Global Property Securities

ING INVESTMENT MANAGEMENT

2011 INVESTMENT OUTLOOK

January 2011

Listed property companies generated positive returns in 2010 (the second year in a row) as they continued to emerge from the aftermath of the credit crisis. We believe real estate stocks will continue to deliver positive returns in 2011, underpinned by an improving global economy.

KEY MARKET THEMES

We expect total returns for REITs to be in the 8-12%range in 2011, anchored by dividends yielding approximately 4%. We believe that dividends will continue to be an important component of the total return for listed property companies. We expect the primary driver of real estate company returns in 2011 to be growth in cash flow per share, as cap rate compression has largely run its course.

Earnings will accelerate

Even though macro-economic concerns continue, the market has grown more positive and fears of a "double-dip" recession have abated in most parts of the world. The "bottom-up" view from listed property companies appears to validate a thesis of continued improvement in cash flows underpinned by economic recovery. While different property types and geographies are at varying points in the real estate cycle the general direction is a positive one.

Dividends are expected to grow

Modest but stable economic growth is favourable for equity asset classes with above-average dividend yields. This is because a high proportion of the total return will consist of cash-in-hand from the dividend. Payout ratios have been conservative following a recalibration of dividend payout policies by many property companies following the credit crisis. We believe the trend for higher dividends will be particularly strong in the US.

Rising interest rates need not be feared

Listed real estate often delivers positive returns in periods of economic improvement, even if interest rates rise. For example, US REITs generated a return above 20% (return for the NAREIT Equity Index) in 1999/2000 when the Fed Funds rate increased by a total of 175 basis points. We believe that during periods of monetary policy tightening property companies have the capacity to outperform as long as investors believe the negative effects of rising interest rates are more than offset by the positive effects of economic growth.

Cyclicals to benefit from improving economy

Favourable stock selection will reside in the ability of a company to quickly reflect improving economic conditions via cash flows. Cyclically-sensitive geographies and property types such as apartments and lodging as well as office markets in the Asia-Pacific region should perform well. Office markets with longer leases that are exposed to quickly improving fundamentals, such as Mid-town Manhattan and London, are also likely to perform well. Companies with the ability to benefit from improved consumer spending such as dominant retail property companies in the US, and to a lesser extent in Europe and the Asia-Pacific, will also be on the investment radar.

Large scale US IPOs likely to emerge

Large-cap quality IPOs in the US will be coming in 2011 after a poorly performing small-cap focused IPO calendar in 2010. We should see the re-emergence of quality real estate portfolios to the listed market, some of which were taken private during the privatisation boom of 2004 to 2007. With US REITs now trading at a modest premium to NAV and important debt maturity dates occurring over the next several years, we expect increased syndicate opportunities. The potential IPO pipeline over the next year could easily exceed US$10 billion especially in the apartment, lodging and office sectors.

REIT to bond yield spread supportive of investment thesis

Positive spread investing remains core to the investment case for REITs. The ability of listed property companies to make investments that are additive to cash flow per share remains fundamental to the value creation for shareholders. This depends not only on prospective growth but also on the spread between the yield of in-place cash flows relative to the cost of financing. An important aspect is the spread between implied capitalisation rates and the cost of debt, which is currently in the +200 basis point range globally.

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ASIA-PACIFIC

Hong Kong

Macroeconomic

GDP growth forecasts for 2011 are expected to be in the 5-5.5% range (versus approximately 6% in 2010). Asia will continue to benefit from improving global economic conditions. Robust economic growth in Mainland China will be increasingly tempered by measures from the Central Government to reduce liquidity and dampen demand in order to control prices and inflation, including residential real estate prices. The Renminbi will strengthen against major currencies in a modest and controlled fashion.

Property Markets

Property values in Hong Kong continue to rebound from a 55-65% peak-to-trough drop in value during the credit crisis of 2008/2009. Residential values are improving at a much slower pace, while office rents began turning the corner in 4Q2009. We favour office over residential and like retail based on resilient demand from Mainland Chinese tourists. We are cautious on property markets in China as a result of increased regulatory headwinds from the Chinese Central Government. Measures intended to cool the housing market have been increasing of late, as the government attempts to balance affordability with the need for more housing.

Valuation

REITS are trading at a high teens discount to our estimated NAV, which is in-line with the long-term average discount. Earnings growth remains highly dependent on development profits.

Other

The Central Governments in Beijing and Hong Kong play an active role in either boosting or cooling the property sector, which will bring volatility to the market.

Total Return

We expect earnings growth of 15-20% and dividend yields of 2-3%. We expect Hong Kong/China property companies to outperform over the next 12 months.

