



GUEST EDITOR **Ashley Nield**

## FLYING THE LISTED PROPERTY FLAG

FEATURES

**INTERVIEW WITH LEON BRESSLER  
USE OF PROPERTY DERIVATIVES**

MARKET FOCUS

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## FROM EPRA

Welcome to the 17th edition of EPRA News. The revamped version of EPRA news was well received last time out and we were pleased with the overall feedback. The EPRA house style is well in place and visible in a broad range of situations.

We have managed to adhere to our intended format for the 17th edition, covering the following regular features: guest editor, news and snippets; under the 'Features' section: guest articles from the EPRA membership and an interview with a leading figure in the industry, and EPRA research; under the 'Market' Focus section: company, investor, country and sector spotlight; and under the 'Reference' section: total real estate markets table, performance figures, committee structures and information of the annual conference in Budapest.

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

Please send your comments and suggestions to: [info@epra.com](mailto:info@epra.com).

# CONTENTS

## FORWARD

Guest editor, Ashley Nield ..... 4

## FEATURES

In the news..... 5-6  
Rebecca Worthington, Property derivatives –  
an alternative approach for property companies..... 7  
Interview with Léon Bressler ..... 8  
Iain Reid, The Development of Property Derivatives in Europe ..... 10  
Exchange Traded Funds (ETFs) ..... 12

## MARKET FOCUS

Patrick Sumner, Real Estate Shares and the Private Investor ..... 14  
Juan-Carlos Calvo Mateos, Metrovacesa..... 16  
Prof. Dr. Karl-Werner Schulte and Martin Becker,  
German Real Estate Investment Market Update ..... 18  
European Office Sector ..... 20

## REFERENCE

FTSE EPRA/NAREIT Performance ..... 22  
EPRA Working Committees ..... 24  
Global Real Estate Universe ..... 26  
Conference Provisional Programme ..... 28

By: Ashley Nield, editor, IPE Real Estate  
Guest Editor

# Flying the listed property flag



**Ashley Nield**  
Writer and editor  
IPE Real Estate

Ashley Nield is a writer and editor. He was born in North Wales in 1960 and educated at London University between 1979 and 1982 where he studied History and English literature.

His career began as a motoring journalist covering cars and motorcycles before moving into business journalism. He wrote business features for The Daily Telegraph for many years whilst editing a series of business magazines in London. He has also had spells in consumer journalism, working in Stockholm as managing editor of Scanorama and the inflight magazine for SAS between 1994 and 1997. Prior to taking up his current editorship at IPE Real Estate he was business editor on The South Wales Argus, a UK-based regional newspaper.

His interests include macroeconomics, history and literature.

I suppose I could give a round-up of everything I think is going to happen in 2006, but I suspect your guesses would be better than mine anyway, so I won't waste your time. I think I'd prefer to devote this editorial to why I think the drive to promote listed real estate securities is the number-one priority in the investment arena.

Transparency and accountability are worthy goals in almost every walk of life and stock exchange controls – for all their shortcomings – set the benchmarks that private structures should aspire to.

Original investors, such as pension fund officers, who read our magazine, report that there is still some way to go before they will be satisfied with the transparency and accountability in private vehicle real estate investment.

Up to now, they have been obliged to accept the standards of a partially self-governing industry. For many, private vehicles registered under various “flags on convenience” around Europe have been the only game in town.

But lately these investors have been taking global real estate securities far more seriously. And when Europe finally regularises its REIT market investors may find they're allocating a majority of their funds to the public markets. Accompanying this experience will be the clarity in their investment affairs that up to now has been missing. (Not to mention the liquidity!)

The private fund industry will have to compete and standards will be raised.

Australia and the US have led the way and – as everyone points out – even they didn't get it right overnight. A period of horse-trading with national treasury officials and politicians is inevitable and is well underway. But if Europe can achieve a workable REIT structure it will put another cornerstone in place in the assembly of a globalised listed marketplace.

While this will help our readers, it will also be a benchmark for emerging-market countries to aspire to in Central and South America, Africa, East Europe and Asia.

Transparency and accountability are the factors stopping millions of people in these countries from enjoying inward investment and modern living standards.

Some of their leaders have little to be proud of, but they're all smart enough to know that by adopting first-world market standards they stand to gain much more than they will lose in terms of personal control and convenience.

So in working towards reliable public markets we're not just helping ourselves but helping others whose needs are often much greater.

The control of inflation is one of the most remarkable global achievements of the last decade. It could be the single-most important factor in preserving the bull run of the property market and an economic cycle which at present shows no clear sign of ending. The biggest problem, at present, is in matching overwhelming demand with available supply of investing-grade property. But once again, by encouraging emerging countries to establish high standards of transparency and accountability we are enlarging the potential supply and helping to stabilize a global market.

It's a virtuous circle (potentially) and the sooner it's all joined-up the better.

Of course, some critics have little good to say about listed real estate, claiming that the performance profile of the shares takes on that of general equities and defeats the purpose of being in property in the first place.

Well ABP, one of the 500-pound gorillas of the European pension industry, doesn't agree. I listened to one of their portfolio managers giving a presentation on the fund's real estate allocation. They're going big on global equities and the manager dismissed stock market fluctuations as irrelevant to long term holders such as themselves. “Sooner or later the share price will revert to a level which reflects net asset values,” he said. I couldn't agree more.

Waiting for the UK, Germany and others to get their REIT markets in place is a bit like the old communists in Russia waiting for “the great leap forward”.

I hope we don't have to wait as long as they did to see upturns in tractor production in the Urals or wheat yields per hectare in the Ukraine.

Good luck to EPRA officials in their representations to government and bureaucracies, and good luck to EPRA members in their search for transparent, liquid investments over the coming year. ◀



## In the news

### Kempen & Co launches EPRA Put Warrant

Dutch merchant bank, Kempen & Co, has structured an "EPRA Put Warrant". The product offers investors in European property stocks downside protection at 95% of the current value of the EPRA Europe Index. The daily pricing and liquidity offer the investor flexibility to adjust positions during the maturity of the product. This offers the investor not only downside protection, but also a unique opportunity to gain out performance in volatile markets. Liquidity is provided for at least €100 mln. of the underlying on a daily basis. The bid-offer spread will be 50 bps with a maximum of 100 bps in extreme market circumstances. A put warrant is a warrant, which gives the warrant holder the right, but not the obligation, to sell the underlying security at a predetermined price (exercise price), on a predetermined date (maturity date). The value of a put warrant will appreciate when the price of the underlying security depreciates.



**KEMPEN & CO**  
Merchant Bank

For more information, please contact Tom de Bruijn or Cyriel van Bree at Kempen & Co at +31 20 348 8314 ◀

### Ronald Spinney to chair €1 billion fund



Former Hammerson and EPRA chairman, Ronald Spinney CBE is set to become the Chairman of a €1 billion pan-European property fund according to The Times. The fund is being organised by Cambridge Place Investment Management who has offices in London and Boston. The fund has also recruited Denis Lopez, former head of European real estate investment banking at JP Morgan. The fund is expected to be listed on Euronext and raise around €350 of equity. ▶

### AFIRE survey sees US allocations cut

In a survey conducted by the Association of Foreign Investors in Real Estate (AFIRE), foreign investors plan to invest US\$ 45 billion outside their domestic markets in 2006, and 47% of this will be invested in the United States. This figure is down from 2005's figure of 55%. Those surveyed stated that they would target western Europe and the UK as additional key markets. Nearly 40% of foreign investment in the United States is expected to originate from Australia in 2006, and 49% is expected to come from Germany which has been the leader in US real estate investment in the past few years. ▶



### FTSE/EPRA Asia Roadtrip

EPRA joined FTSE's Asia Pacific team for a tour of key markets in the region in the middle two weeks in February. The purpose of the trip was to raise awareness of the FTSE EPRA/NAREIT Global Real Estate Index and update investors with developments in Europe. The trip was a huge success. Over the two weeks period, in a combination of seminars and one-on-one meetings, we met with approximately 140 people. The trip started with three days in Australia, with meetings in

Sydney and Melbourne. Next leg of the journey was Singapore with two full days of meetings, with also spent some time with Lachlan Gyde of APREA who is based in Singapore. Next stop three working days in Hong Kong, coupled with a short day trip to give a seminar to a group of investors in Taipei, Taiwan. The final leg of the journey was two days in Tokyo, with a full schedule of one-on-one meetings with Japanese investors. We were pleasantly surprised at the level of knowledge of both the FTSE EPRA/NAREIT Global Real Estate Index and the European

### EPRA ETFs continue to grow

Currently there are two Exchange Traded Funds (ETFs), or tracker funds, available on EPRA/NAREIT Indices. In July 2004, AXA Investment managers issued the EasyETF FTSE EPRA Eurozone replicating the performance of the EPRA/NAREIT Eurozone Index. As at the end of February, the total assets under management for the AXA ETF are €340 million. In November 2005, Barclays Global Investors launched the iShares FTSE / EPRA European Property Index Fund that replicates the performance of the EPRA/NAREIT Europe Ex UK Dividend+ Index. Total assets under management are building rapidly and currently stand at €43 million. ▶



### Moody's estimate record year for CMBS

According to Moody's CMBS 2005 review and outlook for 2006, issuance is set to hit record levels for the second year running. In 2005, Moody's estimate that between €40 - €47 billion was issued in total, approximately double that of 2004. They estimate that 2006 will see approximately €50 billion issued. The top European CMBS book-runner in 2005 was Morgan Stanley at €9.5 billion. Barclays Capital issued around €6 billion, followed by Deutsche Bank (€5 billion) in third spot. The UK is the dominant European market, however greater contributions are expected to originate from Germany in 2006. ▶



market. It was clear from our meetings that the vast majority of dedicated real estate investors are allocating capital on a global basis. With the more general equity managers, it was evident that real estate securities are firmly on their investment radar screens.

For more information on the Asian Public Real Estate Association (APREA) and FTSE please visit: [www.aprea.biz](http://www.aprea.biz) and [www.ftse.com](http://www.ftse.com) respectively. ▶





## In the news

### Listed real estate companies raised over €9 billion in 2005

According to Bernd Stahl, analyst at Merrill Lynch, over €9 billion was raised in 2005. The largest capital increase in 2005 was the 7-for-19, €1 billion rights issue by Metrovacesa. After raising €1 billion in 2004, the Austrians managed to raise almost €3.2 billion in 2005. 2006 promises to be another exceptional year with the recently announced €3 billion share issue of Immoeast. The Vienna-based real estate developer plans to sell 333 million new shares to fund an expansion in Austria and in Eastern Europe. 13 continental European companies were listed on AIM (Alternative Investment Market) in the UK. In total, these listings raised over €2.1 billion. Many AIM-listed property companies offer exposure to markets that are normally difficult to access like Russia and Bulgaria. Staying at Merrill Lynch, their real estate analysts were rated the best in Europe by Institutional Investor magazine. It is the fifth consecutive year that the team has taken top spot. UBS came second and Citigroup third. ◀



### Peter de Haas joins Protego

Peter de Haas, former senior portfolio strategist for real estate at Dutch health care fund PGGM, has joined Protego Real Estate Investors. He joins the firm founded by Iain Reid, the former head of Aberdeen Property Investors, to head its new office in Rotterdam, which opened in March. The Rotterdam office is a branch of the UK business and follows the same business model. De Haas has the title of International Investment Director. According to the Protego statement, "de Haas is responsible for creating property derivatives in a select number of countries, as well as the creation of funds in Europe and other major international markets." ◀



### Continued support for listed real estate

According to PWC & ULI's 'Emerging Trends in Real Estate Europe' report, listed real estate will receive continued firm support in 2006. The report states that there is significant growth expected in dedicated global listed real estate funds and that this sector was already approximately US\$ 14 billion, a figure backed by EPRA's 'Growth in Global Listed Real Estate Funds' research. The report states that there is growth in retail investor interest everywhere and, of course, European institutions have huge sums to put into listed real estate, particularly if more tax transparent vehicles become available. The report concludes that REITs behave somewhat like direct real estate and have a fairly low correlation with the broader equity market, so they are used somewhat interchangeably with direct investment by some institutions. ◀



### IPF launches new initiatives

The Investment Property Forum (IPF) launched two news initiatives. Firstly, the Property Derivatives Interest Group (PDIG) was launched to bring together the many strands of work currently occurring on property derivatives and help promote the growth of this market. For more information, click on: <http://www.propertyderivatives.co.uk>. We feature the developing derivatives market in the features section of this newsletter. Secondly, in co-ordination with RICS, the IPF published 'Understanding Commercial Property Investment: A guide for Financial Advisers'. This guide is available through: <http://www.ipf.org.uk> ◀



### Citigroup rates EPRA/NAREIT as the most effective benchmark

In a research report entitled "Global REIT Strategy: Global markets tighten, Investor Interests Increase", issued by Citigroup in January 2006, Citigroup names FTSE EPRA/NAREIT as the preferred benchmark: "Of all the major REIT global indices, we believe the EPRA/NAREIT Index is the most effective benchmark". In addition, Citigroup states: "we believe the EPRA/NAREIT index is the best metric for institutional investors to benchmark against". ◀



### INREV Chairman joins Bouwfonds

Michiel Olland, president of INREV the non-listed funds association has joined Bouwfonds Property Finance International. He left Dutch office developer KFN where he was Chief Financial Officer. He will be responsible for southern Europe and new markets. Olland, 46, has 14 years of international property and finance experience. ◀





# Property derivatives – an alternative approach for property companies



**Rebecca Worthington**  
 Finance Director  
 Quintain

Aged 34, Rebecca joined Quintain in March 1998 as Group Accountant. In July 2001, she was appointed Finance Director with additional responsibility for Quintain's Investor Relations. She had previously held the position of Company Secretary from March 2000 to July 2002.

