

# Introduction to Real Estate Securities

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Real estate securities provide the benefits of owning commercial real estate without requiring investors to commit large amounts of capital. In this paper, we provide an overview of this unique asset class, including the structure and history of real estate investment trusts (REITs) and the characteristics of different types of commercial real estate. We also provide perspective on the global real estate securities market, which has seen significant expansion in recent years due to the increasing adoption of REIT-like structures and the securitization of private real estate.

## Executive Summary

Real estate securities provide a way to invest in companies that own properties such as shopping malls, office buildings and apartments. This large and growing segment of the global equity market offers access to a wide range of property types and geographic regions, each with distinctive characteristics.

### Property Owners and Developers

Companies that issue real estate securities own and operate commercial properties that typically generate a stable stream of recurring income from rent payments. A majority of publicly traded property owners are structured as real estate investment trusts (REITs).<sup>(1)</sup> This unique corporate structure provides a tax-efficient means of distributing rental income to shareholders. Other companies focus on real estate development, which tends to be more cyclical due to its transaction-based nature—an ongoing process of land acquisition, building construction and asset disposition.

### A Growing Global Market

Today's global real estate securities market looks very little like the market from 20 years ago. A large part of this transformation has been due to the increasing adoption of REITs and REIT-like structures, as more countries seek to encourage broader public investment in commercial real estate. Presently, there are more than 400 real estate securities in both developed and emerging markets, with a total market value of \$1.3 trillion.<sup>(2)</sup>

### Property and Geographic Diversification

REITs and other listed real estate companies own many properties, potentially numbering in the hundreds. These companies tend to focus on a particular property sector and geographic region, each with its own distinct economic and fundamental drivers. An investment manager can design a portfolio of real estate securities that takes advantage of a wide range of opportunities across the investment landscape.

### An Investment in Real Estate

Some investors question whether real estate securities are truly an investment in real estate given that they trade on stock exchanges. The underlying assets of these securities are real estate—land and buildings that have intrinsic value based on their location and quality, as well as cash flows that are tied to legally binding leases with tenants. At the same time, they have all the features of publicly traded equities, including share prices that are quoted on the open market in real time.

By comparing a company's current share price to the underlying property fundamentals, analysts can measure the relative value offered by a real estate security. These fundamental factors may include the net value of the company's property investments (net asset value, or NAV) or the cash flows generated by these properties (measured in terms of funds from operations, or FFO). We explain these and other commonly used terms on page 11.

(1) References to REITs throughout this paper are intended to encompass REITs (originally a U.S. term) and similar REIT-like structures found in other countries.

(2) As of June 30, 2012, based on the FTSE EPRA/NAREIT Global Real Estate Index.

# Introduction to Real Estate Securities

## The REIT Structure

About 75% of the companies in the global real estate securities market are REITs. By organizing as a REIT, real estate companies gain special tax considerations that put shareholders on a level playing field with investors that own real estate directly. Because of this unique structure, REITs are an efficient way for individuals to invest in income-producing real estate.

A REIT is required to distribute the majority of its taxable net income to shareholders and must adhere to certain restrictions on its operations, organization and ownership (see table below). In return, the REIT does not have to pay corporate taxes on the income and capital gains it distributes, thereby reducing or even eliminating its tax burden.

REITs pay little or no corporate taxes, but must distribute nearly all of their income to shareholders.

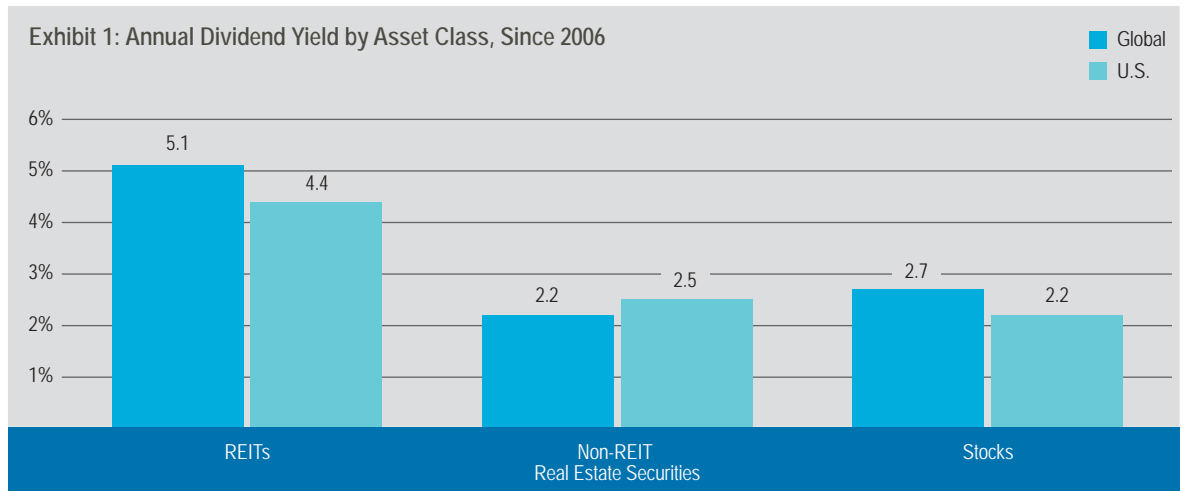
To qualify as a REIT, companies must follow specific rules defined by each country's legislation. In the U.S., the requirements are as follows:

