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REVIEW & Outlook of Global Real Estate - ING Clarion Real Estate Securities

2004 Review

Global real estate companies recorded yet another exceptional year in 2004. The S&P/Citigroup World Property Index ended the year with a total return of 33.5% (in local currency), which exceeded the performance recorded by broad equities of +15.25% (MSCI World Index, USD) and bonds +10.2% (JP Morgan Global Government Bond Index, USD).

Strong positive gains occurred across all regions, which is unusual by historical standards because of the low correlation of returns across countries. In local currency, the United Kingdom, Continental Europe, and Hong Kong recorded the best total returns for 2004 advancing 45.7%, 36.6%, and 35.0% respectively. The U.S. and Japan were not far behind as each achieved 32.0% total return. Australian property stocks were up 30.8%. Canada was the notable laggard, but still advanced 16.5% for the year.

Currency effects added to the returns realized by US dollar investors as the dollar weakened significantly relative to other major currencies in 2005 including: the British pound (10.6%), the Euro (9.8%), the Canadian dollar (9.1%), the Japanese yen (6.0%), and the Australian dollar (5.3%). Over the course of the year, currency changes added another 3% to the global real estate index expressed in dollars (to 36.5%). We expect the long-term weakening of the U.S. dollar versus other major currencies to continue in 2005, but at a more moderate rate.

Net Asset Values (NAVs) grew significantly as cap rates declined. Dividend income and dividend growth contributed, but the main driver of real estate stock returns was capital appreciation in 2004. Continued low interest rates helped drive repricing of real estate assets as capitalization rates (or required investment yields) declined sharply during the year. Declining cap rates, improved earnings from portfolio properties, and value-added buying and selling within the companies' portfolios contributed to NAV growth that was only slightly less than the appreciation in real estate company stock prices. Hence, we estimate that the relationship of global real estate companies' stock prices to their NAV increased only slightly to a world-wide average of 4%. In the markets with REIT-type tax efficient structures, stocks tend to trade at premiums versus the discounts still found in countries with non-tax efficient type structures (like Hong Kong and the UK).

Another notable characteristic of the property sector last year was the pick-up in merger and acquisition activity. 2004 saw some of the largest combinations yet seen in the global REIT sector.

2005 Outlook

Global property companies should continue positive performance in 2005 for many of the reasons they were positive in 2004 including strong funds flows, continued attractive relative dividend yield versus stocks and bonds, and realized value via M&A activity. Missing from this year's investment thesis is continued yield compression which we believe has largely run its course in most markets. We expect global property companies to provide approximately 8-12% total return in 2005, consisting of approximately 4-5% in dividend yield, 8-9% in earnings growth and a 2-4% multiple contraction.

PRIMEtalk

At a Glance

2004

S&P/Citigroup World Property Index returned 33.5% for year 2004. This exceeded the performance of both equities and bonds.

Strong positive gains recorded across all regions.

2005

Global property companies should continue positive performance.

ING

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Martin J. Pring is one of today's most respected and widely followed experts on technical analysis. President of the International Institute for Economic Research and editor of the popular newsletter The Intermarket Review, Martin is a sought-after speaker worldwide. He was awarded the Jack Frost Memorial Award from the Canadian Technical Analysts Society.

Martin's articles have also been featured in *Barron's*, and Martin has been frequently quoted in *The Wall St. Journal*, *International Herald Tribune*, *The New York Post*, *Los Angeles Times* newspapers and the *National Review*. He is currently writing a monthly educational column on the basics of technical analysis for *Stocks and Commodities Magazine*.

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CHANGES in Contribution Cap

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*Contribution Rates :
• Singaporeans/SPRs - up to 15%,
• Foreigners - up to 35%

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This allows Singaporeans who earn below the CPF income ceiling and those who are self-employed to contribute more to their SRS accounts, and enjoy higher tax savings.

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1) Name any 3 gifts that you can receive when you start your savings with selected UOB Life Assurance endowment plans.
2) What is the name of the Fund featured in this issue of WealthTalk?
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Email your entries to InvestmentServices@uobgroup.com with the subject: InvestTalk Quiz together with your Name, Identification Card number and Contact details (email and mobile phone number). Closing date is 30 April 2005.

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SMALLtalk

Micro Audio System

KEY Themes for 2005 - Aberdeen Asset Management Asia

MARKETtalk

Against the uncertain backdrop of slower global growth, 2005 is shaping up to be a more challenging year for Asian economies after the strong post-SARS recovery seen in 2004. Weaker external demand means more attention will be paid to domestic sectors such as retail, property, consumer and banking. We are expecting reasonable earnings' growth across the board in 2005, underpinned by decent dividends, rising cashflow and the improved balance sheet discipline of Asian corporates.

CHINA

In 2005, we are likely to see continued speculation that the renminbi will be revalued. Although a free-float of the currency appears unlikely, we expect further flexibility to be introduced via a widening of the trading band or a possible re-pegging of the renminbi to a basket of currencies. Concerns over overcapacity in the basic materials and power sector are other issues to monitor, as well as the health of the banking system, which continues to be the biggest impediment to the macro story.

JAPAN

The latest economic data have highlighted easing deflationary pressures, raising hopes of an increase in consumer spending. Looking ahead, we take a guardedly optimistic stance. Provided that a major recession does not occur in China or the US, Japanese exports should remain strong and lead to a gradual recovery in the domestic economy. Domestic demand should also slowly improve.

MALAYSIA

Prime Minister Badawi has won praise from foreign investors in his stated aims of clamping down on corruption, reforming the civil service and reducing the country's budget deficit further in 2005. Restructuring of government-linked companies is now firmly on the agenda, supported by hopes of further consolidation and increased foreign participation in the financial services sector. Speculation on whether the ringgit peg will be removed is likely to continue, although the government has stated its commitment to keeping the peg in place for the moment.

THAILAND

After suffering an extended correction in 2004, Thai stocks have started this year on a positive note, with the SET hitting a 12-month peak in February following the re-election of Prime Minister Thaksin. The biggest concern this year is of imported inflation. The tragic tsunami disaster will also detract from GDP growth in 2005, although the impact is expected to be less than 1%.

INDONESIA

Companies remain cautiously optimistic about the business environment over the next 12 months, with the chief concerns being a recurrence of terrorism, corruption and separatist violence in various parts of the country. The tsunami disaster that recently struck the Aceh province just makes action more pressing.

SINGAPORE

2004 was a mixed year for Singapore: the first half was plagued by worries about China's credit tightening policy, the twin deficits in the US and high oil prices. In 2005, we expect the economy to grow by 3-5%. Temasek's ongoing restructuring efforts, a possible introduction of a casino and a stronger pick-up in the property sector are some of the more anticipated developments over the coming 12 months.

TAIWAN

Political developments and cross-straits tensions will continue to play a pivotal role in determining the stock market's moves this year. Elsewhere, the privatisation and consolidation of the financial sector is expected to gain further momentum as the government continues with its effort to address the budget deficit.

EDITORIAL TEAM

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