ISSUE FIFTEEN

August 2005

EPRA News

SPECIAL CONFERENCE ISSUE

FINAL ANNOUNCEMENT

ANNUAL CONFERENCE PARIS

8 & 9 SEPTEMBER 2005

THURSDAY, 8TH SEPTEMBER 2005

09:30 KEYNOTE SPEAKER:

PATRICK ARTUS, CHIEF ECONOMIST – IXIS CIB

Mr. Artus will lead us through the recent developments that have affected real estate. Interest rates, risk aversion, population ageing, numerous factors have caused the movements in prices and volumes that we have witnessed. He will tell whether he believes real estate has now already become an asset class of its own like it has in the United States. France has led the way among large continental countries to put in place the appropriate legal environment following the steps of the Netherlands and Belgium. If real estate has or is about to become a true asset class, he will also point to the optimal allocation it ought to receive in investors' portfolios.

A graduate of Ecole Polytechnique, of Ecole Nationale de la Statistique et de l'Administration Economique and of Institut d'Etudes Politiques de Paris, Patrick Artus is today the Chief Economist of IXIS Corporate and Investment Bank, the Investment Bank of Caisse d'Epargne Group (which is one of the largest banking network in France).

He began his career in 1975 where his work included economic forecasting and modelisation. He then worked at the Economics Department of the OECD (1980), and then became Head of Research at the ENSAE. Thereafter, he taught research at Paris Dauphine (1982). He was Professor at a number of Universities (Dauphine, ENSAE, Centre des Hautes Etudes de l'Armement, Ecole Nationale des Ponts et Chaussées, HEC Lausanne). He is now Professor of Economics at Ecole Polytechnique and at University Paris I – Sorbonne. He combines these responsibilities with his research work.

Chief Economist of IXIS CIB, he is also responsible for market research. He has been awarded the title of "Best Economist of the year 1996" by the "Nouvel Economiste" , and he is today a member of the Economic council that advises the French Prime Minister.

THURSDAY, 8TH SEPTEMBER 2005

10:15 PANEL DISCUSSION

ASSETS: WHERE TO INVEST NEXT
Alternatives to traditional sectors

Moderator:
Alec Emmott, Société Foncière Lyonnaise
It is estimated that in 2004 around half the entire turnover in the EU-15 real estate investment markets took place in just 10 cities[1].

In a similar vein 60% of transactions in 2004 was in either office or shopping centre property[1].

In this context the direct market seems to that believe that yields will stabilise or harden with not much prospect of softening - leading to more risky investment as investors have to move faster and 'go beyond their comfort zones'.

There will be continued indirect pressure from unlisted indirect vehicles, but the listed sector has a major role to play as new tax-transparent, investment markets become available.

Alongside core and diversified funds, investors are likely to seek specialist operators which concentrate on less mainstream property types - hotels, leisure property, care homes, retail and logistics parks and which may require more active and specialist management to get the best performance out of them.

1. CBRE: The pensions crisis and the European Property Market 2005.

11:45 ACADEMIC CIRCLE

CHALLENGES AND OPPORTUNITIES IN
REAL ESTATE CAPITAL MARKETS

Discussion leader:
Prof. Tony Ciochetti, MIT Real Estate Center
As real estate markets evolve globally, challenges and opportunities will continue to surface. In this session, we will bring together academic and industry experts to discuss their perspectives on real estate markets, along with the opportunities and pitfalls that may beset the industry in the future.

This session will prove to be very thought provoking, as we discuss capital flows and products for each of the 'four quadrants' of real estate.

Included in the discussion will be a series of 'lessons learned' from not only European markets, but also those in the US and other markets.

THURSDAY, 8TH SEPTEMBER 2005

14:30 PANEL DISCUSSION

EQUITY: BROADENING THE INSTITUTIONAL INVESTOR BASE
The challenge of attracting mainstream money

Moderator:
Prof. Piet Eichholtz, Maastricht

Property is in a continuous competition with stocks, bonds and other investments for the capital of institutional investors. How can property get ahead in that competition? All four members of the panel are very well-positioned to discuss that issue: As chief Investment Officers of their organizations, they are responsible for the strategic allocation to property. All members represent pre-eminent institutional investors who have had a tradition ofproperty investment for a long time, some through direct investment, and others through listed and unlisted vehicles. They will be able to provide key insights in the question what are property industry needs to do to broaden its equity base.

15:30 PROPERTY TOUR

The property tour on the Seine aboard The Excellence will offer great networking opportunities. Debarkation at the Quai Grenelle "by the Eiffel Tower" around 17:30 hrs and return by coaches to the Grand Hotel.

19:00 COCKTAILS & DINNER

EPRA is proud and honoured to have been granted the use of the historic City Hall of Paris for their Annual Conference cocktails and dinner. You will find a short description of the Hôtel de Ville de Paris in this EPRA News.

Transfers by coach from the Le Grand Hotel to the City Hall of Paris start at 18:45 hrs. For security reasons you are kindly requested to wear your EPRA conference badge.

THURSDAY, 8TH SEPTEMBER 2005

EPRA AWARD PRESENTATIONS:

EPRA AWARD FOR BEST ANNUAL REPORT 2004

Sponsored by PGGM

The EPRA Award for the Best Annual Report for the year 2004 will be awarded for the fourth consecutive year and will be presented at the EPRA annual conference dinner held in Hôtel de Ville, Paris on the evening of 8th September 2005. The Awards of the previous years were granted to IVG Holding AG in 2002, British Land Company Plc in 2003 and Land Securities Group Plc in 2004. EPRA is proud that the Award is sponsored by PGGM.

The Annual Report for the year 2004 of EPRA members, who are index constituents, is automatically included in the selection process for the Award.

These Annual Reports are benchmarked against the Best Practices Policy Recommendations as published by the Best Practices Committee in January 2004 and September 2004.

