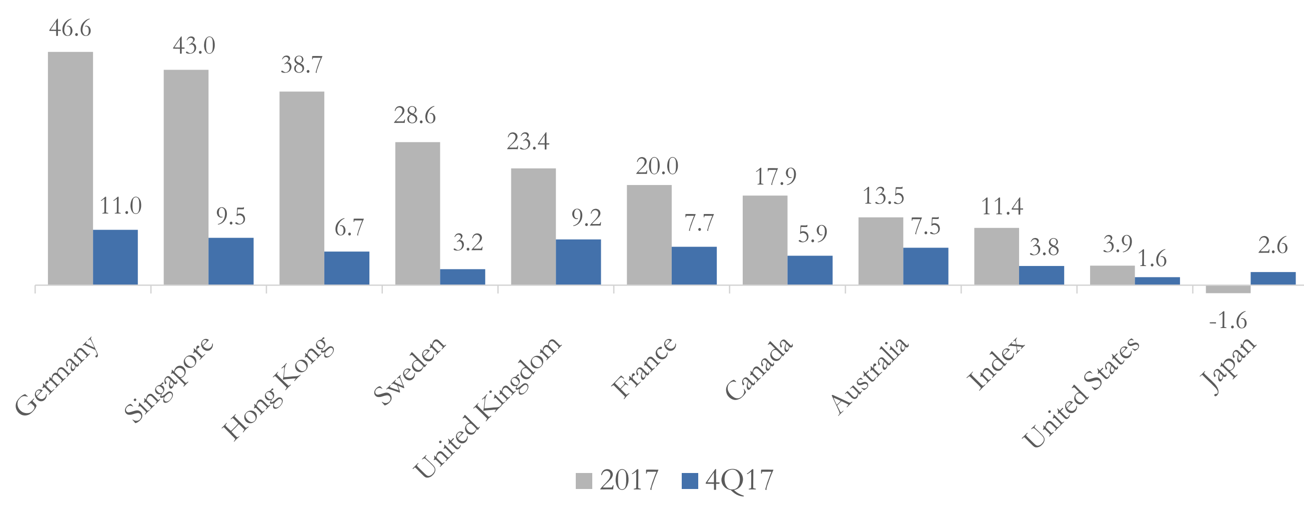
Global property securities market total returns

Index/region	4Q17	2017
FTSE EPRA/NAREIT Developed Index ("Index")	3.8%	11.4%
Asia-Pacific	5.6	16.1
Europe	7.7	29.2
North America	1.8	4.6
FTSE All World Developed Index	5.8	23.8
JP Morgan Global Aggregate Bond Index	1.0	7.1

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

Global property securities produced an 11.4% total return in 2017, outperforming bonds by a wide margin and significantly lagging equities. The synchronized global expansion was the main theme throughout the year. The announcement of U.S. tax reform late in the year raised the prospect of an acceleration of growth in the U.S. that could have trickle affects elsewhere around the globe. While an improved economic outlook is no doubt a positive for real estate over time, it raised the likelihood that interest rates will rise and central banks will continue the process of tighter monetary policy in the coming year. European property securities were the clear winners for the quarter and year as its economic recovery and accommodative central banks lifted markets despite periodic bouts of political uncertainty. The retail sector, out of favor most of the year, got a lift from a flurry of M&A announcements with Unibail-Rodamco's announced acquisition of Westfield Corporation being the most prominent.

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 (55.1 % of the Index)	4Q17 Total Return		
	North America	U.S.	Canada
Index Weight	55.1%	52.2%	2.9%
Local Currency	1.8	1.6	6.1
USD	1.8	1.6	5.9

Source: FTSE EPRA/NAREIT and FactSet.

North America lagged the other two regions for the quarter, just as it has each quarter throughout the year. U.S. real estate securities lagged the S&P 500, which advanced 6.6% in the quarter, the sixth consecutive quarter and second consecutive year of REIT underperformance. **The improving economic outlook has continued to push investors toward more cyclical or growth stocks and left REITs somewhat ignored.**

Economic data for the U.S. released during the quarter was solid with the estimates for Third Quarter GDP growth coming in at 3.2%, compared to 3.1% for the Second Quarter and average GDP growth of 1.9% and 2.0% in 2016 and 2015, respectively. Passage of the Tax Cuts and Jobs Act as the year came to a close increased optimism for an acceleration in growth and risk assets heading into 2018. Meanwhile, buoyed by the strengthening economy, the FOMC raised its short term base rate for the third time in 2017 in December and appears on a path for three more increases in 2018. While the 10-yr U.S. Treasury yield was up only 7 bps for the quarter and declined 3 bps for the year to end 2017 at 2.41%, 2018 may finally be the year that the long anticipated upward pressure in long term rates comes to fruition.

