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FEATURES

INTERVIEW WITH HARRY PLATT

RESPONSIBLE INVESTMENT

GLOBAL ACCOUNTING STANDARDS

PROPERTY STOCK CORRELATIONS

DERIVATIVES APPLICATIONS

MARKET FOCUS

ANALYST VIEW – EXPECTATIONS FOR 2007

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FROM EPRA

Welcome to the 20th edition of EPRA News.

We are currently busy with the preparations for the 8th annual conference on 6 & 7 September 2007 in the Hotel Grande Bretagne, Athens, Greece. The EPRA Executive Board is working hard on the list of potential speakers and panelists, in conjunction with the EPRA Events Committee. Incredibly, at the time of writing we already have five headline and eleven standard sponsors committed. Remember, the conference is still nine months away! This level of solid support clearly reflects the strong support for the conference. The conference is evidently highly regarded throughout the industry and members appreciate the work we are doing on their behalf.

As always, we would like to encourage members to get involved with the publication and come forward with suggestions for contributions and articles. We must ensure the newsletter is both topical and interesting for the reader.

Please send your comments and suggestions to: info@epra.com

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By: Simon Butterworth
Capital Financial Publishing

Public and private draw closer together



Simon Butterworth
Editor in Chief of Capital
Financial Publishing

Simon Butterworth has had an 18 year career as an institutional investment magazine publisher and launched Capital Financial Publishing in January 2006. Capital Financial Publishing is launching its inaugural directory Real Estate Capital EMEA 2007 and web service via www.recapital.com in December 2006 for capital sources and real estate industry professionals.

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The extension of the REIT format around the property globe has re-kindled the old debate: does the listed real estate sector deliver real estate performance, or does it deliver equity market performance? If one of real estate's key attractions to investors is its low correlation against stocks and bonds, how much damage does the liquidity introduced by a stock market listing do to the diversification qualities of property in the form of REITs and real estate property investment companies?

In many markets around the world, with the UK being a prime example, listed real estate companies (and, where available, REITs) have been the preserve of equity fund managers, the equity desks of balanced (diversified) fund managers and institutional investors, and occasionally a specialist listed property team. The typical property team of a fund manager or institutional investor would have as much experience of trading REITs as it would of polar exploration.

This very separation, it seems, has contributed to the performance differential. As long as real estate securities are traded by equity people, and bought and sold as part of balanced equity portfolios rather than as part of the mainstream property allocation, the performance of real estate securities is unlikely to be wholly disconnected from the securities market.

But all global markets are not the same. In Australia, for example, the performance of listed property trusts has not been as connected as have US REITs with the mainstream equity market – and it is perhaps no coincidence that real estate funds managers in Sydney and Melbourne will deal with syndicated property, LPTs, unlisted funds and direct property from the same desk.

And now things are changing in Europe. The globalisation of investment has, as many expected, led to an increase in property securitisation. To be able to invest in international real estate requires unitised, small lot size investments. Liquidity is an additional advantage, but the key issue is divisibility. A global REIT market is an obvious benefit to international property investors. But the lack of a global REIT instrument and the double

tax regime imposed on listed property companies, coupled with the argument that listed property is not a true diversifier, has held back the pace of securitisation.

Instead, Europe has gone along a round-about route to greater securitisation. Globalisation has, indeed, been irresistible, but in the absence of true REIT vehicles in the two powerhouses of the UK and Germany the unlisted fund route has led the way for many UK and European real estate investors familiar and comfortable with bricks and mortar.

The larger investors have allocated money to indirect funds; smaller investors have begun to appoint fund managers to invest separate account money in unlisted funds on their behalf; and even smaller investors have been tempted to invest in pan-European funds of funds. The two pioneers, Aberdeen and CBRE Investors, have been joined by a clutch of managers offering true fund of fund vehicles and a separate account capability in this area.

Some markets – the US being the prime example and Asia offering at best a question mark – do not appear to offer international investors tax efficient routes into unlisted low risk real estate funds. In these cases REITs and listed property can be more attractive and an obvious alternative. So we are beginning to see more joint mandates – some listed, some unlisted – and new real estate funds which combine listed and unlisted assets. For investors who have already bitten one bullet – by choosing an indirect solution – it is a short step to add listed property, even as a toe in the water through a core-satellite approach. For some investors, the liquidity limits of unlisted funds will become an issue, leading to their thinking about going into global real estate through REITs and listed securities as the core activity.

Some mandates and certainly funds can focus wholly on either listed or unlisted global real estate. An increasing number are likely to focus on both, and on delivering so-called unconstrained solutions. As this begins to happen, real estate fund managers will see the benefit of extending their multi-manager or fund of (unlisted) funds teams



into the listed arena. Real estate equity desks will be tempted out of the securities cocoon and into the world of property. Arbitrage opportunities between the direct market and the listed market will become easier to spot, and a natural part of the performance strategy of a real estate team. The growth of property derivatives will push this point even further. Some derivatives will be based on indices of listed property, and some on direct real estate.

If the market develops in this way, and there are many early signs of this change taking place, then the separation of listed and

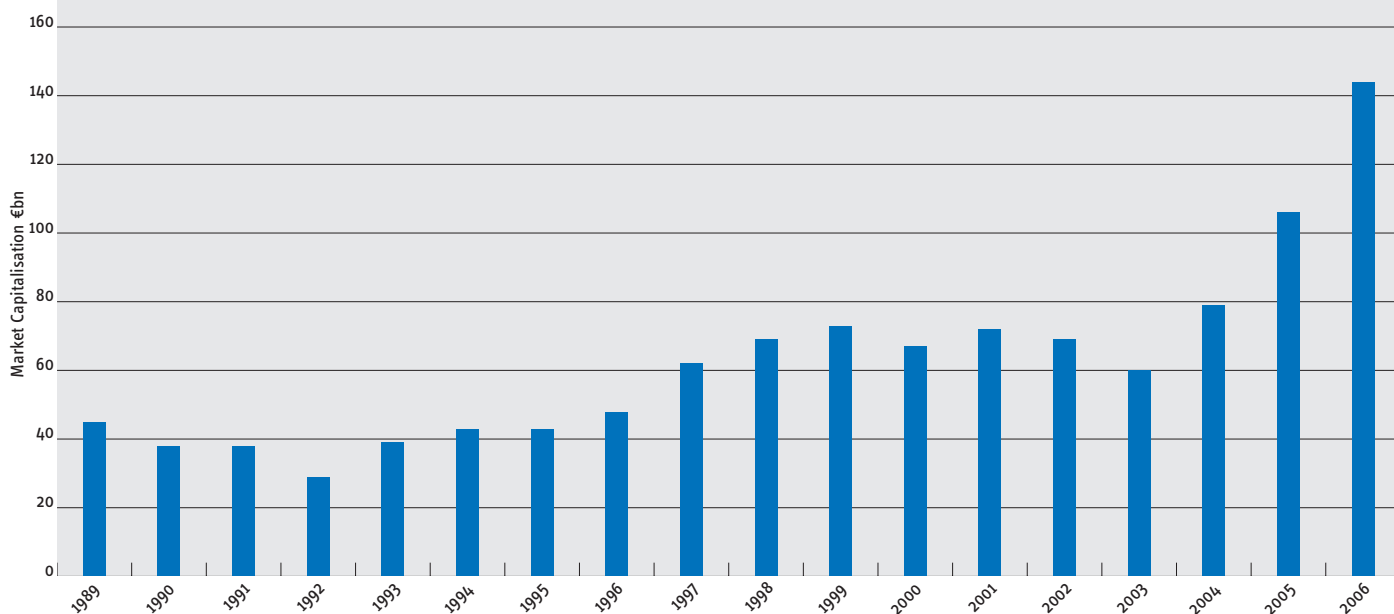
unlisted markets may begin to break down. The exploitation of arbitrage opportunities will work to reduce pricing anomalies. If investor sentiment is concentrated more and more in one place, then we can expect to see increasing correlations between listed and unlisted real estate performance.

This would have two possible effects. First, the performance characteristics of listed property, including its major component, REITs, could be pulled further away from the equity market and bolster the argument for real estate in all its forms as main stream asset class. Also possible, perhaps, is a drive

for increased liquidity in the unlisted market, more securitisation of unlisted funds, and greater 'contamination' of real estate performance by securities markets. But there is a limit to this, because the private equity/opportunity fund part of the unlisted market will not lend itself to this move.

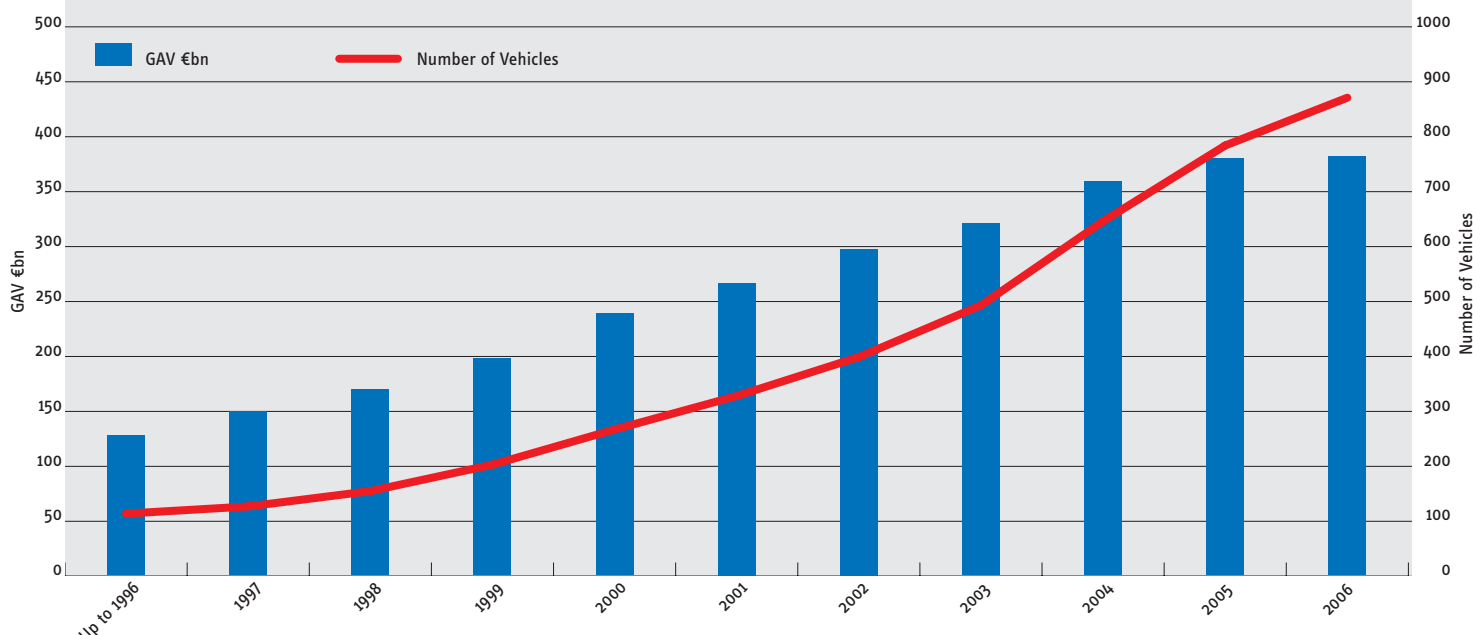
Our view is that, on balance, the former is more likely. We have little doubt that listed funds (REITs) and unlisted funds will be increasingly seen as part of a single market place, and this will be good news, both for the best real estate managers and, more importantly, for investors. ◀

European Universe, EPRA



Source: EPRA.

European Market Growth, Property Funds Research



Source: Property Funds Research, November 2006.



In the news

Rodney Bysh joins Rothschild



Rothschild announced the appointment of Rodney Bysh in November. Bysh is appointed as managing Director and Head of Real Estate German speaking Europe based in Frankfurt. Previously, Bysh worked for Henderson Global Investors as Director of Business Development and was member of the Henderson Property Board. Bysh also helped to set-up Henderson KAG, a joint venture focused on real estate funds between Henderson and private bank M.M.Warburg which has raised approximately €2 billion since launch. Rodney's first major achievement is to sign the EPRA membership application form and make Rothschild EPRA's 190th member! ◀



The REIT recipe for success

Paul Haddock

Product Manager
London Stock Exchange

January 1st next year heralds the start of a new chapter in the evolution of the UK property investment market as UK-REITs become a reality. The challenge for the UK property industry is to replicate the huge success that REITs have had in other countries around the world, while the City hopes to reinforce London's position as a leading centre for listed property companies.

It's certainly off to a good start. The UK Government has created a regime which the sector has warmly welcomed. We know that a large number of existing listed companies are currently looking to convert to this new regime to take advantage of the tax benefits.

We are already seeing some of the largest property companies currently listed on the Exchange announce their intention to convert to become a UK-REIT. However, it's hard to believe that, considering how industry-friendly the legislation is, there won't be many more following suit.

The potential market is huge. Industry estimates put a value of privately held UK property assets at around £80 billion, the majority of which is eligible for inclusion in a UK-REIT. Discussions have also started as to whether a UK-REIT structure can be used by operating companies with substantial property assets, for example pub chains, retail-

ers, hotel chains and nursing homes to name a just a few.

We believe the foundations have been laid to enable UK REITs to be a huge success. The legislation has been drawn up in collaboration with key industry bodies like the BPF, RICs and the IPF, as well as other institutions like ourselves. The result has been a well crafted, sensible and balanced UK-REITs regulatory regime.

The key aspects of the UK-REIT regime include the need to be UK domiciled; a listing on a Recognised Stock Exchange like the London Stock Exchange; at least 75% of income derived from property rental; 90% of taxable profit to be distributed through dividends; and a minimum of three properties in the portfolio. In addition no one institutional shareholder (this does not apply to private individuals) can hold more than a 10% shareholding. The conversion charge has been put at a reasonable 2%.

We believe the attractiveness of the UK-REIT regime combined with London's role as the financial centre of Europe ideally positions the London Stock Exchange as the natural listing venue for both UK-REITs and other European property companies seeking to raise international capital. With access to what is by some margin Europe's deepest and widest liquidity pool, and London's attractive regulatory and governance standards, we hope to see London become the home of a strong property sector for many years to come. ◀



Derwent Valley Deal

Derwent Valley agreed to buy London office developer London Merchant for £1 billion in November. The total value of the deal including debt is close to £2 billion. Derwent Valley offered £2.98 per share for the company in stock and cash. The combined company will hold two thirds of its £2.25 billion portfolio in London's West End an area with the largest concentration of theatres and restaurants in London and some of the world's most expensive offices. Rents for prime commercial real estate in the West End have climbed 13 percent in the last year to as much as £100 per square foot. West End premises are forecast by agents such as CB Richard Ellis Group and Jones Lang LaSalle to be the best-performing UK commercial real estate asset over the next two-three years as a shortage of space pushes up rents and prices. ◀



DERWENT VALLEY
INVESTING IN LONDON

German REIT Update

On 2 November, the German Cabinet adopted a G-REIT bill. The REIT is to be publicly quoted dealing in commercial property management (no residential) with an issued share capital of at least €15m. No single shareholder may hold 10% or more, at least 75% of the assets must consist of property, and at least 75% of gross income must be from letting, or selling property. The REIT must distribute 90% of all net income in the form of shareholder dividend. The REIT concept is to be given an initial, albeit indirect boost, in that half the gain on business property sold to a REIT in 2007-09 is to be exempt for the seller, provided the property was held for a minimum of 10 years. ◀



iShares launches new ETFs



On 20 October Barclays Global Investors launched three new Exchange Traded Funds (ETFs) based on the FTSE EPRA/NAREIT Global Real Estate Index series. The funds are listed on the London Stock Exchange. The three funds complete the iShares Global real estate coverage and build on the back of their European Property Yield Fund launched at the end of last year. The complete iShares range is (Reuters & Bloomberg codes in brackets):

- iShares FTSE EPRA/NAREIT Global Property Yield Fund (IWDP.L; IWDP LN)
- iShares FTSE EPRA/NAREIT Asia Property Yield Fund (IASP.L; IASP LN)
- iShares FTSE EPRA/NAREIT European Property Yield Fund (IPRP.L; IPRP LN)
- iShares FTSE EPRA/NAREIT United States Property Yield Fund (IDUP.L; IDUP LN)

Staying with FTSE EPRA/NAREIT ETFs, the AXA EasyETF EPRA Eurozone Fund tipped over the €500 million assets under management mark since the last newsletter. In addition, AXA manage the EasyETF EPRA Europe Fund. ◀

EPRA Membership hits 190

Membership numbers continue to rise. Since the last edition in September we have welcomed four new members. New members for this period are Mapeley Estates, Principal Global and Speymill Group from the UK plus Rothschild from Germany. We lost Bail Investissement following the completion of the merger with Fonciere Des Regions. Year to date we have added 28 new members. We have lost eight members through M&A activity. A full membership list is located on



page 2 of the newsletter. ◀

European IPO Update

GAGPAH, Prologis European Property Fund and Norwegian Properties both entered the FTSE EPRA/NAREIT Global Real Estate Index since the last edition of the newsletter under the 'fast track rule'. Europe has been a hive of IPO activity over the last 20 months, with over 80 new companies listing, raising over \$11 billion. Jeremy Anagnos of CBRE Global Real Estate Securities compared consolidation and growth in each of the three regions covered by FTSE EPRA/NAREIT in issue 19 of the EPRA Newsletter. ◀



Equity Office takeover



Sam Zell

Blackstone Group LP, manager of the world's largest buyout fund, has agreed to buy Sam Zell's Equity Office Properties Trust, the top U.S. office landlord, for about \$20 billion in the biggest private-equity deal in history. Equity Office shareholders will receive \$48.50 a share the companies said in a statement in November. Zell, who is also the chairman of Chicago-based Equity Residential, the largest publicly traded apartment owner in the U.S., owns 1.9 million shares of Equity Office, which would be worth \$92 million at the per-share price offered. According to Bloomberg estimates, total mergers and acquisitions have reached \$3.1 trillion this year, surpassing 2000 as the busiest year ever. ◀

Consensus NAVs and EPS

Following meetings with a number of companies and investors the question of consensus figures based on the EPRA Best Practice Recommendations was raised. We will be approaching Investment Banks over the course of the next month to gauge interest in contributing to the consensus figures. We would appreciate feedback on the issue in the meantime, so should you have comments or suggestions please e-mail f.hughes@epra.com. ◀

Italian REITs hit the radar

The Italian government announced plans to introduce "U.S. REIT-like tax legislation", reported La Repubblica. The I-REITs would be called "Societa per Investimento Immobiliare Quotate", or SIIQs, and would be required to be listed on Milan's Italian Stock exchange, with at least half of the company's revenues coming from property sales or rentals. The report says that the rules would be effective in July 2007. ◀

EPRA's Travels

Nick was the moderator on the Global REIT panel at the NAREIT Annual Convention in November which included, Jane Defandahl of CalPERS, Lutz Ristow of TAG, Patrick Sumner of Henderson Global Investors and Tim Wheeler of Brixton. Fraser was the lunch speaker at the Societe Generale investor conference in London in October. He also attended the Barcelona Meeting Point which was held on the same dates as the NAREIT Annual Convention. ◀





By Fraser Hughes, EPRA



Interview with Harry Platt

EPRA Best Performer Small/Mid Cap Award Winner 2005, sponsored by Kempen & Co



Harry Platt
Chief Executive,
Workspace Group PLC

Harry Platt (MA MRTPI) is Chief Executive of Workspace Group PLC. Workspace is the leading provider of space for new and small businesses in London, and is active in many schemes of urban regeneration. Having joined in 1991 when the Company had just 14 estates and some 450 customers, Harry has led the Company through flotation and growth so that it now holds over 100 estates, 6 million square feet with over 4,000 customers.

