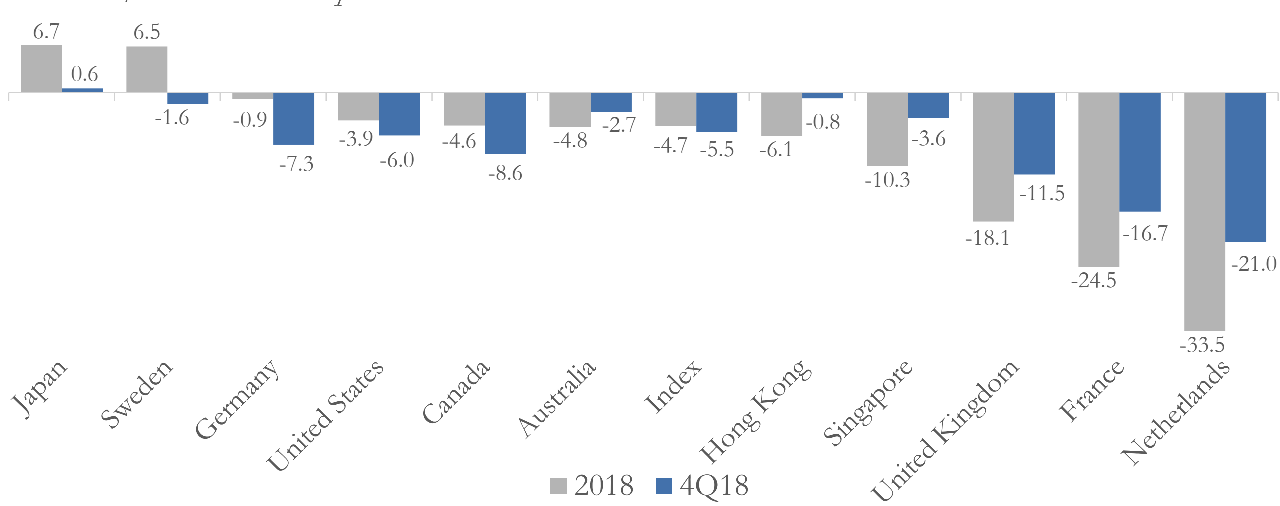
Global property securities market total returns (%)

Index/region	4Q18	2018
FTSE EPRA/NAREIT Developed Index ("Index")	-5.5%	-4.7%
Asia-Pacific	-0.8	-1.5
Europe	-10.1	-12.1
North America	-6.1	-3.9
FTSE All World Developed Index	-13.3	-8.7
JP Morgan Global Aggregate Bond Index	1.4	-1.0

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

Global property securities had their weakest quarter of the year to end 2018, with December being a particularly painful month for equity investors across almost all asset classes globally. FX movements had a slightly negative overall impact on USD returns in the quarter, but were more material for the full year with a local currency (LC) total return for the Index of -3.3%. **The theme of synchronized global growth that had been prevalent in 2017 and early 2018 had faded by year end as investors shifted to worries of a synchronized global slowdown.** Investor concerns over global trade wars, a China slowdown, declining oil prices, Brexit and central bank tightening became too much for the market to ignore in December. A more hawkish than expected initial tone from the US central bank in December in the face of so much uncertainty and a partial US government shutdown to end the year were the final straws for investors as they appeared to take a step back, reduce risk and wait for better visibility on the outlook for 2019. Notwithstanding the broader market selloff, real estate operating conditions remained mostly stable in the quarter, but with the retail sector continuing to have the weakest outlook. **The discount at which most property securities trade relative to private market values provides some buffer for investors as they search for clarity on the economic outlook going forward and the impact on property fundamentals and valuations.**

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 (55.4 % of Index)	4Q18 Total Return		
	North America	U.S.	Canada
Index Weight	55.4%	52.6%	2.8%
Local Currency	-5.9	-6.0	-3.4
USD	-6.1	-6.0	-8.6

Source: FTSE EPRA/NAREIT and FactSet.

Although North America had delivered the best returns of the three regions through the first nine months of the year, it could not sustain the performance in the final quarter of 2018. The FOMC increased its benchmark rate for the fourth time in 2018 at its December meeting. While largely expected, more hawkish than expected comments from Chairman Powell regarding further tightening in 2019 appeared to spook investors given recent signs of slowing growth and many unresolved issues. The resulting selloff in equity markets and flight to safety pushed sovereign bond yields down as the year came to a close with the US 10-yr Treasury yield ending the year at 2.69%, down 36 bps in the quarter and only up 29 bps for the year.

