

Overview

- Listed property markets retreated in May as investors became concerned about the longer term impacts of the European sovereign debt crisis on global economic growth.
- Political headwinds are also having an impact on economic recovery across all parts of the globe as governments seek to regulate various industries, particularly the finance industry, in order to create greater fiscal stability.
- Despite macro-economic issues, recent earnings results from listed property companies indicate there is stabilisation to improving property fundamentals.

May 2010

FOR PROFESSIONAL INVESTORS ONLY

ING INVESTMENT MANAGEMENT

Global Property Securities Update



MARKET REVIEW

Global Property Securities Performance – 31 May 2010

Region	Index Weight %	Monthly Return %
Americas	65.8	-5.4
Asia Pacific	20.9	-7.9
Europe	13.3	-6.8
TOTAL	100.0	-6.1

Returns are UBS Global Investors Ex-Australia Total Return Index (Gross) and hedged to AUD. Note: Asia Pacific excludes Australia.

Listed property companies were down during the month of May as equities in general took a drubbing and investors took a “glass half empty” view of global economic prospects. Investor sentiment turned cautious as concerns mounted that the sovereign debt issues in Europe might lead to a broader financial crisis and a future drag to global economic growth.

European property companies underperformed on concerns that the eurozone is not out of the woods with respect to longer-term sovereign debt issues, even after the announcement of a €750 billion rescue package.

Currency moves were dramatic as the Australian dollar generally weakened against most major currencies with the exception of the Euro and British Pound. By the end of the month, property companies had rebounded off the lows as markets appeared to stabilise on the realisation that an economic recovery may remain on track despite all the recent worries.

Political headwinds increasingly weigh on the economic recovery

Political rhetoric and legislation in each of the major regions of the world have increased as of late, perhaps redefining the regulatory environment and calling into question the extent to which government will be involved with the private sector during the next economic cycle.

In Europe, which has received much of the attention, the European Union and the International Monetary Fund announced on May 10 an emergency rescue package of up to €750 billion to keep Greece's debt crisis from spreading through the eurozone. Additionally, the Federal Reserve re-opened its emergency currency swap line to the European Central Bank (ECB) so that eurozone banks are able to obtain from the ECB dollar funding that they might need.

While markets reacted favourably short-term as a result of the scale and decisiveness of the package, questions remain regarding the long-term political viability of the European Union given the anticipated continued need for the more fiscally stable countries to bail out the less fiscally stable countries.

In the US, banking reform legislation was passed by the Senate and now needs to be merged with a bill passed by the House last December. With prospective passage sometime during the US summer, the bill would generally increase capital requirements among financial institutions and more closely regulate derivative and mortgage products. While increased regulation in the US has been widely anticipated, and welcome in some quarters, one perhaps unintended consequence will be for banks to expand assets at a slower rate, thus marginally reducing liquidity to the marketplace (ie. lending less).

In China, the central government continues to remind its provinces that housing prices remain too high with the suggestion of potential property taxes, perhaps first in Shanghai and Chongqing, plus the acceleration of the collection of Land Appreciation Taxes, which are payments made by developers to the government. This follows a raft of announcements made in mid-April which increased down payment requirements for mortgages and otherwise narrowed the definition of how many mortgages a family can obtain, as the government attempts to rein in lending to the property sector.

In Australia, the proposed Henry tax would tax the “super-profits” of the resource companies beginning in mid-2012. The proposed tax is part of a much broader governmental tax review, which also proposes that the superannuation savings rate be increased to 12% from 9% over the course of six years (which should help flows to the Australian REITs).

While all proposals remain in draft form, and are subject to normal legislative processes and the politics of elections, regulatory risk would appear to be above average. This has caused negative sentiment on the equity markets including property companies.

Earnings suggest improving economic conditions

The conclusion of earnings season during May appears consistent with that in April, when we observed a clear stabilisation to improvement of real estate fundamentals.

In the US, high-end shopping centre REIT, Federal Realty Trust, reported earnings in-line with consensus expectations. Same-property portfolio occupancy was 94.6% (flat and 10 basis points versus a year ago), cash leasing spreads were up 16% versus 4Q09's 4%, and same-property NOI was up 2.9%.

Vornado Realty, a bellwether national diversified company with significant office portfolios in the New York City and Washington DC, as well as a large retail portfolio, beat consensus expectations handily (\$1.86/share FFO versus \$1.76/share), with same-property NOI in the positive mid single-digit range and occupancy levels of 95.3% in New York, 94.9% in Washington DC and 91.2% for the retail portfolio.