In total, over 70 Annual Reports are currently being scrutinized by a review team of Deloitte. After this first review a second and independent review of the preliminary top 20 ranking Companies will be performed. Finally, the top 5 ranking companies will be extensively discussed amongst the Jury Members to decide the winner of the Award.

The Jury Members are:
– Mr H.H.H. Wieleman, Chairman, Deloitte, The Netherlands
– Mr J. Anagnos, CB Richard Ellis Global Real Estate Securities, United Kingdom
– Mrs K. Patel, University of Cambridge, United Kingdom
– Mr I. Rindstig, Ernst & Young, Sweden
– Mr H.V. Volckens, Beiten Burkhardt Goerdeler, Germany, and
– Mr L. Albers, Secretary, Deloitte, The Netherlands

THURSDAY, 8TH SEPTEMBER 2005

EPRA AWARD PRESENTATIONS:

EPRA AWARDS FOR BEST PERFORMER

Sponsored by Lasalle Investment Managment and Kempen & Co

LASALLE INVESTMENT MANAGEMENT®

KEMPEN & CO
Merchant Bank

The aim of the EPRA Best Performer Awards, sponsored by LaSalle and Kempen & Co is to formally recognise a company, which has shown outstanding performance, due to good active management, and that provides a good level of transparency for investors.

The independent Award Committee consists of representatives from both the buy-side and the sell-side. The Award Committee performs its analysis in total independence from EPRA, Kempen & Co and Lasalle, and provides valuable input in constructing the Award criteria. The Award criteria are as follows:

- Best absolute total return performance over the previous calendar year, in local currency
- Consistent relative out-performance versus the country index in local currency, year on year, for the past 3 years, so consistent performance is ensured
- Constituent of the FTSE EPRA/NAREIT Europe Index
- EPRA membership is non-relevant
- Qualitative criteria such as corporate governance, liquidity and transparency are taken into account by the Award Committee

To recap, the winner of the EPRA Best Performer Large Cap Award 2003 – sponsored by Kempen & Co was Swedish Company Castellum. Castellum showed a total return in local currency of 45% in 2003. The winner of the EPRA Best Performer Small/Mid Cap Award 2003 – sponsored by LaSalle, was UK Company Grainger Trust. Grainger Trust showed a total return in local currency of over 65% in 2003. The awards were presented to both Castellum and Grainger Trust during the EPRA annual conference dinner 18 September 2004.

The awards for EPRA Best Performer Large Cap, and Small/Mid Cap, for the calendar year 2004, will be presented at the EPRA annual conference dinner held in Hôtel de Ville, Paris on the evening of 8th September 2005.

The Award Committee:

– Michiel Te Paske (Morgan Stanley)
– Paul van der Vaart (ABP)
– John Hammond (Deutsche Bank AM)
– Quentin Freeman (UBS)
– Max Berkelder (Kempen & Co) – Chairman

THURSDAY, 8TH SEPTEMBER 2005

Partners Programme

YOUR GUIDE FOR THE DAY WILL WELCOME YOU IN THE LOBBY OF THE LE GRAND HOTEL. THE DAY'S EXCURSION WILL START AT 09:30 HRS AND WILL TAKE YOU TO THE CHÂTEAU DE VERSAILLES.

The Old Chateau

Back in 1623, Louis XIII - father of Louis XIV - built a 'hunting lodge, a little gentleman's chateau' of brick, stone, and slate at Versailles. The king liked it so much that he soon had it enlarged by his 'royal engineer and architect', Philibert Le Roy (this early chateau survives in the buildings that flank the Marble Courtyard). Then from 1661 to 1668 the young Louis XIV, known as the Sun King, had his own architect, Louis Le Vau, embellish the residence. Yet this little house of cards', as the memorialist Duc de Saint-Simon called it, remained too small. Extensions were deemed necessary.

The New Chateau

Le Vau was once again charged with carrying out the work. From 1668 to 1670 he built the 'envelope', which Saint-Simon severely criticized for contrasting with the old chateau: 'the beautiful and the ugly, the vast and the restricted, were stitched together'. Indeed, Le Vau's 'envelope' entailed wrapping the old chateau in a second building whose uniformly white stone facades served as a fine garden setting. Work on this building, whose central terrace was inspired by Italian baroque villas, was taken up by François d'Orbay on Le Vau's death in 1670. It houses the State Apartments.

In May 6, 1682, Versailles became the official residence of the Court of France, supplanting the palaces at the Louvre and Saint-Germain-en-Laye. From 1678 to 1684, meanwhile, the terrace of the new chateau was transformed into the Hall of Mirrors, symbolizing the power of the absolute monarch. Feverish building activity then gave birth to the North and South Wings, the Orangery, Stables, and Grand Lodgings; the vast construction site was headed by royal architect Jules Hardouin-Mansart. The last major feature built during the reign of Louis XIV, the Chapel Royal, was completed in 1710 by Robert de Cotte.

At 12:45 hrs, after your visit to the Chateau, you will tour the park in a carriage, which will take you to the Trianon Palace for a light lunch in the Café Trianon around 13:30 hrs.

We expect to return at the InterContinental Le Grand Hotel at 16:30 hrs.

