EPRA NEWS

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

ISSUE 40
NOVEMBER/DECEMBER 2011

FEATURES

- Fog of EU Law
- Long-term congruence vs. short-term divergence
- The future of the UK REIT regime

REFERENCE

- Member offers
- FTSE EPRA/NAREIT Global Real Estate Indices

GUEST EDITOR
David Atkins

Sustainability reporting in the real estate sector

AUSTRALIA
- Univ. of Western Sydney, Property Research Centre
- Valad Property Group
- Vanguard Investments

AUSTRIA
- CA Immobilien Anlagen
- Conwert Immobilien Invest
- Sparkassen Immobilien

BELGIUM
- Banque De Groof
- Befimmo
- Cofinimmo
- Leasinvest Real Estate
- Mobimo
- Solvay Business School (Brussels Univ.)

BRITISH VIRGIN ISLANDS
- Eastern Property Holdings

CANADA
- OPTrust
- Presima

FINLAND
- Citycon
- CREF Center for Real Estate Investment & Finance
- KTI Finland
- Sponda

FRANCE
- Acanthe Developpement
- Affine
- ANF Immobilier
- Baker & McKenzie
- BNP Paribas
- Cegereal
- EUROSIC
- Foncière des Regions
- Foncière Paris France
- Gecina
- ICADE
- IEIF
- Klépierre
- Mazars
- Mercialys
- Predica
- Unibail-Rodamco
- Silic
- Société de la Tour Eiffel
- Société Foncière Lyonnaise
- Université de Paris-Dauphine

GERMANY
- Allianz
- Alstria Office REIT
- Rechtsanwaltsgesellschaft
- Colonia Real Estate
- Deutsche EuroShop
- Deutsche Wohnen
- DIC Asset
- GAGFAH
- GSW
- Hamborner
- Heitman
- IREBS International RE Business School
- IVG Immobilien
- MEAG Real Estate Management
- PATRIZIA Immobilien
- POLIS Immobilien
- PricewaterhouseCoopers
- Prime Office
- Real Estate Management Institute
- RREEF Investment
- SEB Asset Management
- TAG Tegernsee
- VIB Vermoegen

GREECE
- Eurobank Properties REIC
- Lamda Development
- National Bank of Greece Property Services
- Pasal Development
- Trastor REIC

HONG KONG
- Univ. of Hong Kong, Dept. of RE & Construction

ISREAL
- Azrieli Group
- Gazit Globe

ITALY
- Beni Stabili
- Immobiliare Grande Distribuzione

LUXEMBOURG
- Orco Property Group

NETHERLANDS
- Amsterdam School of RE
- APG Asset Management
- ASR
- Atrium European Real Estate
- BPF Bouwinvest
- CB Richard Ellis
- Clifford Chance
- Corio
- Deloitte Real Estate
- Ernst & Young European Real Estate Group
- Eurocommercial Properties
- Fortis Investment Management
- Houthoff Buruma
- ING REIM Europe
- Kempen & Co
- KPMG Accountants
- LaSalle Investment Management
- Loyens & Loeff
- MN Services
- Nieuwe Steen Investments
- PGGM
- Prologis
- Royal Bank of Scotland Group
- Redevco Europe Services
- Spazio Investments
- Univ. of Maastricht
- VastNed
- Wereldhave

NORWAY
- Norwegian Property

RUSSIA
- Renaissance Capital

SINGAPORE
- Keppel Land Limited
- National Univ. of Singapore

SOUTH-AFRICA
- Growthpoint Properties

SPAIN
- Fundación ESADE
- Inmobiliaria Colonial
- Neinver
- Realia Group
- TESTA Inmuebles & Renta

SWEDEN
- Aberdeen Property Investors Holding
- Castellum

SWITZERLAND
- Center for Urban & RE Management
- Euro Institute of RE Management
- Mobimo Holdings
- PSP Swiss Property
- Swiss Capital Alternative Investments
- Swiss Prime Site
- Strategic Capital Management
- University of Geneva
- Züblin Immobilien Holding

TURKEY
- Emlak Konut
- Torunlar REIT

UAE
- Abu Dhabi Investment Authority

UNITED KINGDOM
- Alvarez & Marsal
- AMP Capital Brookfield
- Asset Value Investors
- Aviva Investors
- Bank of America
- Barclays Capital
- Big Yellow Group
- British Land
- Cass Business School
- Capital & Counties Properties
- Citigroup
- Clearance Capital
- CLS Holdings
- Credit Suisse Securities
- Derwent London plc
- Deutsche Bank
- GIC Real Estate
- Goldman Sachs International
- Grainger
- Green Street Advisors
- Grosvenor Group
- Great Portland Estates
- Hammerson
- Henderson Global Investors
- Ignis Asset Management
- Invista Real Estate Investment Management
- JPMorgan
- Land Securities
- Linklaters
- Macquarie Real Estate
- M&G Investment Management
- Morgan Stanley
- Nabarro
- Nottingham Univaersity
- Principal Global Investors
- Quintain Estates & Development
- Safestore
- SEGRO
- Shaftesbury
- Standard Life Investments
- Thames River Capital
- Tristan Capital
- UBS
- Univ. of Cambridge, Dept. of Land Economy
- Univ. of Reading, Centre for RE Research
- Workspace Group

USA
- AEW Capital Management
- Alvarez & Marsal
- Cohen & Steers Capital Management
- Cornerstone Real Estate Advisers
- Duff & Phelps
- European Investors Incorporated
- Fidelity Management & Research.
- Forum Partners Investment Management
- FPL Advisory Group
- Jefferies & Co
- Host Hotels & Resorts
- MIT Center for Real Estate
- Real Capital Analytics
- Real Foundations
- Rockefeller Group Investment Management Corp.
- Russell Investment Group
- SNL Financial
- The Tuckerman Group
- Univ. of Cincinnati
- Westfield Group
- WP Carey
- Zell-Lurie RE Center at Wharton

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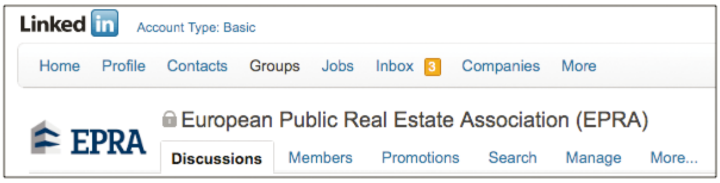


FINDING STRUCTURE IN FLUX

From its inception in 1999, EPRA has played a vital role in encouraging cooperation across the sector. As the global markets face a continued state of flux, now more than ever should this be a driving focus for the Association.

EPRA has in many ways become the conduit for communication between the quoted property industry and the shareholder. Individually, each company will undertake its own investor work, but as an industry we need to work together as we are in real danger of becoming marginalised in equity markets.

EPRA's heritage has a very personal connection for me, which adds greater significance to my time as chairman. Ron Spinney, who was EPRA's first chairman and played an instrumental role in establishing EPRA, was the man who hired me into Hammerson. It was under his tutelage that I came to understand and appreciate the importance of listed companies within our sector acting in accordance, rather than competition, on so many issues.

In Europe, the quoted sector remains a smaller part of the property market than any of the other major regions in the world. Increasingly, investors are specialist funds with dedicated flows, rather than the broader mutual funds, pension or insurance managers.

As governments and regulators look for sectors which are willing to be part of the solution to the problems of the global economy, we should make sure our voice is heard. We are at the meeting point of retail, service, finance, and banking, and I believe we are fundamental to the economic recovery.

GUEST EDITOR
David Atkins Hammerson

As a result, we must extend investor outreach both geographically to regions where we think we can find willing equity, but also re-double efforts to penetrate the mainstream investment communities in our own backyard. I'm positive that this can be achieved by developing closer relationships with associations like NAREIT (the US National Association of Real Estate Investment Trusts) and working with established REIT markets such as Japan and Hong Kong in Asia. We need these wider partnerships to extol the merits of property stocks and facilitate flows of capital into the sector, which is vital to our growth.

With a coordinated message not only can we drive interest in listed European property companies, we also have a major opportunity to address fundamental topics affecting the sector.

As governments and regulators look for sectors which are willing to be part of the solution to the problems of the global economy, we should make sure our voice is heard. We are at the meeting point of retail, service, finance, and banking, and I believe we are fundamental to the economic recovery.

The UK government, for example, is looking at ways to increase the number of REITs and stimulate the industry. Since the major UK property companies converted to REIT status four years ago, there have only been two additions to UK REITs. Significant changes to REIT status include the removal of the conversion charge, which currently stands at 2% of a company's property portfolio, and amendments to the rules on diverse ownership. This would allow institutional investors such as pension funds and life insurance funds to put their property portfolios into REITs.

The second and potentially more radical change on the horizon in the UK is the introduction of REITs for property debt providers and housing associations, a way of assisting two hugely underfunded markets. The introduction of social housing REITs would undoubtedly assist with housing supply.

The extension of the REIT regime to include different forms of REITs would be a positive step for both property lenders and investors, and develop the sector's critical mass, increasing its visibility and market weight.

Across Europe, the potential for relaxation of pre-emptive rights should also be welcomed. A strong balance sheet is especially important during the economic uncertainty that we collectively face, and the ability to raise equity at a quicker pace makes a fundamental difference to REITs' performance. The current practice promotes a protracted timescale for raising capital at a significant cost. A change to the current system would provide us with greater flexibility, allowing companies to be more nimble and take advantage of acquisition opportunities which can drive future income.

We live in an age of uncertainty and volatility. Equity, debt and currency markets have again been experiencing the kind of 'once-in-a-lifetime' events which in 2008 we thought were over.

It would therefore be easy against such a backdrop to throw in the towel and say "How can we possibly make any ground against such strong headwinds?" I am adamant, however, that the attractions of property equity; long contracted income streams, tangible assets and liquidity, are more compelling in this environment than ever before.

David Atkins started his career in 1988 with DTZ, where he joined after graduating from Reading University. David joined Hammerson in 1998, and in 2003 was appointed to the Board of the Company's UK business as Head of Retail Parks before assuming responsibility for all the UK's retail assets. He was appointed a Director of Hammerson and Managing Director of the UK business in 2007 and appointed Chief Executive of Hammerson in October 2009. He is a member of the British Council of Shopping Centres Advisory Committee, the British Property Federation Policy Committee and Chairman of EPRA.

UPDATE FROM PHILIP CHARLS

Philip Charls, EPRA CEO

Welcome to the latest edition of the EPRA Newsletter. Much has happened since the August magazine, with the highlight being the EPRA Annual Conference held in London. The conference was attended by over 350 delegates. On the whole, feedback was good, but we take criticism seriously and strive to build on our good position. We have already identified that we need to encourage more pension funds or plan sponsors to the conference

We continue our efforts in Germany. I have been a regular visitor to Germany in the past few months where we are building an excellent working relationship with ZIA, the German representative body for the real estate profession. In October we were heavily involved in their annual investor conference programme. Steffen Sebastian of Regensburg presented the findings on a short article that is published later in this edition on the long-term performance of the FTSE EPRA/NAREIT index versus the German open-ended funds - the Eurozone index outperforming by over 2% per annum over a 20-year period.

In addition, he presented our latest research which makes a strong case for listed real estate investment as a proxy for direct property portfolio over the medium to long term. Listed expansion in Germany remains our target. We firmly believe that the past 12 months has seen a positive shift in the mindset of the German market.

With these findings in mind, we continue to push the benefits of listed real estate investment to a broad range of investors in North America, Europe and Asia-Pacific. In September, with NAREIT, we were involved in a week-long programme of one-on-one meetings with the large institutional investors, real estate consultants and analysts in California. Key feedback was that volatility is a key issue for the markets. More encouragingly, the vast majority of investors were already invested in listed real estate - on a global basis. A couple of the investors we saw were about to embark on a global listed real estate programme for the first time.

Uncertainty continues to be the theme on the regulation front - particularly Solvency II, AIFM and the Derivatives legislation (EMIR). But now is certainly the right time to be gaining maximum influence as the national regulators themselves are struggling with the barrage of ambiguous EU legislation that they need to interpret and implement.

We continue to meet with the relevant teams at the European Commission, national financial market supervisors and governments to ensure a sensible interpretation of these game-changing regulations for the listed property sector. Our effectiveness in these areas is clearly strengthened by our efforts to coordinate actions with our fellow representative organisations both within Europe and at a global level.

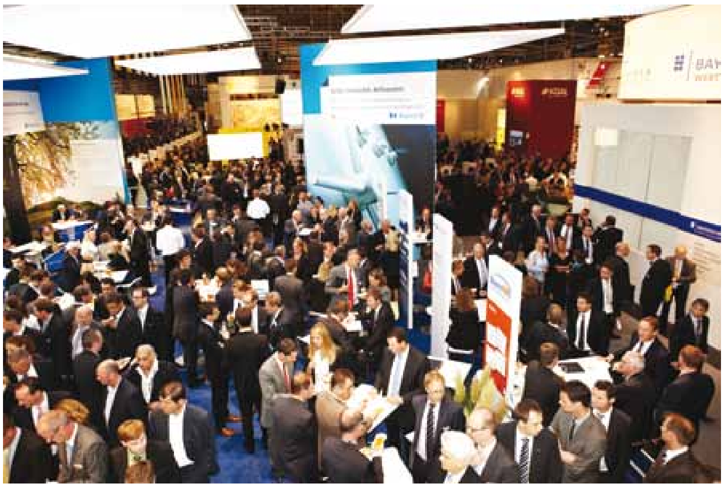
With networking and events in mind, we turn our focus to the EPRA Insight events in London, Paris, Amsterdam and, new for this year, Zurich. We are in the middle of organising a strong line-up of panel members and moderators with the aim to coax out their predictions for 2012. Can you afford to miss this? Dates for the free events are:

- **London** - 17 January
- **Paris** - 19 January
- **Amsterdam** - 25 January

Looking into 2012 and beyond, it is safe to say these are uncertain times. The global economy looks fragile and this in turn plays on the markets - as we have seen in recent months. In a low interest rate environment, the attractive yields of listed real estate and particularly REITs offer a broad range of investors, from large institutions to smaller retail investors, a regular and stable income stream - on average around 5% per annum.

In addition, when looking at the FTSE EPRA/NAREIT Europe Index, exposure to 'troubled' countries in Europe is limited. Greece, Portugal, Ireland, Spain and Italy comprise less than 2% at a market capitalisation level. This is a key message to promote in the coming 18 months.

IN THE NEWS



VOICING CONCERNS OVER GOEFs

EPRA CEO Philip Charls visited ExpoReal in October, Germany's largest annual real estate trade fair, in EPRA's ongoing effort to address and highlight the imbalances within the German banking sector which ultimately limits investor choice and returns. In an interview for Immobilen Manager TV, Charls states that the stranglehold of German banks is limiting the development of REITs; yet it's securing higher fees on opaque open-ended funds (GOEFs) and short-changing the investor. This and many other interviews, are viewable on our *EPRAvision* page on YouTube.

WEBSITE LAUNCH

EPRA has overhauled its website. The aim of the redesign was create a platform from which to attract and educate the widest possible audience in the European listed real estate sector, and to allow a much broader scope of content. Going forward it will allow EPRA members to take ownership of their online presence on www.epra.com; and it will give them the ability to create customised analyses across indices, countries and timescales - bringing together the rich data and perspective that so many property firms, regulators and investors need.

We welcome any feedback and information on bugs etc, contact Dominic Turnbull: d.turnbull@epra.com. This is just the first phase, with much more in the pipeline. Please bookmark the site - recommended browsers are Firefox, Safari and Chrome.

INITIATION OF EPRA IR COMMITTEE

The EPRA Conference saw the launch of a new initiative - bringing together the Investor Relations Managers of the ten leading European property companies. The aim of the new committee is to further align the industry's messages and coordinate the investor outreach effort. By improving communications within the sector and among peers, common goals can be targeted in numbers and with pace.

EPRA's Ali Zaidi

Increasing and diversifying the investor base is one area of focus. In this regard, EPRA-driven investor outreach trips have been made to North America and Asia in co-operation with EPRA members. Areas of focus for the coming period are: researching shareholder breakdown on a European level; aligning industry messages; and strengthening our investor outreach effort.

Pictured: Emilie Delacroix, Investor Relations & Benoit de Blieck, CEO - Befimmo

EPRA AWARDS

Befimmo was presented with the award for 'Most Improved Annual Report', as measured by compliance with the EPRA Best Practices Recommendations (BPR) in September.

"Congratulations to Befimmo. We hope their example will inspire many others as they review their annual reports for compliance with EPRA's guidelines," said Philip Charls of EPRA. *See page 46.*

REAL ESTATE EQUITIES' OUTSHINES NON-LISTED OPTIONS IN GERMANY

The lack of a large, dynamic, listed corporate real estate sector in Germany, appears to have curtailed investor returns over the long-term by limiting their property investment options, a recent study commissioned by EPRA shows. *(Get the full picture, go to page 22).*

"Our study concludes that the restrictions on the development of a vibrant listed German real estate sector, as exists in every other major economy worldwide, appears to have cost investors dearly in terms of long-term property investment performance," EPRA CEO Philip Charls said.

REESA MEETS IN LONDON

REESA, collectively representing listed real estate globally, met in London to exchange views and formulate common approaches on issues facing the sector. Pictured: Steven Wechsler (NAREIT), Tatsuo Ichii (ARES), Michael Brooks (RealPac), Philip Charls (EPRA), Peter Verwer (PCA), Liz Peace (BPF), Ion Fletcher (BPF), Gareth Lewis (EPRA), Bonnie Gottlieb (NAREIT), Fraser Hughes (EPRA), Yusuke Mizokoshi (ARES)

ACCOUNTING STANDARDS DECISION VINDICATES EPRA/REESA LOBBYING

The preliminary decision in mid-October by the main two main accounting standards bodies globally, the IASB and the FASB, to exclude all investment property lessors from a proposed major overhaul of rules for how businesses recognise lease transactions, represents a vindication of EPRA and REESA's active lobbying on this issue.

The IASB and FASB have decided to also leave out companies that measure their investment property at cost from the new regulations, in an extension to a previous decision to exclude those who measure their property at fair value. If the proposed new rules for lease accounting had been passed, they would have dramatically changed the way real estate companies account for their property.

A SIGHT FOR SORE EYES

We would like to thank all those companies and individuals who very generously dug deep to support and motivate our half-marathon run, on behalf of the charity Olivia's Vision. The GBP 15,000 raised will be put towards the fight against Uveitis - an especially cruel and debilitating eye condition. Fortunately it is rare; but therein lies the reason behind a general lack research and training funding.

"A big thank you goes to the EPRA team and their backers who all are stars! Your support is amazing and we appreciate more than words can say." Nick Davis, Olivia's Vision (Charity number 1138599).

REPRESENTING THE LISTED PROPERTY SECTOR

Much is happening on the regulatory and policy front (particularly in Brussels, but also at a national level), as EPRA continues to make sure the voice of the listed property sector is heard above all the noise. As well as getting in front of the regulators to present our positions, we are also busy raising awareness with members and formulating policy positions on short-term and longer term issues affecting the operating environment for listed real estate.

Much of the representative work has involved coordination with other real estate representative organisations around Europe, like INREV, ZIA in Germany, the BPF in the UK and the FSIF in France.

There is too much to cover in detail here, but below are just a few examples of recent meetings with key stakeholders:

Issue	Meetings	Date
AIFM Directive	Tilman Lueder - EC Head of Unit G4 (Asset Management)	Oct 2011
	French financial regulators (AMF)	Oct 2011
	ESMA	Nov 2011
Solvency II	Karel Van Hulle - Head of Unit (Insurance and Pensions Unit)	Dec 2011
	Roundtable meeting with Belgium insurance companies and property companies	Oct 2011
	Regular engagement with other RE organisations to discuss impact of SII and lobbying efforts on SII.	Ongoing
EMIR (Derivatives)	Discussions with various national regulators to raise awareness of the knock on implications of the AIFMD on the property sector	Ongoing
Commercial property and the European retail sector	EC Natalia Lazarova. EC Head of Unit - (Business to Business services)	Sep 2011
Financial Sector Taxation	Carola Maggiulli, Head of Sector, Unit C2 (Environment and other indirect taxes)	Oct 2011
Sustainability	Paul Hodson - Head of Unit (Energy efficiency & Intelligent Energy in DG Energy)	Nov 2011
Equity raising rules for the European listed property sector	Meetings with ISS and participation in roundtable discussion on equity raising issues for the real estate sector (including pre-emption rights)	Oct 2011
IASB/FASB	Meetings with IASB/FASB to discuss impact of new lease accounting rules, consequential amendments to IAS 40, recognition of rental income, investment entities and the US move towards fair value.	Ongoing

Of course, if you require more detail of would like to get involved in any of the above activities, please contact: gareth.lewis@epra.com or +32 (0)2 7329 1014.

WHERE OPPORTUNITY MEETS REALISM

THE EPRA'S ANNUAL CONFERENCE, LONDON 2011

An uneasy sense of *déjà vu* preoccupied EPRA members as they gathered for the Association's annual conference in London's Landmark Hotel in early September. Just three years ago in Stockholm, the conference was held the week before the collapse of Lehman Brothers unleashed a hurricane upon financial markets and the global economy. Now, like then, a financial storm is building and mutating, this time in the form of the eurozone sovereign debt crisis.

