

**UBS Investment Research****UBS Global I/O®: Global Real Estate**

## How best to position for a yield steepening

### ■ How best to position for a yield steepening environment?

In this note, we consider how investors are best to position within listed real estate in a “bear steepening” environment, where the long rates (ie 10 year bond rates) are increasing more than short term rates (ie 2 year bond rates).

### ■ Using history as a guide to the future...

...A bear steepening environment favours equities over listed real estate. Developers tend to outperform the REITs. Best performing sectors have historically been hotels and residential. Worst performing sectors, industrial and diversified. Historically (in USD terms), Hong Kong, Singapore & China have performed best during yield steepening environments, while Australia and Japan have underperformed, although the former is dragged down by the financial crisis.

### ■ Could this time be different? Interestingly, not so far...

Since the 20<sup>th</sup> May peak on tapering concerns and a shift up in US treasury yields, the developers have been outperforming the REITs; hotels and residential have been the better performing sectors and retail, industrial & diversified worst. The results thus far have generally been consistent with the historic analysis. The country performance is more mixed with UK, China and Japan outperforming and Singapore, US and Australia underperforming with the latter impacted by currency.

### ■ Our country positioning...

We have our biggest overweight position on the JREITs & C. Europe. We have a small overweight on the Japan developers & the UK. We are underweight Singapore & GEM (emerging Asia) and we are neutral US REITs, HK and China.

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## Positioning for a yield steepening environment

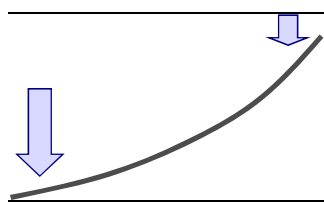
In this note, we consider how investors are best to position within listed real estate in a “*bear steepening*” environment, where the long rates (ie 10 year bond rates) are increasing more than short term rates (ie 2 year bond rates). In this report, we aim to answer the following questions.

- Which countries real estate markets outperform/underperform their local equities market in a steepening yield curve environment?
- Are investors better to own the developers or investors in a steepening yield curve environment?
- Which real estate sectors do better or worse when 10-year bonds move up more quickly than 2-year bond yields?
- At a country level, which companies/REITs tend to outperform or underperform in a steepening yield curve environment?
- And, could this time be different?

For completeness, we have provided the analysis and answers for the other three yield scenarios – “*bear flattening; bull steepening; and bull flattening*”. While UBS isn’t forecasting these scenario’s any time soon and isn’t anticipating a lift in short rates for at least another 12-18 months, even in the US where the economic recovery is underway, the report may be a useful reference for the future.

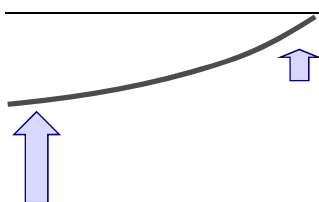
Consistent with our Strategy and Economics team in their note “*Playing the rates curve-ball*” 20 August 2013, and our European Property team’s note “*Alternative Realty – Issue 8, Real estate and rising bond yields: discuss*” 2 September 2013, we have classified the dynamism of yield curves into four types:

Chart 1: Bull Steepening



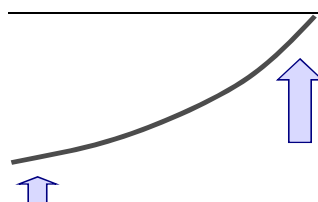
Source: UBS

Chart 2: Bear Flattening



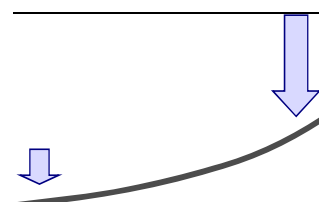
Source: UBS

Chart 3: Bear Steepening



Source: UBS

Chart 4: Bull Flattening



Source: UBS

- “**Bull Steepening**”: Where the curve is steepening through short rates falling. Short rates falling implies economic stimulus but there is inflationary pressure. Overall economic growth expectations are falling.
- “**Bear flattening**”: Where the curve flattens through short rates rising towards the long end. Rising short end of the curve implies monetary tightening to choke off inflation in the system. Expectations of future economic growth are moderating and stabilising.
- “**Bear steepening**”: Where short rates are rising but long rates are rising faster, so the curve steepens from the long end. In this case, expectations of economic growth are improving, particularly longer term growth.

- **“Bull flattening”:** Where short rates are falling and the curve flattens at the long end. Expectations of future economic growth are moderating and stabilising.

We summarise the overall results in the table below, but provide greater detail later in this report. Our key take-aways are as follows:

- In short, global listed real estate will tend to underperform global equities in a *steepening* yield curve environment.
- Not surprisingly, in a “*bear steepening*” environment, the developers will tend to outperform the investors (or REITs). Interestingly, this outperformance continues in a bear flattening, where the short end of the curve starts to increase more quickly than the long end.
- Hotels and residential tend to outperform “*bear steepening*”. Industrial and diversified underperform.
- Within the global real estate universe, a *Bear Steepening* favours the Asian markets of Hong Kong, Singapore & China while Australia and Japan have underperformed, although the former bias by poor performance during the credit crisis.

**Table 1: Global Real Estate vs. Global Equities in different yield curve scenarios**

	Bear Steepening	Bear Flattening	Bull Steepening	Bull Flattering
Global Real Estate vs Equities	Underperforms	Underperforms	Small underperformance	Outperforms
Developers vs Investors	Developers outperforms	Developers outperforms	Investors outperforms	Investors outperforms
Best Sectors	Hotels & Residential	Hotel & Diversified	Retail & Diversified	Industrial & Diversified
Worst Sectors	Industrial & Diversified	Industrial & Office	Hotels & Industrial	Hotels & Residential
Best Countries for real estate performance	Singapore, HK & China	Singapore & Australia	UK & Continental Europe	Japan & China
Worst Countries for real estate performance	Japan & Australia	UK & Continental Europe	Japan & China	Singapore & UK

Source: Datastream, FTSE, EPRA/NAREIT, MSCI World

When we consider the question, “could this time be different?”, we look at how the sectors and countries have performed since 20<sup>th</sup> May peak on tapering concerns and a shift up in US treasury yields. The developers have been outperforming the REITs; hotels and residential have been the better performing sectors and retail, industrial & diversified worst. The results thus far have generally been fairly consistent with the historic analysis. However, the sustainability of developer performance is likely to be questioned, given the draconian policy measures in place to slow the market which haven’t been as prevalent in past rate cycles.

The country performance since the 20<sup>th</sup> May 2013 is more mixed with the UK, China and Japan outperforming and Singapore, the US and Australia underperforming with the latter impacted by currency.

The table below summarises how the markets have historically responded to the particular yield curve movement, on a sector basis when compared to their local equity market. We also highlight which companies on average have tended to perform best or worse in the four yield scenarios. Obviously, company level

performance is influenced by a huge number of factors, other than just the yield curve environment.

**Table 2: Summary results – Listed Real Estate**

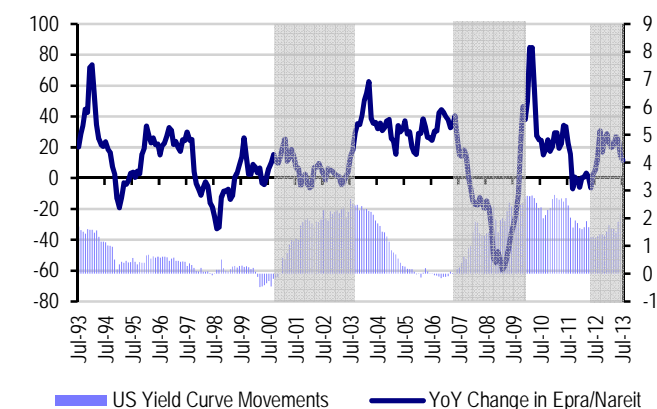
	Bear Steepening	Bear Flattening	Bull Steepening	Bull Flattering
<b>Australia</b>				
Real Estate vs. Equities	Underperforms	Underperforms	Outperforms	Neutral
Best companies/REITs	Challenger, Dexus, Leightons	Challenger, Leightons, Dexus	BWP, WDC, CQR	WDC, Leightons, CQR
Worst companies/REITs	LendLease, Stockland, Goodman	Stockland, CQR, WRT	Mirvac, Leightons, Dexus	Mirvac, Australand, LendLease
<b>Hong Kong</b>				
Real Estate vs. Equities	Neutral	Underperformance	Outperformance	Outperformance
Best companies/REITs	Wharf, SHKP, Hysan	HK Land, LINK, Kerry	Hang Lung Prop, Wharf, Hang Lung Group	Shun Tak, Kerry, Champion
Worst companies/REITs	Kerry, HK Land, Champion	New World, Shun Tak, SHKP	Henderson, Champion, Hysan	CK, SHKP, HK Land
<b>China</b>				
Real Estate vs. Equities	Outperforms	Underperforms	Outperforms	Underperforms
Best companies/REITs	COLI, Evergrande, KWG	Agile, Longfor, Greentown	CR Land, R&F, COLI	Poly Property, COLI, Evergrande
Worst companies/REITs	Greentown, Shimaao, C.Garden	Evergrande, SOHO, Sino-Ocean	Poly Property, C.Garden, Agile	KWG, ShuiOn, Sino-Ocean
<b>Japan</b>				
Real Estate vs. Equities	Neutral	Outperforms	Outperforms	Underperforms
Best companies/REITs	Sumitomo, IIF, Mitsui Fudosan	IIF, Mori Hills, Japan Prime	Mitsubishi, Sumitomo, Japan Retail	Japan Prime Realty, ORIX, Japan Real Estate
Worst companies/REITs	ORIX, Japan Retail, Japan Prime	Nomura Office, ORIX, Mitsubishi	Prime Realty, IIF, Mori Hills	Mitsubishi Estate, Sumitomo, NTT Urban
<b>Singapore</b>				
Real Estate vs. Equities	Marginal outperform	Underperform	Neutral	Outperform
Best companies/REITs	Keppel Land, CapitalLand, QUE	QUE, MLT, Parkway	UOL, CMT, Fraser Centrepont	Keppel, Parkway, CMT
Worst companies/REITs	CMT, A-REIT, Starhill	CCT, Keppel Land, Suntect	CapitalLand, Keppel, Suntect	MLT, City Dev, Starhill
<b>Europe ex-UK</b>				
Real Estate vs. Equities	Underperform	Outperform	Outperform	Slight Outperformance
Best companies/REITs	Sponda, Hufvud, Klepierre	CityCon, Icade, Klepierre	Castellum, PSP, D.Euro	CityCon, Castellum, Icade
Worst companies/REITs	D.Euro, Swiss Prime, Castellum	PSP, Swiss Prime, Corio	Klepierre, Sponda, CityCon	Corio, D.Euro, Hufvud
<b>UK</b>				
Real Estate vs. Equities	Underperform	Underperform	Outperform	Underperform
Best companies/REITs	Shaftesbury, Derwent, G.Portland	Derwent, INTU, Shafesbury	G.Portland, Hammerson, SEGRO	Shaftesbury, Derwent, G.Portland
Worst companies/REITs	Hammerson, Land Sec, BLand	Segro, G.Portland, B.Land	INTU, BLand, Derwent	SEGRO, Land, Intu
<b>US</b>				
Real Estate vs. Equities	Underperform	Neutral	Underperform	Outperform
Best companies/REITs	Simon Property, BioMed, Kimco	Kilroy, Brookfield Office, Sovran	Federal, Senior Housing, HCP Inc	Senior Housing, Digital, Macerich
Worst companies/REITs	HCP Inc, Senior Housing, Omega Healthcare	Taubman, Senior Housing, Liberty	BioMed, Kilroy, Acadia	Equity One, Realty Income, American Campus

Source: Datastream, FTSE, EPRA/NAREIT, MSCI Equities, FTSE Australian Equities

## Global Markets vs. US Yield Curve Movements

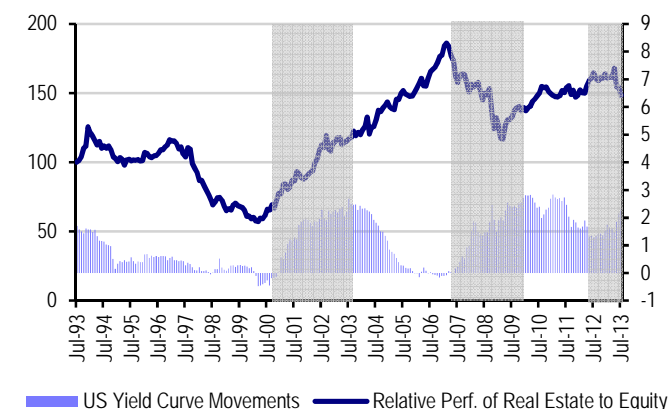
The charts below illustrate the performance of the listed real estate sector YoY and relative to equities during periods of yield steepening (and using the US treasury curve as per the grey shading). The outperformance of listed real estate in the 2001-2003 yield steepening period is likely distorted by the tech crash.

Chart 5: Listed Global Real Estate & US Steepening Yield Curve



Source: DataStream, UBS Estimates. Yield Curve Spread between US 10YR & US 2YR Treasuries. FTSE EPRA/NAREIT Developed Index.

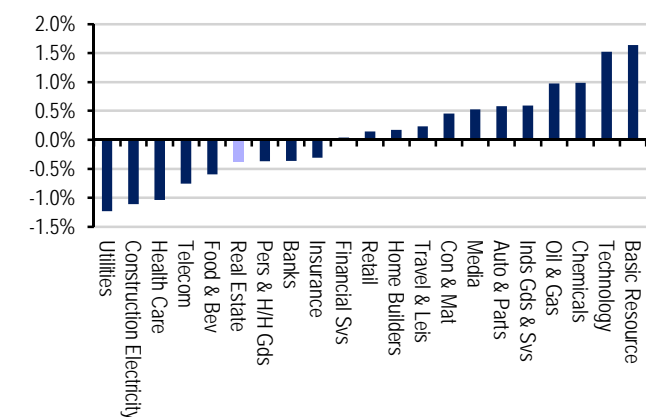
Chart 6: Listed Global Real Estate vs. Global Equities



Source: DataStream, UBS Estimates. Yield Curve Spread between US 10YR & US 2YR Treasuries. FTSE EPRA/NAREIT Developed Index vs. MSCI World Index.

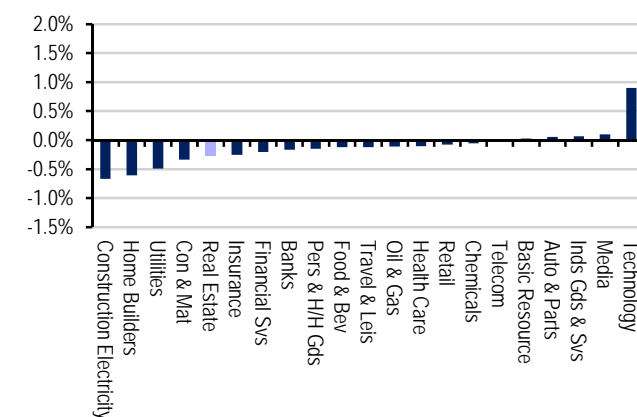
Listed global real estate has tended to underperform equities in a bear steepening and bear flattening environment relative to global equities, but other sectors have done worse.

Chart 7: Bear Steepening – Global sector performance



Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years.

