Invesco

Global Property Stock Overview

FIRST HALF 2008

In 2007, the global property sector produced a -7.0% total return in USD, -12.8% in ¥, and -16.1% in €.

Asia:
Outperformance in Hong Kong and Singapore was largely attributable to greater-than-expected-results of residential markets, continued rental growth in the office markets and rising investment interest in Chinese based firms.

Europe:
The effect of wider credit spreads, reduced availability of financing and lower growth expectations created a difficult environment for European real estate.

North America:
Concerns regarding the impact from the subprime induced credit problems led to relatively weak performance during 2007.

- During 2007, the FTSE EPRA/NAREIT Global Real Estate Index returned -7.0% in USD, -12.8% in ¥ (JPY) and -16.1% in € (EUR).
- In Asia, outperformance in Hong Kong and Singapore was largely attributable to greater-than-expected-results of residential markets, continued rental growth in the office markets and rising investment interest in Chinese-based firms. Following a relatively strong first half of the year, the global credit market turmoil and economic growth concerns were dominant themes in the second half. With the exception of Japan, economic growth across most of Asia is expected to remain solid in the first half of 2008, albeit at a more moderate level.
- The effect of wider credit spreads, reduced availability of financing and lower growth expectations created a difficult environment for European real estate companies in 2007. A majority of European-listed real estate companies are now trading at discounts to their expected net asset values and average dividend yield levels are now above those of the average general equity market in all major European countries. With ongoing liquidity and the repricing of risk, it is likely that the capital markets may continue to be volatile.
- In North America, while the U.S. and Canada have benefited from stable to improving property fundamentals, concerns regarding the impact from the subprime induced credit problems led to relatively weak performance during 2007. As was the case last year, the U.S. economy may continue to suffer from credit market weakness and the economic ramifications of declining single-family housing prices. These factors could continue to be common themes for 2008, potentially weighing on North American real estate securities. Yet the underlying property value and increasing dividend yields do suggest the longer term outlook is improving.
- Recent instability in the global capital market is expected to reduce global economic growth. The reassessment of global risk premiums and a short-term erosion in confidence is likely to present opportunities for long-term investors; particularly in the U.S. and the U.K.

	2007 FTSE EPRA/NAREIT Total Returns				GDP Growth*		Inflation*		Current 10-Year Yields
	Local Currencies	US$	€	¥	2007	2008	2007	2008	
Asia Pacific									
Australia	-7.7%	2.9%	-7.2%	-3.5%	4.1%	3.5%	2.5%	2.8%	6.3%
Hong Kong	58.9%	58.5%	43.0%	48.6%	5.9%	5.2%	2.2%	3.1%	3.5%
Japan	-12.3%	-6.4%	-15.6%	-12.3%	1.9%	1.7%	0.0%	0.4%	1.5%
Singapore	8.1%	15.2%	3.9%	8.0%	7.3%	5.7%	1.5%	2.3%	2.7%
Europe									
France	-19.7%	-10.9%	-19.7%	-16.5%	1.9%	2.0%	1.5%	1.9%	4.4%
Germany	-40.0%	-33.5%	-40.0%	-37.6%	2.5%	2.0%	2.1%	2.0%	4.3%
Netherlands	-12.3%	-2.7%	-12.3%	-8.8%	2.8%	2.2%	1.7%	1.9%	4.4%
United Kingdom	-36.3%	-35.2%	-41.5%	-39.2%	3.0%	2.2%	2.3%	2.1%	4.5%
North America									
Canada	-12.3%	3.4%	-6.7%	-3.0%	2.6%	2.3%	2.2%	2.0%	4.0%
United States	-16.4%	-16.4%	-24.6%	-21.6%	2.2%	2.2%	2.8%	2.7%	4.0%

* GDP and Inflation are expresed in local currency.
Source: Invesco Real Estate, FTSE NAREIT, Blue Chip Economic Indicators, Bloomberg L.P. (10 year Yields are as Dec. 31, 2007)

