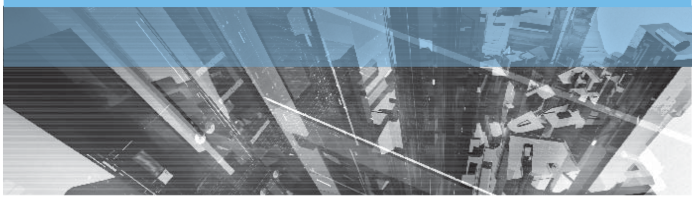
December 31, 2009

Global Real Estate Securities Valuation Summary and Outlook



Global real estate securities rebounded significantly from their lows as 2009 drew to a close, following a fairly volatile 12 months. Confidence in capital markets was sustained by continued evidence of global economic recovery and renewed access to credit markets.

Global real estate securities were up 32.7% for the 12 months ended December 31, 2009, marking a stark contrast to 2008 when the global asset class was down 46.4%. (Source: European Public Real Estate Association. Returns expressed in local currency.)

Importantly, as a new year begins, confidence in the global economic recovery has strengthened and credit markets continue to thaw. The next phase of the cycle is gaining pace, with asset values beginning to increase across some markets and sectors and, as economic indicators move ahead in 2010, direct real estate fundamentals should follow suit.

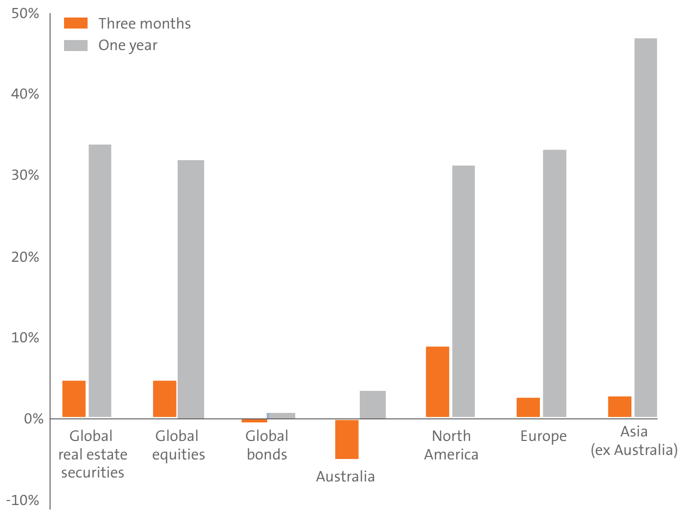
Regional market activity and performance

Global real estate securities continued to perform well over the final quarter of the 2009 calendar year. The FTSE EPRA/NAREIT Global Real Estate Index was up 4.6% for the three months, which was in line with global equities, also up 4.6% while global bonds were flat, down 0.5%. (Source: FTSE/EPRA NAREIT Global Real Estate Index, European Public Real Estate Association and JP Morgan. Returns for all indices expressed in local currency).

Investors responded positively to macro-economic data, which showed improvements in major markets. Additionally, a significant amount of unsecured debt was issued by public real estate companies, particularly in the United States (US), as debt markets re-opened.

Chart 1 – Performance by region

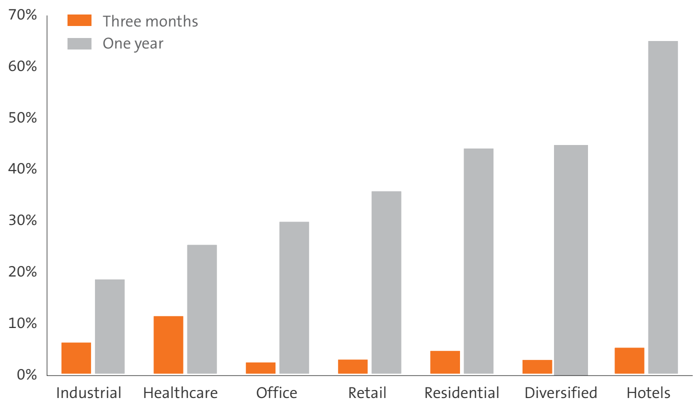
At December 31, 2009



Source: European Public Real Estate Association, FTSE and JP Morgan.
Note: All returns shown in local currency, except Asia, in USD.

Chart 2 – Performance by global sector

At December 31, 2009



Source: European Public Real Estate Association, FTSE and JP Morgan.
Note: All returns shown in USD

Overall, economically-sensitive sectors were preferred across most regions, which led to outperformance by hotels and residential apartments for the 12 months.

On a day-to-day basis, market movements continued to be influenced by broader events. A prime example was the global pull back when Dubai asked its banks to allow its main investment vehicle, Dubai World, to suspend repayments on US$59 billion of debt for six months. In December, Abu Dhabi, the oil-rich governing emirate of the United Arab Emirates, pledged to provide US$10 billion to Dubai, easing fears of a full-scale debt default by Dubai. This unexpected level of uncertainty led to added volatility in emerging markets globally, although was short-lived given the subsequent support by Abu Dhabi and the view that credit issues would largely be contained within Dubai.

A new decade

The return of investor confidence as 2009 progressed resulted in a better finish compared to 2008. Key to investor enthusiasm was evidence that the global economic recovery was solid and set to continue in 2010. While some volatility is likely to remain in the first half of the new year, as short-term data is released and backwards data remains weak, the overall trend is moving ahead.

For real estate securities, the recapitalisation and resolution of refinancing debt that occurred in 2009 was particularly significant. Across the globe, public real estate companies now possess a capital advantage over direct real estate funds, and valuations are generally reasonable, which investors have begun to appreciate. While direct market fundamentals are likely to remain weak in the medium term, AMP Capital Investors believes investor demand for assets, particularly those offering higher quality and locations, will drive a tightening in capitalisation rates over 2010.