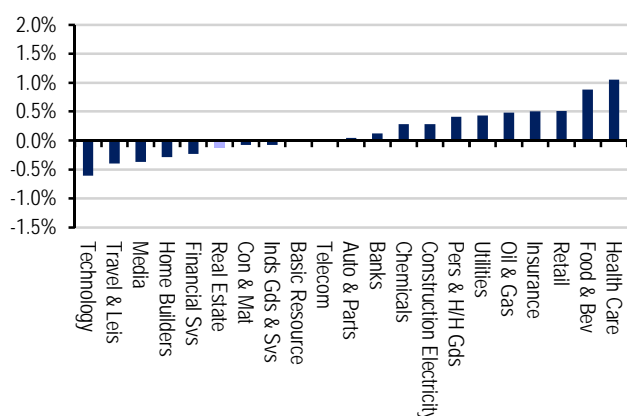
Chart 8: Bear Flattening – Global sector performance



Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years.

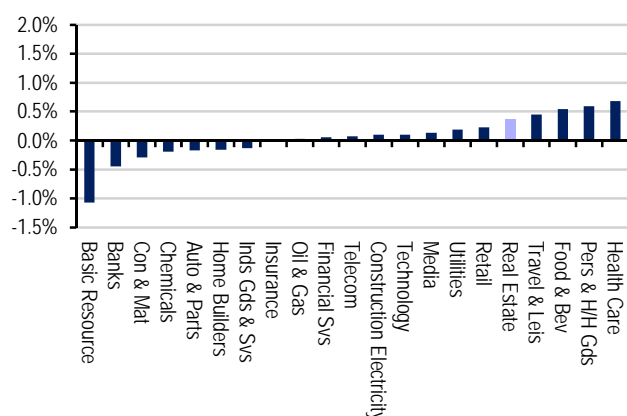
Listed real estate globally tends to perform best in a bull flattening environment, similar to that experienced during 2004-2007 and 2010-mid 2013.

Chart 9: Bull Steepening – Global Sector Performance



Source: DataStream, UBS. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over 20yrs.

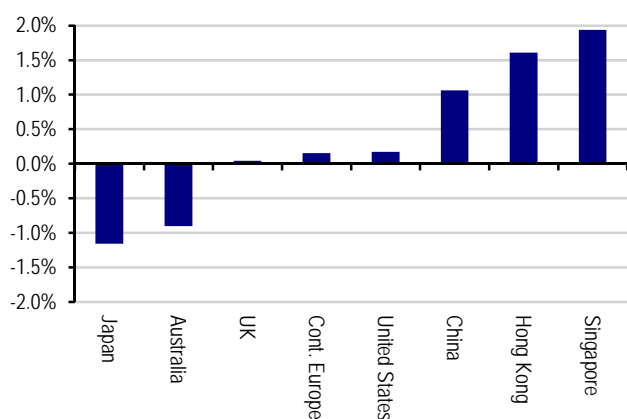
Chart 10: Bull Flattening – Global Sector performance



Source: DataStream, UBS. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over 20yrs.

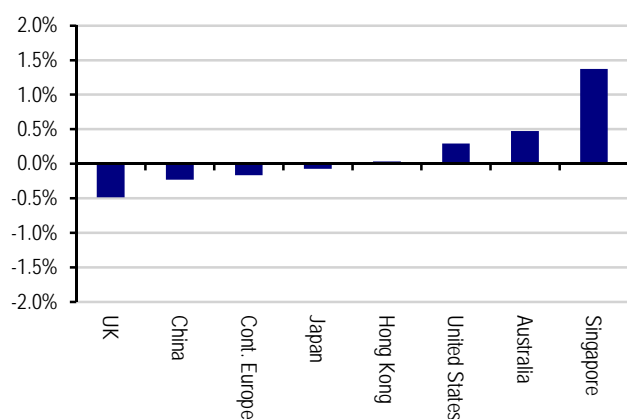
A *Bear Steepening* (using US treasury curve) favours the Asian countries (China, Hong Kong and Singapore), whereas Japan and Australia tend to underperform.

Chart 11: Bear Steepening - Country vs. FTSE, EPRA/NAREIT



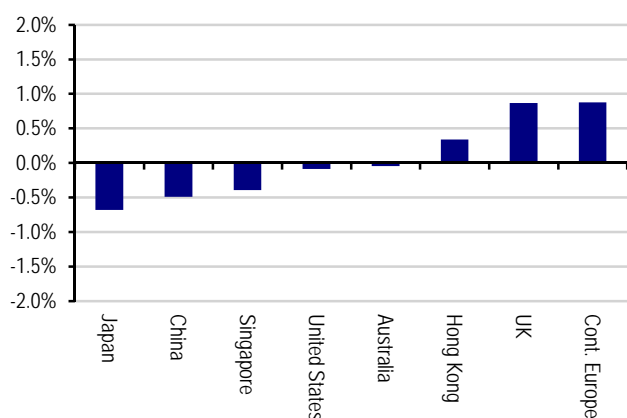
Source: DataStream. Country performance measured by FTSE, EPRA/NAREIT index in USD. Based on monthly analysis over last 20yr relative to US Treasuries yield curve.

Chart 12: Bear Flattening - Country vs. FTSE, EPRA/NAREIT



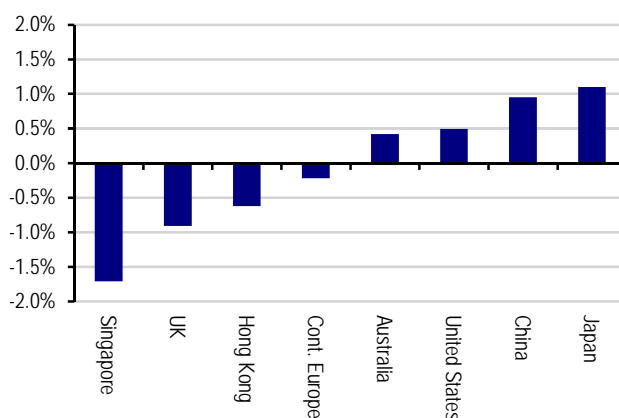
Source: DataStream. Each country performance measured by FTSE, EPRA/NAREIT index in USD. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

Chart 13: Bull Steepening - Country vs. FTSE, EPRA/NAREIT



Source: DataStream, UBS Estimates. Each country performance measured by local EPRA/Nareit index in USD. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

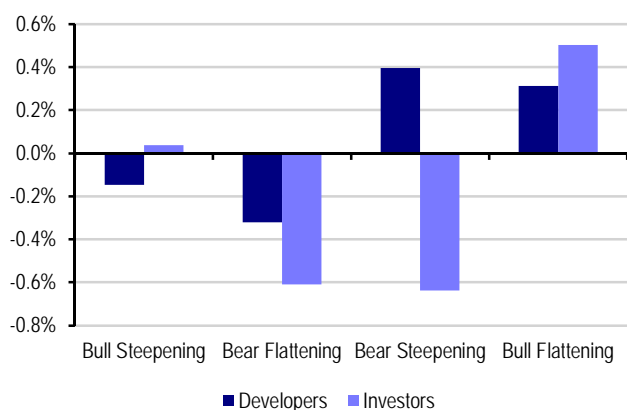
Chart 14: Bull Flattening - Country vs. FTSE, EPRA/NAREIT



Source: DataStream, UBS Estimates. Each country performance measured by local EPRA/Nareit index in USD. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

In a “*bear steepening*” environment the developers have on average outperformed equities and also outperformed the investors (REITs).

Chart 15: Investors &amp; Developers vs. Global Equities

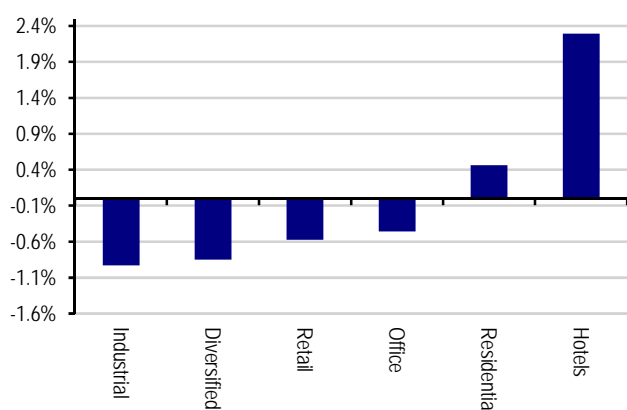


Source: DataStream, UBS Estimates. Both categories based on UBS Global Real Estate Indices in USD relative to MSCI World Index. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

On average the hotels and residential sectors outperform the global real estate universe in a steepening yield curve environment. Industrial and diversified tends to underperform.

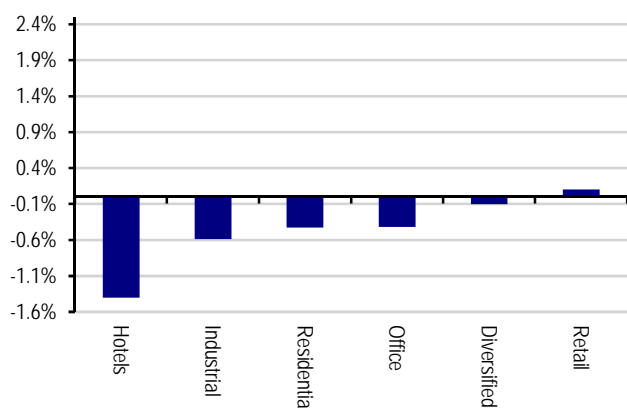
But, when we move into a bear flattening environment then its best to rotate back into industrial and diversified. Not surprisingly, hotel and residential underperform during this time. The hotel sector tends to be most leveraged to the economy and business cycle, and residential tends to be impacted by movements in mortgage rates, which tend to be priced off the short end of the yield curve.

Chart 16: Bear Steepening – Sector vs. Global Real Estate



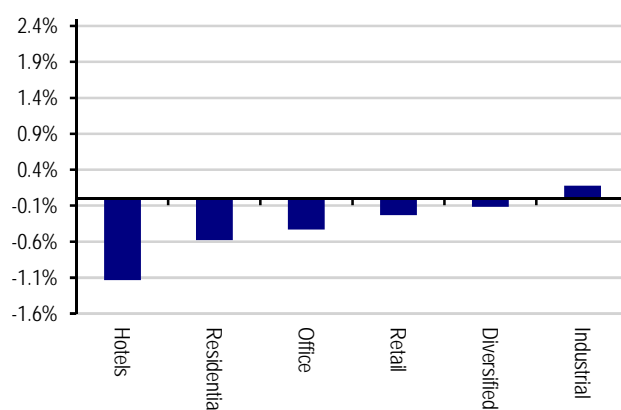
Source: DataStream, UBS Estimates. All sectors based on UBS Global Real Estate Sector Indices in USD relative to FTSE, EPRA/NAREIT Index. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

Chart 18: Bull Steepening – Sector vs. Global Real Estate



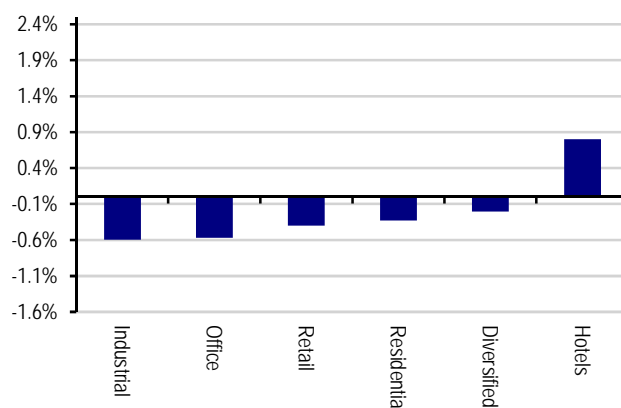
Source: DataStream, UBS Estimates. All sectors based on UBS Global Real Estate Sector Indices in USD relative to FTSE, EPRA/NAREIT Index. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

Chart 17: Bear Flattening - Sector vs. Global Real Estate



Source: DataStream, UBS Estimates. All sectors based on UBS Global Real Estate Sector Indices in USD relative to FTSE, EPRA/NAREIT Index. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

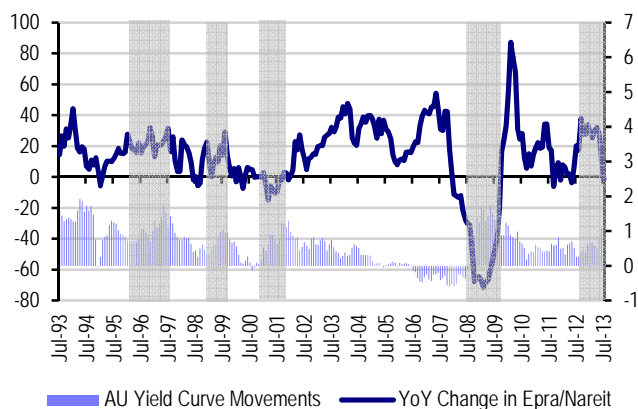
Chart 19: Bull Flattening - Sector vs. Global Real Estate



Source: DataStream, UBS Estimates. All sectors based on UBS Global Real Estate Sector Indices in USD relative to FTSE, EPRA/NAREIT Index. Based on monthly analysis over last 20 years relative to US Treasuries yield curve.

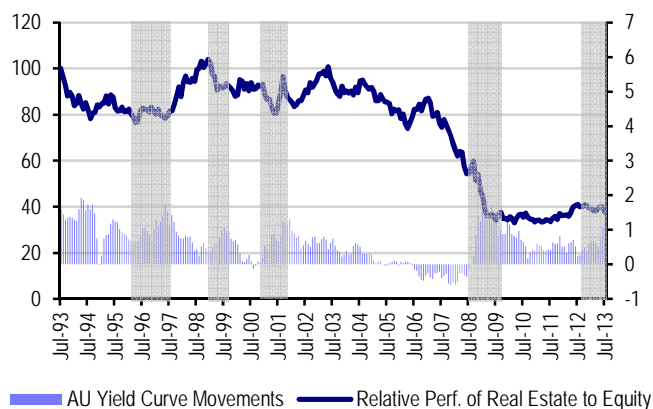
## Australia

Chart 20: Listed AU Real Estate &amp; AU Steepening Yield Curve



Source: DataStream, UBS Estimates. Yield Curve Spread between AU 10YR & AU 2YR Treasuries. FTSE EPRA/NAREIT Australia Index.

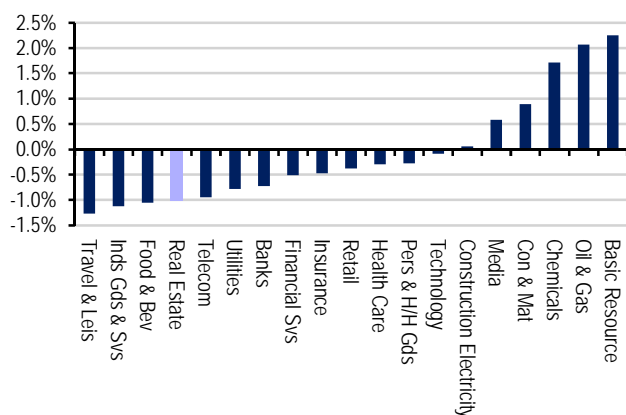
Chart 21: Listed AU Real Estate vs. AU Equities



Source: DataStream, UBS Estimates. Yield Curve Spread between AU 10YR & AU 2YR Treasuries. FTSE EPRA/NAREIT Australia Index vs. FTSE Australia Index.

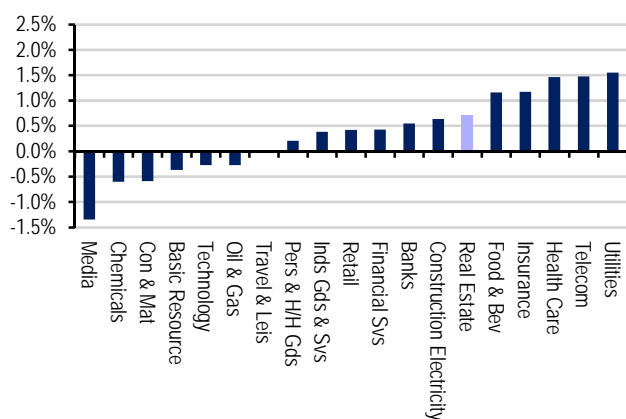
The Aussie listed real estate sector tends to underperform Australian equities in a bear steepening and bear flattening environment.

