



Executive Summary

Sophisticated investors long have looked to real estate as a source of income, capital growth potential and portfolio diversification. The growth of listed property companies such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs) has further enhanced real estate investing with the liquidity and transparency of the public marketplace. In recent years, we have witnessed another important stage in the evolution of the market: the expansion of REITs and public real estate as global investments.

For a variety of reasons that we will outline in this paper, the maturation of the public global real estate market offers investors an important new avenue for alpha generation and diversification. Along with outlining the fundamental case for the asset class, we also provide our view on promising sectors of the market.

Growth of Global Public Real Estate

The emergence of listed property companies on a global scale is a very recent phenomenon. Since 2003, the market capitalization of the global universe of listed real estate securities, represented by the FTSE EPRA/NAREIT (European Public Real Estate Assn. / National Assn. of Real Estate Investment Trusts) Global Index, has quadrupled to about \$1 trillion. Over the same period, the U.S. share of the FTSE EPRA/NAREIT Global Index has declined to 35% from over 60%. (Exhibit 1.) We project that the market capitalization will continue its heady expansion, and double its size to \$2 trillion in seven years as more companies become publicly traded.

Capitalizing on the Global Growth of Public Real Estate

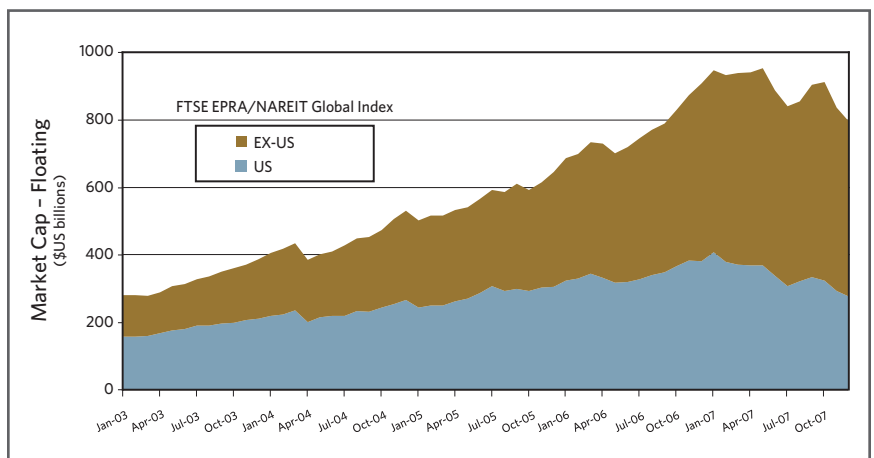
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Exhibit 1

Global Public Real Estate Has Grown Dramatically



Source: EPRA, Factset

As the global universe has become less concentrated in the U.S., it has become a much better source of diversification, especially for U.S. investors.

The growth in size and diversification both have been fostered by legislation that has spurred IPO activity in countries such as Hong Kong, Japan, Brazil, Germany and France. All major global regions now offer investors the ability to select from a range of strong and viable property companies. And as the global universe has become less concentrated in the U.S., it has become a much better source of diversification, especially for U.S. investors.

Investors seeking exposure to the asset class can consider portfolios that mirror major benchmarks such as the FTSE EPRA/NAREIT Global Index. A growing number of exchange traded funds and derivatives offer exposure to that Index. Because it is capitalization-weighted, investors would passively gain a greater exposure to ex-U.S. real estate as that sector grows. As of December 31, 2007, the FTSE EPRA/NAREIT Global Index had 38% in North American properties, with 19% in Europe and 43% in Asia.