Despite the market turmoil, there was a guarded air of confidence in the room that the European listed real estate industry is currently better prepared than it was in 2008 for anything that the markets and economy are going to throw at it. Most of the larger quoted companies were able to refinance in the depths of the previous crisis, which says a lot about the confidence of the markets and the banks in the quality of their management and assets, while the non-listed property industry generally struggled to attract the same sort of backing.

This cautious, but positive outlook, was captured by a triumvirate of senior EPRA speakers; including outgoing Chairman Guillaume Poitrinal of Unibail-Rodamco, his incoming successor David Atkins of Hammerson and CEO Philip Charls.

Poitrinal pointed out in opening remarks to the conference, that while many other non-listed property players have been pushed out of the game, REITs continue to generate high dividends and transfer taxes for investors and governments alike, at the same time as they invest in improving the quality of the built environment in European cities. EPRA is taking those messages to regulators and the investment community through the work of its specialist committees, lobbying and investor outreach activities, he said.

The investor magnet

"We've been globetrotting in our missionary work to focus the attention of investors on the European listed real estate sector. That is par-

REITs continue to generate high dividends and transfer taxes for investors and governments alike.

ticularly important at the moment as the world struggles against debt and recession," Poitrinal added.

That theme was picked up by new EPRA Chairman David Atkins in his maiden address to the conference: "Property lies at the heart of the real economy - through the delivery and financing of the built environment. As listed real estate is the most liquid and transparent way of accessing this market, it is vital that EPRA and the industry works closely with government and regulators in finding solutions that contribute to a sound and sustainable economic recovery."

Philip Charls said the single most important issue for European countries is where economic growth is coming come from in the future? EPRA will play its part by concentrating its efforts on the market which has the greatest potential to contribute to the expansion of the European listed real estate sector by attracting regional and international capital – that is Germany.

EPRA estimates the total size of the underlyng real estate investment market in Germany is more than EUR 1 trillion, making it the largest in Europe, and slightly bigger than the UK. Only a tiny proportion of this German real estate, 1.5%, is held in the listed sector and EPRA believes there is the potential to grow that proportion by four times over the medium to long term.

"The real estate sector in Germany could be in the vanguard of a new period of expansion for the European listed market. EPRA will work closely with the German Property Federation ZIA, and use all its resources to support the industry through engaging with governments, regulators, and investors, to make the case for listed real estate companies and REITs in the strongest possible way," Charls said.

Property lies at the heart of the real economy - through the delivery and financing of the built environment. As listed real estate is the most liquid and transparent way of accessing this market, it is vital that EPRA and the industry works closely with government and regulators in finding solutions that contribute to a sound and sustainable economic recovery.

"The problems of the eurozone are deep and profound."

SHEPHERDSON SEES GRIM OUTCOMES FOR EUROZONE CRISIS

Endless years of austerity, weak growth, and political and social turmoil on Europe's southern periphery, were offered up as relentlessly bleak possible outcomes to the eurozone's sovereign debt crisis, by the first keynote speaker of the conference: Ian Shepherdson of High Frequency Economics.

"The problems of the eurozone are deep and profound... it is so bad it's stupefying," Shepherdson, told an EPRA audience that was battered by a procession of gloomy statistics and analysis.

He said that financial markets are scared by the situation because they can't see how sovereign debt is going to be brought down when there is little economic growth in prospect in the periphery countries as they undergo severe fiscal contraction and can't possible compete with the German economy.

We shouldn't forget that only 40 years ago there were a string of military dictatorships along Europe's southern edge in Greece, Spain and Portugal and that it is politically impossible to impose the prospect of years of austerity without risking an extreme backlash from populations with so little hope, Shepherdson warned.

He concluded that there are three possible routes leading from the current crisis:

- Germany bales out everyone (politically indigestible domestically).
- The eurozone becomes a single fiscal entity and governments lose the ability to set national budgets, which is delegated to a central authority (the preferred option from an academic perspective).
- The eurozone breaks apart.


THE ROYAL MEWS AT BUCKINGHAM PALACE

Photos by
Joke Emmerechts

DEMOGRAPHICS KEY TO FUTURE REAL ESTATE PROSPECTS IN EUROPE

Demographics will play a central role in the prospects for the European real estate investment market over the next 50 years, as it is the region with the fastest shrinking population in the world, apart from Russia, John Glascock of the University of Connecticut told a concurrent session of the conference on the second day.

Europe will face declining productivity and wealth as the age profile of its population becomes progressively older and unless it quickly addresses the situation. Countries need to selectively liberalise their immigration policies, to bring younger, educated and more dynamic people into their work forces, who can successful seize the economic opportunities being thrown up by rapid technological change, Glascock said.

The aged population of Europe will comprise 49% of the total by 2050, compared with 39% for the US and 51% for Japan. This would result in a European net dis-savings rate of 1.5% a year.

The UK may fare the best among the major European economies if it maintains its relatively open immigration policy to offset the negative economic impact of a greying population. By 2060 the UK could have the largest population in Western Europe with 77 million people, followed by France at 72 million, Germany 71 million and Italy 59 million.

The reduction in the proportion of the working population in these countries would result in a thinning out of the commercial real estate investment markets, Glascock concluded.

Insight 2012

EPRA **London** January 17, 2012

EPRA **Paris** January 19, 2012

EPRA **Amsterdam** January 25, 2012

Come to one of our free EPRA 'Insight 2012' events in January, focusing on the investment potential of European listed real estate.

Listen and interact with a panel of leading listed property, finance and analyst professionals in four European cities – with refreshments. It's a great opportunity to learn more about investing in the listed sector.

The evenings will appeal to a broad range of investment, pension fund and real estate professionals.

SAVE THE DATES!

EPRA

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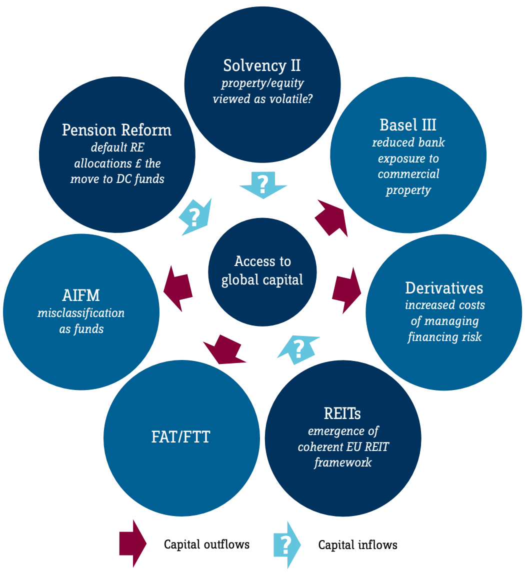
THE FOG OF EU LAW

The European Union's response to the 'financial' crisis has put the corporate property sector under a great deal of regulatory uncertainty. As EPRA finance director Gareth Lewis explains, it also highlights a widespread misunderstanding of the business of owning and managing property among policy-makers.

Gareth Lewis is finance director at EPRA, where he is responsible for leading EPRA's initiatives and policy positions with respect to capital markets, REITs, taxation, financial reporting and accounting issues.
Contact:
gareth.lewis@epra.com



Most of the regulatory initiatives currently emerging from Brussels represent a threat to the sector and could result in capital outflows. However, there are some regulatory initiatives that could represent an opportunity as well as a threat with regards to capital flows – Solvency II, Pension reform and REIT legislation are good examples.

Is owning, developing and managing property a real business – providing customers with a useful product with economic value? In other words, is real estate 'real economy'? This question is fundamental to the uncertainty caused by the EU regulators' response to the financial crisis, where the intended target is the type of activities seen to be 'financial' in nature rather than being more directly linked to real economic activity. Below are just a few examples of where the EU's reluctance to adequately assess and identify the appropriate target for its regulation has put the corporate property sector in a very difficult position.

Alternative Investment Fund Managers Directive (AIFMD)

Regulation to supervise fund managers. Probably the most important regulation given the cascading impact, on other regulation, of being deemed to be within scope. The Directive is intended to establish a harmonised European regime for alternative investment funds (AIFs) and their managers. Whilst the regulators have confirmed that a 'normal' corporate business (for

While not intended to apply to 'normal' corporates engaged in hedging commercial risk, the problem for property corporates is that any business within the scope of the AIFMD is deemed to be a 'financial counterparty'.

example, let's say Volkswagen) is not intended to be within scope, the European Commission have been unable to confirm how the legislation excludes such businesses - a staggering state of affairs over three years after the first public consultation. What is more, there is no obvious procedure or plan in place for either the European Commission or the ESMA to develop these fundamental questions of scope!

For Volkswagen, Google, Nestle, GlaxoSmithKline, BP, Apple or IBM, this lack of clarity presents no real concern, as no one has ever suggested that this regulation is relevant to their business. However, the corporate property sector does not have that luxury because of the ongoing confusion between the nature of a property fund and a property 'operating' company - a common theme in Brussels.

Derivatives legislation (EMIR)

Regulation to reduce systemic risk arising from derivative speculation introduces an obligation on 'financial counterparties' to post cash collateral for central clearing on all hedging transactions. While not intended to apply to 'normal' corporates engaged in hedging commercial risk, the problem for property corporates is that any business within the scope of the AIFMD is deemed to be a 'financial counterparty'.

Importantly, this regulation, which will be effective from 2013, requires no national implementation. Chatham Financial undertook some analysis for EPRA, which they recently updated, showing the extent to which this regulation could act as a drain on capital for the broader property sector (rather than just the listed sector). Their analysis showed that around EUR 70-100 billion of capital could be withdrawn from productive use in the sector. This is made up of around EUR 22 billion of initial margin and EUR 46-79 billion of variation margin (whereby a user of an interest rate swap is required to post cash collateral based on movements in interest rates)

Financial Transactions Tax (FTT)

Regulation intended to tax either 'financial' transactions, or businesses that are deemed to be 'financial' in nature (i.e banks). If property >

Luke Zubrod
director, Chatham Financial

At stake is nothing less than ensuring the OTC derivatives market remains a vibrant and efficient venue for managing risk.

Margin requirements could require REITs to sideline capital when using derivatives to manage risk.

Whereas some corporate property groups may feel comfortable funding parent company cash margin requirements from revolving credit facilities, if such requirements apply to property subsidiaries, it could alter not only the hedging decision, but also the financing decision. In some instances, borrowers may replace swapped floating rate debt with more expensive and less flexible fixed rate debt.

They may address some of these shortcomings by negotiating for two way breakage, replicating some of the benefits of the swap. In other cases, borrowers may opt to use option products - like interest rate caps - which have no contingent margin requirements. However, such solutions will be too cash-intensive for longer-term risk management needs.

As AIFMD/EMIR work their way through a more detailed rule process and indeed Basel III works its way through the legislative process, it will be essential for property companies to remain engaged. At stake is nothing less than ensuring the OTC derivatives market remains a vibrant and efficient venue for managing risk.

The major uncertainty which has put a large part of the industry in a state of planning paralysis is how different property vehicles will be treated.

companies are deemed to be within the scope of AIFMD, they will likely be deemed 'financial' for these purposes and subject to a tax intended for banks.

There would seem to be three potential areas where a property company, deemed to be a financial institution by virtue of the AIFMD, could be subject to tax:

- Issue/sale/purchase of shares.
- Derivatives and swap transactions.
- Leasing transactions (grant, assignment, sale etc).

Adding to the confusion over the nature of the underlying business is the fact that property vehicles cover a very broad spectrum; from genuine 'funds', LPs, offshore vehicles, 'REITs' and listed and unlisted property companies. Even familiar terminology like 'REIT' encompasses many different types of structure under national legislation, and experience on the above regulatory projects shows that national regulators are making differing interpretations.

Solvency II, which regulates capital for insurance companies, is a case in point. It applies 'stress' factors to various asset classes like 'equities' (39%), 'other equities' (49%), and 'property' (25%) and is expected to have a significant impact on capital flows into property. Although the stress factors may still be subject to change, the major uncertainty here which has put a large part of the industry in a state of planning paralysis for some time is how different property vehicles will be treated - including which vehicles are 'look-through' or 'opaque' for these purposes?

Life insurance companies are major investors, directly and indirectly, in real estate as an asset class. Although real estate represents only a small proportion of the total balance sheet for insurers, for the real estate industry, life insurers represent a major element of the long-term 'sticky' investment capital in the market; as do pension funds that may also, in due course, fall within the framework of Solvency II.

It is difficult to see how we will obtain any clarity on these game-changing regulatory initiatives, and how both the industry and the regulators can even start assessing the potential impact of the new rules. Who would have thought we would still be in such a position of uncertainty so far down the line?

What can be done?

EPRA and our representative partners around the globe are busy trying to make sense of these

John Forbes
Real estate funds partner, PwC

The fact that life insurance companies are major investors in real estate is of huge importance not only to our industry, but also for property investment and regeneration projects in constituencies across the EU.

Now is a crucial time in the Solvency II process for the real estate industry. The level 2 implementing measures are about to be sent from the EU Commission to the EU Parliament.

There are major issues that need to be resolved regarding the property shock, the treatment of indirect investment vehicles and the treatment of secured and unsecured real estate debt. This is the time to influence individual MEPs - the fact that life insurance companies are major investors in real estate is of huge importance not only to our industry, but also for property investment and regeneration projects in constituencies across the EU.

initiatives. While much of the uncertainty results from the manner in which EU legislation is developed and implemented, could the industry do more to improve the situation? Speaking from the perspective of the listed property sector, I believe we could and should do a better job of communicating the nature of our business and the differences between property companies, funds and 'financial' businesses.

At EPRA we think it is more important than ever to communicate the 'real economy' aspects of listed property companies as important providers of business infrastructure and services to corporate occupiers - alongside of course, the well established messages around providing investors with liquid access to long-term property-related cash flows.

A view we have often encountered with the regulators has been that a property company does not deliver a real 'product', like a manufacturer or a service provider. This is clearly nonsense for anyone involved in running a property company and for any business that leases its business premises where the rental payment represents one of the most significant operating costs in the P&L.

So, any of this depress you?... *Call your local MEP!*

Jonathan Thompson,
global chairman - building, construction and real estate, KPMG

The real estate industry has an understated but vital role in every country's economy of creating, regenerating, improving and operating the commercial buildings which businesses of all types and sizes need. So vital is the role that real estate plays that, for most businesses, paying the rent is as important as paying their employees. Buildings are by their nature capital intensive and as with every sector of the EU economy the efficient access to capital is core to enabling real estate businesses to continue investing in improving our towns and cities.

Regulatory uncertainty on the scale the industry is experiencing can only reduce the volume of new capital that would otherwise be invested in improving the buildings we work in.

So vital is the role that real estate plays that, for most businesses, paying the rent is as important as paying their employees.

LONG-TERM CONGRUENCE
vs. SHORT-TERM DIVERGENCE

How the performance of German open-ended real estate funds compares to that of real estate stock

The total market capitalisation of Germany's listed real estate companies comes to nearly EUR 11 billion. Indeed, German REITs account for no more than approximately EUR 1.1 billion. Compared to other countries, this means Germany lags behind. By contrast, open-ended real estate funds - whose shares are arguably the biggest competitors of German real estate stock - owned investments worth approximately EUR 90 billion at their peak.

Both real estate stocks and open-ended real estate fund shares offer investors the option to acquire interests in real estate assets without having to tie up their capital for indefinite periods of time. REITs in particular are in many ways similar to real estate funds. They tend to be based on a conservative business model; are generally subject to a minimum equity ratio; and are obliged to distribute the major share of their earnings.

That said, open-ended real estate funds and listed real estate stock are fundamentally different investment products. The fact that real estate stock is actually listed at the stock exchange guarantees an unrestricted tradability of the shares.

Unlike open-ended funds, stock market trading does not impact the solvency of the company, making the liquidity risk to which the open-ended funds are subject a moot issue for listed real estate companies. Nonetheless, real estate stocks continue to live out a marginal existence compared to open-ended funds. Here is why. In the eyes of the German investor, their benefits fail to compensate for the stock market risk they associate with real estate stock.

Open-ended real estate funds have a track-record marked by decades of successful business in Germany. Despite the adversities they have experienced of late, they invariably reported positive returns on investment until just a few years ago. What investors appreciate in particular are the funds' stability of value and long-term performance.

Another root cause for the negligible role that real estate stock plays in Germany is the deep-set fear that Germans have *vis-à-vis* the free play of the market forces and their central institution, the stock exchange. As a result, real estate stocks are often associated with high investments risks and the threat of loss.

Real estate stocks and open-ended funds yield the same long-term returns

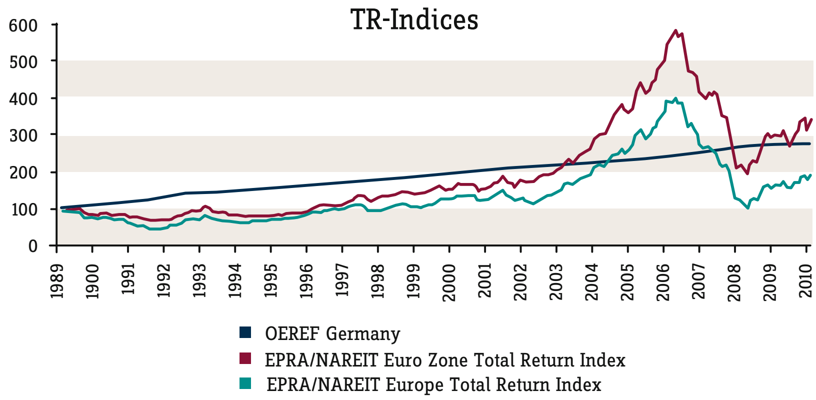
One key factor tends to be neglected, though - the investment horizon. An analysis of the total returns of open-ended real estate funds and listed real estate companies between 1990 and 2010 revealed that the diverging performance of the two investment vehicles strongly depends on the period reviewed.

While the short-term perspective suggests a considerable degree of deviation, the performance of either investment vehicle is virtually indistinguishable in the long run.

	AVERAGE MEAN	STANDARD DIVISION
OEREF Germany	5.0%	2.4%
EPRA/NAREIT Euro Zone Total Return Index	7.2%	24.1%
EPRA/NAREIT Europe Total Return Index	4.5%	27.9%

Source: EPRA/NAREIT, Datastream

Image 1: Performance of open-ended German real estate funds and European real estate stocks between 1989 and 2010



Open-ended real estate funds, for instance, reported an average annual return of 5% over the past 20 years. The returns reported for the same period by the companies listed in the EPRA/NAREIT Euro Zone Total Return Index topped this rate with an average of 7.2%, whereas the EPRA Europe Total Return Index showed an average return of 4.5%.

That being said, the volatility rates show much wider gaps. During the past 20 years, it averaged 24.1% annually for the EPRA/NAREIT Eurozone Total Return Index and 27.9% for the EPRA/NAREIT Europe Total Return Index. Even the funds have grown much more volatile in recent years. However, the volatility of open-ended real estate funds never exceeded 2.4% in the last 20 years. Obviously, real estate stocks experience much greater short-term fluctuations in value compared against open-ended real estate funds (see Graphs 1 & 2). So this does translate into an elevated investor risk in the short and medium term.

Stocks are prone to a more volatile short-term performance

The reason for the deviation in short-term performance is, of course, rooted in the respective valuation method. On the one hand, real estate stock pricing is influenced by continuous analyst monitoring and rating. On the other hand, quoted stock prices directly reflect economic developments, trends in the real estate market, or events and outlooks of listed real estate companies - meaning, all relevant details that influence the business activity of the respective company, and that are readily available to the public. This, in turn, can precipitate large fluctuations in value within short periods of time.

The stock market risks arguably make open-ended real estate funds look like a decidedly stable-valued investment. Unit prices are considerably less volatile because their valuations are not determined by supply and demand. Rather, it is the value of the real estate portfolio that defines the pricing of open-ended real estate fund shares.

Investment funds hire independent surveyors to appraise the value of their real estate assets. The surveyors determine the values on the basis of the rental income that a given property earns over long periods of time. The long-term nature of these valuations has a dampening effect on fluctuations in value, which in turn calms investors.

In the past, Investment companies were required to have their real estate portfolios valued once a year. However, Germany's new Act to Enhance the Investor Protection and to Improve the Functional Integrity of the Capital Market, parts of which already entered into force on April 08, 2011, stipulates more frequent valuations of real estate held in investment fund portfolios - every quarter, as a rule - by an independent valuation committee.

Stock market valuations imply both risks and opportunities

The fact that open-ended real estate funds experience no stock market risk is an important advantage in the eyes of many German investors. This does not mean, however, that the investment vehicle is entirely devoid of threats. After all, any sort of real estate commitment - especially in commercial buildings such as offices, shopping centres, or logistics centres - involves economic risk.

Real estate returns depend primarily on rent revenues. The demand for commercial space, though, is highly susceptible to the economic environment, as is tenant solvency. Yet the share >

Open-ended real estate funds have a track-record marked by decades of successful business in Germany.

Many investors will remain loyal to their open-ended real estate funds because they base their investment decisions on their personal experience of many years, or on recommendations.

price of an open-ended real estate fund will not reflect a fluctuating demand environment as a result of economic distress and real estate market trends - until its next round of valuations. Even then, it reflects the market situation with a certain delay.

