



EPRA NEWS

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

ISSUE 31 | August 2009

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to remain the preferred
partner

- Annual Conference
Programme
- Public-private, ebb and flow

- Remuneration decisions
in today's market

Anatole Kaletsky

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The building debate

AUSTRALIA

- Growthpoint
- MacarthurCook
- Stockland
- Univ. of Western Sydney,
- Property Research Centre
- Valad Property Group
- Vanguard Investments Australia

AUSTRIA

- CA Immobilien Anlagen
- Conwert Immobilien Invest

BELGIUM

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- Cofinimmo
- ING Real Estate Capital Advisors
- Leasinvest Real Estate
- Solvay Brussels School of Economics & Management

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BRITISH VIRGIN ISLANDS

- Dolphin Capital Investors

CANADA

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- KTI Finland
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- Silic
- Société de la Tour Eiffel
- Société Foncière Lyonnaise
- Société Générale
- Unibail-Rodamco
- Université Paris Dauphine

GERMANY

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- Alstria Office
- Beiten Burkhardt
- RREEF Investment
- Deutsche Euroshop
- Deutsche Wohnen

- DIC Asset
- Eurocastle Investment
- Fair Value REIT
- Heitman
- HSH Nordbank
- IRE|BS Immobilienakademie
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- PricewaterhouseCoopers
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- Rothschild
- SEB Asset Management
- Vivacon

GREECE

- Babis Vovos - International Construction Group
- Eurobank Properties REIC
- Lamda Development
- National Bank of Greece
- Pasa Development
- Trastor Real Estate Investment

HONG KONG

- University of Hong Kong, Dept. of Real Estate & Construction

ISRAEL

- Gazit-Globe

ITALY

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- IGD
- Pirelli & C. Real Estate

NETHERLANDS

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- Bouwfonds Asset Management
- BPF Bouwinvest
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- CITCO
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- ProLogis
- Redevco Europe Services
- Spazio Investment

- SPF Beheer
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- VastNed Group
- Wereldhave

NORWAY

- Norwegian Property

RUSSIA

- AFI Development
- Eastern Property Holdings

SINGAPORE

- GIC Real Estate
- Keppel Land
- National University of Singapore, Dept. of Real Estate

SPAIN

- Fundación ESADE
- Inmobiliaria Colonial
- Metrovacesa
- Parquesol Inmobiliaria y Proyectos
- TESTA (Grupo Sacyr Vallehermoso)

SWEDEN

- Aberdeen Property Investors
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- University of Cambridge, Dept. of Real Estate
- University of Reading, Centre for Real Estate Research
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USA

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- Simon Property Group
- SNL Financial
- Starwood Capital Group
- Taberna Realty Finance Trust
- The Tuckerman Group
- The Wharton School, Zell-Lurie Real Estate Center, Univ. of Pennsylvania



EPRA NEWS

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REAL ESTATE ASSOCIATION

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**NEW EPRA ADDRESS**

As of July 01, 2009:
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GUEST EDITOR &
EPRA CONFERENCE
MODERATOR
Daniel Thomas

A LOOK AHEAD

The European market has swung from the depths of depression to almost giddy exuberance in the past six months alone, and it is no easier to forecast where the markets will be by the end of the year now than it was two years ago.

This September's EPRA conference in Brussels is likely to come at a point of inflexion for the industry, as the steep descent in property values eases and opportunities begins to emerge in parts of the market, although for some attendees the worst is likely to be far from over. The next 12 months could throw up the most interesting opportunities for nimble investors and the well-capitalised companies, but will also see further pressure on the companies still scrambling to raise emergency funds to cover straining balance sheets as banks take a harder line on problem loans.

There is likely to be more difficulties on the continent than the UK, where companies are mostly breathing out sighs of relief having gone through the necessary refinancing trials and are now seeing some stability returning to pricing. Markets on the continent have not had it so bad so far, but are likely to have further to fall despite expectations of a shallower peak-to-trough.

Sentiment has still improved across most countries despite these expectations of future price declines. Spring saw a rebound for the real estate investment trust markets, supported by hopes that the worst was at least over and by clear signs of increasing competition for property investments. Some real estate investment trusts were trading at near parity to spot net asset values, a remarkable improvement to the

wide discounts at the beginning of the year. However, if the optimists think it is all over, then they are wrong for now. While stability of pricing is certainly evident in the UK market, this is on a relatively narrow tranche of property, specifically those boasting longer leases to good tenants and guaranteeing a decent long-term rental income.

This is attractive to cash-rich investors, given the low interest rates and prospect of inflation within the next two years, although the market for properties without these characteristics looks dicier. This is a looming subprime property problem. The resurgence of defensive properties pinpoints the main threat to the real estate market this year. Rents being collected have only just begun to fall and vacancies will rise as the recession hits occupational market.

The property market characteristically precedes the economy into a recession, but normally lags the recovery. Rental growth is closely correlated to national earnings, and again can be more than year behind a recovery in GDP. Rental values will fall across Europe as occupier demand deteriorates, particularly in the business districts most exposed to the economic contraction. Demand prospects look bleak across all sectors. The effect on property value of capital falls are being replaced by rental value declines.

So, against this backdrop of mixed fundamental signals, what will the EPRA conference be talking about in September? The main topic of conversation will most likely centre on the fate of the mountain debt in the industry. The banking sector has never been so interesting. A further leg down in commercial property values could come from foreclosure

sales by banks, but most are so far holding action against loans in default.