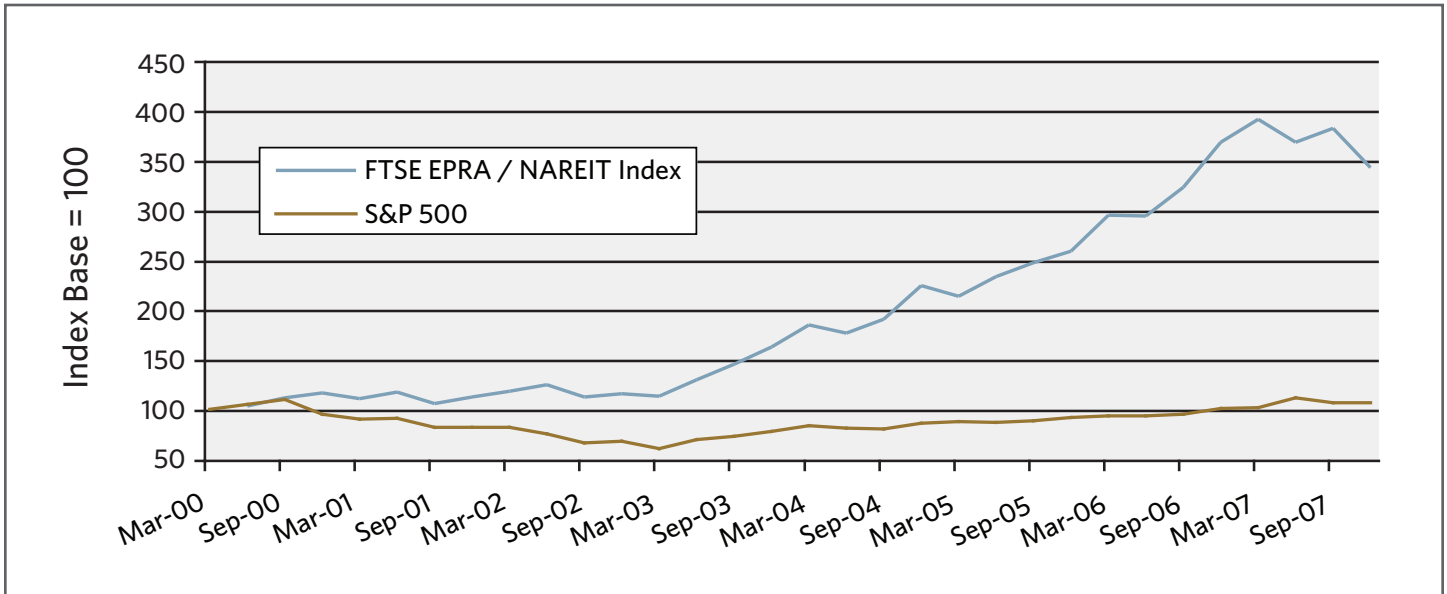
The Case for Active Management

However, because of the many idiosyncrasies in real estate, the prevalence of local factors in valuation and the numerous inefficiencies, there is a strong case for active management that is supported by expertise and proprietary research. Managers seek to add alpha by overweighting those countries and regions likely to provide the highest risk-adjusted returns. Often, the optimum risk/reward portfolio bears very little resemblance to the index. The market's ability to support such strategies is a very recent development.

Thus, the diversification available from public, global real estate is threefold: First, real estate itself historically has a low correlation with equities and other major asset classes. Second, because real estate is still primarily driven by local economics, regions within the asset class also tend to perform independently. Third, if global real estate is pursued through an actively managed strategy, the weightings and positions selected will typically work to distinguish performance from the "beta" represented by the benchmarks.

Exhibit 2 (on pg. 3) shows how the FTSE EPRA/NAREIT Global Index has performed since inception in 2000 vs. the S&P 500. The FTSE EPRA/NAREIT Global Index has had a 17.21% compound annualized return over that period, with annualized volatility (standard deviation) of 15.4%. Its Sharpe ratio is 1.12, indicating a favorable risk-adjusted return. Over the same period, the S&P 500's compound annualized return was 0.85%. Its standard deviation was 13.2%, with a Sharpe ratio of 0.06. One should not expect such dramatic disparities between public real estate and the equities market all the time, but the period underscores the diversification value of global public real estate.