In Canada, retail companies Primaris Retail REIT (malls) and Calloway REIT (shopping centres) both reported earnings in-line with expectations, with same-property NOI in the 1% range and occupancy levels of 96.7% (Primaris) and 99% (Calloway).

In the UK, large-cap company British Land reported a 7.5% increase in portfolio value over the quarter which translated to a 27% increase in net asset value (NAV), sharply surprising to the upside. British Land also announced an intention to expand its otherwise sleepy development pipeline including soliciting prospective tenants for its City of London “Cheese-grater” skyscraper development site.

Land Securities, on the other hand, reported a lacklustre increase in asset values, with a sense that management is too conservative relative to British Land, amidst an otherwise encouraging picture of improving fundamentals, particularly in London.

Eurocommercial Properties, a pan-European shopping centre company, reported quarterly like-for-like rental growth of 2.3%, suggesting that high-quality retail continues to hold up amidst negative European macro news. Eurocommercial has portfolio concentrations in Italy, France and Sweden.

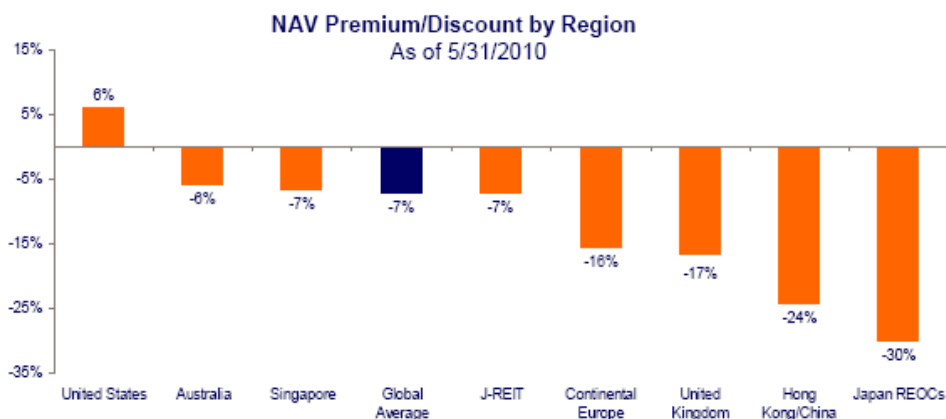
In Japan, two bellwether Tokyo-based developers offered varying but hopeful reflections of a slowly improving marketplace as office company, Mitsubishi Estate, provided operating profit guidance slightly ahead of expectations with 4.7% growth, while Mitsui Fudosan reported earnings with flat operating guidance which was 8% to 10% below consensus expectations.

Mitsubishi Estate, which has a large part of its portfolio in the prime Marunouchi submarket, suggested that its office vacancy would bottom out at about 3.7% versus 3.4% at present while Mitsui Fudosan indicated that its office vacancy should peak in the high 4's versus 3.9% at present. The low vacancy rates are a reminder of the importance of property location among these well-run Tokyo office companies, even during uncertain times.

Valuations have been “re-set” to an attractive discount

The sharp sell-off in May has improved the valuation of listed companies relative to what we believe the underlying real estate value to be (ie. NAV). While debate has continued regarding appropriate multiples and NAV relationships of real estate companies coming out of a recessionary environment using trough earnings, it clearly has become easier to make a case for listed property valuations following the correction seen during the month.

We estimate global property companies are trading at an average 7% discount to NAV on a weighted average basis. In the US, we estimate property companies are trading at a modest premium to NAV, which we believe reflects a suitable premium for quality and remains in-line with the long-term average.



CRES Current Cap Rate	6.9%	7.0%	5.8%	6.2%	5.6%	6.0%	5.9%	5.1%	5.1%
Implied Listed Market Cap Rate	6.6%	7.3%	6.1%	6.5%	5.8%	6.8%	6.5%	6.4%	6.0%

*Information is the opinion of ING CRES as of 05/31/2010 which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not necessarily indicative of future investment performance.

OUTLOOK

While we believe yield compression to have largely run its course from trough levels, the risk remains to the upside (that yields firm further) as capital returns to the property sector and as property fundamentals continue to improve, however gradual.

While the returns looking forward for a listed strategy likely cannot maintain the sharp pace of the last year, we believe the sell-off in May supports positive expectations for property companies on the back of gradually improving economic conditions and an associated improvement in property fundamentals.

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