North America

Overview and outlook

US REITs finished 2009 in a vastly different place to the beginning of the calendar year. The MSCI US REIT Total Return Index (RMS) up 9.1% for the final quarter and up 28.6% for the 12 months, a stark contrast compared to 2008.

On a month-to-month basis, performance varied with a pull back by markets at the beginning of the quarter. However, investor confidence returned as the year drew to a close as data was released which affirmed US economic recovery.

Themes across real estate securities included debt issuance, demonstrating the return of access to credit markets. Beleaguered REIT, General Growth Properties (GGP) was able to restructure approximately $10.25 billion of secured mortgage loans. Renewed interest in corporate activity, including Initial Public Offerings (IPOs), also emerged. By the close of the year, eleven equity REITs were in the IPO pipeline, estimated at a total of approximately $3 billion in equity market capitalisation. (Source: Realty Stock Review)

As the new year commences, AMP Capital Investors believes capital market activity across US real estate companies will increase, including the considerable number of prospectuses filed by companies seeking to go public.

REITs are likely to continue to show some correlation with financials and macro-economic data releases, which may see a level of volatility persist in the short term. In particular, expectations surrounding inflation and interest rates will be significant for REITs. AMP Capital Investors believes investors are likely to continue seeking the higher yields offered by REITs and public markets are likely to retain an advantage over private markets through accessibility to equity and debt.

Direct real estate market fundamentals are bottoming across most sectors in the US, although major changes or improvements are not anticipated during the first half of 2010. However, more importantly, AMP Capital Investors anticipates that price discovery as asset transactions occur will be a key indicator to monitor in 2010 as demand and competition for high quality assets in strong locations is anticipated to be high. Amid this environment, Net Asset Value (NAV) may play a more significant role than trends in direct real estate fundamentals and incremental growth in Net Operating Income (NOI).

Market activity and performance

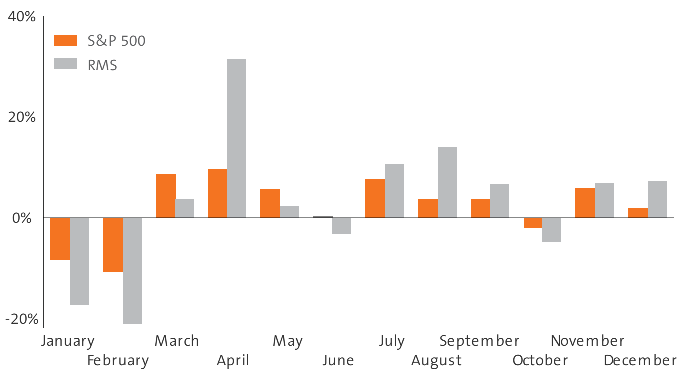
US REITs (the RMS) were up 9.1% for the final quarter. The S&P 500 Total Return Index (S&P) was up 6.0% for the three months. For the year ended December 31, 2009, the RMS was up 28.6% after recovering from market lows in 2008.

On a month-to-month basis, performance varied. Markets sold off in October and REITs were down 4.6% for the month, with investors favouring defensive stocks, such as healthcare. Investors also took profits on office names with exposure to the New York market. Some office companies which had underperformed on a year-to-date basis, such as the biotech category and those focused towards weaker Californian markets, outperformed in October, partially driven by anticipation of a pick-up in leasing activity. November saw REITs rally strongly, with REITs up 6.9%, marking the best-ever November since the inception of the RMS in 1995. (Source: Realty Stock Review and MSCI Barra).

By the close of the year, investors appeared willing to take on more risk, driven by increasing confidence in the US economic recovery. In this environment, office and industrial companies were sought after. Apartment companies also rallied as the year ended, driven by growth expectations in terms of asset values and job growth forecasts, particularly in New York City, Washington DC and some Californian markets.

Chart 3 – 2009 monthly performance of US REITs vs S&P 500

At December 31, 2009



Source: MSCI US REIT Total Return Index (RMS)

The US economy continued to stabilise, with third quarter Gross Domestic Product (GDP) positive for the first time in 12 months. The economy grew by 3.5% during the third quarter, attributed to the success of government stimulus including the 'Cash for Clunkers' auto program, robust government spending, exports, consumer durables and housing. The US Federal Reserve kept US interest rates unchanged and its accompanying statement was positive in regards to the economy, noting that rates would be kept "exceptionally low" for an extended period.

Key themes

A significant number of REITs issued debt in the fourth quarter, demonstrating renewed entry to credit markets for the sector. REIT debt offerings in 2009 surpassed the number of debt offerings in 2008, with 33 in 2009, compared to 13 in 2008. (Source: SNL Equity)

Another feature over the three months was IPO interest, with eleven equity REITs in the IPO pipeline by the close of the year, estimated at a total of approximately $3 billion.

In the hotel sector, the Hyatt Hotels Corp (Hyatt) IPO was extremely successful. Hyatt, which was formed as a C-Corp structure, and its peers, such as Starwood, were up as a result. In Hyatt, investors recognised an opportunity to participate in a strong global brand and its pristine balance sheet. In addition, investors saw potential to capture upside as economic recovery strengthens due to the highly cyclical nature of hotels. In other IPO activity, Pebblebrook Hotel Trust (PEB) successfully raised $350 million in an IPO in December. Developers Diversified Realty (DDR) successfully closed a $400 million, five-year CMBS issue. The triple-A rated portion of the certificates in the securitisation constituted 'eligible collateral' under the TALF (Term Asset-Backed Loan Facility) program. The issue represented a dramatic improvement in the cost of capital for REITs in general.