GROWING THE EUROPEAN PUBLICLY

THURSDAY, 8TH SEPTEMBER 2005

08:00 - 09:15 Breakfast and conference registration
(The hospitality / registration desk will also be open on 7 September from 16:30 – 19:00)

09:00 - 09:30 Opening remarks by Serge Fautré, Chairman of EPRA

09:30 - 10:15 **Keynote speaker:** **Patrick Artus, Chief Economist IXIS CIB**

10:15 - 11:15 **Panel Discussion I** **Assets: Where to Invest Next**
Alternatives to traditional sectors

Moderator:	Alec Emmott, Société Foncière Lyonnaise	
Panel members:	Scot Sellers	Archstone-Smith
	Inès Reinmann	EMGP
	Karl Petrikovics	Immofinanz
	Francis Salway	Land Securities
	Andrew Pratt	TeeslandIOG

11:15 - 11:45 Break

08:30 - 09.15 **Academic Circle** **Challenges and Opportunities in Real Estate Capital Markets**

Moderator:	Prof. Tony Ciochetti, MIT Real Estate Center	
Panel members:	Don Belanger	Credit Suisse First Boston
	Nick Tyrrell	JPMorgan Fleming Real Estate Europe
	Jeff Jacobson	LaSalle Investment Management

13:00 - 14:30 Lunch

14:30 - 15:30 **Panel Discussion II** **Equity: Broadening the Institutional Investor Base**
The challenge of attracting mainstream money

Moderator:	Prof. Piet Eichholtz, Maastricht University	
Panel members:	Roderick Munsters	ABP
	Christian Rabeau	AXA Investment Managers
	Tony Watson	Hermes
	Jussi Laitinen	Ilmarinen

15:30 - 18:00 Property tour on the Seine aboard The Excellence

19:00 Cocktails & Dinner in the City Hall of Paris.
Dress code: tenue de ville
Award presentations:
1. EPRA Award for Best Annual Report 2004, sponsored by PGGM
2. EPRA Award for Best Small/Mid Cap Performance 2004, sponsored by LaSalle Investment Management
3. EPRA Award for Best Large Cap Performance 2004, sponsored by Kempen & Co

Partners Programme:
09:30 – 16:30 Excursion to Versailles

KLEPIERRE PIRELLI RE p|S|p Swiss Property SFL Societe Fonciere Lyonnaise unibail

- TRADED REAL ESTATE INDUSTRY

FRIDAY, 9TH SEPTEMBER 2005

08:00 – 09:00 Breakfast

09:00 – 09:45 **Keynote speaker:** **John D. Langlois, Chairman Morgan Stanley Properties (China) and Senior Advisor Morgan Stanley Real Estate Asia**

10:00 – 12:15 **2x 2 Concurrent Sessions**

10:00 – 11:00 **Session I:** **Assets: Exits from Opportunity Funds**
How maturing funds perceive the equity markets

Moderator:	Stephen Vernon, Green Property	
Panel members:	Chad Pike	The Blackstone Group
	Richard Powers	Goldman Sachs
	Mark Newman	Lehman Brothers
	John Carrafiell	Morgan Stanley

10:00 – 11:00 **Session II:** **French Property Sector: What is around the corner?**
IPOs, M&A activity, asset vs share deals

Moderator:	Philippe Le Trung, Citigroup Smith Barney	
Panel members:	Jean-Christophe Brexta	Carrefour
	Patrick Sumner	Henderson Global Investors
	Yves Mansion	Société Foncière Lyonnaise
	Lionel Botbol	UBS

11:00 – 11:15 Break

11:15 – 12:15 **Session III:** **Equity: Broadening the Retail Investor Base**
Secrets of attracting retail money

Moderator:	Jeppe de Boer, Goldman Sachs	
Panel members:	Lorna Matheson Lister	ABN AMRO Asset Management
	Pierre Vaquier	AXA REIM
	Jean-Paul Sabet	BNP Paribas
	Serge Fautré	Cofinimmo
	Anka Zeeman-Reijnen	Nieuwe Steen Investments

11:15 – 12:15 **Session IV:** **Debt: Financing Alternatives**
From no-nonsense to cutting edge

Moderator:	Andrew Stainer, Deutsche Bank	
Panel members:	Jean-Michel Gault	Klépierre
	Martin Wood	Land Securities
	Aidan Smith	Liberty International
	Gerardo Benuzzi	Pirelli Real Estate

12:30 – 14:00 **Panel Discussion III** **Is Going Global the Next Step?**
Conditions for global success in real estate

Moderator:	Nick Ritblat, British Land	
Panel members:	David Simon	Simon Property Group
	Peter Lowy	Westfield Group

Closing remarks Nick J.M. van Ommen, CEO of EPRA

14:00 – 15:30 Lunch

Hammerson MorganStanley LandSecurities RISANAMENTO SpA Gruppo Zunino VASTNED

FRIDAY, 9TH SEPTEMBER 2005

09:00 KEYNOTE SPEAKER

JOHN D. LANGLOIS, CHAIRMAN MORGAN STANLEY PROPERTIES (CHINA)
ADVISORY DIRECTOR MORGAN STANLEY REAL ESTATE ASIA-PACIFIC

Jack Langlois will review the basic macro environment for real estate investment in China, touching on the scale and wealth creation of the major developers and the drivers behind their rise. He will also briefly touch on financing and structuring issues, as well as capital exits and profit repatriation. Finally he will give a perspective on certain cultural matters that are relevant to foreign investors.

John (Jack) Langlois is Advisory Director in Morgan Stanley Real Estate Asia-Pacific and Chairman of Morgan Stanley Properties (China). He joined Morgan Stanley in 2002. From 1999-2001 he was lecturer with rank of professor at Princeton University. From 1982-1999 he was employed at J.P. Morgan & Co., New York. His most recent assignment there was chief representative and managing director, Beijing Representative Office. He held previous assignments in New York, Tokyo, Hong Kong and London and was head of Real Estate in Tokyo and London from 1986-1992. From 2001 to 2004 he was a director of the Bank of Shanghai, Shanghai, China, and a director of the Nanjing City Commercial Bank, Nanjing, China. In January 2005 he became a director of Shenzhen Development Bank, Shenzhen, China. From 1973-1982 he was professor of history, Bowdoin College, Brunswick, Maine, USA. He received a Ph.D. from Princeton University, an M.B.A. from New York University, an M.A. from Harvard University, and an A.B. from Princeton University.

