

Is Commercial Real Estate the Next Shoe to Drop?

Many of our clients have expressed concern that commercial real estate will be the next economic shoe to drop.

We concur.

There is little doubt that the recession will batter commercial real estate for some time to come through falling occupancies, lower rents, high unemployment, store closings and increasingly thrifty consumers. Banks will become owners of commercial real estate—and then sellers—in what could turn out to be one of the greatest transfers of property ever.

But REITs are a different story.

Our research shows that the market performance of listed (publicly traded) real estate securities—REITs—leads unlisted (private) commercial real estate by 12–18 months.

Current evidence supports this: REITs have already taken the body blows that now challenge privately owned commercial real estate. Since February 2007, REITs saw peak-to-trough declines of 77%, while commercial real estate has not yet been marked to market.

As the next page will show, commercial real estate is trending down, while REITs are trending up. It's an important distinction.



“REITs will benefit for years from their ability to buy high-quality properties.”

*Martin Cohen,
Co-Chairman & Co-CEO
Cohen & Steers*

This brochure must be accompanied by the most recent applicable quarterly Cohen & Steers mutual fund fact sheet(s) if used in connection with the sale of mutual fund shares to the general public.

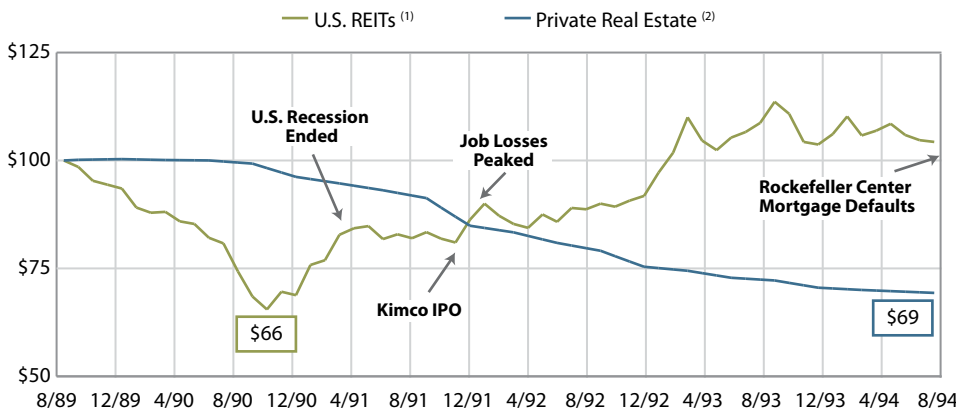
We've Been Here Before

In the early 1990s the U.S. commercial real estate industry flirted with disaster. The country was in recession and the financial system was teetering. Commercial real estate borrowers were defaulting, lenders weren't lending and bankruptcy threatened more than a few high-profile companies.

The public markets became the sole source of capital, and many companies converted to REITs—whose share prices recovered years before unlisted commercial real estate prices, providing seven years of accretive acquisitions.

THE HISTORY OF OUR FUTURE

Value of \$100 Invested in U.S. REITs and Private Real Estate



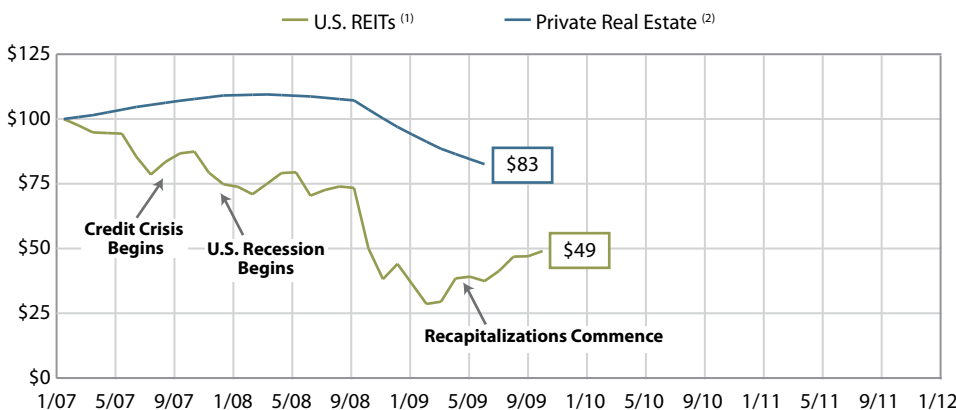
Past performance does not guarantee future results. Investors cannot invest directly in an index.

Source: Cohen & Steers, Green Street Advisors

There are remarkable similarities to today's economic crisis, including REITs' faster path to recovery, as shown below. Although this recession is deeper, the REIT industry is larger and better organized, which means that the investment opportunities are far more significant.