Harry is a geographer, graduating from Cambridge University in 1973. He subsequently was awarded a Masters in Environmental Planning at Nottingham University. He started his working career in 1975 in the public sector as a professional town planner with Manchester City Council – subsequently moving to the London Borough of Greenwich and becoming Assistant Chief Executive responsible for employment and economic development. In 1982, aged 31, he became Chief Executive of Harlow District Council. He left the public sector in 1989 becoming Operations Director for Dixons Commercial Properties and moving to Workspace (then called London Industrial PLC) in 1991.

FH: How and why did you get into real estate?

HP: I have always been interested in cities, how they work and my career reflects this. I studied geography, became a Town Planner, was Assistant Chief Executive and then Chief Executive of large urban authorities, before moving into the private sector.

FH: When and how did the current investment strategy of Workspace evolve?

HP: The fundamentals were laid down by the first Chairman of the Company, Alan Porter, when Workspace (then called London Industrial PLC) was established in 1987. He was able to convince a few institutions to put a small amount of equity and long term debenture finance to buy so called secondary or tertiary assets (buildings that they would not otherwise buy) to let those assets to small businesses on flexible terms, which of course they would not normally deal with, and to put in an excellent management regime which would drive earnings and dividend yields. Our core mission statement and core values established in 1991 were built on this and are still relevant today. In developing our strategy and ensuring that we maintain organic growth (the last time we raised significant equity was in 1994) we have concentrated increasingly on the London market, where there are the highest returns and where, in due course, there are more opportunities for intensification of use on the sites we acquire.

FH: Will Workspace move into other cities in the UK, or abroad in the future, or will you continue to focus on activities inside the M25?

HP: For the foreseeable future, i.e. up to 5 years, we certainly will be focused on London. This is a huge market place and we are the market leader in this, providing space

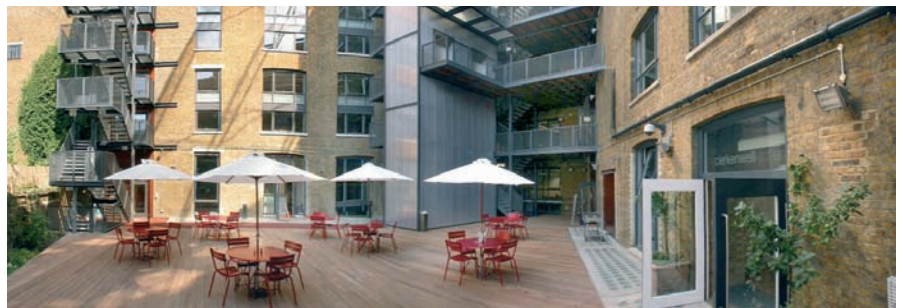
for just 4,000 small businesses, but there are some 150,000 of small businesses in the capital and this is growing. We are tracking long term some 3,000 properties in London and are confident that there are huge opportunities. We can never rule out looking at other cities in due course, but for the immediate future, our strategy is clear.

FH: What do you envisage for your particular market over the next five years in terms of opportunities?

HP: London is growing. Its population is forecast to increase by over 800,000 over the next 10 years or so, considerably increasing the working population. This is fuelled by heavy immigration and, generally speaking, migrants tend to be more entrepreneurial in the ability to take risks. I am confident that entrepreneurial rates and SME's in London will therefore increase. There will continue to be a squeeze on land and property in London and at the same time growth in our customer base. These are all the ingredients for continued growth and superior returns.

FH: Can you talk about Workspace's policy on the importance of sustainability development?

HP: We view sustainable development as an inherent part of our business. We are focused on long term high but sustainable returns for our shareholders. To achieve this you have to recognise the environmental, social and economic context in which we work. That is why our recent report on sustainability tested what we do against the London Plan. We came out pretty well against this, but there is a lot more that we can and will do which will improve our long term returns. Next year's report will focus on our carbon management and the effect of climate change on our business and our customers.





Interview with Harry Platt

FH: How do you view the introduction of UK-REITs? Do you think it will make the UK market more attractive to investors both at home and abroad?

HP: The UK is behind other countries and it has taken some time to get this legislation through. I have been very impressed by the way in which the industry has worked to achieve this, in particular the rejuvenated British Property Federation under Liz Pearce. In my view, however, the introduction of UK-REITs is not just important for the UK property market, but for the City of London as a world financial centre. The City of London can now fully exploit the global market of real estate investment trusts.

FH: How has your shareholder structure changed over time in terms of the nationality of investors?

HP: For some years now we have had some investors from the Netherlands and of late there are one or two US investors. As our size increases, we expect the latter to tend to increase.

FH: During your time in the business, which deals/projects have given you the most satisfaction?

HP: Actually this is rather difficult to answer. It would not be any specific property transaction large, or small, it would not actually be any particular letting either. Rather satisfaction really comes on how this business has come together. We work with our many customers providing them with opportunities to grow and expand. You can go to any of our estates and see the vitality and energy of our customers, you see what happens to them and from that you get a real buzz.

FH: Looking back, do you have any regrets?

HP: Loads. There are lots of buildings we should have acquired earlier, if we had had the resources. There are opportunities we could have taken. We could have sold our Midlands portfolio into a fund and grown that. Having said that in any successful business there are bound to be loads of opportunities that have not been taken up but we are delighted with the ones that we have taken up, and in our performance to date.

FH: When you look at other property companies in the UK, who do you most admire and why?

HP: Lots of different ones. Helical Bar – the way they are smart developers and how they use their capital base. Shaftesbury, the way it is focused on a very small area of London



and has intimate knowledge of anything going on in that area – a real class act. Derwent Valley, their ability to look at buildings, re-shape the entrances with real design and flair so that the buildings look totally different. There are others. The problem with the property sector is that we tend to be introspective and just look at our peers. I am as interested in how we learn from companies in other sectors, especially in customer facing industries, for example, Marks &

Spencer (under Philip Rose), Virgin, BP, HSBC, to name a few.

FH: What do you do in your spare time?

HP: When I get it, I watch sports, mainly football, I am involved in my family, especially my new granddaughter, I like films and reading and enjoy travelling, seeing ruins in ancient areas...and getting back to my interest in people/places. ◀

About Workspace Group PLC

Workspace Group PLC is the leading provider of flexible space for small and medium sized enterprises in London. It has over 4,000 small customers in a portfolio of 6 million sq. ft., over 113 estates.

Formerly known as London Industrial PLC, the Group was established in 1987 as the vehicle for the privatisation of part of the former Great London Council's industrial property portfolio. The Company commenced trading on 10 July 1987, with additional capital of £16.7 million subscribed by a group of 12 institutions, and on that date acquired from the London Residuary Body, a portfolio of small-unit multi-tenanted estates comprising some 710,000 sq. ft of floorspace divided into nearly 600 units with over 400 tenants. The estates were all located in Greater London, predominantly in East London.

The participating institutions regarded London Industrial as an experimental venture designed to produce attractive returns (in the form of earnings and dividends) from the active management of high yielding secondary property, providing flexible, affordable workspace for new and small businesses.

In 1993 the Company joined the London Stock Exchange, and in 1994 it expanded outside London with the acquisition of a portfolio of industrial estates, primarily in the West Midlands. This was the last time that the Group raised significant equity. Growth since 1994 has been organic with debt financed property purchases and target gearing of around 100%. Over the years, the portfolio has steadily increased in size and geographical coverage. In the summer of 1999, a major acquisition of the Tonex portfolio for £80 million, situated primarily in London, increased the portfolio by 40%. In 2001, the Group sold its Midlands properties and decided to focus its expansion on London and the South East with the target of doubling in value by 2006. This was achieved. The Company now focuses exclusively on the London market.



By: Fiona Hoppe & Will Oulton



Responsible Investment and the Valuation of Real Estate Investments



Will Oulton
Managing Director
CRG Advisory Services Ltd

Will is the founder of a private consultancy practice advising companies and investors on the development of corporate social responsibility practices as well as playing a leading role in the development of the global socially responsible investment market.

CRG's clients include multinational companies, NGO's, CR Rating agencies, investment managers and FTSE Group, where Will acts as the Head of Responsible Investment in leading the ongoing management and development of the FTSE4Good Index series and FTSE's Global Corporate Governance index and rating system. In this role, Will is charged with strengthening and advancing the FTSE4Good stock selection criteria, establishing local versions of FTSE4Good in markets around the globe and initiating the development of investment products linked to the FTSE4Good and Corporate Governance indices in the UK, US and other global markets.

Prior to his consultancy practice, Will was Deputy Chief Executive of FTSE Group, responsible for global strategy and marketing as well as the FTSE4Good Indices. He was part of the small team of nine people that established FTSE as an autonomous company in 1995.

Will holds a BSc in Zoology from the University of Wales and a Chartered Institute of Marketing (UK) Diploma from the Guildhall University in London and is a Research Fellow at the International Centre for Corporate Social Responsibility at Nottingham University Business School. He is also a member of the UK Social Investment Forum's "Sustainable Pensions Advisory Board".

Never before has there been so much focus on the responsibilities of governments, companies, investors and individuals to protect both our natural resources and our living and working environments. No-one reading any of the world's press recently would have been able to miss the impact of the report by Sir Nicolas Stern on the "Economics of Climate Change" and the potential societal and financial costs that might be incurred. These facts have not gone unnoticed by global investors. This article reviews some of the impacts of buildings and the growing interest from institutional investors regarding the adoption of responsible investment principles, including investment in real estate.

Sustainability and Real Estate

Buildings are the primary product of the Real Estate market and an important part of the global sustainable development agenda. The importance of property is due to the variety of purposes and requirements of buildings in modern day society and the resources required by building occupants or owners.

The environmental impact of a building's life cycle and that of its components and services can be significant; from the materials and methods used in construction, to the services delivered to occupants, the final demolition and its residual impact upon the land it occupies. The financial impact of this life cycle includes the capital investment and insurance of buildings in the first phase of the construction supply chain.

In particular, it is the debate regarding energy that has increasingly cast the building sector into the spotlight of sustainable development practices recently. The key issues include energy efficiency, emissions, energy costs, and the role of renewable energy sources. These energy issues have increasingly been addressed by European governments in their policies, regulations, laws, market mechanisms and public statements exhorting behavioural changes.

Water and timber are also key resources used by buildings that have been focused upon by a number of non governmental organisations (NGOs) who are concerned about resource depletion (e.g. the Forest Stewardship Council). As with energy, these resource concerns have produced a growing number of standards and regulations that responsible construction firms and developers are keen to meet to facilitate sustainable development. These standards are

a simple way that analysts can begin to assess a company's acceptance and shift towards responsible business practices.

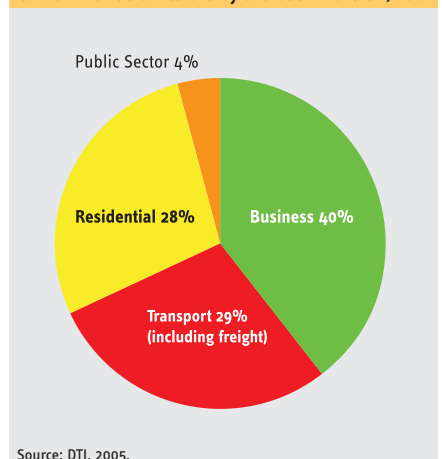
Environmental Impacts

The scientific evidence of the causal link between 'global warming' and carbon dioxide generated by human activities is today largely undisputed¹, as is the contribution that buildings make to total carbon dioxide emissions. In the UK, for example, buildings account for half of total energy use and half of carbon dioxide emissions².

The chart illustrates the proportion of emissions that the residential and public sector were responsible for in the UK in 2004, commercial properties will have accounted for a significant proportion of the 40 per cent shown under the 'Business' section of the pie chart.

The European Union (EU), together with all the Member States, ratified the Kyoto Protocol in May 2002. The objective of the Kyoto

Carbon Dioxide emissions by end user in the UK, 2004.





Protocol being the, 'stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system' (UNFCCC 2006).

In accordance with the Kyoto Protocol, the EU has sought to address the carbon dioxide emissions of buildings through a variety of regulatory and market mechanisms, namely: the Directive on Energy Performance of Buildings³ (EC 2002) and the EU Emissions Trading Scheme (ETS). The Directive is gradually percolating through the building regulations and planning policies of member states whilst the trading system for carbon emissions is now operational.

Perhaps the most significant aspect of the Directive for the Real Estate market is Article 7 which will potentially have an impact on the capital value of property:

Member States shall ensure that, when buildings are constructed, sold or rented out, an energy performance certificate is made available to the owner or by the owner to the prospective buyer or tenant, as the case might be. The validity of the certificate shall not exceed 10 years. (EC 2002)

The requirement for all buildings (new and old) to have an Energy Performance Certificate (EPC) is intended to affect the "value" of a property and to encourage the construction industry and property developers to build energy efficient buildings.

Zero or low carbon (ZLC) buildings use minimal or zero carbon based fuel to provide heating and cooling systems through the use of energy efficient design and renewable energy technologies. Sustainable buildings are increasingly demanded by business leaders anxious to manage fuel costs, lower carbon emissions and water use.

Responsible Investment

Responsible investment or ownership is developing in the investment industry as a process for evaluating the "ESG" or environmental, social and corporate governance risks and opportunities of investments. Although these investment processes are mostly applied to equity investments, the principles can be equally applied to real estate investments.

One of the major issues for investors in the real estate sector is from regulatory risks.

UN-Principles for Responsible Investment⁴

- 1 Incorporate ESG issues into investment analysis and decision making processes.
- 2 Be active owners and incorporate ESG issues into ownership policies and practices.
- 3 Seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 Promote acceptance and implementation of the Principles within the investment industry.
- 5 Work together to enhance effectiveness in implementing the Principles.
- 6 Report on our activities and progress towards implementing the Principles.

These are emerging from the political debate on climate change. The report published recently by Sir Nicholas Stern on behalf of the UK Government has added significant weight to this debate.

These environmentally driven risks are of great interest to responsible investors as they can affect long-term shareholder value. Responsible investment practice focuses not only on the business performance of an investment but also on the ESG performance, risk and associated opportunities. One area of investment practice that is becoming widely used is "corporate engagement". This is where investment managers will engage with companies to understand, for example, the processes that companies are adopting to recognise and manage these risks.

The 2006 pan-European study of Responsible Investment found that the broad EU market is now valued at over €1 trillion compared to €336 billion in 2003. A global figure for responsible investment of over \$4 trillion may be gained from the assets signed up to the UN-Principles for Responsible Investment (UN-PRI) which represents 10 per cent of global capital.

The FTSE4Good index series is a leading global benchmark of responsible business and is aimed at investors and investment funds. Currently the Index is extending its evaluations of corporate responsibility practice to REIT's, which are eligible for index inclusion.

Summary

Environmental impacts and climate risk are emerging as quantifiable and material risks for investors. As buildings and property related assets account for a significant percentage of global institutional investment portfolios these risks will come under increasing scrutiny in this sector.

With the increasing emphasis on energy, responsible investors and socially responsible investment funds will increasingly review the risk and return profiles of energy intensive property portfolios. Energy hungry

properties may well become shunned by an increasing numbers of investors, raising the costs of capital and consequently creating higher risk and unsustainable returns for global investors.

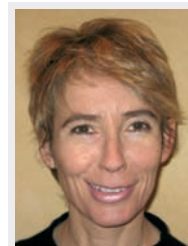
For those companies that seek to benefit from being leaders in the real estate industry, the adoption of responsible business practices and effective investor communications offers a strategic competitive advantage. ◀

¹ IPCC (2001) Climate change 2001: Synthesis Report [Online] Available from: <http://www.ipcc.ch/pub/un/syrenng/spm.pdf>

² nCRISP (2003) The Social and Economic Value of Construction [Online] Available from: <http://www.ncrisp.org.uk/Publications/download.asp?id=11121&type=1>

³ European Parliament and of the Council (2002) Directive on the energy performance of buildings [Online] Available from http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=Directive&andoc=2002&nu_doc=91

⁴ UN Principles for Responsible Investment [Online] Available at: <http://www.unpri.org/principles/>



Fiona Hoppe

Fiona is an Associate of CRG Advisory Services. She has an MSc in Environmental Technology from Imperial College (Business and the Environment option). Fiona's thesis for her Masters was an investigation into the incentives and barriers to the development of zero or low carbon buildings. Prior to her Masters, Fiona wrote a dissertation on how corporations will facilitate sustainable development for her BA in Politics, Philosophy and History. Fiona is an experienced research analyst and strategist from her time spent in business development at the London International Financial Futures & Options Exchange (LIFFE) from 1984 - 2001.