Rebecca qualified as a Chartered Accountant with PricewaterhouseCoopers in 1997 and worked as Financial Controller for Britton Group plc prior to joining Quintain.

She is married, with one son.

## Quintain Estates and Development PLC

Quintain is a leading property investment and development company specialising in strategic property acquisition, redevelopment and asset management across the UK. It is currently leading the regeneration of Wembley, with permission for a £2 billion transformation of the land surrounding Wembley stadium. With partners, Lend Lease, Quintain is also leading the £5 billion regeneration of the Greenwich Peninsula. The company is listed in the FTSE 250.

→ [www.quintain-estates.com](http://www.quintain-estates.com)

The emerging property derivatives market has several applications for property companies as well as institutions and other property investors. Whilst the opportunity currently exists for arbitrage this will reduce as liquidity improves. Of more importance is the ability of investors to manage their portfolio strategy and to hedge risk.

In the case of Quintain, we have used property derivatives in a small way to 'go long' on property. This was partly to get involved in this emerging market and partly to offset sales of various properties where the prices we were being offered meant that it was difficult to see how we could create greater value in these assets in the short term, but where we felt the market still has some way to go.

At the time we undertook our first transaction, the products available were very limited. We took out a swap brokered by CBRE between the IPD All Property Index and LIBOR plus a margin. However, our house view was that, beyond 2006, we could see a flattening or downward adjustment in property values. Rather than selling the position in an uncertain market at the end of 2006, we opted for the certainty of a forward sale of years 2007/08, in a transaction put together for us by Protego and Barclays Capital.

The area that Quintain is currently investigating is the ability to use the property derivatives market to hedge exposure. This is particularly relevant for our projects at Wembley and Greenwich (the latter with our partners, Lend Lease) for which we have a 20 million sq ft consented development programme. The valuations of both are based on current market prices of commercial and residential property, so market movements could cause material swings in our balance sheet. In light of this, tactical use of derivatives could provide a highly effective risk management tool.

As this market develops, it will also have crucial relevance for property investors' allocation of assets, enabling them to change allocations very easily without being forced to trade quickly out of the underlying assets. This will allow institutions to choose the

timing of sales based on the characteristics of the individual property and their view of the property cycle.

The development of other areas of the market will also provide opportunities such as liquidity being introduced into particular sectors and, as has happened with all other derivatives markets, and the development of futures and options. ◀



By: Fraser Hughes, EPRA



# Interview with Léon Bressler



**Léon Bressler**  
Chairman  
Unibail

Leon Bressler is a graduate of Institut d'Etudes Politiques de Paris and has a degree in Law. He began his career with Chase Manhattan Bank where he held various positions successively in Paris, New York, Stuttgart, Frankfurt and London. In 1978, he joined Midland Bank Group where he became Chief Executive Officer and then Chairman of the Executive Board in 1984. In 1989, he became the Chairman and Chief Executive of Jeanne Lanvin and of Lanvin Parfums following the restructuring of their shareholding structures. In 1991, he joined Worms & Cie and remained a Managing Partner until 1996. Léon Bressler was Chairman and Chief Executive Officer of Unibail from 1992 to 2005. He remains Chairman of the Board of Unibail. Léon Bressler was born in Paris in 1947; he is married and has two children.

## **FH: How did you get into the real estate industry?**

LB: It was a natural progression really. At Midland Bank Group I picked up an understanding of the real estate market, so when I joined Worms Group in 1991, I was given the task of examining the real estate part of the group in the midst of the unfolding crisis. As the situation in the real estate market deteriorated, I was forced to take a 'hands on' approach.

## **FH: What experience did you use to save the business?**

LB: What is fascinating about the real estate industry is the fact that it is a multitude of disciplines. Firstly, it is clearly a financial activity matched with a concrete product. There is a paradox between what appears to be a very simple business with the underlying complexity of the real estate world. This has led to many mistakes being made by participants in the industry. Secondly, there is also a link with the fashion industry. What is exciting about building construction is the ability to be creative in design. To be part of the artistic and creative world through archi-

itecture is extremely stimulating. My background before taking over at Unibail spanned many of these fundamental disciplines necessary to turn the company around.

## **FH: So what steps did you take?**

LB: When I took over in June 1992 the market was deteriorating and in bad shape, however, it had not yet hit the bottom. In 1992, people believed that the market was experiencing an 'adjustment', however the magnitude of the crisis was yet to unfold.

Firstly, we needed to sell parts of the business at losses, for example, loan portfolios and leases, plus we lowered rents to ensure we could occupy the buildings. We viewed these measures as damage limitation. We decided to take the pain early and position the company for the future. We entered the shopping mall business in 1992 - 95, at the same time that the majority of big financial institutions were exiting the asset class. In contrast, we were confident that the shopping mall business would offer growth opportunities.

The second step was to introduce a more transparent framework to conduct business. We wanted to attract a new shareholder base, increase levels of corporate governance and hire top professionals. We hired professionals with strong financial, marketing, management knowledge, whereby changing the underlying culture of Unibail. We created a corporation that utilised real estate as a commodity. We were leading the professionalisation of the French real estate sector.

Regarding the personnel within the company, many of the people we recruited in the early stages still remain at Unibail. There are many reasons for their loyalty. Many have played a key role in building the 'Unibail model' and have stayed to see it come to fruition. A perfect example is our new CEO, Guillaume Poitrial, who was hired ten years ago. I believe we have built an extremely strong performance orientated working culture within the company, which means that we now attract top quality people, both from the industry, and top graduate schools.

Looking back, it is clear that the Unibail model worked well through this period and provided us with a strong foundation for the

future. Unibail's shareholder base is currently 60% non-French. In 1992 when I took over it was 99% domestic.

## **FH: In your 14 years term, which projects have given you the most pleasure?**

LB: We have a number of exciting projects at the moment. On the retail side, I am fascinated by a retail and services centre at Paris- Charles de Gaulle airport designed by architect Christian de Portzamparc. I am also very proud of the other projects we have with Jean-Paul Viguier (Lyon Confluence), Jean-Michel Wilmotte (Les Docks de Rouen). Looking back Coeur Defense, the largest office complex ever built in France, must be mentioned. In addition, I am very proud of La Cité du Retiro designed by Ricardo Bofill.

Over the last 14 years we worked with some world famous architects and they have designed some beautiful buildings. We have not only been financially successful, but aesthetically successful too. It is clear that real estate is a key part of everyday urban life.

## **FH: Looking back, do you have any regrets?**

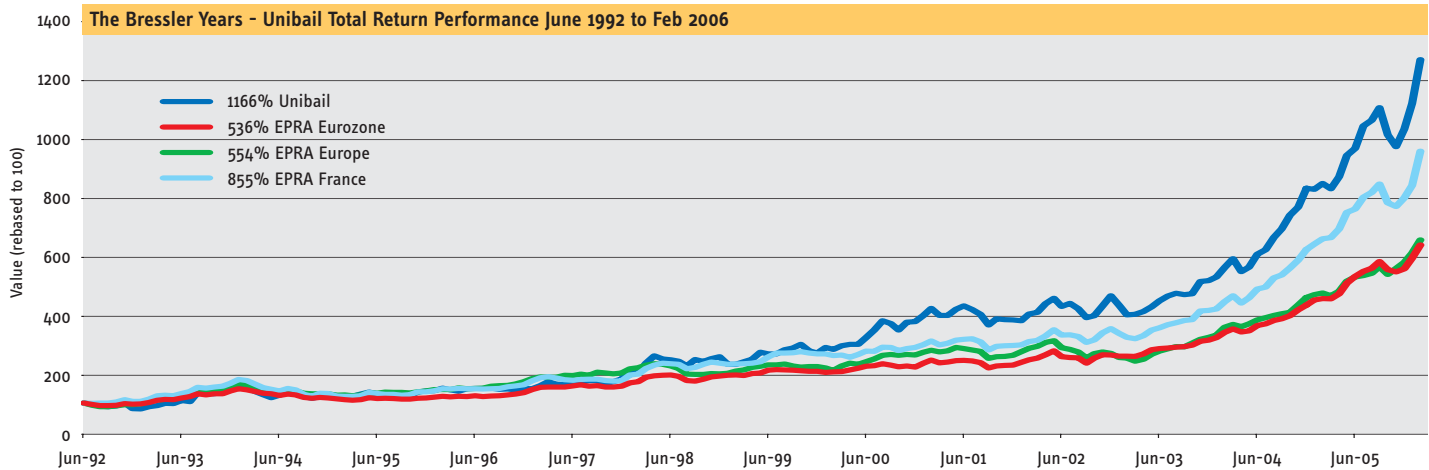
LB: I think that we have made no major mistakes. However, we could have done more in terms of purchasing distressed assets: offices and shopping malls for example. In addition, there were other sectors, such as logistics, where opportunities arose, that we did not seize. However, in hindsight, the French office market is the largest in continental Europe and offered plenty of opportunity compared against other sectors and opportunities in other countries.

## **FH: You talked about Unibail leading professionalisation of the French market, how do you view developments in the broader European market over the past seven years?**

LB: There has been a vast improvement in the European market over that time. I would say that in the majority of countries, companies have become more professional - in terms of high quality management teams, entrepreneurial vision, financial discipline, and market focus. Dare I say that historically the sector had a negative image, and consequently the efforts to improve the situation was far more concerted. The situation is now reversed. At this point in time, the real estate sector belongs to the top-tier of industrial sectors.



Interview with Léon Bressler



#### FH: And the role of EPRA in this?

LB: EPRA has been instrumental in the development of the European real estate sector. The initial group of investors and real estate companies, all envisaged a global move to a more professional working environment. This small group put in its capital and its effort, to ensure this vision became a reality. The EPRA Best Practices Recommendations and the EPRA Index were huge steps in the right direction. We see the attitudes of investors changing based on our underlying efforts to improve the sector. There is now a mix of investors as the trend to increase real estate allocations continues. You still have specialised real estate investors, and these have been joined by more general asset managers who are interested in the real estate sector. The hedge funds have also come into the picture. The real estate market is far more transparent environment to deploy capital – after all investors have an excellent product to invest in.

#### FH: What is the importance of a deeper market?

LB: The first focus should be on the long term returns generated by the real estate companies. Looking at the EPRA Europe Index returns over the long term, the returns have been excellent. At a company level, over the past 13 years, Unibail has compounded returns in the region of 23% per annum. These are very attractive returns coupled with the fact that the real estate sector still offers investor's lower levels of volatility compared against the general equities market. Nevertheless, liquidity is essential for the market to develop and the sector's increasingly broader investor base should be viewed as a resounding success.

#### FH: What do we do to develop the market further and how can we broaden the product range to investors?

LB: Governments and private companies will

transfer assets to professional real estate operators. You will see this evolve all over Europe. The German market will undergo a transformation of the open-ended funds into the new German REIT structure. In fact, broader REIT legislation in Europe will form the catalyst for new IPOs into the market. I also envisage the development of new products, such as logistics, retirement homes, healthcare centres, and assisted living. The healthcare industry in particular will be a growth market purely on the back of demographic projections.