Chart 4 – Debt issuance by US REITs - Fourth Quarter of 2009

Company Name	Offering Completion Date	Coupon Rate (%)	Yield to Maturity (%)
Potlatch Corp	26-Oct	7.50	7.75
ProLogis	27-Oct	7.38	7.41
Kilroy Realty Corp	16-Nov	4.25	N/A
AMB Property Corp	17-Nov	6.13	6.23
AMB Property Corp	17-Nov	6.63	6.70
HRPT Properties Trust	17-Nov	7.50	7.50
Healthcare Realty Trust, Inc	1-Dec	6.50	6.62
Equity One, Inc	2-Dec	6.25	6.45
DuPont Fabros Technology, Inc	3-Dec	8.50	8.50
FelCor Lodging Trust, Inc	3-Dec	10.00	12.88
Host Hotels & Resorts	15-Dec	2.50	N/A

Source: SNL Financial

General Growth Properties (GGP) announced the restructure of approximately $10.25 billion of secured mortgage loans. Simultaneously, Simon Property Group (SPG) announced it had retained the services of investment advisor, Lazard to consider acquiring all or part of GGP.

Late in the quarter, SPG acquired Prime Outlets for $2.3 billion, reflecting a capitalisation rate of approximately 8%. The purchase price was a mix of $140 million of stock, $560 million cash and the assumption of $1.6 billion in debt. While some market participants speculated this meant SPG was possibly no longer interested in pursuing GGP, others noted SPG's $7 billion in investment capacity, including $3 billion of cash.

Omega Healthcare Investors announced the acquisition of 80 skilled nursing facilities from CapitalSource. The first closing, anticipated to occur in early 2010, covers 40 facilities for a purchase price of $269 million and will also include a payment of $25 million for an option to purchase 63 facilities for an additional $295 million or a total purchase price of $320 million. Investors responded positively to the transaction due to its accretive nature.

Another healthcare company, Nationwide Health Properties (NHP) announced it had revived an agreement with Pacific Medical Buildings to acquire seven medical office buildings for between $275 million to $300 million. The revised terms included modifications to the 10-year development pipeline, removing risk for NHP, which was welcomed by investors.

Canada's largest retail REIT, RioCan announced a strategic alliance with US-based Cedar Shopping Centers (Cedar). The two companies formed a joint venture for seven shopping centres in the US, to be 80% owned by RioCan and 20% owned by Cedar. Marking its first venture into the US, the Canadian REIT also acquired a 12% stake in Cedar's management company. The joint venture intends to acquire additional properties totalling $500 million in the US over the next two years. Investors responded positively to RioCan's announcement that as a result of the agreements with Cedar, it would be likely to cover its dividend by the fourth quarter of 2010. RioCan also acquired eight shopping centres in Canada for C$170 million. Further, RioCan also announced plans to acquire additional properties by the close of the 2009 calendar year, totalling approximately $300 million.

Direct real estate markets

While fundamentals remained depressed over the final quarter, signs of bottoming showed through and forecasts for the medium term improved. A number of major markets are likely to improve ahead of others, such as the New York City office market. Demonstrating the positive outlook for that market, office REIT, SL Green made a decision to retain 485 Lexington Avenue, New York after its sale fell through during the quarter.

Importantly, direct real estate market fundamentals look close to bottoming for most sectors in the US.

Europe

Overview and outlook

Although European real estate securities were up for the final quarter, performance was not as strong as compared the previous two quarters. European real estate securities were up 3.8% for the three months. (Source: European Public Real Estate Association).

Boding well for real estate markets, reported valuations across the United Kingdom (UK) showed evidence of stabilising, and, in some cases, improvements. Substantial improvements are anticipated in the UK by most analysts during the second half of 2010 and 2011.

Plans for IPO activity increased over the three months. Investors appeared to be more selective, with some deals withdrawn or scaled back as a result.

AMP Capital Investors anticipates the first quarter of 2010 will continue to be influenced by news flow from direct real estate markets as investors with capacity continue to seek opportunities across Europe. It is likely that supply of assets coming to the market will increase as banks look to offload their stock of commercial property in 2010. Across public real estate markets, AMP Capital Investors anticipates increased corporate activity as buyers and sellers of real estate utilise the liquidity of capital markets as an immediate source of investing or divesting.

These factors should continue to support real estate values which have already begun to bottom and showed increases during the last quarter of 2009, particularly in the UK. On the Continent, the valuation rebound is likely to be more muted as valuation falls in the last two years were not as extreme as in the UK.

In terms of the economy, macro data in the UK should improve in the first quarter of 2010 as the quantitative easing measures undertaken by the government continue to work their way through the system. However, it is worth noting that the effects of these measures are likely to lag in the 'real' economy, given the uncertainty of a general election during the year and the widely-anticipated fiscal tightening that is yet to come.

AMP Capital Investors believes the route to recovery in the first quarter of 2010 will be slow and tentative. Although capital market performance was strong at the beginning of the second half of 2009, during the last quarter performance flattened as investors exercised some caution.