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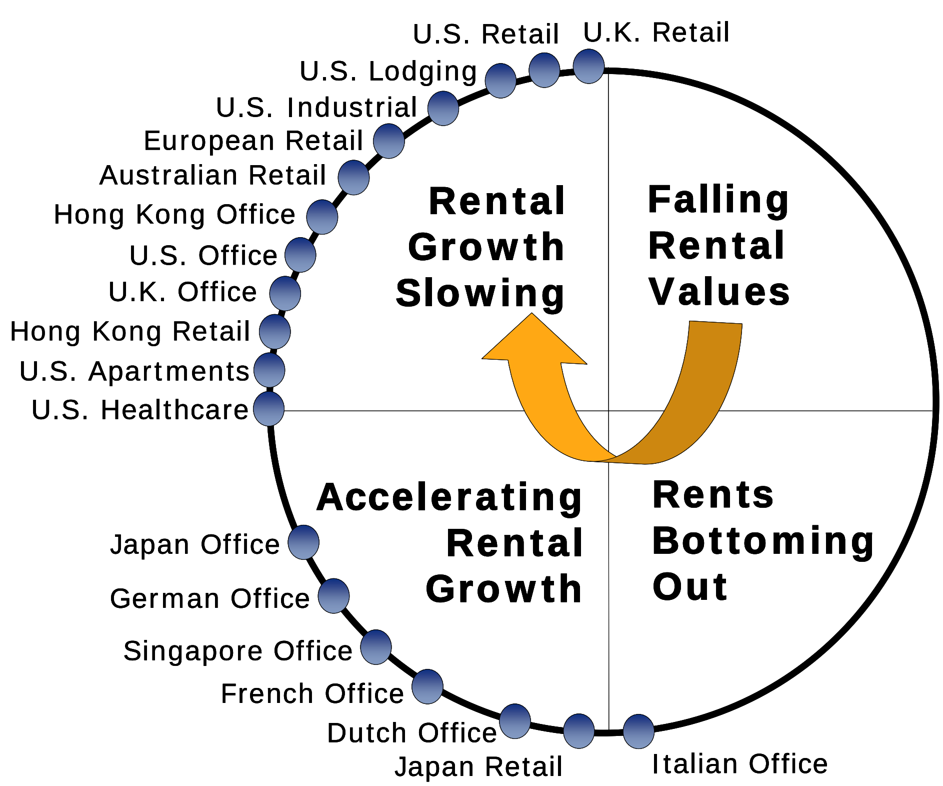
Global Real Estate Fundamentals

From a global perspective, commercial real estate fundamentals remain relatively stable. In Asia, the real estate market continues to be buoyed by positive rental growth expectations as well as relatively low borrowing costs, particularly in Japan. Our outlook for all major Asian markets remains positive for the near term; particularly favorable rental growth is expected for Singapore and Tokyo office markets. In Europe, economic fundamentals remain stable in spite of a softening of employment growth prospects. Office markets are expected to show stable occupancy rates and rent growth in Paris, Oslo, Stockholm and Warsaw. In the U.S., increased economic and capital market uncertainty favor a defensive sector such as health care. Property level cash flows in the sector should hold up relatively well in this environment due to long-dated leases with contractual rent increases.

The graphic below illustrates Invesco Real Estate's view of several key country/property type positions in the rental cycle.



Source: Invesco Real Estate (Dec 31, 2007) based on internal research.

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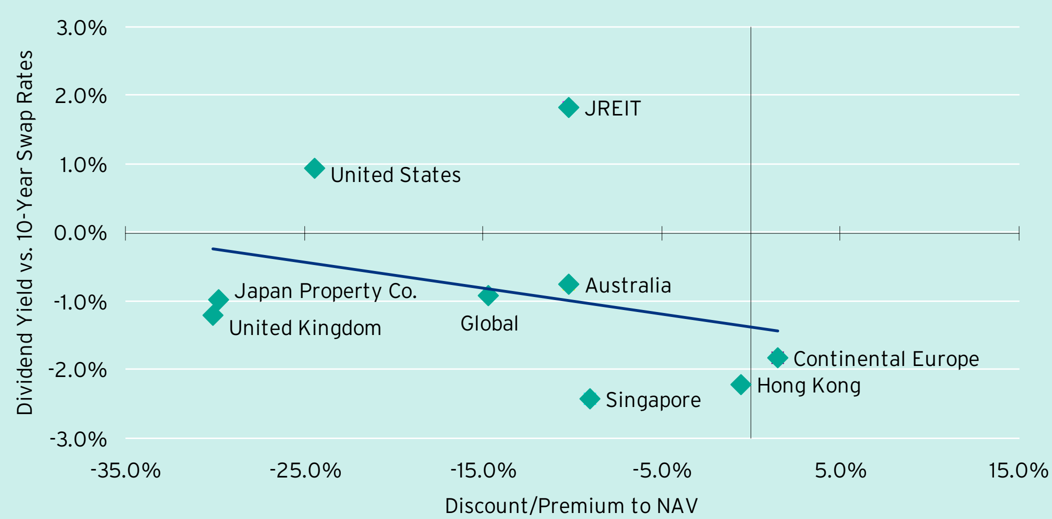
Global Net Asset Values and Dividend Yield Spreads

During 2007, U.S. credit market turmoil contributed to global concerns on credit risk, resulting in wider credit spreads. Currently, real estate securities in countries where dividend yields are below corresponding 10-year swap yields could indicate a positive view on the securities' risk and growth profile. Countries where the spread is the most significantly negative, like non-REIT Asia (Hong Kong and Singapore), continental Europe and the U.K., are generally characterized as having better-than-average expected earnings growth or having the greatest prospect for dividend growth. Additionally, as of Dec. 31, 2007, Invesco Real Estate's valuations indicate that most global property stock markets trade at a discount to net asset value (NAV), with particularly attractive discounts in the U.S., Japan and the U.K.

Using the aforementioned factors (dividend yield spread and discount/premium to NAV), real estate securities that screen well Include the U.K. and Japan Property Companies.