<b>Rule:</b>	Distribute at least 90% of annual taxable net income (excluding capital gains) via dividends to shareholders.
<b>Rationale:</b>	<i>Since income is not taxed at the corporate level, this rule ensures that taxes are still incurred by REIT shareholders. These dividends are taxed as ordinary income.</i>
<b>Rule:</b>	Invest at least 75% of total assets in real estate, mortgage loans or shares in other REITs.
<b>Rationale:</b>	<i>Its principal business must be real estate investing.</i>
<b>Rule:</b>	Derive at least 95% of gross income from rents, mortgage interest or gains from the sale of real property.
<b>Rationale:</b>	<i>Its principal source of income must be real estate-related.</i>
<b>Rule:</b>	Be managed by a board of directors or trustees.
<b>Rationale:</b>	<i>It must maintain a fiduciary responsibility to shareholders.</i>
<b>Rule:</b>	Have shares that are fully transferable, with a minimum of 100 shareholders and no more than 50% of its shares held by five or fewer individuals.
<b>Rationale:</b>	<i>It must maintain a broad investor base.</i>
<b>Rule:</b>	Be structured as a taxable corporation.
<b>Rationale:</b>	<i>It must be a for-profit company.</i>

## REITs and Dividends

Due to their minimum distribution requirement and cash-flow-oriented business models, REITs typically offer higher dividend yields than other equities with similar risk profiles.<sup>(1)</sup> This yield advantage can be seen in the exhibit below, which compares historical distribution rates of REITs, non-REIT property companies and the broad market. (The chart looks back to 2006, when the index began tracking REITs and non-REIT real estate securities separately.) More details on the dividend component of the asset class are provided in our related report, *The Case for Real Estate Securities*.

REITs tend to have higher dividend yields than other equities with similar risk profiles.



As of June 30, 2012. Source: Bloomberg and Cohen & Steers.

*Past performance is no guarantee of future results. Investors cannot invest directly in an index.* Average of dividend yields calculated on a monthly basis (indicated annualized dividend rate divided by the month-end share price), from March 31, 2006, to June 30, 2012, based on the following: Global REITs and non-REITs are represented by the FTSE EPRA/NAREIT Developed Real Estate Index; U.S. REITs and non-REITs are represented by the Wilshire Real Estate Securities Index; Global stocks are represented by the MSCI World Index; U.S. stocks are represented by the S&P 500 Index. See page 14 for index definitions.

(1) The dividend yield, or distribution rate, is equal to the annual dividend per share divided by the share price.

## The Growth of Global Real Estate Securities

Over the past 20 years, commercial real estate has seen a dramatic shift from the private sector to public markets, contributing to the substantial growth of the global real estate securities market. This shift has been due in large part to the increasing adoption of the modern REIT structure amid growing investor demand for listed real estate and global real estate allocations.

### The Emergence of the REIT Structure

REIT legislation was first introduced in 1960 in the United States, followed by the Netherlands (1969) and Australia (1971). However, these entities struggled to gain traction, as early laws placed severe limitations on how REITs could operate. In the United States, tax reforms in the 1980s made the REIT structure more appealing to both property companies and investors. In addition, REIT legislation was simplified to provide companies with greater operating flexibility.

The modern REIT era emerged in the early 1990s on the heels of a major downturn in commercial real estate values. For U.S. real estate operators, many of which were over-leveraged, the REIT structure provided a way to access capital from public markets, since bank financing was unavailable at the time due to the savings-and-loan crisis. As a result, more than 100 U.S. companies formed as REITs and became public between 1991 and 1997.

### REITs Go Global

Encouraged by the success of U.S. REITs, other countries began to implement similar legislation. The current status of global REIT adoption is summarized in the chart below. More information on the evolution of REITs can be found in the REIT timeline on page 12.