With this in mind, it is safe to say that the short-term fluctuations in the value of real estate stock, while admittedly implying risks for the investors, conversely present opportunities. If you pick the right time to buy and sell, the stock market valuation offers investors the chance to invest in real estate at discounted prices and to resell at inflated prices - substantially boosting the personal rate of return in the process.

Liquidity risk puts open-ended real estate funds in jeopardy

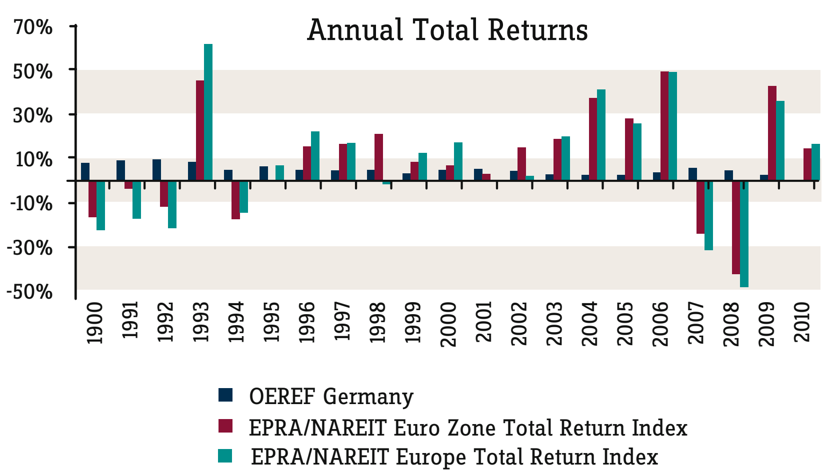
Thus, the stock market risk of listed real estate companies is matched by the liquidity risk of open-ended real estate funds. The latter risk is rooted in the character of these funds - in the very aspect that makes this product so enticing for investors, of all things: the combination of liquidity and long-term investment. While the job of the investment companies is to use the investor capital for long-term real estate investments that take a long time to resell, investors are given the option to return their shares to the investment company on demand, and may effectively withdraw their cash on any trading day.

Things get tricky whenever a general fear of value adjustments triggers a run on the funds as investors seek to withdraw large amount of capital. If a given fund's free liquidity is insufficient to service the redemption requests, the fund runs into trouble, and has to suspend its share redemptions. In order to procure the liquidity needed, the fund then needs to sell portfolio properties, often below market value, thereby exacerbating the fund's predicament.

Twice in the history of this asset class, situations such as the one described escalated into full-blown crises. The temporary closure of funds in 2005/2006, which included the "grundbesitz-invest" fund of Deka-Bank and two funds managed by KanAm, among others, led to a first lapse in investor confidence in the product of open-ended real estate funds. As a result, the funds suffered enormous outflows of capital. Similarly, 12 funds had to shut down in the wake of the real estate and financial crisis in October 2008. Ten of these funds - and thus approximately EUR 25 billion in investor capital - remain frozen to this day.

In order to defuse the liquidity risk of open-ended funds, the German legislature passed an investor protection law that has introduced a minimum holding period of two years for fund shares in excess of EUR 30,000 per investor and semester. Private investors will not be affected by these changes because their average investments rarely exceed EUR 20,000. Strings will be attached though, to the liquidity of those investors who wish to commit higher sums. For them, open-ended real estate funds have effectively ceased to be more attractive compared against real estate stocks. As a matter of fact, the notice periods will make commitments in public funds ineligible for insurance companies and pension funds due to legal reasons.

Image 2: Annual performance of open-ended German real estate funds and European real estate stocks between 1990 and 2010



The fee structure of open-ended real estate funds implies long-term cost benefits for real estate stocks

In addition to fluctuations in value and the risks, the cost structure of the investment products represents another aspect that impacts the performance on the investor side. When subscribing fund shares, investors tend to be charged an up-front fee between 5% and 6%, most of which is meant to cover the sales effort. Other cost items borne by the fund assets include the accruing overhead and management charges. These represent predominantly fixed costs that are charged irrespective of the profit earned, consequently diminishing the return on investment. In addition, each property acquisition or sale will incur fees of up to 2% of the respective property's fair market value.

Real estate stocks, by contrast, are characterised by a much more affordable fee structure. For one thing, there is no up-front fee of 5%. Secondly, there are no sliding-scale administrative and management fees. The salaries of managers and clerks are largely fixed costs, and therefore subject to economies of scale. The estimated costs for acquiring units of listed real estate companies are minimal. They equal 1% of the capital employed at the most, and are just slightly higher for small-volume unit acquisitions.

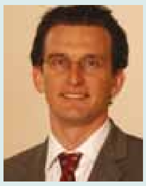
Here is why: A listed real estate company, for one thing, is simply not run by another company whose income consists essentially of investor fees. Secondly, there is no sales organisation that needs to be kept in line with a constant flow of high commission earnings. That is why listed real estate investments involve no fundamental rift between the investor's desire to keep fees low, on the one hand, and the vested interest of sales organisation and owners of investment companies who benefit from these fees, on the other hand.

Yet the growing realisation that open-ended real estate funds are a comparatively costly investment vehicle, does not necessarily imply that they will swiftly lose in significance. Many investors will remain loyal to their open-ended real estate funds because they base their investment decisions on their personal experience of many years, or on recommendations. That said, the funds' reputation has been badly blemished in recent years.

While the investors in real estate stock are aware of the opportunities and risks ahead of time, open-ended real estate funds used to be deemed a largely risk-free investment until a few years ago. The wave of fund closures and wind-ups in the wake of the financial crisis has shown, however, that this investment vehicle is no less immune to risk than others, and that losses remain by all means a distinct possibility. So it remains to be seen whether the crisis of open-ended funds will prompt investors to pay more attention to real estate stocks than they used to in the past.

Again, the long-term rates of return are virtually indistinguishable. In several aspects, anyway, listed real estate companies clearly outperform open-ended real estate: Their costs are far lower; the liquidity risk typifying open-ended funds is irrelevant; and valuations are more transparent.

Then again, there is the issue of the ROI volatility, which is clearly higher for stocks than it is for open-ended real estate fund shares. Obviously, the fluctuations in quoted prices imply risks along with the opportunities. In order to raise the vehicle's potential, investors should bring at least a basic awareness of economic and real estate business contexts to this investment. Compared to open-ended funds, listed real estate stocks should be considered the investment of choice for seasoned players who take the time to study real estate economy trends and specific companies in depth.



Steffen Sebastian

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LE CRUNCH: FRANCE vs. THE UK REITS

France is taking steps to increase taxation on REIT dividends. Further negative changes could put French REITs at a competitive disadvantage compared with some foreign-based real estate investors. In contrast, the UK Treasury is taking the opposite approach and has announced steps to make UK REITs more competitive.

With a view to enhancing tax revenues and reduce public deficit, France has recently taken measures to increase taxation derived from REITs. On October 12, 2011, the Finance Commission of the National Assembly adopted amendments to the Draft Finance Bill for 2012 removing some of the tax advantages available to the shareholders of French tax-transparent Real Estate Investment Trusts (REITs or SIICs).

If adopted in the final Finance Bill, the amendments will remove the 40% tax deduction on dividends distributed by REITs and restrict the inclusion of REITs within the tax-free share savings accounts (PEAs) held by retail investors.

Although the intended measures are only slightly negative, the changes could reduce the appeal of REIT shares to retail investors and make the development of smaller REITs, possibly more reliant on retail investors, more difficult.

The main rationale for the introduction of the REIT status in 2003 in France was to bring French real estate investment companies on a fiscal level playing field with foreign-based real estate investors, which usually already benefit from tax transparency.

Going forward, significant negative changes to the French REIT status could therefore threaten the logic behind the REIT status and the competitiveness of French REITs. A less competitive French REIT sector, to the benefit of foreign-based real estate investors, may ultimately lead to lower tax revenues to the French government.

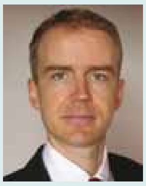
The development of REITs can bring indirect benefits to the community by increasing supply in the residential rental sector and bringing new sources of real estate financing.

Interestingly, while the UK also needs to reduce its public deficit, the Treasury is taking a different approach. The following day, October 13, HM Treasury published the conclusion of an informal consultation exercise on changes to the UK REIT status for inclusion in the 2012 Finance Bill. The conclusions demonstrated the Treasury's firm commitment to the UK REIT status and to its development.

The Treasury announced its intention to abolish the conversion charge for companies joining the REIT regime and to introduce new measures bringing additional flexibility to the structure. In addition, according to UK magazine *Property Week* (October 07), the Treasury is also considering allowing property debt companies and housing associations to join the REIT regime from 2013. Unlike France, the UK seems to be following a slower and more open approach to considering changes to its REIT legislation (HM Treasury received 53 written responses to its informal consultation).

While France is bringing restrictions to its REIT regime, the UK is aiming for a more flexible one and we can see reasons for that. Defending the attractiveness of the UK REIT regime reinforces the competitiveness of REITs compared with offshore real estate investors, which already benefit from tax transparency.

The development of REITs can bring indirect benefits to the community, for example by increasing supply in the residential rental sector (introduction of social housing REITs) and by bringing new and much needed sources of real estate financing (introduction of mortgage REITs).



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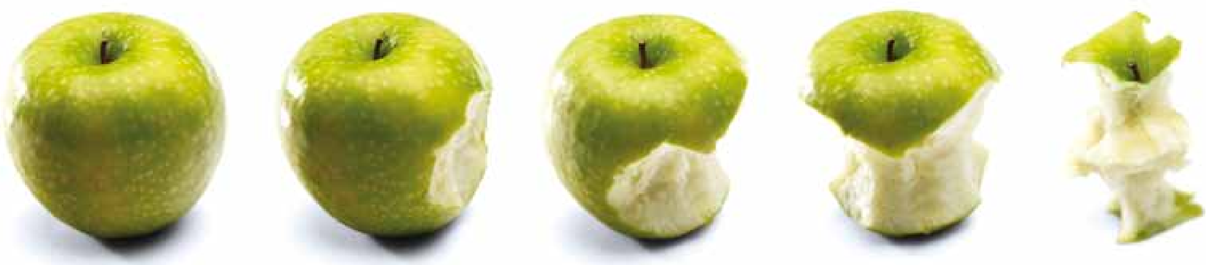


EPRA SURVEY GIVES PERSPECTIVE ON REPORTING & REGULATORY PRIORITIES

In the run-up to the EPRA Annual Conference EPRA launched a survey to gauge members' views on which regulatory and reporting issues they consider as top priorities. Some 54 property companies responded to the survey giving a valuable steer towards current and future EPRA initiatives

The EPRA Reporting & Regulation survey was undertaken in anticipation of the EPRA Reporting & Accounting, and Taxation committees meetings on the sidelines of the Conference, in order to help us develop our priorities for representative activities in 2012 and beyond. The results revealed a range of views about the impact of banking and financial regulations, anticipation of the exclusion in the Lease Accounting proposals, and a desire to develop new EPRA Best Practices Recommendations (BPR).

EU Regulation

Among regulatory issues, 77% of respondents rated Basel III as "very important" or "most important". The standards, which will be phased in from 2012-2019, regulate bank capital, liquidity requirements, and are expected to result in tougher lending conditions for real estate and more valuation pressure as banks look to reduce property exposure more generally. EPRA's efforts to promote the sector to a broader range of investors, our efforts to reduce inefficiencies in the equity-raising environment and the potential development of an EPRA bond index are therefore key initiatives to ensure that attractive alternatives to bank financing remain available to our sector.

Uncertainty over the impact of Solvency II continues to weigh on companies with 73% of respondents rating this as very important/most important. The directive regulates holdings of capital for insurance companies so that, under the standard Solvency II model, for every EUR 1 invested in listed equities 39 cents will need to be held in cash or gilts. It is not yet clear what impact this will have on insurance company allocation to REITs as the equivalent requirement for unlisted funds is 49 cents, while direct property is at 25 cents. There

TOP-RANKED REGULATORY ISSUES	
1	Basel III
2	Solvency II
3	AIFM
4	Pension Reform

TOP-RANKED REGULATORY ISSUES	
Basel III	- Ensuring that attractive alternatives to bank financing are available by promoting the sector to equity/bond investors. - Investor outreach, research activities, development of EPRA bond index.
Solvency II	- Seeking reduction in 25% buffer requirement. - sponsoring alternative research on volatility of listed equities.
AIFM	- persuading regulators, national governments to clarify that real estate businesses are scoped out. - seeking to influence ESMA and responding to public consultation.
Pension Reform	- encouraging EC to address fragmented pension system in EU e.g. Green paper on future of pensions.

may indeed be a case for REITs to be viewed as 'look-through' to the underlying property, especially within the 'internal model' framework. EPRA has been working in partnership with other real estate organisations to propose evidence for a reduced buffer requirement for property.

The AIFM directive and the knock-on implications of property companies being classified as 'funds', e.g. being subject to OTC derivatives and financial activities tax were ranked as very important or most important by 70% of respondents. Of particular concern, the OTC derivatives regulation would impose significant cash collateral requirements on hedging instruments. EPRA's efforts have been focused on encouraging regulators to develop an appropriate scope boundary for the real estate sector. We recently responded to the ESMA consultation highlighting the reasons why we believe the majority of internally managed real estate companies are not in scope.

IASB/FASB representation

The biggest concerns on the IASB/FASB representation side were maintaining the fair value exclusion in the new lease accounting standard and the business implications on tenants. The IASB/FASB Boards recently made a tentative decision to extend the exclusion to all investment property which will be very welcome news for those companies with investment property reported at cost that should now also be scoped out alongside investment property accounted for at fair value. We continue to monitor developments by observing IASB and EFRAG meetings, engaging with IASB staff, and will develop a global response along with our REESA partners, to the revised Leases Exposure Draft expected later this year.

There was also strong support for reinstating the IASB financial statement presentation project, which we intend to raise in our response to the IASB agenda consultation (November 30 deadline).

EPRA BPR

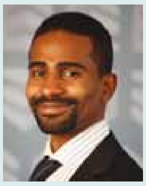
The vast majority of respondents (87%) were strongly in favor of developing an EPRA Recurring Cash flow measure. Bearing in mind EPRA's intention to keep the BPR unchanged and allow companies a period of calm to apply the existing BPR, we will be starting to look at developing this measure as a medium to long-term project. >

The biggest concerns on the IASB/FASB representation side were maintaining the fair value exclusion in the new lease accounting standard and the business implications on tenants.

TOP-RANKING NEW KPIs	
1	EPRA Recurring Cash flow.
2	EPRA Occupancy Rate.
3	EPRA LTV.

TOP-RANKED IASB/FASB PROJECTS	
1	Leases (1) - maintaining exclusion for investment property at fair value.
2	Leases (2) - minimising impact on tenants/business implications for lessors.
3	Financial Statement Presentation - development of P&L which delivers key EPRA Metrics + allows financing costs in operational section.
4	Leases (3) - seeking improvements to the proposed lease accounting for lessors at cost.

TOP-RANKING OTHER PROJECTS	
1	Valuation - developing International Valuation Standard specifically for Investment Property.
2	European REITs - addressing cross border tax inefficiencies for REITs.
3	Equity Raising - addressing inefficiencies in the equity issuance process for listed property companies.
4	Sustainability BPR - promoting EPRA best practices on sustainability reporting.



Mohamed Abdel Rahim studied at the Manchester Business School (class of 2005) before working at Deloitte where he earned a Chartered Accountant (ACA) qualification. He joined EPRA's Reporting & Regulation team in November 2010 from Orco Property Group, an EPRA member based in Luxembourg.

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For full survey results, please visit: www.epra.com

Other projects

There was wide support for the development of an International Valuation Standard for Investment property. EPRA recently submitted a letter to the IVSC encouraging them to develop such a standard to provide guidance on valuation issues where there is divergence in practice, and we have been told that the issue will be considered in the IVSC board meeting in November.

Other projects which received wide support include addressing inefficiencies in cross-border taxation and improving the European environment for equity raising. EPRA responded to the European Commission's recent consultation on taxation of cross-border dividends in March 2011 and will be following up in due course. EPRA also recently met with the Institutional Shareholder Services (ISS) to discuss ways to address inefficiencies in equity raising and have started a constructive dialogue.

Protecting the operating environment and raising standards

EPRA and our representative partners are busy trying to influence and gain clarity over new regulatory initiatives as well as seeking improvements to IASB/FASB standards, financial and sustainability reporting, valuation practices and equity raising within our sector. We have established good links with key organisations and are working hard to promote our member's positions on key issues. Nevertheless, the listed property sector needs to make a concerted effort to communicate our positions and the nature of our business particularly on AIFM, OTC Derivatives, and Solvency II. We would encourage our members to engage with national regulators, property representative organisations in your country and of course EPRA.

The survey coincides with the chairmanship of the committee of Land Securities' Martin Greenslade. He replaces Unibail-Rodamco's Peter van Rossum who chaired the committee for the past three years and oversaw major successes such as the development of the BPR and the exclusion from the controversial Lease Accounting regulations.

"The listed real estate sector is an important contributor to the wider economies in Europe, providing liquidity, investment and jobs. It is a privilege to take the helm of the EPRA Reporting & Accounting committee, especially with so much at stake for the listed sector amid the regulatory storm emanating from Brussels.

"I strongly believe in the principle of a united industry voice and in working together to ensure the sector's work and worth is recognised."

FORMER EPRA CHAIRMAN: OPEN LETTER

Dear EPRA directors, members, staff and friends. My mandate as EPRA Chairman has come to its conclusion. I would like to thank the organisation and all of its contributors for giving me the privilege of chairing its board for the past two years.

It has been a real pleasure to see our association making tremendous progress in most of the areas where it is active:

- Governance: with a renewed Board, two new Vice-Chairman positions and deeper involvement of industry leaders in our activities;
- Working Groups: with six committees working full speed and achieving results above expectations; as illustrated by the success of the sustainability KPI initiative;
- Lobbying: with a new team dedicated to tackling specific regulatory issues (such as IASB lease accounting, Solvency 2 and EU REIT discussions) and coordinating efforts with national professional federations and associations;
- Investor outreach: with the acceleration of international roadshows to attract new investors in property stocks and joint initiatives with NAREIT;
- Marketing: through the creation of this newsletter and the entire revamping of our website www.epra.com.

The work of EPRA is more important than ever, as the world becomes more and more volatile and as the struggle against global over-indebtedness and economic depression continues. Going forward, it is obvious that REITs have a larger role to play in Europe. They provide equity, transparency, long-term perspective and development opportunities at a time when many other real estate players are simply unable to act.

As bank financing becomes scarcer, REITs will naturally finance themselves from the bond market; a

market which they have been active on for decades.

As investment in new projects continues to decrease, REITs will maintain an unrivalled investment capacity enabling them to conduct counter-cyclical activities and to sustain the construction industry.

As environmental concerns intensify, REITs as by far the most advanced players in the real estate industry, will continue to lead the way by upgrading old buildings and launching landmark projects with the highest environmental efficiency ratings. And, finally, as state tax resources diminish, REITs will continue to distribute dividends, generating substantial withholding tax resources and, in buying and selling buildings, will continue to generate income for states through transfer taxes.

EPRA now has a new Chairman, David Atkins, CEO of Hammerson, and there is no doubt that under his leadership EPRA will continue to progress to the benefit of the entire sector. Many thanks to all of you.

Guillaume Poitrinal

CEO Unibail-Rodamco

THE FUTURE OF THE UK REIT REGIME

The introduction of the UK REIT regime in 2007 was successful in encouraging the listed investors on the London Stock Exchange to convert to REIT status. Disappointingly it has been much less successful in encouraging the unlisted and residential sectors to seek REIT capital and since the initial wave only a handful of businesses have listed and converted to REIT status. So what now?

SUMMARY OF KEY REIT CHANGES TO BE ADOPTED

- Abolition of the 2% entry charge
- Allowing REITs to list on AIM, PLUS and similar foreign exchanges
- Relaxation of the diverse ownership (close company) condition for 'institutional' investors
- Three-year fixed grace period from close company condition
- Allowing cash to be a 'good' asset for the 75% balance of business asset test of quarterly reviews are updated.

The UK Property Industry has been active in lobbying the Government to relax the REIT regime to make it more attractive to investors and those seeking capital from the public markets alike. As an important and significant part of the economy, attracting capital into the UK real estate and construction industries to fund regeneration, build new houses and invest in a more economically sustainable built environment are key to job creation and helping put the economy back on the growth path.

Earlier this year, the UK Government announced a significant consultation on changes to the UK REIT regime. It is proposed that, after a final round of consultation, these changes will become law in late-Summer 2012.

Key proposed changes

The Government has announced that the draft legislation to achieve the changes will be published on December 06, 2011. The key proposals are summarised below - further minor changes are proposed which largely deal with existing technical issues and are not dealt with here.

1. Abolition of the entry charge

The headline-grabbing change was the abolition of the 2% entry charge, making the regime significantly more attractive. The charge is currently applied to the market value of all properties held by a group electing to become a UK REIT, or an existing REIT buying a property owning company. The charge may have been viewed as a fair price for eliminating the latent gains of a large existing property group but it is difficult to justify to investors considering the launch of a REIT where newly acquired properties mean there is little or no latent gain to eliminate.