Whether or not banks offload problem loans as they did in the last recession, calling in bad debts and forcing companies into administration, will prove crucial. Just as important will be when the debt markets begin loosening again, with banks still committing to limited lending and mostly just small amounts to long-term customers at low loan-to-value ratios on prime assets. Commercial mortgage-backed securities will prove a key component, with billions of euros of loans facing default, and little in the way of new equity to refinance problem securitisations.

The CMBS market will be heading into an extended period of workout and restructuring, although on the flip-side there is likely to be new issuance of simple securitised packages of debt - although again backed only by the most prime and defensive sorts of property.

Against prevailing winds for new debt finance, there are some companies that also still need refinancing or risk covenant breaches. The markets have not discriminated enough between recapitalised stocks and those that still need new equity, and this could change quickly. More need to take action, issuing equity or buying back debt.

Continental European stocks will be a focus for the bears, given a more pressing need to raise capital as asset values continue to slide, but there may even be a limited round of new equity raised among the UK REITs. This sector has already taken in more than GBP 4 billion in rights issues, but some see the opportunity

to raise capital at nearer parity to build future investment war-chests.

Many of the best buying opportunities have so far been at the expense of the REITs, but the next stage should be an interesting period for companies that have raised money. Shareholders are certainly demanding a more proactive approach to the market recovery, having been tapped for cash at such discounted rates. Bankers report that there are also a number of new listed vehicles looking to raise equity come autumn. Some have failed to make

it off the blocks before summer, but financiers say that the autumn is hoped to bring renewed appetite for IPOs.

The pressures on debt in some camps, and the renewed equity strength in others, will mean that the second half of the year may also see strategic mergers. SEGRO's courting of its rival Brixton has been well-received by investors, who have supported its second rights issue of the year in order to fund the acquisition. The forthcoming EPRA conference will be a blend of those that

are strong enough to benefit from this period, but also of those still wondering if they could fall victim. The only thing of any certainty will be that the pace of events is unlikely to slow. It should be a busy last few months of the year.

Daniel Thomas is the *Financial Times* property correspondent and writes about commercial and residential property in the UK and globally.
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UPDATE FROM PHILIP CHARLS



Philip Charls, EPRA CEO

The year since our Stockholm conference has been a stark reminder that gravity applies to building values, stocks and NAV, as well as to the overall fascination for property. But has the dust now settled; will the coming year be one of more structured growth and relative stability? Or alternatively, will it present remarkable investment opportunities that perhaps will not be seen again in our lifetimes? Of course it's too early to say, however, we do believe that on September 03-04, EPRA will facilitate the most informed and influential European listed real estate gathering of the year; a meeting in Brussels with 300 of Europe's largest property company CEOs, investors and fund managers, CFOs and financial analysts - in short, the foundation of our sector.

Join us in Brussels with your strategy in place, and perhaps even be prepared to adopt new ideas. The Annual Conference is after all as much a time for inward assessment as networking. The programme is stronger than ever. Economist Anatole Kaletsky will kick off the conference with his forecast for the months ahead. The second day's Keynote speaker will need no introduction - former UK Prime Minister Sir John Major, who can truly relate to global economic currents. He brings a unique vision of the interconnected geo-political

factors and risks which are surging in our direction, and which will determine all of our professional and personal paths. His participation has been kindly organised by Credit Suisse, to which Sir John is a Senior Advisor.


As ever, the conference will be as interactive as possible, and Sir John will also be fielding questions. We hope all attendees drive the debate, share their analysis, and add to the collective expertise present. Significant challenges face us; among them the threat of reactionary and inappropriate regulatory reform; and political influences adding an additional element of uncertainty into our operating environment. All of this on top of the challenge of managing businesses during the current economic downturn.

Less in question but no less of a challenge is the need to continue promoting real estate securities as an investment vehicle by raising standards from within and not shying away from criticism. EPRA's ongoing efforts to champion transparency and Best Practice through initiatives such as the EPRA BPRs and corporate governance we believe will ensure greater comparability, investment confidence and support a strong recovery for the listed sector. The latest EPRA BPRs recommendations

have just been published, and the Annual Conference will also see a range of studies released. The EPRA Global REIT Survey 2009 is also underway, and the report also to be made available to attendees in Brussels. The survey confirms the robustness and development of REIT regimes around the world. Harmonisation of REIT regimes throughout Europe will also be on the agenda, reflecting our goal to strengthen the European listed property sector as a whole and the constructive dialogue that EPRA has developed with the European Commission on these important issues.

That wider REIT story is especially relevant today as investment flows will increasingly have an international flavour. No doubt the big questions will be raised:

- *What opportunities will unfold?*
- *Will inflation strike next, and how can listed property as an asset class benefit?*
- *What is the right capital structure?*

What better place than Brussels to discuss these issues. See you at La Hulpe. 



CLIMATE CHANGE AND CAPITAL FLOWS

EPRA CONFERENCE KEYNOTE SPEAKER
Anatole Kaletsky

As this article is designed to set the stage for the EPRA conference in September, it seems appropriate to take stock of the extraordinary economic events since last autumn and consider what additional risks and opportunities lie ahead.

The weakness of occupational demand, the anorexic conditions in credit markets and the resulting collapse in property values need no elaboration. But, as discussed in previous columns, there are signs that these powerful deflationary forces are being overwhelmed by even stronger expansionary forces - zero short-term interest rates, unprecedented fiscal expansions and open-ended government credit guarantees.