#### FH: Who, of your peers do you most admire?

LB: There are a number of great companies now in Europe, run by good management teams. There are companies that are focused on one product in a number of countries; conversely, there are companies in a diverse range of sectors in one country. Different products work well provided you have the right people, the right systems and the right disciplines in

place. I am also a great admirer of small companies with new models and these companies can offer investors substantial returns in the future. In addition, there has been successes with the opportunity funds, and groups like GE who became active in the sector. In fact, what is really remarkable is the magnitude of successes in the industry.

#### FH: What was your involvement in the SIIC initiative?

LB: It was clearly the idea of the Frech Property Federation and the collective work of all of the members of the Board. Looking back, the SIIC has been a big success, and met all of its targets. It has provided the government with its required income, and more, and it has served the general economy well. SIIC 2 and SIIC 3 enable service companies to transfer their real estate into vehicles and use the resources to develop their business and to create new products and penetrate new markets. It has been a 'win-win' situation. ◀

## About Unibail

In 1968 Unibail was created out of Worms & Cie as a finance leasing company (Sicomi). The shares were first listed on the Paris stock market in 1972. In 1991 Unibail made the strategic decision to become a property company which resulted in the progressive winding down of the lease financing business and giving up of the Sicomi status. In 1992 Leon Bressler was nominated as Chairman and Chief Executive Officer and the company took its first stake (23%) in a major shopping mall – Les Quatre Temps in Paris La Defense. In the period 1994-95 Unibail strengthened its retail interests through the acquisition of the Suez Group portfolio and became self managed and self administered. Property assets were grouped around two core activities: shopping centres and offices. In 1999 Unibail bought the property portfolio of Vivendi Group worth just under €1 billion. In September 2001, the company takes delivery of Coeur Defense, Europe's largest office complex. Following the introduction of the SIIC structure in France, Unibail opts to operate under the structure with effect from 1 January 2003. In 2005 the company repaid €23 per share to investors and adjusted its financial structure to its prime quality portfolio in the office, shopping centre and convention centre sectors. In April 2005, at the AGM, Unibail appoints Guillaume Poitrinal as the new CEO of the company. Leon Bressler remains the Chairman of the Board. The company has a current market capitalization of €6.3 billion and a portfolio size in excess of €8.5 billion.



By: Iain Reid, Chief Executive  
Protego Real Estate Investors



# The Development of Property Derivatives in Europe



**Iain Reid**  
Chief Executive  
Protego Real Estate  
Investors

Iain Reid is CEO and CIO of Protego Real Estate Investors and a Fellow of the Royal Institution of Chartered Surveyors. Iain was previously Chief Executive of Aberdeen Property Investors International, a highly successful pan European property investment management company which grew organically and through acquisition from €2bn AUM to €10bn AUM, between 2000 and 2003.

Between 1993 and 2000 Iain was employed at Barclay's Bank Group, where he was CEO and CIO of BZW/Barclays' Property Investment. He transformed Barclays' internal property investment service into a significant third party business, adding numerous blue chip clients and doubling AUM in the process before leading the company into its acquisition by Aberdeen Asset Management.

Over this time, Mr Reid also created a personal and corporate reputation for ground-breaking innovations in the property sector. In particular, he was responsible for creating Property Index Certificates (a bond structure), Property Index Forwards and some of the first private institutional co-investment vehicles in the UK.

In the period from 1986 to 1992, Mr Reid was International Head of Research at Richard Ellis, Property Consultants, where he was responsible for creating a significant consulting business (the largest division in the firm). Until 1986 Mr Reid was the Managing Partner of Richard Ellis' UK Investment Management Division.

Derivatives, loosely defined, related to the European property markets, will have a growing part to play in investors' portfolios over the next few years.

Firstly, there is already established an Exchange Traded Fund (ETF) which gives investors the ability to trade instantly into and out of the entire quoted sector in Europe as defined by the EPRA index and this is, in all likelihood, the forerunner of other similar products. This allows investors to trade the whole market. It is as its name suggests, a "fund" rather than an instrument, delivering index performance. It is also a cash form of investment, which is not the case with the classic derivative instruments, for instance swaps, futures/ forwards, or options. However, there seems no reason why these non-cash instruments should not also be created on the public markets if they satisfy the normal derivative market in securities requirements of underlying liquidity and size.

I will focus on instruments which have been drawing attention in recent times – the recently expanded market in real property derivatives, based upon IPD indices which has emerged in the UK. I believe that the markets in these instruments will both grow and extend through the countries in Europe over the next five years to become important elements of portfolio management for both public market as well as private market investors.

## Growth of the UK Market

For the ten years, from 1994, some £800 million of total return swaps (TRS) and Property Index Certificates (PICs) were transacted, with lives of one to seven years, together with some £400 million turnover in Property Index Forwards (PIFs), between 1996 and 1998. PICs are an instrument devised by me, whilst at BZW (the predecessor of Barclays Capital) in 1993/94, and although my colleague, Charles Weeks and I left the Barclays group when our company was sold in 2000 and have since set up Protego Real Estate Investors in April 2004, we have participated in arranging all of these transactions with a small team at BZW / Barclays Capital.

All of these instruments were at the UK IPD "All Property" level, although we did structure an additional sizeable issue of a PIC on the Swedish market, which was only withdrawn at an advanced stage due to a regulatory obstacle.

In 2005, the market place began to grow significantly after the successful resolution of

some tax issues and, importantly, the reclassification of the instruments, by the FSA, as "admissible assets" for insurance companies, which had not been the case previously. This resulted in a further £800 million of transactions in these instruments, being undertaken by the Barclays Capital / Protego team, whilst other banks have undertaken a further £200 million or more of TRS. Notable in this is ABN Amro, who has dealt for the first time in sector instruments, specifically the "Retail" and "Office" segments of the UK IPD index.

The Protego / Barclays Capital team have also transacted a number of secondary market transactions in PICs demonstrating very fast moves into and out of cash. One trade involved the forward sale of the index for 2007/08.

## What are Property Derivatives?

All current activity is based on TRSs and in the case of trades involving Protego / Barclays Capital, PICs on the buy side. I do not have space to describe these instruments here, but full details are on the IPF's Property Derivatives Interest Group website [www.propertyderivatives.co.uk](http://www.propertyderivatives.co.uk)

## What will drive growth around Europe?

Property derivatives create an instant "buy" or "sell" effect in direct or private market property investors' portfolios, whilst avoiding or postponing the need to trade assets. This means investors can:

- Meet their strategic and tactical aims instantly;
- Save substantial amounts of time and money.



However, this also has major implications and opportunities for both public market investors and, indeed, the operators of the REITs or various other stocks contained in the EPRA index, who invest in European direct markets.

They introduce, for the first time, the potential ability to short the various national direct property markets – assuming they are covered by a sufficiently robust IPD index – covered by any individual or basket of stocks and thus significantly enhances the risk and return management armoury of any public markets investor.

Turning to the operators of the stocks themselves, the opportunity to hedge market risk in the markets in which they hold investments is a similarly powerful tool. Execution of a TRS introduces a completely different element in the financing structure of a portfolio, with considerable potential advantages. Depending on the national market and the sector concerned, the probability is a marginal surplus financial return, over the level of the income return on the relevant index to be paid out under the swap contract. In addition, a capital hedge will be put in place as described above, allowing an entirely different attitude to be taken to the portfolio expansion or reduction.

Most importantly, the surplus return (alpha) which these operators can generate above the level of the relevant index is retained by them and proportionately enhanced, regardless of underlying market performance.

#### Property Derivatives and REITS

There is little evidence of the use of derivatives to date, by any other than direct property investors, but, as REIT markets grow in the UK and elsewhere in Europe, the logic and attractions of their inter-relationship with direct market derivative instruments will rapidly become obvious to the sophisticated property sector investor who can encompass both private and public markets in his strategy.

As a result, the break out from the UK into other European markets, where REITS are already established is likely to be a significant boost and I expect this to happen in 2006 in one or more of a number of countries including The Netherlands, France, Sweden and Ireland. Derivatives will therefore become a most important link between the two market places to the benefit of investors on both sides. ◀

## About Protego

Protego was set up in May 2004 by Iain Reid, Charles Weeks and Hugo Llewelyn, the former CEO and directors of Aberdeen Property Investors International. Its focus is on the creation and management of indirect investment vehicles and instruments for both private and institutional investors. Its key business activities include:

- The structuring, funding and management of Collective Investment Funds and Syndicates for institutional and private investor clients;
- Investment management;
- The creation and marketing of synthetic real estate investment instruments including Property Index Certificates.

Protego recently arranged a £170 million primary issue of Property Index Certificates with Barclays Capital. It was the first property derivative instrument to be launched since the FSA approved the inclusion of such structures in the solvency ratios of UK Life Insurance companies.

By: Fraser Hughes & Jorrit Arissen

# Exchange Traded Funds (ETFs)

Exchange Traded Funds (ETFs), or tracker funds, represent a fractional ownership in an underlying basket of stocks that track a specific benchmark such as the FTSE 100, or CAC40. Effectively, ETFs are built like mutual funds but trade like individual stocks. Investors do not buy or sell shares from the fund but instead trade shares in the ETF on an official stock exchange. ETFs are priced continuously and can be bought or sold throughout the trading day. Prices for ETFs fluctuate according to changes in the underlying portfolio and also according to the market supply of ETFs themselves. ETFs provide investors with the ability to buy, or sell, exposure to a particular market in a single transaction.

ETFs offer shares on a continuous basis. This process is called the creation and redemption process, which means that the number of outstanding shares may be increased, or decreased, according to ongoing demand. In effect, ETFs have the ability to trade very closely to their Net Asset Values (NAV). ETFs creations and redemptions occur at prices that are based on the next calculation of NAV after the order is placed. Market makers have the ability to arbitrage around even slight premiums and discounts to NAV by either creating or redeeming ETF units. This arbitrage activity limits premiums, or discounts, since it matches outstanding supply of shares with investor demand.

To purchase an ETF, individual investor, through his advisor or brokerage account, places an order to buy the ETF. The order is then directed to the official stock exchange that the ETF is listed, for example, the LSE or Euronext. The cash of the investor is exchanged for shares in the ETF with the investor's broker/dealer. The cash is taken by the ETF market makers who replenish their supply of ETFs through the creation process. On a daily basis ETF fund advisors such as Barclays Global Investors, State Street Global Advisors and AXA Investment Managers produce portfolios composition files (PCF) that match the underlying index portfolio exactly. As the market makers exchange cash

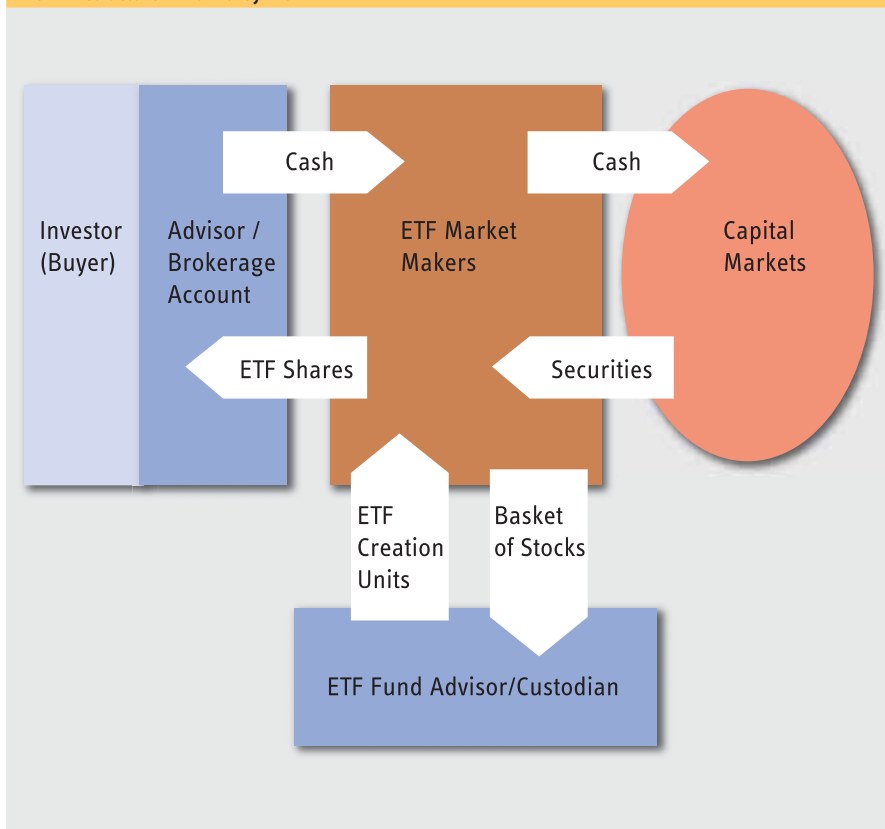
for ETFs they are aware of the stocks in the PCF they must buy to replicate the underlying index. The market makers buy the stocks on the capital markets and deliver these stocks 'in kind' to the fund advisor who issues ETF creation units. The redemption process works in the same way, but in reverse whereby a market maker will swap a defined number of ETFs shares with the ETF fund advisor for the underlying stocks replicating the index. In turn, the stocks are sold on the capital markets.