2. Relaxation of the listing requirement

The principal company of a UK REIT is currently required to be listed on either the main market of the London Stock Exchange, some parts of the PLUS market, or a similar foreign stock exchange recognised by the UK tax authority. This has been viewed as a significant barrier to entry for smaller property businesses because of the costs of listing and ongoing compliance. The Government are considering extending the listing requirement to AIM and similar foreign exchanges but, despite initial hopes, have ruled out permitting unlisted REITs.

3. Relaxation of the diverse ownership condition

The requirement for REITs to have a diverse shareholder base is currently achieved by prohibiting REITs from being a 'close company' for tax purposes - broadly being controlled by five or fewer persons. The Treasury has always been concerned that REITs should not be used as private investment vehicles, but rather encourage the democratisation of property ownership. However, the workings of the close company provisions are complex.

Investors such as pension funds and insurance companies, or even widely owned companies, can cause a REIT to be considered a close company for tax purposes

Derwent London, Arup - Fitzrovia

Hammerson - Threadneedle Street, London

where they hold a significant stake, despite the fact that their own ownership is genuinely diverse.

To encourage institutional investment, the Government has proposed the introduction of a 'diverse ownership rule' for institutional investors, making it easier for companies with institutional investors to become REITs.

Questions remain as to how this test will be applied. How should 'diverse ownership' be defined? And who should qualify as an 'institutional investor'? The UK property industry are keen to secure a wide definition of institutional investor, including not just pension funds and insurance companies, but also charities, PAIFs, hedge funds, private equity vehicles and listed companies. However, we will have to wait for the draft legislation to be published on December 06 to get a better feel for the Government's direction of travel on this new test.

4. Three-year fixed grace period from the diverse ownership rules

A particular concern when trying to establish a new REIT has been the need to ensure the REIT is not considered a close company from its first day of trading. This is a factor that is highly dependent on market conditions and somewhat outside the control of the REIT. The Government have therefore proposed a three-year grace period to allow a start-up REIT time to fulfil this condition.

In October, the Government further confirmed that:

- There will be no discretionary extensions of REIT status at the end of the three-year period if the diverse ownership tests are not met by then.
- If the rules are not met at the three-year point, then the group would lose its REIT status without penalty but only provided the company has failed the tests for "legitimate reasons".
- However, where the group fails to meet the rules and is deemed to have joined the REIT regime to "gain a tax advantage", then penalties will be applied.

Clearly there are questions remaining: what would constitute "legitimate reasons" for failing to meet the close company condition? When would a company be considered to have joined the REIT regime to "gain a tax advantage"? Again, we will have to wait until the draft legislation has been published in December for further hints as to how these questions will be answered.

5. Treating cash as a 'good' asset

Under the REIT rules, 75% of a REIT's assets are required to be investment property - this is one half of what is known as the balance of business test. The final proposal aimed at reviving the UK REIT market is to treat cash as a 'good' asset for the purposes of this test - that is the 75% can be met through either property ownership or cash.

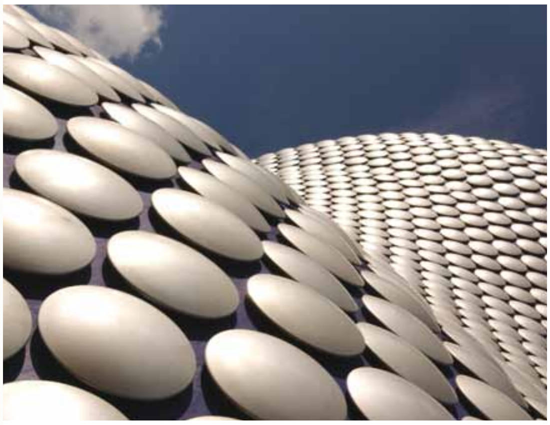
This change should also be helpful to newly launched REITs, particularly as it should enable the cash raised on listing to count as a 'good' asset. This would allow breathing space for the REIT to identify and acquire its investments. >

WHAT IS A UK REIT?

Real Estate Investment Trusts ('REITs') were introduced in the UK on January 01, 2007 after many years of lobbying by the property industry.

- Despite the name, a REIT is formed as an ordinary company or group, the top company of which is required to be UK tax resident and listed on a stock exchange 'recognised' by Her Majesty's Revenue and Customs.
- Provided a company carrying on a 'property rental business' meets the various conditions set out in the REIT rules, it can elect to join the regime. REIT status acts to exempt the profits the company derives from its property rental business from UK corporation tax. In return, a REIT is obliged to pay out at least 90% of its rental profits as a dividend subject to a withholding tax of 20% and taxed on shareholders as rent. The idea of the regime is therefore to move the potential tax from the company to the shareholders.

Derwent London,
Arup - Fitzrovia



Hammerson,
Birmingham
Bullring

Although there are currently ways to ensure that a new REIT would only be required to invest 50% of its cash by the end of the first year, and 75% within three years, start-up REITs are nonetheless currently exposed to significant risks of being forced to invest against their commercial wishes as these time periods expire.

So what is the immediate impact?

By announcing the proposed changes 18 months before becoming law, the UK Government are allowing existing and potential future UK-REITs to begin planning how they might take advantage of the new REIT regime - albeit that for many the devil will be in the detail of the draft legislation.

While the success of the new rules will also depend on a number of market and economic factors, the changes announced are beneficial and we expect that the proposed changes will have a positive impact on the property industry as a whole.

What type of businesses do we expect to consider this?

- Private property groups with long -standing latent gains providing they are not averse to meeting the diverse ownership tests.
- Existing smaller property companies looking to access capital markets via AIM.
- Institutional investors previously excluded due to the diverse ownership rules.
- Existing debt providers and property rich companies, including hotel and healthcare operators; house-builders; social housing providers; and residential landlords who may consider REIT conversion as an exit route.
- Offshore funds holding UK property may see an opportunity to move into a tax efficient on-shore structure without an entry cost.
- Will the new REIT regime kick-start investment?

There is a significant amount of interest in whether the new REIT regime will deliver incremental value to investors in UK property. The proposals show a real desire by the UK Government to relax the regime but many interested parties are reserving judgement until they see the detail of the draft legislation and can gauge the commitment of Government to addressing drafting issues before the legislation becomes final.

On the matter of residential REITs, some hold the view that the UK Government has done enough with these proposals to encourage their emergence as a sector. However, the key issue for residential property in the UK is whether the potential returns are enough to entice investors and this is something that tax legislation cannot provide a complete solution to.

Of course, the UK economy, like other European economies, is suffering and this has significantly affected the property market. Drawing comparisons with similar points in history can be informative when seeking to answer the overarching question.

Until the early 90's, the US REIT regime was a fairly small, niche market. In 1993 two relatively minor changes were made to the regime at least partly in response to the US Savings and Loans Crisis. The first change related to a modification of the "five-or-fewer" rule (similar to the close company rule in the UK) to facilitate greater institutional investment into US REITs. The second change was the introduction of "UP-REIT" structures, which allowed property owners to transfer properties into US REITs and defer the capital gains tax.

US property prices had fallen to historic lows, debt financing had become scarce and equity investors were searching for suitable long-term investment opportunities. The changes to the US REIT rules gave investors a means to address these market needs. This combination of market conditions and policy changes is widely credited for the explosion of the US REIT regime in the 90's.

There are certainly some parallels with today's UK property market. Property backed equities

Investors may finally consider investment in residential property, particularly if they consider that their correlation with other equity investments is low enough to provide some diversification, while providing additional liquidity and fulfilling their investment objectives.

may provide just the sort of stability, long-term returns and inflation protection institutional investors are looking for. The relaxation of the diverse ownership restrictions gives institutions the ability to significantly invest in or even set up their own REITs. Investors may finally consider investment in residential property, particularly if they consider that their correlation with other equity investments is low enough to provide some diversification, while providing additional liquidity and fulfilling their investment objectives.

Similarly, the abolition of the entry charge, the introduction of AIM-listed REITs and close company grace period could stimulate increased entrepreneurship in the UK REIT sector. UK REITs may be a particularly attractive vehicle for property entrepreneurs if many of them are ultimately determined to be exempt from the burdensome AIFM Directive being brought into local law in 2013.

A combination of any or all of the factors above and those yet unknown could see the UK REIT regime flourish in a similar fashion to the US experience of the 90's. It is also interesting to compare the attitude of the UK Government towards its REIT regime with the current changes being made to the French REIT (SIIC) regime. In France, the Government have proposed withdrawing certain benefits enjoyed by SIIC investors in the 2012 Finance Act. The changes will affect shareholders who are individuals and will include:

- The abolition of the existing allowance of 40% on dividends distributed by a SIIC to those individual shareholders resident in France. A higher proportion of these dividends will now fall into charge to tax.
- SIIC securities will no longer be eligible for securities savings plans (PEA). It is envisaged that this change will take effect from January 01, 2013.

The French property industry has commented that these changes are unlikely to undermine a regime that has had a strong track-record and has been amended continuously by the French Government, mostly in the direction of introducing further incentives and relaxations for investors and SIICs, since its introduction in 2003.

By comparison, the UK Government has made relatively few changes to the UK REIT regime since its introduction in 2007. However, they should certainly be applauded now for giving the UK REIT regime the potential for a new lease of life. It is a forward-thinking approach in the context of the current financial turmoil.

Douglas Marvin is a Manager in KPMG's Corporate Finance practice, within the Real Estate Valuations team. He has over seven years' experience advising both listed and private investors in UK and global real estate. This included a secondment to the British Property Federation, where he assisted with lobbying efforts for improvements to the UK-REIT regime on behalf of the UK property industry. Marvin continues to advise clients on commercial and residential real estate equity and debt transactions, as well as potential new REIT vehicles.

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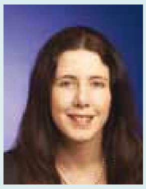

Nicola Westbrooke is an Associate Partner in KPMG's Real Estate Tax practice. She has more than 16 years experience of advising on the tax aspects of structuring real estate and infrastructure holdings for investors, developers and occupiers, including UK REITs. She was seconded to the UK HMRC in 2006 to be the real estate tax expert working as part of the small HMRC and Treasury team that delivered the original UK REIT legislation.

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THE ISRAELI COMMERCIAL REAL ESTATE MARKET

In a volatile region, Israel embraces the listed real estate sector as a foundation for stable pricing and the long-term investment view.

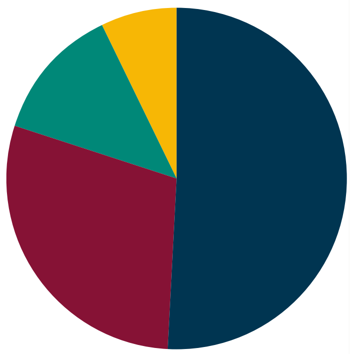
The Israeli commercial real estate market is relatively young, and the development of modern properties has picked up since the late 1990s. The total fair value of properties managed by listed companies is ca. EUR 15 billion[1], with a GLA of 9 million sqm. We estimate that the listed market is 20-30% of the total income-producing sector in terms of GLA, and more than that in terms of fair value.

The listed part of the market is undergoing a process of rapid development - modern properties at high standards are being developed and more and more properties are coming onto the listed market through acquisition by public companies. We also see the listing of new companies: two REITs were created after the establishment of the REIT regime in 2006, and more significantly the listing of the Azrieli group in 2010, which brought around EUR 2 billion of properties into the listed market.

The real estate market is very significant in the context of the Israeli economy, and this stands out in comparison to other global markets. For example, the total fair value of the properties of the listed companies is about 6% of the GDP, in comparison to less than 1% in the UK. In the stock market, the market value of the companies holding income-producing properties is around 4% of the total market cap of the TASE, in comparison to 1% in the UK.

The following charts present the distribution of sectors in the market, in terms of fair value and GLA:

Chart 1: Distribution of the market according to fair value (2010)



Israel is considered a Western economy. Its GDP per capita is around USD 30,000 (PPP), its credit rating has been raised recently by S&P to A+ / stable. Israel weathered the 2008-09 crisis well, its unemployment rate is historically low, GDP growth has been 3.5% in 2010, as compared to an average of 2.8% in the OECD.

* We gratefully acknowledge the help of Joe Mannina of Real Capital Analytics, in providing us with the comparative cap rate data for the US and the UK.

[1] As of 31/12/2010.

Chart 2: Distribution of the market according to GLA (2010)

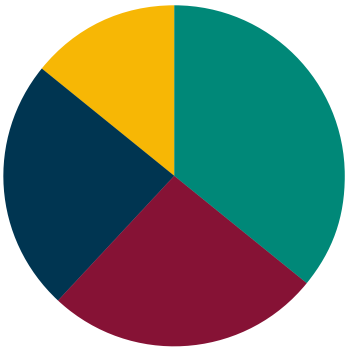


Chart 3: Distribution of properties in the retail sector according to fair value

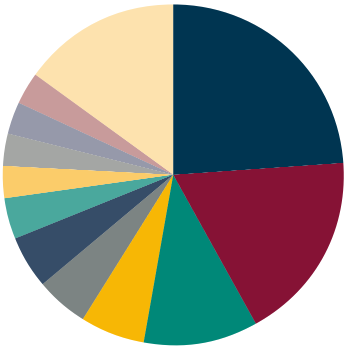
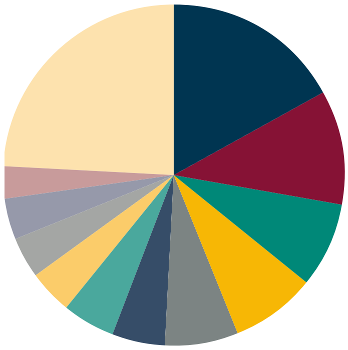


Chart 4: Distribution of properties in the office sector according to fair value



The retail sector is quite concentrated: as shown in charts 3-4 above, the two biggest companies are more than 50% of the market in terms of fair value, and the other companies are significantly smaller[2]. In contrast, the office market is less concentrated, and six companies have about 60% of the market (in fair value).

Occupancy in both sectors is very high, around 95% in both sectors. It has been stable around this level for several years, including the years of the financial crisis.

The Israeli market in a global context

Charts 6 and 7 reflect the resilience of the Israeli real estate market during the 2008-09 crisis. >

Chart 5: Office Cap rates in Israel, US, and UK 2007-2011

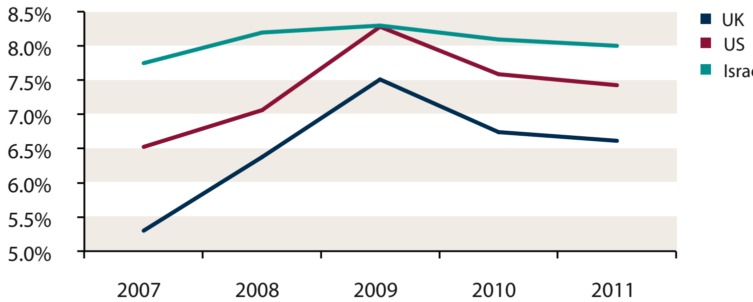
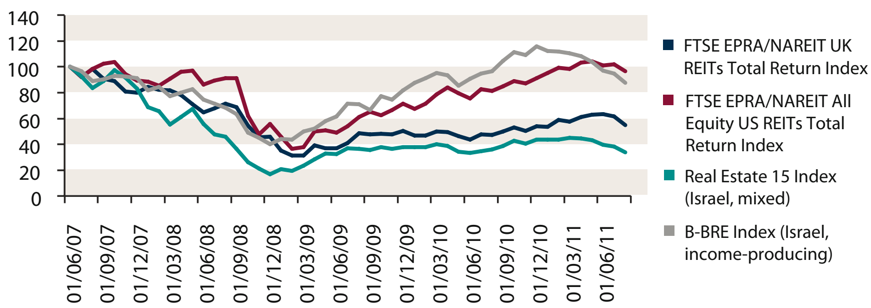


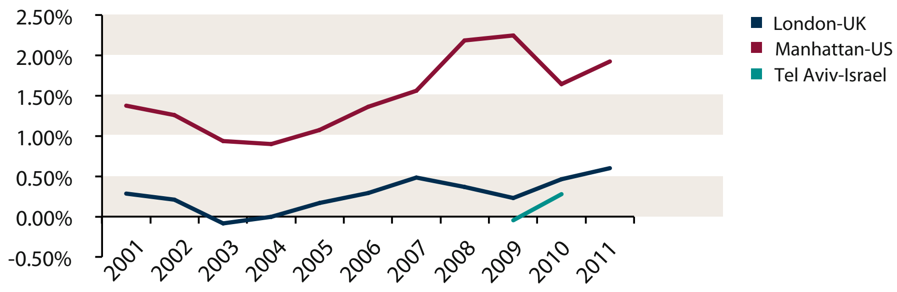
Chart 6: Israeli vs. global real estate indices



[2] British-Israel and Melisron merged in 2011, and therefore we refer to them as one company.

Chart 1-4: B-BRE Research; Chart 5: B-BRE Research, Real Capital Analytics; Chart 6: B-BRE Research, Bloomberg; Chart 7: B-BRE Research, Real Capital Analytics

Chart 7: Spreads between office cap rates in main city and country average



[3] The B-BRE index, computed by us, is the only index following the local income-producing sector. The only traded real estate index in Israel, 'Real Estate 15', mixes developers with companies managing income-producing properties, and companies that are active locally with such that focus on global activity. For more information on the index, see: http://b-bre.com/bbre-index.

	YEARLY STANDARD DEVIATION
B-BRE Israel Index (income-producing property companies)	26.57%
UK REITs	30.07%
US REITs	34.85%
Real Estate 15 (income-producing and developers)	39.04%

The spread in cap rates between main city and country average is much higher in the US than in the UK or in Israel, by more than 100 bp. We think that these spreads reflect accurately the perceived risk between centre and periphery in these countries.

The anomaly of cap rates spreads

The average cap rates for the office sector are around 7.5-8.0%, very similar to those of the office sector in the US. This seems an anomaly, since we would expect the cap rates in Israel to be higher (as reflected in the spreads in the credit insurance market). It seems to us that there are two ways to account for this:

(1) The cap rates in the US are too high, and we expect a decline in cap rates in the long-run. This, however, does not seem a plausible explanation, as the current cap rates in the US are well within the range of the cap rates in the last decade.

(2) Interest rates are globally low at present, and we expect them to rise in the long-run. In the US, the spread between cap rates and interest rates is wide enough to accommodate a rise in interest rates without a rise in cap rates. In Israel the spread is too narrow, and hence, we expect the cap rates to rise when interest rates rise. This seems to us a more plausible explanation for this anomaly.

Listing the positives

Israel is a developed country, with a growing commercial real estate market. There is a process of securitization bringing more and more properties into the listed sector. This process contributes to the overall transparency of the market. Israel was spared the effects of the 2008-2009 crisis, and this is reflected both in the real estate market and in the performance of the listed companies operating within it. In a global comparison, we suggest that the current cap rates in Israel do not reflect the risk premium adequately, and they are expected to rise in the long-run.

In the stock market, the market value of the companies holding income producing properties is around 4% of the total market cap of the TASE, in comparison to 1% in the UK.

B-BRE was founded by Nirit Bregman and Daniel Baraz as a real estate research and consulting firm focusing on the Israeli commercial market. Our flagship project is the creation of a commercial real estate database for Israel, which we are pursuing in partnership with the Forum Group. B-BRE is also Real Capital Analytics' data partner in Israel. Bregman, who is a C.P.A. and holds a master of laws degree (LL.M.), has served for many years in senior positions in leading Israeli capital markets firms. Baraz has a Ph.D. in History and an M.B.A., and was until recently the director of the Fishman Real Estate Center at the Hebrew University of Jerusalem.

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SUSTAINABILITY REPORTING IN THE REAL ESTATE SECTOR

The practice of voluntary sustainability reporting has become increasingly common in the European real estate sector - particularly among larger listed real estate companies. An area of growing policy debate in the European Union and at the national level, however, has been the introduction of mandatory sustainability reporting regulation.

It is EPRA's role as a trade body representing listed companies in the real estate sector to prepare its members for the likely introduction of more stringent mandatory sustainability reporting regulations, which are already in place in a number of European countries such as France and Denmark. EPRA therefore developed the EPRA Best Practices Recommendations on Sustainability Reporting, which was launched during latest annual conference in London.

To encourage knowledge sharing and to reward best practice, EPRA has introduced an annual Sustainability BPR Award in 2012 to recognise the efforts of those companies adopting the BPR and innovating in their measurement and reporting of performance. This Sustainability BPR Award will be sponsored by APG for three years.

EPRA's sustainability program builds upon relevant mandatory reporting requirements and voluntary initiatives, in particular the Global Reporting Initiative's Construction and Real Estate Sector Supplement (GRI CRESS), which now forms an integral part of the EPRA Best Practices Recommendations on Sustainability Reporting.