**Exhibit 2: Global REIT Adoption**

Countries with Listed REITs (date notes year adopted)				REIT Legislation in Progress		REITs Under Consideration	
United States	1960	Japan	2000	Germany	2007	Dubai	Brazil
Netherlands	1969	South Korea	2001	United Kingdom	2007	Finland	China
Australia	1971	France	2003	Italy	2007	Hungary	Costa Rica
Canada	1994	Hong Kong	2003	New Zealand	2007	Luxembourg	India
Belgium	1995	Taiwan	2003	Mexico	2011	Pakistan	Nigeria
Greece	1999	Bulgaria	2005	Thailand	2012	Philippines	South Africa
Singapore	1999	Malaysia	2005			Puerto Rico	Spain
Turkey	1999	Israel	2006				

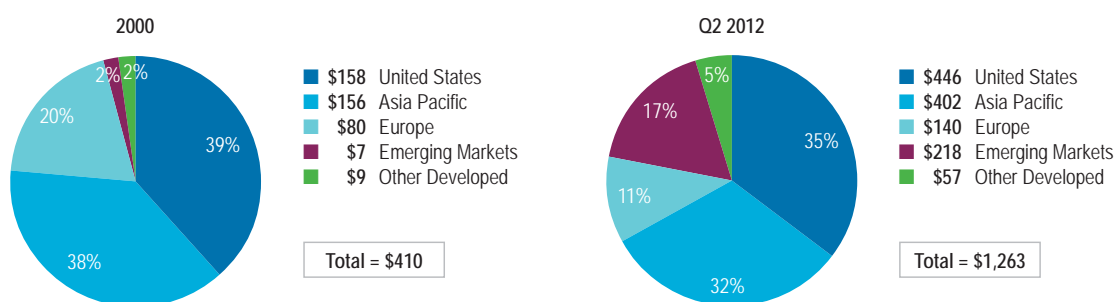
As of June 30, 2012. Source: UBS and Cohen & Steers.

Today, 22 countries have adopted the REIT structure. In another 14 countries, legislation is in progress or under consideration.

The chart below illustrates the effect that global REIT adoption has had on listed real estate over the past decade. Since 2000, the global real estate securities market has tripled in size, with meaningful growth in every major region. As of June 2012, the listed property market has grown to \$1.3 trillion, consisting of 413 companies in 37 countries. Approximately one third of the current market is represented by the United States, with another third from Asia Pacific and a relatively smaller proportion from Europe and other regions. Emerging markets saw the largest growth in listed real estate, now comprising 17% of the global market, up from 2% in 2000.

## The \$1.3 trillion market for global real estate securities includes 413 companies in 37 countries.

**Exhibit 3: Regional Composition of the Global Real Estate Securities Market, 2000 vs. Q2 2012**  
Market Capitalization in US\$ billions

