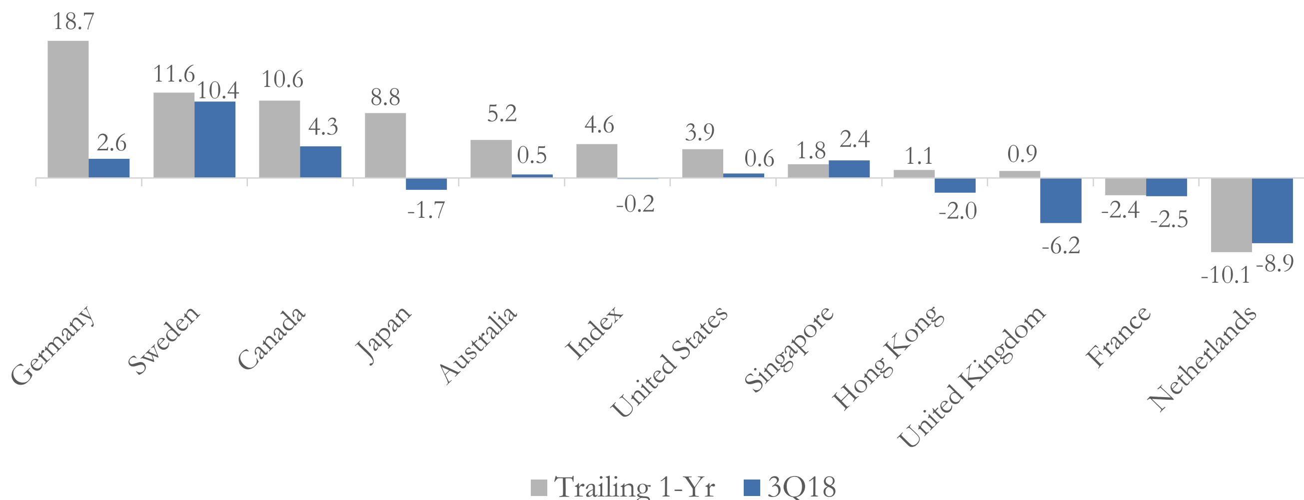
Global property securities market total returns (%)

Index/region	3Q18	YTD	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	-0.2	0.8	4.6
Asia-Pacific	-1.0	-0.7	4.9
Europe	-1.8	-2.3	5.2
North America	0.8	2.4	4.2
FTSE All World Developed Index	4.9	5.4	11.5
JP Morgan Global Aggregate Bond Index	-0.8	-2.4	-1.4

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

Global property securities had an indifferent quarter, reverting back to underperforming the broader equity markets for the quarter after outperforming in 2Q. Property securities continued the trend of outperformance versus bonds. Weaker currencies versus the USD had a modestly negative impact on USD returns. The ongoing threat of global trade wars disrupting the synchronized global growth theme that has been so prevalent created some headwinds throughout the quarter with trade relations between the two largest global economies, China and the US, worsening in the quarter. Meanwhile, emerging market worries have risen and the political landscape around the globe has become more muddled with everything from Brexit uncertainty to the rise of populism creating political division in many countries. The US economy has shown strength through it all, diverging from other economies that have shown signs of slowing. This led the US FOMC to its third rate increase in 2018 and put upward pressure on sovereign bond yields as the quarter came to a close. **The increasingly complex outlook for global growth and pressure on interest rates from a global shift away from monetary stimulus made for a more challenging quarter for property securities with increasing dispersion in performance across countries and property sectors**. While operating conditions in many markets have generally remained stable, the delicate balance between tighter monetary policy and economic growth will be a key driver of performance and sentiment near term.

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 Index)	3Q18 Total Return		
	North America	U.S.	Canada
Index Weight	56.1%	53.2%	2.9%
Local Currency	0.7	0.6	2.5
USD	0.8	0.6	4.3

Source: FTSE EPRA/NAREIT and FactSet.

North America once again led the other regions in delivering the best returns for the second consecutive quarter. The US reached a new trade agreement with Canada and Mexico late in the quarter, but the US and China remained at odds with trade talks. **Amidst worries over trade wars, emerging markets and rising rates, the US economy remained strong with updated estimates for 2Q and 3Q GDP growth both at 4% or more.** Given the strength of the US economy, the FOMC had the confidence to raise its benchmark rate at its September meeting, sending bond yields up towards quarter end. The US 10-yr Treasury yield ended at 3.05%, up 20 bps in the quarter and 65 bps year-to-date.