ETFs cover a range of styles and size spectrums, together with sector-specific strategies - such as real estate, enabling investors to construct customized investment portfolios consistent with their financial needs, risk tolerance and investment horizon. Both institutional and retail investors use ETFs to gain exposure that would otherwise be cost-prohibitive and extremely complex to build from scratch. There are a number of potential applications and strategies using ETFs. It goes beyond the scope of this article to discuss these. For more information, please see: "An introduction to Exchange Traded Funds" by Mark Chamberlain and Jay Gordon, Barclays Global Investors. Some of these are listed below.

- Asset allocation tools for increasing or decreasing exposure to a specific style, sector or capitalization
- Sector rotation strategies
- Arbitrage strategies
- Hedging and defensive strategies
- Stock-lending revenue strategies (from short sellers)
- Market neutral strategies
- Exposure in markets where no listed derivative exists
- Maintaining equity exposure during a management transition
- Hedging tools for shorting

Turning to the listed real estate market, the table on the right highlights the number of ETF products available on a global basis. North America is well covered by ETF product with four large funds totaling US\$ 5 billion. US investors are well versed in ETF products and their use. In addition, the Canadian market also has an ETF on offer, albeit small in AUM terms. Europe is a growing market

The ETF structure - How they work<sup>1</sup>





for ETFs. Two products have been issued in the last 18 months on the Eurozone section of the pan-European market. The Eurozone comprises approximately 42% of the pan-European real estate sector. There are more ETFs in the pipeline based on replication of the UK and the broad European market. It is clear from the table that there is a lack of ETF products in the Asian region. Currently, for Asia-Pacific exposure investors can only buy into the Australian market, which represents approximately 33% of the Asian region. We see a large piece of the Asian market missing for investors, particularly given the REIT developments in the Hong Kong, Japanese and Singapore markets. Taking a global view, the ETFs available in the table below cover approximately 70% of the FTSE EPRA/NAREIT Global Real Estate Index, meaning that around 30%, or US\$ 200 billion in market capitalisation terms is not represented.

ETFs provide a number of flexible options for investors. While it would be incorrect to classify ETFs as true derivative instruments, it is commonly viewed that a deep and liquid ETF and OTC market is the first step towards a fully fledged futures and options market. This type of development in the listed real estate sector will only broaden the appeal to the broader investor base and place the real estate sector on a similar platform as many other sectors, in terms of investment products and tools. ◀

**For more information on the EPRA ETFs:**

- [www.ishares.com](http://www.ishares.com)
- [www.easyetf.com](http://www.easyetf.com)

**ETF's available by region as at 8<sup>th</sup> March**

Description	Bloomberg Ticker	Assets Under Management US\$ Million
<b>North America</b>		
iShares Cohen & Steers Realty Index Fund	ICF US Equity	1,996
iShares DJ US Real Estate Index Fund	IYR US Equity	1,141
StreetTracks DJ Wilshire REIT Index Fund	RWR US Equity	955
Vanguard REIT VIPERs Index Fund	VNQ US Equity	941
iUnits S&P TSX Capped REIT Index Fund	XRE CN Equity	117
<b>Europe</b>		
EasyETF FTSE/EPRA Eurozone Index Fund	EEE FP Equity	405
iShares FTSE/EPRA European Property Index Fund	IPRP LN Equity	51
<b>Asia-Pacific</b>		
StreetTracks S&P ASX 200 Property Index Fund	SLF AU Equity	70
<b>Global Total</b>		<b>5,676</b>

**About FTSE**



**Indexing and Exchange Traded Funds (ETFs)**

- Exchange Traded Funds are index-tracking funds which are listed and traded on a stock exchange. An ETF tracks a specific index, such as the FTSE100, in a single investment vehicle;
- Exchange Traded Funds are used by both institutional and retail investors as they offer a simple way to capture the overall performance of a broader market;
- Tradable indexes are used as the basis of ETFs. These indexes comprise small baskets of highly liquid, tradable stocks and offer a lower cost way to capture the performance of a broader benchmark index. For example, the FTSEurofirst 80 index is designed to capture a comparable performance to the whole Eurozone market through only 80 stocks.
- FTSE Group is an award-winning index provider, with a proven track record in providing tradable indexes for ETF issuers covering a range of markets and asset classes;
- ETF issuers select FTSE as an index provider because of the worldwide recognition that it compiles objective, representative and transparent indexes;
- There are currently 16 ETFs worldwide using FTSE indexes;
- According to figures published by Morgan Stanley in November 2005, over USD 1.5 billion is invested in ETFs linked to the FTSE 100;
- Indexes calculated by FTSE which are used in the construction of Exchange Traded Funds include:

FTSE 100	FTSEurofirst 80
FTSE 250	FTSEurofirst 100
FTSE Xinhua China 25	TSEC Taiwan 50
FTSE UK Dividend +	FTSE RAFI
FTSE EPRA NAREIT Europe Index	

<sup>1</sup> Diagram sourced from: "An Introduction to Exchange Traded Funds" by Mark Chamberlain and Jay Jordan, Barclays Global Investors



By: Patrick Sumner

# Real Estate Shares and the Private Investor



**Patrick Sumner**  
Head of Property Equities  
Henderson Global  
Investors

Patrick Sumner is Head of Property Equities at Henderson Global Investors. He manages pooled and segregated funds investing in property equities in Europe and around the world.

Patrick has more than 20 years' experience of European real estate markets, first with Hillier Parker and subsequently with quoted companies Reinhold, Arcona and Chesterfield Properties. He joined Henderson Global Investors in 1997 to help develop a global strategy offering a full range of real estate investment products, including regional and sector funds, equities and private capital.

Henderson Global Investors has funds under management of €100 billion, of which real estate accounts for 10% and includes funds investing in Europe, Asia and North America.

Property equities under management total €4 billion, including global funds managed in cooperation with K G Redding & Associates of Chicago and AMP Capital Investors of Australia.

Patrick Sumner holds an MA degree in Modern Languages from Oxford University and an MSc from the London Business School. He is a Member of the Royal Institution of Chartered Surveyors and was a founding Executive Board member of EPRA.

The members of EPRA and the readers of this newsletter are likely to be familiar with the rarefied strata of the institutional investment world, in which a company can get in front of a high proportion of existing and potential investors relatively easily. Brokers fall over themselves to organise road shows, there are more conferences and seminars to attend than there are days in the diary, and it often seems a little incestuous.

Outside Europe, however, there is a very different dimension to the typical shareholders profile of property companies, REITs or equivalents. Share registers are heavily populated by private investors, often via dedicated funds, but nevertheless focused on the underlying real estate returns, and often on the dividend yield in particular.

Of the €1 billion or so of new money flowing into Henderson's property equities funds in 2005, more than 90% came from private investors, via private wealth management agencies in Europe and Asia. Interestingly, very little of this came from the UK.

In the end, of course, most investments are made on behalf of private investors, whether through defined benefit pension schemes or unit-linked life assurance funds. But the decision-making processes and marketing channels involved in more directly accessing private investors are quite different and require very different knowledge, contacts and skills.

In the UK, commercial property investment has long been the preserve of professional investors. This is largely a consequence of the size of commitment required, but also because the necessary market knowledge has been held in the filing cabinets of agents that have generally had few or no dealings beyond a relatively small and cosy group.

The divisions are disappearing with the creation of funds, listed and unlisted, providing private investors with access to securitised commercial real estate on a large scale. It is, however, only with the arrival of REITs, with their tax-transparency and consequently greater resemblance to direct property investments, that the distinctions between various categories of investors will disappear forever. Stock markets do not ask the identity of the investor (this is done by the broker in his money-laundering checks), and REIT legislation aims to provide a level tax playing

field for all. The first public vehicles were the off-shore property investment trusts, often Guernsey-domiciled, launched by the likes of Insight, Standard Life and Scottish Widows. These are the pre-cursors of UK REITs, and it is hard to imagine how the Treasury can stem their growth without establishing a viable and flexible on-shore alternative.

The problem is that the established commercial property sector has little experience of dealing with the average private investor. Institutional fund managers and property company CEOs have often never faced an audience made up of Financial Advisers, who make their living out of advising individuals on how to invest their savings.

The experience of NAREIT, EPRA's equivalent in the USA, in educating the broader population about REITs and their virtues took the form of a "REIT Outreach Program" and took several years to develop. A quick look at the NAREIT website reveals a format, content and language carefully designed to appeal to private investors, even beginners, at the same time as providing access to much more sophisticated data and analysis for the benefit of the professionals.

It is not easy to draw directly on the experience of other countries in framing a program to bring listed property markets closer to private investors. People have different attitudes, and the structure of financial services differs from country to country. But the basic needs of investors are the same: they need to know what they are investing in, what the risks are and what they are likely to get by way of returns.

The mention of property all too often conjures up in the minds of investors a homogenous market, maybe a house in the suburbs. In Asia, for example, investors have been fed a diet of articles describing bubbles in the American housing market, and it is hard to convince them that US REITs have virtually no



direct exposure to house prices. Furthermore, the mention of property developers will bring back memories of overbuilding in the late 1980s and crashes in the 1990s.

It is therefore vital to present clear and graphic evidence of the spread of risk across several sectors, scores of companies, hundreds of towns and cities and thousands of properties. Market data illustrating the balance of markets will, one hopes, reassure investors that we are not looking at another oversupply crisis. Many investors will be surprised that they can become part-owners of some of the most impressive and valuable property in the world, whether it is IFC2 in Hong Kong, the Petronas Towers in Kuala Lumpur or the Mall of America in Minnesota.

In the UK the retail financial market is dominated by a relatively small group of Financial Adviser firms and networks, web-based portals, fund supermarkets, bankassurers, brokers and consultants. Some fund managers have direct access to private investors, but most are "wholesale" providers of product, dealing with the various intermediaries.

The average financial adviser, driven by sales and commission targets, will only devote his time and energy to the easy sell. There should be no doubt that the advent of a UK

REIT provides the industry with a once-in-a-lifetime opportunity to step into the limelight, but we must make sure that our material and delivery has star quality.

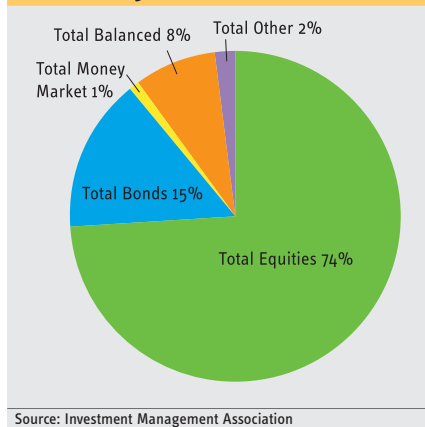
There is a huge amount of data, analysis and argument available to support the investment case for listed property, but is it in the right form for the retail market? The answer is no. It is hardly in any organised form at all, because the institutional market has accumulated it piecemeal over years and processes new information automatically.

The opportunity, in terms of market size, is massive. The retail investment funds market, as measured by the Investment Management Association, was worth £347 billion at the end of 2005 (see chart to the right), with inflows of £46 billion in 2005 alone. The property-related products within this universe represent an insignificant 1%.