Dividend Yield Less 10-Year Swap Rate vs. Discount/Premium to NAV



Source: Invesco Real Estate, UBS Global Real Estate Valuation, Bloomberg L.P. as of Dec. 31, 2007

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Historic/Forward Currency Change			
	Close 2007	Change 2007*	Forward 2008**
GBP	1.98	1.3%	-1.5%
EUR	1.46	10.5%	-0.6%
JPY	111.71	6.6%	3.0%

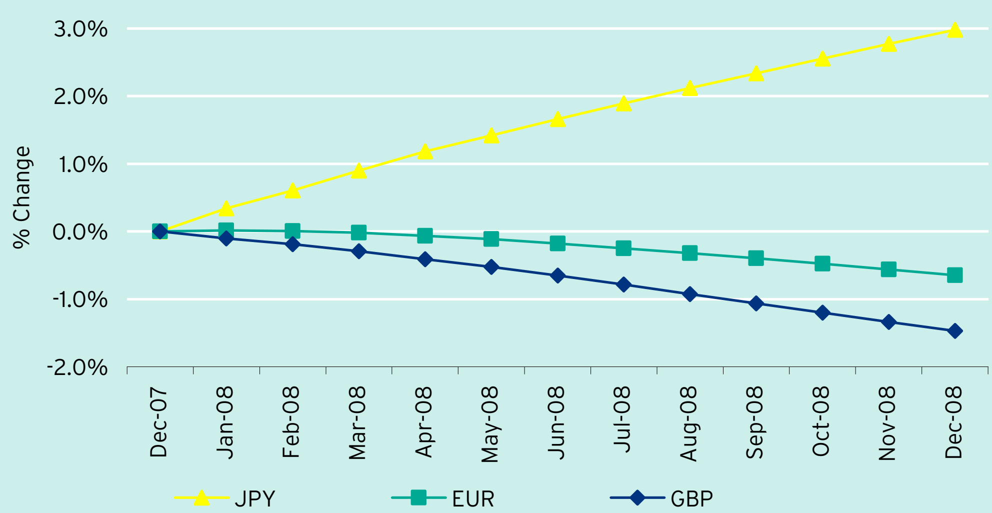
* Percentage changes reflect the value of USD per local currency
** Positive sign indicates that the local currency is expected to appreciate against the USD

World Currencies

During 2007, the U.S. dollar weakened against major currencies as the fragile state of U.S. financial markets moderated not only domestic economic growth potential but also that of the world economy. Contrary to the rest of the world, Japan is experiencing renewed signs of an economic slowdown and tame inflationary expectations. These factors along with recent yen appreciation may lead to some potential for monetary stimulus. While growth in Europe is moderating, the European Central Bank (ECB) is still concerned about inflation, which may pose a barrier to rate cuts. The Bank of England is also attempting to balance the risks between growth and a declining housing market.

The British sterling (GBP), the euro (EUR) and the Japanese yen (JPY) strengthened against the U.S. dollar (USD) by 1.3%, 10.5% and 6.6%, respectively. As of the end of 2007, market expectations for exchange rates for the next 12 months suggest that the JPY should appreciate 3.0%, relative to the USD, while the GBP and EUR should depreciate by 1.5% and 0.6%, respectively.

Expected Currency Apreciation/Depreciation



Source: Invesco Real Estate, based on Bloomberg market consensus as of Dec. 31, 2007

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Asia Pacific Overview

2007 Performance Review

- The FTSE EPRA/NAREIT[1] Hong Kong index returned 58.5% in USD (58.9% in HK$) during 2007, leading the Asia Pacific region, followed by Singapore with a 15.2% return in USD (8.1% in S$). Japan trailed with a -6.4% return in USD (-12.3% in JPY). Outperformance in Hong Kong and Singapore was largely attributable to the strong recovery of residential markets, continued rental growth in the office markets and rising investment interests in Chinese-based firms.

2007 FTSE EPRA/NAREIT Total Returns				
	Local Currencies	US$	€	¥
Australia	-7.7%	2.9%	-7.2%	-3.5%
Hong Kong	58.9%	58.5%	43.0%	48.6%
Japan	-12.3%	-6.4%	-15.6%	-12.3%
Singapore	8.1%	15.2%	3.9%	8.0%

Source: FTSE EPRA/NAREIT

- Australia registered a 2.9% return in USD (-7.7% in A$). Listed Property Trust (LPT) underperformance was primarily driven by two factors. First, due to excessive leverage (>70%), in mid-December Centro Properties Group announced that their banks were not willing to extend the bridge loan credit facility used to purchase U.S.-based New Plan Excel Realty Trust earlier in the year. The second factor in LPTs underperformance relates to stocks with Funds Under Management (FUM) platforms sold-off on the fear that property asset values in the U.S., U.K. or Europe had declined and that the credit market crisis would prevent them from raising FUM. The LPTs that benefited in this environment were those with Australian-only portfolios of high-quality assets and lower-than-average leverage.
- Following a relatively strong first half of the year, the global credit market turmoil and economic growth concerns were dominant themes in the second half. On the positive side, Hong Kong property stocks staged a strong rally as they have relatively lower leverage and are expected to benefit from declining interest rates and continued economic growth in China. However, credit market concerns, combined with economic and political uncertainties in Japan and tightening real estate policies in Singapore, contributed to the negative returns during the second half for these countries. Investor interest in Chinese property stocks waned toward year-end as China tightened monetary policies and heightened scrutiny of real estate activities in an effort to restrain property speculation. Adverse global capital market conditions also led to the withdrawal of multiple property equity and debt financing attempts in the region.