**Chart 22: Bear Steepening in Australia**



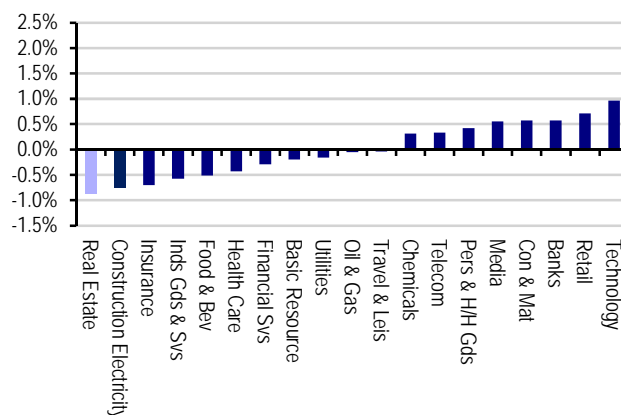
Source: DataStream, UBS Estimates. All sectors in AUD relative to AU Treasuries yield curve. Based on monthly analysis over last 20 years..

**Chart 24: Bull Steepening in Australia**



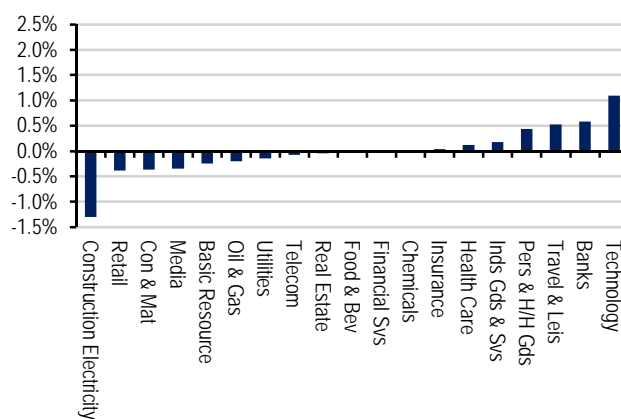
Source: DataStream, UBS Estimates. All sectors in AUD relative to AU Treasuries yield curve. Based on monthly analysis over last 20 years.

**Chart 23: Bear Flattening in Australia**



Source: DataStream, UBS Estimates. All sectors in AUD relative to AU Treasuries yield curve. Based on monthly analysis over last 20 years.

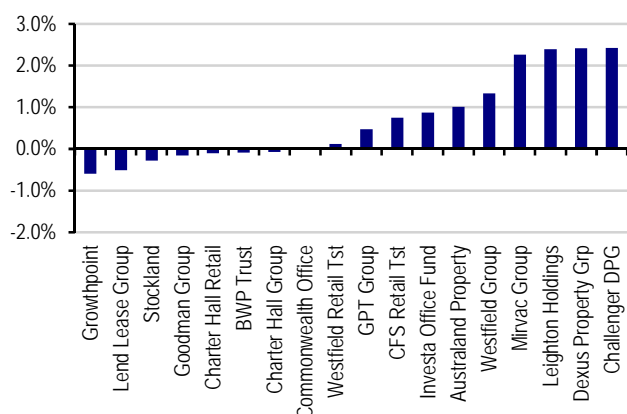
**Chart 25: Bull Flattening in Australia**



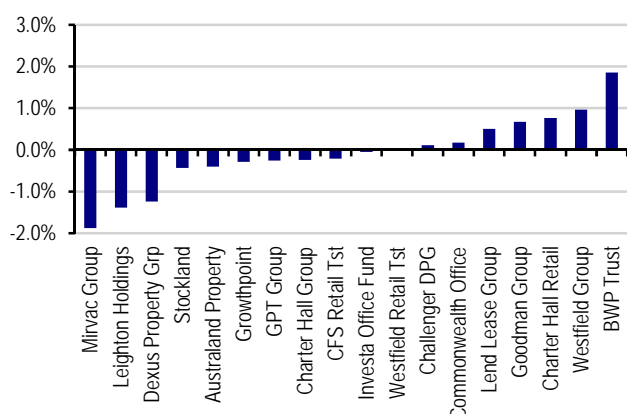
Source: DataStream, UBS Estimates. All sectors in AUD relative to AU Treasuries yield curve. Based on monthly analysis over last 20 years.

## Which stock to pick?

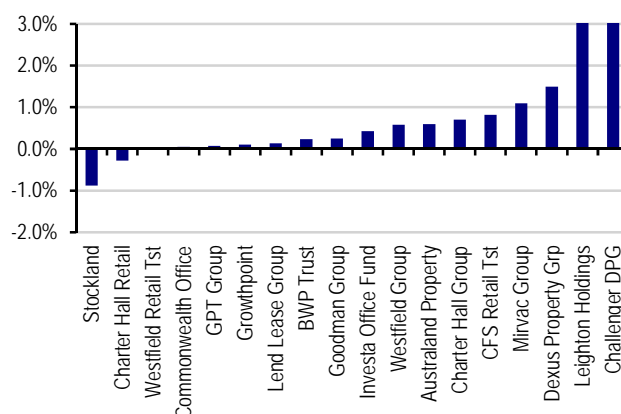
Not surprisingly, the higher growth and more developer orientated companies tend to perform best in a bear steepening environment, including Leightons, Mirvac and Westfield Group. Although somewhat surprisingly, Goodman, Stockland and Lend Lease are among the worst performers during past bear steepening, however, this appears to be bias by the period around the Global credit crisis.

**Chart 26: Bear Steepening – Companies vs. FTSE, EPRA/NAREIT Australia**

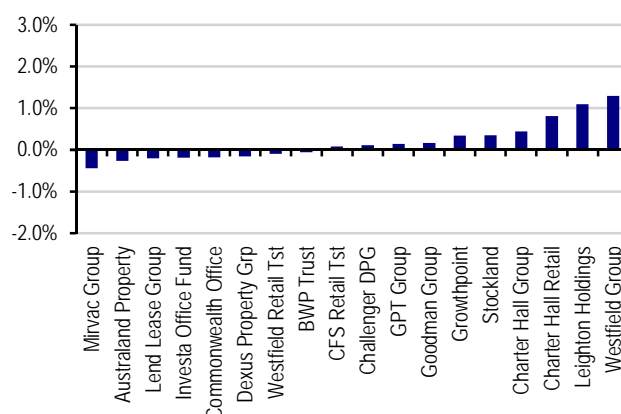
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Australia Index. Based on monthly analysis of AU Treasuries over last 20 years (where possible).

**Chart 28: Bull Steepening – Companies vs. FTSE, EPRA/NAREIT Australia**

Source: DataStream, UBS Estimates. All companies performance relative to FTSE Australia Index. Based on monthly analysis of AU Treasuries over last 20 years (where possible).

**Chart 27: Bear Flattening Companies – Companies vs. FTSE, EPRA/NAREIT Australia**

Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Australia Index. Based on monthly analysis of AU Treasuries over last 20 years (where possible).

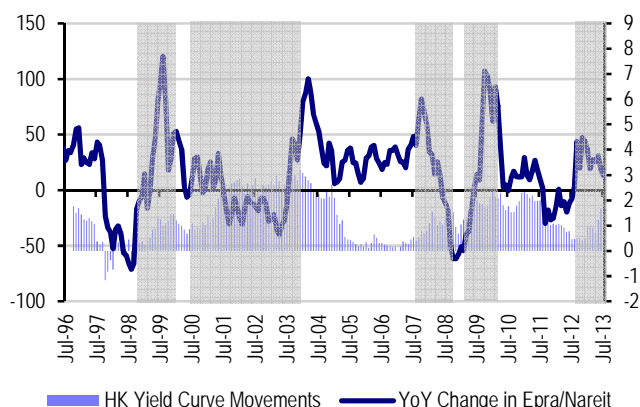
**Chart 29: Bull Flattening – Companies vs. FTSE, EPRA/NAREIT Australia**

Source: DataStream, UBS Estimates. All companies performance relative to FTSE Australia Index. Based on monthly analysis of AU Treasuries over last 20 years (where possible).

## Hong Kong

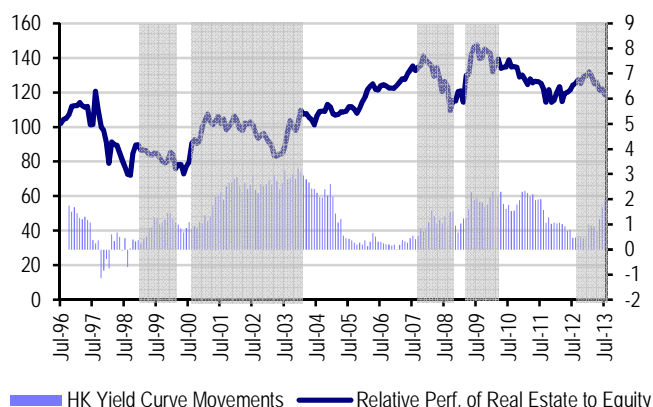
A *Steepening* yield curve doesn't impact listed real estate sector performance in Hong Kong as negatively as the REIT focused markets of Europe, Australia and the US. HK listed real estate tends to market perform during "*bear steepening*" periods, but then underperform during "*bear flattening*" periods, reflecting its higher weighting to residential development.

Chart 30: Listed HK Real Estate & HK Steepening Yield Curve



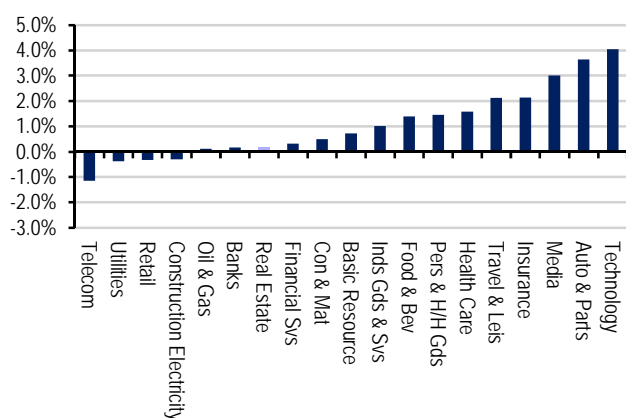
Source: DataStream, UBS Estimates. Yield Curve Spread between HK 10YR & HK 2YR Treasuries. FTSE EPRA/NAREIT Hong Kong Index.

Chart 31: Listed HK Real Estate vs. HK Equities



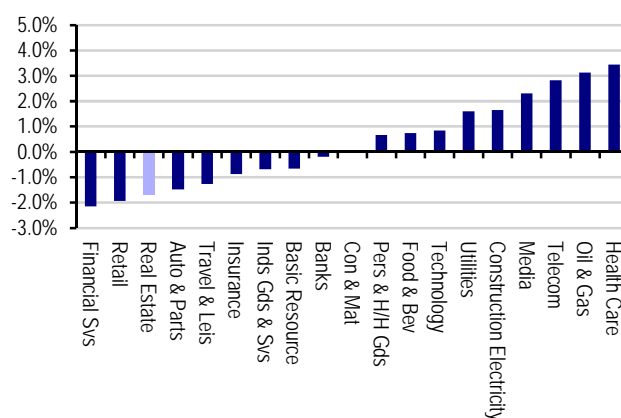
Source: DataStream, UBS Estimates. Yield Curve Spread between HK 10YR & HK 2YR Treasuries. FTSE EPRA/NAREIT Hong Kong Index vs. MSCI Hong Kong Index.

Chart 32: Bear Steepening in Hong Kong



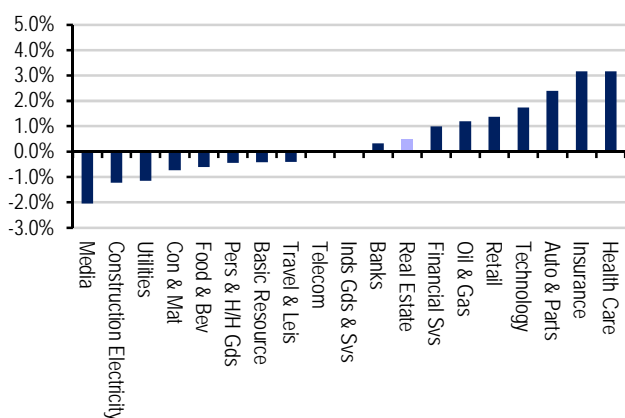
Source: DataStream, UBS Estimates. All sectors in HKD relative to HK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 33: Bear Flattening in Hong Kong



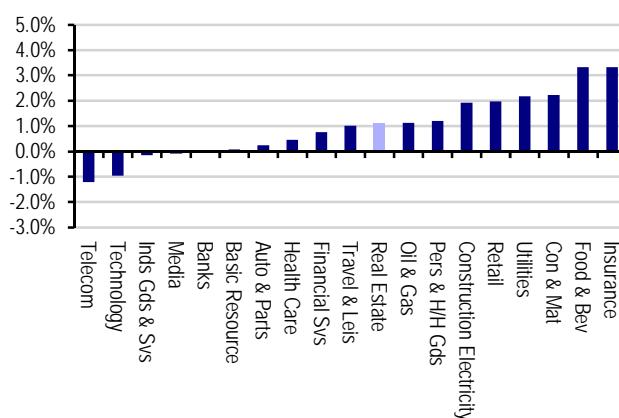
Source: DataStream, UBS Estimates. All sectors in HKD relative to HK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 34: Bull Steepening in Hong Kong



Source: DataStream, UBS Estimates. All sectors in HKD relative to HK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 35: Bull flattening in Hong Kong



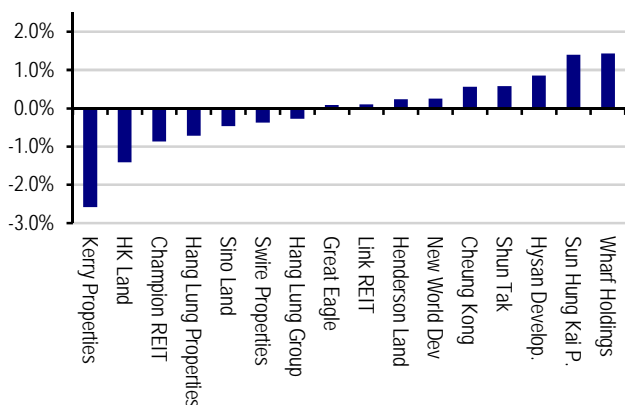
Source: DataStream, UBS Estimates. All sectors in HKD relative to HK Treasuries yield curve. Based on monthly analysis over last 20 years.

### Which stock to pick?

In a “bear steepening” environment, Wharf, SHKP and Hysan have tended to perform quite well. Whereas HK Land, Champion REIT and Hang Lung have disappointed. We believe Hong Kong Land and Champion REIT to be potentially the most vulnerable again this time round, to higher bond rates given office gross cap rates at 4.0% and 3.5% respectively.

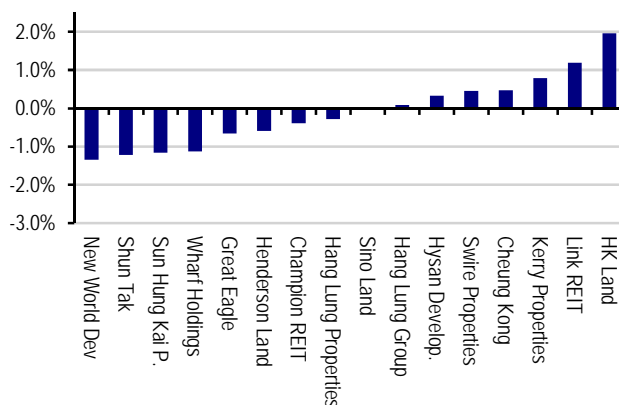
Interestingly, LINK has proved to be more a market performer in steepening curve environments despite the potential pressure on cap rates, perhaps reflecting some offset from income growth.