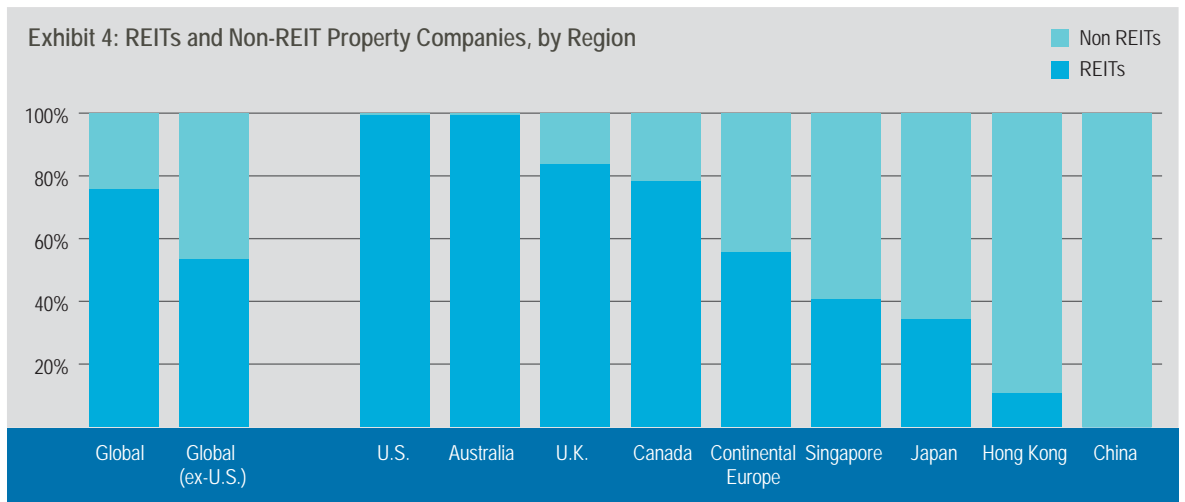


As of June 30, 2012. Source: FTSE and Standard & Poor's. Percentages may not sum to 100% due to rounding error. Real estate securities at Q2 2012 represented by the FTSE EPRA/NAREIT Global Real Estate Index. We believe this index offers the best representation of the current global real estate securities market; however, it does not provide constituent data prior to 2006. Therefore, the real estate securities market at December 31, 2000, is represented by the S&P Global Property Index. Investors cannot invest directly in an index. See page 14 for index definitions.

### Different Markets, Different Opportunities

The globalization of real estate securities offers investors a wide range of opportunities in markets with meaningfully different characteristics. At any given time, property markets in each region and country will offer varying levels of risk and reward potential due to differences in their property cycles, macroeconomic conditions and monetary policies.

Investors must also consider the types of property companies domiciled within a given market. For example, REITs are nearly ubiquitous in the United States and Australia, but are not as common in other countries, either because REIT legislation has not been passed or because property owners are less inclined to adopt the REIT structure due to less-attractive legislation. On the next page, we show the proportion of REITs and non-REIT property companies in various countries, plus a description of property markets by region.



As of June 30, 2012. Source: Bloomberg and FactSet.

Based on the FTSE EPRA/NAREIT Global Real Estate Index. REIT and non-REIT classifications provided by FactSet. Investors cannot invest directly in an index. See page 14 for index definitions.

#### **United States**

The U.S. REIT structure has evolved into what we would describe as the world's most efficient real estate operating model. REITs' strong corporate governance, transparency and overall sound business models, as well as their history of effective use of capital, have ensured ample access to public equity and debt markets at a generally low cost of capital. The breadth and depth of the U.S. market have made it easier for real estate companies to specialize, providing simple and efficient business models and encouraging market expansion into niche areas such as student housing and data centers.

#### **Europe**

European REITs typically feature relatively slow but stable cash flow growth due to their emphasis on long leases that are fixed to inflation. This steady income, combined with broad protection from new supply, has helped investment demand for prime European assets remain strong. However, growth prospects have been somewhat limited due to the reliance on rights offerings to raise additional capital, which in our view is a less-optimal approach than secondary public equity offerings. We believe the sovereign debt crisis may be a catalyst for REIT reform, potentially leading to improved access to capital, lower leverage and more-focused business models.

#### **Asia Pacific**

High earnings growth is what distinguishes listed real estate in Asia Pacific from other global property markets, due largely to the region's broad economic expansion and the increased emphasis on real estate development. This characteristic is particularly evident in Hong Kong and Singapore, whereas Australia and Japan consist almost entirely of REITs that engage in very little development. In Hong Kong, investment companies are less incentivized to form as REITs due to low corporate taxes. Japan's REIT legislation is fairly restrictive regarding permissible activities, although the government is actively undertaking reforms that may lead to a more attractive structure.

**Emerging Markets**

Most property markets in emerging economies are characterized by rapid urbanization and rising standards of living. There is generally a greater focus on residential development due to the significant shortage of quality housing, particularly in Latin America, China and India. Retail development is also popular, providing a means of tapping into the growing disposable incomes of emerging middle classes. Commercial landlords have a meaningful presence in many markets, but they typically operate under normal corporate structures, since some countries have yet to enact REIT legislation.

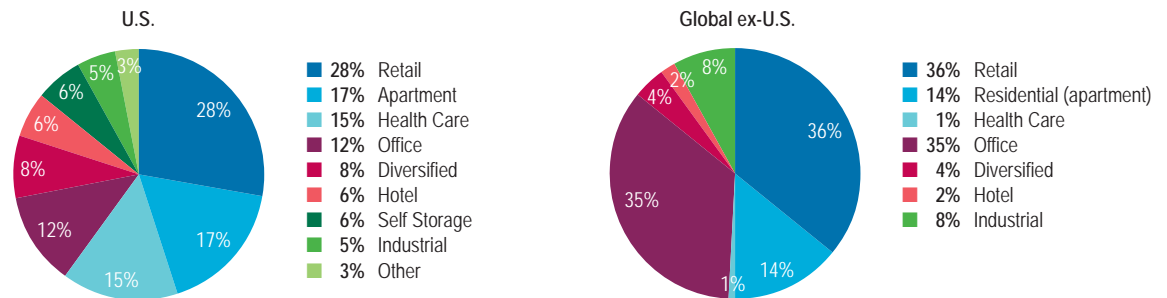
**Property Sectors and Economic Drivers**

Just like with broad market sectors such as technology and consumer staples, real estate securities within a given property sector tend to perform similarly in a particular economic environment. The reason has to do with the distinct characteristics of each property type, including lease duration, barriers to supply and specific economic drivers that affect the property's tenants. These factors will lead some property sectors to perform better than others, depending on the economic and property cycle and a sector's relative valuation.