FRIDAY, 9TH SEPTEMBER 2005

CONCURRENT SESSIONS

10:00 SESSION I

ASSETS: EXITS FROM OPPORTUNITY FUNDS
How maturing funds perceive the equity markets

Moderator:
Stephen Vernon, Green Property

One of the classic exits for buy out funds in non real estate sectors, IPO's, have generally been closed for property companies for reasons of traditionally poor sentiment, discounts to NAV etc. Instead the focus has been on deconstruction by way of individual asset sales with secondary buy outs or trade sales as alternatives.

The panel will debate whether IPO's now represent an attractive option in changed circumstances. Across Europe for quoted companies actual or proposed REIT structures have narrowed discounts or generated premiums and weight of money coupled with low interest rates have changed the mood. Does this create an opportunity?

10:00 SESSION II

FRENCH PROPERTY SECTOR: WHAT IS AROUND THE CORNER?
IPOs, M&A activity, asset vs share deals

Moderator:
Philippe Le Trung,Citigroup Smith Barney

Most of the French property companies have converted to the French REIT status in 2003. Since then, the sector has performed extremely well and we have seen an intense M&A activity. With the SIIC 2 legislation now in place and the appetite of investors for the sector, we start to see many players lining-up with new projects to grow the sector.

- What are going to be the major deals?
- Who will be the most active players? Private equity or corporates?
- What new business models should we expect?
- Is there still room for further consolidation?

FRIDAY, 9TH SEPTEMBER 2005

CONCURRENT SESSIONS

11:15 SESSION III

EQUITY: BROADENING THE RETAIL INVESTOR BASE
Secrets of attracting retail money

Moderator:
Jeppe de Boer, Goldman Sachs
" Retail money is the best money in the world" many would argue. Some companies and fund managers have been extremely successful at attracting retail money, but the overall retail ownership in listed European Real Estate remains relatively low. Why is it that the listed real estate industry has not been more successful at playing the retail card and what is the secret of those who have been successful? Listen to the insights of those who have attracted a large retail following and of those who are very close to the sources of retail money.

11:15 SESSION IV

DEBT: FINANCING ALTERNATIVES
From no-nonsense to cutting edge

Moderator:
Elias Woudenberg
This panel will focus on traditional financing as well as some new types of debt that have become available to European real estate companies. Many real estate companies are financed with mortgage debt and bank loans. Some European property companies have started raising capital in the bond markets, either by issuing unsecured debt, or through commercial mortgage-backed securities. Others have brought in place ECP or EMTN programs, or done a US private placement. What are the pros and cons of such alternative financing schemes? What flexibility do they give the company to sell and acquire assets? How do company size and strategy impact the choice to diversify funding sources? How easy is it to raise funding this way?

12:30 PANEL DISCUSSION

IS GOING GLOBAL THE NEXT STEP
Conditions for global success in real estate

Moderator:
Nick Ritblat, British Land

THE CASE FOR REAL ESTATE

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Real estate is an empirically attractive asset class — it consistently offers high current and total returns, and provides substantial diversification in a multi-asset portfolio. For these reasons, among others, recent research advocates higher real estate allocations among institutional investors. Yet, apart from a limited number of leading institutional players, many investors appear reluctant to dedicate the capital and strategic focus to building a strong, diversified real estate portfolio. This article outlines the benefits and diverse investment opportunities that a professional approach to real estate investing can offer, and presents a case for increased investor focus on this important asset class.

Why Invest in Real Estate?

Real estate offers institutional investors the opportunity to benefit from a range of important and useful investment characteristics. Property assets generate a high current income stream from rental yields, which, together with long-term capital value appreciation (from rental growth and/or capitalization rate movement), has contributed historically to consistently high absolute returns. The risk/return balance of real estate is attractive in comparison to other investments. Finally, real estate acts as a portfolio diversifier through its low correlation with other asset classes, such as equities and bonds, and as a hedge against inflation.

Income Generation

Direct real estate has consistently provided stable, high current income over the last 8 years, the period for which real estate return information on key Continental European countries permits the creation of a reasonably broad index. While direct real estate income has averaged above 7%, outpacing the other asset classes (Exhibit 1), the income returns of other asset classes have declined significantly (bonds and cash), remained at low levels (general equities), or shown noticeable volatility (real estate public equity) over this period.

Competitive Total Returns

Real estate has outperformed competing asset classes in terms of total absolute returns. Exhibit 2 illustrates that real estate equities total returns were higher than those of the other asset classes, and direct real estate returns averaged the second highest, outperforming general equities by 80 basis points over the 1997-2004 period.

Exhibit 1

Income Returns by Asset Class (%)[1]

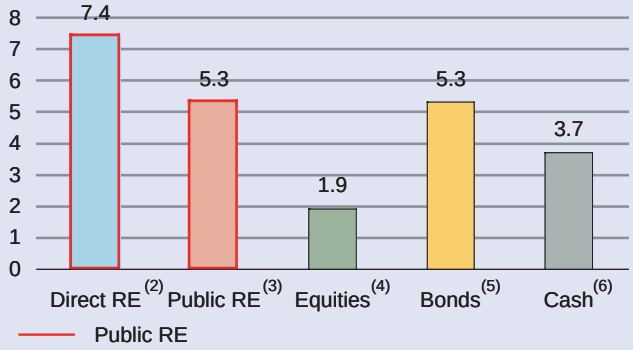
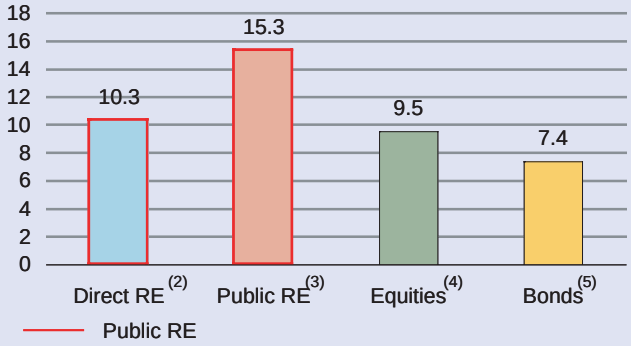