[1] Source: "FTSE™" is a trademark of the London Stock Exchange Plc and The Financial Times Limited, "NAREIT™" is a trade mark of the National Association of Real Estate Investment Trusts("NAREIT") and "EPRA™" is a trade mark of the European Public Real Estate Association ("EPRA") and all are used by FTSE International Limited ("FTSE") under license. Neither FTSE, Euronext N.V., NAREIT nor EPRA sponsor, endorse or promote this product and are not in any way connected to it and do not accept any liability in relation to its issue, operation and trading. All copyright and database rights within the index values and constituent list vest in FTSE, Euronext N.V., NAREIT and EPRA. Invesco Institutional (N.A.), Inc. has obtained full license from FTSE to use such copyright and database rights in the creation of this product.

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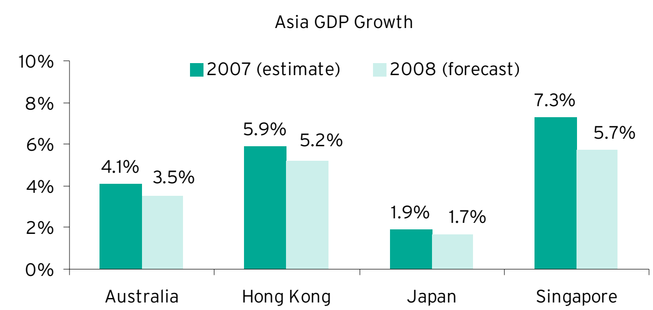
Outlook for 1H 2008

- With the exception of Japan, economic growth across most of Asia is expected to remain solid in 1H 2008, but at a more moderate level versus 2007. While Chinese monetary policies appear to maintain a tightening bias, tepid Japanese economic conditions are widely expected to keep the Bank of Japan on the sidelines for the near future. In general, rising inflation is likely to present a challenge for the Asian central banks in the coming months. China's economic growth is expected to exceed 10% in 2008, while consensus estimates from Blue Chip Economic Indicators forecast Singapore GDP growth of 5.7% in 2008, followed by Hong Kong at 5.2%, Australia at 3.5% and Japan at 1.7%.
- While slowing construction activities and lingering economic concerns remain risks, Japanese developers with balance sheet flexibility and access to quality land banks should provide relatively favorable investment opportunities. Meanwhile, the prospects of negative real interest rates and credit risk aversion have propelled Hong Kong-listed property stocks to a higher valuation level, especially relative to their global peers. The long-term economic and urbanization trends in China remain compelling and, despite short-term volatility, should continue to provide attractive long-term investment opportunities. Singapore commercial property fundamentals remain strong and the property stocks have corrected to an attractive level, especially if the credit market concerns calm over the coming months. Australian LPTs could be in for continued volatility in the short term as the refinancing challenges of Centro play out, with a mid-February deadline looming from their banks. In the meantime the stocks offer reasonable valuations, a dividend yield of roughly 6% and projected earnings and dividend growth approximating 6%.

Economic Overview



Source: Blue Chip Economic Indicators

- Hong Kong's real GDP is expected to have risen 5.9% in 2007, while the Singapore economy is expected to have grown 7.3%. In contrast to China's lofty pace of growth at an estimated 11.3%, the Japanese economy was likely to have expanded 1.9% in 2007. Labor market conditions remained tight in Hong Kong and Singapore as unemployment rates declined to the near-decade lows of 3.6% in Hong Kong in November and 1.7% in Singapore in the third quarter. Both cities benefited from the regional economic growth and, in turn, demand for professional services and capital market access. However, the Japanese labor market improvement appeared to have lost momentum in recent months. After raising the benchmark rate to 0.5% in February, the Bank of Japan (BoJ) refrained from further raises amid a lull in the economy and turmoil in international credit markets. Revisions to the Building Standards Law, which went into effect in June 2007, significantly impacted housing construction activity in the short term and the ripple effect is expected to carry over into 2008. Weak consumer spending will likely continue into 2008, which, coupled with the BOJ's recent cut in its economic assessment, suggests stable benchmark rates over the near term.

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- With its strong natural resource face, the Australian economy has held up fairly well in 2007 with consensus GDP growing at about 4.1%. With unemployment at all-time lows, the Reserve Bank of Australia continues to be concerned about inflation and raised interest rates to 6.75% by the end of 2007, with another 25 to 50 basis point increase likely sometime in 1H08.

