently has the highest interest rates in the developed world). Potential real estate beneficiaries included retailers, whose share prices have been hit by slowing consumer spending, and home builders, as demand for mortgages may recover if rates do decline.

Singapore (-13.8%), an export-dependent economy, struggled through the quarter. Relatively good performers included Mapletree Industrial Trust and CapitaMall Trust, reflecting their more stable industrial and retail businesses and longer lease structures.

### INVESTMENT OUTLOOK

Economic growth throughout most of Asia Pacific remains relatively strong, driven in large part by demand from China. The region's property markets have encountered policy headwinds, but the outlook for slower global growth has eased inflationary concerns. Central banks may feel less pressure to raise interest rates, thereby creating a possible inflection point in the economic and equity-market cycles across the region.

### INDEX PERFORMANCE (USD)

Period	FTSE EPRA/NAREIT Developed Asia Real Estate Index (Net)
Q3 2011	-18.1%
YTD	-20.9%
1 Year	-16.0%
3 Years	2.0%
5 Years	-3.4%
10 Years	9.4%

*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	-15.8%
Price/Dividend Discount Model	-11.5%
Dividend Yield	4.2%
Price/Cash Flow (2011E)	13.3x
Cash Flow Growth (2011E vs. 2010)	13.4%
Cash Flow Growth (2012E vs. 2011E)	0.6%
Long-Term Cash Flow Growth	3.3%
Weighted-Average Market Cap.	\$10.7B
Total Market Capitalization	\$402.1B
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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In Hong Kong and Singapore, our focus remains on office and retail owners, which we believe are well positioned to benefit from solid economic growth and low unemployment. In Japan, we are somewhat more cautious toward property developers, although we expect a recovery in condo sales to support profit growth over the next 12 to 24 months.

Australia's futures market and yield curve indicate that interest-rate cuts could happen by year-end, but we believe any change in rates would be precipitated by a sharp slowdown in inflation or a significant increase in the unemployment rate. We are carefully monitoring economic trends and, if growth decelerates meaningfully, we expect to favor quality assets (such as prime office) where cash flows remain resilient.

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## INDEX PERFORMANCE BY COUNTRY

	Q3 2011		YTD	
	Local	USD	Local	USD
New Zealand	2.9%	-4.8%	10.7%	8.3%
Australia	-8.0%	-16.5%	-5.3%	-10.2%
Japan	-9.2%	-4.9%	-17.9%	-13.6%
Singapore	-13.8%	-18.8%	-22.8%	-24.1%
Hong Kong	-27.6%	-27.7%	-30.8%	-30.9%

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.