Mark Makepeace, Chief Executive, FTSE



The Future of Benchmarking: Where is the Index Industry Headed?

As pension funds rethink their approach to scheme funding, benchmark providers have had to respond to greater demands by creating exacting benchmarks tailored to each funds' needs. Most benchmark providers are also diversifying and providing benchmarks and investible indices in new asset classes.

The benchmarking industry has changed significantly over the last 5 years. The major players may be the same – FTSE, MSCI and S&P – but the quality and range of indices offered by them have increased dramatically and the way they do business today bears little resemblance to previous times. Benchmarks still perform the same function – assisting the investor in forming their asset

allocation strategy, setting the boundaries for the portfolio and evaluating the performance of the fund manager. The difference is that the index provider will now customise products to meet the fund's exact mandate requirements enabling the request of any type of benchmark excluding or including a selection of economic sectors or particular stocks. This is a debate between the index provider, who shares their expertise with the asset owner, and investor who has more flexibility in the creation of the benchmark to meet the objectives of his fund.



Mark Makepeace
Chief Executive

Mark is FTSE Group's Chief Executive and company founder. He established FTSE Group as an autonomous company in 1995 and has been responsible for the company's global expansion since. Under Mark's leadership, FTSE Group has grown from a start-up company with nine employees to a world-leader in the design and management of stock market indices.

During his career at FTSE Group, Mark has forged alliances with stock exchanges around the world, pioneered the concepts of free float and treatment of multinational companies and developed a wide-ranging set of FTSE indices, designed to meet the evolving needs of the global investment community.

Mark has also formed productive and long-lasting relationships between FTSE Group and charity organisations, in particular with children's charity UNICEF. Mark is committed to raising the profile of UNICEF within the City, and has joined several field trips to see at first hand the needs of children in the Third World. He has recently received an Honorary Fellowship from UNICEF, in recognition of the innovative fundraising model created by the FTSE4Good index series.

Global benchmarks are increasingly customised

More funds are moving their equity portfolios to global benchmarks – and the benchmarks have improved as greater and greater use is made of them. The FTSE GEIS (Global Equities Index Series), for instance, provides a seamless set of benchmark indices covering 98% of the investible universe providing an extensive range of investment style indices by country and region such as developed and emerging, size, style, currency hedged, SRI and others. Most large funds use a combination of the standard index calculations and a range of custom calculations as a performance benchmark for selected active fund managers or as the basis for the core indexed fund whether this is managed in-house or externally.

Cap weighted benchmarks are only one solution

But consultants such as Watson Wyatt and some of the world's largest funds are beginning to question the very basic structure of the equity indices. They argue that cap weighted indices exacerbate the short term pricing anomalies in this market and that by weighting stocks not by their market value but by each company's fundamentals provides a more robust long term investment approach more akin to the way active managers will select stocks. The two leading approaches to

this new innovative style of indexing are the FTSE GWA (Global Wealth Allocation) series and the FTSE RAFI (Research Affiliates Fundamental Indexes) series.

CalPERS have recently chosen to adopt the RAFI approach and have established a \$1bn fund based on the FTSE RAFI US 1000 index. Several European based schemes have set up funds based on the FTSE GWA European indices. Watson Wyatt has recommended that their clients consider investing up to half of their core indexed funds in this way.

New benchmarks for traditional asset classes

Investors are looking for alpha (higher performance relative to the market). And with this there is a demand for more liquid investment benchmarks in traditional asset classes such as property where liquidity is poor. REITs have become accepted as a proxy for investment in physical property and, as the number of REITs have grown and the number of countries permitting REITs continues to expand (UK being the latest), REITs benchmark indices are becoming the new property benchmarks. THE FTSE/EPRA/NAREIT global series and the FTSE/NAREIT US series are the most widely followed benchmark in this area.

The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to track the performance of listed real estate companies and REITs worldwide. The series is broken down into five index families and 57 indices in Asia Pacific, Europe and North America. These include 14 real-time indices covering the world's largest investment markets in various currencies.

The FTSE EPRA/NAREIT Global Real Estate Index Series is structured in such a way that it can be considered to represent general trends in all eligible real estate stocks worldwide. It reflects the stock performance of companies engaged in specific aspects of the North American, European and Asian real estate markets as perceived by institutional investors. In response to recent market demand, the index series has been expanded to differentiate between REITs and Non-REITs, and to help investors capture the long-term effects of higher compounding returns.



The Future of Benchmarking:
Where is the Index Industry Headed?

The FTSE NAREIT US Real Estate Index Series provides investors with a comprehensive family of REIT performance indices that spans the commercial real estate space across the US economy. The series provides investors with exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indices provide investors with the facility to concentrate their commercial real estate exposure in more selected markets.

New innovations are also taking place in the property area to make investing much more transparent. Traditionally, the commercial property space has not been a hospitable environment for the individual investor. Without a considerable amount of money to invest, investors were limited in their ability to diversify their portfolio through direct investment.

It is not just diversification that has posed a problem for individual investors when it comes to investing directly in commercial property. For the retail investor who is used to the liquidity of the equity and gilts markets, branching out into this alternative asset class can be a jolt.

It was within this context that FTSE Group launched the UK Commercial Property Index Series on June 26th 2006. The indices have been designed to provide investors with a definitive daily measure of the performance of investable, institutional grade commercial property in the UK. The indices use a fund structure to invest in an underlying property fund, and physical property with the aim of replicating the broader physical property market providing, again, a more liquid and transparent route for investors wishing to manage their exposure to this asset class.

The performance data for the indices is derived directly from a dedicated fund, set-up and managed by MSS UK Property Index Fund Management. Net Asset Values and Accrued Income figures that make up each index calculation are provided from the fund which is invested in a diverse portfolio of property assets. The fund has exposure to more than 2,500 properties over £7 billion of prime, institutional retail, office and industrial assets. This innovative and unique benchmark brings transparency to commercial property investment – and will accelerate the development of a derivative market for these stocks.

The FTSE UK Commercial Property Index enjoyed commercial success as soon as it became available. In the first month after launch, FTSE licensed the Royal Bank of Scotland (RBS) to create a capital guaranteed investment product, based on the index. This has already been successfully marketed to high net worth individuals by the bank. FTSE is in the process of licensing other organisations to create additional products based on the index series. Its rapid adoption by the investment world underlines the appetite for benchmarking tools in this new and evolving asset class.

New benchmarks for new asset classes

The ongoing drive for alpha means that funds are increasingly interested in a range of options to diversify and enhance returns from equities. New asset classes, such as Hedge, have become more popular with pension funds in the last few years. Alongside commercial property, other asset classes which have traditionally been viewed as difficult to measure can now be benchmarked too. By using investible funds as constituents in the indices, new benchmarks such as FTSE Hedge, have been created. These are constructed using performance information from funds which the index provider licenses an external fund manager to construct and run. This new concept has worked successfully in the case of both FTSE Hedge Index Series

and FTSE Private Banking Index and brings sufficient transparency and to meet funds' exacting disclosure requirements.

Is the future in multi-asset customised benchmarks?

As investor needs and requirements change, index provision will change alongside it. Increasing interest from institutional investors across alternative asset classes means that market demand for transparency, and measurement can only grow. As individual investors, asset owners and their managers specify their requirements, the major index companies, including FTSE, will create benchmarks to meet their needs. Benchmark providers have the data, the design and the calculation skills already in place, ready to apply to the specific needs of pension funds and retail investors.

Multi asset customised benchmarks will certainly become more likely, as price sources for bonds improve. Currently, bond indices are proprietary products, calculated by the investment banks. As the price sources improve and better prices become more available, public index providers will challenge these proprietary products, and be able to integrate them with equities and other asset classes to bring truly multi-asset customised products, including real estate, to meet specific mandates. ◀

About FTSE

Our business

FTSE is an independent company owned by The Financial Times and the London Stock Exchange. Our sole business is the creation and management of indices and associated data services, on an international scale.

FTSE Global Presence

Since its inception in 1995 FTSE has grown from a UK start-up to a global operation with eleven offices worldwide. The group encompasses offices in the Americas, Europe, Africa and Asia-Pacific. FTSE is now calculating indices and servicing clients in over 77 countries. It is estimated that two and a half trillion USD of assets are under management using FTSE indices.

The Index Users

Every day, finance professionals look to FTSE for the index tools to support strategies in the management of their investment portfolios. These include:

- Pension plan sponsors
- Investment banks
- Brokers
- Consultants
- Fund managers
- Stock exchange

FTSE does NOT give financial advice to clients. By remaining independent we can offer truly objective market information free of any conflicts of interest.



By: Hans Grönloh & Machiel Hoek



Best Practices Committee to lead on global standards

The European industry and the Best Practices Committee have in recent years focussed on the implementation of IFRS for the year 2005. In the first half of 2006 most European listed real estate companies published their first set of IFRS financial statements. Does this mean sit back and relax for the Best Practices Committee members or are there still challenges ahead? With the upcoming convergence of IFRS with US-GAAP even the word 'challenge' is probably an understatement.

General

The International Accounting Standards Board (IASB) which publishes IFRS, and the US standard setter - the Financial Accounting Standards Board (FASB) agreed to enter into the so-called convergence project aimed at eliminating differences between IFRS and US-GAAP. Firstly we should point out that the goal is not to replace the two sets of accounting standards directly by a complete new set of standards but the IASB and FASB have agreed to jointly develop new standards on new areas, or for topics where current standards need updating or replacing. It is clear that convergence will be a gradual and long

term process. However, long term does not mean uncertain and unclear. Convergence will happen.

Convergence will inevitably lead to changes in IFRS and therefore in reporting for the European companies. It is clearly our role as EPRA Best Practices Committee to represent the European industry in this respect. However, the impact will be larger than this, as the convergence project is no longer only an IFRS, or European issue anymore.

IFRS is now implemented in the EU, in addition to a number of other important economies outside Europe. By 2007 IFRS will be implemented in over a 100 countries. Furthermore, with the involvement of the FASB this convergence project has grown into a global project. We realise that, to really represent the industry in Europe, alliance with the other important industry bodies, such as NAREIT in the US, APREA in Asia, BPF in the UK and RealPac in Canada is essential.

EPRA, NAREIT, APREA, BPF and RealPac have agreed that global cooperation is needed and we will therefore coordinate our initiatives towards to respective standard setters.

CONVERGENCE PROJECT

General

The IASB and FASB have identified a number of specific areas for the agenda of the convergence project. Furthermore, both standard setters have agreed on a so-called short term convergence project. In this short term project a total a ten areas have been identified. For these ten areas it is the intention to investigate possible convergence and substantially complete the work by 2008. The following three topics in this short term

project are of particular interest for the Real Estate industry:

Project	FASB	IASB
1 Borrowing costs	Expense or capitalise interest on development projects.	Expense or capitalise interest on development projects.
2 Joint Ventures	Equity accounting	Equity accounting or proportionate consolidation.
3 Valuation of investment properties	Cost minus depreciation	Fair value or costs minus depreciation.

Borrowing costs

Currently both under US GAAP and IFRS there is an option to capitalise borrowing costs on development properties, or to expense these costs. It is the expectation that under the convergence project the option to expense these costs will be eliminated. Both NAREIT and EPRA have supported this view in a letter to the FASB and IASB.

Joint ventures

Under US GAAP investments in joint ventures have to be presented based on equity accounting. The interest in the joint venture is shown in one line in the balance sheet and the net result of the joint venture is presented on one line in the profit and loss account. It is common practice in the real estate industry to invest through such vehicles. The disadvantage of the method is that the actual investment in the joint ventures and net operating result from these investments is not clearly visible in the company's accounts.

Under IFRS both the equity method and the proportionate consolidation method are allowed. Per the proportionate consolidation method, assets, liabilities and profit and loss account items should be consolidated into the parent accounts based on the relative share the parent holds. For example, for a joint venture in which an interest of 50% is



Machiel Hoek
Senior audit manager,
KPMG Audit

Machiel Hoek is a senior audit manager at the real estate practice of KPMG Audit, Amsterdam. He acts both as auditor as well as advisor and has broad experience in IFRS and corporate governance projects at real estate companies. Besides his audit experience, Machiel has been engaged in a number of due diligence and corporate finance projects for real estate transactions. He is a regular speaker at international real estate conferences.

Within the European Public Real Estate Association (EPRA), Machiel fulfilled a leading role in drafting and finalising the previous and current Best Practices Recommendations.

Machiel's educational background is a Master of Arts in Economics degree, and he is a Certified Public Accountant.



Best Practices Committee to lead on global standards

held, 50% of the individual assets, liabilities and profit and loss items are taken into account.

It is expected that the proportionate consolidation method, although it probably provides a better view of a company's financial position and performance for companies that have many investments in such structures, will be eliminated. EPRA and NAREIT will consider a combined approach towards this issue.

Valuation of investment properties

Under IFRS, the valuation of investment properties is possible at fair value or costs minus depreciation (with the fair value in the notes). Per US GAAP investment properties should be valued at cost minus depreciation. There is no requirement to add fair values in the notes. As part of the short term convergence project, FASB will investigate the possibility to introduce fair value reporting for investment property. Although it is unclear how this will be carried out, it is possible that the FASB will accept a standard similar to the current IAS 40 (the IFRS Investment Property standard).

In the discussion we have had with our members it is clear that there are two views on reporting for investment property; both views (fair value or cost minus depreciation) are possible under IFRS. For the ones who use the cost model, approximately 30% of the EPRA members, the fact that the fair value has to be included in the notes is not really an issue as the balance sheet and profit and loss account get more attention than the notes. In the US there is a view that there is no reason to have a cost model with fair values in the notes. As soon as you put the fair value somewhere in the accounts you have to assume responsibility for it and the idea is that having gone through the trouble of assessing the fair value one might as well put the value in the balance sheet. People who support this view argue that there should not be a cost option included in the new standard.

Presentation of the accounts

A project which is not actually part of the short term project, but one that is of importance to the broader industry, is the project on presentation of the accounts. The objective of the project is to develop a new model for the:

- Statement of financial condition (balance sheet).

- Statement of comprehensive income (profit and loss account).
- Statement of cash flows.
- Statement of changes in equity.

EPRA had already developed a model profit and loss account under IFRS. This is a model, based on fair value of the investment properties, that truly reflects the different types of income of a property investor. The EPRA model is proven to the extent that many European property companies with the implementation of IFRS in 2005 chose to closely follow the EPRA model. We believe that although the outcome of the presentation project is still uncertain, the current EPRA model should provide the foundation for further development.

EPRA Best Practices Committee

The convergence project and ultimately the work that follows on from it, is a challenge for EPRA. The management board of EPRA realises that the current structure and resources are insufficient to meet or exceed the industry's expectations. EPRA is close to hiring additional resources to act as a supporting role for the Best Practices Committee.

It is clear that to be able to truly represent the European industry we have to make sure we are geared up to actually playing that important role. If we are not, others will do it for us!

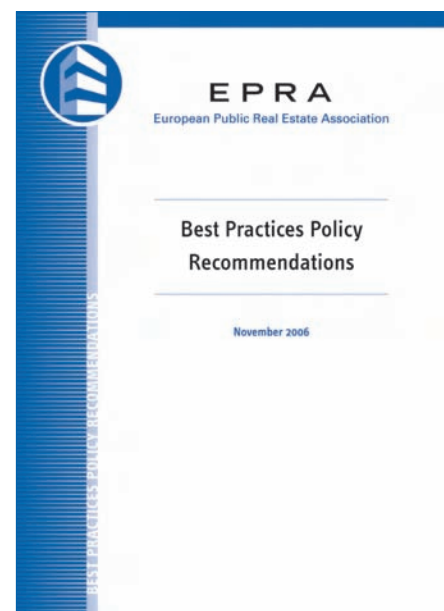
Enhancements to the Best Practices Recommendations

During a two day summit in October, the members of the Best Practices Committee met and discussed the convergence project and the challenges to the industry that lay ahead in the near future. The Best Practices Recommendations (BPR) comprised part of discussion, which mainly focused upon further refining the set of definitions, the Glossary of Terms, and guidance thereupon. As a result, a refined set of the Recommendations was issued in December. ◀



Hans Grönloh

- Business at the University of Amsterdam
- Accountancy at the University of Amsterdam
- Master of Real Estate at the University of Amsterdam
- Represents the Dutch practice in the International Committee of the Global Real Estate and Construction network
- Partner responsible for knowledge management within the Global Real Estate and Construction network.
- IFRS Concurring review partner
- Fellow at the Real Estate Centre of the University of Nijmegen
- Teacher at the Master of Real Estate programme at the University of Amsterdam



About KPMG

KPMG offers independent, multi-disciplinary advice on real estate, servicing clients on financing, tax and accounting issues at local, national and global level. Clients include quoted and private property companies, indirect investment vehicles, occupier and central, regional and local government organisations.

KPMG aims to be the knowledge leader on audit, tax and advisory matters for the real estate sector. Therefore, KPMG employees spend a considerable amount of time in professional education, research, publications, and in performing an active role in knowledge sharing groups with real estate investors and developers.



By: Steffen Sebastian



EPRA Broadening the Investor Base Study

Correlations of Property Stocks with other Asset Classes



Prof. Dr. Steffen Sebastian

Education and Professional Positions Held

07/2006 Entitlement to Supervise Academic Research (Habilitation, *venia legendi*), expected.

since 04/2006 Director of the Chair for Real Estate Finance, University of Regensburg (lifetime position with full professorship offered).

since 05/2003 Assistant Professor at Goethe-University of Frankfurt/Main, Finance Department, Chair for Investment, Portfolio Management und Pension Finance .

1990-1995 Studies in Business Administration at the University of Mannheim, Germany and E.S.S.E.C. (Ecole Supérieure des Sciences Economiques et Commerciales), Cergy-Pontoise, France. Diploma: Dipl.-Kfm. (University of Mannheim) and Diplômé de l'E.S.S.E.C.

Research Grants from (in alphabetic order):

Arthur Anderson, DB Deutsche Grundbesitz, Ernst & Young, iii Immobilienfonds, IVG AG, MEAG, Prechel-Stiftung, REALIS AG, Stiftung Eurohyp.

