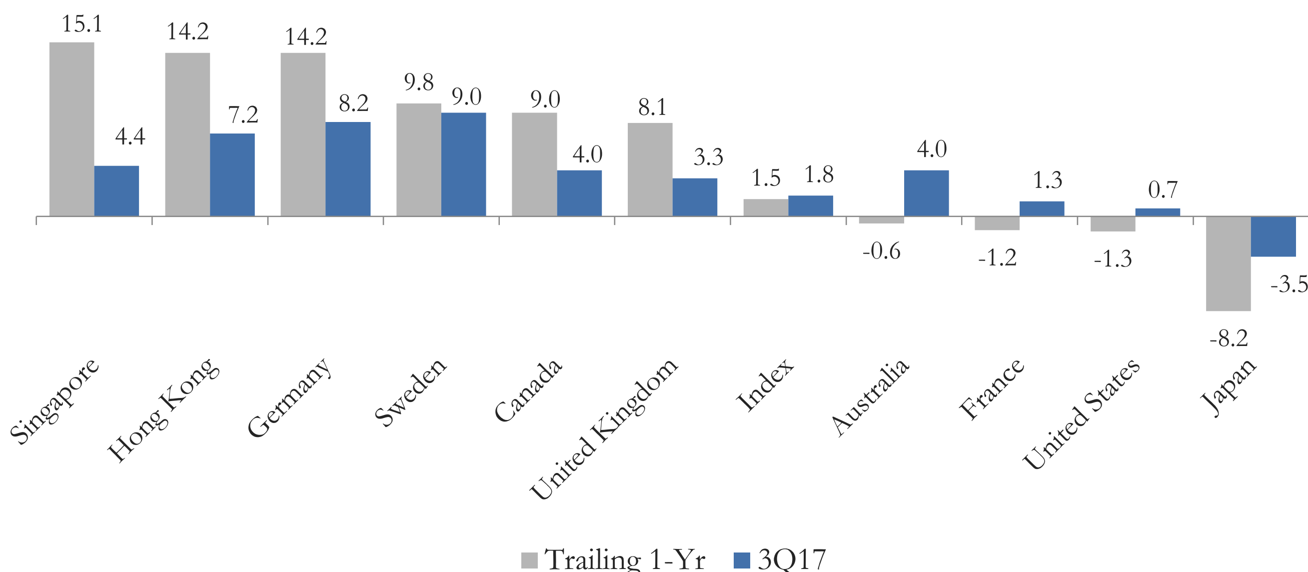
Global property securities market total returns (%)

Index/region	3Q17	YTD	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	1.8	7.3	1.5
Asia-Pacific	2.0	9.9	1.7
Europe	4.9	20.0	9.3
North America	0.9	2.7	-0.8
FTSE All World Developed Index	5.0	17.0	19.2
JP Morgan Global Aggregate Bond Index	1.7	6.0	-1.0

Source: Bloomberg, FTSE EPRA/NAREIT, and FactSet in USD.

Geopolitical events and hurricanes created noise and volatility, yet global property securities deliver positive returns for a third consecutive quarter with performance dispersion in markets and property sectors. Synchronized global growth appears to be a theme that has gained momentum this year, but with the pace and direction of economic growth quite diverse and restrained inflation a worry for some, it may soon put central banks in a delicate position as some begin the process of tightening monetary policy. Europe again delivered the highest total returns as its economic recovery continues despite periodic bouts of political uncertainty. The logistics sector remained among the most favored globally, while investor worries for the retail sector persisted. The broader equity markets continued to outperform both property securities and bonds as investors favored exposure with greater sensitivity to an improving global economy and worries of higher interest rates remained.

Performance by Country (% in USD)
FTSE EPRA/NAREIT Developed Index



Source: FTSE EPRA/NAREIT and FactSet in USD for countries representing at least 1.0% of Index weight.

North America (56.1% of the Index)	3Q17 Total Return		
	North America	U.S.	Canada
Index Weight	56.1%	53.3%	2.8%
Local Currency	0.7	0.7	0.1
USD	0.9	0.7	4.0

Source: FTSE EPRA/NAREIT and FactSet.

North America lagged the other two regions for a third consecutive quarter and continues to trail the other regions both on a year-to-date and trailing 1-year basis. U.S. REIT performance remains uneven with significant dispersion among the various property sectors.

While economic data has appeared mixed at times, estimates for U.S. economic growth in the second quarter of 3.1% reflected a pickup from 1.2% in the first quarter. Early estimates for the third quarter of ≈ 2.5% take into account some expected impact from a difficult hurricane season. Meanwhile, the FOMC at its September meeting indicated that it feels comfortable enough with the U.S. economy to soon start the process of unwinding some of its past stimulus by gradually reducing the size of its balance sheet. Another hike of its short term base rate is expected in December, with three more likely over the course of 2018. **With the 10-yr U.S. Treasury yield little changed over the quarter, all eyes will be on the long end of the yield curve as the "great unwind" begins, as well as the reaction of other central banks around the globe**.