Chart 36: Bear Steepening – Companies vs. FTSE, EPRA/NAREIT Hong Kong

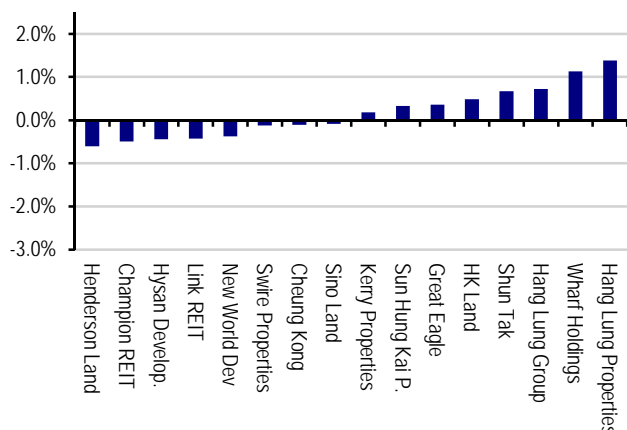


Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Hong Kong Index. Based on monthly analysis of HK Treasuries over last 17 years (where possible).

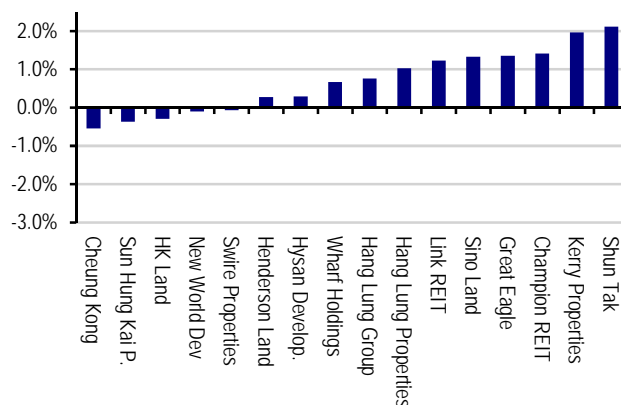
Chart 37: Bear Flattening – Companies vs. FTSE, EPRA/NAREIT Hong Kong



Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Hong Kong Index. Based on monthly analysis of HK Treasuries over last 17 years (where possible).

**Chart 38: Bull Steepening – Companies vs. FTSE, EPRA/NAREIT Hong Kong**

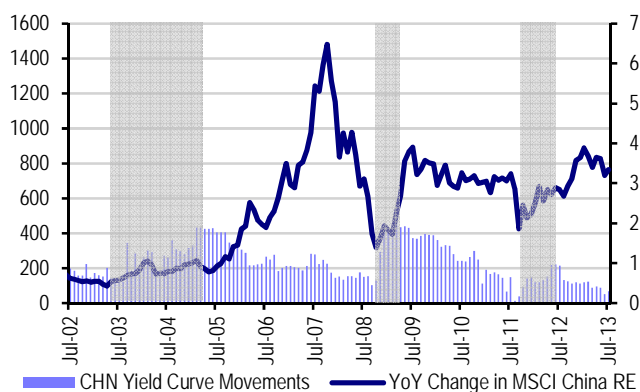
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Hong Kong Index. Based on monthly analysis of HK Treasuries over last 17 years (where possible).

**Chart 39: Bull Flattening – Companies vs. FTSE, EPRA/NAREIT Hong Kong**

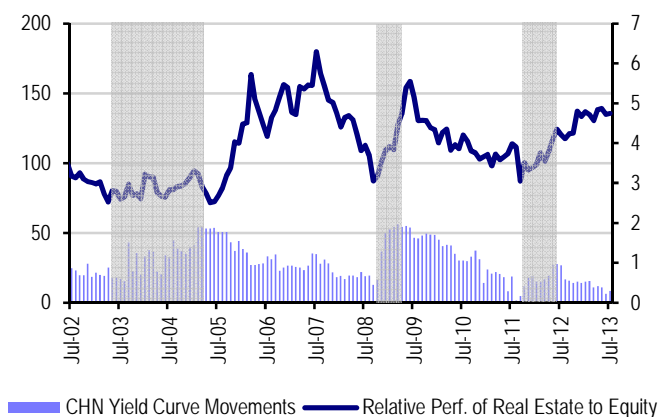
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Hong Kong Index. Based on monthly analysis of HK Treasuries over last 17 years (where possible).

## China

The china developers are largely home builders, and so there isn't a strong relationship between bonds and performance as illustrated below.

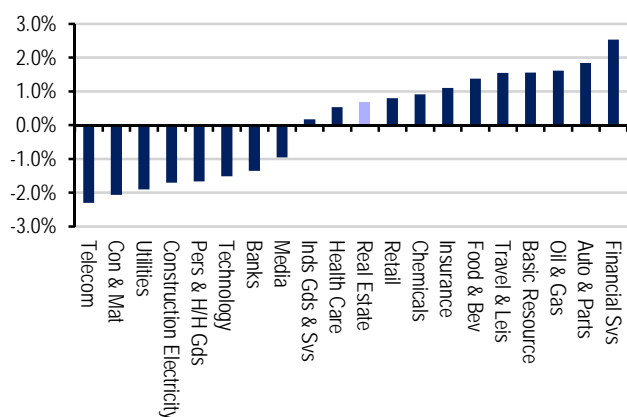
**Chart 40: Listed CHN Real Estate & CHN Steepening Yield Curve**

Source: DataStream, UBS Estimates. Yield Curve Spread between CHN 10YR & CHN 2YR Treasuries. MSCI Real Estate China Index.

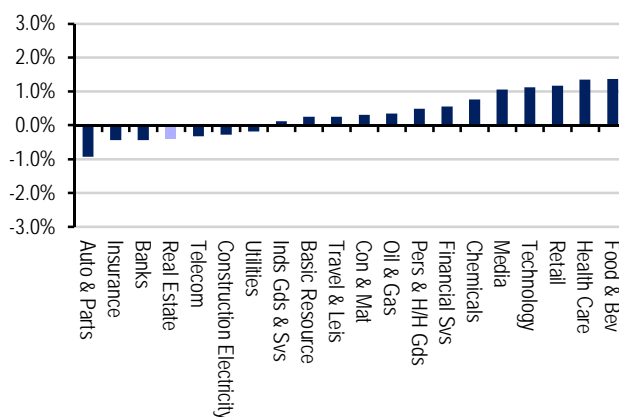
**Chart 41: Listed CHN Real Estate vs. CHN Equities**

Source: DataStream, UBS Estimates. Yield Curve Spread between CHN 10YR & CHN 2YR Treasuries. MSCI Real Estate China Index vs. MSCI China Index.

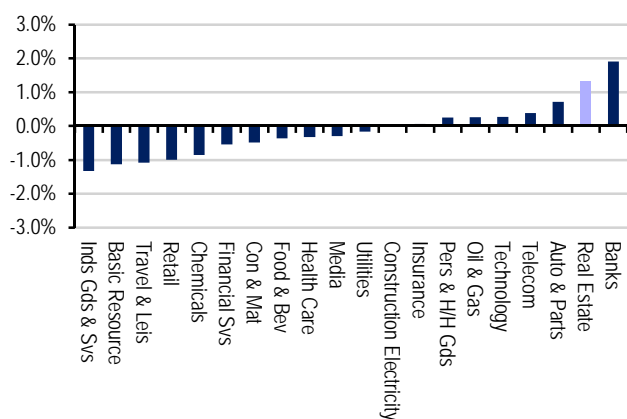
On average the china developers have tended to outperform the Chinese equities market during periods of “*bear steepening*”. As expected, as the short end of the yield curve starts to increase quicker than the long end “*bear flattening*” the Chinese developers are likely to enter a period of underperformance versus other equities.

**Chart 42: Bear Steepening – China Sector Performance vs. Chinese Equities**

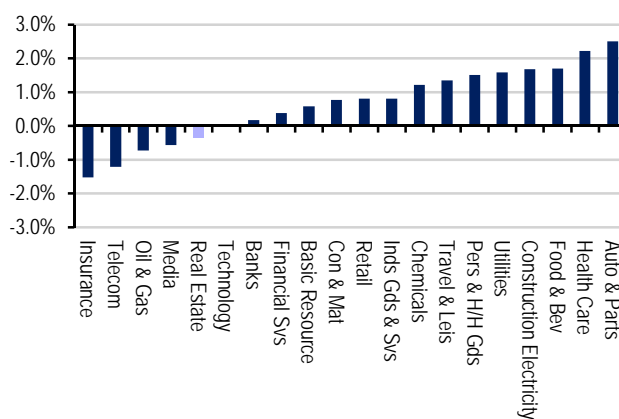
Source: DataStream, UBS Estimates. All sectors in CH relative to CHN Treasuries yield curve. Based on monthly analysis over last 20 years.

**Chart 43: Bear Flattening - China Sector Performance vs. Chinese Equities**

Source: DataStream, UBS Estimates. All sectors in CH relative to CHN Treasuries yield curve. Based on monthly analysis over last 20 years.

**Chart 44: Bull Steepening - China Sector Performance vs. Chinese Equities**

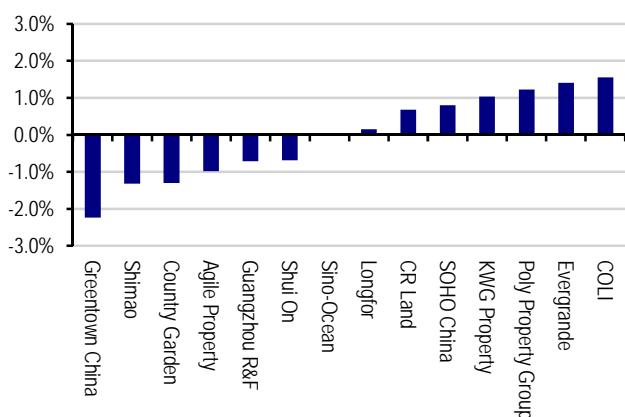
Source: DataStream, UBS Estimates. All sectors in CH relative to CHN Treasuries yield curve. Based on monthly analysis over last 20 years.

**Chart 45: Bull flattening - China Sector Performance vs. Chinese Equities**

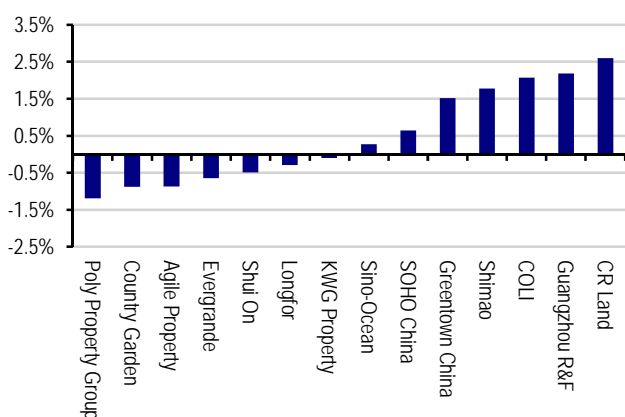
Source: DataStream, UBS Estimates. All sectors in CH relative to CHN Treasuries yield curve. Based on monthly analysis over last 20 years.

## Which stock to pick?

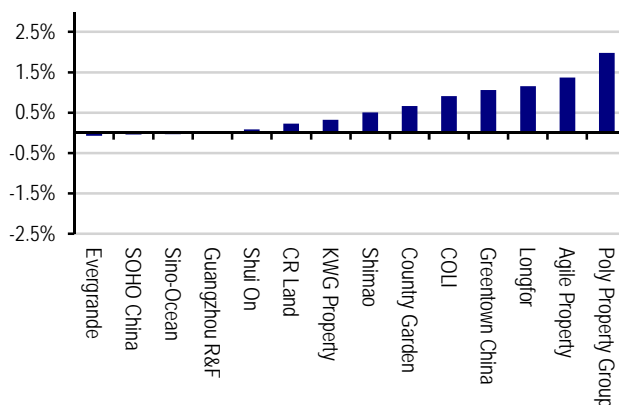
The China developers have quite business models (ie largely residential developers) and have seen large growth in their businesses over the last 10 years. We therefore believe company execution and delivery, has been more important in identifying share price performers and differentiating the outperformers and under performers, rather than the shape of the yield curve.

**Chart 46: Bear Steepening – Companies vs. MSCI Real Estate China**

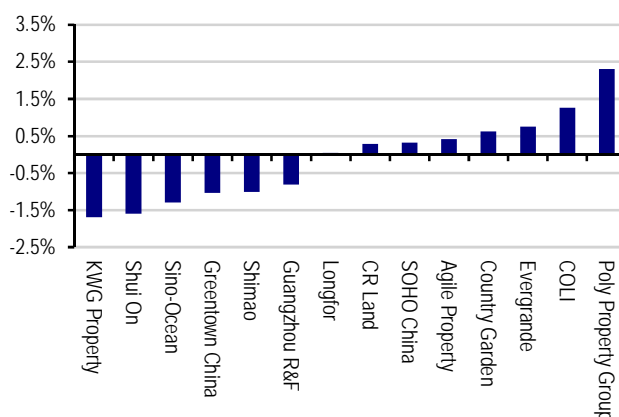
Source: DataStream, UBS Estimates. All companies performance relative to MSCI Real Estate China Index. Based on monthly analysis of CHN Treasuries over last 11 years (whereas possible).

**Chart 48: Bull Steepening – Companies vs. MSCI Real Estate China**

Source: DataStream, UBS Estimates. All companies performance relative to MSCI Real Estate China Index. Based on monthly analysis of CHN Treasuries over last 11 years (where possible).

**Chart 47: Bear Flattening – Companies vs. MSCI Real Estate China**

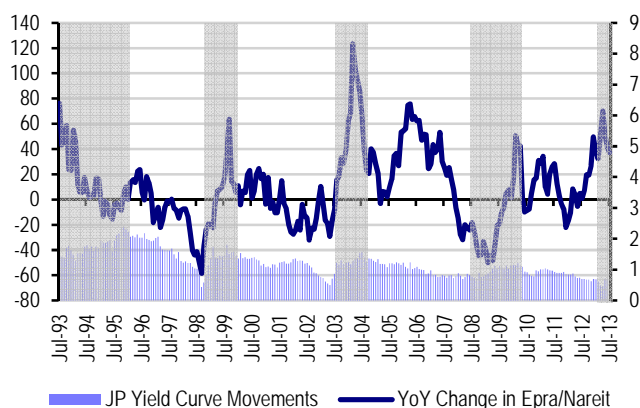
Source: DataStream, UBS Estimates. All companies performance relative to MSCI Real Estate China Index. Based on monthly analysis of CHN Treasuries over last 11 years (whereas possible).

**Chart 49: Bull Flattening – Companies vs. MSCI Real Estate China**

Source: DataStream, UBS Estimates. All companies performance relative to MSCI Real Estate China Index. Based on monthly analysis of CHN Treasuries over last 11 years (where possible).