Consulting Projects:

2004/2005 (MEAG AG): implementation of a real estate index for the determination of asset allocation in a mixed asset portfolio.

2005 (Sal. Oppenheim Ltd.): risk and return profile of 16 international asset classes to determine the input factors for a the asset allocation in a wealth management context.

→ Contact

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Background

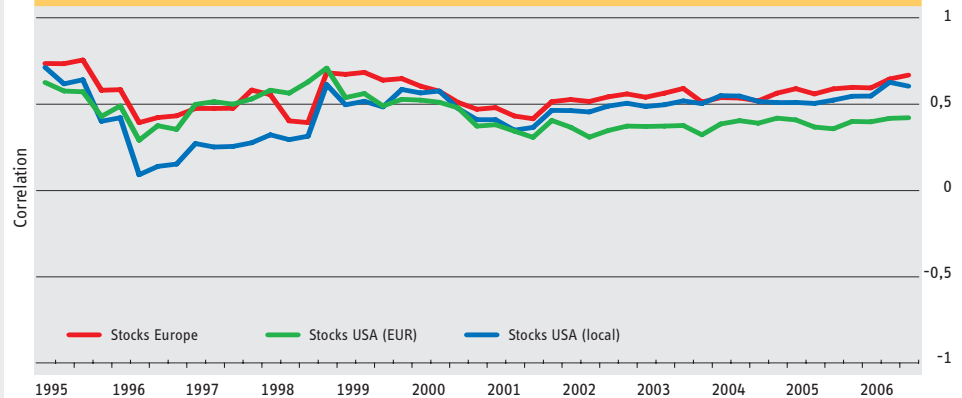
One good reason to invest in property stocks is profitability, an even better one is diversification. Various studies have shown that integrating property stocks increases significantly the risk-/return profile of a mixed asset portfolio - including the recent EPRA-study by Shaun Bond of the University of Cambridge. Although, the application of complex optimisation unavoidably means that we have to make several assumptions about the markets and investors preferences. Those assumptions limit naturally the validity of the results for all types of investors and/or market conditions. Furthermore, the results, i.e., the weight of property companies in an investor's portfolio, might vary a considerably depending on the design of the optimization model. All in all, the

results of complex optimizations models are difficult to communicate and easy to criticise.

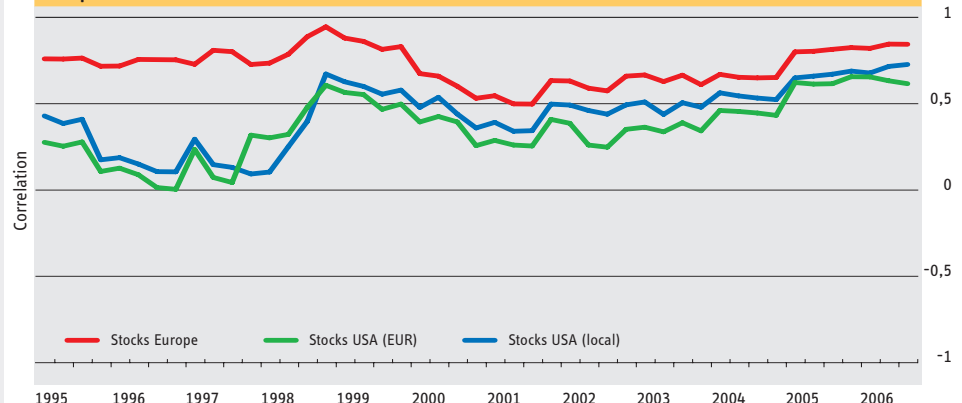
EPRA/IREIBS Study

EPRA and IREIBS decided to embark on a detailed study focused on the correlation of property stocks. The diversification benefits of an investment in property companies depend mainly on the correlation with other asset classes, such as stocks or bonds. A closer look at the evolution of the correlations over time already gives first insight into the evolution of the diversification potential of property stocks. We hope that this might serve as a reference for both, practitioners and researchers. Furthermore, this study may ignite a broader range of investor interest wishing to examine the diversification benefits of property stocks.

Rolling Window Correlations (window width: 5 years) between quarterly returns for EPRA/NAREIT US Total Return Index and



Rolling Window Correlations (window width: 5 years) between quarterly returns for EPRA/NAREIT Europe Total Return Index and





It is the aim of the EPRA/IRE|BS study to illustrate the correlation of property stocks with the large universe of investment opportunities. We have identified three classical asset classes: stocks, bonds and money (treasury bills), and five alternative asset classes, including direct real estate, emerging market stocks, hedge funds, private equity and commodities.

Methodology

It must be noted at this point that correlations, as well as diversification potential, are not everlasting characteristics of an investment as they can vary significantly over time. The aim of the present study is to investigate rolling window correlations using periods of 5 years, analysing quarterly returns of FTSE EPRA/NAREIT Global Real Estate Index series against other asset classes, as defined above. The reference currency is Euro. As we are preliminary interested in the correlations with the asset classes and not the foreign currency we compare national indices (local) wherever possible. The following presents selected results of the preliminary study.

Correlations with stocks (Figures 1 & 2)

First results show moderate to strong correlations between the returns of the FTSE EPRA/NAREIT Indices and stock returns. For FTSE EPRA/NAREIT US we observe correlations between 0.4 and 0.6 and for the FTSE EPRA/NAREIT Global, Europe and UK ranging between 0.6 and 0.8. In the period of 1/94-1/99 the correlations are mostly constant, with the exception of the UK where the correlations vary temporarily between 0 and 0.2 for the period 1/96-1/01, reverting back to similar levels as the other FTSE EPRA/NAREIT Indices in the period 1/01-1/06.

In earlier periods we observe contrasting patterns for Europe and US. While correlations are heavily positive with European stocks, correlations with US stocks are significantly lower, to the extent that in the period 1/91 - 1/96 they actually reach values close to zero.

Correlations with bonds (Figure 3)

In contrast, correlations between the FTSE EPRA/NAREIT Indices and Bonds Indices for Germany, UK and USA are not constant over time, decreasing from 1990 till 2006. They are mostly positive until 1999; from 2000 on, we even find some negative correlations (between 0.0 and -0.5). Especially for the UK, correlations with bond indices are highly volatile. They are mostly positive up to 1/98,

but at the end of 1998 we observe a sharp decline in the correlation figures. For all FTSE EPRA/NAREIT Indices, correlations move in a similar fashion in the observation period. Here, we observe after a period of declining values a gradual climb since 2003.

Correlations with money/treasury bonds (Figure 4)

Correlation of property stock returns with those of treasury bonds show a very interesting evolution over time. Correlations are negative in 1995-1998, starting with values between -0.5 and -0.2. All correlations rise steadily until 2006, ending with values between 0.3 and 0.6.

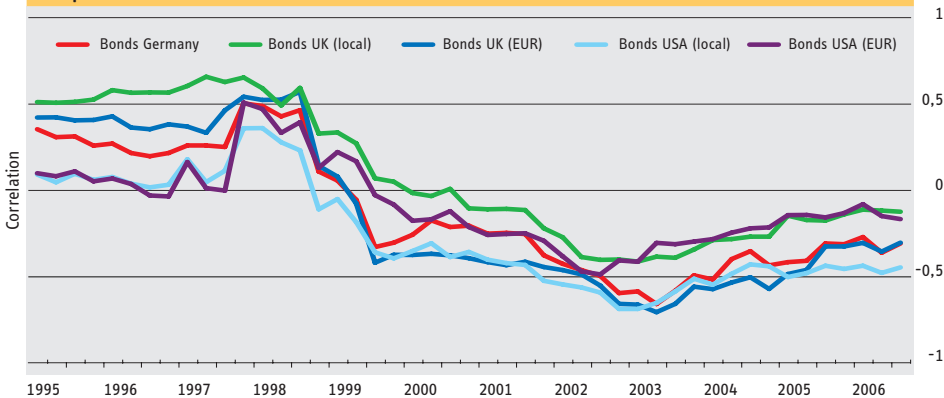
Conclusion

For all asset classes, we see that property stocks show correlations significantly below 1.0, and in some cases negative readings occur, thus indicating diversification potential for investing in property stocks. The evolution over time results in the assumption that diversification benefits are most likely to vary considerably over time. This phenomenon must, among others, be taken into consideration when including property stocks in a mixed asset portfolio. ◀

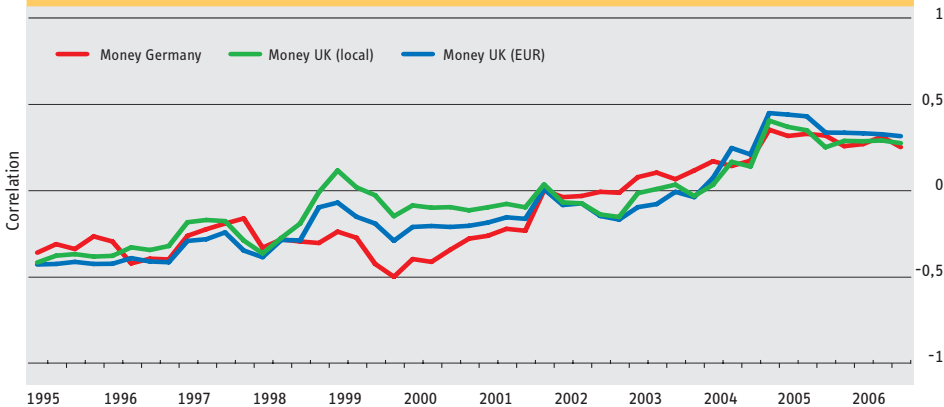
About University of Regensburg

The University of Regensburg was founded in 1967, and has since developed a wide range of academic programs. With twelve faculties, 18.000 students, 1.500 foreign students and 320 professors, the University of Regensburg is one of the largest universities in Bavaria. It is a campus university surrounded by parks, thereby guarantees a fast and easy interdisciplinary exchange between the different departments. In his book "Italienische Reise" from 1829 Goethe already remarked: "Regensburg is really beautiful. The region must provoke a city." And when one visits Regensburg, one would have to agree. With its 160.000 inhabitants, this city on the Danube has a great deal of Italian flair to offer. As the same time, Regensburg is home to several innovative technological and industrial companies, like BMW, E.ON Bayern, Infineon, Krones, Osram and Siemens VDO. The Regensburg location is not only quite delightful, but central, too: Munich and Nuremberg are only one hour's drive away.

Rolling Window Correlations (window width: 5 years) between quarterly returns for EPRA/NAREIT Europe Total Return Index and



Rolling Window Correlations (window width: 5 years) between quarterly returns for EPRA/NAREIT Global Total Return Index and





By: Paul Ogden

CBRE
 CB RICHARD ELLIS

Derivatives Applications for Property Market Participants

In the past two years many column inches have been dedicated to explaining how property derivatives are structured, the development of the market and how to price them. All of these approaches tend to treat the derivatives market as a stand alone concept rather than something which will be integrated into everyday business for property market participants. In this piece I hope to give an overview of how a variety of property related derivatives can be used.



Paul Ogden
 Head of European
 Property Derivatives
 Development

Paul has been investigating property derivatives since 2003. Prior to re-joining GFI in March 2005 he was responsible for new product development at Prebon Marshall Yamane.

From 1992 until 1999 Paul ran GFI's Sydney office where he established a leading Japanese government bond options broking desk. From 1987 to 1992, Paul was a bond and bond derivatives trader for Nomura Securities in London.

Paul holds a B.Sc.(Hons) in chemistry from King's College, London.

Derivatives as Indirect Property Investments

The first application that potential derivatives users tend to identify is straight forward investment. Property index derivatives on IPD, Halifax and NCREIF indices, property index linked notes such as those offered by Goldman Sachs and Barclays Capital's PICs, fund derivatives like those currently offered on the MMS FTSEpx, exchange traded funds and other property equity derivatives based upon EPRA and other property equity indices or single stocks all offer the opportunity to gain indirect exposure to property returns. In this sense these derivatives are no different from other indirect vehicles including funds, property company equities and REITs in that the performance of the instrument is in some way derived from the performance of underlying physical property assets.

Each of these approaches to indirect property investment have specific characteristics which make them appealing to particular types of potential investors. When looking for the best vehicle to use the decisions that need to be made include index tracking vs. outperformance chasing, fully capitalised vs. geared and time limited vs. perpetual. There are other issues to be considered too - liquidity, transactional and management costs, regulatory restrictions, tax and accounting treatments etc.

For investors looking purely for index tracking property performance for a specified period the index based derivatives such as IPD total return swaps or the closely related property linked notes provide returns that are transparently linked to the performance of their underlying IPD indices. The swap offers an opportunity to trade property exposure for a specified period of time without tying up large amounts of capital but requires credit lines and ISDA agreements. Property linked notes offer a similar property return

exposure without the need for an ISDA or credit line but require the investment of the principal amount. For funds with cash to invest this may be an advantage especially as being listed securities may help to overcome regulatory hurdles. As notes and swaps share the same mechanism for gaining property return exposure they have similar liquidity characteristics although the notes will have the extra cost of structuring the product included in the pricing.

If a broad exposure to property returns is sought without wanting to specify the period of exposure or in situations where property return indices are not available, equity index derivatives such as exchange traded funds (ETFs) or total return swaps based upon property equity indices such as those published by EPRA are ideal. In these cases the underlying assets from which the returns are derived are equities so care should be taken to analyse the correlation between these returns and those of direct properties as over short periods of time property shares can deviate from property performance. ETFs offer a standardised, easy to deal and fully invested approach whereas equity total return swaps give bigger, more sophisticated players the opportunity to trade in a more bespoke and capital efficient manner.

When seeking outperformance of the property market or 'alpha' the index based products are unsuitable. In this situation the investor should be willing to pay for management and accept greater risk to achieve improved returns. This management may be that of a property company or a fund. Derivatives offered on individual property company equities, REITs or property funds may offer opportunities for sophisticated investors to gain gearing or to invest in otherwise inaccessible vehicles.

An Alternative to Grin and Bear it

Traditionally the only courses of action open to property investors if market risks start to look worrying have been to sell properties or to hold on and prepare to weather the storm. The problems with these options are obvious. Selling properties is time consum-



ing and costly at the best of times. If the rest of the market is nervous it may mean that the best assets are the only ones that will sell, worse still in a bear market liquidity may dry up and the decision to grin and bear it is forced upon the owner. Derivatives now offer the opportunity to sell property risk for a period of time without disposing of physical assets. The homogenous nature of index derivatives means that liquidity will be better than that in the direct market. At the end of the swap the property exposure returns to that before the swap was sold so there is no worry that the portfolio will be difficult to recreate.

By selling a swap and receiving a money market return the property has been turned into something resembling a bond. Should the hedger want to take out cash and invest this in other asset classes the swap may be structured to include an exchange of the principal amount too, in essence this is a property linked loan and can be easily priced accordingly.

Overcoming Direct Market Liquidity Constraints

Property is unlike most other major investment asset classes in that it is fundamentally heterogeneous and illiquid. Investment decisions made in relation to bonds or equities can typically be implemented over very short periods of time whereas those in property tend to take months. Participants in the property markets have, until now, simply accepted this lag between decision and transaction. Short dated property swaps

offer both buyers and sellers of properties an opportunity to buy or sell index level property returns for a period of a few months whilst their desired property transactions are executed.

Here is an example of this use of derivatives as a short term proxy for direct property

An investment committee meeting agrees to buy £100 million of City of London offices; they believe that this may take up to six months in current market conditions. The first two actions that are taken are to instruct their agents to find suitable properties and to buy £100 million of IPD City office index total return swaps. After only three months £100 million of direct property has been identified and bought and £100 million of what is now a 3 month swap is sold. If in those 3 months the market has been very strong the property will cost more than expected but the swap will have made money, conversely if the office market has been weak the swap may have lost money but the direct property transaction will have been done at a more favourable level. The swap has effectively provided a degree of price certainty. If the search for suitable stock takes longer than the expected 6 months another 3 or 6 month swap is purchased with a view to selling it once suitable property is purchased.

This approach can of course be used by sellers who are worried that their sale may take some considerable time to transact. This type of application shows how derivatives

can be used within traditional property transactions.

Active Portfolio Management

Reweighting property exposure is a difficult process to execute in the direct property world. Whether it is central asset allocators changing their weighting of property vs equities and bonds or a property company looking to change its sector or international exposures the problems associated with managing portfolios that have a property element are significant. Derivatives offer the opportunity to swap returns in one sector of the property market for those from another sector or even between countries.

UK Residential made palatable

Thus far a lot of the institutional interest in property derivatives has focussed upon commercial property. The main reason for this is that the UK investment market and hence the UK IPD indices have no significant exposure to the residential sector. This is somewhat of an anomaly as in continental markets such as France and Holland residential is regarded as part of an investment property portfolio.

There is however a significant and growing market in derivatives based upon the Halifax House Price Index. This market may well lead to the development of securities with returns based upon UK residential capital growth. Such products will provide an easily tradable and homogenous route into residential exposure that will prove attractive to institutional investors. ◀

About CB Richard Ellis & GFI

CB Richard Ellis and GFI Group have been collaborating on property derivatives since 2005. In this time we executed the first brokered deal, the first sector and sub-sector level trades in the UK. As international interest has grown we have expanded our coverage to the USA where the first deals have recently been transacted and to continental Europe where many markets expect to see initial trades shortly.

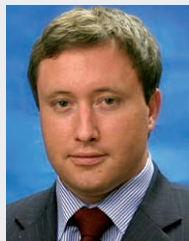
CB Richard Ellis Group, Inc. (NYSE:CBG), a FORTUNE 1000 company headquartered in Los Angeles, is the world's largest commercial real estate services firm (in terms of 2004 revenue). With approximately 13,500 employees, the Company serves real estate owners, investors and occupiers through more than 200 offices worldwide

(excluding affiliate and partner offices). The Company's core services include property sales, leasing and management; corporate services; facilities and project management; mortgage banking; investment management; appraisal and valuation; research and consulting. Please visit our Web site at www.cbre.com.