Investor Demand/Capital Market Events

- In Hong Kong and Singapore, the Chinese property development theme has continued to be a major driver of earnings growth and stock performance. Continued monetary tightening in China as well as specific policies, such as restriction on second mortgages and increased scrutiny of land transactions have contributed to a more cautious stance among market participants. However, most investors regard these policy-induced pauses as temporary and the structural growth story for Chinese real estate sectors remains intact. Hong Kong's residential market is in the midst of a strong recovery in both transaction volume and prices, partially driven by declining interest rates and negative real rates, which has tended to ignite local investor interest in property.
- Japan continued to experience strong demand for commercial real estate, from both domestic developers and overseas investors, especially in prime locations. Noteworthy 2H 2007 activity included Goldman Sachs' purchase of Tiffany & Co store in Ginza and Mitsui Fudosan's acquisition of a major stake in Imperial Hotel Co., whose flagship location is near Mitsui Fudosan's redevelopment efforts in the Hibiya area.
- Global credit market turmoil had a definite impact on Asian property stocks. During the fourth quarter, at least two JREIT IPOs were withdrawn and multiple S-REIT secondary equity offerings were delayed due to lack of investor interest. The cancellation of two Chinese developers' debt offerings also highlighted investor concerns.

Underlying Real Estate Markets

Office

- Market vacancy remained in the low single digits in core central business district (CBD) submarkets in Tokyo, Hong Kong and Singapore, accompanied by double-digit annual rental growth, with limited near-term supply. Singapore's prime office rents, having risen over 60% in 2007 to record levels, are expected to grow 20% in 2008, according to Jones Lang LaSalle. In Hong Kong, investor attention was refocused on the central submarket, following the announcements that a couple of large investment banks, which were previously considered core central tenants, signed leases at the International Commercial Centre (ICC) in Kowloon. As ICC's 2.5 million square feet of grade A office space gets delivered in phases through 2010, it could potentially dampen the rental outlook. In Australia, office vacancy levels in most CBD markets remained at record lows through 2007. Demand and supply fundamentals point to continued strength in office markets for 2008 and possibly into 2009, particularly in Perth, Brisbane and Sydney, with Melbourne the exception as its CBD office market continues to face supply issues, which will likely limit prime rent growth.

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Residential

- The already weakening Tokyo area new condominium market took a precipitous fall during 2H 2007 due to decreased affordability and, perhaps more importantly, the technical effects of the revision to the Building Standards Law. The Real Estate Economics Institute (REEI) is forecasting Tokyo area condo sales to decline 19% from 2006 to 2007 and another 10% in 2008. Suburban areas have been hit harder, a trend that is expected to continue, as suburban prices are much more elastic and high land acquisition costs cannot be passed along to buyers.
- Hong Kong residential prices rose 17.4% year-to-date through November 2007, in contrast to the calmer years of 2005 and 2006, when home prices rose 5.5% and 2.7%, respectively. The regained vibrancy is partially attributable to improving affordability and declining interest rates. In China, the previously heated residential markets showed some signs of cooling toward year-end as the government tightened credit conditions for both developers and consumers and heightened scrutiny of real estate activities. Similarly, the Singapore government canceled the Delayed Payment Scheme, which allowed buyers to defer 80% to 90% of the purchase price for a new residential unit to the time of completion, usually 2 to 3 years later. Subsequently, the Singapore residential market volume saw significant declines in the last four months of the year.

Retail

- Japanese retail sales, consumer spending and consumer confidence continued to stagnate during 2007 as the tight labor market conditions failed to translate into meaningful wage increases, while rising food and energy prices constrained disposable income. However, rents for retail properties remained largely stable, with the main exception being suburban shopping centers.
- Retail sales growth averaged 12.8% in Hong Kong in the first 11 months of 2007. Rising income and a buoyant equity market were among the contributing factors. Prime retail rent rose 12.7% year-to-date through September, according to Jones Lang LaSalle. The Singapore government's capital investment initiatives and regional growth contributed to increase tourist visits, which bodes well for retail landlords.
- In Australia, retail fundamentals remain solid, with sales growth in the 3% to 4% range and consumer sentiment still quite positive. Consumers appear to have adapted to the higher interest rates and gas prices and have resumed spending. On average, net operating income (NOI) growth and rent growth have been trending at around 3%. The shopping centers continue to see good income growth due in part to the lag effect of rental growth trailing sales growth.

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Europe Overview

2007 Performance Review

- FTSE EPRA/NAREIT Europe produced a -24.5% return in USD (-31.9% in €) during 2007. With the exception of Poland, all European countries delivered negative local currency returns on the year, with the worst performance from Spain, Italy and Germany.
- The effect of wider credit spreads, reduced availability of financing and lower growth expectations created a difficult environment for European real estate companies in 2007. Sentiment reversed dramatically from positive to extremely bearish over a short period of time. This came despite improvement in levels of occupancy and rents, which consistently enhanced earnings and dividend-paying ability during the year.