Exhibit 2

Total Returns by Asset Class (%)[1]



Source *Investment Property Databank, National Council of Real Estate Investment Fiduciaries Fiduciaries, Property Council of Australia, Global Property Research, Factset, Prudentia Real Estate Investors*

1. Global index based on market-weighted returns for the UK, France, Germany, Italy, the Netherlands, Spain, Canada, the US and Australia from 1997-2004
2. Based on income returns of direct real estate
3. Based on dividend yields of MSCI public real estate indices
4. Based on dividend yields of MSCI equity indices
5. Based on yields of 10-year government bonds
6. Based on 3-month interbank rates

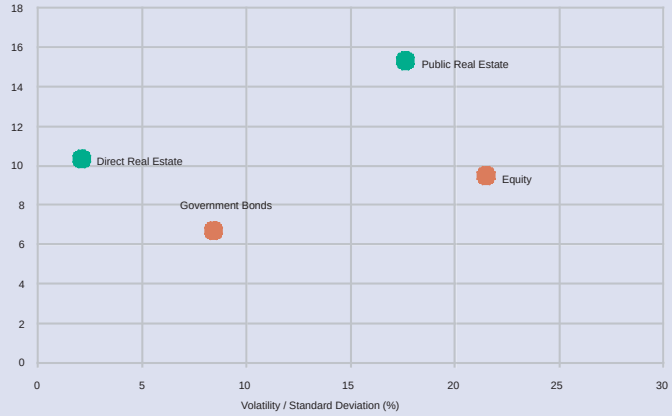
1. Global index based on market-weighted returns for the UK, France, Germany, Italy, the Netherlands, Spain, Canada, the US and Australia from 1997-2004
2. Based on total returns of direct real estate
3. Based on total returns of GPR public real estate indices
4. Based on total returns of MSCI equity indices
5. Based on total returns of 10-year government bonds

Risk/Return Efficiency

Direct real estate offers attractive risk-adjusted returns, with returns above those of general equities at a volatility (measured as standard deviation of returns) below that of government bonds. Public real estate returns exceed general equity returns by over 5 percentage points at a signficantly lower volatility. (Exhibit 3) The Sharpe Ratio[1] of direct real estate is significantly in excess of those of general equities and public equity real estate. Over the last 8 years, direct real estate has exhibited a Sharpe Ratio of 3.1. The respective Sharpe Ratios for the other non-risk free assets, i.e., general equities (0.3) and public equity real estate (0.7), are substantially lower.

Exhibit 3

Risk/Return Analysis: 8-Year Average



Source: See Exhibit 1

Portfolio Diversification

The performance of real estate as an investment is characterized by both capital appreciation (equity-like) and yield returns (debt-like). Real estate exhibits a relatively low (to negative) correlation with other asset classes, and thus offers scope for risk diversifi-cation to a multi-asset class portfolio (Exhibit 4). The relatively higher than anticipated correlation between direct real estate and general equities in the table below is a function of the short time series available for a geographically broad analysis. An analysis of a narrower (US, UK and Australia), 20-year index returns indicates correlations of 0.13 between direct real estate and general equities, and 0.26 between public real estate and general equities.

Exhibit 4

Real Estate Correlation with Other Asset Classes

	Direct Real Estate	Public Real Estate	Equities	Bonds	Cash
Direct Real Estate	-	(0.20)	0.56	(0.20)	0.21
Public Real Estate	(0.20)	-	(0.00)	(0.30)	(0.69)

Source: See Exhibit 1

Inflation Hedge

It is generally understood that real estate performs as an inflation hedge, with real estate returns compensating for the surprise of any greater than expected inflation. (Expected inflation is already reflected in the price of real estate, as in other asset classes.) In fact, real estate returns have a more complicated relationship to inflation.

The degree to which inflation affects a property's net operating income (" NOI") depends on the structure of the leases and the ability of the owner to pass through property expenses to the tenant. The inflation hedging attributes of real estate also vary by property type. For example, retail real estate is typically a capable transmitter of inflation to asset performance, due to the partial linkage of rents to tenants' sales, and the ability to pass through most expenses to tenants.

Public equity real estate returns are positively correlated with inflation, whereas direct real estate returns show a negative correlation with inflation. The latter is largely due to the lag associated with rent reviews (particularly in office real estate) and inflation adjustments to price index changes. While the

[1] *The Sharpe Ratio is a measure of the excess return for each incremental unit of risk. It is calculated as (return on asset class – return on risk- free asset) / standard deviation of asset class.*

degree of inflation-hedging capacity is not uniform across property sectors or investment vehicles, both public and private equity real estate investments serve as partial inflation hedges.

Potential Risks

Similar to other investments, real estate is subject to certain risks that may cause future performance to differ from historical performance. While some of these risks are not specific to real estate, investors who are new to the real estate asset class may face certain risks to which they have not been previously exposed. For example, investments in real estate can have limited liquidity (especially private real estate investments). The use of leverage may tend to accelerate or magnify losses and increase volatility. Increases in interest rates may reduce investment income by narrowing the spread between the real estate income and interest payments. The financial condition of tenants may weaken and lead to increased default risk. These risks, inter alia, can be mitigated through appropriate investment parameters, transaction structuring, asset sourcing, and market and product knowledge. It is important therefore to invest through an experienced manager with a strong performance and risk management track record.

How to Invest in Real Estate?

Investors need to consider several key questions in determining the appropriate real estate investment strategy: (i) strategic asset allocation; (ii) geographic diversification; (iii) investment strategy; (iv) sector allocation; and (v) investment vehicle alternatives. Investor responses to these questions will be determined by their requirements with respect to factors such as risk/ return profile, liquidity, portfolio size, leverage, tax situation, and investment horizon. Refining final objectives and a detailed investment profile is typically an iterative process.