GFI Group Inc. (NASDAQ:GFIG), through its various subsidiaries, is a leading inter-dealer broker specialising in over-the-counter derivatives products and related securities. GFI Group Inc. provides brokerage services, market data and analytics software products to institutional clients in markets for a range of credit, financial, equity and commodity instruments.

By: Scott Crowe and Katie Kolchin

Expected Returns & Fund flows in 2007



Scott Crowe
Executive Director

Scott Crowe is an Executive Director, head of US REITs & global strategist at UBS. Mr. Crowe's primary role is the coordination of the US REIT team, with a focus on Retail REITs. As global strategist, Mr. Crowe will work with the UBS global real estate team of over 40 analysts on global real estate research across the key markets in the US, Europe and Asia. Prior to joining UBS, Scott worked as a property security fund manager. Mr. Crowe has also worked in the venture capital industry and as a finance lecturer at the University of Technology, Sydney. Scott received a Bachelor Commerce in Finance & Economics from the University of NSW and Finance Honours from University of Technology Sydney.



Katie Kolchin
Global Real Estate Analyst
of UBS Investment
Research

Katie Kolchin is the Global Real Estate Analyst of UBS Investment Research. Previously, she was in the consumer group, specializing in apparel and footwear retail. Prior to joining UBS, Katie attended the Leonard N. Stern School of Business at New York University, earning her MBA with a focus in Finance and graduating as a Stern Scholar. Preceding this, she held financial analyst positions at various US consumer companies. She earned her Bachelor degree in Economics from Lehigh University, attaining membership in the International Honors Society in Economics.

Real estate globally should on average reflect underlying earnings and income profiles, with multiples supported by continued fund flows. Our base case forecast is for a 12% total return from listed real estate over the next 12 months. This breaks down into a 3.3% 2007E dividend yield and a +9.3% 2007E cash earnings/NAV growth profile. Real estate's current 24x PE multiple should be supported by: (1) capital flows, given solid and visible growth profiles, (2) continued investor focus on income/capital preservation, (3) moderate interest rates, and (4) the direct market appetite as pent up demand pools are put to work from a low base (global allocations are at 5% versus 8.5% targets, representing ~US\$1.5 trillion in demand).

Key Themes for 2007

Over the next twelve months, direct market real estate pricing will continue to matter more, as investors continue to use real estate equities as a means of playing direct market strength. We believe robust capital queues provide support on valuations in the sector, providing a -10% downside "floor" to valuations. This appears to be encouraging lower risk premiums however, which is leading a push toward higher growth businesses (funds management & development). We believe multiples will continue to expand on such business models. The direct market pricing environment "changed the game" for listed players. Historically real estate companies enjoyed a world of inefficiently priced assets (at 8%+ yields) and relatively favorable access to capital. Today the situation is reversed – real estate is very efficiently priced and capital is plentiful to a wide range of investors. As a consequence, business models have also evolved. Although monetary capital is now the commodity, the "intellectual" capital surrounding the sourcing, acquiring, managing, and developing of real estate assets is finite. Companies with high degrees of this intellectual capital should continue to outperform in 2007, as we sense the direct pricing environment will persist.

The physical real estate markets remain tight, which should be sustained given low supply profiles across major asset types in most regions. As a consequence growth profiles are robust. The effect is that investors are more focused on total return and growth, versus income yield. Hence interest rates appear to be further off the radar screen. One impact of higher rates is that leveraged buyers in US, Australian, and UK markets have subsided however.

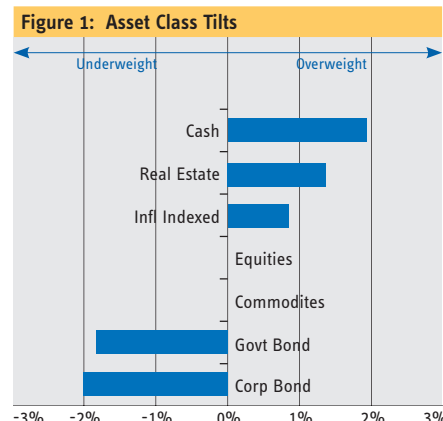
Finally, global investment continues to accelerate; capital flows remain solid, however their composition is changing. Institutional investors continue to allocate toward prop-

erty, although their preferred means is via global funds, driven by high levels of diversification and continued opportunities from the proliferation of REIT markets. Global investment is increasingly becoming main stream. The majority of funds now have global initiatives, with more than two thirds of the new money being dedicated to global mandates. We believe this theme will prevail in 2007.

REIT Growth and Global Investment

The proliferation of REIT markets globally is an important structural change, and the ongoing securitization of real estate provides significant potential for capital. REITs are well established in Asia and continue to develop (now ~USD \$50 billion). REIT legislation will be introduced into the UK and should also be introduced into Germany in 2007. 2007 may also witness changes to French REIT legislation (SIIIC4), the emergence of Italian REIT legislation, and a relaxation of development restrictions for Dutch BIs.

Global investment has grown significantly over the last two years, with growth in global dedicated real estate funds of around USD \$25 billion plus, according to our estimates. The low correlation between regions within listed real estate (about two thirds that of equities and bonds) as a result of the stronger influence of locality, significantly enhances diversification





Expected Returns & Fund flows in 2007

benefits. Increasing the opportunity set also provides ample opportunities for investors in one of the last sectors to globalise.

Regional Allocations

Year to Date Returns (in Local Currency, as of 10 November)

Asia has been a mixed bag of performance across the countries, with outperformance in Singapore (+46.8%), Hong Kong (+28.8%) essentially at the global average, and Japan (+12.9%) underperforming after a very strong 2005. That said, Japan has begun to pick up in October, and we believe there is further upside as the market factors in the feasibility of higher growth rates and cap rate compression.

US REITs have performed in-line with the global average at +28.8%, with strong direct market pricing leading to REIT M&A and take privates (over \$50 billion year-to-date) helping to sustain valuations.

The strength of Continental Europe (+35.0%) has been driven by expectations of yield compression, excitement over GREIT legislation, fund flows into a small equity base, and Spanish M&A. We believe valuations are ahead of yield compression and growth profiles however and sense an increase in issuance, which should moderate this capital flow driven market. The UK (+36.1%) should benefit from continued tight real estate markets, lagging supply, and high growth profiles. Further there is upside potential from the long term impact of the introduction of REITs in 2007.

Figure 3: US Real Estate Mutual Fund Flows - Four-Week Moving Average

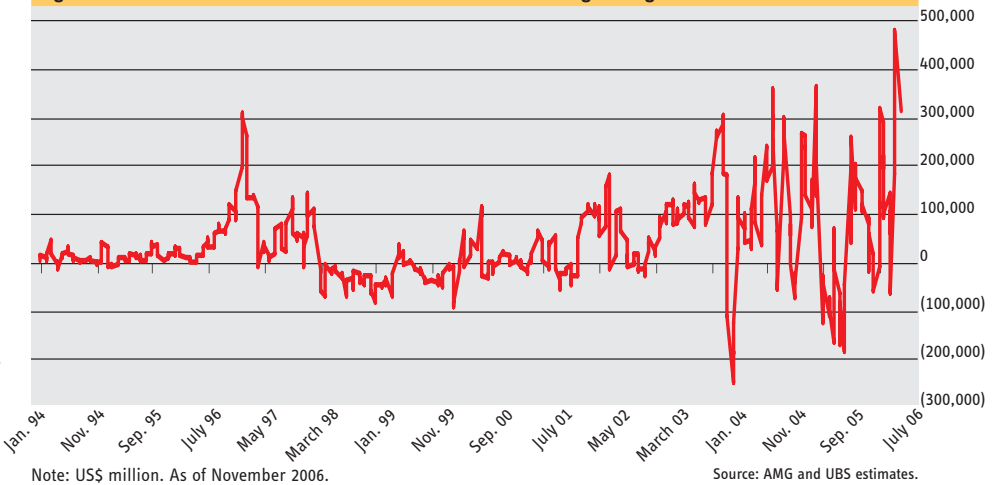
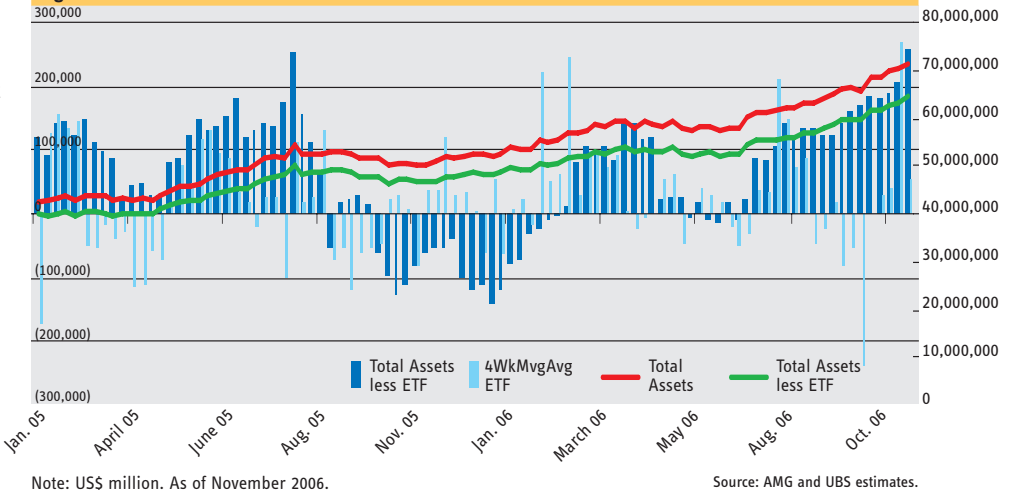


Figure 4: US Real Estate Mutual Fund Flows Ex-ETFs



Australia has underperformed (+18.8%), with locals moving to overweight in higher growth sectors such as resources (although we have seen a trade back toward the

“defensive” LPT sector lately). This year only AUD \$3.1 billion of equity has been raised versus natural demand of AUD \$4.5B plus per annum given superannuation savings. ▶

Figure 2: UBS Global Real Estate Top Recommendations by Region/Sector

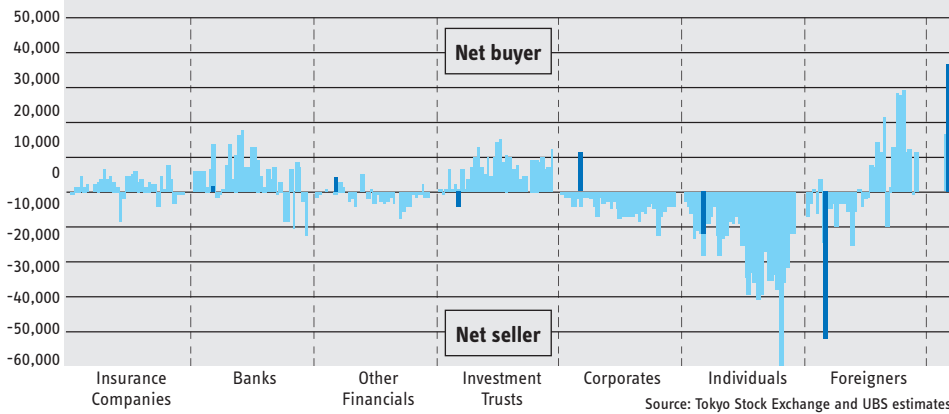
Security	Country	Price	Price Target	Upside to Price Target	NAV '07E*	Premium/ (Discount) to NAV	Recommendations	Earnings Yield '07E**	Dividend Yield '07E	EBITDA/ EV '06E	NAV Growth '05 - '07E*	Net Growth '05 - '07E**	Net Debt / EV '07E
Mirvac Group	Australia	5.09	5.08	-0.2%	4.10	24.1%	Neutral 1 (CBE)	6.7%	15.9%	6.3%	+7.0%	+5.2%	1.5
Sun Hung Kai P.	Hong Kong	90.15	123.00	36.4%	89.76	0.4%	Buy 1	5.7%	17.1%	2.8%	+5.8%	+0.9%	14.1
Mitsubishi Estate	Japan	2,690	3,800	41.3%	2,966	-9.3%	Buy 2	3.7%	47.5%	0.4%	+4.5%	+20.4%	16.0
City Developments	Singapore	12.50	12.25	- 2.0%	10.84	15.3%	Buy 2	4.4%	31.2%	1.0%	+5.2%	+3.9%	21.6
Beni Stabili	Italy	0.96	1.15	19.8%	1.26	-23.9%	Buy 2	3.2%	2.9%	5.5%	+5.2%	-15.1%	48.4
British Land	UK	15.62	16.40	5.0%	16.54	-5.5%	Buy 1	2.4%	42.0%	1.2%	+3.3%	+13.5%	11.5
Host Hotels	US Hotel	23.95	27.00	12.7%	NA	NA	Buy 2	12.1%	12.2%	3.8%	NA	n.a.	10.5
ProLogis	US Industrial	61.27	74.00	20.8%	55.70	10.0%	Buy 1 (CBE)	5.2%	19.2%	2.8%	+4.4%	+1.9%	12.5
Vornado Realty	US Office	117.00	132.00	12.8%	107.84	8.5%	Buy 1 (CBE)	3.4%	29.3%	2.9%	+4.7%	+2.7%	5.3
Essex Property Trust	US Residential	127.81	145.00	13.4%	142.10	-10.1%	Buy 1 (CBE)	3.8%	26.1%	2.9%	+4.5%	+5.6%	7.5
Kimco Realty	US Retail	44.15	52.00	17.8%	38.10	15.9%	Buy 2 (CBE)	4.9%	20.3%	3.5%	+4.9%	+2.4%	6.3

Source: UBS estimates

Note: NTA for Australia; NTA does not equal NAV, as it is measured by a third party appraiser and does not include non rental income streams. AFFO for US; AFFO differs from earnings, as it is adjusted for true capex. As of 17 November 2006.

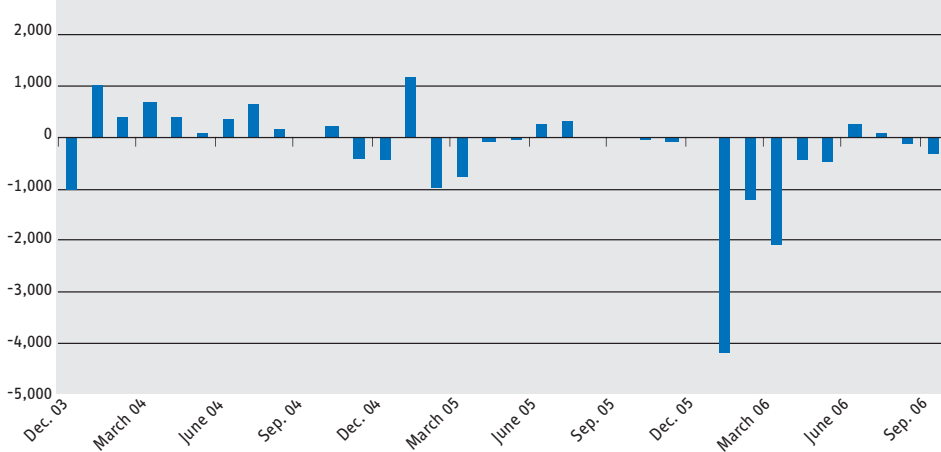
By: Scott Crowe and Katie Kolchin

Figure 5: Japanese REIT Flows



Note: Columns for each investor category from left to right show the net transaction amount from July 2003 to September 2006. The highlighted column represents the net transaction amount for September 2006.

Figure 6: German Monthly Open-Ended Real Estate Fund Inflow



Note: Data is from December 2003 to September 2006.

Japan

Japanese REITs have enjoyed ongoing investment by predominantly regional banks and dedicated JREIT investment trusts. This has been driven by the regional banks' low cost of capital (given very low deposit rates), coupled with lackluster investment opportunities in regional Japan (versus major cities), making investment in the relatively high yielding JREITs with solid covenants attractive. Similarly, the approval of dedicated JREIT investment trusts (funds which invest in JREITs) from late 2002 has seen retail investors increasingly use these pooled investment vehicles to take advantage of JREIT's attractive dividend yields.

Global REIT securities funds have experienced rapid growth in Japan since the initial vehicles were established in early 2004. Today, the Japan-based global funds are near US\$10 billion (50% in US REIT funds, 50% in global REIT funds). Given the continued low yield from JREITs, demand for income product from Japan's aging population, and with low interest rates, we expect flows from Japan into JREITs and global REITs to continue, despite some moderation from high levels.

Germany

Despite having very strong inflows over the longer term, in 2006 German open-ended funds (unlisted "tax efficient" pooled investment vehicles bought by retail investors) have experienced sustained outflows (particularly domestic focused funds). This year the total funds under management amount to over €80 billion, of which around 20% is held in cash, which has seen performance drop to below 5% per annum. There is also public debate about the valuation methodology that these funds use, plus bribery and corruption scandals.

Australia

The InTech survey of asset allocation indicates that the weighting to listed property (usually 70% of total real estate allocations) has decreased recently to 4.0%, below the long term average of 6.2%. Compulsory superannuation results in around A\$5 billion of inflows pa into Australian LPTs. Australia will benefit over the next 24 months from increased global inflows into LPTs given a relatively high yield of 7% and solid underlying capital growth (DPS growth) of 3.6% per annum. Although there may be some short-term outflows from domestic funds allocating money to global securities, this should be more than compensated for by global

The constraint to issuance remains in sourcing assets domestically and in the US, plus a lack of enthusiasm for equity issuance. This has led to an increased focus on funds management; and more investment into Europe and Japan, particularly given interest rate differentials and the positive carry on the hedge.

Top Global Recommendations by Region/ Sector

Our top global recommendations are, in order: Mitsubishi Estate (Japan), Sun Hung Kai Properties (Hong Kong), British Land (UK), Beni Stabili (Italy), Simon Properties (US Retail), City Developments (Singapore), ProLogis (US Industrial), Essex Property (US Residential), Host Hotels (US Hotel), Mirvac (Australia), & Vornado (US Office). (Our complete model portfolio is available upon request.)