The wide variability in total returns by property sectors has been a continuing theme throughout the year. Property types with secular demand drivers and stronger growth such as Industrial and technology property sectors (i.e. data center and cell tower companies) outperformed once again. **Better than expected second quarter results from many of the U.S. Industrial REITs made it the best performing property sector**. While it is fair to question how much longer the strength in operating fundamentals can persist, recent data suggests the near term outlook for operating fundamentals remains favorable with fuller valuations being the debate for investors.

The quarter also evidenced the reemergence of hopes for "Trumpflation", which was reflected in investor preference for shorter duration leases over longer duration leases with Storage and Hotels outperforming Office and Health Care. Storage may have experienced some mean reversion after meaningful underperformance in 2016 and the first half of 2017. Some indications of a near term pickup in demand following the hurricanes in Florida and Texas may have also boosted investor sentiment. Hotels got a lift from improving business confidence and expectations for increased corporate spending from Trump's continued push for pro-growth policies such as tax reform.

Apartments, Manufactured Housing and Single Family Rentals did not benefit from the short duration preference as each underperformed to varying degrees. The return of investor worries over decelerating fundamentals and new supply affected Apartments in the quarter, while uncertainty over the potential impact of the recent hurricanes affected Manufactured Housing sentiment given property exposure to the affected areas.

Local Retail REITs enjoyed a slight reprieve from the investor malaise for retail property stocks and delivered positive returns for the quarter. While questions remain regarding the structural changes occurring in retail from e-commerce and Amazon's acquisition of Whole Foods, the sector may have been oversold given it has the weakest year-to-date total returns among core property types.

Regional Retail remained a relative underperformer with negative returns, but with a wide range from top to bottom performers. General Growth Properties announced an abrupt halt to its strategic alternatives process, while Taubman Centers provided disappointing 2Q results and a downward revision to guidance. Both were easily the bottom performers in their sector.

Canadian REITs continued to tread water with flat total returns on a local currency basis. USD denominated investors did benefit from a stronger CAD as the Bank of Canada raised its base rate twice in the quarter, boosting the CAD to its highest level in 2 years versus the USD.

Asia-Pacific (26.3% of the Index)	3Q17 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	26.3%	9.9%	8.1%	5.7%	2.5%
Local Currency	1.4	-3.3	7.2	1.6	3.0
USD	2.0	-3.5	7.2	4.0	4.4

Source: FTSE EPRA/NAREIT and FactSet.

The Asia-Pacific region produced positive total returns for the quarter, but there was wide dispersion between the highest and lowest performing country in the region. Hong Kong led the way once again, while Japan was the clear laggard. The impact of currency movements versus the USD was modest overall.

Hong Kong property developers delivered strong returns for the quarter with their stock prices buoyed by the prospects of finally converting their long-held farmland investments into residential use. In contrast to demand side restrictions that have dominated the housing market in recent years, government policy now appears to have shifted more towards supply initiatives to address Hong Kong's housing affordability crisis. **Some Hong Kong property companies also got a boost to their share prices from a new-found focus on restructuring to improve shareholder returns.** The Hong Kong listed property sector has long been reluctant to sell investment properties and reduce the size of their empires despite an apparent conglomerate discount. A number of entities are beginning to narrow their focus or are proposing to restructure in an apparent attempt to improve shareholder returns. In that vein, Wharf Holdings Ltd. recently confirmed its intention to spin-off the majority of its Hong Kong investment portfolio into a separate entity with the shares reacting positively to the announcement. Even Link REIT, which hasn't been afraid to cull non-core assets in the past, announced that it was conducting a strategic review to further optimize its asset portfolio and maximize shareholder value.

Japan delivered the weakest returns in the quarter, reflecting a combination of uninspiring quarterly earnings results, ongoing geopolitical tensions involving North Korea and a weakening of hopes for reflation. Prime Minister Abe surprised some by calling for snap elections in October. While it is generally expected that he will preserve his party's 2/3 majority, any signs of weakening support could impact investor sentiment. Domestic investment trust flows out of JREITs slowed, but remained negative. Despite that, the JREITs outperformed the Japanese property companies/developers for the quarter with a local currency total return of -1.3% versus -2.8%.