How Much to Allocate to Real Estate?

Asset allocation is the primary determinant of long-term investment results, with research by Ibbotson Associates indicating that 91% of investment performance is attributable to asset allocation policy. But how much real estate is enough? The average real estate allocation of European institutional investors ranges widely from approximately 4-25%, with an average of 6-7% of total assets among the top six European economies. Of the estimated over € 4 trillion pension fund assets in Europe, approximately 5% are allocated to real estate. These allocations are substantially below the 10–15% real estate allocation suggested in academic research[2]. However, recent surveys of European institutional investors indicate a consensus expectation of increasing real estate allocations over the coming few years.

The absence of strong correlations between real estate and other asset classes suggests that increasing a portfolio's allocation to real estate reduces the portfolio's risk while maintaining or improving the level of returns. An analysis by Altis Investment Management indicates that increasing the global (currency-hedged) direct real estate allocation of a portfolio to 20% moves the portfolio closer to an optimal allocation and maximum risk-efficiency[3], with risk in the model portfolio decreasing by 80 basis points and the return increasing by 30 basis points. In the U.S., Ibbotson Associates similarly found that over a 30-year period, allocating 20% of a model portfolio into U.S. REITs (real estate investment trusts) reduced risk by 70 basis points and increased the annual portfolio return by 50 basis points.

What Kind of Real Estate?

European institutional investors with real estate exposure typically invest directly in real estate in their home market, often with a substantial concentration in one sector, and thus leverage their familiarity with that market and local deal access. Expansion outside the domestic market has usually been achieved through indirect investing (commingled funds), as this does not require local market presence by the investor, internal specialized management or critical mass in each target market. The following considerations outline the decision process that underlies such a shift in investment approach, and suggests a range of alternative investment opportunities in real estate.

Geographic Allocation

Real estate is cyclical in nature; the geographic markets are at different stages in the cycle and move around the cycle at different speeds. The position of geographic markets in the cycle is an important determinant of real estate investment allocation decisions, as investors try to invest at the most advantageous part of the cycle for their investment goals. Currency considerations may also play a role in geographic allocation decisions.

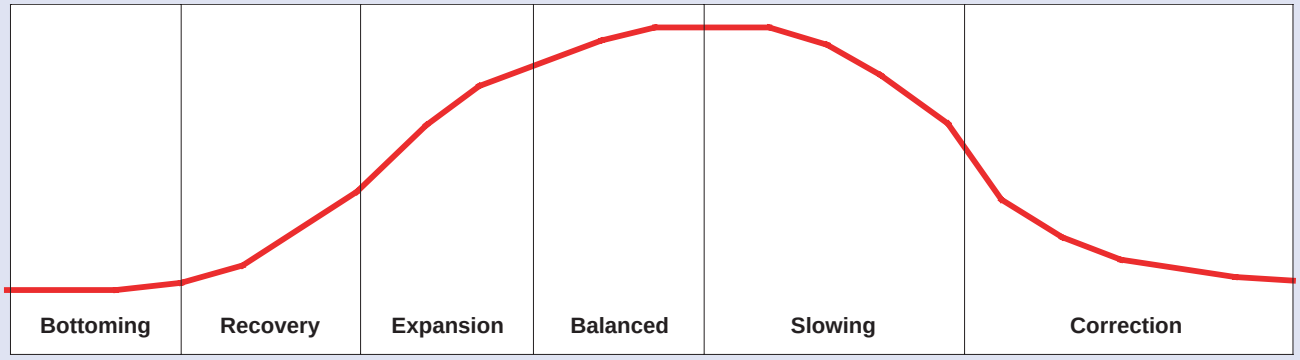
The benefit from geographically diversified real estate investments is widely accepted among real estate asset managers and consultants, and is reportedly more positive for real estate than for equity or bond investments (Eichholtz, 1996). Diversification mitigates risk across countries with respect to such factors as GDP growth, interest rates, inflation, and specific market supply and demand dynamics.

[2] *Fugazza, Guidolin and Nicodano, " Investing for the Long-Run in European Real Estate. Does Predictability Matter?" (10% to 30%); Hoesli, Lekander and Witkiewicz, " Real Estate in the Institutional Portfolio, a Comparison of Suggested and Actual Weights" (15% to 20%); Chun, Aadu and Shilling, " The Role of Real Estate in an Institutional Investor's Portfolio" (6% to 12%)*

[3] *A portfolio is efficient when there is no portfolio with the same standard deviation and a higher expected return, and no portfolio with the same expected return and a lower standard deviation, for the same set of securities.*

Exhibit 5

European Real Estate Market Cycle



Bottoming	Recovery	Expansion	Balanced	Slowing	Correction
• London City Office • Sweden	• London West End Office • Austria	• France Commercial • Spain	• UK Retail • Continental European Retail • Italy • Switzerland • Belgium	• Netherlands • Germany • Norway • Denmark	• Finland

Source: Morgan Stanley Investment Management.

Investment Strategy

In considering what type of underlying real estate to invest in, real estate investors select among a variety of investment strategies based on different risk/return considerations and with substantially different leverage profiles. These strategies are typically grouped as follows:

Core: Investment in fully-leased, institutional quality, stabilized real estate with a projected hold period of 7–10+ years, using 0–50% leverage (loan-to-value). Expected annual returns range from 5–10%

Value Added: Investment in real estate where development, redevelopment or re-leasing generates incremental risk/return, with a hold period of 5–7+ years, and using 50–60% leverage

Opportunistic: Investment in property, companies, loans, etc., with a hold period of 3–5 years, and using 60–90% leverage. Often seeks to capitalize on opportunities arising from market distress. Expected annual returns can exceed 20%

Public equity real estate is generally expected to deliver returns between those of core and value-added private equity real estate, with leverage typically in a range of 30-60%.