If private investors were to follow the example of institutions they might allocate 5% of their assets to property, i.e. £17 billion. It is unlikely that there will be a major reallocation of existing funds, but a 10% share of new money flows could be a reasonable target, representing nearly £5 billion a year.

The UK listed property industry, under the auspices of the British Property Federation

Chart: UK Retail Funds under Management - December 2005



Source: Investment Management Association

and the Investment Property Forum, has formed a working party that will propose ways of addressing the private investor sector. Building on the success of the IPF's Guide to Property Investment for Financial Advisers (see [www.ipf.org.uk](http://www.ipf.org.uk)), likely initiatives will include a web-based source of real-time data, analysis and features that will assist advisers in their role. Also being considered is a public relations campaign to promote the sector and the new REIT to the financial press and other media. And there will be a team of speakers ready to step up to the lectern at the various seminars organised around the country to directly address investors and their advisers.

There is massive private investor enthusiasm for property products in the UK and other markets around the world. The reasons are clear: yield, growth and diversification. With the removal of the UK tax handicap, listed property is the obvious way to go. But the sector needs to sell itself effectively, and to do this it needs to learn a new language and make some new friends. ◀

## About Henderson

Founded in 1934 Henderson is a leading investment manager, providing a wide range of investment products and services to institutions and individuals in Asia, Europe and North America. Henderson manages over £67.7 billion (as at 31 December 2005) in assets and employs around 900 people worldwide.

Henderson has a clear focus on investment management and manufactures a broad range of investment products for institutional and retail investors across multiple asset classes including equities, fixed income, private equity and property.

Henderson has European offices in Amsterdam, Frankfurt, Paris, Milan, Zurich, Vienna and London, which is the head office. Henderson has had a presence in North America since 1999, when it acquired US real estate investment manager Phoenix Realty Advisers, and has offices in Chicago and Hartford. In Asia, Henderson has offices in Hong Kong, Singapore and Tokyo.

With investment expertise across every asset class, Henderson's skilful investment managers invest in every major market around the globe. They are supported by a global team of researchers and economists who have a keen understanding of the economic forces driving the security markets and who undertake rigorous sector and theme analysis. Underpinning this process is a comprehensive risk-control framework to ensure that investment views are translated into portfolios managed in line with investors risk and return requirements.



By: Juan-Carlos Calvo Mateos



# Metrovacesa



**Joaquín Rivero**  
Chairman  
Metrovacesa

Joaquín Rivero is a real estate entrepreneur, born in Jerez (Spain), who began his career in the industry in the family business. In 1997 he entered BAMI, acquiring the shareholding held by BCH and become Executive Chairman and the core shareholder. In 2002 BAMI acquired 23.9% of the capital stock of Metrovacesa from the BBVA Group and Joaquín Rivero became Chairman. In 2003, the Boards of Directors of Metrovacesa and Bami merged the two companies, to create the largest Spanish property company. Joaquín Rivero was appointed Executive Chairman of the merged company. Following the acquisition of a 68.54% stake of the French property company Gecina through a public bid, Joaquín Rivero was appointed Chairman and General Manager of Gecina in June 2005.

Following the acquisition of a majority stake in the French company Gecina, through a public bid, Metrovacesa became the largest property group in Continental Europe, with a combined portfolio valued at €15.7 billion as at December 2005. Its portfolio comprises four million m<sup>2</sup> of rented properties, the majority of which are situated in the cities of Paris and Madrid. In addition, the company has 500,000 m<sup>2</sup> of projects under development and 2.4 million m<sup>2</sup> of land reserve for residential development.

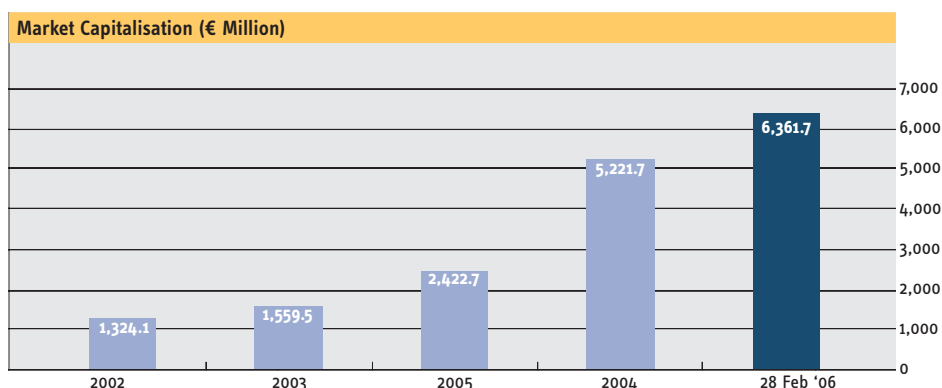
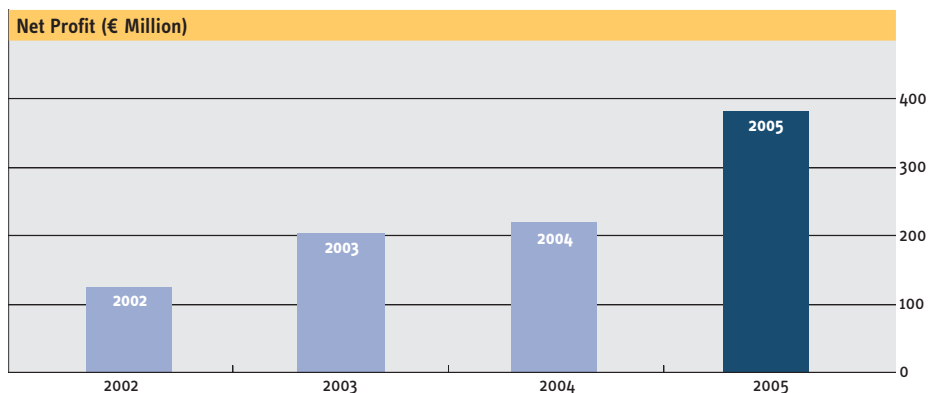
The €3.8 bn acquisition of Gecina, proved a transforming deal for Metrovacesa, for the following reasons:

- It provided access to the liquid and higher-yielding French property market, through a major French company that owned a €8.8 billion property portfolio.
- It raised the recurrent profile of revenues, with a higher weight of the rental business (from 60% to 82%) and a lower weight of the Spanish residential development activity (from 40% to 18%).
- A double-digit increase in terms of ordinary cash flow per share, despite the €1 billion capital increase and almost neutral impact in terms of headline EPS and NAV per share.

At the same time, the financial situation of Metrovacesa is fairly healthy, only seven months after the Gecina deal: loan-to-value ratio stands at 52.6% in December 2005 vs 64.5% in June 2005, bringing forward by three years the covenants with the financing banks. In addition, Gecina shares are currently trading at 20% higher levels than the acquisition price, giving providing a degree of comfort to the shareholders.

### A more dynamic strategy for Gecina

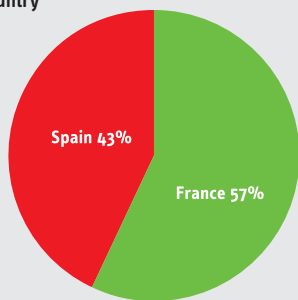
Gecina has recently approved a new business plan for 2006-2010 that intends to make more dynamic use of its property portfolio in order to raise the company's profitability. The idea will be to use similar cornerstones



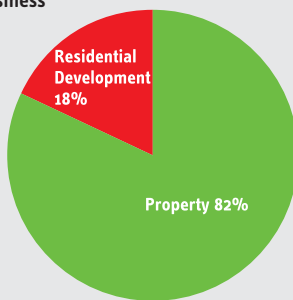


Gross Asset Value

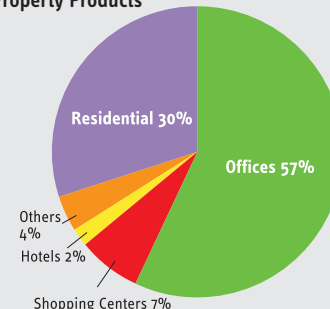
By Country



By Business



Property Products



to those applied by Joaquin Rivero in Metrovacesa in the last three years:

- Increase the asset rotation, selling under-performing assets. Gecina has identified €3.1 billion worth of assets to be sold over the next five years, including both residential and office buildings.
- Grow the portfolio size. Gecina is planning net investments and intends to invest €4.6 billion in larger, modern, higher yielding assets.
- Diversification. Paris offices will be the core target for new investments, although new segments like hotels, or logistics, will be also added.
- Extend the project pipeline, as a means to grow with higher returns.

Along this line, Gecina announced €900 million acquisitions during 4Q2005, providing a clear indication to carry out the new strategy. These investments include: two fully-let office buildings in the Paris region (40,000 m<sup>2</sup>), four hotels from Club Med (88,000 m<sup>2</sup>), three logistic warehouses (123,000 m<sup>2</sup>), and three new office developments (40,000 m<sup>2</sup>).

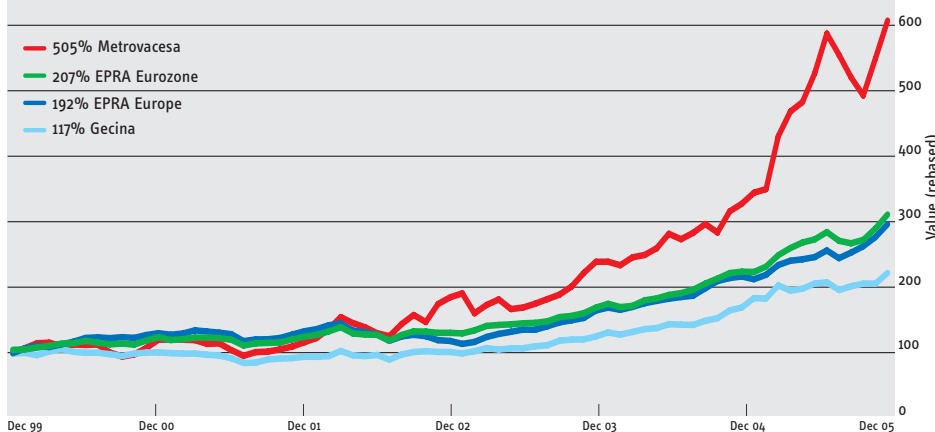
Outlook for 2006

Metrovacesa's prospects are promising for 2006. First, it will face the implementation of the new strategy for Gecina, whose budget calls for a significant growth in earnings (+45% before changes in fair value of the assets).

Second, a large number of the companies own developments will be completed during the year in both countries: seven projects totalling 134,000 m<sup>2</sup> (four office buildings, two shopping centres and one hotel).

Finally, Spanish and French property markets remain favourable: office rents have entered a growing cycle in Madrid (+9% last year) and are stabilizing in Paris, hotel revpar is starting to recover, and Spanish housing demand remains strong. ◀

Metrovacesa & Gecina, Total Return Performance - Dec 1999 to Feb 2006

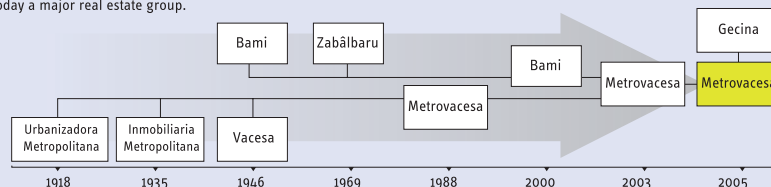


About Metrovacesa 1918-2004

- 1918 Jose María Otamendi, his brother Miguel, and the engineer Carlos Mendoza founded Urbanizadora Metropolitana with the support of Banco de Vizcaya.
- 1935 Seventeen years later, the Otamendi brothers and Carlos Mendoza created Inmobiliaria Metropolitana, a company which built housing and buildings aimed at the tertiary sector on the land belonging to Urbanizadora Metropolitana.
- 1946 In August Inmobiliaria Vasco-Central (Vacesa) was created to buy land and build properties for lease. Vacesa also had a land development subsidiary (Urvacesa). The same year Bami, Sociedad Anónima Inmobiliaria de Construcciones y Terrenos, was incorporated. The company was linked to Banco Mercantil Industrial and its mission was to develop housing for sale.
- 1969 The Alcorta brothers founded Zabálburu, a company created to acquire and exploit real estate property, in Bilbao.
- 1988 Urbanizadora Metropolitana and Inmobiliara Vasco-Central merged to form the company Metropolitana Vasco Central (Metrovacesa) with the main object of developing buildings to operate under lease.
- 2000 Bami launched a take-over bid for 100% of Zabálburu's capital, an operation which ended with the take-over merger of Zabálburu.
- 2003 Bami launched a take-over bid for Metrovacesa shares which resulted in the take-over merger of Bami by Metrovacesa, thus creating the largest real estate group in Spain.
- 2005 Metrovacesa acquire the 68.45% of Gecina

Metrovacesa

1918 saw the start of the business of what is today a major real estate group.