Exhibit 2
Global Public Real Estate Has Performed Well



Source: FTSE, Standard & Poor's Corp. Please see index definitions at end.

The potential for attractive returns – and the variation in performance among regions – is illustrated by Exhibit 3. The matrix is notable for the wide range of returns and the rotation of market leaders.

Exhibit 3
Top Performing Global Real Estate Securities Countries (in \$U.S.)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| 1 | Spain 59.01% | Finland 62.31% | Denmark 73.45% | Denmark 174.55% | Greece 126.65% | Hong Kong 55.35% |
| 2 | Finland 37.39% | Sweden 50.27% | Spain 58.16% | Japan 51.44% | France 80.97% | Singapore 12.68% |
| 3 | France 36.47% | Spain 48.48% | Sweden 56.37% | Hong Kong 46.27% | Finland 76.67% | Canada -1.72% |
| 4 | Austria 25.72% | Singapore 44.94% | Italy 54.37% | Spain 46.16% | Italy 76.53% | Australia -2.67% |
| 5 | Netherlands 24.57% | Canada 43.34% | France 53.10% | Singapore 27.62% | Singapore 72.13% | Belgium -3.38% |

Source: Bloomberg LLC, Performance is represented by FTSE EPRA/NAREIT individual country real estate securities indices.

Our strategy is to focus on high growth markets with above-average GDP growth and population trends that favor strong real estate fundamentals. For example, we view Hong Kong/China, Singapore and Western Canada as high growth markets that are likely to provide strong real estate returns for years to come.

Just as diversification works on several levels for global REITs, their transparency also has different aspects. First, REIT financial reporting conforms to the same requirements as all publicly traded securities of the relevant country and shares are valued through exchange trading. Such distinctions set REITs apart from privately held real estate.

But there is also a more fundamental kind of transparency pertaining to enterprise risk. With real properties as the underlying assets, there is near perfect transparency into a company's strategy and business plan. While real estate certainly requires sophisticated analysis, the "wildcards" that exist in sectors such as technology (e.g., product obsolescence or loss of patent protection) are not factors. There are virtually no derivatives or complex securitized instruments on the balance sheet.

Global REITs also provide the liquidity common to exchange-traded securities, which removes one of the major obstacles many investors have to participating in private real estate strategies. And while total return is still the major objective, global REITs by nature still are one of the higher-yielding equity stocks. As of December 31, 2007, the FTSE EPRA/NAREIT Global Index had an average yield of 3.5%

For the balance of this review, we offer Urdang's perspective on the global public real estate market. Our strategy is to focus on high growth markets with above-average GDP growth and population trends that favor strong real estate fundamentals. For example, we view Hong Kong/China, Singapore and Western Canada as high growth markets that are likely to provide strong real estate returns for years to come.

Urdang's Outlook for 2008 and Beyond

Looking back at 2007, the wide dispersion of returns within the global real estate market reminds us that the world is still a very big place, and that real estate, like politics, remains a very local business. While the U.S. and U.K. property markets face stiff headwinds, Asia, South America and Western Canada real estate fundamentals continue to improve as a result of broad-based economic expansion.

While globalization ties financial markets together in real time, property markets are far more dependent on longer-term trends, demographics, economic lifecycles and geography. Regional trends like urbanization in China and India, the aging of populations in Japan and Germany, and Canada's emergence as a competitive producer of oil, will dominate the health and structure of their real property fundamentals for years to come.

The vast majority of capital flows into listed property funds in 2007 were global mandates.