Fund Flows

United States

Fund inflows into dedicated US REIT mutual funds have been up year-to-date +19% (about \$5.4 billion), with total assets of \$62 billion plus. About 25% of total fund flows in the US today are allocated to ETFs, a marked increase. However, the evolution of these fund flows have proved somewhat volatile since May 2004, when markets saw a brief period of significant outflows (about \$5.5 billion over six weeks), in response to improved job numbers (as seen by the four-week moving average in Chart below). This has reflected more interest rate-sensitive investors rotating out of the sector. Fund flows have remained volatile in 2005 and 2006, a reflection of on going M&A and divergent views on valuation. We believe, given a continuing low interest-rate environment, fund inflows should remain positive.



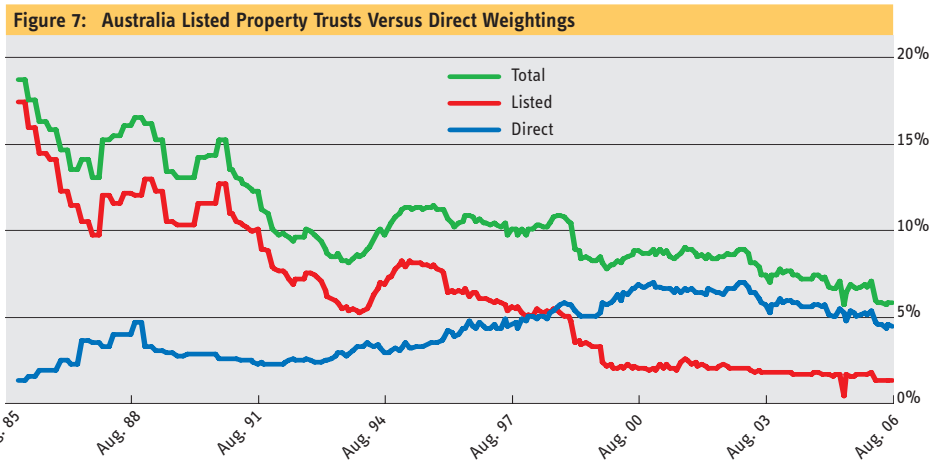
inflows (Australia represents 11% of the global REIT market despite being less than 2% of the global economy).

The UK

We can see from UK real estate allocations (for which we have data from the last 40 years) that real estate allocations are at a cyclical low. This is generally true globally, with real estate allocations materially beneath target allocations. We have also seen a rise in real estate allocations by pension investors. This should ensure that the current allocation shift to real estate is a long-term phenomena.

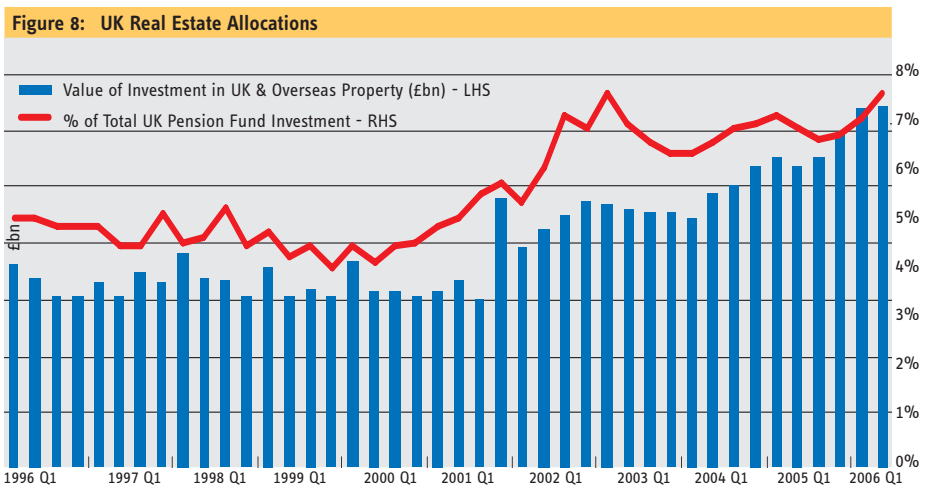
Conclusion

In this article, we have outlined both our thoughts on global real estate returns for the next twelve months and an overview of fund flows across regions. Real estate globally should on average reflect underlying earnings and income profiles, with multiples supported by continued fund flows. Our base case forecast is for a 12% total return from listed real estate over the next year. This breaks down into a 3.3% 2007E dividend yield and +9.3% 2007E cash earnings/NAV growth, profile. Real estate's current 24x PE multiple should be supported by capital flows, given solid and visible growth profiles and continued investor focus on income/capital preservation. We also look for fund flows to remain strong globally, with an estimated eighteen to twenty-four month capital queue, as the direct market appetite pent up demand pools are put to work from a low base, as global real estate allocations are currently around 5% versus targets of 8.5%, which equates to around US\$1.5 trillion of pent up demand. ◀



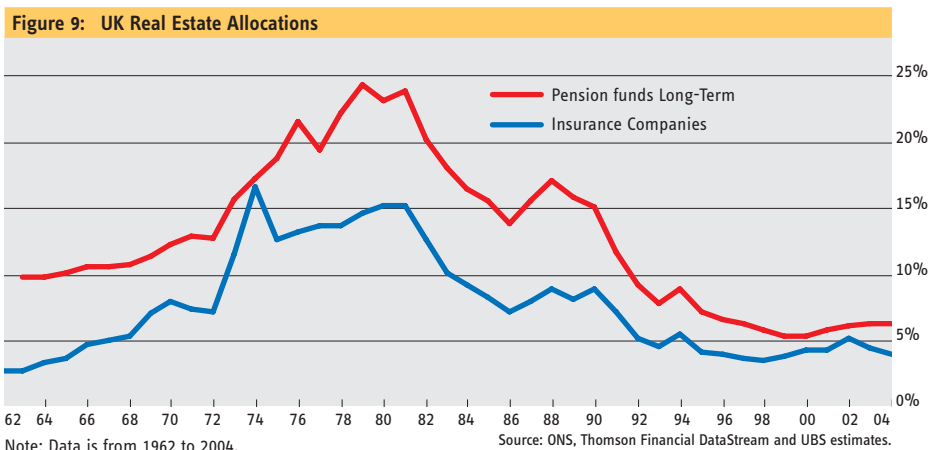
Note: As of August 2006.

Source: InTech and UBS estimates.



Note: Data is from 1996 to July 2006.

Source: The WM Company and UBS estimates.



Note: Data is from 1962 to 2004.

Source: ONS, Thomson Financial DataStream and UBS estimates.

About UBS

UBS is one of the world's leading financial firms, serving a discerning global client base. As an organization, it combines financial strength with a global culture that embraces change. As an integrated firm, UBS creates added value for clients by drawing on the combined resources and expertise of all its businesses. UBS is the world's leading wealth management business, a global investment banking and securities

firm with a strong institutional and corporate client franchise, a key asset manager and, with roughly a quarter of the Swiss lending market, the market leader in Swiss corporate and individual client banking. On 31 March 2006, UBS employed more than 70,000 people. With headquarters in Zurich and Basel, Switzerland, UBS operates in over 50 countries and from all major international centers.



By: Arnaud du Ponte



2006: A Year of Acquisitions

EPRA Best Annual Report Winner 2005, sponsored by PGGM



Reinier van Gerrevink
Chief Executive Officer

Reinier A. van Gerrevink (March 3, 1950), joined the company July 1, 2002 and was appointed as Chief Executive Officer on September 1, 2002. Before joining VastNed Group he was the Chief Operating Officer at the Robeco subsidiary Weiss Peck & Greer in New York. Previous to this job he gained a broad experience with ABN AMRO and Rodamco. Other positions: member of the supervisory board of the foundation Stadsherstel Rotterdam. Education: Dutch law, University of Utrecht.

Management VastNed Group

Reinier A. van Gerrevink, CEO
Hans Pars, CIO
Tom M. de Witte, CFO
Arnaud G.H. du Pont, general counsel

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So far, 2006 has been more than a turnaround year for the VastNed Group. Both VastNed Retail and VastNed Offices/Industrial, having been net sellers for a number of years, are now actively expanding their portfolios with € 225 million throughout their core countries.

VastNed Retail grew more than 11% in size after the acquisition of over €165 million worth of standing investments and pipeline projects.

Reinier van Gerrevink: "While everybody is looking for big ticket deals in order to boost performance, we have the benefit of realising acquisition growth of over 10 percent per year without being fully dependent on multi-party tender procedures. Despite strong competition, off-market deals can be found due to our local presence in the core countries. Some international investors can't be bothered about € 20 million investments, but give me ten of these per year and I will be able to hold on to our path of growth."

VastNed Offices/Industrial's acquisitions are fully in line with its strategy of increasing its exposure to liquid office markets. In the year to date acquisitions are approaching €60 million.

Hans Pars, chief investment officer: "We are proud to have found our way back to growth. It is, in a way, a threefold growth. First in terms of the increase in occupancy, which is not yet overwhelming, but it does show that office markets are improving. Secondly, in terms of values; after many years of negative valuations, positive value movements are back, which boost our solvency and net asset

value. And last but not least, the improved solvency gives us room to strive for growth through acquisitions. With these acquisitions we are focusing on liquid office markets, which will be the first to profit from a recovery of the office market, and where we can add value by active asset management.

Investment community rewards transparency

The VastNed Group feels transparency and corporate governance in real estate are of prominent importance. The VastNed Group was among the first property companies in the Netherlands to apply the corporate governance code (Tabaksblat). Furthermore, in the annual reports the best practice principles formulated by the industry are followed. This has resulted in EPRA awarding this year's PGGM sponsored first prize for the best annual report to VastNed Retail. For this purpose the jury had the annual reports of 80 listed companies scrutinized. VastNed Offices/Industrial was awarded third prize in the same category.

Arnaud du Pont, general counsel and the man responsible for VastNed's investor relations, puts it as follows: "We have big responsibilities towards our shareholders, who entrust large amounts of money to us. Transparency is vital to them. They want us to tell them what we are doing and to do what we are telling them.

VastNed Retail Acquisitions 2006

Country	City	Address	Type	Price (*€ 1M)	NIY in %
The Netherlands	Houten	De Spil	Shopping centre	30.8	7.2
	Houten	3-13 Onderdoor	Shop/office	4.1	6.5
	Hengelo	4 Wegtersweg	Retail warehouse	5.3	6.0
Spain	Madrid	Getafe III	Shopping centre	56.6	5.9
	Madrid	23-25 Calle de Fuencarral	High street shops	10.0	5.0
France	Limoges	CC Beaubreuil	Shop in shopping centre	0.5	6.8
		CC Carrefour Limoges Cognac	Shopping centre	18.0	6.9
		17 Rue Mont Martre			
		29 Rue Saint Ferréol	High street shop		
	Paris	113 Rue Emile Zola	High street shop		
	Marseille Troyes	31-37 Rue Ernestalle	High street shop		
	Arras	12 Rue du Bois	High street shop		
	Nancy	Zone Nancy Frouard	Retail warehousing	18.0	5.1
	Paris	121-123 Rue d'Alésia	High street shop	4.0	6.6
Belgium	Tongeren	SC Julianus	Shopping centre	18.0	6.7
Total				165.3	



2006: A Year of Acquisitions

This concept is reflected in our annual reports and press releases, which give a clear view on our performance.”

Profile

Listed retail property fund

VastNed Retail is a listed property fund which primarily invests in retail properties in good and top locations in the eurozone. The portfolio consists of close to 600 properties with an average size of € 2.7 million. In addition, VastNed Offices/Industrial is a listed property fund which primarily invests in offices and semi-industrial properties in good and top locations in the eurozone. The portfolio consists of almost 200 properties with an average size of € 5.9 million.

Property portfolio

VastNed Retail is active in five countries (The Netherlands, Spain, France, Belgium and Portugal) and has its own organisation in four countries. Many well-known retail chains rent their properties from VastNed Retail. The property portfolio as per September 30, 2006 represented a value of € 1,571 million. VastNed Offices/Industrial is active in two countries, and has its own organisation in both these countries. The property portfolio at September 30, 2006 represented a value of € 1,107 million.

Fiscally friendly structure

VastNed Retail and VastNed Offices/Industrial qualify as a fiscal investment institution as meant in article 28 of the Netherlands Corporation Tax Act 1969. This means that no income tax is due in the Netherlands. The Belgian and French investments reside in similarly fiscally friendly local vehicles, and no income tax is paid there either.

Strategy VastNed Retail

Vision

Investing in retail property is clearly linked to the retailer, who runs his business within these shops. That is to say that the rent in the long term is dependent on the retailer's



profits. The retailer's success and the competitiveness of the location, therefore, determine the long-term success of the retail property investor.

Investment methodology

- Focus on retail areas and tenants who distinguish themselves through dynamism and competitiveness;
- A balanced risk return profile of the investments;
- Focus on an optimum spread within the property portfolio, using the following spread criteria: countries, regions, cities, spread in categories, number of properties, number of tenants, limitation size objects and size individual tenants.

Strategy VastNed Offices/Industrial

Vision

The office market is a market in which tenants generally are not very dependent on a specific location for their enterprise. As a result, various office locations are in competition with each other for the housing of enterprises. In addition, demand for office space is strongly determined by economic developments and the degree of supply of office space. This supply and demand vary considerably throughout the years. This results in a cyclical office market, in which investment results fluctuate.

By active management, including an active buying and selling policy, VastNed Offices/

Industrial wants to play the office market cycle in order to achieve a relatively high investment result over the entire duration of the office market cycle. By responding dynamically to the cyclical office market, one can benefit from rent and value increases in an upward market. In a downward market the aim will be to limit investors' exposure to this.

Investment methodology

- Limitation of the investment risk in the downward phase of the market cycle by active management of the office portfolio, employing an active buying and selling policy;
- A balanced risk return profile of the investments;
- Investments in office markets in a legal framework which is favourable to the lessor;
- Opportunistic investments in logistics centres and industrial premises;
- Focusing on an optimum spread within the property portfolio. Spread criteria are: countries, regions, cities, number of tenants, number of properties. ◀

About VastNed

VastNed Group consists of two listed property funds, a retail property fund and an office property fund. Both funds realise high dividend yields for their shareholders. Currency risks are excluded by investing exclusively in the eurozone.

VastNed Retail

VastNed Retail was founded in 1986 and invests in retail property in good and top locations in the eurozone.

VastNed Offices/Industrial

VastNed Offices/Industrial was founded in 1984 and invests mainly in office property in good and top locations in the eurozone.

VastNed Offices/Industrial Acquisitions 2006					
Country	City	Address	Type	Price (*€ 1M)	NIY in %
Netherlands	Rotterdam	41-43 K.P. van der Mandelelaan	Office	17.7	6.9
	Venray	10 Macroweg	Logistics	3.6	7.1
	Rotterdam	31-49 Max Euwelaan	Office	5.3	6.0
	Hoofddorp	2-8 Wegalaan	Office	7.2	6.4
	Utrecht	650-746 Arthur van Schendelstraat	Office	25.6	5.9
Total				59.4	



By: Penny Thomas

Shaftesbury PLC

Shaftesbury PLC

Shaftesbury PLC is a real estate company listed on the London Stock Exchange. It is a constituent of the FTSE350 Real Estate Index with a current market capitalisation of circa £875 million. At the Group's half year, 31 March 2006, its property portfolio stood at £1,041.3 million.



Jonathan S Lane, MA, FRICS
Chief Executive

Joined Shaftesbury in 1986 as managing director. Overall responsibility for the Group's strategy and day-to-day operations.

Strategy

Shaftesbury's strategy is very focused and geographically specific. We have concentrated on those areas at the heart of London's cosmopolitan West End which combine centuries of tradition with a contemporary mix of creativity, wealth and vitality. Although geographically concentrated, the Group's portfolio encompasses a wide range of uses, reflecting the diversity of the West End economy.

The Group's philosophy is to foster and develop the special character of these areas, promoting exciting and dynamic environments for tenants. The aim is to create sustained outperformance of income and capital values. Applying this strategy over the past 15 years we have assembled a unique West End estate.

Our estate includes the distinctive village districts of Carnaby, Chinatown and Covent Garden. Within Covent Garden, we have holdings in Seven Dials, our new joint venture Island Site nearby, as well as two blocks which front Wellington Street, close to the Royal Opera House.

Our villages are home to a broad range of uses with an emphasis on shops and restaurants. We are careful to ensure that each location maintains its own individual identity. The long term prosperity of these districts is underwritten by their close proximity to the unrivalled cluster of

theatres, cinemas, museums, galleries and historic sites which is unique to the West End and makes London a World famous capital and the top city destination for overseas visitors.

Our Portfolio

Our wholly owned portfolio at 31 March 2006 included 285 shops with a total of 372,000 sq.ft.. Our villages included 415,000 sq.ft. of offices. Residential accommodation continues to grow mainly through conversions from office use. Most of our flats have one or two bedrooms for which demand in our locations has always been firm. Our tenants tend to be younger people who work locally, contributing to the vitality of our villages. An analysis of our portfolio as at 31 March 2006 is set out below:

Carnaby (www.carnaby.co.uk)

Carnaby represents 40% of our property assets and includes almost 45% of our shops and 57% of our offices. During the year ended 30 September 2005, more overseas retailers chose Carnaby as their preferred location from which to launch their brands in the UK. Carnaby is now established as the leading location in the West End for sports and leisure fashion, which is also the source of many exciting new concepts and brands.

Covent Garden (www.sevendials.co.uk)

Our holdings in Covent Garden represented 33% of our portfolio at the half year. In December 2005, we made a strategic purchase around Wellington Street (our Opera Quarter) of 58,000 sq.ft. of restaurants, shops and offices, much of which is vacant and unmodernised. We are securing possession of more areas while we carry out detailed research on each building. This will assist us as we begin a phased programme of reconfiguration and renovation.

We also concluded the Longmartin joint venture with the Mercers' Company in December 2005. This has created an island site of almost two acres which fronts Long Acre, Upper St. Martins Lane, Shelton Street and Mercer Street. Of the 250,000 sq.ft. of existing space, 65% is currently un-modernised offices and garaging on five floors, with only 20% shops and restaurants and 15% residential. We expect to extend frontages and to rebalance uses by opening additional access into the site where we will form a new central courtyard.