US REITs experienced a volatile quarter, but saw a mostly downward trajectory in share prices in December after hitting their peak for the quarter early in the month. While 3Q earnings reports were mostly in line to better than expected, the focus for investors had shifted to the outlook for the economy in 2019 and the resulting impact on tenant demand and real estate operating fundamentals. **While US REITs outperformed the S&P 500 in the quarter (-6.0% versus -13.5%) in a partial flight to more defensive sectors, it was a painful quarter for all investors.**

Performance across the US REIT property sectors continued to experience wide dispersion in the quarter. **While it was a weak quarter for US REITs as a whole, Healthcare REITs (+3.3%), Manufactured Housing REITs (+1.1%) and Self-storage REITs (+2.1%) stood out in delivering positive returns.** Among other residential sectors, Apartment REITs (-1.3%) held up better on a relative basis than Single Family Rental (-10.6%) REITs. Apartment REITs reported a solid summer leasing season with 3Q results, while the Single Family Rental REITs maintained solid top line growth, but continued to frustrate investors with expense surprises.

Office REITs (-11.7%) continued to be laggards in relative performance despite a mostly steady operating environment. Worries about the sustainability of tech/media demand, high cap ex costs and slowing earnings growth in 2019 are among issues that have weighed on shares. On the positive side, Amazon announced its decision on HQ2 after a yearlong search and settled on splitting it between the Washington DC metro and NYC, a long tem positive for both regions. Notwithstanding recent declines in tech share prices, tech demand has thus far remained resilient as they focus on long term space needs.

Hotel REITs (-20.2%) were the biggest laggards in the quarter as increased worries over a global economic slowdown weighed on the shares of both REITs and REOCs. Marriott International also disclosed a major data breach in late November that further weighed on its shares. Data Centers and Industrial REITs (-11.4%) were also weak relative performers in the quarter.

While most Regional Retail REITs had a dismal quarter with total returns that ranged from -20% to -50%, Simon Property Group stood out on a relative basis with a total return of -3.9% for the quarter. Simon (≈80% of mall index weight) has remained an anomaly among its mall peers in the beaten up retail sector and was the only mall REIT with a positive total return for the year. Local Retail REITs (-10.9%) had a weak quarter of performance as well to wrap up a tough overall year for the retail sector as a whole.

Canadian REITs outperformed US REITs in the quarter on a LC basis; however, significant weakening in the Canadian dollar versus the USD had a material impact on USD returns. While the economy had been showing improvement over the course of the year, the recent sharp decline in the price of oil could weigh on Canada's near term economic outlook and put downward pressure on the Canadian dollar.

Asia-Pacific (27.0% of Index)	4Q18 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	27.0%	11.6%	8.1%	4.7%	2.5%
Local Currency	-1.8	-2.8	-0.8	0.0	-3.9
USD	-0.8	0.6	-0.8	-2.7	-3.6

Source: FTSE EPRA/NAREIT and FactSet.

Asia-Pacific delivered the best total returns globally, both for the quarter and for the full year. During the quarter, USD returns got a net overall positive boost from stronger currencies versus the USD.

In a quarter that saw downward pressure on most global stocks, Australia delivered the best local currency returns in the region. AREITs benefitted from a rotation into defensives amid broader equity market risk aversion. A weaker Aussie dollar versus the USD in the quarter did negatively impact flat LC returns resulting in negative USD returns. REITs focused on office, industrial and non-discretionary retail had the best relative performance. Dexus (+3.1% in LC) was among the better performers. Investors reacted positively to news that it had begun the gradual divestment of most of its industrial assets via the creation of a new unlisted Australian logistics fund whose initial 25% seed investor would be Singapore's sovereign wealth fund GIC. Proceeds would be used to fund its development activities and reduce debt, while also allowing Dexus to further focus its efforts on the Australian office market which has been experiencing good operating fundamentals. Industrial property owner-manager-developer Goodman Group (+4% in LC) was also among the better performing AREITs, defying the weakness experienced by listed industrial focused REITs in other markets. Elsewhere, declining residential prices in Sydney and Melbourne continued to weigh on stocks with residential exposure such as Mirvac Group and Stockland.

While Hong Kong property securities overall managed to hold up better on a relative basis and deliver only slightly negative returns for the quarter, rising interest rates and slowing growth in China did negatively impact the share prices of many Hong Kong landlords such as Wharf REIC and Hysan Development. The main notable exceptions to the negative returns experienced by many in the quarter were Link REIT and Sun Hung Kai Properties which delivered LC returns of +4.7% and +1.2%, respectively. During the quarter Link REIT announced the sale of a portfolio of assets materially above appraised value. Link REIT sold 12 assets for HK$12 B (US$1.5 B), equivalent to ≈ 5% of its EV. Pricing reflected a net yield of ≈ 2.7%, which is similar to the yield achieved on a HK$23 B portfolio of higher quality assets sold almost 12 months ago.