Secondary equity raisings were in overdrive in Singapore – in contrast to many other REIT markets where capital is being returned to shareholders. During the quarter over S$1.5 B (US$1.1 B) was raised which equates to more than 2% of the market capitalization of the S-REIT sector. Among the offerings was a S$700 M rights offering by CapitaLand Commercial Trust to partly fund the acquisition of Asia Square Tower 2 in Marina Bay for S$2.1 B (≈ US$1,990/sf), while Manulife U.S. REIT raised US$ 208 M via a rights issue for a New Jersey office acquisition. The glut of equity offerings may have been what caused Australian listed Cromwell Property Group to initially reduce and then postpone its scheduled listing of the Cromwell European REIT on the Singapore Stock Exchange. The IPO was to have included assets that were a part of Valad Europe, a funds management platform acquired by Cromwell in 2015 that is invested in a value-add strategy across Europe.

A-REITs earnings results in the quarter were generally in line with expectations with retail REITs exhibiting some deterioration in portfolio metrics, while office REITs enjoyed mostly favorable market conditions. Shopping center REIT Scentre Group reported earnings that were broadly as expected, but lowered its distribution guidance to retain more capital for its business. **Scentre Group, along with other retail REITs, continued to be weighed down by concerns on the impact of the arrival of Amazon and pressures on consumer spending.** Goodman Group delivered favorable returns in the quarter as it continued to benefit from the positive trends for the logistics sector across its global footprint.

Europe (17.6% of the Index)	3Q17 Total Return					
	Europe	U.K.	Germany	France	Sweden	Europe (ex U.K.)
Index Weight	17.6%	5.1%	3.9%	3.4%	1.5%	12.5%
Local Currency	1.7	0.1	4.4	-2.3	5.5	2.3
USD	4.9	3.3	8.2	1.3	9.0	5.6

Source: FTSE EPRA/NAREIT and FactSet.

Europe was the best performing region in the quarter and continues to lead the way on a year to date basis as well. Stronger currencies versus the USD continued to enhance USD returns.

The ongoing improved outlook for much of the region, together with some moderation of political risk now that the major elections in France and Germany have passed without a major setback, has kept the market moving forward. That said, the path ahead is not without challenges on both the political and monetary policy front. Brexit negotiations have only just begun between the U.K and the E.U., while both Angela Merkel in Germany and Emanuel Macron in France will still be tested at home and within the EU given the continued presence of far right, anti-E.U. nationalist parties. Meanwhile, the ECB and other central banks will need to manage an eventual shift in monetary policy without damaging the progress made in the region.

U.K. property securities again lagged those in Continental Europe in the quarter, but with some dispersion. The U.K. economy has been slowing, while the ultimate outcome and impact of Brexit remains an unknown. Despite that, the logistics sector was a strong performer, led by U.K. listed SEGRO, which reported strong first half results, continuing to benefit from favorable operating conditions in both the U.K. and Continental Europe where it operates. The weakest performing sector in the U.K. was retail with Intu Properties and Hammerson being among the laggards. The increasing influence of e-commerce in retail has been a positive tailwind for logistics property stocks and a headwind for retail property stocks around the globe throughout the year.

French property stocks had a notably weak quarter driven primarily by share price weakness with its two largest constituents, Pan-European shopping center companies Unibail-Rodamco and Klepierre. Unibail reported half year results that were about as expected, while Klepierre's were a bit mixed. Increased optimism for the French economy following Macron's victory in May gave stocks an initial lift, but it appears to be short lived for the retail sector given weak investor sentiment for retail property stocks globally. Partially offsetting the weakness of the retail sector was positive performance from the French diversified companies, particularly those with exposure to the Paris office market such as Gecina, where half year results provided further evidence of improving operating momentum.

German Prime Minister Angela Merkel was reelected for a fourth term in late September as expected, allowing German property stocks to maintain their positive momentum as the quarter came to a close. Notwithstanding the victory, the political scene will likely experience some uncertainty in the months ahead. The ruling "grand coalition" government lost ground, while the antiestablishment, nationalist AfD party continued to emerge and will have a voice in the new parliament. German residential property companies, which make up over 80% of Germany's Index weighting, continued to lead the way in performance with Berlin focused ADO Properties and Deutsch Wohnen both delivering double digit USD total returns.

Spanish property companies (less than 80 bps of the Index) delivered good returns for the quarter, benefitting from mostly favorable half year results and positive investor sentiment as a result of Spain's ongoing economic recovery. As the quarter came to a close, speculation grew regarding what would become of Catalonia's October 1st independence referendum, which Catalans were attempting to push forward with even though the Spanish government deemed it unconstitutional and illegal.

Swedish property stocks had a solid quarter after reporting good half year results. Potential changes to tax regulation, a headwind early in the year, and the likelihood of the Riksbank moving soon to raise rates given rising inflation were worries for another day.