The upshot is that the world economy is slowly recuperating from its heart-attack, market conditions are stabilising and equity investors are searching actively for undervalued assets, cheap enough to offer good

returns, even without much leverage. There are, however, several widely-recognised threats to this recovery - in addition to the obvious and unanswerable uncertainty about how quickly consumer demand and business confidence can recover after the shock.

In my conference presentation I will discuss some of these threats in detail, trying to distinguish between those that are exaggerated and those that are really worth worrying about.

Of perception and inflation

Starting with the good news, there are three widely-discussed economic problems that I believe can be dis-

missed. The first, and probably the most important to property investors, is the fear of a sharp increase in short-term interest rates from their present rock-bottom levels. The second problem that worries many market commentators is the risk of an inflationary upsurge fuelled by that vast amounts of new money being 'printed' by the central banks. While inflation, if it materialised, might initially be seen as a blessing for property rather than a 'problem', the experience of the 1970s shows that inflation, beyond a certain point, is actually very dangerous for property investors because of the soaring capitalisation rates it inevitably implies. The third big worry is the perception, that governments, especially in the US and UK, have borrowed so much money that some kind of national bankruptcy lies ahead.

These three risks are all pretty far-fetched, yet they are often presented as indisputable facts - and they all seem to point to rising costs for long-term funding. As a practical consequence, those property investors fortunate enough to regain some access to debt markets are often tempted to seek protection from future rate-hikes by 'locking in' long-term funding at high rates. And many property valuers are feeling pressure to raise capitalisation rates on the assumption that today's exceptionally low interest environment cannot be sustained for long. These policies may seem prudent, but they are likely to prove costly and wrong.

Property investors need to remember that short-term policy rates are set by central banks at whatever level they choose and, because of

the nervous-breakdown the financial markets and the central banks have suffered, it is as close to certain as anything can be in economics that these policy rates will remain near zero for at least another year. More importantly, the rate increases that may begin from the middle of 2010 onwards, as economic recovery becomes more secure, are going to be very tentative and cautious.

The upshot is that short-term policy rates will probably remain well below 2% until at least the end of 2011 - and given the high levels of unemployment and record spare capacity created by the recession, it is quite likely that we won't see policy rates above 2% anywhere in the world until the middle of the next decade. Of course, credit markets and banks are demanding much higher risk premia above these policy rates than in the past - but, as the world economy recovers, these risk premia are bound to narrow, implying that variable-rate funding costs to investors will rise even less than policy rates in the next few years. If this turns out to be true, then the interest rates of 6%-plus paid on long-term loans today will prove very expensive compared to variable rates.

But what about inflation? Won't central banks want to tighten monetary policy drastically to pre-empt the inflationary threat they themselves have created by printing so much money? The answer is almost certainly No. Central banks have certainly created a lot of money - the so-called 'monetary base' consisting of cash and the central banks' electronic deposits has roughly doubled in the US and UK since 2007. How-

ever, the creation of all this 'central bank money' has been offset by shrinking private bank credit, which accounts for a much larger part of the total money supply. As a result, growth in total money the world over has been very slow, implying that the threat of a purely monetary inflation in the next few years is almost non-existent.

Interest rates should not present a problem for property investment - either this year, or for many years ahead.

Of course, if economic growth recovers faster than expected, bank lending should start to revive and deflationary pressures will abate. But even when that happens, central banks are unlikely to aggressively raise interest rates. This reluctance to raise interest rates quickly, even if economic recovery proves somewhat stronger than expected, is ironically a consequence of the huge government deficits that everybody is so worried about. Any revival in growth will be viewed, both by central banks and by politicians, as a signal for drastic cuts in public spending and tax hikes in order to reduce deficits. As a result, governments all over the world are likely to undertake huge fiscal retrenchments from 2011 onwards - and under these circumstances, the last thing central bankers will want to do is risk causing another slump by significantly raising interest rates. →

China has recycled its trade surpluses through US financial markets to hold down its currency and finance US consumption of Chinese exports.

So rising interest rates should not present a problem for property investment - either this year, or for many years ahead - and cap rates, which many investors assume to be inevitably on an uptrend, are actually quite likely to move down. Now for the bad news - the two genuine worries for investors, especially for investors in European property and financial markets.


A global tide of capital

The first is the continuing instability of global capital flows. Many economists and politicians hoped for at least one benign outcome from the Lehman crisis: a 'rebalancing' of the world economy, between the countries with excess consumption - the US, UK and the periphery of the euro-zone - and the countries with excess savings and production, especially China and Germany. But there isn't much sign that this is happening.

While US consumers have certainly tightened their belts to some extent and the US trade deficit has therefore substantially narrowed, the Chinese and German trade surplus remain huge. The recycling of these surpluses will therefore have to continue through the financial markets and the narrowing US deficit means that trade deficits will have to widen in other parts of the world. The obvious place for this expansion of deficits is Europe outside Germany. The world has worried for years about the 'Circle of Manipulation', whereby China has recycled its trade surpluses through US financial markets to hold down its currency and finance US consumption of Chinese exports. But the same circle is spinning in Europe, with Germany financing Spain, Italy,

France, Ireland, Greece and Portugal to keep the euro-zone together and offer vendor financing to customers for German cars and other consumer durables.