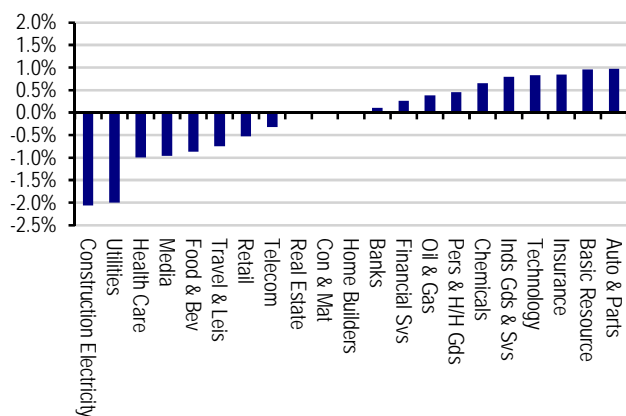
## Japan

Chart 50: Listed JP Real Estate & JP Steepening Yield Curve



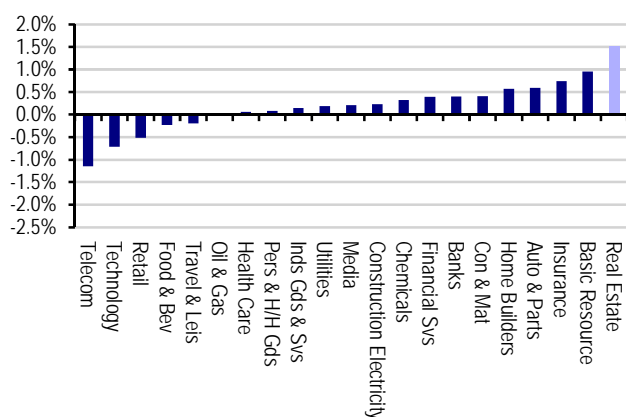
Source: DataStream, UBS Estimates. Yield Curve Spread between JP 10YR & JP 2YR Treasuries. FTSE EPRA/NAREIT Japan Index.

Chart 52: Bear Steepening – Sectors vs. Japan equities



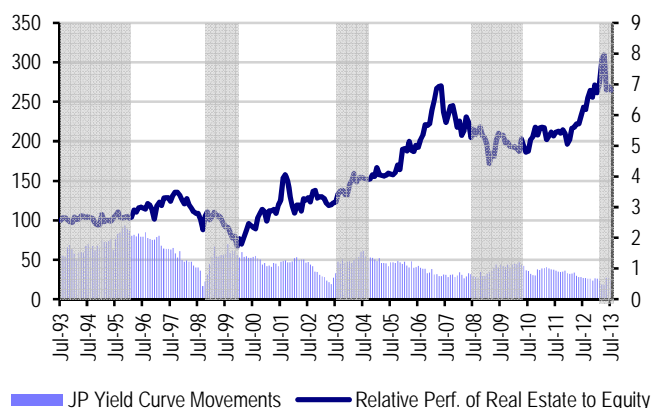
Source: DataStream, UBS Estimates. All sectors in JPY relative to JP Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 54: Bull Steepening – Sector vs. Japan equities



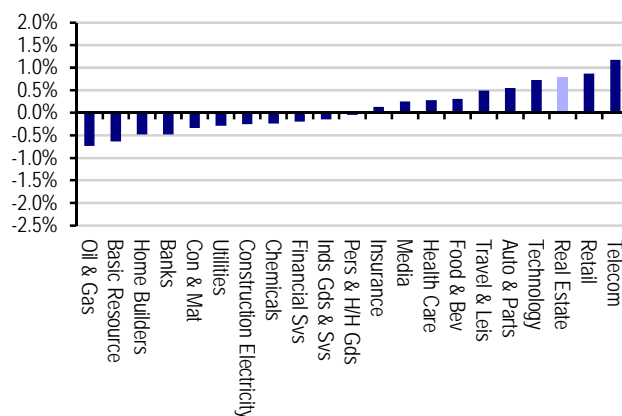
Source: DataStream, UBS Estimates. All sectors in JPY relative to JP Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 51: Listed JP Real Estate vs. JP Equities



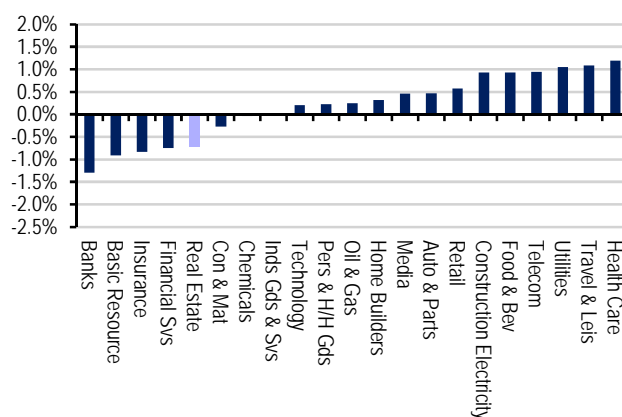
Source: DataStream, UBS Estimates. Yield Curve Spread between JP 10YR & JP 2YR Treasuries. FTSE EPRA/NAREIT Japan Index vs. MSCI Japan Index.

Chart 53: Bear Flattening – Sectors vs. Japan equities



Source: DataStream, UBS Estimates. All sectors in JPY relative to JP Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 55: Bull Flattening – Sectors vs. Japan equities

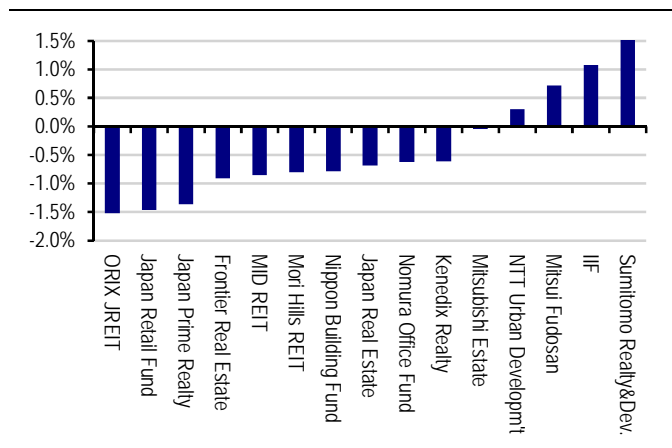


Source: DataStream, UBS Estimates. All sectors in JPY relative to JP Treasuries yield curve. Based on monthly analysis over last 20 years.

## Which stock to pick?

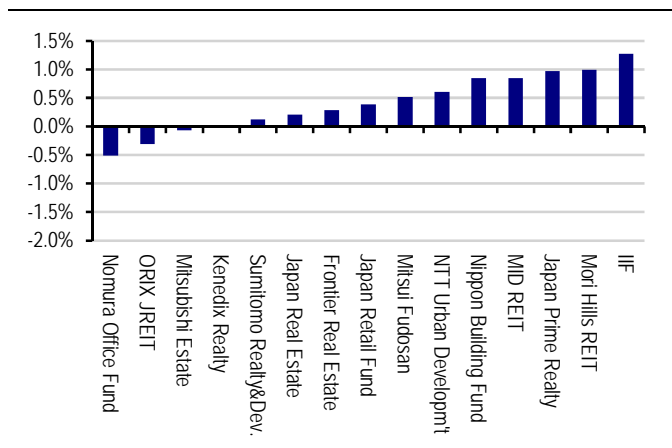
The developers, being Sumitomo Realty, Mitsui Fudosan, NTT Urban and Mitsubishi Estate tend to perform better than the JREITs during a “*Bear Steepening*” period. Whereas, this tends to reverse during a “*bear flattening*” environment, with the JREITs largely outperforming the developers.

**Chart 56: Bear Steepening – Companies vs. FTSE, EPRA/NAREIT Japan**



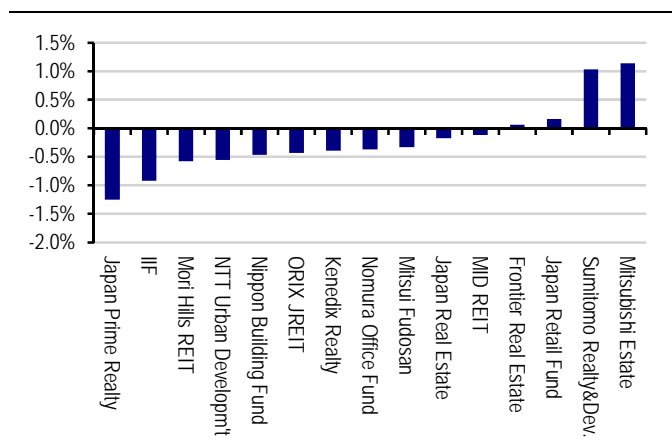
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Japan Index. Based on monthly analysis of JP Treasuries over last 20 years (where possible).

**Chart 57: Bear Flattening – Companies vs. FTSE, EPRA/NAREIT Japan**



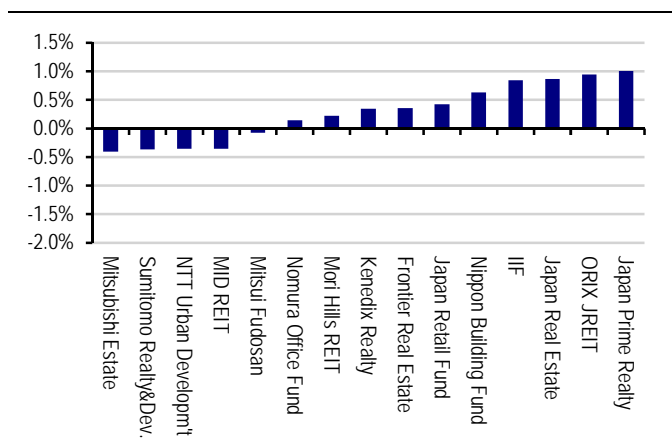
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Japan Index. Based on monthly analysis of JP Treasuries over last 20 years (where possible).

**Chart 58: Bull Steepening – Companies vs. FTSE, EPRA/NAREIT Japan**



Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Japan Index. Based on monthly analysis of JP Treasuries over last 20 years (where possible). As of 30<sup>th</sup> July 2013.

**Chart 59: Bull Flattening – Companies vs. FTSE, EPRA/NAREIT Japan**

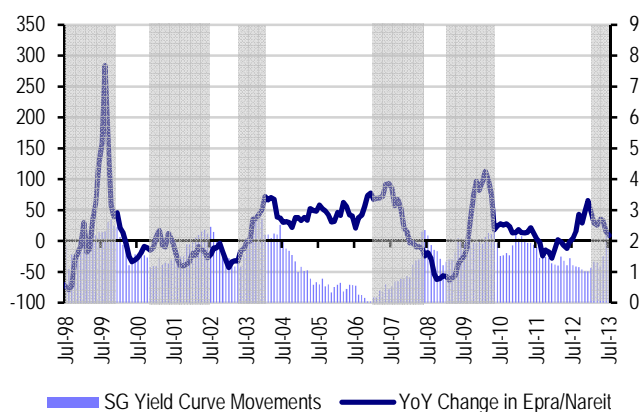


Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Japan Index. Based on monthly analysis of JP Treasuries over last 20 years (where possible). As of 30<sup>th</sup> July 2013.

## Singapore

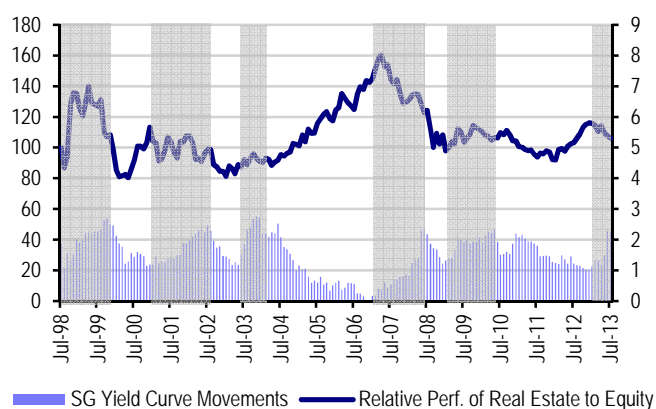
During a “bear steepening” Singaporean Real Estate has generally performed in line with its local equities market, while it underperforms equities during a “bear flattening”.

Chart 60: Listed SG Real Estate & SG Steepening Yield Curve



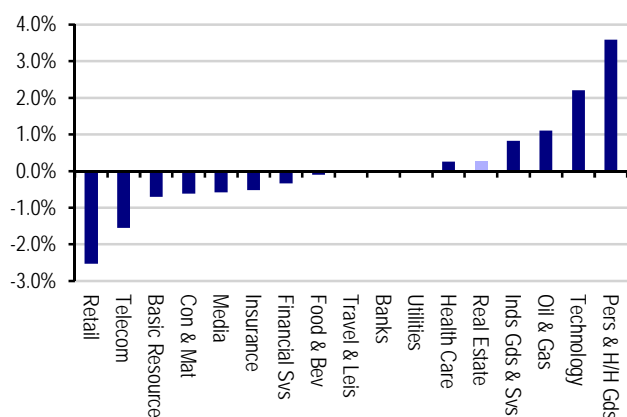
Source: DataStream, UBS Estimates. Yield Curve Spread between SG 10YR & SG 2YR Treasuries. FTSE EPRA/NAREIT Singapore Index.

Chart 61: Listed SG Real Estate vs. SG Equities



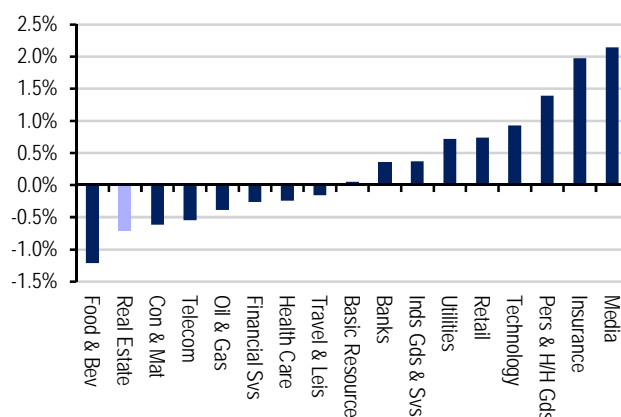
Source: DataStream, UBS Estimates. Yield Curve Spread between SG 10YR & SG 2YR Treasuries. FTSE EPRA/NAREIT Singapore Index vs. MSCI Singapore Index.

Chart 62: Bear Steepening - Sector performance vs. equities



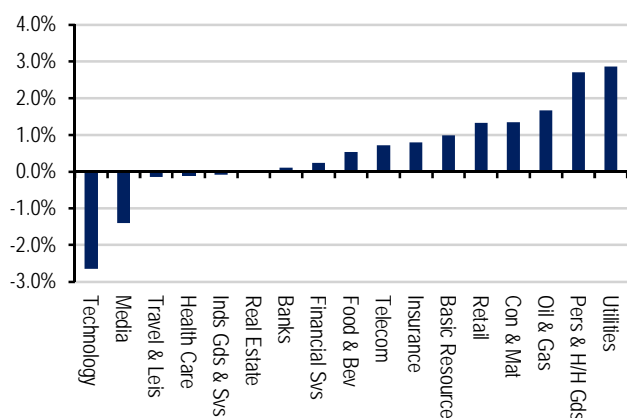
Source: DataStream, UBS Estimates. All sectors in SGD relative to SG Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 63: Bear Flattening - Sector performance vs. equities



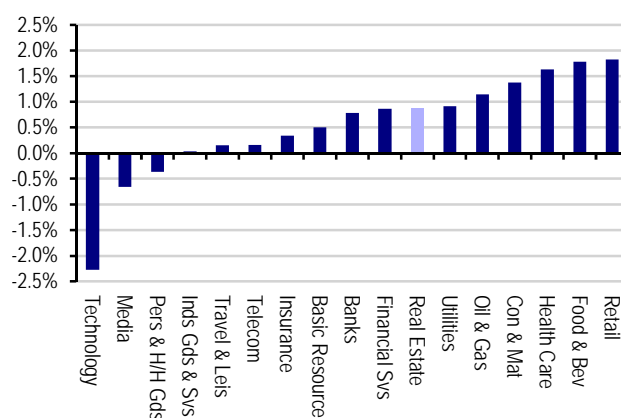
Source: DataStream, UBS Estimates. All sectors in SGD relative to SG Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 64: Bull Steepening – Sector performance vs. equities



Source: DataStream, UBS Estimates. All sectors in SGD relative to SG Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 65: Bull Flattening - Sector performance vs. equities



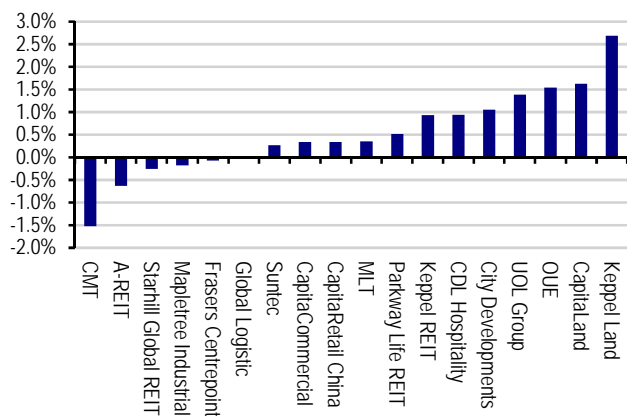
Source: DataStream, UBS Estimates. All sectors in SGD relative to SG Treasuries yield curve. Based on monthly analysis over last 20 years.