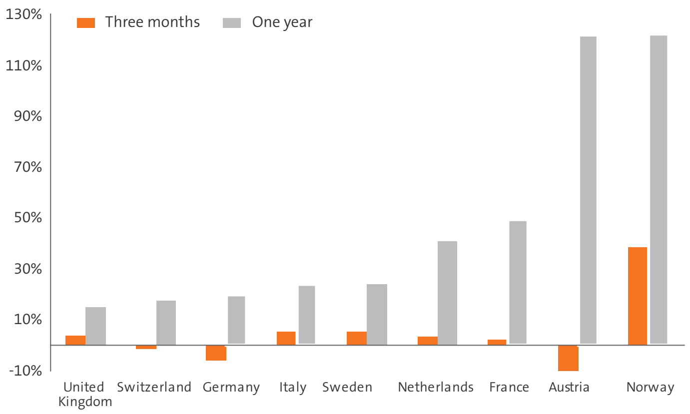
Market activity and performance

The EPRA European Index (Europe) was up 3.8% and the EPRA UK Index (UK) was up 3.9% (in local currency) over the third quarter. The EPRA European Index Ex-UK was up 1.9%. For the 12 months ended December 31, 2009, Europe was up 36.1% while the UK was up 14.9%. (Source: European Public Real Estate Association).

The strongest quarterly performance was Norway, which was up 38.5% for the three months. For the 12 months, the countries which led the way included Norway and Austria, which was largely due to the high beta nature of these stocks and resolution of balance sheet issues in the third quarter of the year.

Chart 5 – European performance by country

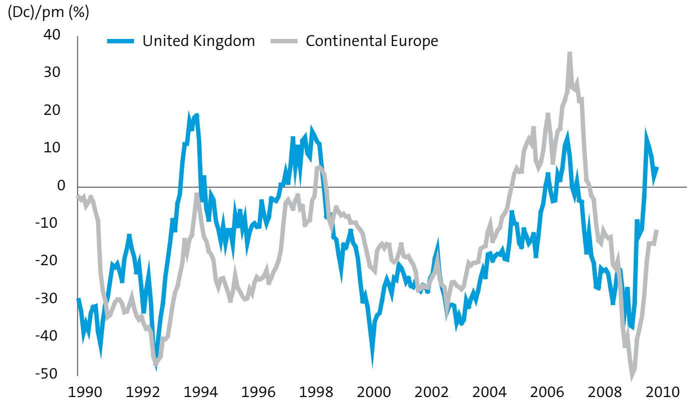
At December 31, 2009



Source: European Public Real Estate Association
Note: Returns shown in local currency

Chart 6 – Europe Premium/(Discount) to NAV

At December 31, 2009



Source: Morgan Stanley

Debt markets continued to re-open across the region, albeit at a more moderate pace compared to the US. European and UK banks took a conservative approach following the detrimental impact of significant losses in 2008 from exposure to troubled US financial institutions.

The majority of leading economic indicators across Continental Europe and the UK demonstrated improvements. While statements from policymakers showed optimism, there was an element of caution regarding the short term. As an example, a number of major UK banks were reported to still be reliant on assistance from the UK government. This indicated bank lending was unlikely to increase significantly just yet, which could impact the pace of economic recovery. UK interest rates were left unchanged however quantitative easing was increased by a smaller amount than expected, signalling confidence in the longer-term outlook. Similarly, comments from the European Central Bank also suggested it was coming closer to ending stimulus programs in light of economic forecasts although it would continue to closely monitor both the Euro zone and other markets, particularly the US.

Key themes

Boding well for real estate markets, reported valuations across the UK appeared to stabilise. In Continental Europe, where valuation falls had been less dramatic than the UK, the pace of declines eased. A number of transactions occurred at lower yields compared to six months ago as buyers competed for available quality assets. Yields for prime office property in Paris were also reported to be tightening as a result of increasing demand. Valuations, particularly in the UK, are anticipated by most analysts to improve substantially during the second half of 2010 and 2011.

A number of real estate companies reported quarterly earnings, with no great surprises and generally positive themes in terms of asset valuations and rental growth. Companies which reported included Unibail-Rodamco, Hammerson, Liberty International, Land Securities, British Land and Segro. As an example, industrial company Segro reported asset values were stabilising in the UK although remained under pressure in Continental Europe. Retail specialist, Unibail-Rodamco reported a slight increase on rental income on a year-to-date basis and noted it had raised €820 million over the third quarter in new financings through bonds with maturities ranging between seven and 10 years.

Plans for IPO activity increased over the three months. LXB Properties, a retail property company managed by well known investor Mr. Tim Walton, announced plans to float on the AIM exchange, with a mandate to buy and develop retail assets in the UK. The company was reported to be seeking to raise £100 million.

Rumours included speculation that Germany's largest privately-held residential company, Deutsche Annington immobilinen Gruppe owned by Terra Firma, was considering an IPO for the new year. Deutsche Annington owns 230,000 residential units mainly in The Ruhr area. The media reports were denied by Terra Firma, which issued a statement saying the company was well capitalised. German company GSW, which owns 52,000 residential units was reported to be considering an IPO for early 2010 with an intention to raise approximately €800 million.

In other activity, Qatar's sovereign-wealth fund became the largest shareholder in Songbird Estates, which owns London's Canary Wharf development. The transaction demonstrated continued interest from international investors in the UK real estate market, which was broadly considered to have reached, or be close to, a bottom. Notably, Middle-Eastern investors dominated international investment activity in the UK over the first half of 2009, accounting for US$2.8 billion of the total US$11.5 billion.

French-based retail company, Unibail-Rodamco was reported to be preparing to acquire six retail properties from US-based Simon Property Group's European property portfolio. However, no official statements were made by either company.

Direct real estate markets

Fundamentals across direct real estate markets, particularly in the UK, continued to show signs of improving over the final quarter of the year.

As the outlook for the UK real estate market became more positive, investor flows into property funds also increased. Net flows into UK-focused pooled property funds totalled approximately £450 million for the third quarter. However, the scarcity of quality assets available for purchase limited the ability of funds to put cash to work. As a result, a number of funds closed to new investments or imposed restrictions over the three months.