By: Prof. Dr. Karl-Werner Schulte and Martin Becker  
EBS DEPARTMENT OF REAL ESTATE

# German Real Estate Investment Market Update

The German indirect real estate investment market is currently facing some fundamental structural changes. The two key drivers of change are the prevailing disequilibrium in the open-ended real estate mutual funds sector and the envisaged introduction of REITs. The fact that both, the struggle of the private investment market and the improving environment for public real estate, are happening simultaneously is not accidental. Within the governmental consultation process and the REIT discussions in public media the relative disadvantages of traditional products have been scrutinized extensively. Indeed, the discussion on the introduction of REITs particularly put the existing German open-ended fund regime under the pressure of improvement. Hence, the public awareness for real estate investment products has been rising, entailing the prospect for flanking amendments to reduce deficiencies in the Investment Law governing German open-ended funds.

## Changing environment for indirect real estate investment

In the past, non-listed real estate funds have been very successful in Germany. Private and institutional investors use open-ended and closed-ended vehicles for long-term investments into real estate. Yet, in the case of open-ended real estate mutual funds, investors benefit from a mandatory redemption requirement, which enables them to cash out on a daily basis. However, in 2004 the whole open-ended mutual fund sector was



Martin Becker, MSc

Diplom-Kaufmann Martin Becker, MSc is research assistant and doctoral candidate at the EBS Department of Real Estate since 2004. Prior to this he graduated in business administration with a dual major in Real Estate and Finance & Banking at the European Business School (EBS), Oestrich-Winkel, Germany. Furthermore, he spent one year as student at the Department of Real Estate and Planning at the University of Reading, England, and graduated with an MSc in Real Estate Finance. His research focus at the EBS Department of Real Estate includes Real Estate Investment Trusts (REITs), investment vehicles and real estate capital markets.

hit by a valuation scandal, when properties of the "Deka-ImmobilienFonds", one of the largest funds with assets worth €4.8 billion as of January 2006, proved to be significantly overvalued. More recently, in December 2005 the fourth largest open-ended mutual fund "DB Real Estate grundbesitz-invest" suspended the redemption of units because of expected negative valuation adjustments of 20 to 30%. Despite the final valuation discount on fund units only being 3.2%, the fund's closing accelerated the run on redemptions for the entire sector, reaching €73 billion during the two months December 2005 and January 2006.

## Positive spill-over to public real estate markets

Whereas in the beginning of December 2005, the stock price of Colonia Real Estate AG was still at €40 per share, on the announcement day of the fund suspension its stock price increased to €60 per share. This represents a rising awareness of German property stocks as an alternative way of investing indirectly into real estate. The case of Colonia Real Estate might be regarded as an extraordinary example, but in fact the entire German listed property sector has benefited from the deficiencies of traditional real estate investment vehicles, and in particular since the first rumours of a REIT introduction: The FTSE EPRA/NAREIT Germany Index, representing the three largest German property stocks with a total free float market capitalisation of approximately €4 billion, had a total return of 44.5% during 2005. This is in line with other European public real estate markets, but the opposite to the performance



Prof. Dr. Karl-Werner Schulte

Prof. Dr. Karl-Werner Schulte is head of the EBS Department of Real Estate at the European Business School International University Schloss Reichartshausen (EBS). In 1986 he was appointed the professorship of the Chair of Business Administration, in particular Investment and Finance, at the EBS. Since the early 1990's he has been academic and managing director of the EBS Real Estate Academy and founder of the Endowed Chair of Real Estate at EBS. Among his special honours are the presidency of the European Real Estate Society (ERES) and the International Real Estate Society (IRES) as well as the nomination as an Honorary Member of the Royal Institution of Chartered Surveyors (HonRICS) and Member of The Counselors of Real Estate (CRE). As a member of numerous advisory and editorial boards of renowned real estate companies and journals, Prof. Dr. Schulte links practical and theoretical aspects of real estate. Many of his publications have become key literature of the discipline in Germany.

of the underlying German property and non-listed vehicles market. Hence, the REIT status must have already been priced in the capital market valuation of German property stocks.

## Critical success factors yet to be discussed

The final success of a German REIT highly depends on the regulations that govern the vehicle. As in established REIT regimes, these regulations include the legal form, capital requirements, obligation of exchange listing, shareholder requirements, investment restrictions, level of gearing, distribution requirements, corporate governance, control of REIT status, sanctions for the loss of REIT status and adjacent regulations for institutional and private investors. However, these factors have not been the key burdens



of introducing REITs in Germany, but some specific problems associated with the taxation of foreign investors.

The key issues are:

- 1 to safeguard withholding tax on distributions to foreign investors, and
- 2 the taxation of non-resident REITs on their domestic real estate investments.

Two proposals are currently being assessed on their ability to maintain the German tax base: The "Trust Model" and the "Unity Model". The Trust Model is based on a uniquely German legal fundament, which on the one hand separates the rental and capital gains income from the response entity and on the other hand is not achievable under non-domestic law without overriding existing DTAs. The Unity Model requires the REIT to provide the shareholder with a right on the property income, which is not regarded as income from dividends under existing DTAs.

Apart from these German models the UK proposal of restricting individual shareholder ownership to less than 10% of total equity is being discussed again as well. However, this solution to the tax problem is broadly disfavoured by the German real estate industry and institutional investors: It makes the conversion to REIT status and later market consolidation almost impossible and entails serious problems for maintaining tax transparency in a liquid real estate capital market environment.

By chasing the concern of securing the domestic tax base, the UK and German initiatives have sequentially lost their fundamentals: The introduction of REITs is all about attracting foreign investors and promoting real estate capital markets. The sustainable success of European REIT regimes will not be determined by the date of introduction, but the competitiveness of the legal framework. ◀



European Business School at Schloß Reichartshausen.

## About the European Business School

The European Business School (EBS) in Oestrich-Winkel/Rheingau is the oldest private and one of the most highly respected university of business administration in Germany. For over 30 years, the European Business School (EBS) has emphasized innovation in teaching, research and university management.

The Endowed Chair of Real Estate at EBS was founded on the 4th of March 1994 by Prof. Dr. Karl-Werner Schulte. In 2001, the Chair was supplemented by the Ernst & Young Real Estate Visiting Professorship. In March 2003, the Endowed Chair of Real Estate Development and the Honorary Professorship of Urban Planning were added. Since 2004, Aareal Bank has been endowing the Assistant Professorship Real Estate Banking. In March 2006 the EBS Department of Real Estate was amplified by the Honorary Professorship Real Estate Law.

The EBS Real Estate Academy is dedicated to Post Graduate Courses and was established in 1990. The Post Graduate Course in Real Estate Management, in Corporate Real Estate Management and in Facilities Management are accredited by the Royal Institution of Chartered Surveyors (RICS).

Together, the EBS Department of Real Estate and the EBS Real Estate Academy form the EBS Real Estate Centre, which is member of the exclusive EPRA academic circle.



By Fraser Hughes &amp; Jorrit Arissen



# European Office Sector

As at the end of February, the FTSE EPRA/NAREIT Europe Index had a market capitalisation of €114 billion. As illustrated by Chart 1, diversified type companies make up the largest portion (46%) of the European index followed by retail (24%), offices (22%), industrial (5%) and residential (3%)<sup>1</sup>. However, it is worth noting that some of the largest companies in Europe, such as Land Securities, British Land, Metrovacesa, Gecina and Unibail have large office portfolios held within a diversified total portfolio (in these particular companies, predominately coupled with retail assets). Chart 2 shows that on a global level, offices (27%) is the largest sector in market capitalisation terms following by retail (25%) and diversified (24%). European companies are typically less sector focused compared against their North American peers.

For the purposes of this article, we will focus on the “pure” office companies as mentioned before. Table 1 lists the office companies, ranked by free float market capitalisation. Spanish player Inmobiliaria Colonial is the largest of all office-focused companies and makes up approximately 9% of the total European office sector weight. PSP Swiss Property just falls short of the €2 billion mark, closely followed by Dutch company Wereldhave. The total market capitalisation of all office focused companies in Europe is over €26 billion.

Of the 33 companies in Table 1, the majority has an investor type focus. Only four of the companies can be classified as developers. The office developers are Helical Bar and Development Securities from the UK, and Danish companies Nordicom and Sjaelso Gruppen. The total number of companies in the FTSE EPRA/NAREIT Europe Index is 90, with an average free float market capitalization of €1.3 billion. Therefore, the office sector comprises 37% of the companies; however, the smaller average size of the

companies (€790 million) means that the sector is not so heavily weighted in market capitalization terms.

On a global level, office (27%) is the largest sector in market capitalisation terms with a combined market capitalization of €154 billion. Table 2 shows the breakdown by country. The United States has by far the largest listed office sector with a market capitalisation of €74 billion. There is a total of 29 companies in the United States that focus on office with an average size of €2.6 billion. Japan has the second largest office sector in market capitalisation terms with €30 billion. The average size of Japanese office players is €3 billion. What becomes evident from Table 2 is that office companies in Europe tend to be smaller. In addition, Chart 1 and 2 showed that the European companies tend to be less focused.

The relative focus of the United States and Japanese office markets may provide us with an indication of how the European market will develop. Coupled together, the size of the US and Japanese office markets are not far short of the total European market in market capitalisation terms. If we see a workable REIT structure implemented in the UK and German markets in 2007, the foundations are in place for a more asset focused European market in the future. Baring in mind the large office portfolios held in the large cap diversified companies in Europe, as mentioned earlier, options to spin-off into asset-type focused REITs will exist. Going forward, we would expect the overall listed office market in Europe to grow, coupled with the average size of the office players. ◀

## AXA Real Estate Investment Management: Office Market Commentary<sup>2</sup>

Office property markets are historically volatile and currently reflect the relatively fragile underlying economics. After going through a phase of increasing supply, low demand, rising vacancy and falling rents, most office markets have passed the worst of the downturn. Vacancy rates peaked half way through 2005 in most countries and are now returning slowly to their long-term average. Vacancies continue to vary largely between countries and within cities. But comparing their level often does not help much in differentiating the markets, since each market has its own level of structural vacancy. More relevant is possibly the comparison with its long term average and a precise idea of the quality of stock that remains vacant.

Looking at the most recent trends, office vacancy is falling in London (at 10.7% for City and 5.9% for the West End), Madrid (7.9%), Barcelona (6.6%), Lisbon (10.8%) and Dublin (12.3%). It is still rising in Milan (8.2%), Brussels (10.8%) and Hamburg (8.1%). The vacancy rate is close to its historic average and stable in Paris (5.9%) and Rome (4.5%). Oversupply conditions still prevail in most German cities, although AXA thinks vacancy rates have now peaked in Frankfurt (17.2%), Berlin (9.7%) and Munich (10.6%).

Within cities, vacancy can still vary widely depending on submarkets. Vacancy stands at around 25% in suburban areas of Amsterdam, and ranges from 14.5% to 30% respectively in the periphery and New Business areas of Barcelona and stretches to over 30% in satellite areas of Madrid. Secondary grade premises and peripheral locations remain the most affected by excess supply as occupiers have been either relocating to more modern premises at a low cost, or have taken the opportunity of falling rents in CBDs to move to a better location. This trend is to some extent toned down by firms attracted by the large modern, better value floorplates in the periphery. This tightness in the CBD and oversupply situation in peripheral areas can be seen in almost all office markets.

Source: AXA Research, December 2005.

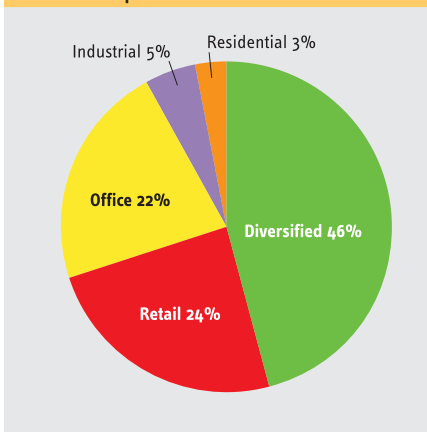
<sup>1</sup> Sector splits determined by the UBS Sector Classification system, constituents based on the FTSE EPRA/NAREIT Global Real Estate Index.