Sector Allocation

The four main classes of real estate are office, retail, industrial and residential. They are differentiated by physical characteristics, tenant type, supply and demand drivers, lease types and investor types, as summarized in Exhibit 6. Each real estate sector has its own (specialist) investors, economics and valuation parameters

Office and retail are the most popular sectors among European institutional real estate investors, with more than 40% of real estate stock invested in each of these sectors. Office is historically the primary sector of investor interest in Europe and has captured over 50% of investment activity over the last few years. However, investor interest is showing signs of widening from office into retail due to market fundamentals, and an attractive return profile is generating increased investor interest in industrial assets, while many opportunistic investors are currently focusing on larger-scale residential acquisitions.

Exhibit 6

Sector Allocation — Real Estate Sector Overview

	Office	Retail
Sector Features	• Most glamorous sector • Most volatile	• Dynamic • Diverse • Capital intensive • Defensive
Asset Types	• Office buildings	• Super-regional and regional centres • Shopping centres • High street
Demand Drivers	• Economic growth • Office employment	• Spending levels • Consumer confidence • Economic growth • Demographic trends
Supply Drivers	• Government planning • Obsolescence	• Planning controls • Lack of asset trades
Performance	• Volatile returns	• Highest risk-adjusted returns

Source: Morgan Stanley Real Estate.

Exhibit 7

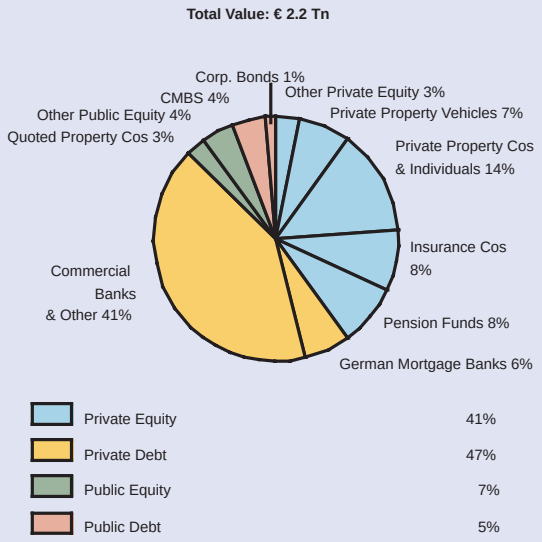
Real Estate Investment Vehicles

	Private	Public
Equity	◆ Direct Real Estate Ownership ◆ Indirect Real Estate (Private funds) · Commingled Funds · Joint Ventures with Property Companies · Stub Equity in Debt Securitisation · Co-Investments	◆ Indirect Real Estate (Public companies) · Public Property Companies - Primary/Secondary Offerings - Open-Market Purchases - Block Trades - Funds of Funds - Public Real Estate Funds (REITs) · Derivatives/ETFs
Debt	◆ Indirect Investments · CMBS (investment grade/ non-investment grade, rated/unrated) · Mezzanine Debt · Privately Placed Convertibles in Public Property Companies · Senior Debt	◆ Indirect Investments · CMBS (investment grade/ non-investment grade, rated/unrated) · Corporate Unsecured Debt · Perpetual Preferred Stock

Source: Morgan Stanley Real Estate.

Exhibit 8

Real Estate Capital Quadrants



Source: DTZ Research. 1. Values as at December 2004.

Real Estate Investment Vehicle Alternatives

Institutions can invest in real estate via a broad range of vehicles and investment types that span the spectrum of public/private and equity/debt products.Exhibits 7 and 8 provide a general overview of the different types of real estate investment products and the investment volumes associate therewith.

Industrial	Residential
• Simple • Commodity-like • Not capital intensive	• Secure cashflow • Management intensive • Regulated market
• Manufacturing • Assembly • Warehouses / Distribution • Small business units	• Apartments • Multifamily
• Trade • Consumer spending • Economic growth	• Demographic trends • Economic growth • Employment
• Building permits • Available land	• Building permits
• High income yields • Low costs psf	• Income yields vary widely • Condominium conversion

The total stock of commercial real estate in Europe is approximately € 5.9 trillion, of which € 2.0 trillion is owned by investors (versus owner-occupiers) according to DTZ Research. Exhibit 8 illustrates the preferred investment quadrants of the capital sources that invest in real estate; there is a substantial preponderance of investment into private real estate investment, both in equity and debt. Private real estate investment flows continue to outpace investments into public real estate.

As detailed below, each of the different approaches to real estate investing yields different benefits for investors.

Private equity real estate investments benefit, in general, from a high income component of total returns, low volatility due to annual valuations (no mark-to-market), and low correlation to other asset classes. This form of investing can, however, be illiquid in comparison with other real estate investments.

Direct real estate ownership gives investors the greatest degree of control over the investment process and the invested real estate itself, but requires an in-house real estate department for the acquisition, management and disposal of the real estate portfo-lio. Without a very substantial financial commitment, it is difficult to build a well-diversified real estate portfolio through direct investment, especially with respect to market and sector diversification. Transaction costs for direct real estate are also generally higher than those associated with indirect investments.

Indirect private equity investments in real estate benefit from the expertise of professional real estate fund managers and require far fewer internal resources. These investments remain focused on the underlying real estate, and their performance, risk, etc. is comparable to that of investing in the underlying assets

directly. Investors can thus build a diversified real estate portfolio and gain exposure in a cost-effective manner, often with greater liquidity than direct investments. The main comparative limitation versus direct investment lies in the reduced degree of investment control, as this is often ceded to the general part-ner/fund manager.

Public equity real estate is liquid, allows for global and/or regional diversification with modest investments, and benefits from professional real estate management. Publicly listed property investments bear lower administrative and transaction costs and are substantially easier to benchmark than private equity. Public real estate securities from time to time trade at a discount to the private markets and may at such times represent particularly attractive buying opportunities. However, public real estate equity has historically shown greater volatility of returns than direct real estate and provides less-developed access to a full breadth of geographic or sector investments.