STARTING OVER—1990s REDUX

Value of \$100 Invested in U.S. REITs and Private Real Estate



Past performance does not guarantee future results. Investors cannot invest directly in an index.

Source: Cohen & Steers at September 25, 2009

(1) Price return of the FTSE NAREIT Equity REIT Index, an unmanaged market-capitalization-weighted index of all tax-qualified equity REITs listed on the NYSE, AMEX and Nasdaq that have 75% or more of their gross invested book assets invested directly or indirectly in the equity ownership of real estate. (2) Capital return of the NCREIF Index, a measure of investment performance of a very large pool of commercial real estate properties.

Our research indicates that REITs lead the private property market by 12–18 months.

Private markets have not yet marked values to market, while the public markets have.

Why We Are Optimistic

While they have rebounded significantly, U.S. REIT prices are still 50%⁽¹⁾ below their peak—which means they would have to increase another 100% in order to return to that level. As the economy continues to strengthen, we expect to see improving occupancies and rents, which in turn, will drive the recovery in fundamentals.

We believe that, beginning in March of this year, REITs entered a new total return cycle that we expect to unfold in three phases.

- **Recapitalization.** Earlier this year, REITs began to raise new capital at a record pace—more than \$28 billion⁽²⁾ in the United States alone. (Cohen & Steers was instrumental in the recapitalizations, and a key investor in many.) The funds are being used to pay down debt and build acquisition war chests. We expect this phase to continue through 2010.
- **Acquisitions.** From 2010 through 2014, well-capitalized REITs are likely to have the opportunity to buy high-quality assets at prices that will drive cash flow growth and higher valuations.
- **Fundamental recovery.** Our best estimate is that occupancies, rents and cash flows will improve in the second half of 2010.

By March 2009, REITs had dropped 77%⁽¹⁾ from their all-time high. Since March, they've doubled—but are still more than 50% off that high.

REITs and Commercial Real Estate: A Comparison

	Listed, or Publicly Traded, Real Estate Securities (REITs)	Unlisted, or Private, Commercial Real Estate (CRE)
Market Size	REITs account for about 6% of the U.S. and global real estate markets ⁽³⁾ —and they tend to own the highest-quality assets in the best locations.	Unlisted real estate is everything else—good, bad and indifferent.
Liquidity	REITs are exchange traded, valued daily and highly liquid.	CRE is illiquid. Investors must commit capital for an extended period. Value is only truly determined when an asset is sold.
Business Model	REITs' business model is primarily income-oriented, and based on maximizing cash flow growth. They pay nearly all of their income to shareholders.	CRE business models are primarily based on asset appreciation. Owners often realize value only through a sale, rather than through continuing operations.
Access to Capital	REITs have been able to recapitalize significantly this year at attractive rates, using the public debt and equity markets as well as bank loans.	CRE relies largely on bank financing, which is becoming increasingly scarce and expensive. This year, there has been little new CRE capital raised.
Transparency	New information is priced into REITs with a high degree of efficiency. This supports better corporate governance and shareholder-friendly policies.	CRE does not have the same disclosure requirements as REITs.

(1) Bloomberg

(2) Cohen & Steers

(3) UBS Research, June 2009



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Why Cohen & Steers

Cohen & Steers is a manager of income-oriented equity portfolios specializing in U.S. and international real estate securities, large cap value stocks, global listed infrastructure and utilities, and preferred securities. The firm was a pioneer in real estate securities and has been an innovator in the asset management industry since 1986.

Our team of real estate investment professionals is distinguished by the breadth and depth of their industry knowledge. Their diverse backgrounds range from securities analysis to hands-on industry experience. Because they live, work and trade in New York, London, Brussels and Hong Kong, our team can visit local management teams, meet with industry contacts and evaluate properties. Clients benefit from our long-term relationships and appreciate the stability and continuity of our organization.

To learn more about Cohen & Steers real estate funds, please click on one of the funds below:

- **Cohen & Steers Realty Shares**
- **Cohen & Steers Realty Income Fund**
- **Cohen & Steers Global Realty Shares**
- **Cohen & Steers International Realty Fund**
- **Cohen & Steers Asia Pacific Realty Shares**
- **Cohen & Steers Institutional Global Realty Shares**
- **Cohen & Steers Institutional Realty Shares**

Risks of Investing in Real Estate Securities

There are certain risks inherent in real estate securities, including declining property values or declining rents resulting from legal or economic developments. Foreign securities carry their own risks, such as currency fluctuations, political and economic uncertainties and differences in accounting standards.

This brochure is provided for informational purposes only, should not be considered investment advice and represents an assessment of the market environment at a specific point in time. The views and opinions expressed herein are as of the date of publication and are subject to change at any time based upon market or other conditions.