<sup>2</sup> Reproduced with the kind permission of AXA Real Estate Research, December 2005.



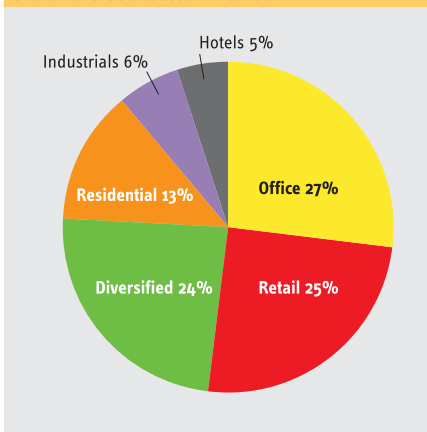
Sector Focus -  
European Office Sector

**Chart 1: European Sector Breakdown**



Source: FTSE EPRA/NAREIT, UBS Sectors

**Chart 2: Global Sector Breakdown**



Source: FTSE EPRA/NAREIT, UBS Sectors

**Table 1: Offices companies in the EPRA/NAREIT Europe Index as at 28-Feb 2006**

Company	Country	Free Float Mkt Cap (EUR) m	Europe Office Weight
Inmobiliaria Colonial	Spain	2,438	9.3%
PSP Swiss Property	Switzerland	1,879	7.2%
Wereldhave	Netherlands	1,877	7.2%
Derwent Valley Holdings	UK	1,352	5.2%
Kungsliden	Sweden	1,349	5.2%
Gecina	France	1,320	5.1%
Silic	France	1,185	4.5%
Beni Stabili	Italy	1,162	4.5%
Great Portland Estates	UK	1,120	4.3%
London Merchant Securities	UK	1,020	3.9%
Immoeast Immobilien	Austria	1,017	3.9%
Cofinimmo	Belgium	990	3.8%
CA Immobilien Anlage	Austria	937	3.6%
Workspace Group	UK	814	3.1%
Swiss Prime Site	Switzerland	796	3.0%
Minerva	UK	771	3.0%
Befimmo	Belgium	764	2.9%
Helical Bar	UK	524	2.0%
Hufvudstaden	Sweden	519	2.0%
Vastned Offices Industrial	Netherlands	519	2.0%
Sponda	Finland	513	2.0%
CLS Holdings	UK	490	1.9%
Nordicom	Denmark	421	1.6%
Fonciere des Regions	France	378	1.4%
Sjaelso Gruppen	Denmark	345	1.3%
Development Securities	UK	299	1.1%
Technopolis	Finland	222	0.9%
Sparkassen Immo Invest	Austria	218	0.8%
Intervest Offices	Belgium	196	0.8%
Acanthe Development	France	174	0.7%
Zueblin Immobilien	Switzerland	168	0.6%
Mckay Securities	UK	164	0.6%
Leasinvest	Belgium	157	0.6%
<b>Total</b>		<b>26,098</b>	<b>100.0%</b>

Source: FTSE EPRA/NAREIT, UBS Sectors

**Table 2: Office companies around the globe**

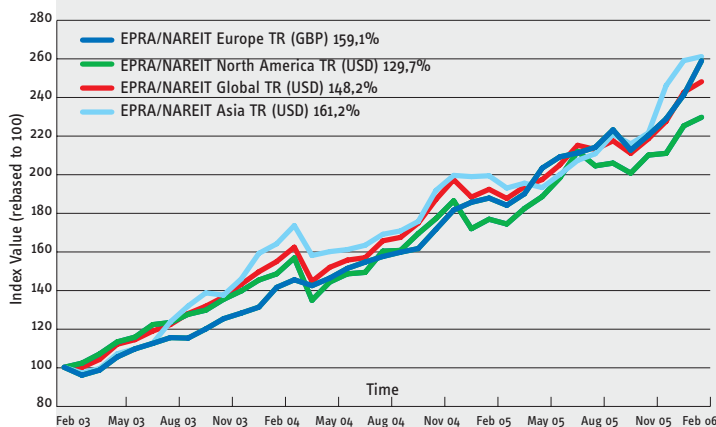
Country/Region	Office Nr of companies	Office Mkt Cap EUR Bln	Average Size EUR Bln
United States	29	74	2.6
Japan	10	30	3
Europe	33	26	0.8
Hong Kong	3	8	2.5
Canada	4	7	1.7
Australia	6	7	1.2
<b>Global</b>	<b>85</b>	<b>154</b>	<b>1.7</b>

Source: FTSE EPRA/NAREIT, UBS Sectors



# FTSE EPRA/NAREIT Global Real Estate Indices

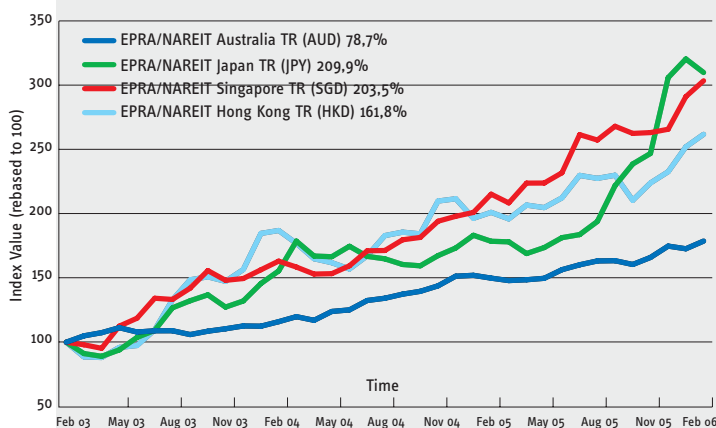
## EPRA/NAREIT Global Real Estate Index



Company	Country	Sector	Sub Sector	Total Rtn (%) YTD	Total Rtn (%) Feb-06
▲ Globe Trade Centre	POL	Dev	Div	52,60	30,05
▲ Babis Vovos	GR	Dev	Div	22,30	21,95
▲ Kungsleden	SE	Inv	Off	20,43	20,43
▲ Kowloon Dev	HK	Dev	Div	21,56	19,41
▲ Klepierre *	FR	Inv	Rtl	22,07	18,92
▼ Shoei Co Ltd	JP	Inv	Rtl	-14,51	-9,24
▼ Mitsubishi Estate	JP	Dev	Div	0,61	-9,54
▼ Heiwa Real Estate	JP	Dev	Res	-14,77	-9,58
▼ Tokyu Land	JP	Dev	Rtl	-12,89	-9,83
▼ Goldcrest	JP	Dev	Res	-14,62	-11,55

Index Description	Close Value 28-Feb	Div Yld (%) 28-Feb	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Feb-06	Total Rtn (%) YTD	Total 36 Mths Vltly (%)
EPRA/NAREIT Europe TR (EUR)	2920,00	2,46	18,58	37,34	37,93	7,30	13,13	10,01
EPRA/NAREIT Asia TR (USD)	2050,93	3,20	14,33	37,73	31,02	0,81	6,11	14,02
EPRA/NAREIT North America TR (USD)	3313,98	4,19	20,79	31,95	29,91	1,97	8,86	14,77
EPRA/NAREIT Global TR (USD)	2748,73	3,55	18,95	35,40	29,04	2,26	9,04	12,28

## EPRA/NAREIT Asia Index

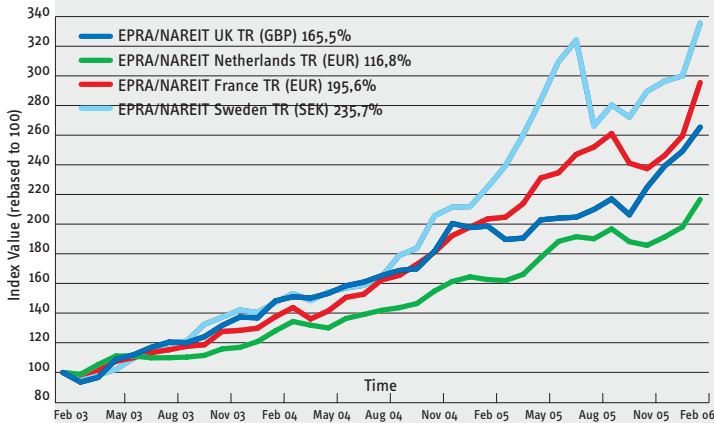


Company	Country	Sector	Sub Sector	Total Rtn (%) YTD	Total Rtn (%) Feb-06
▲ Kowloon Dev	HK	Dev	Div	21,56	19,41
▲ Keppel Land	SG	Dev	Off	20,77	16,32
▲ Link REIT *	HK	Inv	Rtl	15,65	13,33
▲ Great Eagle Holdings	HK	Inv	Off	16,13	11,50
▲ HKR International	HK	Dev	Div	15,33	10,90
▼ Shoei Co Ltd	JP	Inv	Off	-14,51	-9,24
▼ Mitsubishi Estate	JP	Dev	Off	0,61	-9,54
▼ Heiwa Real Estate	JP	Dev	Off	-14,77	-9,58
▼ Tokyu Land	JP	Dev	Div	-12,89	-9,83
▼ Goldcrest	JP	Dev	Res	-14,62	-11,55

Index Description	Close Value 28-Feb	Div Yld (%) 28-Feb	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Feb-06	Total Rtn (%) YTD	Total 36 Mths Vltly (%)
EPRA/NAREIT Australia TR (AUD)	2286,17	6,41	14,60	21,35	19,24	3,46	2,23	8,47
EPRA/NAREIT Hong Kong TR (HKD)	1552,4	2,21	7,45	37,83	30,22	3,87	12,51	24,99
EPRA/NAREIT Japan TR (JPY)	3015,12	0,90	18,22	45,80	73,56	-3,28	1,31	24,11
EPRA/NAREIT Singapore TR (SGD)	1305,75	2,99	11,15	44,78	41,01	4,23	14,20	18,10



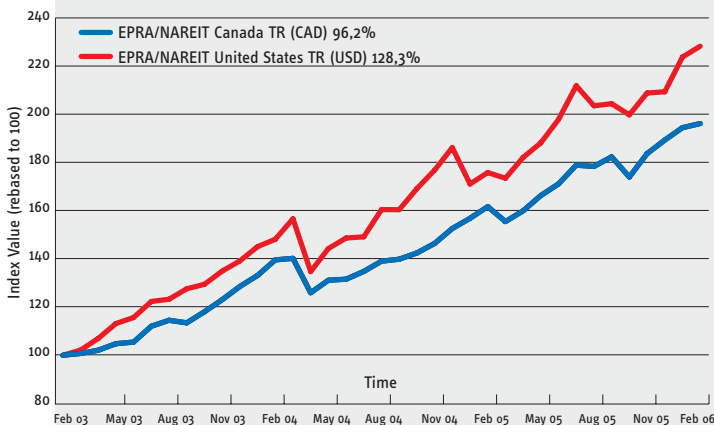
**EPRA/NAREIT Europe Index**



Company	Country	Sector	Sub Sector	Total Rtn (%) YTD	Total Rtn (%) Feb-06
▲ Globe Trade Centre	POL	Dev	Div	52,60	30,05
▲ Babis Vovos	GR	Dev	Div	22,30	21,95
▲ Kungsleden	SE	Inv	Off	20,43	20,43
▲ Klepierre *	FR	Inv	Rtl	22,07	18,92
▲ Lamda Development	GR	Dev	Div	40,63	18,77
▼ Leasinvest Real Estate *	BE	Inv	Off	-3,85	-4,29
▼ TK Development	DK	Dev	Rtl	-7,32	-6,09
▼ Freeport	UK	Inv	Rtl	-10,10	-7,35
▼ Keops	DK	Dev	Div	11,32	-8,38
▼ IVG Immobilien	DE	Inv	Div	22,70	-8,51