Japan

Macroeconomic

GDP growth forecast for 2011 is expected to be in the 1-1.5% range, down from a stimulus-stoked 4% range in 2010. The Bank of Japan (BOJ) continues to fight deflationary forces with low interest rates and quantitative easing. We expect it to keep policy rates low for the foreseeable future at the current 0-0.1%.

Property Markets

Tokyo remains the strongest property sub-market in Japan (at the expense of regional cities) and amongst the world's largest office markets. Vacancy rates in Central Tokyo are at historical highs (9-10% range). Above-average supply is expected in the Tokyo office market during 2011-2012, which is a risk factor for this sector. Office markets are softer than residential markets where fundamentals remain strong, supported by market price correction, limited supply during 2009 and 2010, and continued tax-relief and subsidies on residential transactions introduced by the government.

Valuation

Japanese property companies are trading at an approximate 20% discount to NAV, slightly tighter than the historical average discount. Office markets are soft but may improve as global economic growth eventually boosts corporate earnings via higher exports. The average dividend yield for the REOCs is in line with the 10-year bond yield of 1.2%. J-REIT dividend yields are in the 4-5% range.

Other

J-REITs remain attractive for yield-oriented investors. The BOJ is currently purchasing JREIT shares as a part of its asset purchase program to provide liquidity to the market. However, the purchase program is limited to REITs with AA- or higher credit rating. Internal growth remains tepid as office rents are flat to negative.

Total Return

We expect a 5-10% total return over the next 12 months consisting primarily of capital appreciation for REOCs and dividend yield for J-REITs.

Singapore

Macroeconomic

Singapore's economy is expected to grow approximately 6% in 2011 following strong growth in 2010 of approximately 15% as this economy remains sensitive to global economic growth via exports, which are expected to slow as the world's restocking cycle reaches its later stages. In 2011, Singapore is expected to benefit from robust inter-regional demand, supported by positive wage growth and healthy fundamentals.

Property Markets

Residential property has significantly outperformed office property on a two-year rolling basis. We expect this trend to reverse and office to outperform in 2011. Office rents have rebounded nearly 20% in the past year with further upside expected, as island-wide rental growth and leasing of new office supply in the Singapore CBD exceeds expectations. Industrial and retail rents are lagging in the current recovery. The retail lag is because of significant new supply over the past year.

Valuation

Singapore property companies trade at a 7% discount to NAV. The average dividend yield for the REOCs is in the 2% range versus a yield on the 10-year bond of 2.7%. The average dividend yield for S-REITs is in the 6% range.

Other

Singapore property companies include pan-Asian platforms, which offer diversified long-term growth prospects versus companies focused on Singapore only.

Total Return

We expect S-REITs to generate a total return of 5-10% over the next 12 months, anchored by the dividend yield. Operating company performance will be better, perhaps in the 10-15% range, based on double-digit earnings growth. Multiples are assumed to stay constant.

EUROPE

Continental Europe

Macroeconomic

Economic growth for Continental Europe in 2011 is expected to remain in the 1.5% range, the same range as in 2010. The European Central Bank is expected to maintain accommodative fiscal policies for the forseeable future, particularly in light of lingering sovereign debt concerns among a number of member countries, including those in Southern Europe.

Property Markets

Retail companies continue to generate stable earnings. However, we expect certain office markets to outperform in 2011, including the French office market. By geography, we prefer Western and Northern Europe over Eastern and Southern Europe. We believe slower economic growth in peripheral European countries, a weaker Euro and a softening of the commercial property lending climate will negatively impact demand for commercial real estate.

Valuation

Valuations show an approximate 12% discount to our estimate of NAV. The average dividend yield of 6.0% compares favourably to the 10-year bond yield of 3.0%. Earnings growth is projected to be modestly positive.

Other

We prefer companies with strong balance sheets that have access to equity and debt markets, with firepower for potential acquisitions as a source of earnings growth.

Total Return

We expect a 5-10% total return over the next 12 months consisting of a dividend yield in the 5-6% range, constant multiples and modestly positive earnings growth.

United Kingdom

Macroeconomic

GDP growth for 2011 is expected to be in the 2% range, slightly better than 2010. The Bank of England has lowered policy rates to a post-war low of 0.5% but is mindful of potential inflation, with VAT rising to 20% in January 2011 mixed with rising food and fuel prices. Economic growth will be dampened by austerity measures that will lead to public sector redundancies. It remains to be seen if the private sector can expand at the pace that the public sector will shrink.