While this capital recycling may well continue, it is not going to be as smooth in the years ahead as it was in the last decade. As a result, both equity investors and international lenders, including lenders within Europe, will demand substantially higher risk premia in the future than they did in the past.

This leads to a second genuine worry. A breakdown in capital recycling could trigger further serious financial crises. But the next systemic crisis, if it happens, is much more likely to originate in Europe than in the US or Asia. A possible trigger for such a crisis could even be the German election in late September. Might this election spark a public debate about the transfers of German money that are financing consumption and government spending in the rest of the euro-zone? And how would Germany voters react to such a debate? The answer to such questions should be clearer by September 03, at La Hulpe near Brussels. 



Anatole Kaletsky Anatole Kaletsky is founding partner and chief economist of GaveKal Dragonomics, a Hong Kong-based investment boutique providing economic analysis and asset allocation advice to 500 financial institutions around the world. He is also Editor-at-Large of The Times, where he writes a weekly column on economics and politics.

Mr Kaletsky was a full-time journalist for The Times, Financial Times and The Economist from 1976 until 2002 and received many awards and distinctions, including Commentator of the Year, Specialist Writer of the Year, Financial Journalist of the Year and European Journalist of the Year. In addition to his involvement with GaveKal, Kaletsky is a director of several investment companies, including the JP Morgan Emerging Markets Investment Trust.

Kaletsky was educated at Cambridge University, where he graduated with a first class honours degree in Mathematics and at Harvard University, where he was a Kennedy Scholar and gained an MA in Economics. He has an honorary Doctorate of Science in Economics from the University of Buckingham.



EPRA AWARDS FOR BEST ANNUAL REPORT 2009

EPRA aims to promote clarity, transparency and consistency in financial reporting for listed real estate companies throughout Europe and to recognise achievement in this area through its Best Annual Report Awards. This is the eighth year of the Awards which are based on the review of the financial statements of approximately 80 real estate companies across Europe - the constituents of the FTSE EPRA/NAREIT Europe Index.




As in previous years, the review of the financial statements will be performed by Deloitte. Deloitte will review each participant's annual report for compliance with, and application of, the EPRA Best Practices Policy Recommendations (BPR). EPRA issued updated Recommendations in May 2008 and the annual reports will be reviewed for compliance with these for the first time.

Two Awards will be made this year - 'Best Annual Report' for the participant which shows the highest overall score for the current year and 'Best Improver' for the participant which shows the highest consistent relative improvement in the quality of annual reporting over the last two years.

In addition, Deloitte will also review and comment on key financial reporting metrics and other observations to enable companies to benchmark their reporting practices against their peers and to identify future trends in financial reporting.

Claire Faulkner, real estate partner at Deloitte, said: "Deloitte is delighted once again to be working with EPRA on their Best Annual Report Awards. In addition to identifying the best and most improved annual reports, our review findings report will aim to assist listed real estate companies to achieve best practice in their financial reporting."

The results will be reported by Deloitte, and the two Awards presented by PGGM, the award sponsors, at the EPRA Conference in September 2009. 

If you have any queries about the Awards, please contact:

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EPRA ANNUAL CONFERENCE 2009

This is the key event of the year for listed real estate, property investors and the financial community who are members of EPRA.

Programme

Day 1 - Capital Structure and Investment

09:00 EPRA Chairman & EPRA CEO
- Opening remarks

09:20 Keynote speaker - Anatole Kaletsky

10:05 Panel session I - *Capital Structure*
John Carrafiell (Day Chair)
Bernd Knobloch - *HRE*
Zubin Irani - *Westbrook Capital Partners*
Graham Roberts - *British Land*
David Brush - *RREEF Deutsche Bank*

11:05 Comments by New EPRA Chairman, Guillaume Poitrinal

11:15 Break

11:45 Panel Session II - *Investors*
John Carrafiell (Day Chair)
Guillaume Poitrinal - *Unibail-Rodamco*
Patrick Kanters - *APG*
John Richards - *Hammerson*
Andy Brough - *Schroders Investment*

12:45 CEO Conference Update by Ian Coull - *SEGRO*
Followed by the Award presentation of
EPRA Best Improved Annual Report 2008
- Sponsored by Deloitte and PGGM

Deloitte. 

13:00 Lunch

14:30 Concurrent Session I - *Analyst Scorecard*
Scott Crowe - *Cohen & Steers* (Moderator)
Harm Meijer - *JPMorgan*
Christophe Kullman - *Foncière des Régions*
Steve Buller - *Fidelity*
Timon Drakesmith - *Great Portland*

Concurrent Session II - *Academic Session*
Eamonn D'Arcy - *University of Reading* (Moderator)
Sotiris Tsolacos - *European Research for Property
and Portfolio Research*
Giacomo Morri - *SDA Bocconi*
Alessandro Bronda - *Aberdeen Property Investors*
Simon Stevenson - *CASS Business School*

15:30 Networking Break

17:00 Coaches to Beaux Arts

18:00 Cocktails - Palace Beaux Arts

19:30 Gala Dinner - Palace Beaux Arts

22:00 Coaches depart for La Hulpe

The programme has been designed to address the conditions our sector is facing - with a clear focus on identifying present realities, future concerns, and the wider opportunities which will inevitably present themselves.