EPRA also supports the Global Real Estate Sustainability Benchmark (GRESB), by now an established industry-led initiative, receiving the Platinum Award for Outstanding Industry Contribution for the second time in a row in 2011. GRESB was founded by APG, PGGM, USS and Maastricht University and has grown into the leading benchmark assessing the sustainability performance of property investment portfolios. This article will highlight the key results of the 2011 GRESB Research Report and the GRESB Portal, which were both launched during the annual EPRA conference in London.

The Global Real Estate Sustainability Benchmark 2011 Results

This year, many of the leading pension asset managers in the world have signed up as members of GRESB, representing USD 1.7 trillion in aggregate assets under management. Combined, these asset managers have an average stake of more than 4% in each of the listed property companies that responded to the survey. In addition, leading international real estate industry associations and industry bodies such as EPRA, NAREIT, APREA, the UN PRI and many others support the initiative.

GRESB has made a significant leap forward in coverage of the real estate sector: the number of >

	Number of Respondents	Market coverage (value-weighted)	Gross Asset Value (USD billion)
Listed (Total)	69	35%	483
North America	15	37%	133
Europe	32	75%	170
Asia	12	12%	40
Australia	10	80%	141
Private (Total)	271		445
North America	45		129
South America	4		5
Europe	162		205
Asia	37		52
Australia	23		54
Grand Total	340		928

respondents increased from 198 in 2009 to 340 in 2011, a 72% increase. Importantly, the response among property companies and funds in Asia has improved substantially. For listed property companies, we document that the market-value-weighted response rate is approximately 35% (FTSE EPRA/NAREIT Real Estate Index), and the market-value-weighted response rate of the EPRA Index was around 75%.

The 2011 survey covers over 21,000 commercial buildings, with a combined floor area of about 356 million square metres. The coverage by property type shows that the largest property sectors included in the GRESB-database are offices (22%), shopping malls (29%) and distribution warehouses (21%).

The assets covered by the 2011 GRESB survey illustrate that the scope of the commercial property sector is large by all standards: on aggregate, the respondents manage approximately USD 928 billion in commercial real estate assets, with an estimated aggregate emission of 34 million tons of carbon per year (the equivalent of six million cars on the road in a year). Institutional engagement with the property sector can thus have substantial and positive impact on the reduction of resource consumption.

To provide respondents with information on their environmental performance, the collected data is graphically represented in an online scorecard (see the picture above), in which companies and funds can observe their relative performance against peers. GRESB members can use this information as a basis for an informed and meaningful dialogue with the companies managing their real estate allocations. For institutional investors with direct property allocations, the scorecard provides insight into the performance of their portfolio as well.

Based on the GRESB survey, a science-based benchmarking framework has been created. The individual metrics are scored to represent the relative materiality of their impact to investors. The metrics are divided between seven sub-categories within the environmental and social dimensions. An additional category is added for respondents with property development activities (but this is not part of the total GRESB score). The scores for the sub-categories are then added up to generate the GRESB score, which is expressed as a percentage of the maximum score.

GRESB Survey approach: methodology

The basis for this year's benchmark is the GRESB survey, consisting of 55 questions that are based on:

- Scientific research on environmental and social factors affecting the financial performance of corporations in general, and of real estate investment portfolios in particular.
- Best practices on ESG reporting, including the EPRA Best Practices Recommendations on Sustainability Reporting;
- Existing reporting frameworks, such as the Carbon Disclosure Project and the Global Reporting Initiative, which launched the Construction and Real Estate Sector Supplement (CRESS) on September 22, 2011.

To distinguish further between sustainability reporting and policy, and sustainability implementation and performance measurement, the overall GRESB score is split into two dimensions: management & policy and implementation & measurement. Management & policy represents 30% of the GRESB score, whereas implementation & measurement has a weight of 70%. Thus, the overall GRESB score rewards actions more than words.

These indicators allow institutional investors to enter into an informed dialogue with their real estate investment managers regarding environmental risks, opportunities and improvements.

Four Quadrants:
The GRESB model of environmental performance

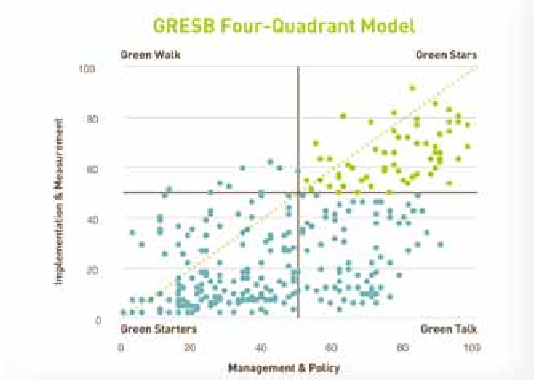
The GRESB four-quadrant model of environmental performance provides an overview of the global environmental performance of the real estate investment management community. For every company that responded to the 2011 survey, the model shows the percentage scores on issues related to management and policy (on the horizontal axis) and the percentage scores on issues related to implementation and measurement (on the vertical axis). The four quadrants distinguish the position that a company has on the adoption of both dimensions of environmental management practices.

The number of Green Stars has increased significantly in 2011, not just in absolute numbers (which could be due to the larger sample size) but also as a percentage of the total sample. Just 10% of the respondents were classified as Green Stars in 2009, but that percentage is now 19% (65 respondents) on aggregate, and in the listed sector even 26% (18 respondents). The southeast quadrant, Green Talk, is populated with a slightly larger share of the respondents as well. In parallel, the percentage of property investors classified as Green Starters has decreased, and is now 55% (186 respondents), as compared to 67% in the 2009 survey. Again, listed companies score slightly better in this quadrant, with only 41% in the Starter category. The upper left quadrant, Green Walk, has very few observations, just as in 2009.

The 2011 GRESB results show a general move from Green Starters towards Green Talk, and most importantly, Green Stars. This implies a trend towards stronger environmental performance of the commercial real estate sector, both regarding management & policy and with respect to implementation and measurement. Real estate companies and funds are moving up the environmental adoption curve, which indicates that the commercial property sector is developing environmental policies and incorporating energy efficiency and sustainability measures into business operations.

Environmental leadership revisited:
New names at the top

The main goal of collecting information on sustainability management is to generate comprehensive indicators measuring the portfolio-level environmental and social performance of real estate managers. These indicators allow institutional investors to enter into an informed dialogue with their real estate investment managers regarding environmental risks, opportunities and improvements. Thus, information collected through the GRESB survey is not about "naming and shaming," but about benchmarking and creating value by engagement and



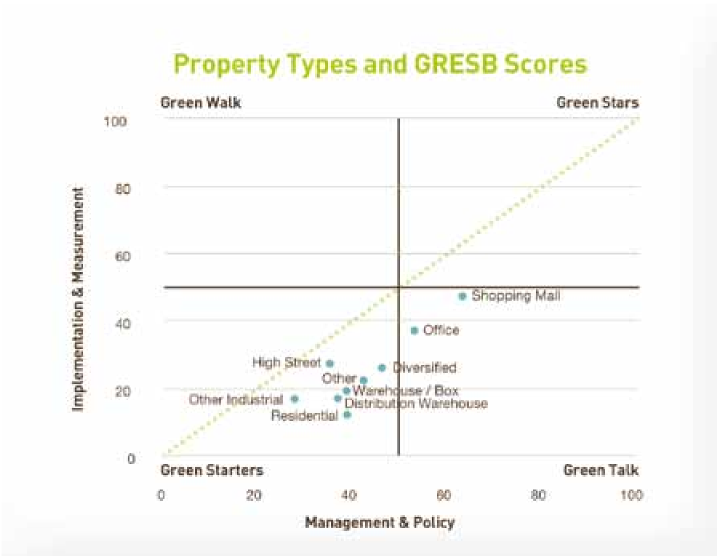
subsequent optimisation. Nonetheless, almost equally important is the information on industry best practices provided by the GRESB survey. These best practices can serve as inspiration and set the example for other property companies, by showing that superior environmental >

Europe (Listed)				
	Company Name	Score	MP Score	IM Score
1	Hammerson PLC	83	92	78
2	Land Securities Group PLC	75	81	72
3	British Land Company PLC	73	88	66
4	Unibail-Rodamco SE	71	87	63
5	Big Yellow Group PLC	69	88	60
6	Wihlborgs Fastigheter AB	63	79	55
7	Klépierre	60	69	56
8	Capital Shopping Centres Group PLC	60	83	49
9	Shaftesbury PLC	55	82	43
10	Derwent London PLC	53	68	46

performance is attainable, while simultaneously keeping an eye on the bottom line.

Among listed companies, sustainability management at Hammerson (UK) is leading the industry, followed closely by Land Securities (UK) and British Land (UK). Unibail-Rodamco, ranked fourth, is the only Continental European company in the top 5. Big Yellow, the number one in 2009, is ranked fifth this year.

The graph below shows the sector scores for the 2011 survey. These are mostly in line with the 2009 results: residential (20) and industrial (23) property portfolios score low, whereas offices (41) and shopping centers (52) have higher scores. Property companies with a portfolio diversified across sectors take a mid position. The low score for the residential sector is mostly driven by the lack of measurement of key performance indicators, reflected



in the implementation & measurement category (11). Likewise, for industrial and logistics properties, implementation of environmental policies seems to be hindered by the fact that owners often do not have operational control over their space.

Even though the average overall score among listed property companies (42) is higher than compared to private funds (30), the best overall environmental performance in Europe is achieved by Sonae Sierra (Portugal), with a score of 86. Sonae Sierra did not participate last year, but it has a long track-record in "corporate responsibility" and is now internationally seen as one of the leaders in sustainability, demonstrating true leadership in the areas of monitoring and reduction strategies.

Changes in energy and water use - sector improves performance

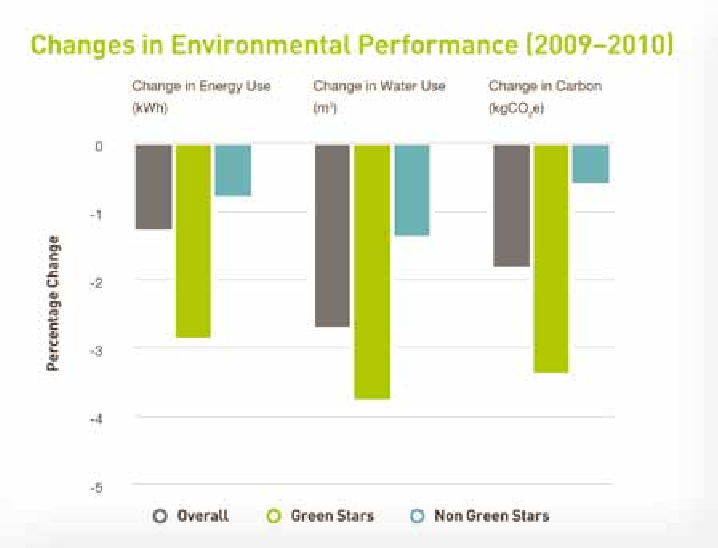
The graph on the following page shows changes in three key indicators of environmental performance between 2009 and 2010. For each of the indicators, the left bar reports the change for all reporting companies, the middle bar reports that change for Green Stars, and the right bar shows the figure for the remainder of the companies. For the 117 companies that reported (meaningful) like-for-like data, the energy use (kWh) decreased by 1.3% in one year (the maximum reduction in energy consumption was 20.6 percent). For the 65 Green Stars, that decrease was almost 3%. So, being a GRESB Green Star really implies superior environmental performance: noblesse oblige.

For water use (cubic metres), the performance improvement of the real estate sector is even better: a 2.8% reduction for all reporting companies combined (103 companies), and a 3.8% decrease in water consumption for the Green Stars. The maximum reported reduction in water consumption was 42.4%.

Regarding greenhouse gas emissions, the industry is clearly moving in the right direction, with a 1.8% reduction in 2010 (90 companies). The performance improvement of the Green Stars is even at 3.4%.

Conclusion

Reporting on environmental performance indicators is still challenging for the average European respondent to the GRESB survey, especially for private funds. Perhaps the latest sector supplement of the Global Reporting Initiative and the newly developed EPRA Best Practices Recommendations on Sustainability Reporting will provide some guidance to the market. Monitoring the portfolio energy costs is at



this moment done by just 26% of the respondents, offering room for improvement to actually find a balance between environmental and economic optimisation. The median reduction in energy use between 2009 and 2010 was just 0.11% in Europe, which is trailing the global reduction by more than 1%.

The information provided by the GRESB Foundation can assist institutional investors in their investment decisions, and offers a unique tool for direct engagement on environmental and social performance with property funds. For managers of property companies and funds, benchmarking their current sustainability practices at the portfolio level offers the opportunity to compare, set goals and improve performance.

Nils Kok currently holds a position as an associate professor in Finance and Real Estate at Maastricht University, the Netherlands. He is the recipient of a prestigious three-year grant from the Dutch National Science Foundation for his work on energy efficiency and sustainability in the real estate sector and the co-founder of the Global Real Estate Sustainability Benchmark (GRESB) Foundation. His research has appeared in leading academic journals such as the *American Economic Review, the Review of Economics and Statistics*, and *the European Economic Review.*

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Sander Paul van Tongeren is responsible for integrating sustainability across APG's global real estate and infrastructure portfolio. He is member of the EPRA Sustainability Reporting Committee, the INREV sustainability committee and the GRI CRESS working group. He holds a Masters degree in Business Economics as well as an Executive Master degree of Finance and Control and a Master of studies in Real Estate from the University of Amsterdam.

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EPRA REPORTING

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

Global REIT Survey 2011

Baker & McKenzie

Deloitte.

Ernst & Young
Quality In Everything We Do

KPMG
cutting through complexity™

LOYENS LOEFF
ATTORNEYS • TAX LAWYERS • CIVIL LAW NOTARIES

MACQUARIE

pwc

Each REIT regime is unique. The latest survey updates all the regulatory changes which have occurred this year - across 34 countries.

This, the eleventh REIT Survey, covers 34 countries. It is a hugely collaborative effort - with major contributions from Deloitte, PWC, Ernst & Young, KPMG, Baker & McKenzie, Loyens & Loeff, together with data from Macquarie Global Property Security Analytics.

Global REITs are still developing despite recent market turmoil. We've seen the major REIT regimes withstand these recent traumas and remain popular with investors and governments around the globe. This is evident from the ability of many REIT regimes to raise capital and the attention paid by the authorities to the continued development of existing regimes.

Now available

The *EPRA Global REIT Survey* is the window on the REIT world.

350 pages & online!

Visit: www.epra.com/reitsurvey

About EPRA

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, encouragement of best practices and cohesion, and strengthening of the industry.

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Diary

Zurich

Philip Charls (EPRA CEO) and Fraser Hughes (EPRA Research Director) travelled to Zurich on a two-day trip during the summer to target the large Swiss insurance companies. They met with the four large Swiss insurers explaining the current developments in the European listed market. The mood of the insurers was very conservative, for the moment focusing on domestic assets in direct real estate strategies. A couple of the insurers also held direct assets in the German market. We see this as a medium to long-term effort in convincing them on the benefits of diversification using the listed vehicle.

West coast

As part of EPRA's bi-annual outreach in the US, Philip and Fraser embarked on a week-long tour of the large investors and consultants in California in September. The trip was kindly organised by NAREIT and focused on the benefits of global listed diversification for US domiciled investors. The schedule was extremely busy, as the team hopped between San Diego, Pasadena, Newport beach, Los Angeles, San Francisco and Sacramento. The mood was, on the whole, positive. Investors saw the benefits in investing outside of their domestic market and spreading exposure to Europe and Asia-Pacific. The uncertainty in the European economic arena was on the table in all meetings we attended. It was clear the US media was having a field-day on the subject!

We clearly stated that an investment in the European region of the index yielded minimal exposure to the crisis countries - well under 5% at an asset level. In addition, it was important to stress the quality of assets held by the European companies in prime locations. The consultants visited made it clear that global mandates are back on the map.

Europe

Six weeks after the US outreach schedule, Fraser set up the return European home leg in London, Norway and the Netherlands. Meredith Despins of NAREIT accompanied him on this week-long programme. It consisted of over 20 meetings with Europe's largest investors - pension funds, SWFs and investment managers. Common themes throughout the meetings were the impact of market volatility on the real estate allocation, tax issues for foreign investors, the importance of looking through the vehicle to the underlying assets exposure, and the attractiveness of the REIT structure as a yield play - cash-flow is king!

Asia trip

We have scheduled a number of panel sessions and one-on-one meetings with the regions large pension funds, SWFs and investment managers.

Prepare an update of the mood of the region and publish in the next newsletter.

IN THE SPOTLIGHT

EPRA/DELOITTE ANNUAL REPORT SURVEY 2010/2011

Survey places the spotlight on EPRA's performance measures which are at the heart of EPRA's drive to achieve consistency and transparency in financial reporting.

Now in its tenth year, the purpose of the EPRA Annual Report Survey is to promote awareness of the EPRA Best Practices Recommendations (BPR) and to encourage and recognise adoption by companies. The purpose of the BPR is to raise the standard of financial reporting for the benefit of shareholders and investors.

Some 83 companies from a total of 14 countries across Europe were represented in the Survey. Some 63% of companies surveyed, representing 76% by market capitalisation of the FTSE EPRA/NAREIT Developed Europe indices now adopt the BPR (at least one EPRA Performance Measure). This is a significant improvement on the 60% by market capitalisation last year.

Award process

The Annual Reports of the 83 members of the FTSE/EPRA Developed Europe Index were reviewed by a team of experts from the Deloitte European real estate practice led by Claire Faulkner, UK Head of Real Estate. Annual Reports were assessed based on compliance with the BPR.

The BPR have been streamlined and refocussed during the year and the spotlight is on the EPRA Performance Measures, which are at the heart of EPRA's drive to achieve consistency and transparency in reporting of KPIs across the European listed real estate sector. Performance measures include standard definitions for EPRA Earnings, NAV, NNNAV, vacancy and yields.

Awards were made in the following categories:

For exceptional compliance with the BPR.

For Annual Reports scoring highly based on compliance with the BPR.

For Annual Reports scoring well based on compliance with the BPR.

In addition to the Gold, Silver and Bronze awards, a 'Most Improved' award has again been made for the company with the Annual Report showing the greatest improvement in recognising the BPR over the year. This was assessed based on those companies which clearly adopted the revised BPR in the current year, disclosing in full the key EPRA Performance Measures for the first time. Belgian real estate company, Befimmo won the award for 'Most Improved Annual Report.'

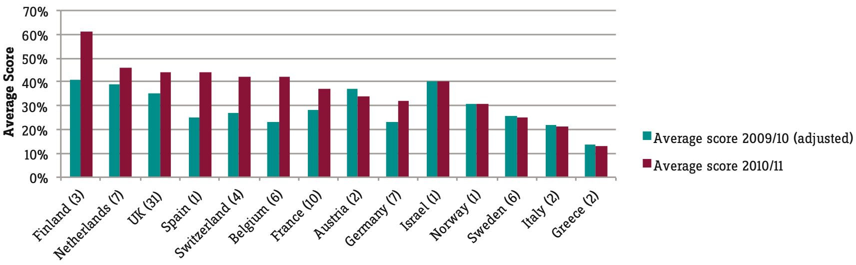
The future

It is easier than ever before for companies to adopt the BPR. Not only have the recommendations been streamlined and prioritised, but additional guidance was issued by EPRA in July 2011 highlighting best practice examples of disclosure of the EPRA performance measures and providing more information in relation to popular queries that have arisen following the release of the revised BPR.

The full Deloitte report on the EPRA Annual Report Survey 2010/11 is available to download from the EPRA and Deloitte websites.

For any further information on the Survey, the awards or the findings of the Deloitte review, please contact Claire Faulkner at Deloitte or Gareth Lewis at EPRA. Together with EPRA, members of the Deloitte European real estate team would welcome the opportunity to meet with finance teams to discuss the survey and individual company results.

What was the average score per country?



Country (Number of companies in 2010/11)

Highlights from the survey

- A two-tier system in financial reporting has emerged - in the top tier, encouragingly, a large number of the 83 companies surveyed have consciously adopted the revised BPR, implementing a number of the EPRA performance measures and embracing the recommendations on disclosure of investment property data.
- 63% of companies surveyed, representing 76% by market capitalisation of the FTSE EPRA/NAREIT Developed Europe Indices now adopt the BPR (at least one EPRA performance measure).
- 17% of companies included a summary table showing the EPRA performance measures in a prominent place in the Annual Report (a new recommendation in the BPR), and for the first time, some companies have taken the step of including an "EPRA Chapter" within their Annual Reports, bringing together the EPRA reporting in one place.
- In a significant increase from last year, 60% of companies are now reporting the EPRA NAV metric, highlighting the sector's capital return characteristic.
- While the EPRA Net Initial Yield and Vacancy Rate disclosures have yet to reach the level of adoption of the other performance measures, 24% and 27% of companies respectively included these.
- Adoption of the EPRA performance measures is becoming more widespread - 12 companies surveyed have included at least one measure for the first time this year, as did all five new entrants into the index.

The full Deloitte report on the EPRA Annual Report Survey 2010/11 is available to download here.

Befimmo - winner of the 'Most Improved Annual Report' award this year, CEO, Benoit de Blieck.