2007 FTSE EPRA/NAREIT Total Returns				
	Local Currencies	US$	€	¥
Belgium	-7.7%	2.4%	-7.7%	-4.0%
Finland	-22.7%	-14.3%	-22.7%	-19.7%
France	-19.7%	-10.9%	-19.7%	-16.5%
Germany	-40.0%	-33.5%	-40.0%	-37.6%
Italy	-45.3%	-39.3%	-45.3%	-43.1%
Netherlands	-12.3%	-2.7%	-12.3%	-8.8%
Spain	-54.6%	-49.6%	-54.6%	-52.8%
Sweden	-22.1%	-13.7%	-22.1%	-19.0%
United Kingdom	-36.3%	-35.2%	-41.5%	-39.2%

Source: FTSE EPRA/NAREIT

- As direct asset transaction markets slowed dramatically, softening of asset capital values has become evident across the region. This has been most notable in the U.K., where market indexes show a fall of approximately 10% in capital values during 2H 2007.
- A majority of European-listed real estate companies are now trading at discounts to their expected net asset values and average dividend levels are now in excess of average general equity market indexes in all major countries.

Outlook for 1H 2008

- With liquidity and repricing of risk issues ongoing, it is likely that the opening to the year may continue to be volatile and the capital markets a victim of continued uncertainty.
- Activity in the real estate asset transaction market is expected to remain muted as buyers and sellers bide time until capital markets settle into more normalized levels of activity. Direct asset values are expected to show a short and sharp softening during 1H 2008 in most of western Europe. However, given the illiquid direct asset markets at present, it is possible investors may overly discount values, as they already appear to have done in the quoted real estate segment.

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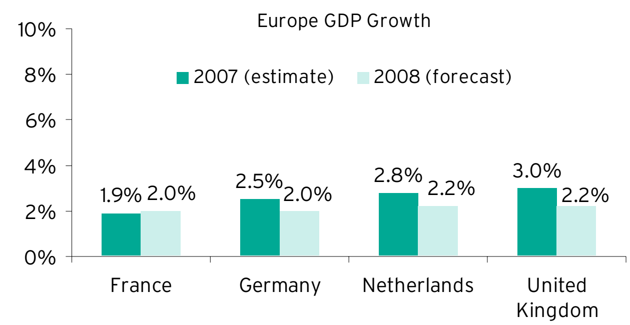
- Headlines from the sector may remain negative for some time, particularly if highly leveraged investors begin to breach lending covenants as some capital values fall. Favorable opportunities may exist in focusing on lower leveraged companies at this stage in the cycle. However, support for asset valuations is likely to be received during 1H 2008 by at worst stable and at best falling benchmark interest rates. The U.K. in particular is expected to reduce base rates significantly during 2008. Eurozone bankers could maintain a hawkish stance in the face of lower GDP growth, as they seek to focus on above-target inflation levels.
- Corporate activity is more likely skewed toward sector consolidation than expansion. At large discounts to net asset value and attractive implied yields, private capital might see any pricing inefficiencies as the opportunity for privatization activity during 2008.
- An additional key focus for the period, based on slowing economic growth, will remain the sustainability of occupancy and rental levels and, thereby, earnings growth and continued dividend increases. Capturing the recent year's market rental growth through active asset management will be key and will demonstrate the value of high quality management teams.
- With stock discounts to NAV of up to 60%, competitive dividend yields and regional average earnings growth of around 8%, value and growth characteristics do exist across the region. However, the timing of catalysts for reaping growth remains highly uncertain.
- With a REIT structure recently legislated in Italy, only Finland now remains to conclude its ongoing process of adoption. Structural improvement to the German and Italian REIT regulations may, however, become a feature of 2008.

Economic Overview



Source: Blue Chip Economic Indicators

- Consensus GDP growth for the Eurozone area is 2.0% for 2008, with U.K. GDP growth at 2.2% according to Blue Chip Economic Indicators.
- In the Eurozone, internal demand remains lackluster, so focus remains on the implications of the strong Euro currency on the export-led recovery. However, the ECB continues its hawkish stance, so trend-like GDP growth for 2008 appears likely to be complemented by static monetary policy.
- In the U.K., higher interest rates have taken their effect on house prices, with recent data showing falling prices. The U.K. economy bears resemblance to the U.S. with debt levels high and growth slowing, the Bank of England has now begun a cycle of monetary easing which is anticipated to continue throughout 2008 and support a soft landing for house prices and trends in consumption.
- The peripheral economies of central and eastern Europe and Scandinavia continue to show above-average growth, although inflation levels have risen during 2007.

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Underlying Real Estate Markets

Office

- Despite a softening of economic and employment growth prospects, the region's office markets have seen occupancy rates and rents consistently increase throughout 2007. Vacancy rates in a number of key cities now lie in the 3% to 5% range, which is considered a structurally fully occupied level. Supply pipelines remain limited in most markets.
- Many markets now show reversionary characteristics, with active managers seeking to capture substantial upside possible from releasing, rent review and lease re-gearing activity. Highest levels of reversionary potential, of up to 50%, are evident in companies with exposure to London, Paris, Oslo and Warsaw.
- The sustainability of recent rental gains remains a key for the region and focus will remain on the economic outlook for indications of direction throughout 1H 2008. Best rental growth markets for 2008 are expected to include Paris, Oslo, Stockholm and Warsaw. At present, no significant rental declines are forecast, albeit there may be minor softening in 2009 or 2010 in cities that have seen higher levels of recent growth. This may include part of London where rents have risen by more than 40% in the past three years.
- French office rents are expected to see a 5% indexation gain during 2008, after 7% growth in 2007.