Registration - EUR 995 (plus VAT)

This fee includes attendance of the full event and the Gala Dinner. This does not include accommodation cost - however, all rooms have been reserved at the venue itself for attendees. Please book your stay via the registration site (there is a fax-back form on the back cover for those who do not have web access). Rooms at the venue are running out - so make sure you register soon!

www.epra.com/conference2009

The Annual Conference will be interactive throughout, with Q&A sessions and feedback encouraged. You can raise issues anonymously by Blackberry if you prefer!



Day 2 - Opportunities and Current Affairs

09:15 Keynote speaker - The Rt Hon Sir John Major, KG, CH, former UK Prime Minister and Senior Advisor to Credit Suisse

10:00 Panel Session III - *Opportunities*
Andrew Baum - *Henley Business School* (Moderator)
Jon Zehner - *AREA Property*
Jos Short - *Internos Real Investors*
Gerhard Neisslein - *IVG*
Stephen Vernon - *Green Property*

11:00 Break

11:30 Panel Session IV - *Current Affairs*
Dan Thomas - *FT* (Moderator)
Patrick Sumner - *Henderson Global Investors*
Clarence Dixon - *Hatfield Philips*
Serge Fautré - *Cofinimmo*
Gerard Groener - *Corio*

12:30 EPRA CEO - *Closing Remarks*

12:45 Lunch

14:30 Conference End

THE BUILDING DEBATE

John Carrafiell

Senior advisor of Morgan Stanley, John Carrafiell is the moderator for Day One of the EPRA Annual Conference. Here he outlines the discussion direction of his two panel sessions.

**- Debt/Capital Structure panel -
Real estate debt markets and
property company capital
structure: A crisis averted or
waiting to happen?**

Mortgage Finance has always been a critical component of the capital structure of most property owners - whether public or private. When the credit worlds collided during the Great Credit Crisis of 2008/2009, liquidity in the real estate debt markets vanished; literally overnight.

Yes, credit markets are showing *nascent signs of recovery* in High Investment grade; High Quality High Yield... and even, the Highest Grade CMBS (witness the strong rally in the US on the back of TALF-fueled buying of AAA-rated CMBS and the recently launched Land Securities AAA Government lease-backed fully amortising CMBS issue done at +145 bps over); importantly, the Pfandbrief market is open and banks are beginning to access that market again.

However - for the vast majority of the Commercial Real Estate Debt Market - "the stress hasn't even begun YET." Particularly given that the peak maturity levels of financing done during the Great Bull Market in Credit of 2004-2008 will only come due in 2009-2013. European CMBS alone will see EUR 80 billion of maturities during that period.

This could be a *VERY long cycle* indeed, and, when combined with, at best, weak economic growth over the next two years, a *prolonged period of stagnation* in values along the trough of this cycle may be the result - particularly for most assets - except prime, long leased, well located ones, which have already bottomed BUT only make up circa 10-20% of the invested market.

Additionally, who are the sources for the significant equity required to continue the *deleveraging process* in commercial real estate? ... Public markets have been accessed, opportunity funds have *less firepower*, and institutional investors have their own *liquidity issues* to deal with.

Banks - many of which are currently controlled or supported by governments - have still *not even grasped* what they have on their books and what their strategy should be - position by position.

Where the debt market is heading *is the central issue to the future of the listed real estate sector*; therefore this panel will address:

- As defaults rise and covenants are breached during the peak of maturities from 2010-2013 how will the market cope with over EUR

250 billion of problems loans and maturities?

- With most lenders dealing with problem positions and unwilling to write new loans, how will this impact investor sentiment and therefore *valuations*?

*How will things
change in the Sector
going forward?
What will act as
the catalyst?
Who will drive change?*

- Are there attractive *investment opportunities* in the debt space? Are transactions happening? What pricing level?

- What is the right capital structure for a publically listed property company going forward? What type of debt? How much? What covenants?

- How can publically listed property companies *take advantage of the '100-year flood'* of property defaults and dysfunctional Commercial Real Estate Debt Markets? →

- What about the impact on capital transaction volumes if financing is only available in limited quantities and only at low LTVs and expensive terms?
- Will the *Pfandbrief* market opening have impact on new bank lending or is it just way to improve their funding costs? Will lenders be able to supplement or will covered bond underwriting criteria (i.e. *low lever-*

age) take over as the only lending alternative?

- Who will rise from the ashes as the New Breed of Lenders to the sector?

- Is CMBS dead *forever*? If not, in what form will it re-invent itself?

- Having seen the impact of government stimulus, is the next step *greater public sector involvement*? What role will government regulations/governance play going forward? In what form (either broadly for the market or as governments try to recoup their 'investments' in *nationalised banks*)?

- *Inflation* - is property an appropriate *hedge*? Where will inflation be in five years time? Should borrowers lock rates now ahead of time and beyond maturities of current loans?

- What happens if we retrace some steps, and the economy and/or markets *double dip down* or go backwards on the back of negative news in the next 12 months?

- How should companies and/or portfolios with attractive existing long-term debt in-place be valued given this attractive imbedded advantage?

- Equity Investor panel - Investing in property companies for the future: Will the lessons of the last 24 months be applied?

Listed real estate shares have bounced off their March 2009 bottom and the sector has raised over EUR 5 billion of fresh equity in 2009 to rescue companies from breaching loan covenants. A limited select few others have even successfully raised small amounts of fresh equity to target opportunities in the market place.

Is that it? Is the sector back on its feet and back to normal? Back to 'Business as usual'?