The business models and drivers of supply and demand vary significantly across property sectors.

The exhibit below shows the relative size of property sectors in the U.S. and non-U.S. real estate securities markets on a look-through basis. Note that the U.S. is spread across a broad range of property types, whereas the non-U.S. listed market is dominated by offices and retail.

**Exhibit 5: Underlying Assets of Real Estate Securities by Property Sector**  
U.S. vs. Non-U.S.



As of June 30, 2012. Source: Cohen & Steers and FTSE.

Global ex-U.S. real estate securities market represented by the FTSE EPRA/NAREIT Developed ex-U.S. Real Estate Index (property sectors presented on a look-through basis are based on Cohen & Steers' assessment of the underlying property ownership of the companies in the index). U.S. real estate securities represented by the FTSE NAREIT Equity REIT Index (property sector breakdown provided by the index). Investors cannot invest directly in an index. See page 14 for index definitions.

On the following page, we offer insight into the economic drivers and characteristics of each property sector.



## Exhibit 6: Characteristics of Commercial Real Estate Sectors

Property Sector	Economic Drivers	Lease Duration	Construction Cycle (post approval)	Relative Cyclicity
<b>Hotel</b>	Business and consumer sentiment; corporate profits; fuel prices (higher costs for air travel)	1 day	2 years	Very high
	<i>Hotels are highly cyclical due to their nightly leases, as room rates and occupancies can change swiftly with economic conditions. Low relative operating margins and significant recurring capital expenditures add volatility to the cash flow profile.</i>			
<b>Self Storage</b>	Population; employment growth (particularly in urban areas, where space is more limited)	1 month	6 months	Medium
	<i>Lease terms are relatively short, but self storage companies have strong pricing power, since small businesses and apartment dwellers will typically agree to higher rents rather than discard belongings or move into a larger space.</i>			
<b>Apartment</b>	Household formation; job growth; home affordability; single-family housing sentiment	1 year	1–1½ years	High to medium
	<i>Apartment REITs are largely cyclical, as profitability is tied to employment rates. However, they tend to be inversely (negatively) correlated to residential housing (tighter mortgage requirements and uncertainty on home prices tend to benefit apartment demand).</i>			
<b>Shopping Center</b>	Consumer spending; disposable income; employment	3–5 years	12 months	Low to medium
	<i>Tenants are generally geared toward non-discretionary (grocery, discount retail, pharmacy), offering some defensive qualities. Big box centers generally have stronger-credit tenants, but are also at greater risk from e-commerce penetration. Neighborhood centers typically include more local businesses (nail salons, pizza parlors), which are more dependent on the local economy.</i>			
<b>Industrial</b>	Exports; manufacturing activity; inventories; shipping volumes; business sentiment	3–6 years	6 months	Medium
	<i>Despite long lease durations, industrial properties have short construction times due to less-complex building requirements, so supply tends to closely track demand. A shorter property cycle results in greater sensitivity to domestic and global economic growth.</i>			
<b>Regional Mall</b>	Discretionary spending; consumer sentiment; employment	5–10+ years	1½–2 years	Low
	<i>Tenants tend to be discretionary-focused (department stores, boutique retail). Leases typically include rent step-ups, providing some support in the event of a downturn in the economy.</i>			
<b>Office</b>	Corporate profits; employment growth; business outlook	5–10+ years	1½–2 years	Low to medium
	<i>Lengthy lease durations (10 years or more for urban offices) provide long-term cash flow visibility. Offices in central business districts often see near-constant low supply conditions.</i>			
<b>Health Care</b>	Government reimbursement rates (i.e., Medicare and Medicaid); population aging; home sales	8–10 years	1–1½ years	Very low to medium
	<i>Long-term tenants such as hospitals and medical office buildings provide generally stable, bond-like income payments, resulting in a defensive investment profile. In recent years companies have shifted more of their net operating income to private pay, a source that adds more cyclicity to their cash flow, but limits exposure to government reimbursement risk.</i>			

Source: NAREIT and Cohen & Steers.