EPRA BPR GOLD

alstria First German REIT

British Land

Capital Shopping Centres

Cofinimmo

CITYCON creating success for retailing

Hammerson

LandSecurities

SEGRO WHERE BUSINESS WORKS

EPRA BPR SILVER

- Capital & Counties Properties
- Corio NV
- Derwent London
- Great Portland Estates
- Klépierre
- PSP Swiss Property
- Sponda
- Wereldhave NV
- Zublin Immoblien Holding

EPRA BPR BRONZE

- Affine
- Big Yellow Group
- Castellum
- CLS Holdings
- Development Securities
- Foncière des Régions
- Helical Bar
- ING UK Real Estate Income Trust
- Unibail-Rodamco
- Vastned Offices/ Industrial
- Vastned Retail

Deloitte.

BROADENING THE UNIVERSE

The FTSE EPRA/NAREIT Index series has an enhancement in the pipeline. 'Nationality' issues will be addressed which will broaden the underlying exposure to ensure it remains the global benchmark of choice.

Index constituents are currently allocated to their country of primary listing. The global index series is split into three global regions: Americas, Asia-pacific and EMEA, as well as sub-divided into Developed and Emerging markets.

At a global level, index constituents may have a diversified strategy, or focus on a specialist sector (office, retail, residential, industrial, logistics, etc) both within one country (mainly the US REITs), or across countries (mainly continental Europe and Asia firms). Depending on the country of origin, a cross-border strategy may be attractive when the local market lacks the investment opportunities in terms of business strategy and assets that fall within their investment scope. Attractive yields, growth opportunities and economies of scale play into the investment equation under the backdrop of market conditions and expectations.

Cross-border asset-level investment may become a challenge for country allocation - when real estate investment crosses FTSE EPRA/NAREIT-defined 'developed' and 'emerging' markets. For example, companies listed in developed countries such as Germany and Austria and that own assets in Central and Eastern Europe (CEE) which are defined as 'emerging markets' or that own a mix of developed and emerging markets assets, currently are difficult to place in the FTSE EPRA/NAREIT Global Real Estate Index. Similarly, a number of property companies listed in Singapore and Hong Kong have a sizeable presence in the Asia-Pacific emerging markets. For example, Hong Kong is a well-known base for property companies developing and owning assets in China.

Cross-border investment may become a challenge for country allocation - when real estate investment crosses FTSE EPRA/NAREIT-defined 'developed' and 'emerging' markets.

For country allocation purposes this creates a challenge. It tends to be precisely those larger established stocks who one would expect to lean towards the 'developed' indices that expand into neighbouring markets and subsequently reduce exposure in their country of origin.

The current ground rules of the FTSE EPRA/NAREIT Global Developed Index require that all eligible constituents derive at least 75% of EBITDA from a FTSE-defined developed market[1]. In exactly the same fashion, all constituents of the FTSE EPRA/NAREIT Emerging Markets Index must derive at least 75% of EBITDA from a FTSE-defined emerging market. However, at this moment in time, the FTSE EPRA/NAREIT ground rules do not cater for companies which are listed in a developed country and that own a mix of assets across both developed and emerging markets.

Following in-depth market consultation, regional and global committee-level discussion and 'behind-the-scenes' technical development and impact analysis, the FTSE EPRA/NAREIT Global Index will adopt an updated set of ground rules to address this issue - effective March 2012. This extends the universe of eligible stocks.

The impact on the existing set of FTSE EPRA/NAREIT Global Developed Index constituents will be minimal. Existing constituents of the Developed Index will switch to the FTSE EPRA/NAREIT Global

[1] *FTSE EPRA NAREIT Index Ground Rules 4.9- Rule 5.4*

Region	Current Rules	New Rules	Total	exl RED CHIP Component	Net effect of new rules
Emerging	€52,228	€75,577	44.7%	30.6%	14.1%
Developed	€564,708	€552,111	-2.2%	-1.3%	-0.9%
Currently Excluded	€10,753	€ -			
Global	€616,936	€627,689	1.7%	0.0%	1.7%
Region	**Current Rules**	**New Rules**	**Total**	**exl RED CHIP Component**	**Net effect of new rules**
Developed ASIA	€194,447	€182,193	-6.3%	-3.8%	-2.5%
Developed EMEA	€87,770	€87,770	0.0%	0.0%	0.0%
Developed Americas	€282,491	€282,491	0.0%	0.0%	0.0%
Emerging Asia	€19,899	€38,529	93.6%	56.5%	37.1%
Emerging EMEA	€10,928	€15,304	40.0%	0.0%	40.0%
Emerging Americas	€21,402	€21,402	0.0%	0.0%	0.0%
Global Index (MCap EUR bn)	€616,936	€627,689		€10,753	

based on Mcap of october 24 2011

These improvements enable the FTSE EPRA/NAREIT Global Index to account for the expansion of markets around the globe.

Emerging Index if their EBITDA from developed markets falls below 62.5% of their total eligible EBITDA. In turn, for a company to enter the FTSE EPRA/NAREIT Global Developed Index, it must derive at least 75% of eligible EBITDA from FTSE-defined developed markets. Effectively, this creates a banding system providing stability to the constituents of both the Global Developed and Emerging benchmarks - only significant moves in EBITDA will result in a switch, subsequently eliminating the danger of constituents 'flip-flopping' across the benchmarks.

Current situation

The FTSE EPRA NAREIT Global Index (the combination of developed and emerging markets) currently consists of 390 stocks - 287 and 103 from the developed and emerging markets, respectively. In addition, we currently have 28 stocks with a market cap of EUR 15 billion that fall short of inclusion for the reasons stated above. These stocks are referred to as 'Nationality' stocks. All of the nationality stocks are listed in the developed markets with varying degree of emerging market exposure. In several cases, the assets are based entirely outside the region of listing. Conversely, there are no stocks that are listed in one of the emerging markets that derive more than 75% EBITDA from the developed markets. Under the new March 2012 ground rules, the FTSE EPRA/NAREIT index has the ability to allocate companies according to market exposure at an asset level. At a practical level, the current exclusion of the Nationality stocks mostly impacts the CEE and China markets.

The new rules are implemented in combination with the move of the three Hong Kong red chip stocks. The reclassification of all red chip stocks from Hong Kong to China was announced in 2008. However, the change which was implemented for the FTSE global equity series in 2009 was deferred for the FTSE EPRA/NAREIT indices on concerns of the high turnover and benchmark volatility. Subsequently, the three red chips were 'grand-fathered' until March 2012. New or non-constituent red chips were eligible for the Emerging index with China as the country of allocation. Therefore, the implementation of the new rules on benchmark allocation coincides with the reclassification of the three red chips to China - effective March 2012. So what is the impact of the new rules? Using current data, we estimate the FTSE EPRA/NAREIT Global Index will grow approximately 1.7% in size as the Nationality stocks become eligible for the emerging market index.

We estimate that the new rules could see 12 stocks move from the Developed to the Emerging series, causing a drop of 2.2% for the Developed Index. The three red chips account for around half of this. Developed Asia is the only market in the developed series to have an impact with a drop of 6.3%. We estimate that the developed Europe and North America series remain unaffected with the application of the new rules in March 2012.

In addition to the three red chips, eight Hong Kong-listed and one >

Index eligibility criteria

- Constituents must derive 75% of EBITDA from core real estate activities for the Global Index.
- Current Developed Index constituents will move to emerging if EBITDA from developed market falls below 62.5%.
- Current Emerging Index constituents will move to Developed if EBITDA from developed market rises above 75%.
- FTSE will normally allocate each company to the country in which the company is incorporated and listed at the time of the company's listing.
- In some cases, Nationality stocks will be allocated to the country with their highest EBITDA contribution.

Singapore-listed stocks will become eligible for the Emerging Asia Index because they derive the majority of EBITDA from emerging markets.

Emerging Markets Index

The rules will have a significant effect on the emerging market series as it is pre-dominantly developed listed stocks invested in emerging markets that become eligible. Given the size of the individual emerging markets in relation to the large developed listed stocks, the series adds over 40% of market cap on a global level. The Emerging EMEA index will be boosted by 40%, while Emerging Asia will almost double. No impact is expected in the Americas market with the application of the new rules.

Looking ahead

The provision to allocate stocks according to asset exposure, as opposed to country of listing, in certain cases where it is neither logical nor accurate, serves as a major improvement. The ability to include and 'find a home' for companies that choose to list in a developed market, but which invest solely or predominately in emerging markets, means that the investment universe for global listed real estate stocks broadens in terms of country scope, and deepens in terms of the number of companies. These improvements enable the FTSE EPRA/NAREIT Global Index to account for the expansion of markets around the globe.

FTSE EPRA/NAREIT country classifications

	Developed	Emerging
ASIA		China
	Australia	India
	Hong Kong	Indonesia
	Japan	Malaysia
	New Zealand	Pakistan
	Singapore	Philippines
	South Korea	Taiwan
		Thailand*
EMEA	Austria	Czech Republic
	Belgium	Egypt
	Denmark	Hungary
	Finland	Morocco
	France	Poland
	Germany	Russia
	Greece	South Africa
	Ireland	Turkey
	Israel	UAE
	Italy	
	Netherlands	
	Norway	
	Portugal	
	Spain	
	Sweden	
	Switzerland	
	UK	
AMERICAS	Canada	Brazil
	USA	Chile
		Mexico
		Peru

Ali Zaidi joined EPRA's research team in October 2007. Ali's initial projects were working on the emerging market indices for the FTSE EPRA/NAREIT Global Real Estate Index and the European corporate governance report with Erasmo Giambona of the University of Amsterdam. Ali holds a BA in Economics and Business and completed his MSc in International Finance at the University of Amsterdam.

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REAL ESTATE *INCOME* TRUST

FROM RENT TO DIVIDEND

Good quality real estate can offer long-term capital appreciation and offer attractive cash-flow or income when managed and structured correctly. This article looks at the dividend and yield characteristics of listed real estate, and REITs in particular, in order to provide a clear picture of their income-distributing qualities.

The total return on an investment is a factor of both capital return and income returns. Different types of investors have different investment objectives and horizons to which they will try to match their allocations and investment decisions. For example, one investor might need to make regular distributions (e.g. pension funds), whereas others might be more focused on long-term wealth preservation (e.g. sovereign wealth funds).

Real estate offers a distinct set of characteristics when it comes to sourcing income and growing value, which can differ from other asset classes. In combination with the wide variety and heterogeneity of buildings, the right holding structure and management focus can provide attractive returns to investors in terms of income and capital.

Reliable income

A distinguishing feature of real estate investment compared against other investments is the way in which income is sourced, generated and secured. Income return on real estate investments is predominately derived from regular rental cash-flow or income. Contractually agreed tenant obligations such as a minimum duration of the term, termination penalties, and rent review structures all lead to a higher level of visibility and predictability of (future) income. These unique features, not often seen in other industries on this scale, are bread and butter to the real estate industry.

To maintain healthy cash flows, and ultimately to distribute income, a stable stream of rental income is required. In order to achieve this, the underlying assets must be of sufficient quality to attract and retain the required levels of rental income. On the whole, the majority of REIT portfolios are composed of good-quality assets in prime locations. It is these assets which attract the better quality (and as such more desirable) tenants, who are less likely to default on their rental >

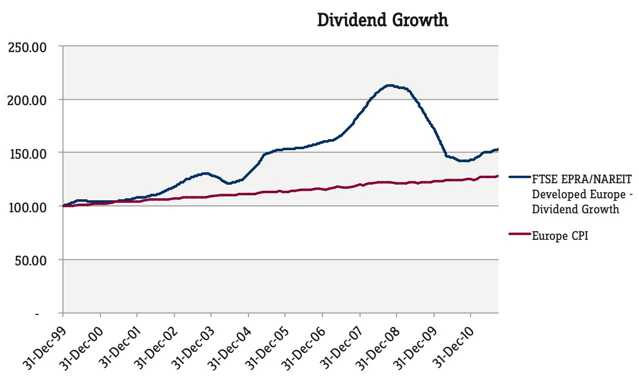
The quality of the underlying assets in combination with a relative high security of income, reduces the risk of ICR breaches and as such are the key ingredients in successful real estate financing.

payments, particularly when the broader economy is in decline.

Another aspect of REITs which is likely to provide a more stable stream of income is the relatively large size of REIT portfolios. This allows diversification in terms of both assets as well as tenants, and as such delivers more stable occupancy levels by avoiding dependency on a small number of income sources and assuring that lease expiry schedules are well spread over a long time period. These maturity schedules are transparently featured in most Annual Reports as breakdowns of the percentage of total rental income which could potentially expire in the near future.

Within the real estate sector, the focus on cash flows has increased since the downturn due to the large amount of debt in the market. One of the largest expenses of a real estate investment vehicle will be the cost of debt. When interest rates are increasing, bearing in mind the capital intensive nature of the real estate sector and a relatively high average LTV, it is clear how rising interest costs can threaten otherwise healthy cash flows, dividend returns, and ultimately ICR covenants.

Covenant breaches did not occur however in the listed real estate sector (bar a few exceptions) where average LTV levels were lower (around 50% in Europe) and cash flows were healthier. The listed real estate companies were able to refinance before debt maturities were reached, not only with equity raisings but also with the banks through renegotiations; meanwhile other vehicles



Graph 1

struggled to get access to finance as the debt market virtually locked up.

REITs' ability to do this suggests inherently strong income fundamentals. This solid underpin is also reflected through the high appetite for bond issues by property companies at relatively low yields, and with good ratings from the well-known rating agencies. The quality of the underlying assets in combination with a relative high security of income reduces the risk of ICR breaches, and as such are the key ingredients in successful real estate financing. Secondary, the vast majority of listed real estate companies' debt has fixed interest rates or is hedged otherwise.

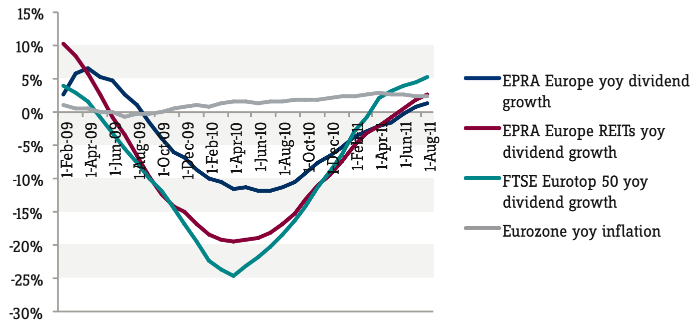
In combination with multiple financing options available to listed property companies, a well structured and balanced debt maturity schedule can be achieved. Companies provide a clear picture of interest payment obligations - as well as refinancing needs - to the end-investors by reporting their debt maturity schedules in their Annual Reports.

The income-producing capabilities of REITs will ultimately be reflected in the form of distributed dividends to the end-investor. The next paragraph will look at the dividend distribution levels of REITs.

Stable dividends

As indicated previously, one of the key features of real estate investments is their ability to generate a steady stream of income. If managed and structured correctly, this in turn should lead to more stable income returns towards the end-investors. Graph 1 displays the long-term dividend growth of European property companies. Annual compounded growth since 1999 stands at 3.7%, well above the annual compounded inflation of 2.1% over the same period. As expected, dividend growth will be more volatile when compared to inflation due to lease renegotiations next to agreed annual increases. The data however suggest that over the long-term it will out-perform inflation, illustrating the ability of well managed property companies to offer stable growing income returns to investors.

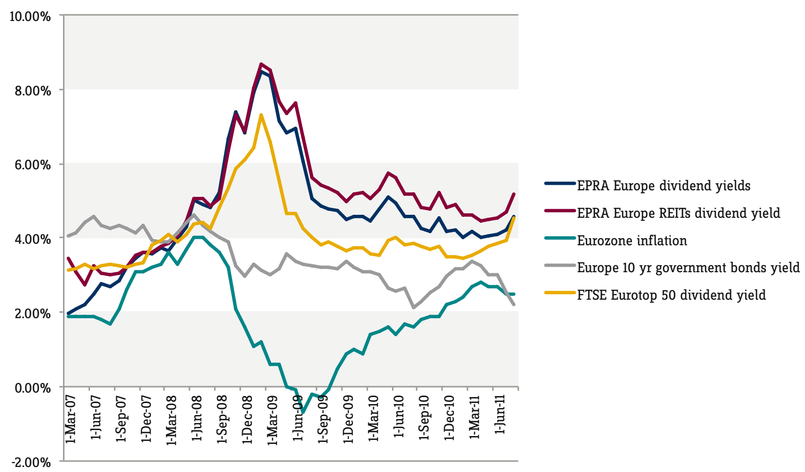
The expected amount of good-quality assets coming to the market at discounted prices due to distressed selling has not materialized - on the other hand, REITs did offer investors access to prime assets at attractive entry levels.



Graph 2

Graph 2 illustrates the year-on-year dividend growth for listed property companies and REITs during the recent downturn. Although there was a clear drop in distributed income during 2009, the majority of companies were able to pay out dividends. This indicates the generally healthy cash flows of these companies. The year-on-year drop in dividends paid out by listed property companies bottomed out at around -20.0%, whereas REITs bottomed out at -11.8%. In comparison, general equities showed a maximum decline of 25.0%. As the graph reveals, dividend distributions are growing again, showing the strong long-term income fundamentals of these companies.

In general, REITs pay out higher dividends as compared to non-REITs. Built into European REIT regimes is the obligation to distribute the vast majority (up to 100%) of their earnings to their shareholders. This is in line with most REITs' income-oriented strategy of offering stable income growth through active asset management and asset rotation. In some cases this may lower the organic growth potential of the companies as retained earnings are limited. Most companies however possess sufficient levels of firepower due to recent equity raisings, bond issues and available granted credit lines. Likewise, property acquisitions in exchange for shares can be a good way to expand their business. Besides, more countries are starting to allow stock-dividends which do allow REITs to retain earnings.



Graph 3

Attractive yields

As indicated above, dividend payouts of REITs are relatively stable when compared to other asset classes. On top of that, REITs tend to trade at higher yields when compared to these other investments. As graph 3 below shows, REITs have consistently traded at higher dividend yields when compared to bonds and general equities.

Over a five-year period, the average dividend yield of European REITs was 5.1%, whereas European Governments Bonds yielded 3.4% on average. General equities had an average yield of 4.1% compared to an average annual inflation of the Eurozone of 1.9% (see table 1). It is however difficult for investors to get access to high quality assets at high yields. This could be seen during the latest downturn when the direct real estate market >

In combination with long-term capital appreciation out-performing inflation and growing dividend distribution, the REIT vehicle can contribute to the stability and return demands of a wide range of investors.

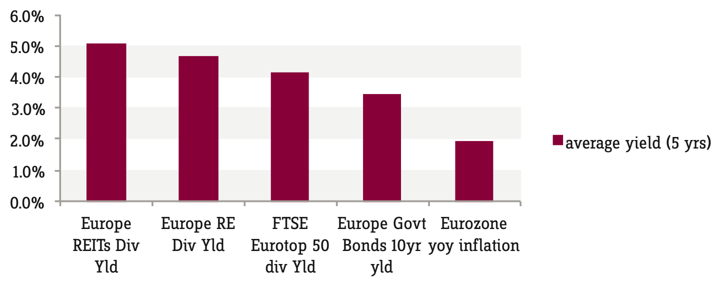


Table 1

was basically locked, as the bid/ask spread was too high. Therefore, the number of transactions on the direct real estate market was very limited.

In a way, the expected amount of good-quality assets coming to the market at discounted prices due to distressed selling has not materialised. On the other hand, REITs did offer investors access to prime assets at attractive entry levels. A key feature of REITs in comparison to other real estate investment vehicles is their ability to change hands continuously, even during the downturn, providing exceptional and much desired high levels of liquidity within the real estate market. This meant that investors could obtain exposure to high quality real estate at discounts to NAV coupled with relatively high and attractive yields.

These relatively high yields caught the attention of investors, when during and following the downturn interest rates and bond yields remained low and investors had to seek out better income-producing investments. Similarly, the lower economic growth outlook meant generalist investors re-focussed on income as well.

Conclusion

Real estate, because of its fundamental characteristics, can provide healthy income returns when structured and managed in the right way. REITs have the distinct characteristic that income return, i.e. dividends, are more predictable as compared to some other vehicles due to tenant agreements and standards of reporting. The prime quality assets they tend to own are most likely to offer long-term *reliable income* leading to healthy cash flows.

Combined with appropriate debt management, *stable dividends* should be achieved when managed correctly. On top of this, the liquid nature of REITs can offer access and exposure to quality real estate at *attractive yields* when other ways of achieving this are blocked. In combination with long-term capital appreciation out-performing inflation and growing dividend distribution, the REIT vehicle can contribute to the stability and return demands of a wide range of investors.