## Which stock to pick?

In general the Singapore developers, including Keppel Land, CapitaLand, OUE and UOL have tended to perform best in a “*bear steepening*” environment, with the REITs including CMT, A-REIT and Starhill REIT underperforming.

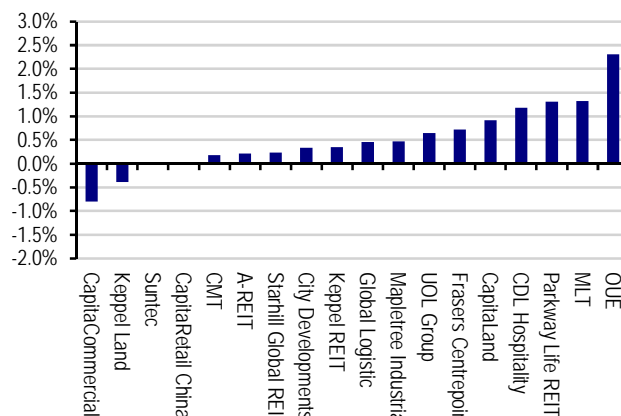
The trends are less clear in a “*bear flattening*”.

Chart 66: Bear Steepening – Companies vs. FTSE, EPRA/NAREIT Singapore

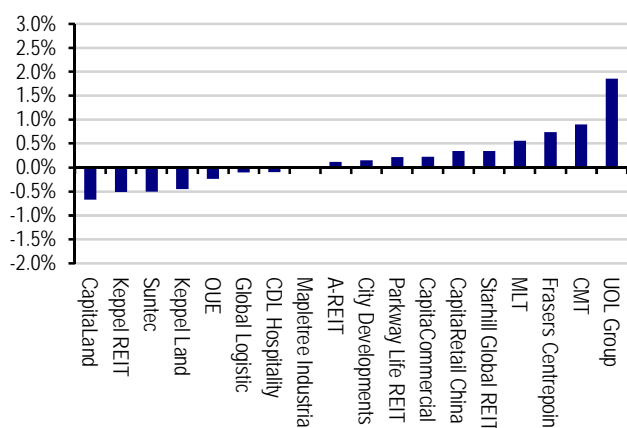


Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Singapore Index. Based on monthly analysis of SG Treasuries over last 15 years (where possible).

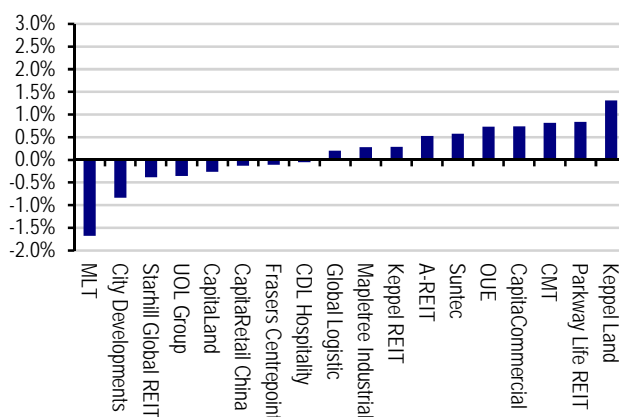
Chart 67: Bear Flattening – Companies vs. FTSE, EPRA/NAREIT Singapore



Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Singapore Index. Based on monthly analysis of SG Treasuries over last 15 years (where possible).

**Chart 68: Bull Steepening – Companies vs. FTSE, EPRA/NAREIT Singapore**

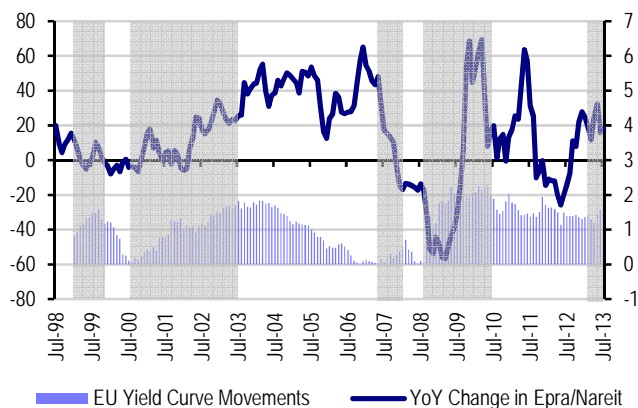
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Singapore Index. Based on monthly analysis of SG Treasuries over last 15 years (where possible).

**Chart 69: Bull Flattening – Companies vs. FTSE, EPRA/NAREIT Singapore**

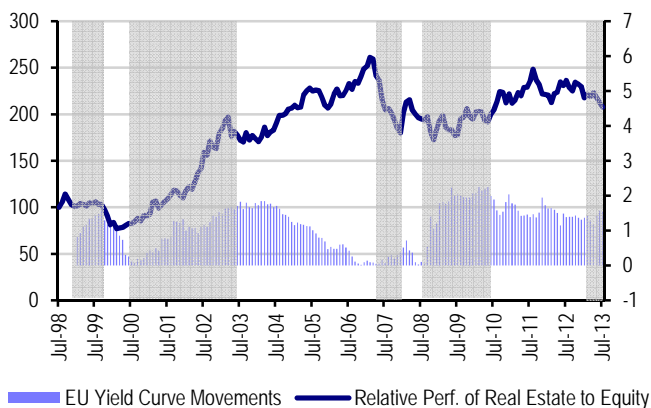
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT Singapore Index. Based on monthly analysis of SG Treasuries over last 15 years (where possible).

## Europe

For the UK and European analysis, we refer to our country teams piece “*Alternative Realty – Issue 8: Real estate and rising bond yields: discuss*”, 2 September 2013. We do however; include the sector performance versus equities for comparison with the other countries.

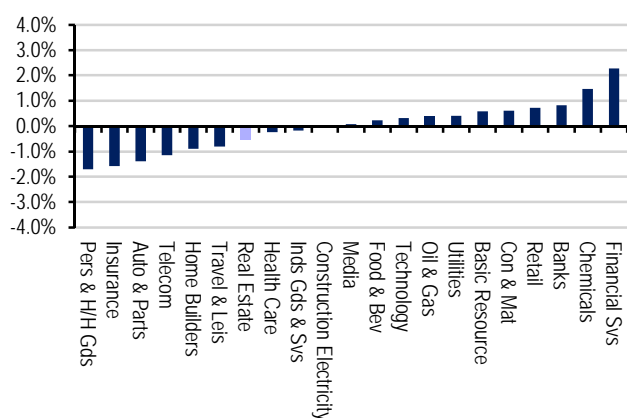
**Chart 70: Listed EU Real Estate & EU Steepening Yield Curve**

Source: DataStream, UBS Estimates. Yield Curve Spread between EU 10YR & EU 2YR Treasuries. FTSE EPRA/NAREIT Europe Ex. UK Index.

**Chart 71: Listed EU Real Estate vs. EU Equities**

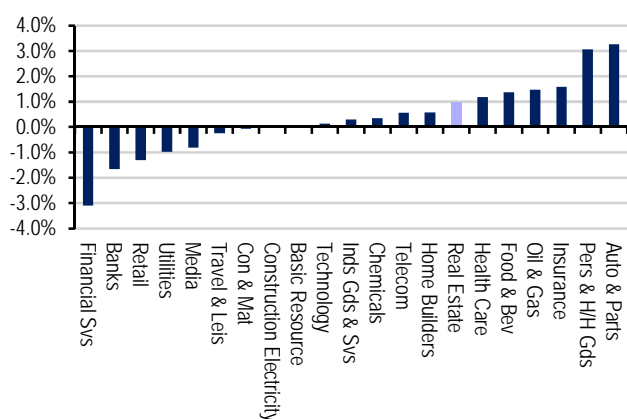
Source: DataStream, UBS. Yield Curve Spread between EU10YR & EU2YR Treasuries. FTSE EPRA/NAREIT Europe Ex. UK vs. MSCI Europe Ex. UK Index.

Chart 72: Bear Steepening in Continental Europe



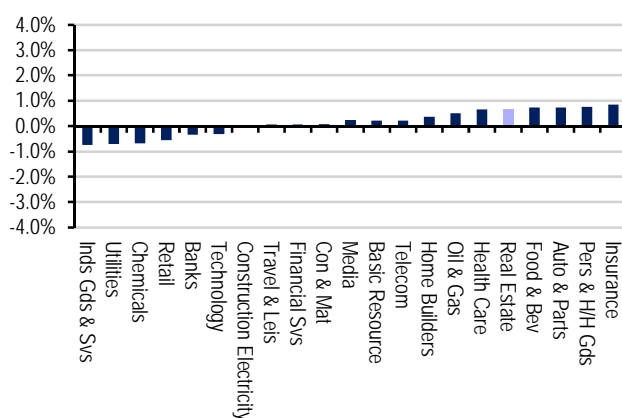
Source: DataStream, UBS Estimates. All sectors in EUR relative to EU Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 74: Bull Steepening in Continental Europe



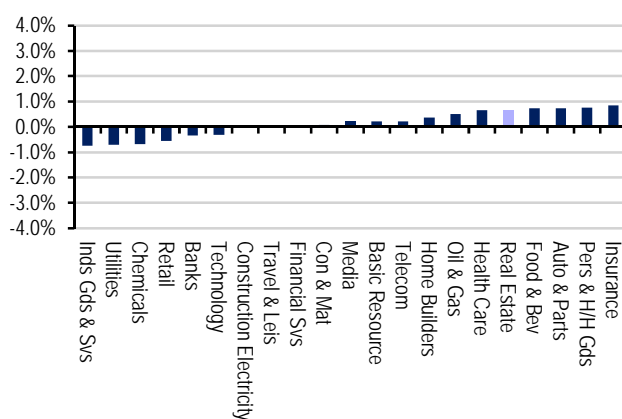
Source: DataStream, UBS Estimates. All sectors in EUR relative to EU Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 73: Bear Flattening in Continental Europe



Source: DataStream, UBS Estimates. All sectors in EUR relative to EU Treasuries yield curve. Based on monthly analysis over last 20 years.

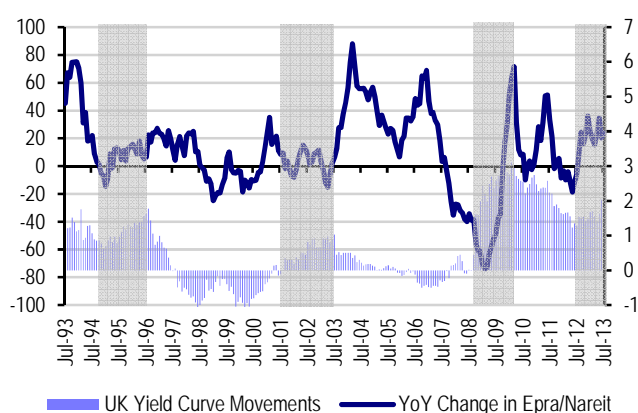
Chart 75: Bull Flattening in Continental Europe



Source: DataStream, UBS Estimates. All sectors in EUR relative to EU Treasuries yield curve. Based on monthly analysis over last 20 years.

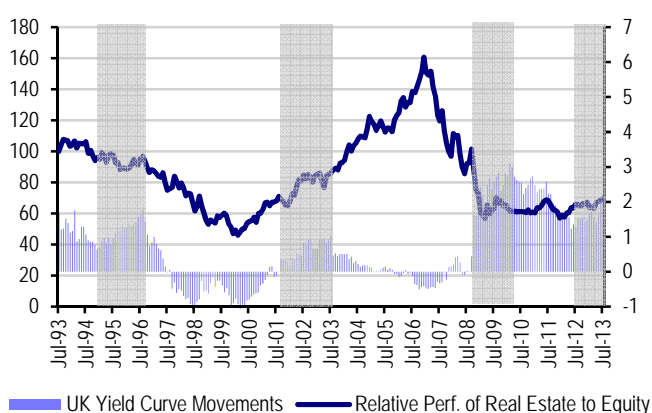
## UK

Chart 76: Listed UK Real Estate &amp; UK Steepening Yield Curve



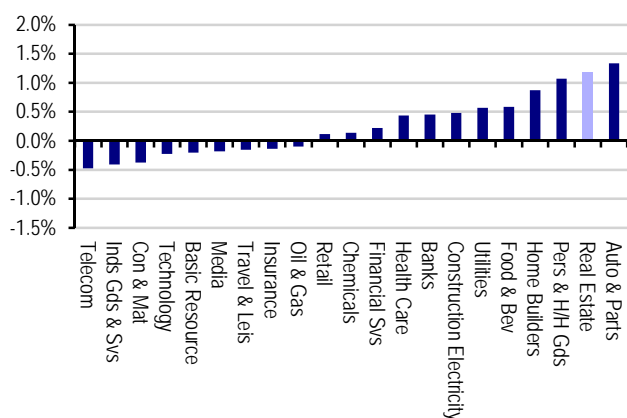
Source: DataStream, UBS Estimates. Yield Curve Spread between UK 10YR & UK 2YR Treasuries. FTSE EPRA/NAREIT UK Index.

Chart 77: Listed UK Real Estate vs. UK Equities



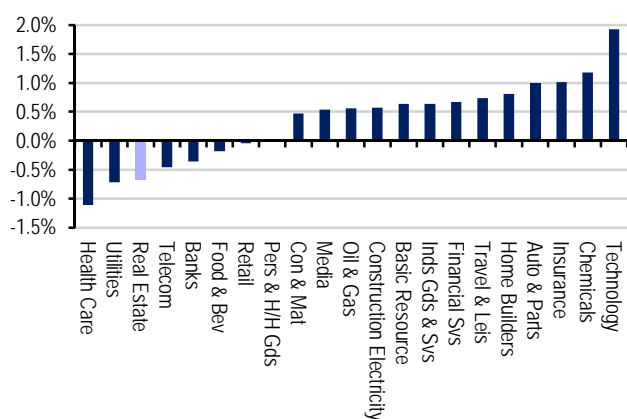
Source: DataStream, UBS Estimates. Yield Curve Spread between UK 10YR & UK 2YR Treasuries. FTSE EPRA/NAREIT UK Index vs. MSCI UK Index.