Retail

- Consumer spending has been robust during 2007, but is perhaps less certain for 2008. Despite some concerns over high-street-retail and secondary-quality-exposed companies, demand for space in prime retail locations continues to be robust and prime-retail-focused companies were generally outperformers during 2007. Vacancy rates across the sector are extremely low and annual rental growth in the prime segment is still envisaged at 3% to 4%. Retail-focused stocks with exposure to France, Sweden and central Europe appear best placed for growth.

Industrial/Logistics

- Rental and earnings growth and the performance from companies in this sector remain muted across Europe. However, growth opportunities, as a result of global trading patterns, remain around the major port hubs in the Netherlands, Belgium and Germany.

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North America Overview

2007 Performance Review

2007 FTSE EPRA/NAREIT Total Returns				
	Local Currencies	US$	€	¥
Canada	-12.3%	3.4%	-6.7%	-3.0%
United States	-16.4%	-16.4%	-24.6%	-21.6%

Source: FTSE EPRA/NAREIT

- The United States produced a -16.4% USD return for 2007, lagging the FTSE EPRA/NAREIT Global Real Estate Index. Meanwhile, Canada produced a 3.4% USD return (-12.3% in CAD) during the year.
- While both countries have benefited from stable to improving property fundamentals, concerns regarding the impact from the subprime-induced credit problems led to relatively weak performance during the year. Investors appear to be anticipating an increase in initial yields (or capitalization rates) on underlying properties. It seems likely that some yield expansion will occur, yet the magnitude of the increase is likely to be undetermined until the credit market begins to stabilize.
- Canada's above-average performance likely reflects a stronger economic growth profile given its exposure to the energy sector, while the expected indirect effects from a slowdown in the single-family market are likely to be smaller than in the U.S.
- Capital flows into the listed property sector weakened as sentiment toward the group worsened during the year. The U.S. REIT market experienced mutual fund outflows of roughly $5.7 billion in 2007.
- In the U.S., property sectors that outperformed the index during 2007 included specialty, health care and industrial. Outperformance in these sectors related to either perceived defensiveness during periods of slower economic growth (health care and specialty) or exposure to stronger international economic growth (industrial). Property sectors that underperformed the index included self storage, apartments and lodging. These sectors are generally more closely linked to the overall economy. Therefore, investor expectations for slower economic growth weighed on these sectors, particularly toward the end of the year. In addition, weakness in self storage related to one firm that substantially underperformed expectations.

Outlook for 1H 2008

- As was the case last year, the U.S. economy may continue to suffer from credit market weakness, widening credit spreads, and declining single-family housing. These factors could continue to be common themes for 2008, potentially weighing on North American real estate securities.

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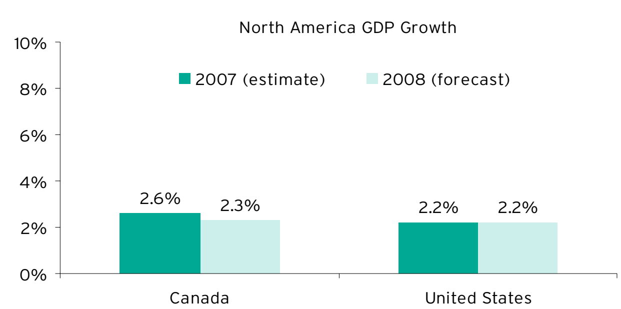
- While the outlook for economic growth appears somewhat tepid, the real estate market should begin the year in relative health. Occupancy remains above historical averages across most property sectors/markets and supply does not appear to be accelerating significantly.
- The key risk remains the overall U.S. economy if the credit markets remain challenged and the housing sector continues to weaken. Job losses and reduced consumer spending could enact a sustained negative impact on U.S. economic growth during the year if these challenges persist.
- Nevertheless, the possibility remains that the REIT market may have overly discounted these concerns. According to Green Street Advisors, U.S. REITs as of the end of 2007 traded at a 24.7% discount to the value of the underlying assets (a material discount compared to the sector's long term average premium of 4.0%). Given this discount, the REIT market appears to be pricing in a large increase in cap rates (or initial yields on properties) given the uncertainties in the debt market. At year end 2007 valuations, it would require cap rates to increase well more than 100 basis points before REITs would trade at their underlying NAV.
- In addition to the apparent discount to underlying property values, the REIT market may also offer yields that are more attractive to those of other asset classes such as bonds and other equities. As the Federal Reserve reduces interest rates, REIT yield spreads to treasuries are beginning to look more compelling, a remarkable change from one year ago when REIT dividend yields remained significantly less than government bond yields.
- It appears likely that sentiment towards the group may remain challenged until the economic outlook becomes clearer and the credit markets begin to stabilize. If these events occur, then the relatively healthy fundamentals present in the real estate market, improved yield spreads and current discount to underlying property values may indicate attractive relative value for the sector. Yet even if sentiment improves, moderating earnings growth in the sector does not suggest that a return to the strong performance years of 2003 to 2006 is likely.