Maikel Speelman holds a BBA in Real Estate Management from the Hanzehogeschool Groningen and an MA in European Real Estate from Kingston University London. He joined EPRA's research analyst team in December 2008.
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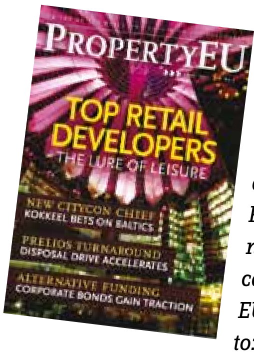
ON TOP OF THE DEALS, IN TOUCH WITH THE DEALMAKERS



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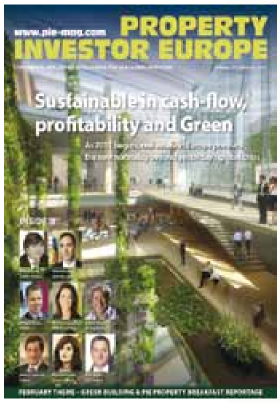

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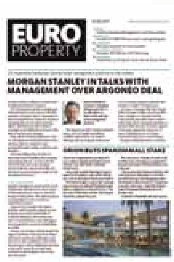

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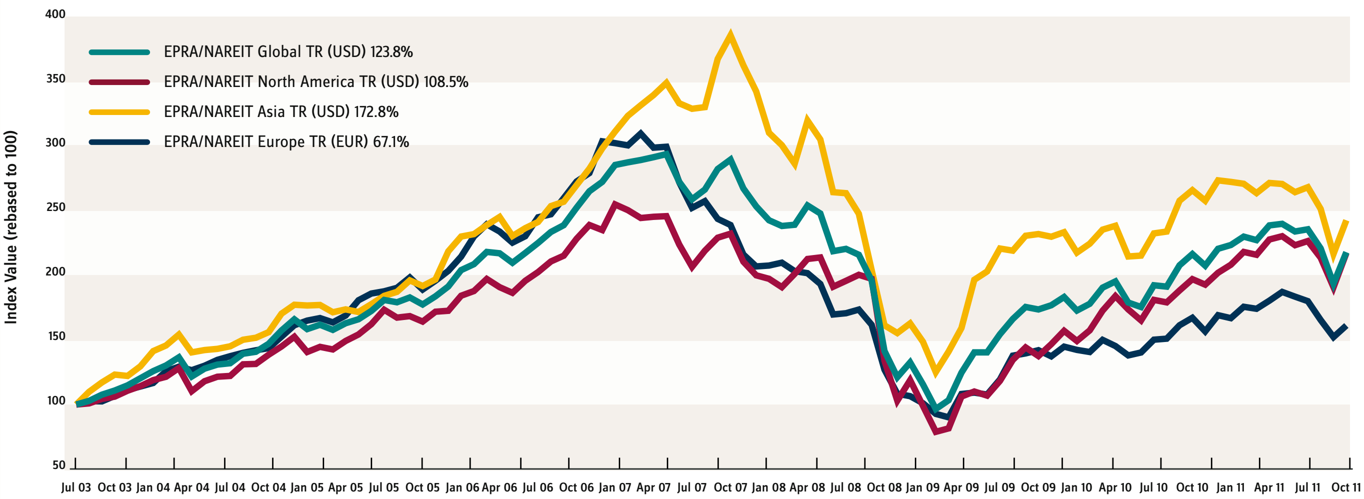
GLOBAL



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Oct-31)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
↑ Yanlord Land Group	Singapore	Non-Rental	Diversified	45.07	-10.45	-28.57	-30.64	-NA-	0.01
↑ Country Garden Holdings	Hong Kong	Non-Rental	Diversified	43.58	-0.58	14.77	63.64	-NA-	0.03
↑ Agile Property Holdings	Hong Kong	Non-Rental	Diversified	39.22	-9.87	9.03	52.67	20.25	0.02
↑ China Resources Land	Hong Kong	Non-Rental	Residential	35.92	0.72	2.63	-2.77	28.54	0.02
↑ CBL & Associates Props *	USA	Rental	Retail	35.39	35.39	-8.51	3.38	28.32	0.05
↓ Nomura Real Estate Office Fund *	Japan	Rental	Office	-10.80	-6.17	-1.52	26.64	-6.12	0.05
↓ ORIX JREIT *	Japan	Rental	Office	-8.30	0.90	-8.22	27.45	-2.29	0.07
↓ Premier Investment Co. *	Japan	Rental	Diversified	-11.54	-10.70	-6.70	8.95	-6.22	0.07
↓ Japan Real Estate *	Japan	Rental	Office	-11.00	-0.38	-0.22	13.49	-1.26	0.04
↓ Colonia Real Estate	Germany	Rental	Residential	-14.18	-14.18	-39.19	-28.12	19.03	0.00

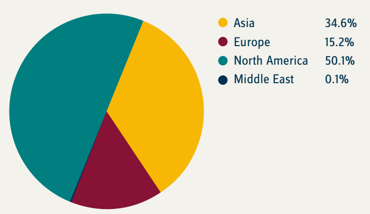
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
1 Simon Property Group *	USA	Rental	Retail	26,971.15	9.30	31.51	37.10	27.90	0.02
2 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	19,249.19	9.17	-5.76	8.10	9.69	0.02
3 Westfield Group *	Australia	Rental	Retail	13,516.61	7.01	-7.28	-1.43	1.04	0.09
4 Unibail-Rodamco *	France	Rental	Diversified	13,193.86	14.94	1.22	3.09	16.30	0.06
5 Mitsubishi Estate	Japan	Non-Rental	Diversified	12,934.38	5.95	0.36	13.71	-9.60	0.01
6 Equity Residential Props *	USA	Rental	Residential	12,367.97	4.27	14.90	23.69	22.28	0.02
7 Public Storage *	USA	Rental	Self Storage	11,808.70	4.07	29.91	33.59	19.28	0.03
8 HCP *	USA	Rental	Health Care	11,600.38	4.00	12.23	15.95	14.15	0.05
9 Vornado Realty Trust *	USA	Rental	Diversified	10,938.42	3.77	1.86	-2.13	9.41	0.03
10 Mitsui Fudosan	Japan	Non-Rental	Diversified	10,713.96	4.93	1.17	11.91	-10.08	0.02

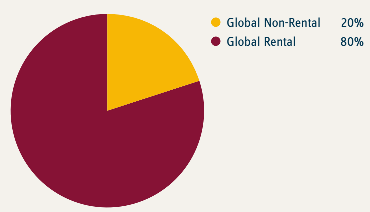
Indices

Index Description	Market Cap (EUR m)	Close Value Oct-31	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
EPRA/NAREIT Europe TR (EUR)	8,9413.34	2120.06	15.45	17.70	-11.24	4.18
EPRA/NAREIT Asia TR (USD)	306,179.92	2352.20	13.95	14.66	-11.67	3.41
EPRA/NAREIT North America TR (USD)	337,107.80	3476.50	25.49	43.36	-5.34	3.69
EPRA/NAREIT Global TR (USD)	768,453.88	2851.93	18.18	24.74	-9.25	3.65

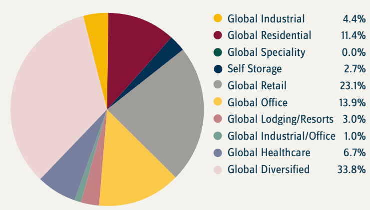
Regional Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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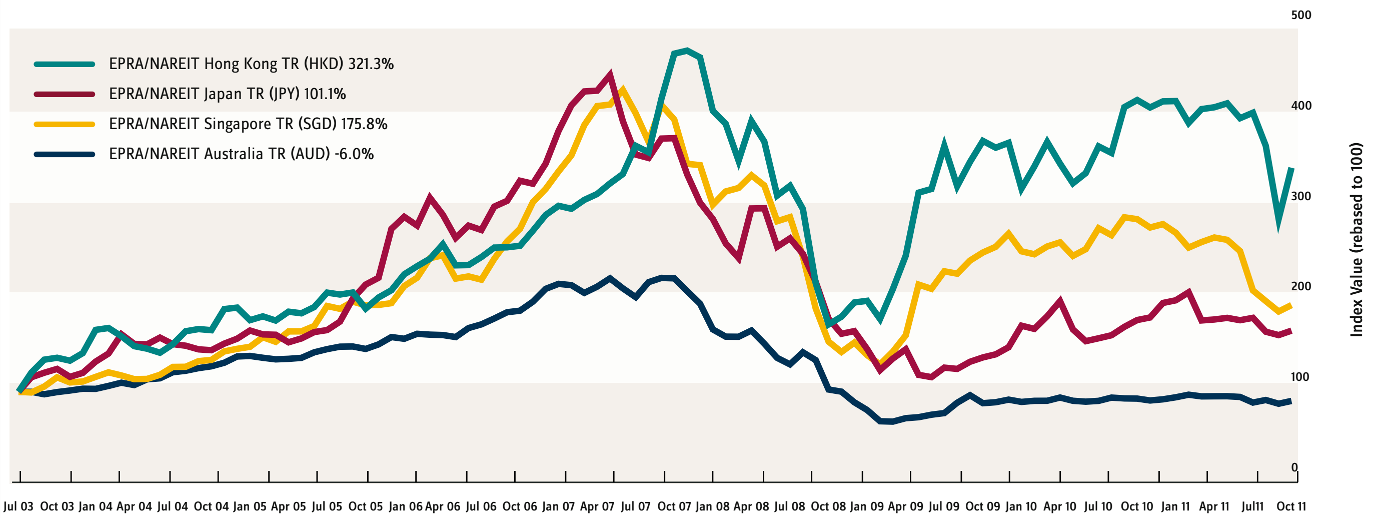


Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Oct-31)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
↑ Yanlord Land Group	Singapore	Non-Rental	Diversified	45.07	-10.45	-28.57	-30.64	-NA-	1.02%
↑ Country Garden Holdings	Hong Kong	Non-Rental	Diversified	43.58	-0.58	14.77	63.64	-NA-	3.38%
↑ Agile Property Holdings	Hong Kong	Non-Rental	Diversified	39.22	-9.87	9.03	52.67	20.25	2.41%
↑ China Resources Land	Hong Kong	Non-Rental	Residential	35.92	0.72	2.63	-2.77	28.54	2.20%
↑ Shimao Property	Hong Kong	Non-Rental	Residential	29.97	-7.34	-12.86	-18.43	-NA-	4.17%
↓ New World China Land	Hong Kong	Non-Rental	Diversified	-5.26	-3.14	-1.37	18.52	3.68	3.60%
↓ Nomura Real Estate Office Fund	Japan	Rental	Office	-10.81	-6.17	-1.52	26.64	-6.12	5.49%
↓ ORIX JREIT *	Japan	Rental	Office	-8.31	0.91	-8.22	27.45	-2.29	6.56%
↓ Premier Investment Co. *	Japan	Rental	Diversified	-11.54	-10.70	-6.70	8.95	-6.22	6.79%
↓ Japan Real Estate *	Japan	Rental	Office	-11.01	-0.38	-0.22	13.49	-1.26	4.08%

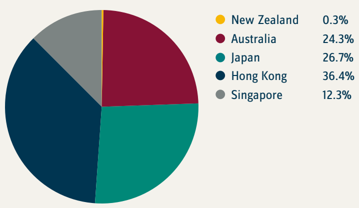
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
1 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	19,249.19	9.17	-5.76	8.10	9.69	2.47%
2 Westfield Group *	Australia	Rental	Retail	13,516.61	7.01	-7.28	-1.43	1.04	9.12%
3 Mitsubishi Estate	Japan	Non-Rental	Diversified	12,934.38	5.95	0.36	13.71	-9.60	0.85%
4 Mitsui Fudosan	Japan	Non-Rental	Diversified	10,713.96	4.93	1.17	11.91	-10.08	1.60%
5 Sumitomo Realty & Dev	Japan	Non-Rental	Diversified	7,244.64	3.45	8.11	18.47	-7.92	1.12%
6 Hongkong Land Hldgs	Hong Kong	Rental	Office	6,619.56	4.06	3.14	46.18	16.34	2.25%
7 Westfield Retail Trust	Australia	Rental	Retail	5,924.03	2.90	3.44	-NA-	-NA-	0.00%
8 Hang Lung Properties	Hong Kong	Non-Rental	Diversified	5,915.09	3.00	-4.23	8.16	20.21	2.23%
9 Wharf Holdings	Hong Kong	Non-Rental	Diversified	5,869.67	3.44	0.75	-NA-	-NA-	1.83%
10 Stockland Trust Group *	Australia	Non-Rental	Diversified	5,727.99	2.85	-1.75	-2.02	-6.49	6.95%

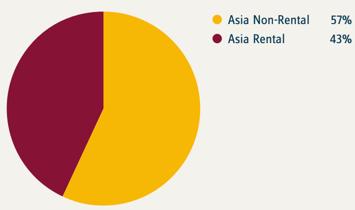
Indices

Index Description	Market Cap (EUR m)	Close Value Oct-31	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
EPRA/NAREIT Australia TR (AUD)	63,755.56	1,314.37	2.87	5.86	-11.80	6.26
EPRA/NAREIT Hong Kong TR (HKD)	788,010.35	2,615.79	-4.41	17.75	8.29	2.54
EPRA/NAREIT Japan TR (JPY)	5,802,845.34	1,903.61	-9.61	14.84	-11.72	2.55
EPRA/NAREIT Singapore TR (SGD)	42,871.31	1,475.43	-10.47	-0.84	-3.97	3.22

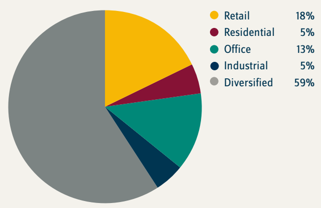
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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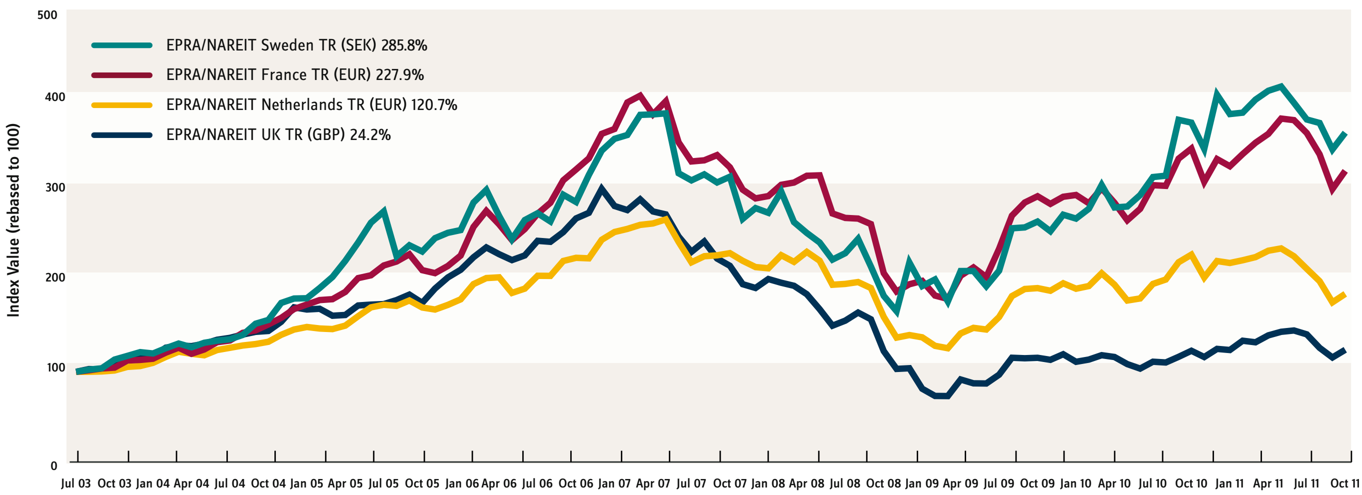
EUROPE



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Oct-31)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
↑ Ivg Immobilien	Germany	Non-Rental	Office	22.99	22.99	-0.50	-NA-	-NA-	0.00%
↑ Derwent London *	UK	Rental	Office	17.92	17.92	10.68	13.66	34.93	1.75%
↑ DIC Asset	Germany	Rental	Diversified	15.48	15.48	-16.19	-7.33	7.19	5.27%
↑ Daejan Holdings	UK	Rental	Diversified	13.13	15.40	7.42	11.16	4.49	2.72%
↑ Patrizia Immobilien	Germany	Rental	Residential	13.31	13.31	4.17	9.20	35.72	0.00%
↓ Grainger Plc	UK	Non-Rental	Residential	-2.71	-2.71	-20.29	-19.64	28.15	1.42%
↓ Nieuwe Steen Inv *	Netherlands	Rental	Diversified	-3.42	-3.42	-21.84	-19.04	2.51	11.18%
↓ TAG Immobilien	Germany	Non-Rental	Diversified	-4.29	-4.29	8.21	7.07	10.39	0.00%
↓ Quintain Estates	UK	Non-Rental	Diversified	-6.88	-6.88	-11.31	-5.70	-2.31	0.00%
↓ Colonia Real Estate	Germany	Rental	Residential	-14.18	-14.18	-39.19	-28.12	19.03	0.00%

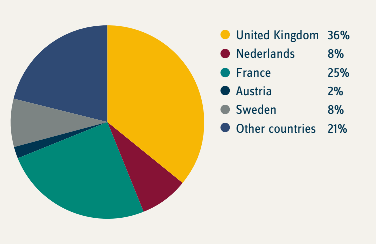
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
1 Unibail-Rodamco *	France	Rental	Diversified	13,193.86	14.94	1.22	3.09	16.30	5.54%
2 Land Securities *	UK	Rental	Diversified	6,163.19	6.98	4.66	-13.26	-7.17	4.12%
3 British Land *	UK	Rental	Diversified	5,226.86	5.92	2.29	-11.70	5.41	5.09%
4 Corio *	Netherlands	Rental	Retail	3,358.01	3.80	-17.55	-1.56	2.41	7.29%
5 Hammerson *	UK	Rental	Retail	3,333.45	3.77	1.44	-10.71	-1.40	3.95%
6 PSP Swiss Property	Switzerland	Rental	Office	3,053.58	3.46	6.87	6.82	19.51	3.49%
7 Capital Shopping Centres Group *	UK	Rental	Retail	2,455.21	2.78	-17.29	-12.50	-4.74	4.56%
8 Swiss Prime Site	Switzerland	Rental	Office	2,412.17	2.73	8.03	8.41	18.59	4.87%
9 Klepierre *	France	Rental	Retail	2,144.45	2.43	-11.22	-4.21	14.94	5.97%
10 SEGRO *	UK	Rental	Industrial	2,092.49	2.37	-9.62	-23.12	-16.12	5.95%

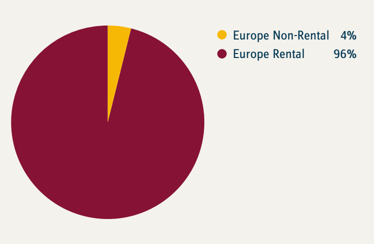
Indices

Index Description	Market Cap (EUR m)	Close Value Oct-31	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
EPRA/NAREIT UK TR (GBP)	27,232.26	1,629.67	-0.78	0.89	0.38	3.99
EPRA/NAREIT Netherlands TR (EUR)	7,152.78	2,755.79	-16.34	-18.92	5.01	7.82
EPRA/NAREIT France TR (EUR)	22,097.69	4,424.2	-3.89	-7.11	15.51	5.82
EPRA/NAREIT Sweden TR (SEK)	59,992.31	5,673.51	-10.32	-2.96	25.60	3.88

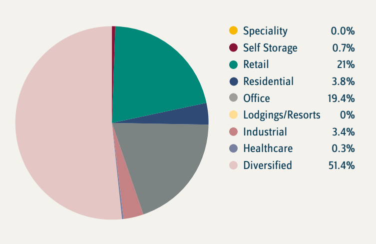
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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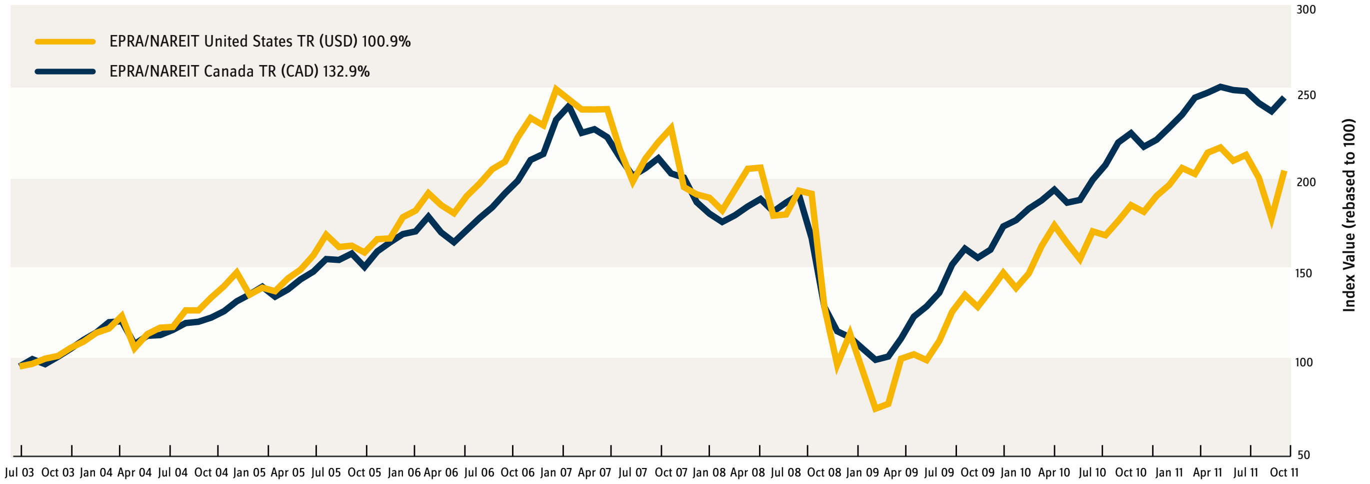


Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Oct-31)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
↑ CBL & Associates Props *	USA	Rental	Retail	35.39	35.39	-8.51	3.38	28.32	5.46%
↑ Pennsylvania Real Estate *	USA	Rental	Retail	32.73	32.73	-26.29	-23.90	-0.48	5.85%
↑ Strategic Hotels & Resorts	USA	Rental	Lodging/Resorts	32.02	32.02	7.56	25.05	4.75	0.00%
↑ Host Hotels & Resorts *	USA	Rental	Lodging/Resorts	30.44	30.44	-19.64	-9.57	12.56	1.12%
↑ Diamondrock Hospitality *	USA	Rental	Lodging/Resorts	29.47	29.47	-22.58	-12.19	22.87	2.65%
↓ Canadian REIT *	Canada	Rental	Diversified	-0.53	0.06	18.39	15.43	15.27	4.06%
↓ Riocan Real Estate *	Canada	Rental	Retail	-2.73	-2.29	20.18	15.70	20.52	5.46%
↓ Innvest REIT *	Canada	Rental	Lodging/Resorts	-4.63	-3.66	-32.79	-32.55	1.90	12.15%
↓ Canadian Apartment Props *	Canada	Rental	Residential	-4.17	-3.74	23.22	22.20	20.67	5.34%
↓ First Capital Realty	Canada	Rental	Retail	-4.29	-4.29	11.65	11.79	13.35	4.92%

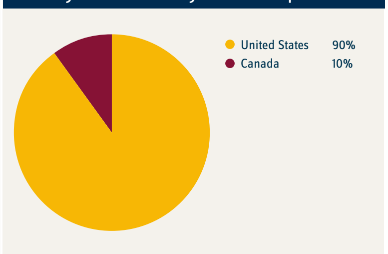
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
1 Simon Property Group *	USA	Rental	Retail	26,971.15	9.30	31.51	37.10	27.90	2.49%
2 Vornado Realty Trust *	USA	Rental	Diversified	10,938.42	3.77	1.86	-2.13	9.41	3.33%
3 Equity Residential Props *	USA	Rental	Residential	12,367.97	4.27	14.90	23.69	22.28	2.30%
4 Public Storage *	USA	Rental	Self Storage	11,808.70	4.07	29.91	33.59	19.28	2.94%
5 Boston Properties *	USA	Rental	Office	10,333.11	3.56	16.71	17.17	14.25	2.02%
6 Host Hotels & Resorts *	USA	Rental	Lodging/Resorts	7,224.46	2.49	-19.64	-9.57	12.56	1.12%
7 HCP *	USA	Rental	Health Care	11,600.38	4.00	12.23	15.95	14.15	4.82%
8 Avalonbay Communities *	USA	Rental	Residential	9,013.87	3.11	21.16	29.11	27.71	2.67%
9 Ventas *	USA	Rental	Health Care	11,470.70	3.96	9.25	8.05	19.79	3.23%
10 Kimco Realty *	USA	Rental	Retail	5,083.11	1.75	-0.17	5.57	-3.50	4.12%

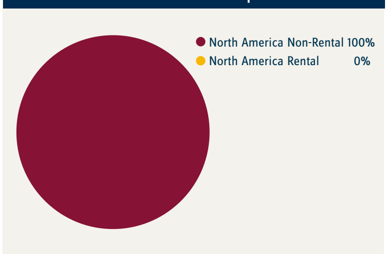
Indices

Index Description	Market Cap (EUR m)	Close Value Oct-31	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
EPRA/NAREIT Canada TR (CAD)	40,464.31	4,433.11	10.41	8.64	23.33	5.41
EPRA/NAREIT United States TR (USD)	363,530.70	3,682.21	7.22	10.13	16.27	3.54

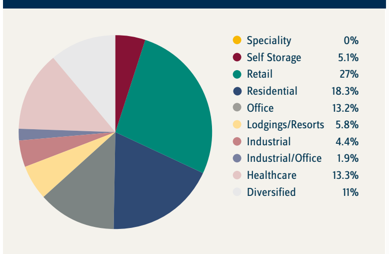
Country Breakdown by Market Cap



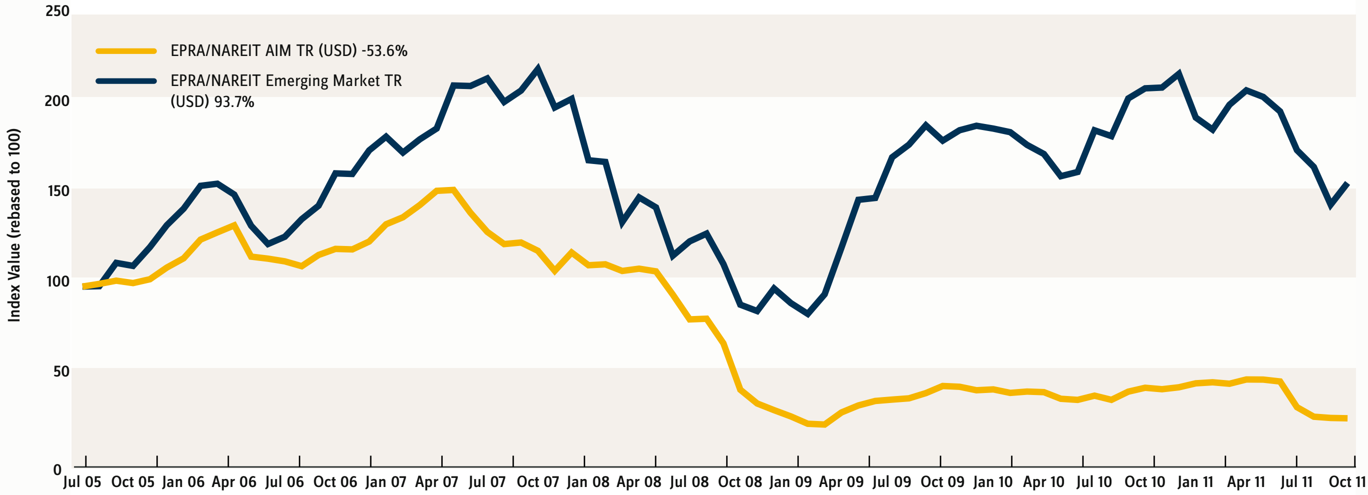
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
EMERGING MARKETS



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Oct-31)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
↑ Poly (Hong Kong) Invest. (Red Chip)	China	Non-rental	Diversified	66.53	66.53	-47.63	-50.13	38.95	3.89%
↑ Guangzhou R&F Properties (H)	China	Non-rental	Diversified	32.13	32.13	-25.45	-25.05	36.51	9.53%
↑ Land And General	Malaysia	Non-rental	Diversified	31.58	31.58	-21.05	-30.56	31.48	0.00%
↑ Shenzhen Vanke (B)	China	Non-rental	Residential	30.07	30.07	-7.31	-19.98	25.88	1.35%
↑ Cyrela Brazil Realty S/A Empreendimentose e Participacoes Or	Brazil	Non-rental	Diversified	28.18	28.18	-29.76	-34.69	14.72	2.25%
↓ Sinpas Gayrimenkul Yatirim Ortakligi	Turkey	Non-rental	Diversified	-12.41	-12.41	-26.73	-30.09	42.56	3.94%
↓ SC Asset	Thailand	Non-rental	Diversified	-12.84	-12.84	32.12	23.16	72.86	7.37%
↓ Asian Property Development	Thailand	Non-rental	Residential	-16.70	-16.70	-2.34	-14.18	28.96	3.30%
↓ Sare Holding S.A. de C.V.	Mexico	Non-rental	Residential	-23.35	-23.35	-65.78	-59.24	-28.76	0.00%
↓ Preuksa Real Estate	Thailand	Non-rental	Industrial/office	-25.17	-25.17	-39.46	-48.15	-NA-	4.67%

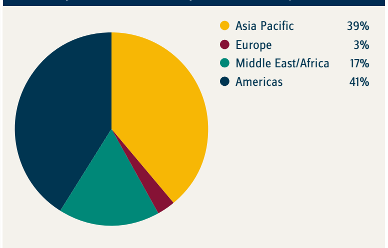
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
1 PDG Realty S/A Empreendimentos e Participacoes Ord	Brazil	Non-rental	Diversified	3,598.66	15.88	-23.83	-27.23	40.01	2.23%
2 BR Malls Participacoes S/A Ord	Brazil	Rental	Retail	3,529.18	15.57	9.45	15.17	67.98	0.89%
3 Growthpoint Prop Ltd	South Africa	Rental	Diversified	2,834.29	30.14	7.80	13.89	18.31	7.10%
4 Cyrela Brazil Realty S/A Empreendimentose e Participacoes Or	Brazil	Non-rental	Diversified	2,012.48	8.88	-29.76	-34.69	14.72	2.25%
5 Redefine Income Find	South Africa	Rental	Diversified	1,966.21	20.91	4.63	4.41	18.75	7.95%
6 MRV Engenharia e Participacoes SA	Brazil	Non-rental	Residential	1,849.07	8.16	-21.33	-26.02	49.58	2.78%
7 DLF	India	Non-rental	Diversified	1,823.44	8.65	-16.23	-30.24	4.10	0.83%
8 Emaar Properties	UAE	Non-rental	Diversified	1,620.98	17.24	-20.66	-27.96	-19.20	3.60%
9 Ayala Land	Philippines	Non-rental	Diversified	1,405.84	6.67	-0.93	-2.07	40.86	1.20%
10 BR Properties S/A Ord	Brazil	Rental	Retail	1,318.04	5.82	-4.14	6.15	-NA-	0.63%

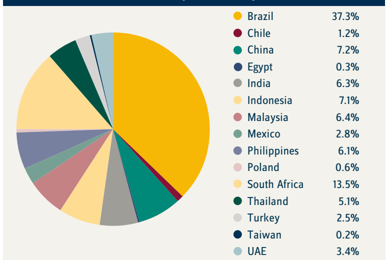
Indices

Index Description	Market Cap (EUR m)	Close Value Oct-31	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Oct-31
EPRA/NAREIT Emerging Market TR (USD)	54,885.83	1,749.96	-23.56	-22.55	20.51	2.94
EPRA/NAREIT AIM TR (USD)	21,083.76	1,720.63	-17.23	-19.78	19.83	2.25

Country Breakdown by Market Cap



Global Breakdown by Country



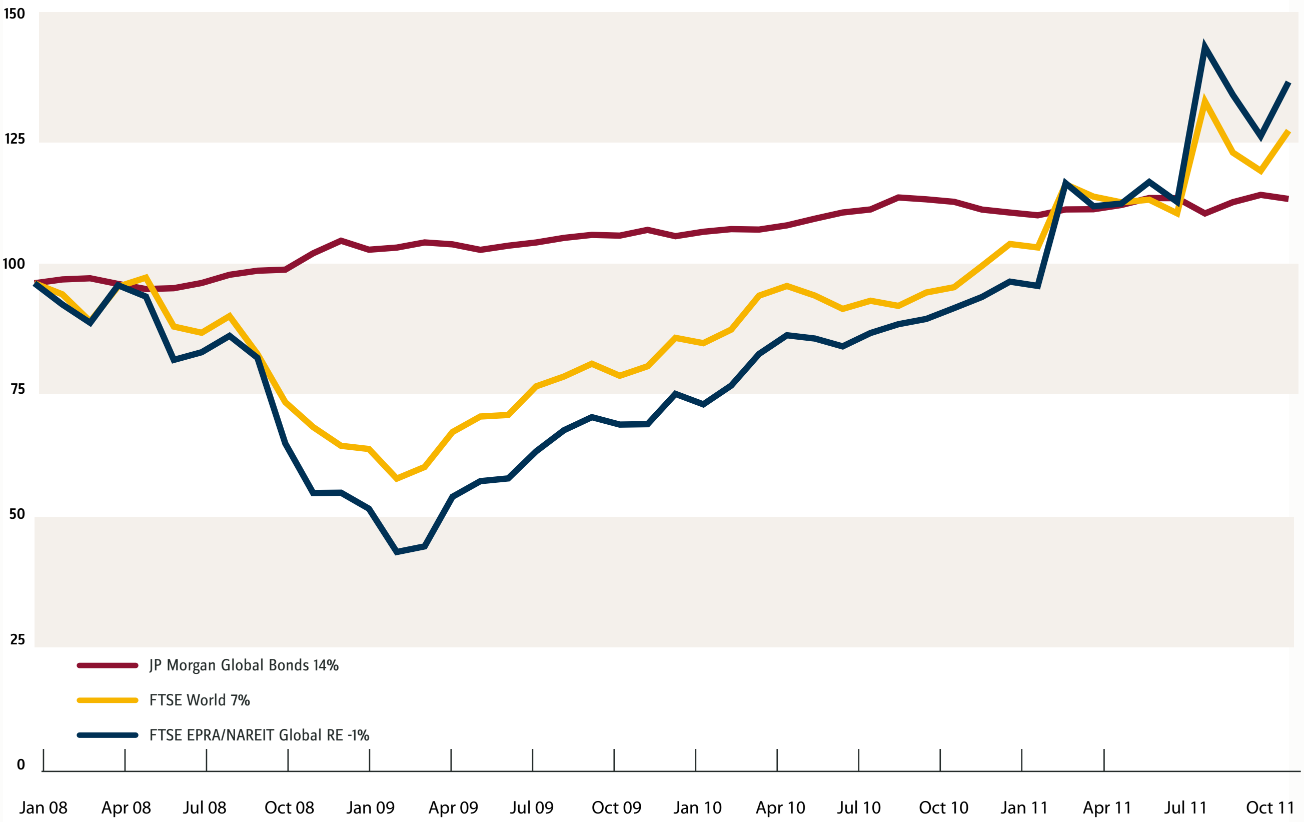
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

Countries	2010 GDP ($ Bn)	2010 GDP per capita ($)	2010 Real Estate ($ Bn)	31 Oct 11 Total Listed ($ Bn)	31 Oct 11 No. of Companies	31 Oct 11 Index Mkt Cap ($ Bn)	31 Oct 11 Total RE v Listed RE (%)
Australia	1,142	53,713	514	98	162	67.6	19.01%
Hong Kong	2,164	306,692	974	252	198	101.5	25.92%
Japan	5,123	40,322	2,305	150	272	74.4	6.51%
New Zealand	75	17,899	34	5	18	0.8	14.08%
Singapore	200	42,901	899	110	115	34.3	12.20%
South Korea	947	19,527	426	0	27	-	0.06%
Total Asia-Pacific	**9,651**		**5,152**	**614.7**	**792**	**279**	**11.93%**
Austria	385	46,889	173	9	13	2.3	5.34%
Belgium	475	45,641	214	8	30	4.0	3.85%
Denmark	316	57,499	142	1	40	-	0.83%
Finland	246	46,784	111	3	8	2.6	2.43%
France	2,636	40,923	1,186	80	122	30.8	6.74%
Germany	3,383	41,330	1,522	58	169	7.6	3.81
Greece	320	29,841	144	2	24	0.1	1.56%
Ireland	227	49,628	102	1	3	-	0.88%
Italy	2,125	35,168	956	2	20	0.8	0.25%
Luxembourg	55	111,080	25	6	7	-	24.59%
Netherlands	805	48,143	362	13	15	10.0	3.64%
Norway	407	87,413	183	3	17	0.8	1.71%
Portugal	235	21,972	106	0	9	-	0.05%
Spain	1,465	31,718	659	9	33	0.1	1.30%
Sweden	448	49,424	201	17	41	9.3	8.64%
Switzerland	501	65,899	225	15	32	10.2	6.84%
United Kingdom	2,363	38,117	1,063	58	138	44.0	5.45%
Total Europe	**16,392**		**7,376**	**286.5**	**721**	**122**	**3.88%**
Israel	405	56,545	182	15	153	0.9	0.84%
Total EMEA	**16,797**		**7,559**	**301.9**	**874**	**123**	**3.99%**
Canada	1,473	43,978	663	69	129	40.7	10.48%
United States	14,305	46,561	6,437	790	858	363.5	12.27%
Total North America	**15,778**		**7,100**	**859.5**	**987**	**404**	**12.11%**
Total Developed Markets	**42,225**		**19,810**	**1,776**	**2,653**	**806**	**8.97%**
China	5,103	3,855	1,226	120	192	5.5	0.98%
India	1,473	1,273	245	27	188	4.8	1.12%
Indonesia	590	2,455	122	14	64	5.5	1.15%
Malaysia	216	7,768	66	42	131	4.9	6.47%
Pakistan	166	964	25	-	6	-	0.00%
Philippines	180	1,837	34	20	59	4.7	6.06%
Taiwan	340	14,820	128	15	87	0.1	1.19%
Thailand	286	4,336	71	23	113	3.9	3.29%
Total Asia-Pacific	**8,353**		**1,917**	**263.4**	**840**	**29**	**13.74%**
Czech Republic	195	19,053	80	-	3	-	0.00%
Egypt	190	2,288	38	5	48	0.2	1.37%
Hungary	136	13,559	50	-	7	-	0.00%
Morocco	89	2,788	19	-	5	-	0.00%
Poland	465	12,084	164	3	50	0.5	0.20%
Russia	1,421	10,144	471	-	37	-	0.00%
South Africa	314	6,269	89	26	51	10.3	2.89%
Turkey	689	8,975	220	8	39	1.9	0.37
United Arab Emirates	228	4,781	59	8	12	2.6	1.36%
Total EMEA	3,727		1,189	50.4	252	16	4.24%
Brazil	1,781	9,548	579	54	52	28.5	0.94%
Chile	180	11,380	62	5	42	0.9	0.73%
Colombia	256	6,248	72	-	1	-	0.00%
Mexico	1,004	9,561	326	6	17	2.2	0.19%
Peru	136	5,002	36	-	13	-	0.00%
Total Americas	3,356		1,075	64.9	125	32	6.03%
Total Emerging Markets	15,435		4,181	379	1,217	77	9.06%
World	57,661		23,991	2,155	3,870	883	8.98%

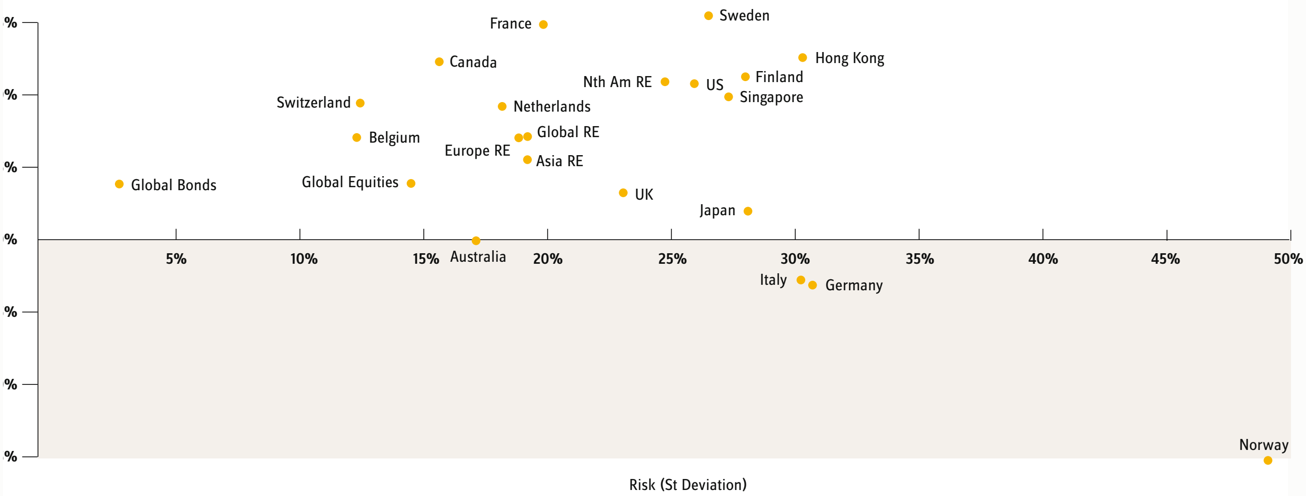
Source: World Bank, IMF, Prudential Real Estate Investors, EPRA * Base on Prudential Real Estate Investors Formula

FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

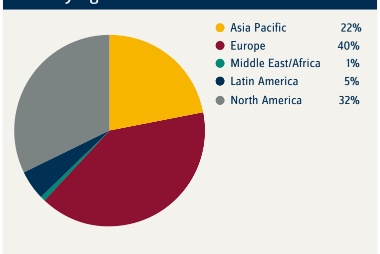
Global real estate vs equities & bonds



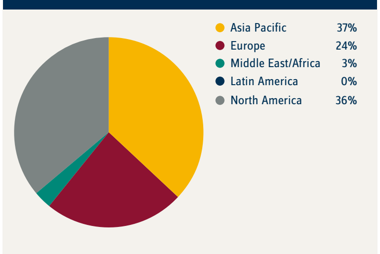
Rolling 10-years risk/return local currencies - countries



Underlying Real Estate



Listed Real Estate



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