The wide dispersion in total returns by property sectors remained a theme in the quarter; however, the big news was the resurgence in the share prices of retail property stocks which were the weakest performing stocks through the first three quarters of the year. The Regional Retail sector got a boost in November when General Growth Properties (GGP) received a $14.8 B cash and stock offer from Brookfield Property Partners (BPY) for the remaining 66% of GGP it did not already own. BPY's offer was below NAV estimates, but represented a 21% premium to GGP's closing share price on November 6th before reports first came out about a possible deal between the two companies. The news along with disclosures by large, well-known activist investors of ownership positions in two other high quality U.S. mall companies (Macerich Company and Taubman Centers) sent mall company share prices up and gave rise to consideration that sentiment for the sector had become too bearish and share prices overly discounted. Interestingly, none of the M&A activity or speculation involved landlords of lower quality retail assets, which are trading at sizable NAV discounts as well. Investors appear to be making a distinction between value and value traps.

Among the **other property sectors that outperformed in the quarter were Hotels and Manufactured Housing,** whose shorter duration revenue characteristics benefit more quickly in the current environment.

Relative underperformers in the quarter included two of the best performers for the year, the Industrial and Industrial-Mixed sectors, which includes data centers. Investors may have been looking for a little more value elsewhere in taking a breather from these sectors which had enjoyed strong momentum from their secular growth stories most of the year. Apartments underperformed for a second consecutive quarter as investors reassessed valuations in a sector where high levels of anticipated supply remain a risk. **Health Care delivered the weakest returns** in the quarter. Fears of the interest rate sensitivity of their long dated leases, supply concerns and slowing rental growth were all contributing factors.

Canadian REITs outperformed U.S. REITs by 430 bps for the quarter. After raising rates twice in the year in response to improving GDP and job growth, the Bank of Canada took a pause in the fourth quarter due to signs of moderating growth, giving a slight lift to REITs to end the year after seeing flat local currency returns the past couple of quarters.

Asia-Pacific (26.8% of the Index)	4Q17 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	26.8%	9.9%	8.3%	5.8%	2.7%
Local Currency	5.6	2.7	6.8	7.8	7.7
USD	5.6	2.6	6.7	7.5	9.5

Source: FTSE EPRA/NAREIT and FactSet.

The Asia-Pacific region was the second best performing region in the quarter, outperforming the global average.

Australian property securities delivered the best local currency returns in the quarter, but lagged Singapore on a USD basis. A-REIT performance was buoyed by a combination of a slight decline in Australian Government bond yields and most significantly, the announcement of a **takeover bid for Westfield Corporation (WFD) by European peer Unibail-Rodamco (UL).** In early December WFD announced that its board and the Lowy family had agreed to sell the company to UL at a price reflecting a 17% premium to its closing price on the eve of the bid. The transaction valued the company at a slight premium to NAV estimates and an implied cap rate of 4.6%. The combination would reinforce UL's position as one of the leading high quality mall platforms globally with an unrivaled geographic breadth incorporating 104 shopping centers in 13 countries and a combined gross market value of €61.1 B (US$73.3 B). The acquisition enables UL to enter the U.S. and U.K. markets with a compelling portfolio of assets at a fair price. The transaction would also change the complexion of the local and regional indices with WFD representing 16.5% of the Australia's weight in the Index and 3% of the Index pre-merger.

Hong Kong property stocks rallied in the quarter. Catalysts included a stable macro environment following China's five year National Congress meetings and clearer signs of a recovery in Hong Kong retail sales. Indications of capital management initiatives by some companies and a number of prominent shopping center and office property transactions at low yields and well above book value that highlighted sizable discounts to public market prices were an added boost. Hysan Development, Link REIT and Wharf Real Estate Investment Company (Wharf) were among the beneficiaries, with each delivering returns in the low to mid-teens in the quarter. Hysan is expected to get an added lift to earnings from its soon to be delivered Lee Garden Three office and retail development, while Link REIT sold a portfolio on non-core assets to a private equity consortium for HK$23 B (US$3 B). The price was a 52% premium to BV and a 2.8% net income yield. Link REIT began using some to the proceeds for share buybacks, seeking to arbitrage the gap between private and public valuations. Wharf is a new listing, the spinoff of some of the most productive retail assets in the world by its large, diversified owner and developer The Wharf Holdings Ltd. The portfolio is valued at HK$230 B (US$29.5 B).