Sector Performance has been reasonably poor since the peak in the first quarter of 2007. Is that just the way it will be going forward since "everyone in the sector is down"? Was the sector simply hit by market events out of its control?

With *correlations* having gone to '1' during the downturn of 2008/2009, institutional investment theory on *diversification* into real estate as an 'alternative' should be seriously questioned; was the *theory flawed* to begin with?

How will the Sector *re-invent itself* to attract *fresh capital* from new investors and *grow* the size and free float for the Industry in the face of the recent underperformance? What are the '*keys to success*' to attracting this capital?

How do we justify our existence? Why pay all the management costs and significant transactional trading fees/costs/expenses/taxes (embedded in a property company) when today, investors can get exposure through derivatives, indexes, or even distressed debt, or listed property funds which trade at wider discounts to NAV?

Do investors ask the right questions of boards? Are Investors able to take any responsibility for their own destiny?

Has the Great Credit Crisis of 2008/2009 fundamentally changed the way Listed Property Company CEOs think about:

- their *strategy* - does 'actively managing' the portfolio suffice as the definition of 'creating value'?

- what their *investors* want from them?

- their capital structure/balance sheet and funding sources/relationships?

- their position in the marketplace;

what is their *unique competitive advantage*? Is it sustainable? Is it sufficiently strong to justify allocating capital to the particular company?

- what are appropriate returns in this environment? What should the benchmark be?

- *returning capital* rather than simply asking for it? Is it part of their job to 'take chips off the table' and return money to shareholders when at near the top?

Equally, will the Investor's approach change? Everyone looked brilliant when share prices were rising into the first quarter of 2007; why didn't investors hedge or sell to lock in some/all of their significant profits? Or encourage companies to do the same?

Are we invested in the sector simply to narrowly 'beat the index'? Or are we actually investors who take responsibility to drive our performance? What tools can we use to do so?

Is it back to 'Business as usual'? Or will Investors radically review their positions and become:

- more demanding of boards and management?

- insistent on performance or *re- placement*?

- act more like *owners* rather than passive stakeholders and ask the Board the tough questions?

- questioning of the same management team's ability to wisely invest their capital this time around?


Clearly there are other important questions to consider as well, including:

- Will companies require more capital if the recession is prolonged? How will it be priced?

- Are the best companies the ones which are: the most *nimble*? Or the largest, most *secure*? Can you really be both?

- How will things *change* in the Sector going forward? What will act as the catalyst? Who will drive change?

- Is NAV the right benchmark for valuation? For performance measurement?

- What is the correct gearing level in this '*Brave New World*'? 



John Carrafiell is a London-based senior advisor of Morgan Stanley, where he has been for 22 years, and the founder and managing partner of Alpha Real Estate Advisors, LLP.

John was previously joint global head of Morgan Stanley's Real Estate Investing business and joint CIO of the MSREF Funds. Prior to that, John was global co-head of Morgan Stanley Real Estate, active in over 20 countries, encompassing principal investing and investment banking, and a member of the Global Investment Banking Division's Operating Committee. John was president of the USD 5 billion MS Real Estate Special Situations Fund III, an open-ended real estate securities hedge fund. John is the senior director of several leading European real estate companies including Multi Corporation, DIC, Grupo Lar and Canary Wharf, where he is chairman of the audit committee.

John is a director of the Executive Board of EPRA; a Trustee of the Urban Land Institute and member of its Finance Committee; a member of the Dean's Council of the Yale School of Architecture; and a member of the Acquisitions Committee of the Tate Modern.

He is a Sterling Fellow of, and graduated with a BA from, Yale University in 1987, where he is a member of the Executive Committee of the USD 3.5 billion "Yale Tomorrow" campaign and the Chairman of the Class of 1987 Quarter Century Fund.

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Global REIT Survey 2009

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This year's compendium of all that is REIT has been 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 developing fast, and the current economic environment is proving a stern test for the numerous versions of the basic REIT structure as well as for REIT management. While the financial performance of the wider market may have been poor, the REIT model in general is still being shown to be a sound one and popular with governments around the globe. This not only evident from the attention paid by the authorities to the continued development of existing regimes, but also in the formation of new regimes - and this year's survey includes details of the new Spanish SOCIMI, Finnish REIT and developments towards the Pakistan and Indian REIT vehicles.

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About EPRA

EPRA aims to provide European public real estate companies with effective and continuous leadership in matters of common interest. EPRA will encourage discussion of issues impacting the industry both within the membership and with appropriate Governmental and regulatory bodies.

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CORPORATE REAL ESTATE: LISTED PROPERTY COMPANIES TO REMAIN THE PREFERRED PARTNER

Philippe Le Trung

Approximately 80%¹ of French companies prefer to be tenants rather than real estate owners or landlords. However, over EUR 100 billion² of real estate assets remain on the balance sheets of CAC 40 companies. We believe that listed property companies are the natural buyers of real estate owned by industrial or services businesses.

There are two major trends in Europe beneficial for the listed real estate sector:

- An increasing amount of long-term money (pensions, life insurance) looking for recurring revenue streams and capital protection caused by demographics.
- An increasing number of real estate assets owned by listed specialists compared against non-specialists such as corporates and public authorities.