## Lease Duration

Lease terms can range from a single day for a hotel room, to more than a decade for offices and health care facilities. Typically, properties with shorter leases are more sensitive to economic cycles, since rents and occupancy levels adjust more quickly to changes in demand. Properties with longer leases are considered more bond-like due to their more predictable cash flows.

## Supply Constraints

The supply side of a real estate cycle depends heavily on the location and type of property. For example, dense population centers typically have limited land. Certain properties require lengthy construction lead times due to the size of the building, the municipal approval process and infrastructure requirements. Sectors with short construction periods tend to have more-compressed (volatile) property cycles, since developers can often respond quickly to new demand. In contrast, long lead times result in greater supply visibility, but the downside is that new supply may be delivered to a market that no longer has the same level of demand.

## Economic Drivers

When it comes to driving demand for a particular property sector, some parts of the economy are more important than others. For example, rising employment has a direct impact on the need for office space and apartments, but is likely less relevant to a hospital owner. By understanding the relationships between economic forces and individual property sectors, professional investors can identify opportunities and position a portfolio based on their economic and property sector outlook.

## Allocating to Real Estate Securities

The simplicity of using real estate securities to access the real estate investment market has led to some noticeable trends in portfolio allocations. Some of our observations include:

- More 401K plans are offering real estate as a separate allocation.
- Target-date retirement funds now typically allocate around 10% of their portfolio to real estate.
- The number of real estate exchange-traded funds (ETFs) continues to grow amid expanding ETF interest.
- The demand for real assets strategies has led to increased focus on real estate, often considered a core real asset holding.
- Institutional investors are increasingly looking to listed real estate for its liquidity.
- Demand for global real estate allocations naturally favors real estate securities, which enable broad geographic diversification and opportunistic flexibility.

Not only are these allocation trends providing investors with more options to participate in real estate ownership, but we believe strong investment demand could provide long-term support for property values. We discuss some of the features and benefits that we believe make real estate securities attractive in the next part of our educational series: *The Case for Real Estate Securities*.

## Appendix A:

### The Vocabulary of Real Estate Securities Analysis

Real estate analysts have adopted the use of special financial metrics over time to provide a more meaningful and consistent representation of real estate companies' ongoing financial performance. Below are four of the most commonly used terms.

Term	Similar to...	Definition
NAV (net asset value)	Book Value	NAV is essentially the marked-to-market book value of a company's property investments, measuring the estimated market value of the assets less any liabilities. Using various inputs, analysts can estimate a company's NAV and form an opinion about whether the share price is trading at a discount, a premium or parity to its underlying assets.

$$\text{NAV} = \text{net property value} - \text{liabilities}$$

FFO (funds from operations)	Earnings	FFO measures a real estate company's operating performance. It begins with net income and adds back the gains (or losses) from property sales, since they are non-recurring and do not contribute to the sustainable dividend-paying capacity of the company. It also adds in non-cash expenses like depreciation and amortization, because real estate tends to rise in value over time rather than depreciating like other fixed-plant or equipment investments. FFO/share is often used in place of earnings/share (EPS) when analyzing real estate companies.
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$$\text{FFO} = \text{GAAP net income} - \text{gains from asset sales} + \text{real estate depreciation/amortization}$$

NOI (net operating income)	EBITDA	NOI measures the cash flow a property generates by subtracting property-level expenses (including real estate taxes) from the property's rental income. It is therefore similar to the corporate measure of EBITDA (earnings before interest, taxes, depreciation and amortization).
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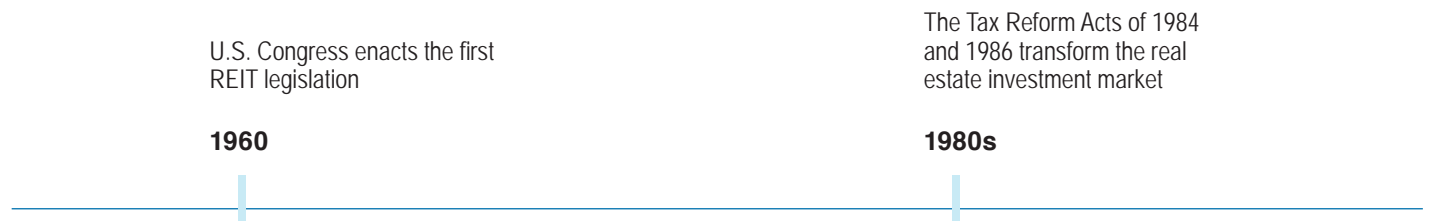
$$\text{NOI} = \text{rental income} - \text{property expenses}$$