Chart 78: Bull Steepening - UK Property versus Equities



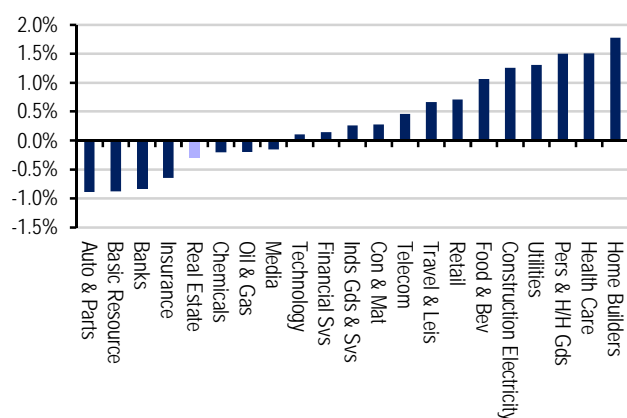
Source: DataStream, UBS Estimates. All sectors in GBP relative to UK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 80: Bear Steepening – UK Property versus Equities



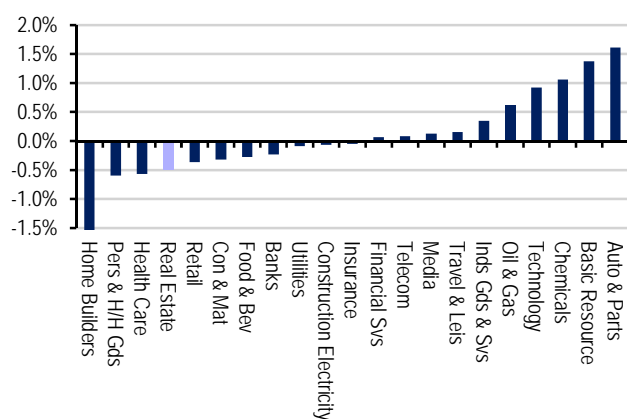
Source: DataStream, UBS Estimates. All sectors in GBP relative to UK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 79: Bull Flattening - UK Property versus Equities



Source: DataStream, UBS Estimates. All sectors in GBP relative to UK Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 81: Bear Flattening - UK Property versus Equities

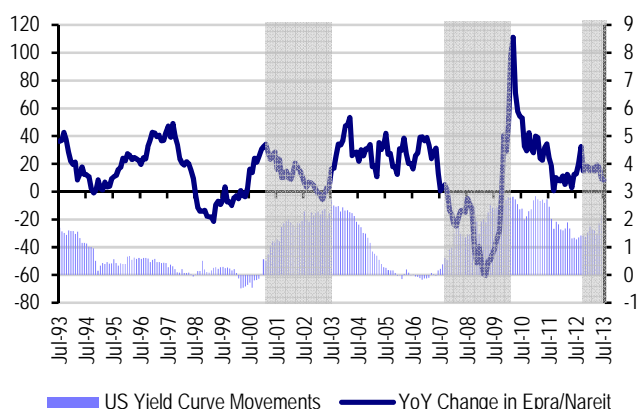


Source: DataStream, UBS Estimates. All sectors in GBP relative to UK Treasuries yield curve. Based on monthly analysis over last 20 years.

## United States

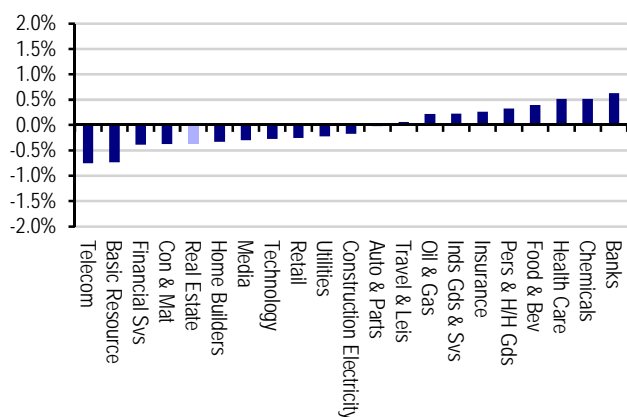
In general US Real Estate outperforms local equities when the yields are *Flattening* (in particular when it is *Bullish*), whereas a “*bear steepening*” tends to bring with it underperformance for the US REITs against their local equities market.

Chart 82: Listed US Real Estate &amp; US Steepening Yield Curve



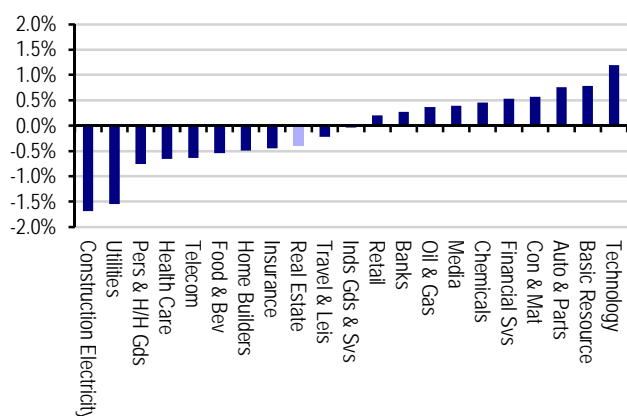
Source: DataStream, UBS Estimates. Yield Curve Spread between US 10YR & US 2YR Treasuries. FTSE EPRA/NAREIT United States Index.

Chart 84: Bull Steepening in US



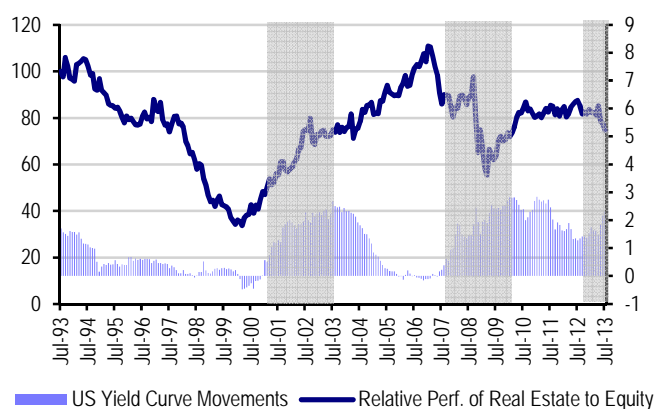
Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years

Chart 86: Bear Steepening in US



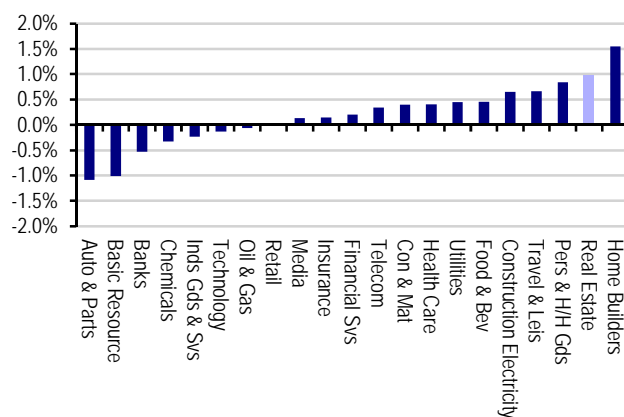
Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 83: Listed US Real Estate vs. US Equities



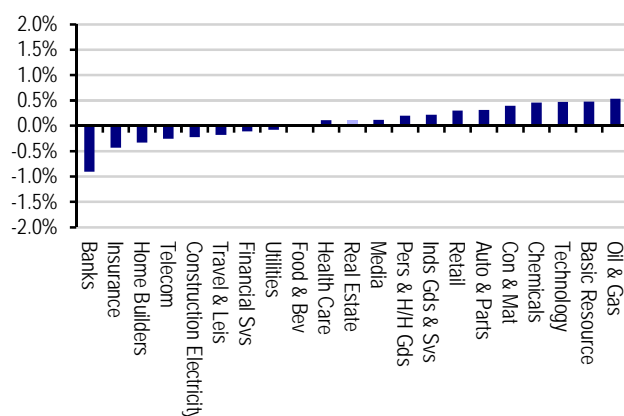
Source: DataStream, UBS Estimates. Yield Curve Spread between US 10YR & US 2YR Treasuries. FTSE EPRA/NAREIT United States Index vs. MSCI USA Index..

Chart 85: Bull Flattening in US



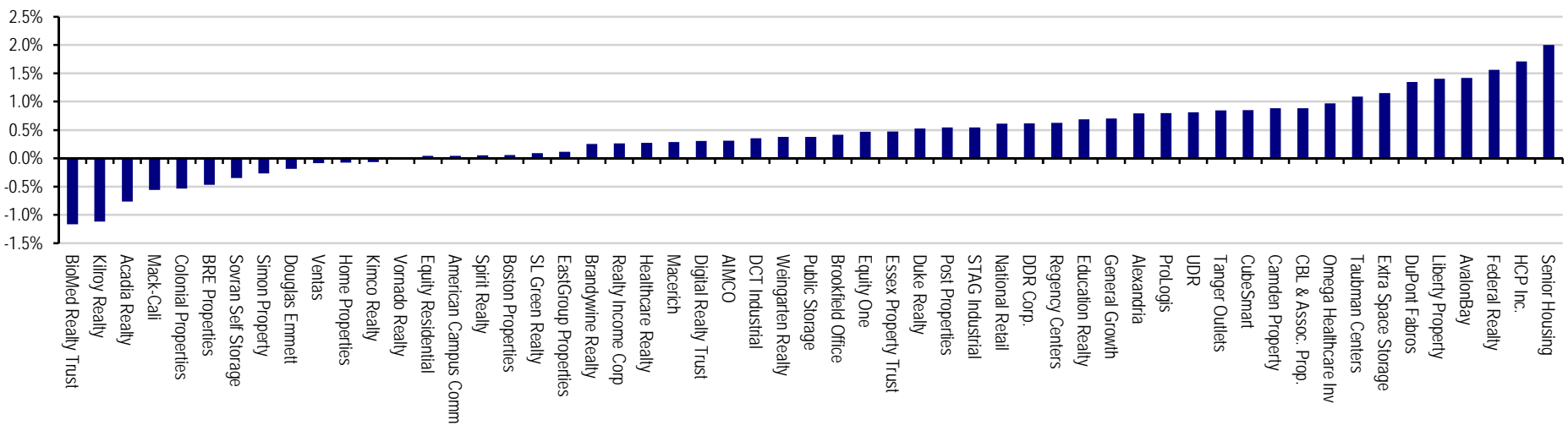
Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 87: Bear Flattening in US



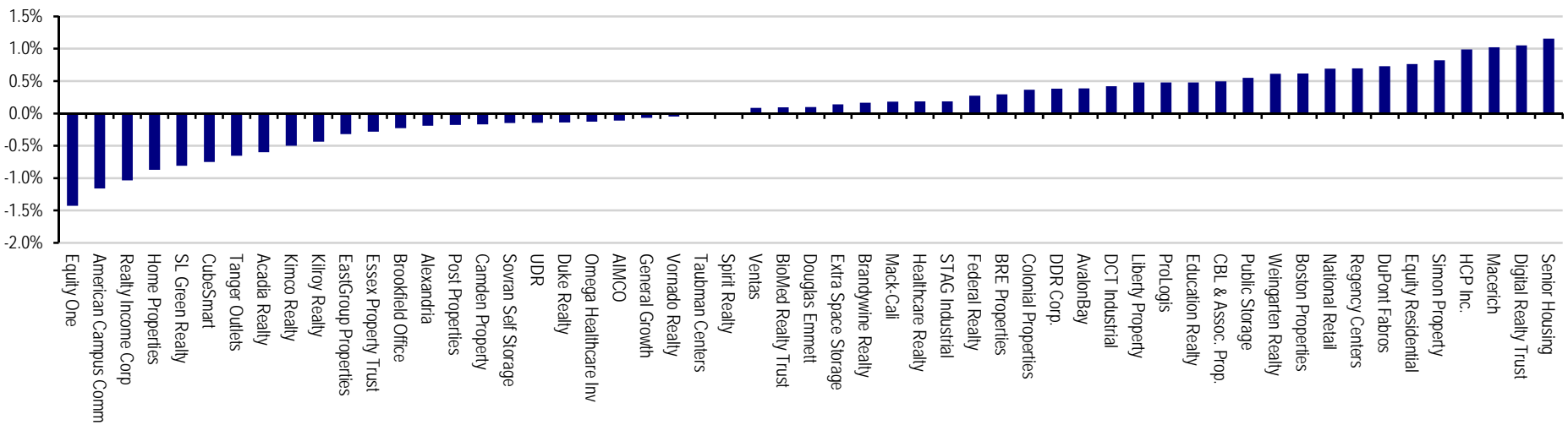
Source: DataStream, UBS Estimates. All sectors in USD relative to US Treasuries yield curve. Based on monthly analysis over last 20 years.

Chart 88: Bull Steepening – Companies vs. FTSE, EPRA/NAREIT US



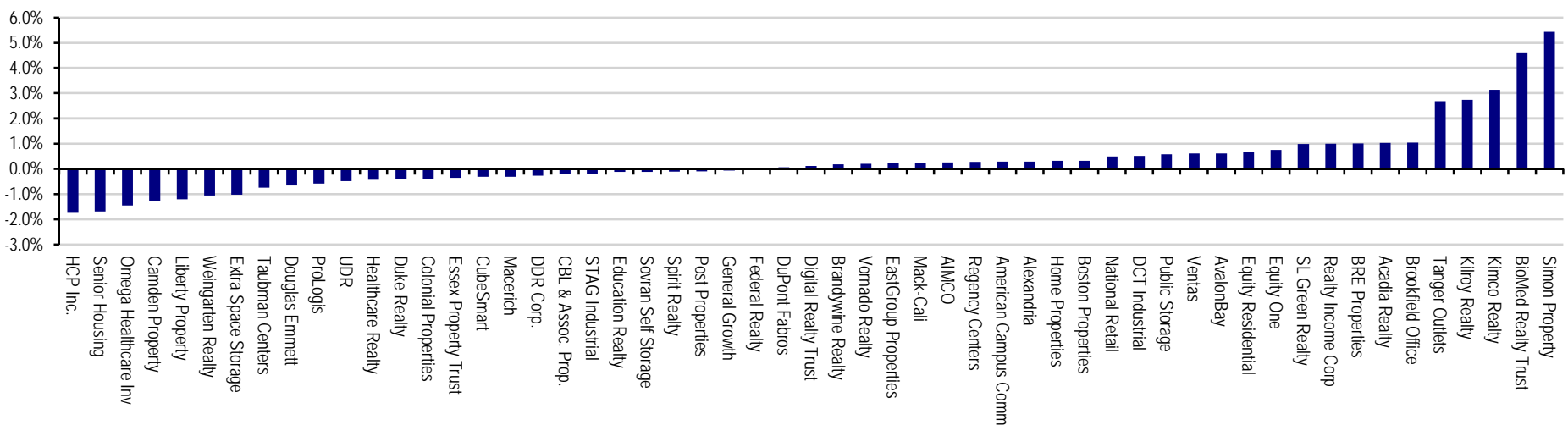
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT US Index. Based on monthly analysis of US Treasuries over last 20 years (where possible).