By way of comparison, the proportion of real estate assets on the corporate balance sheets in Europe is substantially higher than the United States. In the US, the propor-

¹ "79% prefer to rent". Study on 30 of the major French corporates. "Stratégie, gouvernance et organisation des fonctions immobilières des grands groupes : tendances et perspectives", June 2009, Eurogroup

² Source IEIF, | »Les actifs immobiliers des sociétés du CAC 40«, 2006.

tion of assets occupied by corporates and tenanted is 70%. This means that only 30% of the commercial properties are still owned by the companies. However, in Europe, the same estimate is 50% occupied and 50% owned - there is a substantial difference between these two regions. We believe that European listed real estate companies are well positioned to seize opportunities and remain the corporates' preferred real estate partners.

Acquisition of the right assets
'Externalisation' or 'sale and lease-back' is an effective manner of acquiring real estate assets. The interesting thing is that both parties are looking to achieve different targets in the transaction, providing a win-win deal scenario in many cases. Alternatively, companies can buy from other institutional investors or develop new assets themselves.

In addition, 'Externalisation' is also a good option to acquire the right assets. For example, in many cases, the properties will offer the following benefits:

- The assets are precisely what the tenants require. The properties have been chosen, and in some cases, designed, by the occupier.
- The assets are economically relevant for the user - tenants are

cost-conscious, service charges under control, they have optimum occupancy and density and are well maintained.

- The location is the right one, and because they are historic locations for the corporates, they often offer repositioning opportunities. There is some upside to densification of the land or to change destination.

The French example

The French market has offered some excellent examples of externalisation over the past ten years. A number of the large French listed real estate companies have been part of 'externalisation' transactions over this period. Unibail bought the Vivendi portfolio in 1999, and more recently undertook a convention and exhibition business joint venture with Chambre de Commerce. The Carrefour retail outlet deal transformed Klepierre, Gecina bought assets from Club Méditerranée in addition to the corporate headquarters of CPR Bank and the newspaper *Le Figaro*. Icade completed a deal with Bricorama, a French DIY chain, and there is even an 'externalisation' REIT dedicated to one group: Mercalys is the externalisation of shopping galleries of the French food retail group Casino. In our case, Foncière des Régions completed major 'externalisation' transactions with France Télécom,



Photo : Foncière des Régions asset occupied by France Télécom, Rue Cherche-Midi, Paris 6. Credit photo : Olivier Ouadah

EDF, Accor, and more recently Eiffage. More broadly, there is good data available on the 'externalisation' market showing the dynamics of the market and its size.

The externalisation opportunity amounts to €500 billion as estimated by IEIF³, a French economic observatory for real estate. This total market is owned by the corporates and investible by institutional investors. The following table from CBRE shows the volume, number of externalisations and the market share of the listed property companies over an eight-year period.

Externalisations in France (2000-2007)

The transaction volumes varied from EUR 1 billion to over EUR 5 billion, and correlations with the property cycle appear to be low. There seems to be a structural flow of business between the corporates and the listed property companies. In the last four years, listed real estate

³ IEIF, Les externalisations de patrimoine depuis 2000, April 2008

	2000	2001	2002	2003	2004	2005	2006	2007
Externalisations (€bn)	2,3	5,4	3,5	1,7	1,0	1,3	2,1	4,8
Number of transactions	33	36	51	39	49	48	55	70
% of portfolio transactions	53%	74%	34%	18%	29%	25%	26%	51%
% of single-asset transactions	47%	26%	66%	82%	71%	75%	74%	49%
% with listed real estate cles	49%	8%	19%	13%	36%	34%	42%	31%
Ranking of listed sector vs other investors*	#1	#2	#4	#3	#1	#2	#1	#2

companies ranked first or second in terms of investors buying assets and portfolios from corporates. It is worth noting that the French REIT regime has, to a certain extent, been designed for that purpose - it contains efficient legislation permitting players to acquire assets from corporates. The French REIT regime was amended to offer temporary tax advantages for companies selling assets to a REIT - instead of incurring full capital gain tax; it was limited to 50% of the normal amount.

What's next?

Many commentators expect the opportunities to come from forced sellers and assets repossessed by banks. In our view, it is on the corporate side where assets will move. The three sectors which are more likely to be the more active are:

- Industrial (Renault looking for a buyer for a portfolio of assets occupied by car dealers)
- Financial services (HSBC recently put its French headquarters, 103 Champs Elysées on the market) and,

- Public authorities (the French State a EUR 450 million disposal target for 2009).

Listed property companies are, directly or with joint-venture partners, as of 2009 or in 2010 likely to be involved in this market. The structural long-term trend of a larger asset base in the listed real estate companies is already here and should continue to contribute to the growth prospects of the sector in France.



Philippe Le Trung is head of investor relations and Capital Markets, and has been a member of the executive committee at Foncière des Régions, since 2008.

Philippe Le Trung has worked in the European real estate securities industry since 1994. He holds a BA in Finance (Paris V) and a Masters in Property Law (Montpellier I). He started at IEIF, the French economic observatory for real estate, where he ran the research department. Then Philippe works as a research analyst since 1997 both in Paris and in London, notably for ABN Amro, JPMorgan and Citi, where he was the head of the European real estate research team.



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FEATURES



REMUNERATION DECISIONS IN TODAY'S MARKET

Jeremy Banoff

EPRA needs your input to help provide in-depth market insight for its first European Remuneration Survey.

Executive remuneration is a topic receiving a great deal of interest in today's economic environment, particularly given recent bonus award disclosures in the wake of declining overall corporate performance. Most of the media attention has focused on the banking industry due to the payment of healthy incentive payments (by absolute standards compared to other industries) in light of billions of euro in shareholder losses and public (government) assistance. However, said payments represent a major decline on a relative basis when compared to prior years.