Cap Rate (capitalization rate)	Yield	The cap rate is an expression of real estate value in terms of yield. In general, the lower the cap rate, the better the property or portfolio of assets (i.e., better cash flow growth and good tenants). When used to characterize the purchase price of an individual property—for example, "XYZ REIT purchased the office building at a cap rate of 6.5%"—the cap rate is the property's NOI (income less expenses) divided by the transaction price. A property's current cap rate is the NOI divided by the estimated present value. The cap rate of a company is the company's NOI divided by its gross asset value. Cap rates are sometimes quoted in terms of the spread to Baa corporate bond yields, where a negative spread may be indicative of high property prices.
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$$\text{Property Cap Rate} = \text{property income} / \text{acquisition cost (or current value)}$$

$$\text{Company Cap Rate} = \text{Total NOI} / \text{gross asset value of the company's property portfolio}$$

## Appendix B: A 50-Year Timeline of REIT Evolution



### 1960s–1970s: The Early Years and the Rise of the Tax Shelter

In 1960, Congress enacted U.S. Real Estate Investment Trust (REIT) legislation to facilitate investment in commercial real estate by individuals. REITs were designed to unite the capital of many into a single economic enterprise geared toward the production of income.

For the first three decades of this asset class, REITs played a very limited role in the world of real estate investment. Upon inception, REITs were only permitted to own real estate; they could not operate or manage the properties owned. This concept of external management was not readily accepted by the marketplace due to potential conflicts of interest between owners and managers.

### 1980s: The Era of Tax Reform

The Tax Reform Acts of 1984 and 1986 brought sweeping changes to the real estate investment landscape:

- 1) Investors in highly leveraged real estate tax shelters were limited in their ability to deduct passive losses.
- 2) Depreciation lives were lengthened.
- 3) Congress empowered REITs to operate and manage most types of commercial properties.

As a result of these changes, the economic interests of REIT shareholders became more aligned with those of the REIT's operators and managers. More income-oriented investments were ushered in as the ability to generate a tax shelter through real estate was phased out.

By the end of the decade, the real estate industry was in the midst of a perfect storm, brought on by the combined effects of tax reform, overbuilding and declining property values. A crisis was also looming in the savings and loan industry, which was heavily exposed to commercial real estate.



### 1990s: The Modern REIT Era Emerges

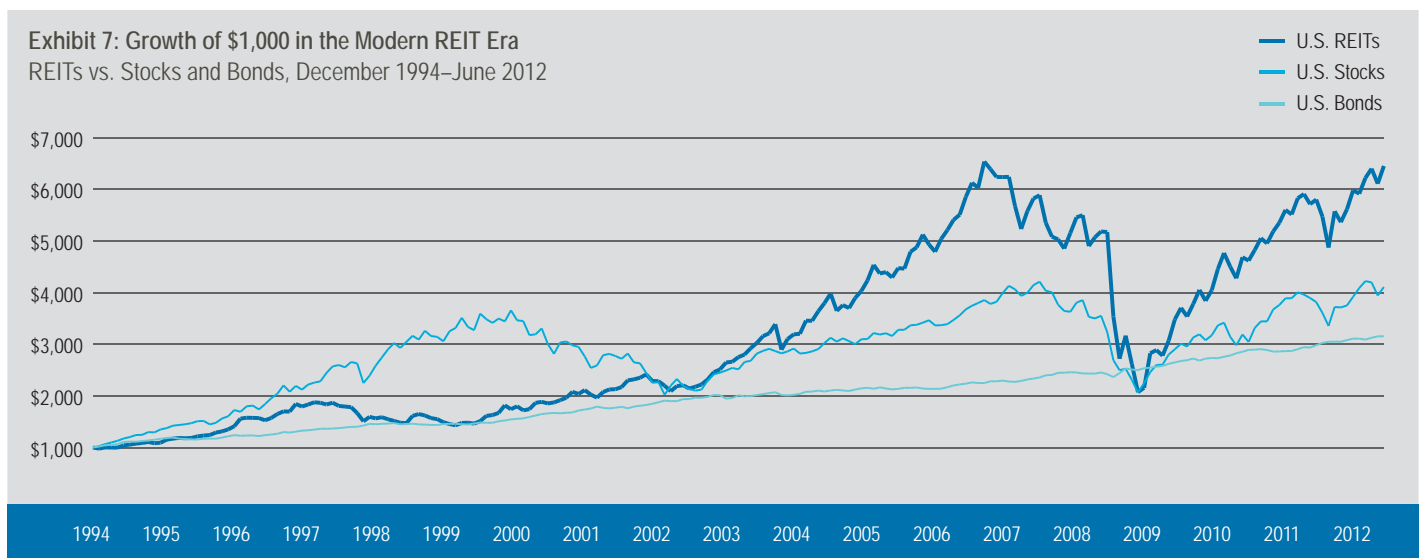
During the early 1990s, credit and capital for commercial real estate became largely unavailable and property values dropped dramatically. As a means of accessing capital, private real estate companies began to embrace the REIT structure. Kimco Realty Corporation was the first to go public in 1991. About a year later, Taubman Centers issued an IPO using an innovative structure called the UPREIT, which allowed owners to go public without triggering adverse tax consequences. This structure proved to be a game changer for the REIT industry.