Economic Overview

- Consensus forecasts indicate the U.S. is likely to deliver 2.2% economic growth in 2008, roughly in line with the estimated economic growth rate in 2007. Yet downside risks exist if global economic growth slows materially or the housing downturn/credit market weakness continues to worsen.



Source: Blue Chip Economic Indicators

- The Canadian economy appears relatively stable, as growth in consumer spending continues to be driven by strong employment, rising household wealth, and favorable credit conditions. However, consensus forecasts indicate that economic growth will decelerate in 2008 as the Canadian dollar appreciation together with a slowdown in the U.S. economy would be a drag on net export growth. Conversely, Canada is estimated to have produced a 2.6% economic growth rate in 2007, while for 2008 consensus forecasts a GDP growth of 2.3%.

Investor Demand/Capital Market Events

- Sentiment toward the U.S. REIT market has weakened considerably in recent months. Credit concerns stemming from the subprime market have resulted in widening debt spreads, offering the potential for declines in real estate valuations. It remains a possibility that market volatility may persist and sentiment could remain weak until the credit market begins to stabilize.
- After some initial deals were closed during the first half of the year, the privatization support for the market disappeared during the summer as credit availability declined and debt spreads widened. It can be argued that the privatization bid provided a "floor" to the market in recent years. With this support largely absent, the U.S. REIT market delivered weak price performance, particularly during the second half of the year.
- In Canada, commercial real estate fundamentals remain generally positive. Leasing fundamentals remained favorable in office and shopping centers and stable to strong in residential rental markets. Increased debt spreads and the expectation of higher property cap rates have kept many investors in a wait-and-see mode. Nevertheless, the more limited amount of recent commercial property transactions has not yet confirmed a significant change in property capitalization rates.

Underlying Real Estate Markets

Office

- The U.S. REIT office sector reversed its outperformance trend in recent years with relatively weak returns in 2007. Investors appeared to become increasingly concerned about property valuations given expanding debt spreads and a potentially weakened financial services sector. Nevertheless, U.S. office market conditions remain relatively strong, with rents increasing and supply and demand in relative balance. However, as economic growth decelerates, it stands to reason that rental rate increases should decelerate, perhaps markedly so in certain instances. Furthermore, until the financial sector reaches a point of stabilization, concerns regarding the office sector may persist.

Retail

- The U.S. retail REIT sector slightly underperformed the overall REIT market in 2007 as regional malls weakened and shopping centers performed even worse. The regional mall REITs and shopping center REITs continued to suffer from a myriad of factors, including U.S. consumer weakness and a fear that development pipelines, significant debt maturities and transactional income could all pose problems in 2008.

Market Commentary

Global Property Stock Overview

FIRST HALF 2008

- Both regional malls and shopping center REITs are still benefiting from at least stable property level fundamentals, which continue to be driven by a somewhat healthy appetite from retailers still willing to grow through expansion. There are cracks appearing, though, with many retailers slowing their expansion plans and some refocusing their growth back to higher density and higher income areas. The potential for a slowdown in consumer spending is an increasing possibility and could be realized sometime in 2008. Development starts have continued to increase for retail REITs in the past year or so, and although this new supply has been predominantly tenant driven and is around long-term averages, it could become a problem if economic growth materially slows.

Residential

- The apartment sector significantly underperformed the REIT index during 2007 as investors expressed concerns over moderating job growth and the oversupply of housing stock in the form of unsold inventory and shadow developments. Job growth has continued to moderate from peak levels in 2006, which could indicate a diminishing level of apartment demand. Additionally, there is increased uncertainty and pessimism in the housing markets as single-family rentals and condo inventory begin to compete with traditional apartment rental units. In light of these challenges, tempered expectations for top line revenue growth and the repricing of risk in development pipelines led to relatively poor performance for the group after a very strong 2006. Despite the challenging environment in the sector, underlying fundamentals should hold up based on beneficial trends in homeownership rates and the relative cost to rent compared to the cost to own.

Lodging

- While registering strong outperformance in the first half of 2007, the lodging sector underperformed for the year. The group was supported by privatizations during the first part of the year, but with concerns mounting around the overall economy, investors began to rotate out of the sector given its less certain income profile.

- Overall, lodging fundamentals remain favorable, as revenue per available room (RevPAR) growth continues to track above long-term trends. While above its long-term average, growth appears to be moderating, suggesting slower earnings growth for the sector going forward.

Industrial/Logistics

- Performance in the industrial sector outperformed the overall U.S. REIT market during 2007. Strong earnings announcements and expectations for increased fundamental strength outside of the U.S. contributed to the sector's strong relative performance. Fundamentally, the U.S. industrial sector is likely to moderate as slowing economic growth begins to impact tenant demand.