REAL ESTATE

MARKET CONDITIONS

In 2009, the real estate market saw weakening fundamentals, such as rising vacancy rates and shrinking investments, against a backdrop of global economic recession. This environment led to significant decreases in value, particularly in the U.S. and Europe.

Financing conditions improved throughout the year, but credit spreads remain high by real estate standards. Within this climate, there were less non-performing loans in Canada than the U.S., where credit continued to deteriorate.

Although the impact was not as severe in the second half of the year, the real estate and commercial mortgage loan markets remain fragile.

HIGHLIGHTS

- The Real Estate group saw an overall return of -15.8%.
- In total, the group's two specialized portfolios underperformed their benchmark indexes by 10%.
- These negative results are due mainly to unrealized decreases in value during the first half of the year—the result of a weak real estate market worldwide and certain mezzanine and subordinated loan strategies.
- The two portfolios, nonetheless, experienced a slightly positive second half, a sign of a stabilization of markets.

Return of specialized portfolios
Real Estate Group

For the fiscal year ended Dec. 31, 2009 — Percentage

	Weight*	Return	Index	Spread
Real Estate	10.9	(12.7)	(15.3)	2.7
Real Estate Debt	6.9	(20.3)	8.5	(28.8)

** : As a proportion of the Caisse's net assets*

REAL ESTATE

- The return on this portfolio was -12.7%, 2.7% above the Aon - Real Estate Index. The portfolio's decreases in value are the result of challenging market conditions, rising capitalization rates and declining commercial rental rate growth. Although the portfolio was negatively affected by its international exposure, its Canadian and U.S. positions outperformed the index.
- Cash flow from operations, before financial costs, held steady, on par with 2008 – illustrating the quality of properties and tenants. The occupancy rate remains historically high at approximately 95%.

REAL ESTATE DEBT

- The return on this portfolio was -20.3%, 28.8% below its benchmark index. This underperformance is primarily due to participation in third-party subordinated debt and structured products originated by third parties outside Canada. The Caisse ceased these activities in August 2009. The Canadian portion of the portfolio returned -2.0%, while the international portion yielded -46.5%.