US REITs had a strong start to the quarter, continuing the prior quarter's momentum in which they finally outperformed the broader equity market. Although 2Q earnings reports were mostly as expected to slightly better, the rally of US REITs that began in March started to fade by late August. The strong economy improved the outlook for risk assets, while the negative inverse perception between rising rates and REIT share prices resurfaced. US REITs delivered a total return of 0.7% in the quarter versus 7.7% for the S&P 500.

With interest rates starting to see upward pressure, it's not too surprising that shorter duration property sectors outperformed in the US with Manufactured Housing REITs (+5.0%) and Apartment REITs (+4.4%) delivering the best returns. Self-storage REITs (-10.2%) were an outlier among short duration sectors and a big laggard. After significantly outperforming all other sectors thru the first half of the year, valuations and worries over supply came back into focus and caused share prices to give back earlier gains.

Mall REITs (+3.6%) delivered a strong quarter of returns with Simon Property Group (+5.0%) leading the way. While retail REITs had already been enjoying a rebound in their share prices over the summer from lows earlier in the year, Simon (≈80% of mall index weight) also likely benefitted from fund flows following Brookfield's acquisition of General Growth Properties in August. **Local Retail REITs (+0.7%) had a more indifferent month, but with wide dispersion in performance between the best and worst performers.** Regency Centers (+5.1%) more defensive, grocery anchored portfolio outperformed DDR's (-8%) more volatile big box, discretionary portfolio.

Among other property sectors delivering positive returns in the quarter were Healthcare REITs, Data Center REITs and Industrial REITs. Industrial REITs have continued to report strong tenant demand despite trade worries and Prologis closed its $8.4 bn acquisition of DCT Industrial in the quarter.

Office REITs (-2.3%) lagged in the quarter despite 2Q earnings reports that indicated a mostly steady operating environment. Equity issuance, some skepticism in the outlook for private market values and worries about the sustainability of tech demand may have been factors. NAV discounts in the sector remain among the widest among all REITs with the exception of retail REITs. Single Family Rental REITs (-0.7%) also lagged. Despite strong top line growth, worries over recent operating expense surprises weighed on shares.

Canadian REITs outperformed US REITs making Canada one of the better performing countries globally in the quarter. Economic growth picked up in 2Q, but still lagged the US. Although the Bank of Canada took a pause at its September meeting (pre trade deal) following an increase in its benchmark rate in July, the strength of recent economic data together with the new US trade deal late in the quarter will likely lead to another rate increase at their next meeting in October. USD returns got an added boost from a strong Canadian dollar in the quarter.

Asia-Pacific (25.8% of Index)	3Q18 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	25.8%	10.9%	7.7%	4.7%	2.3%
Local Currency	0.4	0.9	-2.3	2.6	2.6
USD	-1.0	-1.7	-2.0	0.5	2.4

Source: FTSE EPRA/NAREIT and FactSet.

Asia-Pacific delivered slightly positive local currency ("LC") returns, but weaker currencies resulted in negative USD returns.

Singapore bounced back from a weak second quarter and was the best performing country in Asia for the quarter. S-REIT stocks got a boost from improving office and retail market trends, offsetting weakness with the residential developers. Keppel REIT, which owns office assets in both Singapore and Australia, announced a stock repurchase plan in the quarter that further lifted its share price to deliver a LC return of 9.5%. Signs of a bottom in the retail market appeared with Suntec REIT reporting a 5% YoY increase in tenant sales at one of Singapore's largest shopping malls and CapitaLand Mall Trust reporting stable rent reversions as well as a broadening of categories with improving tenant sales. They delivered LC returns of +13.1% and +8.7%, respectively. In contrast, property companies with exposure to Singapore residential development sold off heavily early in the quarter after the government announced tighter housing policies in response to rising prices. The move came only 18 months after easing policy announcements.

A-REITs had a solid quarter of performance, but a weaker Aussie dollar negatively affected USD returns. Office focused A-REITs got a boost from M&A activity with the A$4.3 bn battle for Investa Office Fund (IOF) between Blackstone and Oxford Properties shifting into high gear. Dexus Property Group, the largest listed office portfolio owner in Australia, was an indirect beneficiary of the bidding for IOF with its shares delivering an 8.8% LC return. Meanwhile, declining residential prices in Sydney and Melbourne and renewed political turmoil failed to dent the share price performance of A-REITs with residential exposure such as Mirvac and Stockland. Following a tumultuous summer in which the prime minster was ousted, the increasing odds of a change in government at next year's Federal election has potential ramifications for residential property should some proposed changes by the Labor Party come to fruition.