Statistics on France's commercial real estate market demonstrated tentative improvements. By the close of the third quarter, total investment volumes were €4 billion and credit conditions had begun to relax with the average size of transactions increasing (four out of eight transactions exceeded €100 million), and more international investors accounted for activity, particularly from Germany. While prime yields had decreased due to competition for these assets, interest in secondary assets had not yet picked up. Therefore, the total volume for 2009 was likely to be modest, at approximately €6 billion.

Asia

Overview and outlook

Asian markets were choppy over the last quarter of the 2009 calendar year. Investors were divided on whether fiscal and monetary stimulus was obscuring the real pace of recovery. By the close of the quarter, market confidence had intensified. The FTSE/EPRA Pure Asia Index was up 1.2% for the quarter (in USD).

AMP Capital Investors believes economic recovery will continue in Asia and exceed the growth rates of other major regions around the world. This bodes well for the fundamentals of the real estate market across both residential and commercial sectors. With a more positive outlook and better liquidity, AMP Capital Investors anticipates an increase in transactions over the first quarter of 2010, which should provide a base for rentals and capitalisation rates.

Another dominant theme in 2010 is likely to be government intervention and policies, both for the economy and real estate markets. While economically, most Asian countries are in the recovery phase, governments are slowly adjusting previously accommodative policies to a more neutral stance. With inflation in check, interest rates are likely to remain low for the first half of the year. Conversely, the real estate sector has come back into the policy spotlight, following the rebound in residential prices over 2009. Authorities in China, Hong Kong and Singapore have expressed concerns regarding an asset bubble. Although initial responses have been targeted at the speculative segment of the market and increasing more land supply, further policy response cannot be ruled out. Given the exceptional recovery for most companies in 2009, AMP Capital Investors believes this is unlikely to dramatically impact earnings in 2010, however the lingering uncertainty may see some share price volatility in the short term.

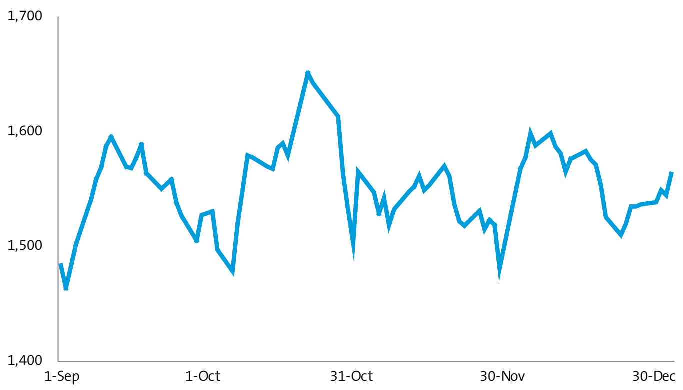
Over the first quarter of 2010, AMP Capital Investors believes office and industrial companies will be favoured by investors, due to their correlation to the continuing economic recovery, and as the trade sector and forecasts for tenant demand improve. It is also likely that investors will refocus on stock valuations and this could produce opportunities for mis-pricing if excessive pessimism is priced into residential developers due to increase policy risk.

Market activity and performance

The FTSE/EPRA NAREIT Asia Index was up 1.2% (in USD) for the three months and up 43.4% for the 2009 calendar year. The strongest performers by country over the 12 months were Hong Kong and Singapore. Performance over the final quarter of the year was volatile as can be seen in Chart 7.

Chart 7 – EPRA NAREIT Pure Asia Index Performance

At December 31, 2009

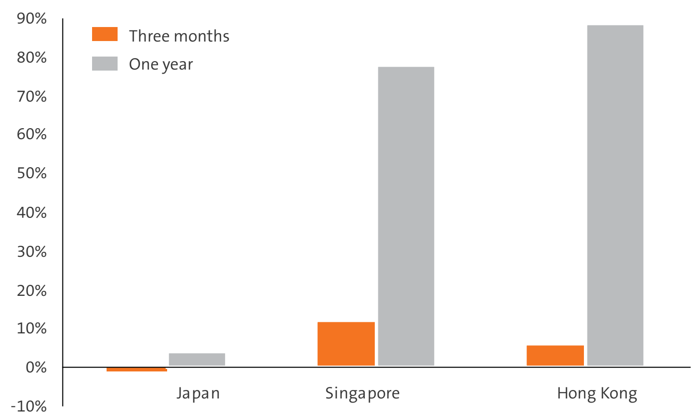


Source: European Public Real Estate Association

The quarter began strongly, with markets moving ahead as concerns regarding tightening policies in China abated and loan growth numbers were released which were better than market consensus expectations. However, the quantity of IPOs which were subsequently brought to the Chinese market prompted profit-taking and this acted as a catalyst for the sector to sell off. The Singapore government introduced policies during the early part of the quarter to address concerns regarding an asset bubble in the residential sector. Japanese stocks gave back some early gains, as uncertainty surrounding new government fiscal and monetary policy, coupled with falling land prices, dampened enthusiasm.