Last year's volatility underscored the need for diversification and served as a reminder to keep the big picture in perspective. As investment managers of global listed real estate, we take comfort in the following big picture trends affecting public real estate for 2008:

- Global growth remains strong, fueled by trade-based economic expansion in Asia, but tempered by weaker growth in G5 countries.
 - Commercial real estate fundamentals around the world are healthy.
- Burgeoning middle class populations in the "BRIC" countries - Brazil, Russia, India and China - are creating unprecedented demand for housing and commercial property.
 - Eight million new homes are needed to meet existing demand in Brazil (*Economist*, 4/12/07).
 - Demand for residential units in China's urban areas would amount to 13 million units per year over the next decade, consisting of 8.3 million new units and 4.7 million replacement homes (CBRE Research 2007).
- In developed countries, high land prices and rising commodity prices have pushed up the costs of new construction, thus limiting the risk of an imbalance between supply and demand.
 - Demand is expected to weaken as developed nations' economies slow, but supply of new commercial real estate is also falling.
- Widening credit spreads are being met with lower short-term interest rates, which should buoy financial investments into 2008.
- Global legislation trends favor public ownership of real estate as more jurisdictions adopt REIT-like structures.
 - Italy, Germany and the U.K. adopted REIT legislation in 2007.
 - IPO activity in emerging markets should remain robust, as private companies seek to capitalize on significant growth opportunities.
 - IPO pipelines for property companies in Russia, Philippines, India and Mexico are growing.
 - IPOs are expected to provide substantial opportunities for listed property investors.
- The flow of investment capital into listed property companies is expected to grow as investors seek higher yielding assets with transparency, liquidity and inflation protection.

Hong Kong and China-focused firms should continue to ride the tailwinds of solid domestic growth. Double-digit GDP and disposable income growth continue to fuel demand for housing and commercial real estate properties, and to provide support for future property appreciation.

Lower valuations for commercial property in the U.S. and U.K. are expected in 2008, but are likely priced into current stock valuations.

Having fallen 13.3% and 32.7% percent respectively in 2007 (in U.S. dollars), investors in U.S. and U.K. property companies are projecting commercial real estate prices to fall in 2008. While newspaper headlines have focused on weakness in housing markets, public stock investors have been focused on growing expectations for commercial real estate property prices to fall back to earth after several years of exuberant appreciation. Unlike the housing market, which is experiencing a hangover of supply and weak demand (due to reduced credit availability, as lenders pull back from aggressive, irrational lending standards), commercial property market fundamentals are quite healthy from a supply and demand perspective.

Provided that we are witnessing only a price correction, we would expect the market to find a bottom when the outlook for economic growth improves. While we are optimistic that this outlook will improve in the first half of 2008, we intend to remain underweight the U.S. and the U.K. until we have greater confidence in this expectation. The severe drop in share prices for U.S. and U.K. property companies in 2007 provides an excellent entry point, particularly for new, long-term strategic investors.

Economic growth in Asia and Emerging Markets will continue to raise the roof on rents and property valuations.

Hong Kong and China-focused firms should continue to ride the tailwinds of solid domestic growth. Double-digit GDP and disposable income growth continue to fuel demand for housing and commercial real estate properties, and to provide support for future property appreciation.

Even Japan has emerged from a long period of stagnant real estate prices. Stable economic growth is providing long-overdue growth in rental rates and property values for developers in Tokyo, Osaka, and Nagoya.

While we expect the portfolio to remain overweight large developed real estate and capital markets in Asia and Continental Europe, we are evaluating opportunities in many other emerging corners of the world. For instance, in Brazil, falling interest rates, increasing wages, low inflation, an emerging mortgage market, and steady GDP growth are setting the stage for a prolonged property market boom.

Potential Issues of Investing In Global REITs

As with any relatively new and growing market sector, investors considering allocations to global public equities should be aware of potential issues. These include:

- Changes in legislation could make REITs less attractive (e.g. China, Canada).
- Volatility can stem from two sources: the underlying property assets and general equity market sentiment. In certain markets, real estate securities tend to be highly correlated with broader equity markets, where the real estate market cap represents a significant portion of the overall equity market cap (e.g. Hong Kong). In such an environment, REITs tend to become more correlated with the economy.