Japan's performance was adversely impacted by the Japanese developers which delivered a LC total return of -11% in the quarter versus a total return of +0.9% for the more stable JREITs. Shares of the developers experienced selling pressure as a result of investor risk aversion in global equity markets. The valuation disparity between the Japanese developers and the JREITs remains stark, despite investing in many of the same markets. In particular the Tokyo office market continues to show strength with a sub 2% vacancy in the five central wards of Tokyo and rent growth tracking towards 10% per annum. **A stronger Japanese Yen versus the USD offset the negative LC returns to result in a slightly positive USD total return for the quarter.**

Singapore was the weakest performing country in Asia for the quarter, reversing last quarter's performance when it was the best performer in the region. Property companies that lagged the most in the quarter remained those with exposure to Singapore residential development, continuing the trend of the prior quarter after the government announced tighter housing policies in response to rising prices. CapitaLand Mall Trust was an outlier in the quarter, delivering a local currency return of +3.2% as it maintained the momentum of the prior quarter when it reported stable rent reversions and a broadening of categories with improving tenant sales, providing signs of a positive inflection point for retail.

Europe (17.6% of Index)	4Q18 Total Return						
	Europe	UK	Germany	Netherlands	France	Sweden	Europe (ex UK)
Index Weight	17.6%	4.7%	4.8%	1.8%	1.5%	1.7%	12.9%
Local Currency	-8.6	-9.3	-5.8	-19.7	-15.4	-1.9	-8.3
USD	-10.1	-11.5	-7.3	-21.0	-16.7	-1.6	-9.6

Source: FTSE EPRA/NAREIT and FactSet.

Europe was the weakest performing region globally for the quarter and for the full year. The economic momentum that the region carried into 2018 weakened throughout the year. Global trade worries and the region's maze of political issues (i.e. Brexit, protests in France, Italian budget, fractured governments, etc.) combined to push share prices down for much of the quarter. Weaker currencies versus the USD negatively impacted USD returns for the quarter.

UK property securities underperformed Europe (ex UK) both for the quarter and the full year. Lacking the votes to pass**,** Prime Minister May pushed off a December parliamentary vote on the withdrawal agreement negotiated for the UK's exit from the EU until January, further prolonging the uncertainty surrounding what will ultimately happen when the UK's March 29, 2019 deadline for exiting the EU occurs. The range of potential outcomes for investors to consider remains quite wide. Weakness was widespread across property sectors, but in general the greatest weakness continued to be with retail property companies. In late November Brookfield Property Group announced it had abandoned its effort to take Intu Properties private in a joint effort with Intu's largest shareholder, The Peel Group. The news sent Intu's share price sharply down and contributed to make it and other retail REITs such as Hammerson and Capital & Regional among the weakest performers in the quarter. UK majors British Land and Land Securities, which have significant retail holdings together with their office exposure, were also among the weaker performing UK REITs.

The Netherlands was the weakest performing country in the quarter driven primarily by Pan European shopping center REIT Unibail-Rodamco-Westfield (URW). URW, which makes up 84% of the Netherland's index weight, had a LC total return of -21.8% for the quarter. Continued weak investor sentiment for retail and above average leverage have weighed on the stock's share price since their acquisition of Westfield Corp. last June. The potential for France's riots affecting retail sales in the important holiday season only added to investor worries given that France represents ≈ one-third of URW's gross rental income. While investor concerns are valid, it appears more than reflected in the share price given almost a 30% NAV discount and 8% dividend yield as of year-end.

French property stocks were weak in the quarter as public protests that began in November over a higher gas tax became increasingly violent and more widespread in opposition to many of President Macron's economic reforms. Weaker economic data in the region only added to the concerns over whether Macron will be able to follow through with his policies. Almost all the listed property stocks in the Index had negative double digit returns in the quarter with both office and retail companies affected by weaker investor sentiment.

While German property securities were not spared from the pain of the sell-off in stocks in the region and globally, they did manage to hold up slightly better on a relative basis. Performance within both the residential and commercial property companies varied widely. While operating trends remained stable, the macro economic outlook did show signs of weakening in the quarter given ongoing global trade risks.

Swedish property companies were the best relative performers in the region as the continued strength of operating fundamentals across Sweden trumped worries over rising rates, above average levels of floating rate debt and higher overall leverage. In late December, the Swedish central bank raised its benchmark rate for the first time since 2011 and stated that with inflation expectations nearing their 2% target, the need for expansionary monetary policy had decreased slightly.