Chart 8 – Asia performance by country

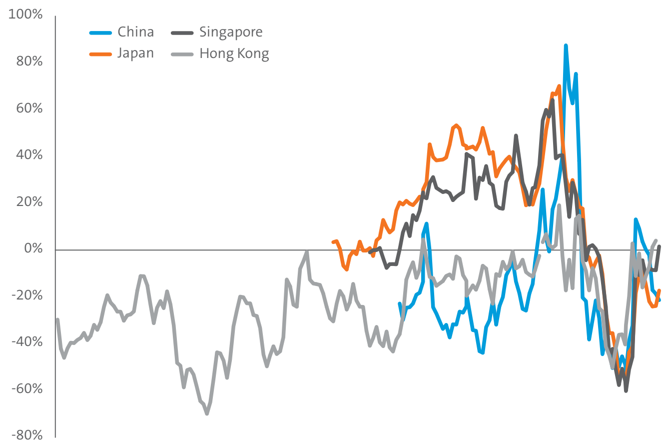
At December 31, 2009



Source: European Public Real Estate Association
Note: Returns shown in local currency

Chart 9 – Asia premium/discount to NAV

At December 31, 2009



Source: UBS

The disparity in performance between developers in Japan and China continued in the final quarter with Japanese developers up 6.8% for the 12 months against 92.8% for Chinese developers. (Source: European Public Real Estate Association) Sustained upwards revisions to earnings forecasts in China ensured valuations did not become overstretched, with discounts to NAV for the broader real estate securities sector for both markets at similar levels (Japan, a discount of 17.3%, and China, a discount of 21.4%).

Corporate activity dominated the market late in the quarter as companies sought to take advantage of buoyant equity markets across the region to reposition balance sheets for growth. Better quality IPO offerings, such as Longfor in China and CapitaMalls Asia in Singapore, were well supported. The re-cycling of assets from sponsors to REITs was ongoing in Japan and Singapore.

In December, the Japanese government voted to implement an additional economic stimulus package, to be included in the second supplementary budget for the 2010 financial year. The government will disburse a total of ¥7.2 trillion from the State (equivalent to about 1.4% of GDP) on measures to support employment (¥600 billion in national expenditure), the environment (¥800 billion), the economy (¥1.7 trillion, including restating ¥200 billion on setting up an eco-points system for housing under measures for the environment, giving a net figure of ¥1.5 trillion), and to invigorate social security (¥800 billion), as well as ¥3.5 trillion in regional support measures. These additional measures are forecast to boost 0.5% to the 2010 growth rate, with upside mainly coming in January-March 2010 and April-June 2010.

In Singapore, third quarter GDP advance estimates reported a better than expected quarterly increase. The government provided some details regarding the 2010 budget, indicating it would be expansionary with a focus on improving medium-term growth prospects by restructuring and enhancing productivity. Expenditure would be higher in 2010 than 2009 due to spending on infrastructure (Marina Coastal Expressway, the Circle line and transport infrastructure), healthcare and education.

Economic data out of Hong Kong was mixed during the quarter. Positive data included a slight improvement in trade numbers in September and an improvement in the unemployment rate.

Third quarter China GDP was in line with expectations, with manufacturing data continuing to improve. In December, the Central Economic Work Conference was held. The meeting is attended by all key senior China officials and sets the policy agenda for the coming year. The main outcome was the view that China's economic recovery was still not solid combined with unsteady global economic recovery and inadequate autonomous domestic demand. Hence, the policy priority in 2010 would shift to boosting private domestic demand and away from stimulating the economy in the context of combating a crisis through another significant public investment program. The initial market reaction was positive, as investors interpreted the outcomes to mean favourable economic policies would remain in place. However, an exception to this was the real estate sector, due to the strong price appreciation in 2009. In addition, if the external sector recovers faster than anticipated, it is likely to prompt the government to move policy back to a neutral stance.

Key themes

Themes in the three months included restructuring, particularly in Japan, as well as corporate activity and IPOs.

In Singapore, CapitaLand, the largest developer in the Asian region, listed its retail business, CapitaMalls Asia (CMA) in one the largest IPOs in Asia, raising US$2.8 billion. The portfolio comprises 86 malls in Singapore, China, Malaysia, Japan and India. CapitaLand was permitted to record a one-time gain of US$883 million from the IPO. Part of the proceeds was paid out as a special dividend to the group's shareholders.

In Japan, REITs lost ground as a succession of new share offerings announced by REITs and other public companies raised concerns about deteriorated supply and demand for shares. Lacklustre performance also reflected fears that the economy would trace a double bottom, delaying recovery in real estate.

Although a weak appetite for J-REITs in the first half of the year hampered new share offerings, four REITs pushed through equity financing from November. Only four REITs made public offerings of new shares during 2009, totalling ¥63.1 billion—significantly below the ¥153.5 billion in capital raised in 2008.

Nippon Accommodation Fund (NAF) was the first J-REIT to issue equity in 15 months, raising ¥20.1 billion to acquire 18 new residential assets from its sponsor, Mitsui Fudosan for ¥42.6 billion. While the transaction was dilutive to Distributions Per Unit (DPU), the REIT stated it would book a capital gain from another asset sale which would largely offset the dilution. The announcement was significant for the sector as it was the first time a sponsor would record a loss from an asset disposal to its own REIT.

REITs unveiling new share issues also simultaneously announced acquisitions, suggesting efforts to improve profitability through external growth. AMP Capital Investors believes J-REITs will undertake similarly-funded external growth strategies in 2010, which will benefit the Japanese developers.

Investor enthusiasm increased towards Japan's REIT sector, with significant realignment continuing on from the previous quarter. The third merger was announced with Japan Retail Fund (JRF), a retail specialist, merging with LaSalle Japan (LJR), a diversified fund. JRF will be the surviving entity and will continue to focus on retail. As a result, the new entity will divest the residential and office buildings from LaSalle Japan REIT's portfolio. The merger of the two REITs represented the first case in Japan of a larger REIT absorbing a smaller REIT, and a specialist REIT absorbing a diversified REIT.