Global public real estate has reached the “sweet spot” for sophisticated investors. It has developed sufficient visibility and liquidity to support robust “betas” represented by a number of indexes, along with active strategies capable of adding alpha.

- Liquidity may be restricted at times, as many property securities are smaller cap stocks. More than 75% of the European component of the FTSE EPRA/NAREIT Global Index is in three countries. Of the other 10 European countries in the index, five have only one or two listed stocks.
- There are few truly global managers, and most lack significant track records. Many public global REIT funds are fairly young, with limited performance histories.
- Inefficient markets are a double-edged sword: they create opportunities for investors with the expertise and resources to perform the necessary due diligence. On the other hand, real estate markets can present pitfalls even for sophisticated investors, where there is a lack of analyst coverage and limited public information.
- Taxes or dividend withholding taxes may be an issue in some countries.
- Many countries are under-represented in terms of securities versus the size of their real estate markets – e.g. Germany and Italy have large real estate markets yet together represent only six companies in the FTSE EPRA/NAREIT Global Index. Some developed countries have no listed property securities that meet the criteria for inclusion in the index (e.g. Ireland, Greece, Portugal).

Conclusion

Global public real estate has reached the “sweet spot” for sophisticated investors. It has developed sufficient visibility and liquidity to support robust “betas” represented by a number of indexes, along with active strategies capable of adding alpha. At the same time, the tremendous heterogeneity of regional marketplaces and the lack of efficiency present a number of opportunities. It offers investors the capability of tapping into some of the world’s fastest growing economies. Assuming investors observe the caveats appropriate to any growing sector, global public real estate deserves careful consideration as a strategic portfolio investment.



E. Todd Briddell, CFA

Mr. Briddell is the Managing Director and Chief Investment Officer responsible for Urdang's Global and Domestic investments in publicly traded real estate. Mr. Briddell co-founded the real estate securities group in 1995. Under his leadership and direction, Mr. Briddell currently manages over \$3 billion in real estate securities on behalf of more than 60 institutions. Mr. Briddell oversees all business and research activities relating

to Urdang Securities Management's investment portfolio and heads the REIT portfolio management committee. Mr. Briddell developed the Company's proprietary valuation methodology.

Mr. Briddell has more than 16 years of real estate investment experience. Mr. Briddell is a member of Urdang's direct real estate investment committee, which has acquired and/or disposed of more than \$5 billion in privately held real estate investments. Additionally, Mr. Briddell is a member of BNY Mellon's Management Committee for Urdang.

Prior to joining Urdang, Mr. Briddell had been vice president for a large pension fund advisor responsible for restructuring an internationally syndicated opportunity fund. Mr. Briddell has a B.S. in economics from the Wharton School of Business at the University of Pennsylvania with concentrations in finance and real estate. He is a member of NAREIT, the CFA Institute/Society of Philadelphia and Co-Chair of the Green Building Affinity Group of PREA.

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The FTSE EPRA/NAREIT Global Index tracks the performance of listed real estate companies and REIT's worldwide; the FTSE EPRA/NAREIT U.S. Index and the FTSE EPRA/NAREIT Global ex-U.S. Index are subsets. The S&P 500 Index is an unmanaged capitalization-weighted index of 500 publicly traded stocks. The indexes are trademarks of FTSE and the Standard and Poor's Corp., and are used herein solely for comparative purposes. The foregoing index licensors do not sponsor, endorse, sell or promote the investment strategies or products mentioned in this paper and they make no representation regarding the advisability of investing in the products or strategies described herein. *Standard deviation* is a common indicator of volatility that measures the dispersion of data points from the mean. The *Sharpe ratio* is a common measure of risk-adjusted return, expressed as a unit of return per unit of risk, typically standard deviation. Beta refers to the general market, measured through a particular benchmark such as the S&P 500, or a broad market category, such as the FTSE EPRA/NAREIT Global index for public real estate. *Alpha* refers to the degree to which an active manager outperforms or underperforms the appropriate beta benchmark.

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