Around the same time, investors believed that a real estate recovery was near, and they were right. Spurred by the success of the U.S. model, the REIT structure began to expand into the global marketplace, as an increasing number of countries adopted REIT legislation.

### 2000–2012: A Top Performing Asset Class as REITs Go Global

REITs flourished in the first seven years of the decade, both in the U.S. and internationally. But like most investments, real estate suffered a serious downturn in the global financial crisis. As the REIT market bottomed in early 2009, many listed companies began the process of equity recapitalization. Over the next two years, this effort facilitated the global issuance of approximately \$150 billion of equity and debt. Companies put this capital to good use, by strengthening balance sheets and positioning for growth through acquisitions.

Today, the value of the global market for REITs and non-REIT publicly traded property companies is \$1.3 trillion, roughly triple that of the U.S. market alone.



As of June 30, 2012. Source: Bloomberg.

*Past performance is no guarantee of future results. Investors cannot invest directly in an index.* U.S. REITs are represented by the FTSE EPRA/NAREIT Equity REIT Index. U.S. stocks are represented by the S&P 500 Index. U.S. bonds are represented by the Barclays Capital U.S. Aggregate Bond Index. See page 14 for index definitions.

### Index Definitions

*Investors cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes.*

**Barclays Capital Global Aggregate Bond Index** is designed to be a broad-based measure of the global investment-grade, fixed-rate, fixed income corporate markets outside the United States.

**Barclays Capital U.S. Aggregate Bond Index** (formerly the Lehman Brothers U.S. Aggregate Bond Index) is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

**FTSE NAREIT Equity REIT Index** is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate.

**FTSE EPRA/NAREIT Developed Real Estate Index** is an unmanaged market-weighted total return index which consists of many companies from developed markets whose floats are larger than \$100 million and who derive more than half of their revenue from property-related activities.

**FTSE EPRA/NAREIT Developed ex-U.S. Real Estate Index** is an unmanaged portfolio of approximately 179 constituents from 19 countries.

**FTSE EPRA/NAREIT Global Real Estate Index** is an unmanaged portfolio of approximately 413 constituents from 37 countries, including both developed and emerging markets.

**MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

**S&P 500 Index** is an unmanaged index of 500 large-capitalization, publicly traded stocks representing a variety of industries.

**S&P Global Property Index** is an unmanaged portfolio of approximately 535 constituents from 36 countries.

**Wilshire Real Estate Securities Index** is an unmanaged, market-capitalization-weighted index of 101 publicly traded real estate securities that invest predominantly in the equity ownership of real estate.

### Important Disclosures

*The views and opinions in the preceding commentary are as of the date of publication and are subject to change. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice, is not intended to predict or depict performance of any investment and does not constitute a recommendation or an offer for a particular security. We consider the information in this presentation to be accurate, but we do not represent that it is complete or should be relied upon as the sole source of suitability for investment. Past performance does not guarantee future results. There is no guarantee that any historical trend illustrated in this commentary will be repeated in the future, and there is no way to predict precisely when such a trend will begin. There is no guarantee that a market forecast made in this commentary will be realized.*

### Risks of Investing in Real Estate Securities

Property values may fall due to increasing vacancies, declining rents resulting from economic, legal, tax, political or technological developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions. The risks of investing in REITs are similar to those associated with direct investments in real estate securities. Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties, and differences in accounting standards. Some international securities may represent small- and medium-sized companies, which may be more susceptible to price volatility and less liquidity than larger companies.

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Cohen & Steers (NYSE:CNS), which is majority owned by employees, has been listed on the New York Stock Exchange since 2004. As of June 30, 2012, the company had \$44.4 billion in assets under management. Cohen & Steers is headquartered in New York City, with offices in London, Brussels, Hong Kong, Tokyo and Seattle.

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