New World China Land (917 HK) surprised the market by announcing a rights issue to raise HK$4.9 billion. The main reason for the rights issue was to refinance the outstanding Rmb2.55 billion US dollar-settled zero coupon corporate bonds issued in June 2007. The bonds were out-of-the-money with a conversion price of HK$7.81 and the bondholders were likely to exercise an option to redeem in June 2010 at 102.27% of the principal.

One of the largest land public auctions of the year occurred in China. A consortium of R&F, Country Garden and Agile was the highest bidder for the Asian Games site in Guangzhou for a record price of Rmb25.5 billion. Construction began in November 2007 for stadiums, an athletes' village, media village and other facilities for the Asian Games in October 2010.

Direct real estate markets

Japan

The Japanese government announced a mortgage-reduction program to commence in 2010, as part of efforts to stimulate the economy and boost housing demand. Homeowners taking 35-year loans from an affiliated lender in 2010 will a reduced mortgage rate of 1.0% per annum for the first 10 years. In addition, homes purchased with the loan must be one of the following: energy-efficient, handicapped-accessible or quake-resistant.

Pacific Century Place Marunouchi (PCP), a Class-A high-rise office building in front of JR Tokyo railway station, for ¥140 billion, significantly above initial estimates of ¥100 billion. The seller, the DaVinci Group had sought to dispose of the asset after it fell into technical loan default in September, having brought the asset in 2006 for about ¥200 billion. Secured Capital, who recently raised US$500 million to invest in Japanese direct property, was the highest bidder, after defeating other bidders, including a joint venture firm between JR East and Mitsui Fudosan, Mitsubishi Estate, and a private fund. The NOI yield based on current rents is estimated at the upper 3% level for this asset. Whether or not the number of bullish transactions like this increase hereafter will likely depend on the pace of improvement in the debt market and property prices.

Singapore

Two significant retail transactions occurred in the quarter. A consortium led by Singapore Press Holdings (SPH) acquired Clementi Mall for S$541.9 million, which was 41.9% higher than the next highest bid from a joint venture involving Keppel Land. The SPH-price equated to S$2,797 per square foot based on the maximum allowable retail Net Floor Area (NFA). In the second transaction, Katong Mall was acquired by a group of investors, including CapitaLand's former head of retail Pua Seck Guan, for S$247.6 million. The new owners were reported to be spending S$55 million to redevelop the property to increase the mall's Net Lettable Area (NLA) by 20%.

Fundamentals in the office market appeared to become more stable, with the pace of declines easing. Prime office rentals in CBD locations were down 4.9% in the final quarter of the year, which was a smaller quarterly decline compared to 13.7% in the third quarter, 11.6% in the second quarter and 28.1% in the first quarter. The average rental value reflected a 47.8% decrease over the 12 months. Analyst reports indicated the gap between newly-completed Prime Grade A and other existing Grade A buildings was likely to widen over upcoming years as new developments are completed. Over the next three years, the average annual supply of new office space is forecast to total approximately 2 million square feet in Singapore's CBD core, which would limit rental growth.

Hong Kong

The government raised HK$10.4 billion from the auction of two parcels of land (TPTL 200 and TPTL 201) in Pak Shek Kok, Tai Po. Sino Land (83 HK) paid HK$5.15 billion, or HK$7,146 per square foot for TPTL 200 (Sino 100%), and jointly with K.Wah, HK$5.25 billion, or HK$7,284 per square foot for TPTL 201 (Sino 85%). Although the transacted price was moderately below expectations, it was the first public land auction since 2007 and demonstrated renewed demand.

China

The National Statistical Bureau reported Chinese real estate prices continued in an upwards trend, rising 5.7% year-on-year or 1.2% month-on-month in November. Investment in residential property development also increased 15.7% on a year-on-year basis in November.

Australia

Overview and outlook

Investor confidence strengthened over the final quarter of the year and expectations of continued economic recovery drove the Australian market forward. Equity issuance in previous quarters gave investors comfort that loan covenants would not be breached while asset transactions recognised the emergence of genuine buyers.

Australian REITs finished the year up 7.9%. (Source: S&P.) The sector underperformed the broader domestic equity market for the 2009 calendar year, which was up 37.0%. A number of A-REITs undertook equity issuance in the fourth quarter. Interestingly, issuance was predominantly utilised to fund acquisitions rather than to address balance sheet issues.

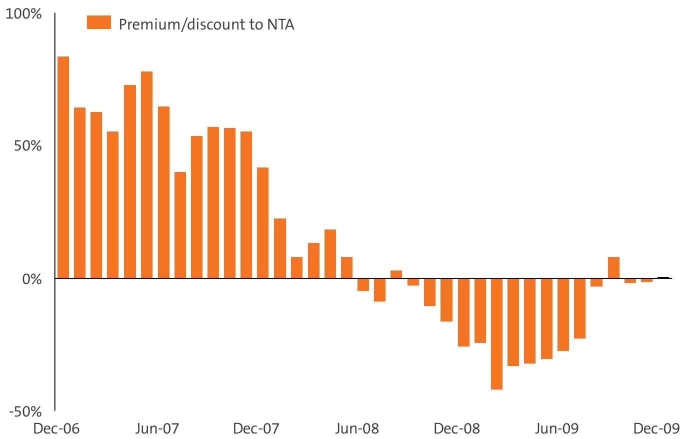
As the Australian market moves into the first quarter of 2010, the majority of A-REITs may switch focus from balance sheet issues to underlying real estate fundamentals and new acquisitions as a form of providing earnings growth. As a small number of unlisted funds or companies with lower grade quality real estate may be unable to recapitalise or negotiate with their banks, this could lead to some distressed sales, providing interesting opportunities for better capitalised vehicles. Equity issuance and IPO activity is anticipated in the first half of 2010 as A-REITs fund acquisitions and unlisted funds tap into the public market to raise equity.