Table

	Carnaby	Covent Garden	Chinatown	Charlotte Street	Wholly owned portfolio	Longmartin (50% owned)
Book value	£408.3m	£286.3m	£261.1m	£22.9m	£978.6m	*£62.7m
% of total book value	40%	27%	25%	2%	94%	6%
Shops						
Number	129	101	53	2	285	7
Area – sq.ft.	185,000	134,000	49,000	4,000	372,000	13,000
Restaurants and leisure						
Number	37	52	55	8	152	6
Area – sq.ft.	79,000	126,000	162,000	21,000	388,000	35,000
Offices						
Area – sq.ft.	237,000	116,000	47,000	15,000	415,000	**161,000
Residential						
Number	46	88	64	18	216	43
Area – sq.ft.	35,000	62,000	43,000	10,000	150,000	39,000
Total area – sq.ft.					1,325,000	248,000

* Shaftesbury Group's share ** Includes 35,000 sq.ft. of garaging



Shaftesbury PLC

Chinatown

Chinatown represents 25% of our assets and is located at the heart of the capital's premier entertainment and leisure district. Chinatown includes 36% of our restaurants, all of which were let at 31 March 2006.

REITs

The Government has published legislation to govern the operation of REITs in the UK. The Board of Shaftesbury is currently discussing the practical aspects of conversion with its tax and corporate advisors and expects to make a decision in the near future.

Share Price Performance and Ownership

Over 95% of Shaftesbury's shares are owned by institutional investors, with the 20 largest shareholders owing over 50% of the Group. Institutions owning over 3% include Co-Operative Insurance Society, Legal & General, ABP Investments, Fidelity and Prudential PLC.

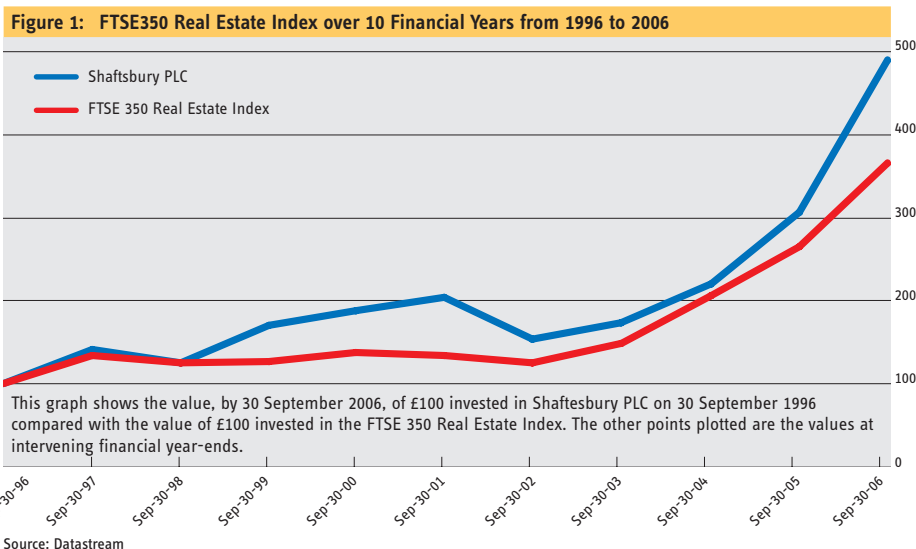
Below is a graph which compares total shareholder return against the FTSE350 Real Estate Index over the ten financial years from 1996 to 2006.

Corporate Responsibility

The Board recognises the importance of social, environmental and ethical matters in the conduct of the Group's business. The Chief Executive is responsible for the development and administration of policies and practices in matters relating to Corporate Responsibility.

The Group achieved a ranking of 48 in the 2006 Business in the Community Corporate Responsibility Index and was the highest rated within the Real Estate sector for the second year running and the second highest company in the FTSE250. The Group is a constituent of the FTSE 4 Good Index, which is intended as a guide for socially responsible investment, and has been awarded membership of Business in the Community's PerCent Club, recognising the Group's community investment of in excess of 1% of pre-tax profits. Shaftesbury is also a member of the Kempen SNS Smaller Europe SRI Index.

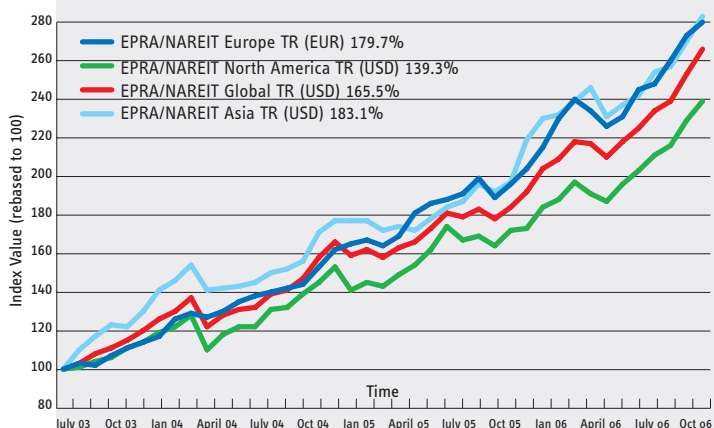
The Group was winner of the BDO Stoy Hayward Property Accounts Award 2006. The Group will announce its Preliminary Results for the year ended 30 September 2006 on 11 December 2006 and the Results and up to date information on the Group will be available on its website: www.shaftesbury.co.uk





FTSE EPRA/NAREIT Global Real Estate Indices

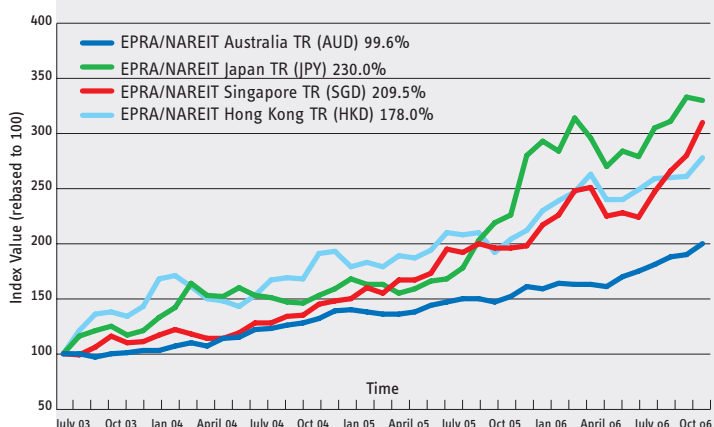
EPRA/NAREIT Global Real Estate Index



Company	Country	Price Rtn (%) Nov-06	Dividend Nov-06	Total Rtn (%) Nov-06
▲ New World China Land	HK	26.54	1.07	27.61
▲ China Resources Land	HK	27.38	-	27.38
▲ Globe Trade Centre	POL	22.40	-	22.40
▲ China Overseas Land	HK	20.03	-	20.03
▲ Keppel Land	SG	20.00	-	20.00
▼ Tokyo Tatemono	JP	-10.89	-	-10.89
▼ GMH Communities Trust *	US	-11.17	-	-11.17
▼ Daikyo Inc	JP	-11.42	-	-11.42
▼ Heiwa Real Estate	JP	-11.59	-	-11.59
▼ Freeport	UK	-20.54	-	-20.54

Index Description	Close Value Nov-30	Div Yld (%) Nov-30	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Nov-30	Total Rtn (%) YTD	Total Rtn (%) 36 Mths Vltly (%)
EPRA/NAREIT Europe TR (EUR)	3543.23	2.17	25.19	35.91	42.61	2.41	37.28	10.29
EPRA/NAREIT Asia TR (USD)	2499.71	2.99	24.46	32.31	43.65	4.73	29.32	13.39
EPRA/NAREIT North America TR (USD)	4217.06	3.53	24.99	29.29	39.12	4.68	38.53	15.38
EPRA/NAREIT Global TR (USD)	3493.16	3.07	26.61	32.21	44.32	5.04	38.56	12.63

EPRA/NAREIT Asia Index

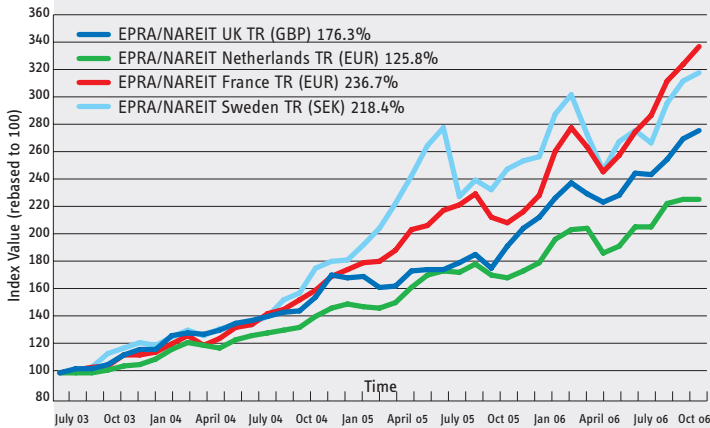


Company	Country	Price Rtn (%) Nov-06	Dividend Nov-06	Total Rtn (%) Nov-06
▲ New World China Land	HK	26.54	1.07	27.61
▲ China Resources Land	HK	27.38	-	27.38
▲ China Overseas Land	HK	20.03	-	20.03
▲ Keppel Land	SG	20.00	-	20.00
▲ CapitaCommercial Trust *	SG	17.59	-	17.59
▼ Toc Co	JP	-7.52	-	-7.52
▼ Shoei Co Ltd	JP	-8.04	-	-8.04
▼ Tokyo Tatemono	JP	-10.89	-	-10.89
▼ Daikyo Inc	JP	-11.42	-	-11.42
▼ Heiwa Real Estate	JP	-11.59	-	-11.59

Index Description	Close Value Nov-30	Div Yld (%) Nov-30	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Nov-30	Total Rtn (%) YTD	Total Rtn (%) 36 Mths Vltly (%)
EPRA/NAREIT Australia TR (AUD)	2780.06	5.38	17.60	25.30	30.94	5.23	24.32	8.42
EPRA/NAREIT Hong Kong TR (HKD)	1807.24	2.33	17.94	27.40	36.11	6.36	30.98	20.25
EPRA/NAREIT Japan TR (JPY)	3506.53	1.02	22.37	41.46	45.98	-0.98	17.82	23.19
EPRA/NAREIT Singapore TR (SGD)	1787.57	2.59	25.60	41.01	57.88	10.48	56.34	16.69



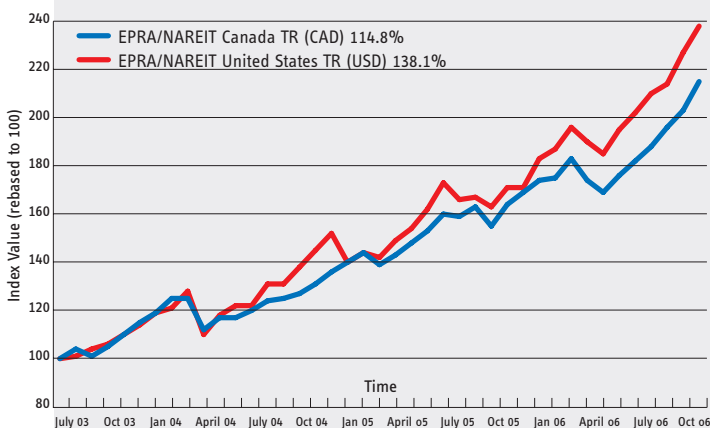
EPRA/NAREIT Europe Index



Company	Country	Price Rtn (%) Nov-06	Dividend	Total Rtn (%) Nov-06
▲ Globe Trade Centre	POL	22.40	-	22.40
▲ IGD	IT	19.33	-	19.33
▲ Norgani Hotels	NK	18.97	-	18.97
▲ Beni Stabili	IT	17.98	-	17.98
▲ Colonia Real Estate	DE	17.13	-	17.13
▼ Development Securities	UK	-4.08	-	-4.08
▼ Derwent Valley Hldgs	UK	-4.08	-	-4.08
▼ Vastned Offices Ind *	NL	-5.32	-	-5.32
▼ Befimmo *	BE	-9.08	-	-9.08
▼ Freeport	UK	-20.54	-	-20.54

Index Description	Close Value Nov-30	Div Yld (%) Nov-30	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Nov-30	Total Rtn (%) YTD	Total 36 Mths Vlty (%)
EPRA/NAREIT UK TR (GBP)	3618.33	1.80	25.15	34.87	43.66	2.30	35.01	12.84
EPRA/NAREIT Netherlands TR (EUR)	3338.53	4.30	24.08	28.88	33.57	-0.26	29.64	12.34
EPRA/NAREIT France TR (EUR)	4614.5	2.36	33.21	44.08	60.77	3.81	54.91	15.05
EPRA/NAREIT Sweden TR (SEK)	4947.22	3.53	28.85	39.35	28.28	2.03	25.29	21.49

EPRA/NAREIT North America Index



Company	Country	Price Rtn (%) Nov-06	Dividend	Total Rtn (%) Nov-06
▲ Summit Real Estate *	CA	17.00	0.51	17.51
▲ Entertainment Props *	US	17.12	-	17.12
▲ Glenborough Realty *	US	16.26	-	16.26
▲ Corrections Corp of US	US	15.09	-	15.09
▲ Equity One Inc *	US	14.99	-	15.00
▼ Affordable Residential	US	-4.15	-	-4.16
▼ Sizeler Property Investors *	US	-7.18	0.62	-6.56
▼ Trustreet Properties Inc *	US	-8.56	0.83	-7.74
▼ Education Realty Trust *	US	-9.34	-	-9.34
▼ Mills Corporation *	US	-22.43	-	-22.43

Index Description	Close Value Nov-30	Div Yld (%) Nov-30	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Nov-30	Total Rtn (%) YTD	Total 36 Mths Vlty (%)
EPRA/NAREIT Canada TR (CAD)	3815.78	4.54	22.28	25.06	31.02	5.67	27.11	11.78
EPRA/NAREIT United States TR (USD)	4198.37	3.46	24.74	29.24	39.47	4.75	39.13	15.69

* REIT Structures

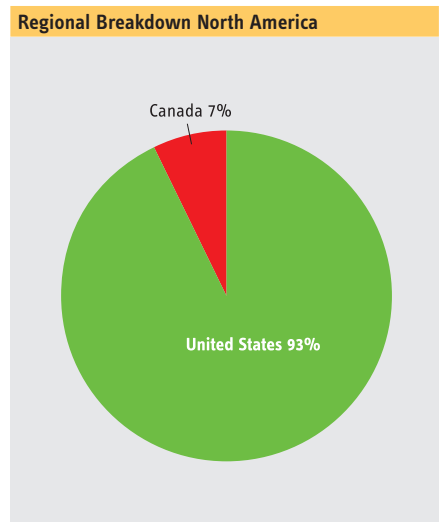
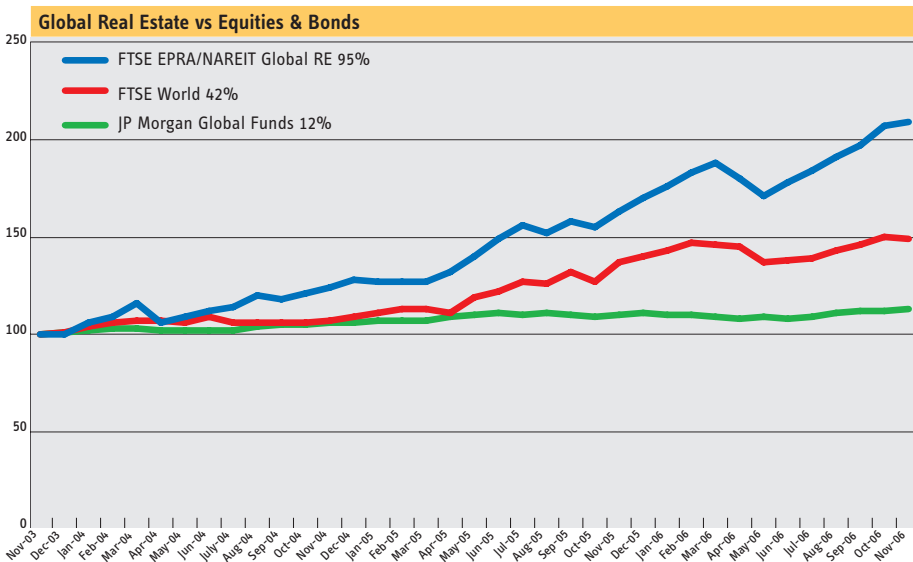
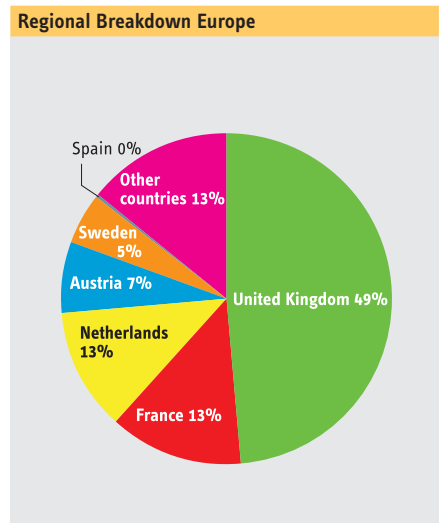
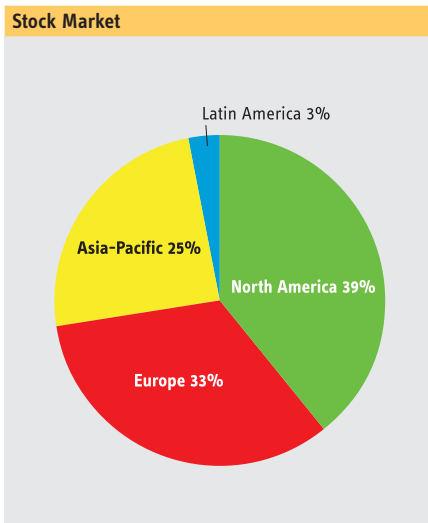
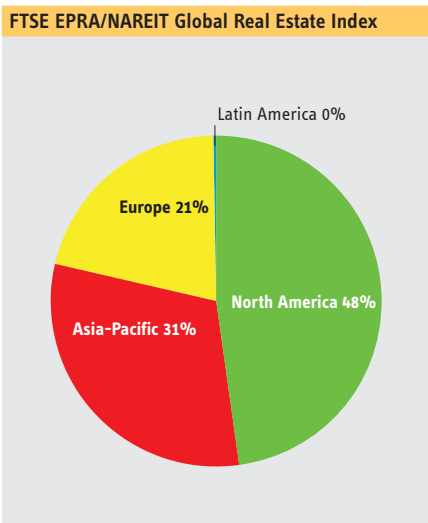
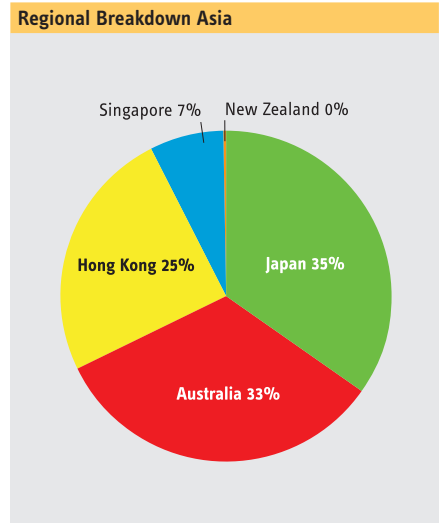
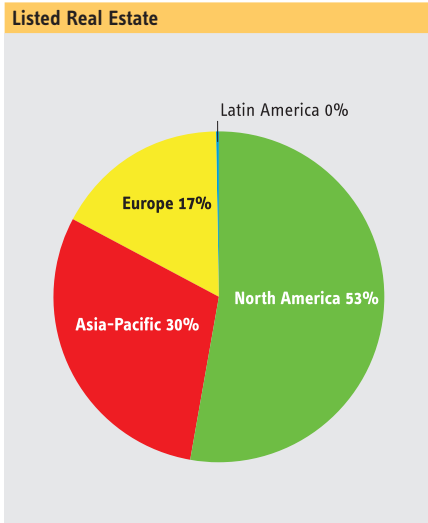
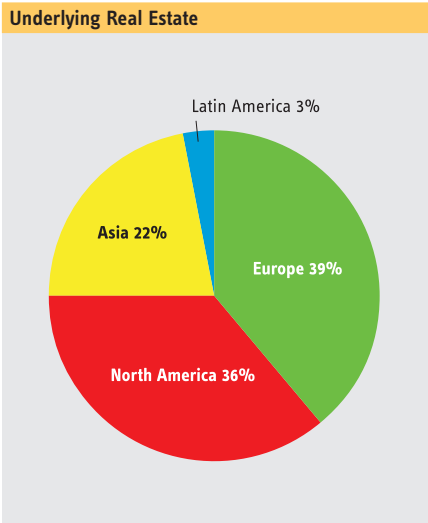
→ For more information about the FTSE EPRA/NAREIT Global Real Estate Indices, e-mail: info@epra.com or info@ftse.com