The public real estate community has not been entirely unscathed, and pending the time horizon of a recovery and appropriateness of future remuneration decisions, it is possible that this battled-tested sector may encounter part of the spotlight.

How are you measured?

The majority of public European real estate companies utilise a sound blend of financial and operational metrics in measuring performance and determining incentive awards, including: profit before tax, EPRA earnings per share, EPRA NAV growth, estimated rental value, total shareholder return, occupancy levels, etc. Some companies examine only internal or absolute performance, others focus on relative performance and how the company did versus an external index or peer group. Others

incorporate both absolute and relative measurement - the range of options further complicating how to appropriately reward and judge performance.

There are clearly valid reasons for using either absolute or relative performance metrics (or some combination thereof) for purposes of ascertaining bonus compensation. However, Remuneration Committees must be careful with how to incorporate absolute versus relative metrics in properly aligning pay with performance.

A level paying field

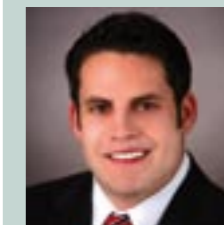
As a result, in order to provide clarity to remuneration programmes across the public European real estate industry, EPRA and FPL Associates L.P., a leading global advisory firm dedicated to the real estate and related financial services industries, have joined together to launch the first EPRA European Real Estate Compensation Survey.

This survey is the only one of its kind - solely dedicated to the European public real estate sector and covers many common real estate specific positions of all hierarchical levels (eg, not just executives) examining remuneration programme design and pay levels. The survey questionnaire has been structured based on input from a representative sample of EPRA members located across Europe. It should be noted that FPL has partnered for over ten years with NAREIT, EPRA's sister association in the US, in which over time the survey has consistently amassed a participation rate in excess of 50%. FPL also conducts

a compensation survey with the Real Property Association of Canada (REALpac).

Take part

The 2009 EPRA European Real Estate Compensation Survey is open to all EPRA members, and we invite you to participate now in order to receive a complimentary copy of the survey results. The submission deadline for participants is mid-September, however, if you would like to participate and need additional time, please contact us to make appropriate arrangements.



Jeremy Banoff
Managing Director, FPL Associates L.P.

Jeremy Banoff is a Managing Director with FPL Associates, working extensively with senior management and Compensation Committees to identify and implement strategic executive compensation programs designed to attract, retain, and motivate key employees.

Over his career, Banoff has advised a wide array of clients in the real estate industry with a primary focus on the public sector. In addition to overseeing the NAREIT Compensation and Benefits Survey over the past couple of years, which has become the largest survey of its kinds within the industry, he has completed over 100 assignments in the public REIT sector.

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PUBLIC-PRIVATE, FBB AND FLOW

EPRA CONFERENCE MODERATOR
Professor Andrew Baum

Key problems for property investors include illiquidity and lot size. Large lot sizes mean that indirect property investment (investing through securities and funds) has become commonplace.

A boom in cross-border property investing has been paralleled by a boom in indirect real estate, taking two forms: listed real estate markets, especially the Real Estate Investment Trust (REIT) format, and unlisted property funds.

Institutional investors consistently suggested that the greatest deterrent to real estate investment is illiquidity and that the best remedy for illiquidity is a public market quotation. Listed real estate vehicles have obvious advantages, providing access to both liquidity and diversification of specific risk.

Under normal market conditions, the listed markets have fewer problems with liquidity, and trades can be made quickly and easily on a daily basis, albeit sometimes with a pricing penalty for transactions of scale. Listed securities also allow immediate exposure to the market, while some unlisted funds will take capital only as it is required to buy assets, and 'blind pool' unlisted funds also suffer the impact of transaction costs as they acquire assets.

The case for these instruments is therefore strong.

However, for a variety of reasons REITs can trade (and have traded) at discounts to net asset value. The major reasons appear to be connected with valuation lags, resulting in huge discounts in falling markets. In addition, and connected with this, we observe high return volatility and some connection with equity market performance damaging the case for REITs as diversifiers of equity risk.

Meanwhile, unlisted funds can be priced at net asset value and appear to be poorly correlated with equities. In the conditions that prevailed in the UK in the second half of 2007, there would appear to be pressure to take public companies private and a decline in the value of the listed sector is inevitable, as we saw.

However, 2009 saw the reversal of this: huge reductions in valuations meant that many listed companies began to trade at premiums to net asset value. The successful public launch of Max Property came at



Dr Andrew Baum is a part-time professor of Land Management at the Henley Business School, University of Reading. He is chairman of the investment committee for the CBRE Investors' global multi-manager team and a member of the Supervisory Board for the Schroder Exempt Property Unit Trust.

EUROPE NAV discounts



a time when unlisted funds were (according to Jones Lang LaSalle) trading at big discounts to their reported net asset values. In these conditions, private funds wish they were public, and private-to-public arbitrage leading to growth of the listed sector is very possible.

Some of the issues we will investigate at the EPRA Conference in brussels.

- How should a property company or fund manager position itself to take advantage of this potential arbitrage?
- Should REITs hold or buy unlisted

funds?

- Will unlisted funds seek a listing?
- Is the Australian example of the stapled security (separate but linked access to the manager platform and the property portfolio) and the wholesale/retail fund mix helpful?
- What can we expect in 2010?

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