Another changing dimension to the landscape for A-REITs is alternative debt and equity sources to bank debt or equity. Now armed with better credit ratings and narrowing credit spreads, A-REITs have an option to consider alternatives to Australian bank debt such as convertible notes and international debt markets (such as US Private Placements or USPP) and, in some instances, CMBS. This was already beginning to occur during the final quarter of the year.

AMP Capital Investors believes capitalisation rates have begun to stabilise and this should be evident when companies report in February. Although underlying real estate fundamentals are likely to remain weak over the first half of 2010, they are unlikely to deteriorate further, which should lead to asset valuations increases in the second half of the year. Chart 10 shows the gap in the discount to Net Tangible Assets (NTA) has closed over the past two years as uncertainty regarding asset valuations and fundamentals has eased.

Chart 10 – Australia Premium/Discount to NTA

At December 31, 2009



Source: JP Morgan

AMP Capital Investors is optimistic regarding the medium term prospects for the A-REIT sector. Looking ahead, companies likely to outperform in the next six months will be those with operational capability and early cyclical attributes to take advantage of the improving Australian economy.

Market activity and performance

Australian real estate securities were down 5.0% for the three months, while the S&P ASX 200 Index was up 3.4%. (Source: S&P ASX 200 Property Accumulation.) Australian REITs finished the year up 7.9%.

Australian REITs ended the year trading at a premium to NAV of 5.5% and a premium to Net Present Value (NPV) of 3.3%. The 2010 financial year dividend yield was 5.50%, which reflected a 26 basis point spread to the 10-year bond yield of 5.76% (at December 31, 2009). (Source: UBS).

Notably, the Reserve Bank of Australia (RBA) increased interest rates twice in the three months, to 3.75%, which was largely anticipated and represented the first major economy to raise rates. The RBA upgraded its forecasts for growth and inflation in its November Statement of Monetary Policy.

September quarter inflation was higher than expected and closer to the RBA's targeted inflation band. Retail spending appeared to level out over the final quarter, following a strong first half supported by the government cash bonuses. Retail accounts for one-third of total consumer spending and recent data indicated that other expenditure had begun to dominate, such as such as automotive and vacation sales.

Australia's economy looks set to continue improving in 2010, with economists revising forecasts to reflect positive expectations.

Key themes

Equity issuance occurred, although not at the significant levels as earlier in the year. ING Industrial Fund was one of the last vehicles to address its relatively poor capital position with a fully underwritten equity raising of AU$700 million. Abacus Property Group also completed an AU$91.4 million placement with the proceeds used to retire debt and provide capacity for acquisitions.

Capital raisings also took a new form – acquisition funding rather than balance sheet repair - with Commonwealth Property Office Fund (CPA) announcing an AU$100 million institutional equity placement and AU$200 million convertible notes issue to fund two office acquisitions. The use of convertible notes demonstrated that access to other sources of capital were available and highlighted conditions in the transaction market were likely to improve as credit markets continue to thaw.

A number of REITs announced their intention to proceed with developments as both markets and investors alike feel more certain with regards to demand as well as development yields. The Goodman Group and its unlisted fund, Goodman Hong Kong Logistics Fund, announced plans to develop an AU$390 million warehouse and distribution project in Hong Kong, aimed at capturing growth in the Chinese market. Stockland Group announced an AU$25 million shopping centre within one of its residential communities in Northern Queensland in 2010.

Direct real estate markets

Although the property operating environment remained challenging, the asset de-valuation cycle came close to bottoming, particularly for prime real estate assets. Incentives and rentals also appeared to bottom in the Sydney and Melbourne office markets and are anticipated to improve over the long term. Combining this with a relatively low level of supply these two cities, where A-REITs have dominant exposure, should be well placed to achieve rental growth as white collar employment strengthens in the next 24 months.

The volume of asset sales slowed by the close of the year and the monthly average came in at around AU$860 million. The quantity of assets on the market for sale remained significant, estimated at AU$11.3 billion. During the first quarter of 2010, the sale of Aurora Place office development in Sydney is reported to transact, with a price tag of approximately AU$670 million. This will represent the largest office investment sale in Australia since the downturn.

A number of A-REITs sold assets during the three months, including:

- Lend Lease (LLC) announced a consortium including Lend Lease-managed funds had been appointed the preferred bidder to acquire 14 assets from the AU$1.4 billion ING Retail Property Fund
- DEXUS announced the sale of its 50% interest in the Westfield Whitford City shopping centre, WA for AU$256.5 million to an affiliate of GIC Real Estate in Singapore. It was the first regional shopping centre to be sold since June 2007 and reflected an average passing yield of 6.95%, with settlement anticipated on 31 March 2010, subject to Foreign Investment Review Board (FIRB) approval
- Joondalup shopping centre, also part of the ING Retail Property Fund, was reportedly acquired by the Australian government's Future Fund in a transaction worth approximately AU$450 million, reflecting a return of 7%
- GPT Group (GPT) sold the Sheraton Four Points Hotel in Sydney for a price of AU$185 million, reflecting an 8.0% capitalisation rate
- Commonwealth Property Office Fund (CPA) raised capital to fund two office acquisitions – 145 Ann Street, Brisbane for AU$208.1 million and a 50% interest in Alluvion, Perth for AU$95.0 million. The combined yield on the two development assets was 7.9%

Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com.au, or contact one of the following:

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