Japanese real estate stocks were the laggards in the region for the quarter. Outflows from high-yield Japanese REIT mutual funds, partly in response to concerns raised by Japanese authorities, have weighed on J-REITs. Japanese economic growth, which has had so many false dawns in the past, is pointing higher for 2018 thanks in part to Prime Minister Abe retaining power after calling a snap election in the quarter. With the country experiencing low unemployment and growing labor force participation, hope is building for real wage hikes that extends to inflation picking up in the year ahead. Incentives of cuts in corporate taxes for those that raise wages and boost domestic spending would be an added boost to the economy and positive for Japanese property companies.

Singapore office REITs performed strongly as evidenced continued to emerge that market rents had bottomed out and supply levels have peaked. **Singapore focused residential developers were also buoyed by recovering fundamentals** as sales volumes increased in 2017 and supply levels remained constrained, reducing unsold inventory levels to their lowest levels since 1999.

Europe (18.1% of the Index)	4Q17 Total Return					
	Europe	U.K.	Germany	Sweden	France	Europe (ex U.K.)
Index Weight	18.1%	5.2%	4.2%	1.5%	3.5%	12.9%
Local Currency	6.6	8.3	9.3	3.5	6.0	5.9
USD	7.7	9.2	11.0	3.2	7.7	7.1

Source: FTSE EPRA/NAREIT and FactSet.

Europe was the best performing region globally, both for the quarter and for the full year, driven by a mostly improving outlook and stronger currencies versus the USD. The year began in Europe with a cloud of political uncertainty ahead with Brexit negotiations looming and general elections to come in the Netherlands, France and Germany. While the political clouds have yet to clear, a steady pace of improving economic data and accommodative central banks enabled the region to deliver a solid year of returns.

Despite a slowing U.K. economy, U.K. property securities outperformed Europe (ex U.K.) in the quarter with M&A activity and some optimism of a "soft Brexit" giving a lift to share prices to end the year. For the year, Europe (ex U.K.) outperformed U.K. property securities on a local currency (+17.1% versus +12.7%). In early December Hammerson made a £3.4 B all-share offer for shopping center rival Intu. While the implied price of the offer was below Intu's last reported NAV/sh, it reflected a premium of 28% compared to Intu's share price prior to the offer. The U.K. was also able to reach a tentative deal in December on its payment to the EU for its pending Brexit divorce, allowing negotiations to progress to the next phase in early 2018 and giving hope that perhaps a rational deal can be struck that provides a less severe exit for the U.K.. The collective news gave boost to the shares of some of the most discounted REITs like London office. Niche sectors that have performed well all year, such as student housing and self-storage also outperformed.

Germany property securities led in the way in returns both for the quarter and the full year among the major countries in the region and globally. Although German Prime Minister Angela Merkel was reelected in late September, the parties making up the ruling "grand coalition" government lost some ground and she has thus far been unable to form a new coalition government. Despite leaving Germany's governing structure in limbo and raising the possibility of new elections in 2018, Germany's economy has continued to roll along with record low unemployment. While the political uncertainty has not hampered markets thus far, Germany's leadership is critical to Europe and a resolution in the near term remains important to maintaining the positive momentum, both in Germany and Europe as a whole.

Berlin focused German residential property companies lagged their peers, but the residential sector as a whole outperformed driven by continued growth in rents and capital values. Vonovia continued its acquisitive ways and made a €5 B an all-cash offer for Austria listed BUWOG AG whose residential portfolio is split between Austria and Germany. The offer reflected an 18.1% premium to its prior closing price and 20% premium to its July reported EPRA NAV. **The improving office market in Germany also lifted German REITs with an office focus.**

While Unibail-Rodamco's offer to acquire Westfield Corporation (see Asia-Pacific region) was the big news in France and the region, **the other story in France is the improving economic outlook and investor sentiment since Emmanuel Macron's election as President last May.** Macron's success in pushing through labor reforms has no doubt played a role in lifting French business confidence to its highest level in a decade. The improved outlook for the Paris office market has helped lift property stocks with an office focus such as Gecina.

Spanish property stocks (≈ 75 bps of the Index), which have performed well as a result of Spain's ongoing economic recovery and improving property markets, lagged in the quarter. Although it has yet to dramatically alter Spain's economic momentum, uncertainty surrounding a movement for Catalonia's independence remains a potential headwind.