Chart 89: Bull Flattening – Companies vs. FTSE, EPRA/NAREIT US



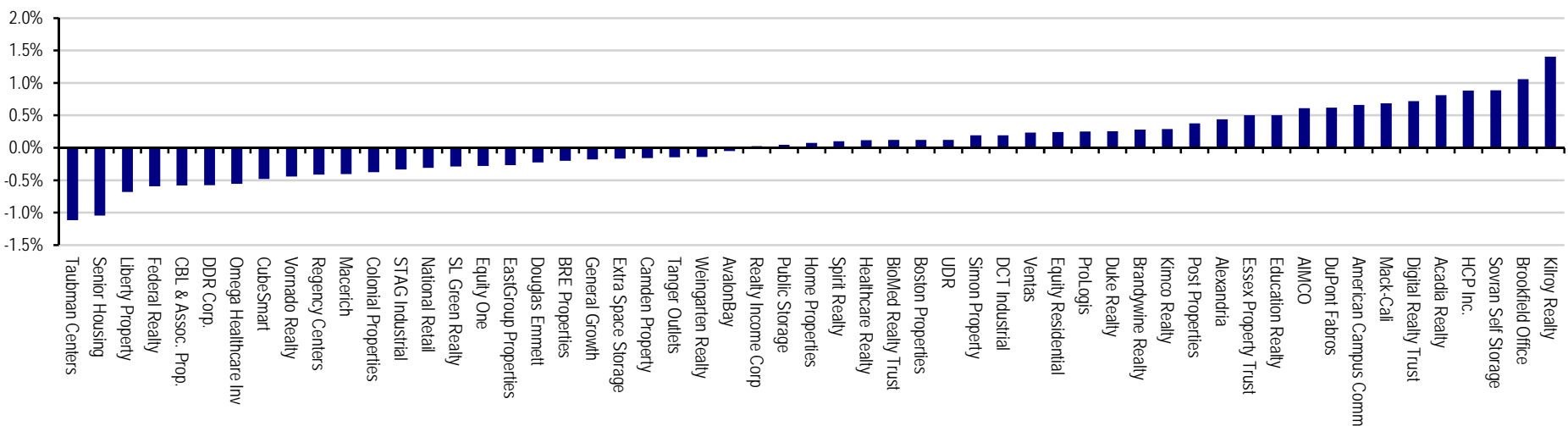
Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT US Index. Based on monthly analysis of US Treasuries over last 20 years (where possible).

Chart 90: Bear Steepening – Companies vs. FTSE, EPRA/NAREIT US



Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT US Index. Based on monthly analysis of US Treasuries over last 20 years (where possible).

Chart 91: Bear Flattening – Companies vs. FTSE, EPRA/NAREIT US

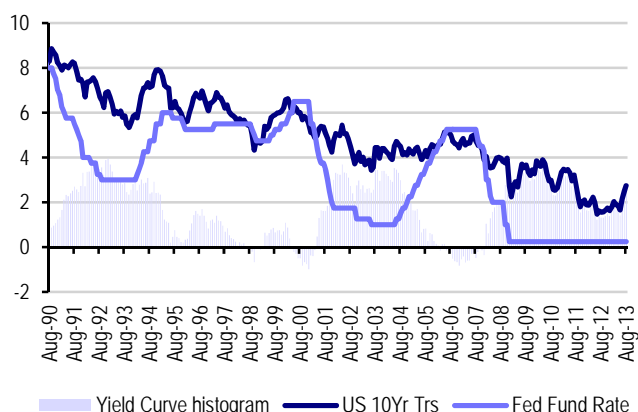


Source: DataStream, UBS Estimates. All companies performance relative to FTSE, EPRA/NAREIT US Index. Based on monthly analysis of US Treasuries over last 20 years (where possible).



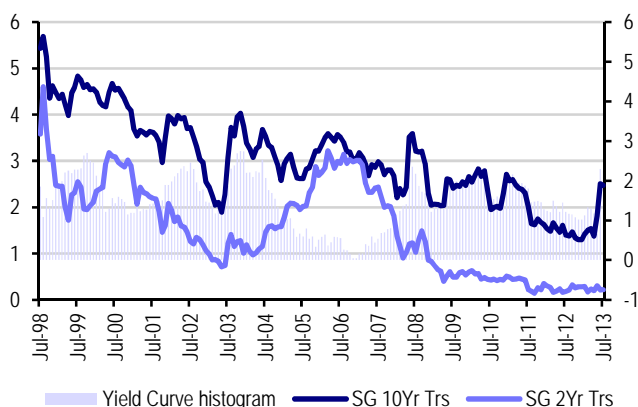
# Appendix

## Chart 92: US Treasuries Yield Curve Movements



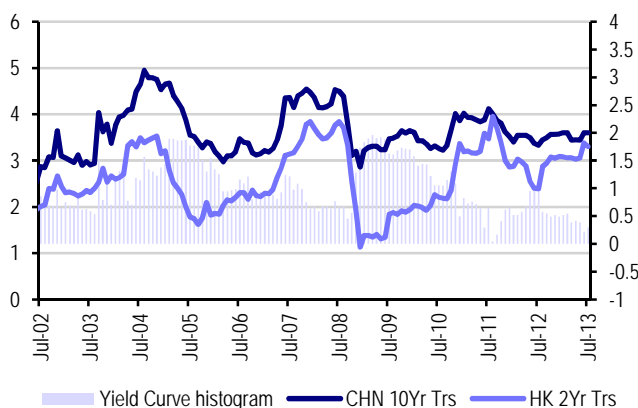
Source: DataStream, UBS Estimates.

## Chart 94: SG Treasuries Yield Curve Movements



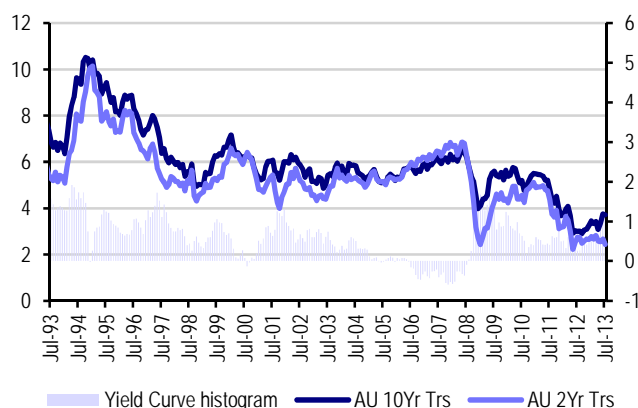
Source: DataStream, UBS Estimates.

## Chart 96: CHN Treasuries Yield Curve Movements



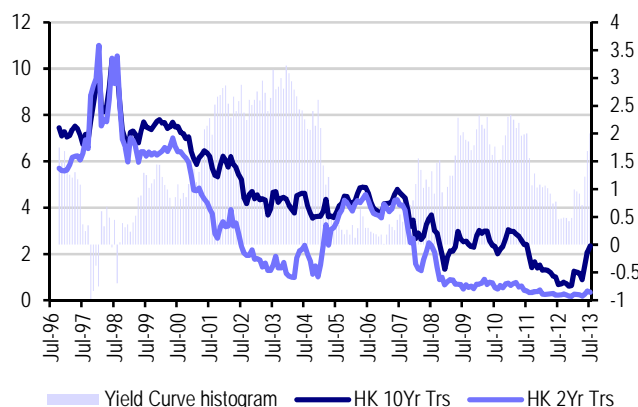
Source: DataStream, UBS Estimates.

## Chart 93: AU Treasuries Yield Curve Movements



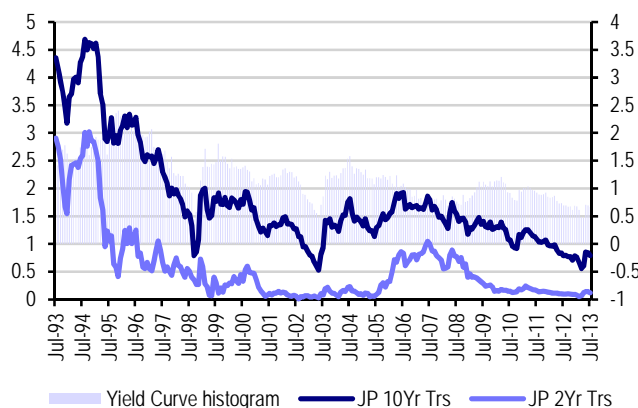
Source: DataStream, UBS Estimates.

## Chart 95: HK Treasuries Yield Curve Movements



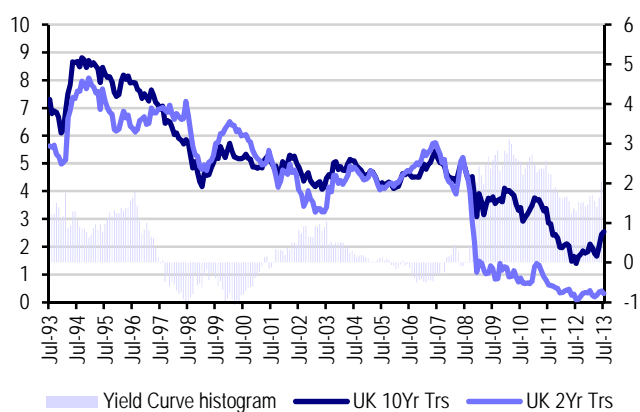
Source: DataStream, UBS Estimates.

## Chart 97: JP Treasuries Yield Curve Movements



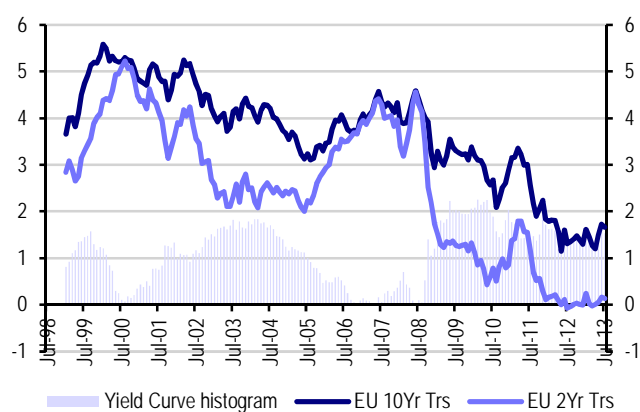
Source: DataStream, UBS Estimates.

Chart 98: UK Treasuries Yield Curve Movements



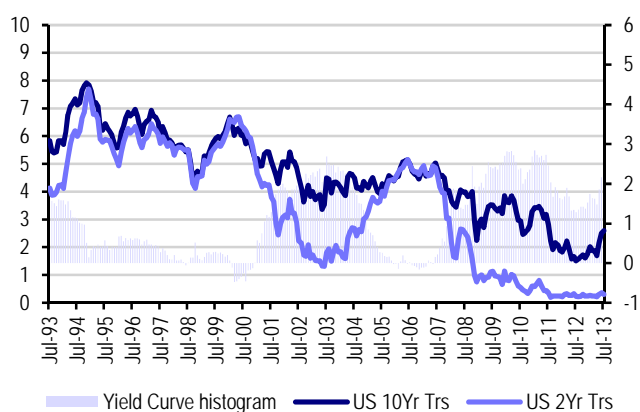
Source: DataStream, UBS Estimates.

Chart 99: EU Treasuries Yield Curve Movements



Source: DataStream, UBS Estimates.

Chart 100: US Treasuries Yield Curve Movements



Source: DataStream, UBS Estimates.





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Key risks to global real estate include: 1) an increase in interest rates materially higher than our expectations could result in negative returns for real estate given the negative impact to real estate valuations, 2) asset allocation away from real estate toward higher growth sectors such as equities, if the return outlook for equities improves significantly toward double digits returns, 3) a prolonged economic downturn causes significant tenant bankruptcies, and 4) an oversupply of real estate emerges in terms of overbuilding in real estate markets, significantly increasing vacancies.

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Buy	Buy	46%	35%
Neutral	Hold/Neutral	44%	37%
Sell	Sell	10%	21%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2013.

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Neutral	FSR is between -6% and 6% of the MRA.
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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Alexandria Real Estate <sup>16b</sup>	ARE.N	Buy	N/A	US\$61.77	04 Sep 2013
Apartment Investment & Management Comp. <sup>16b</sup>	AIV.N	Neutral	N/A	US\$27.65	04 Sep 2013
AvalonBay Communities, Inc. <sup>2, 4, 5b, 6a, 6c, 7, 16b</sup>	AVB.N	Buy	N/A	US\$124.34	04 Sep 2013
Boston Properties, Inc. <sup>16b, 22</sup>	BXP.N	Buy	N/A	US\$102.98	04 Sep 2013
BRE Properties, Inc. <sup>4, 6a, 16b</sup>	BRE.N	Neutral	N/A	US\$48.65	04 Sep 2013
British Land <sup>2, 4, 5b, 14, 16b, 18c</sup>	BLND.L	Neutral	N/A	550p	04 Sep 2013
Camden Property Trust <sup>2, 6c, 7, 16b</sup>	CPT.N	Buy	N/A	US\$60.95	04 Sep 2013
Capco <sup>2, 4, 14</sup>	CAPCC.L	Neutral	N/A	315p	04 Sep 2013
CapitaMall Trust	CMLT.SI	Buy	N/A	S\$1.85	05 Sep 2013
China Overseas Land & Investment <sup>2, 4, 16a, 18a</sup>	0688.HK	Buy	N/A	HK\$23.45	05 Sep 2013
Country Garden Holdings Company Limited <sup>18a</sup>	2007.HK	Buy	N/A	HK\$5.04	05 Sep 2013
DDR Corp. <sup>2, 4, 6a, 6c, 7, 16b</sup>	DDR.N	Buy	N/A	US\$15.47	04 Sep 2013
Education Realty Trust, Inc. <sup>4, 6a, 16b</sup>	EDR.N	Buy	N/A	US\$8.56	04 Sep 2013
Equity Residential <sup>5b, 6a, 16b</sup>	EQR.N	Buy	N/A	US\$52.00	04 Sep 2013
Federation Centres <sup>4</sup>	FDC.AX	Buy	N/A	A\$2.24	05 Sep 2013
General Growth Properties, Inc. <sup>2, 4, 5b, 6a, 16b</sup>	GGP.N	Buy	N/A	US\$18.97	04 Sep 2013
Global Logistic Properties <sup>2, 4</sup>	GLPL.SI	Buy	N/A	S\$2.75	05 Sep 2013
Hammerson	HMSO.L	Buy	N/A	484p	04 Sep 2013
Hufvudstaden AB	HUFVa.ST	Buy	N/A	SKr83.20	04 Sep 2013
Kilroy Realty Corporation <sup>16b</sup>	KRC.N	Buy	N/A	US\$48.80	04 Sep 2013
Klepierre SA <sup>5b</sup>	LOIM.PA	Neutral	N/A	€29.94	04 Sep 2013
Mitsubishi Estate <sup>16b</sup>	8802.T	Buy	N/A	¥2,767	05 Sep 2013
Mitsui Fudosan	8801.T	Buy	N/A	¥3,305	05 Sep 2013
New World Dev <sup>5b, 16a, 16b, 18a</sup>	0017.HK	Buy	N/A	HK\$11.58	05 Sep 2013
Prologis <sup>16b</sup>	PLD.N	Buy	N/A	US\$35.59	04 Sep 2013
Shimao Property Holdings <sup>2, 4, 18a</sup>	0813.HK	Buy	N/A	HK\$19.12	05 Sep 2013
Simon Property Group <sup>2, 4, 5b, 6a, 6b, 6c, 7, 16b</sup>	SPG.N	Buy	N/A	US\$144.57	04 Sep 2013
Stockland <sup>2, 4, 5a, 6a</sup>	SGP.AX	Buy	N/A	A\$3.80	05 Sep 2013
Tanger Factory Outlet Centers <sup>16b</sup>	SKT.N	Buy	N/A	US\$31.21	04 Sep 2013
The Link Real Estate Investment Trust <sup>16a, 18a</sup>	0823.HK	Buy	N/A	HK\$35.15	05 Sep 2013
UDR Inc. <sup>16b</sup>	UDR.N	Buy	N/A	US\$22.64	04 Sep 2013
Unibail-Rodamco <sup>2, 4, 5b, 6a</sup>	UNBP.AS	Buy	N/A	€169.30	04 Sep 2013
Westfield Group <sup>4, 6a, 16b, 18b</sup>	WDC.AX	Neutral	N/A	A\$10.56	05 Sep 2013
Wharf Holdings <sup>16a, 18a</sup>	0004.HK	Buy	N/A	HK\$66.25	05 Sep 2013

Source: UBS. All prices as of local market close.

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