Property Markets

Yields have compressed by about 190 bps from 18 months ago and the IPD index (bellwether private market index) has been mainly positive for the last 12 months. Office rents are bottoming but retail demand remains negatively affected by weaker consumer spending and a slower economy. We prefer office and industrial over retail and residential property.

Valuation

Property companies are trading at a 15-20% discount to our NAV estimate, which is in-line with the long-term average and represents reasonable value. The average dividend yield of 4.2% compares favourably to the 10-year bond yield of 3.4%. This spread is well above the long-term average, which reflects in part the adoption of the REIT structure in the UK in 2007.

Other

The UK property market is characterised by long leases (10-15 years) which are favourable to the landlord, a tight planning regime and a high proportion of long-term fixed rate debt that effectively matches assets with liabilities. UK property companies continue to adapt to the REIT structure and more are offering attractive yields in addition to prospective capital appreciation.

Total Return

We expect a total return of 8-12% over the next 12 months including dividend yields in the 4-5% range.

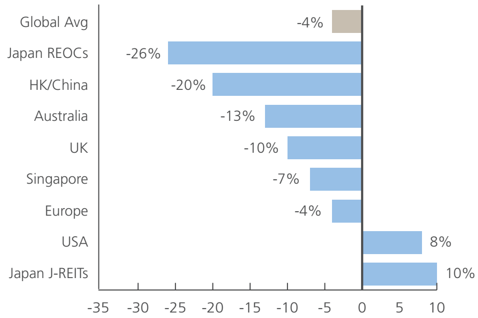
REITS Total Return Forecast for 2011

Market	Expected Range of Returns
HongKong	15-20%
Japan	5-10%
Singapore	
S-REITs	5-10%
S-REOCs	10-15%
Europe	5-10%
UK	8-12%
US	8-12%
Canada	8-12%
WORLD	8-12%

Source: ING Clarion Real Estate Securities forecast as at 31 December 2010.

> While property markets are at different stages in the real estate cycle the earnings growth trend remains positive.

NAV Premium / Discount by Region



Source: ING Clarion Real Estate Securities as at 31 December 2010.

> Global property stocks have been reset to an attractive discount.

NORTH AMERICA

Canada

Macroeconomic
GDP growth for 2011 is expected to be in the 2% range, which is a deceleration from the approximate 3% GDP growth generated during 2010. Decelerating economic growth has caused the Bank of Canada to soften its stance on policy rates which are now on hold at 1% following three consecutive 25 basis point increases in 2010. The Bank of Canada is expected to keep rates on hold following recent disappointing economic figures.

Property Markets
Western Canada remains dependent on the commodity market and the variability of commodity prices. The Toronto property market remains stable. Apartment rents remain regulated in most provinces and, therefore, provide a degree of predictability.

Valuation
Property companies are trading at a modest premium to NAV, which is in-line with the long-term average. An average dividend yield in the 5-6% range is well above the 3.1% yield on the 10-year bond and above the historical spread. Dividend yields are above the global average and remain attractive for an investor seeking income.

Other
Regulatory announcements are being refined to leave REIT business models largely intact, although hotel and healthcare REITs will have to make structural changes by the beginning of 2011 to maintain REIT status.

Total Return
We expect a total return of 8-12% over the next 12 months consisting of a dividend yield in the 5-6% range, constant earnings multiples and 3-5% earnings growth.

United States

Macroeconomic
GDP growth for 2011 is expected to be in the 3% range on the back of an extension of the Bush-administration tax cuts and an accommodative monetary policy. While the US economy is projected to rebound at a more sluggish rate than from previous recessions, recent revisions have been to the upside as a result of intensified fiscal and monetary stimulus. A moribund housing market and high unemployment remain obstacles to a sustained rebound.

Property Markets
We prefer cyclical property types including apartments, lodging, industrial and regional malls as they tend to have shorter lease lengths. We remain underweight office and healthcare, which are slower to respond to economic improvement. Exceptions are office markets in mid-town Manhattan and Washington D.C. which remain relatively resilient.

Valuation
US REITS are trading at a 5-10% premium which is consistent with this point in the property cycle. US REITs currently have an average dividend yield of 3.7% versus the 10-year Treasury yield of 3.4%. This spread is lower than the long-term average of approximately 100 bps but should improve as dividend payouts increase in 2011.

Other
US REITs have successfully repositioned balance sheets with equity and debt raisings over the past two years. They remain well-positioned to take advantage of potential acquisitions. The IPO pipeline may pick up in 2011 as previously privatised portfolios come back to the listed market.

Total Return
We expect a total return of 8-12% over the next 12 months consisting of a dividend yield in the 4% range, constant earnings multiples and mid single-digit earnings growth.

ABOUT THIS REPORT