Global Real Estate Universe

	2005 GDP (\$ Bn)	2005 GDP per capita (\$)	2005 Real Estate (\$ Bn)	30-Dec-05 Total Listed (\$ Bn)	30-Nov-06 Total RE v Listed RE (%)	30-Nov-06 Stock Market (\$ Bn)	30-Nov-06 Stk Mkt v Listed RE (%)
Japan	4,443	34,894	1,999	116.2	5.81%	4,774	2.43%
Hong Kong/China	2,112	1,617	411	74.2	18.06%	2,628	2.82%
South Korea	697	14,460	282	0.9	0.33%	814	0.11%
India	674	633	96	0.6	0.60%	799	0.07%
Australia	621	31,196	280	83.0	29.70%	901	9.22%
Taiwan	325	14,266	130	5.1	3.88%	631	0.80%
Indonesia	254	1,066	43	1.4	3.34%	128	1.12%
Thailand	157	2,425	35	3.5	9.92%	148	2.35%
Malaysia	118	5,022	34	7.0	20.75%	227	3.07%
Singapore	107	24,528	96	21.8	22.67%	339	6.43%
New Zealand	95	23,688	45	2.4	5.33%	39	6.21%
Philippines	88	1,025	15	4.9	33.30%	62	7.99%
Vietnam	45	549	6	-	0.00%	-	0.00%
Total Asia-Pacific	9,738	20,457	3,472	321.0	9.24%	11,489	2.79%
Germany	2,637	31,995	1,187	7.6	0.64%	1,677	0.45%
United Kingdom	2,039	33,838	1,147	63.2	5.51%	3,701	1.71%
France	1,961	32,459	883	23.7	2.69%	2,398	0.99%
Italy	1,649	28,395	742	6.1	0.82%	1,047	0.58%
Spain	1,008	25,032	454	17.8	3.92%	935	1.91%
Russia	604	4,140	161	0.5	0.28%	986	0.05%
Netherlands	584	35,791	263	15.8	6.02%	480	3.30%
Switzerland	347	46,573	156	5.4	3.45%	1,169	0.46%
Belgium	343	33,190	155	3.8	2.48%	365	1.05%
Sweden	334	37,183	150	15.5	10.30%	545	2.84%
Turkey	302	4,386	82	1.1	1.35%	146	0.76%
Austria	283	34,667	128	9.2	7.20%	204	4.51%
Poland	259	6,706	81	1.0	1.26%	150	0.68%
Norway	259	56,540	116	1.9	1.64%	296	0.64%
Denmark	238	43,921	107	1.7	1.62%	227	0.76%
Greece	200	18,765	90	0.6	0.63%	194	0.29%
Ireland	179	45,109	81	-	0.00%	141	0.00%
Finland	179	34,337	81	1.3	1.57%	260	0.49%
Portugal	171	16,206	72	-	0.00%	106	0.00%
Czech Republic	107	10,451	39	-	0.00%	49	0.00%
Hungary	97	9,688	34	0.1	0.22%	38	0.19%
Romania	79	3,514	20	-	0.00%	27	0.00%
Ukraine	66	1,363	12	-	0.00%	32	0.00%
Slovakia	40	7,399	13	-	0.00%	7	0.00%
Slovenia	31	15,516	13	-	0.00%	15	0.00%
Luxembourg	31	66,561	14	1.5	10.98%	29	5.24%
Bulgaria	24	3,132	6	-	0.00%	8	0.00%
Total Europe	14,052	29,640	6,284	177.8	2.83%	15,231	1.17%
Mexico	705	6,718	221	0.1	0.03%	346	0.02%
Brazil	645	3,506	163	0.6	0.36%	658	0.09%
Argentina	154	3,923	40	0.6	1.51%	49	1.23%
Venezuela	112	4,483	31	-	0.00%	11	0.00%
Colombia	102	2,409	23	-	0.00%	46	0.00%
Chile	95	6,017	29	0.4	1.41%	162	0.25%
Peru	70	2,535	16	0.1	0.34%	45	0.12%
Total Latin America	1,883	4,832	521	1.7	0.33%	1,317	0.13%
United States	11,756	40,118	5,290	525.1	9.93%	17,313	3.03%
Canada	998	30,693	449	29.9	6.65%	1,476	2.02%
Total Nth America	12,754	39,381	5,739	555.0	9.67%	18,789	2.95%
World	38,427	-	16,016	1,055.5	6.59%	46,827	2.25%

Sources: World Bank Organisation, FTSE, EPRA.





Working Committees

Background

EPRA's underlying knowledge and experience lies within the EPRA working committee structure. When the association was established in 1999 it was decided that rather than try to build a large organisation with the experience in-house, the association would be kept 'lean and mean' and that the real work of the association would be carried out by working committees. Originally the committee structure consisted of four main working committees, with the addition of the Broadening the Investor Base Committee in 2005. The deployment of the working committees is made in direct reaction to market developments.

1 Best Practices Committee

The Chairman of the Best Practices Committee is Hans Grönloh of KPMG. The goals for the committee are to develop and publish Best Practices Recommendations with regard to consistent and meaningful definitions of items such as income and net asset value as well as additional disclosure of the assets and business of each company. It is important to reiterate that all of EPRA's Best Practices

Recommendations are intended to be fully consistent with IAS accounting guidelines. Ultimately, we are convinced that consistent and transparent disclosure will attract investors to an industry where they clearly understand the opportunities and the risks. A Best Practices workshop was held in the Netherlands on 18-20 October and as a result a new version of the Best Practices Recommendations was issued in November 2006.



2 Information Committee

The Chairman of the Information Committee is James Rehlaender of European Investors. The primary objective of this committee is to provide top quality, timely information to

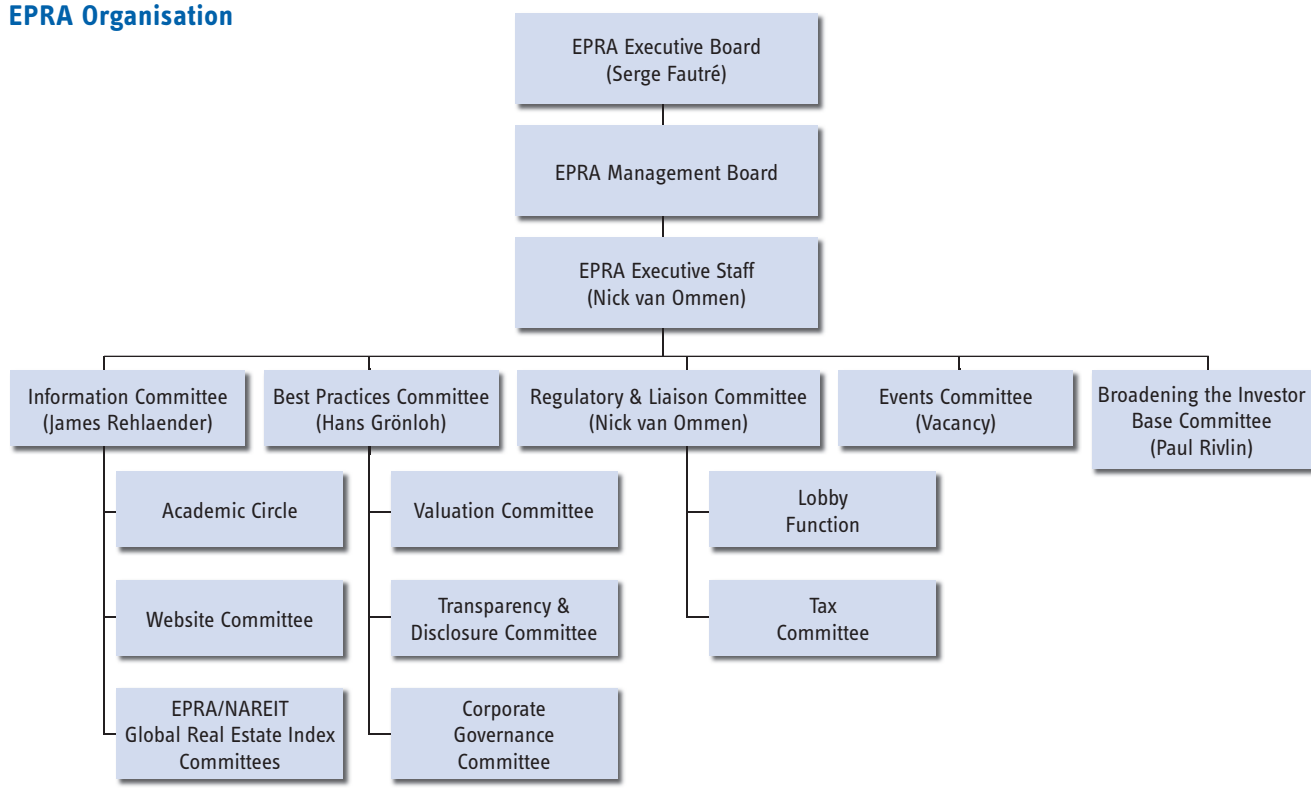
investors concerning relevant aspects of the sector. The Information Committee is split into three separate sub-committees: the Indices Committee, the Website Committee, and the Academic Circle.

(a) Regional Index Committees

In terms of scope, construction criteria, quality, transparency and accessibility, the FTSE EPRA/NAREIT Global Real Estate Index clearly surpasses all comparable indices and has been adopted by the worldwide investment community. The index is now seen as the leading index for the quoted real estate sector worldwide. With a view to develop the index further, the calculation of the index transferred to FTSE Group as at 21 February 2005.

The FTSE EPRA/NAREIT Global Real Estate Index provides users with a very clear and transparent set of ground rules ensuring the indices are objective and understandable. The FTSE EPRA/NAREIT Global Real Estate Index is governed by three regional advisory committees, which meet on a quarterly basis, in March, June, September and December to ensure the index remains representative of the underlying real estate market. In addition, the FTSE EPRA/NAREIT Global Real Estate Index attracts new investment and deepens liquidity in the sector.

EPRA Organisation





EPRA produces a monthly Statistical Bulletin, covering the FTSE EPRA/NAREIT Global Real Estate Index, which encompasses an array of useful and exhaustive statistical data on performance, market events and index changes. This is an essential “hard copy” tool for professionals and provides the clearest possible window on the sector around the world. In addition, daily ‘tracker’ files are available from FTSE.

The last round of regional index committees took place on 6 December with the changes effective 18 December. A press announcement is made available directly after the meeting and is downloadable from www.epra.com. The next round of regional index committee meetings will be held on Wednesday 7 March 2007.

(b) Website Committee

The website of EPRA is not only the gateway to EPRA and all its work, but also to its members and a world of information about the sector. The www.epra.com website averages approximately half a million hits per month. This is an astounding figure and is indicative of the quality information available and the interest in the sector. EPRA has a panel of individuals from different countries, whose task it is to discuss the role and content of the website, ensuring that it meets user's requirements and responds to new challenges. In September 2004 we launched the new version of www.epra.com to positive feedback from investors. We continually examine how we can improve the website and make enhancements on a regular basis.

(c) Academic Circle

The EPRA Academic Circle was formed in 2002, and is chaired by Martin Allen of Morgan Stanley. The Academic Circle brings together the 11 leading real estate faculties around the world to provide EPRA with an extremely valuable resource. EPRA provides the funding for the Academic Circle to produce research on topics that directly affect the sector. The selection criteria for the topics are not only academically demanding but should be assessable to practitioners. The University of Cambridge issued the “Diversification Benefits of European Real Estate Stocks” in September 2006. The circle conducts research based upon the demands of the market and our members. Academic Circle members are:

- Amsterdam School of Real Estate
- KTI Finland

- MIT Center for Real Estate
- National University of Singapore
- University of Cambridge
- University of Hong Kong
- University of Reading
- University of Regensburg
- University of Western Sydney
- Universite Paris Dauphine
- Wharton School, Zell – Laurie Real Estate Center

3 Regulatory and Liaison Committee

The primary objective of this committee is to identify and remove obstacles to free cross-border investment in real estate companies. The interim Chairman of the Regulatory and Liaison Committee is Nick van Ommen. The Regulatory and Liaison Committee is still a somewhat dormant committee although there will be increased activities towards governments, European Union, supranational bodies like IASC and IVSC as an outcome of the good work done by other EPRA committees. The decision has been taken to focus the future activities of the regulatory committee on the promotion of tax transparent property vehicles in Europe, as well at national levels.



(a) Tax Committee

The Tax Committee, chaired by Matthias Roche of Ernst & Young in Germany, has two objectives. Firstly the committee maintains an inventory of worldwide tax transparent structures. On the

basis of this inventory the TTC will publish recommendations as to what the most supportive elements are from these different structures (the short term goals) and what could be the most preferred structure for a European REIT (the long term goal). The second objective is to provide European legislators with the evidence that tax transparent structures are beneficial for the tax collectors, the companies, the investors and the tenants. As a result this will have significant macro-economic effects. The Academic Circle aims to provide supportive evidence for tax transparent structures through separate research projects. In September 2004 we issued an update of the EPRA Global REIT survey. Early in 2007 we plan to update the EPRA Global REIT survey to include the developments in the United Kingdom and Germany. In addition, a broader range of countries will be included in the survey, such

as Russia, Turkey, and New Zealand. A progress report of European REITs was issued at the EPRA Conference in Budapest.

4 Events Committee

The primary objective of this committee is to establish a high-level communication platform for the European public real estate sector by organizing productive and influential events. The annual EPRA conference is already established as the leading, dedicated meeting point for the European quoted property sector. The combination of the two-day programme, the overall quality of the attendees, and the venue contributes to the conference's growing success. The Executive Board of EPRA acts as the programme committee and seeks to attract top-class keynote speakers and panels of CEO's and other senior representatives of real estate companies, investors, and their advisers. At the 7th Annual Conference in Budapest in September 2006, the “Best Annual Report Award 2005”, sponsored by PGGM, was won by VastNed Retail. The “Best Large Cap Performer Award 2005”, sponsored by LaSalle Investment Management was picked up by IVG Immobilien, and Workspace Group won the “Best Small/Mid Cap Performer Award 2005”, sponsored by Kempen & Co. Besides EPRA organised “road shows” in many countries, the EPRA management and executive board members also represent EPRA as speakers or panelists at various conferences in Europe, the United States, and Asia. The 2007 annual conference will be held in the Hotel Grande Bretagne in Athens on the 6 & 7 September.

5 Broadening the Investor Base Committee

This committee was set up in 2004 and is currently under the supervision of Paul Rivlin of EuroHypo Real Estate Investment Banking in London. The aim of the committee is to take the real estate message to a broader audience, panning both institutional and retail investors. The first piece of research to be issued by the committee in October 2006 was the “Diversification Benefits of European Real Estate Stocks” by the University of Cambridge. The research provides investors with a clear picture of how investing in listed real estate stocks can add benefits to a multi-asset portfolio, in terms of risk and reward. The University of Regensburg is currently working on research focusing on the correlation of real estate against other asset classes. ◀



EPRA

European Public Real Estate Association

ANNUAL CONFERENCE

Thursday 6th & Friday 7th
September 2007

Hotel Grande Bretagne
Athens, Greece

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The EPRA team wishes you a

MERRY CHRISTMAS

&

A HAPPY NEW YEAR



Laurens

Laurens Te Beek

Lennie

Lennie S. Stegeman

Fraser

Fraser Hughes

Nick

Nick van Ommen