Private debt (direct lending to real estate owners) provides an opportunity to invest in real estate without direct exposure to the underlying property, with € 574 billion of private debt issued in Europe from 1997 to 2004. Potential interest rate increases and conservative Basel II underwriting standards are expected to reduce growth in the private real estate debt market. Further, real estate debt provides no opportunity for capital gain.

Public debt has been gaining market share versus private debt over the last few years. About 108 billion of public real estate debt was outstanding in Europe at the end of 2004. Commercial mortgage-backed securities (CMBS) account for about three quarters of that amount, with corporate bonds representing the rest. These securities are tradable and are relatively liquid compared to direct real estate. However, there is no opportunity for capital gain, and remedies in the event of default are limited to those set out in the bond indenture. Bond prices may fluctuate in market value due to interest rate movements and CMBS may not be very liquid (compared to other bonds) in some of the less mature markets outside the United States.

Market Trends Among European Institutional Investors

As a broader range of institutional investors focus on the European (and global) real estate markets, the following trends are expected to shape real estate investing over the coming years:

- *Capital flows from numerous sources of equity:* insurance companies, pension funds, German open-ended funds, opportunity funds, private vehicles, and other collective vehicles are positioned to invest significant capital into real estate
- *Internationalization of investment activities and financing:* leading industry participants expect increasing international focus, cross-border capital flows and pan-European and global investors
- *Shift from direct to indirect real estate investment:* demand will increase for indirect investment funds that offer difficult to obtain exposure for investors and professional management
- *Increasing market transparency and liquidity:* cross-border capital flows and a rising number of pan-European and global investors will lead to increased market transparency, depth and liquidity
- *Increasing sector diversification:* investors are increasingly interested in the retail sector followed by the industrial sector, while relative demand for office has decreased
- *Income return over capital growth:* many large investors demonstrate a strong preference for income return over capital growth
- *Demand for prime well-let properties:* intense competition will increase for prime properties, fully let to high-quality tenants on long leases
- *Growth of pan-European real estate organizations:* organizations such as EPRA (European Public Real Estate Association) and INREV (European Association for Investors in Non-listed Real Estate Vehicles) will play important roles in addressing investor issues and in the increasing maturation of real estate investing in Europe

Historical performance and expected market trends present strong arguments for increased institutional investment in real estate. The asset class has consistently delivered solid current and total returns, is an effective portfolio diversifier, and offers a wide range of investment opportunities. As real estate investment increases with anticipated capital inflows and becomes more sophisticated in terms of diversification and professional management, it will assume a more important role in the multi-asset class investment universe. The right allocation to an appropriately diversified real estate portfolio will help institutional investors optimize returns for their clients in an increasingly challenging environment.

THE HÔTEL DE VILLE (CITY HALL) DE PARIS

By James Monaghan

The City Hall of Paris (Hôtel de Ville de Paris) has always been situated close to the river Seine in an area known as the Marais, or marsh. In 1357, Etienne Marcel, Provost of the Paris Guild of Merchants, bought the 'House of Pillars', on the shingle beach which served as a river port for unloading wheat and wood. It merged into a square, the Place de Grève (or Strand), a place where Parisians often gathered, particularly for public executions. This is where Ravaillac, Henri IV's murderer, was hung, drawn and quartered, and where heretics, and poisoners like La Brinvilliers and La Voisin were burned at the stake.

In 1533, François I decided to endow the city with a Hôtel de Ville which would be worthy of the Parisians. He appointed two architects: an Italian, Dominique de Cortone nicknamed Boccador because he had a red beard and a Frenchman, Pierre Chambiges. Boccador, steeped in the spirit of the Renaissance, drew up the plans of a building which was at the same time tall, spacious, full of light and refined. Building work was not finished until 1628 during the reign of Louis XIII and during the following two centuries no charges were made to the edifice until in 1835, on the incentive of the Prefect of Paris, two wings were added to the main building and were linked to the facade by a gallery, to provide more space for the expanded city government.

This old historic Hôtel de Ville came to a tragic end. The defeat at Sedan in 1870 brought about the fall of the Second Empire and the Parisians, during the revolt of the Commune in 1871, set fire to several symbolic monuments in the city: the Tuileries Palace, The Cour des Comptes (Audit office) and the Hôtel de Ville. There the fire raged for eight days. The city's archives and its art treasures were completely destroyed.

After the fall of the Commune, the government decided to rebuild the Hôtel de Ville. A competition was held and was won by two architects, Ballu and Deperthes who had opted for an identical reconstruction. A national subscription fund brought in the necessary money and after only eight years the building was finished. It had a twofold function as the seat of municipal administration and a place where large receptions could be held. The building is decorated with 108 statues, representing famous Parisians. 30 Other statues represent French cities. The clock at the central tower is adorned with several feminine sculptures representing the Seine River, The city of Paris, 'Work' and 'Education'. However, when on 13th July 1882 the new building was officially inaugurated, the interior arrangements were not yet finished.

The decoration was entrusted to several successful artists and had to conform to both the pedagogical and aesthetic criteria of the Third Republic. Whereas the historical painter Jean-Paul Laurens related in his paintings highlights of the history of Paris in one room, Georges Bertrand sang the praises of agriculture on the walls and ceiling of the dining room. The decoration of the Salon des Arcades was dominated by the idea of the supremacy and development of fine arts, crafts, science and literature. The pale, hieratic pictures by Puvis de Chavannes contrast well with the worldly inspiration depicted in the allegories of perfume and flowers by Ferrié, music by Gervex and dance by Morot in the Salle des Fêtes.

EPRA ANNUAL CONFERENCE PARIS 8 & 9 SEPTEMBER 2005

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