Rising interest rates, a stronger USD and trade tensions weighed on Hong Kong property stocks in the quarter. After absorbing successive benchmark rate increases by the Hong Kong Monetary Authority, major Hong Kong lenders finally raised their prime rate for the first time in twelve years, increasing mortgage costs in one of the world's most expensive markets. Despite the macro headwinds, Hong Kong property companies continued to report solid residential development results and positive office and retail rent growth in the period. Sun Hung Kai reported strong results for its FY ended June 2018 that included strong EPS growth and 18% higher residential sales revenues at higher margins, but its stock lagged and delivered a -3.7% LC return in the quarter. Similarly, Wharf REIC reported a solid set of half year results that included a 36% increase in retail sales at its largest asset (Harbour City), but the stock had a LC return of -7.8% in the quarter.

Japan had a mixed quarter of performance with modestly positive LC returns offset by a weaker Yen to result in negative USD returns. **Although there was quite a bit of dispersion, J-REITs managed to deliver a LC total return of 1.8% despite a shift in the Bank of Japan's policy stance towards a tightening bias under which it will tolerate a higher range for the 10-year Japanese government bond yield.** Many of the developers reported first quarter FY results in August that were mostly in line with expectations. After selling off in July and most of August, the developers share prices rebounded in September. There was little property level news that drove the developer share prices in the quarter with the macro news affecting sentiment more. A weakening Yen and expectations for inflation to eventually rise helped to support the September rebound in share prices.

Europe (18.1% of Index)	3Q18 Total Return						
	Europe	UK	Germany	Netherlands	France	Sweden	Europe (ex UK)
Index Weight	18.1%	4.8%	4.8%	2.1%	1.6%	1.6%	13.3%
Local Currency	-1.3	-5.0	3.1	-8.5	-2.0	9.8	0.2
USD	-1.8	-6.2	2.6	-8.9	-2.5	10.4	-0.1

Source: FTSE EPRA/NAREIT and FactSet.

Europe was the weakest performing region globally for the quarter and has lagged other regions year-to-date. Following a year of strong returns and a mostly improving economic outlook in 2017, economic data and investor sentiment for the region has cooled in 2018. Increasing tensions between the UK and EU in Brexit negotiations worries over Italy's budget negotiations with the EU and some upward pressure on bond yields contributed to weakness in the quarter.

German property securities continued their trend of strong performance in recent quarters and delivered among the best returns in the region along with Sweden. German residential property companies led the way within Germany. Although they ended the quarter on a weak note in September when rising bond yields put some downward pressure on share prices, the favorable half year results that many of the residential companies reported in August helped them deliver positive overall returns for the quarter.

Swedish property companies reported mostly positive half year results in the quarter that reinforced the continued strength of operating fundamentals across Sweden, particularly in the Stockholm office market. While Sweden's economy remains strong, political uncertainty is on the rise. Its recent national election was inconclusive with no single party able to secure a clear majority, making the formation of a coalition government challenging thus far. Amidst the political turmoil, Sweden's central bank left its benchmark rate negative and unchanged at its September meeting, but is moving closer toward its first rate increase since 2011 either later this year or early next year.

UK property securities underperformed Europe (ex UK) in the quarter. With the March 2019 deadline for the UK's exit from the EU rapidly approaching and both sides at an apparent impasse on the terms of a UK exit, the possibility no deal being reached in advance of the deadline and businesses being left in a cloud of uncertainty for an extended period of time is becoming a risk. **The weakest segment of the UK property market continued to be the retail sector with the UK's two largest retail REITs (Hammerson and Intu Properties) once again being the worst performers in the quarter** with local currency total returns of -10.6% and -14.5%, respectively. UK majors British Land and Land Securities, which have significant retail holdings together with their office exposure, were among the weaker performing UK REITs as well. The student housing sector, which has some defensive attributes, was an outlier in the UK and delivered positive returns for the quarter with Unite Group among the standouts.

Much like in the UK, retail property companies dominated the list of top underperformers within Continental Europe during the quarter. Unibail-Rodamco-Westfield (URW), Klepierre, Vastned and Deutsche Euroshop were each among the retail REITs that had negative total returns in the quarter, both local currency and USD. URW reported half year results in August, its first report since closing of its US$16 bn acquisition of Westfield Corp. in early June. Although its operating results in Continental Europe appeared reasonably sound, investors were left somewhat disappointed by a mixed report on the US and UK assets that came with Westfield and by the lack of any updated guidance for the second half of 2018 that takes into account the Westfield acquisition.

Spanish property stocks continued their underperformance of the prior quarter, with local currency and USD total returns of -6.6% and -7.0%, respectively. Spain's economy and property markets continue to hold up, but the political landscape going forward remains uncertain with the new Socialist Party led coalition government. Some also worry that the budget issues and populist pressures in Italy will eventually spread to Spain.