Index Description	Close Value 28-Feb	Div Yld (%) 28-Feb	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Feb-06	Total Rtn (%) YTD	Total Rtn (%) 36 Mths Vlty (%)
EPRA/NAREIT UK TR (GBP)	2972,98	2,02	18,11	38,47	33,61	6,51	10,93	14,04
EPRA/NAREIT Netherlands TR (EUR)	2916,22	4,85	19,57	29,42	33,26	9,37	13,24	10,55
EPRA/NAREIT France TR (EUR)	3572,6	2,90	25,17	43,51	45,18	13,86	19,93	12,95
EPRA/NAREIT Sweden TR (SEK)	4470,03	2,88	24,93	49,73	49,17	11,87	13,20	18,44

**EPRA/NAREIT North America Index**



Company	Country	Sector	Sub Sector	Total Rtn (%) YTD	Total Rtn (%) Feb-06
▲ Bedford Property Inv *	US	Inv	Off	31,07	15,60
▲ Carramerica Realty *	US	Inv	Off	26,94	14,02
▲ Kilroy Realty *	US	Inv	Off	24,17	10,70
▲ Town and Country Trust *	US	Inv	Res	25,52	9,91
▲ Post Properties,5 *	US	Inv	Res	15,64	9,12
▼ Entertainment Props *	US	Inv	Rtl	7,61	-4,86
▼ American Financial Realty *	US	Inv	Off	5,25	-4,91
▼ Correctional Proo. Trust *	US	Inv	Div	7,26	-4,93
▼ Equity One Inc *	US	Inv	Rtl	2,38	-6,13
▼ Brandywine Realty Trust *	US	Inv	Off	11,53	-6,61

Index Description	Close Value 28-Feb	Div Yld (%) 28-Feb	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) Feb-06	Total Rtn (%) YTD	Total Rtn (%) 36 Mths Vlty (%)
EPRA/NAREIT Canada TR (CAD)	3110,37	5,34	19,15	25,19	21,32	0,87	3,61	10,73
EPRA/NAREIT United States TR (USD)	3290,22	4,11	20,54	31,67	29,83	2,01	9,04	15,03

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



# EPRA Working Committees

## 1 Best Practices Committee

The Chairman of the Best Practices Committee is Hans Grönloh of KPMG. The goals for the committee are to develop and publish Best Practices Recommendations with regard to consistent and meaningful definitions of items such as income and net asset value as well as additional disclosure of the assets and business of each company. It is important to reiterate that all of EPRA's Best Practices Recommendations are intended to be fully consistent with IAS accounting guidelines. Ultimately, we are convinced that consistent and transparent disclosure will attract investors to an industry where they clearly understand the opportunities and the risks. An update to the Best Practices Policy Recommendations was issued in January 2006.

## 2 Information Committee

The Chairman of the Information Committee is James Rehlaender of European Investors. The primary objective of this committee is to provide top quality, timely information to investors concerning relevant aspects of the sector. The Information Committee is split into three separate sub-committees: the Indices Committee, the Website Committee, and the Academic Circle.

## (a) Regional Index Committees

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

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

EPRA produces a monthly Statistical Bulletin, covering the FTSE EPRA/NAREIT Global Real Estate Index, which encompasses an array of

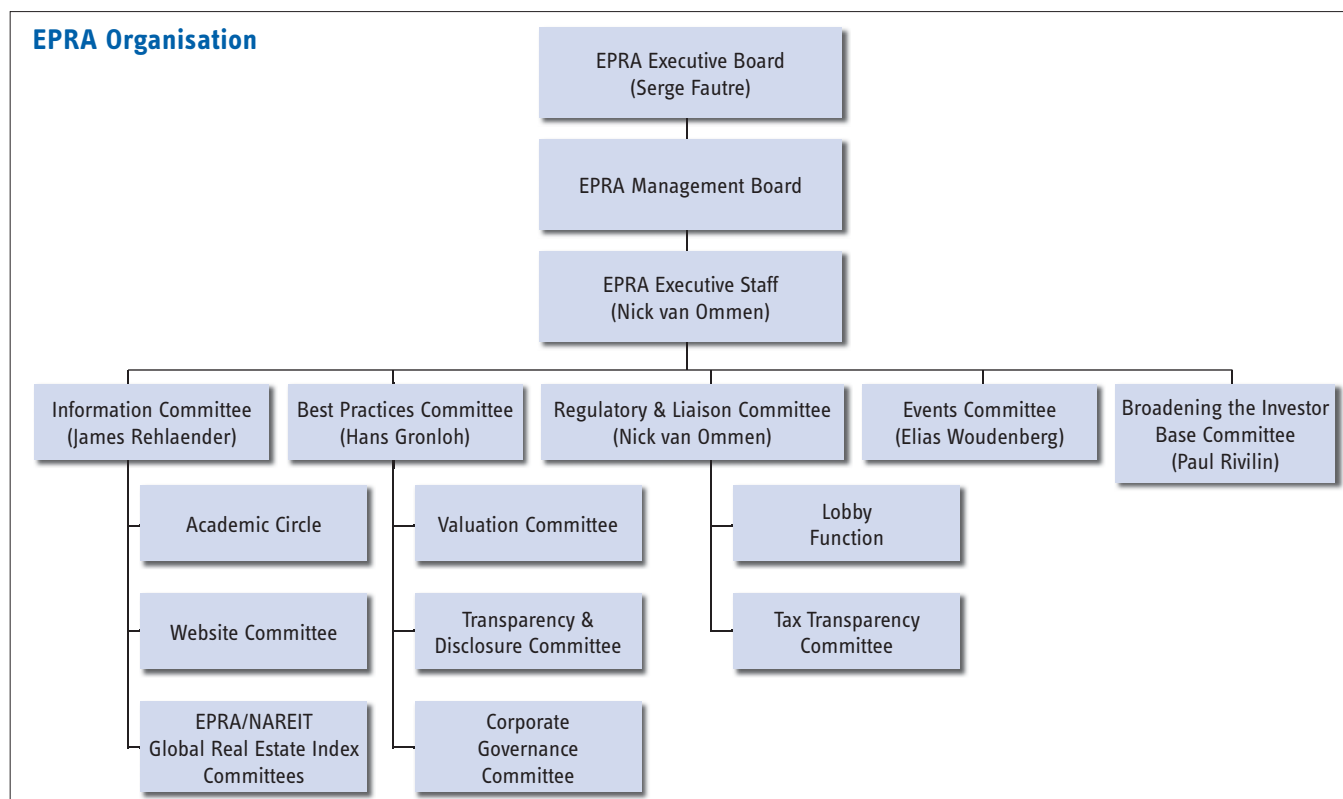
useful and exhaustive statistical data on performance, market events and index changes. This is an essential "hard copy" tool for professionals and provides the clearest possible window on the sector around the world. In addition, daily 'tracker' files are available from FTSE.

## (b) Website Committee

The website of EPRA is not only the gateway to EPRA and all its work, but also to its members and a world of information about the sector. In 2005 the www.epra.com website was averaging half a million hits per month. This is an astounding figure and is indicative of the quality information available and the interest in the sector. EPRA has a panel of individuals from different countries, whose task it is to discuss the role and content of the website, ensuring that it meets user's requirements and responds to new challenges. In September 2004 we launched the new version of www.epra.com to positive feedback from investors.

## (c) Academic Circle

The EPRA Academic Circle was formed in 2002, and is chaired by Martin Allen of





Morgan Stanley. The Academic Circle brings together the 11 leading real estate faculties around the world to provide EPRA with an extremely valuable resource. EPRA provides the funding for the Academic Circle to produce research on topics that directly affect the sector. The selection criteria for the topics are not only academically demanding but should be assessable to practitioners. The circle conducts research based upon the demands of the market and our members.

### 3. Regulatory and Liaison Committee

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

#### (a) Tax Transparency Committee

The Tax Transparency Committee (TTC), chaired by Matthias Roche of Ernst & Young, has two objectives. Firstly the committee maintains an inventory of worldwide tax transparent structures. On the basis of this inventory the TTC will publish recommendations as to what the most supportive elements are from these different structures (the short term goals) and what could be the most preferred structure for a European REIT (the long term goal). The second objective is to provide European legislators with the evidence that tax transparent structures are beneficial for the tax collectors, the companies, the investors and the tenants. As a result this will have significant macro-economic effects. The Tax Transparency aims to provide supportive evidence for tax transparent structures through separate research projects. In September 2004 we issued an update of the EPRA Global REIT survey.

### 4 Events Committee

The primary objective of this committee, chaired by Elias Woudenberg, is to establish a high-level communication platform for the European public real estate sector by orga-

nizing productive and influential events. The annual EPRA conference is already established as the leading, dedicated meeting point for the European quoted property sector. The combination of the two-day programme, the overall quality of the attendees, and the venue contributed to the conference's growing success. The Executive Board of EPRA act as the programme committee and seeks to attract top-class keynote speakers and panels of CEO's and other senior representatives of real estate companies, investors, and their advisers. At the 6th annual conference in Paris in September 2005, the "Best Annual Report Award 2004", sponsored by PGGM, was won by Land Securities. The "Best Large Cap Performer Award 2004", sponsored by Kempen & Co was picked up by Quintain Estates, and Town Centre Securities won the "Best Small/Mid Cap Performer Award 2004", sponsored by LaSalle Investment Management. Besides EPRA organised "road shows" in many countries, the EPRA management and executive board members also represent EPRA as speakers or panelists at various conferences in Europe, the United States, and Asia.

### 5 Broadening the Investor Base Committee

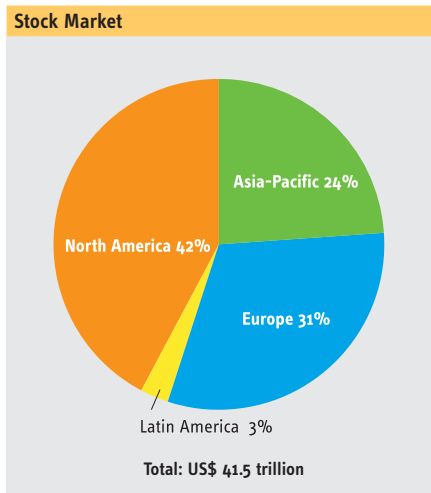
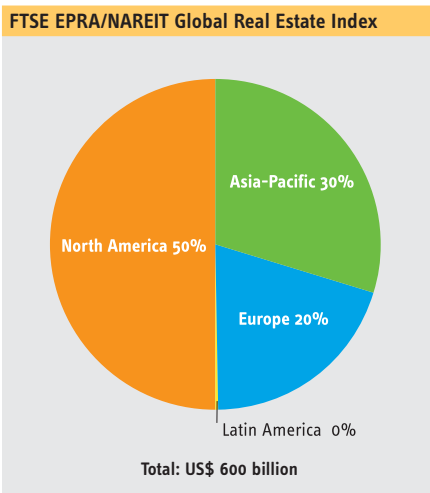
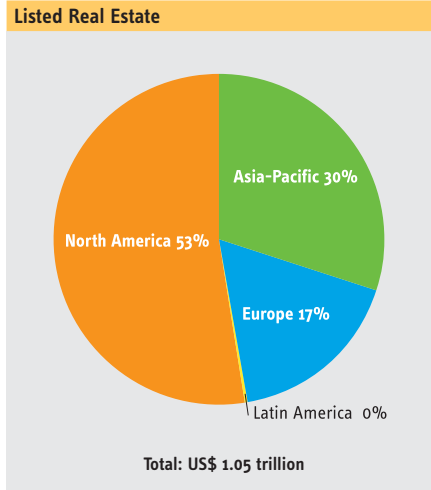
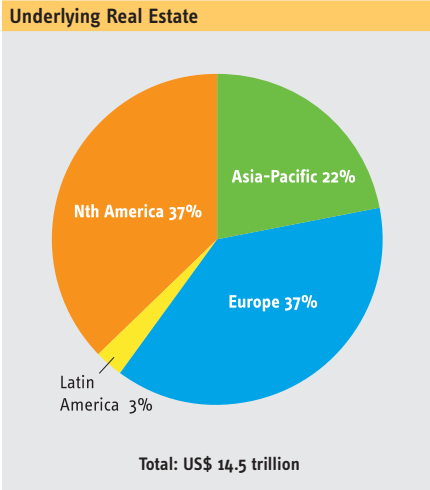
This committee was set up in 2004 and is currently under the supervision of Paul Rivlin of EuroHypo Real Estate. The aim of the committee is to take the real estate message to a broader audience, both for institutional and retail investors. One of the first pieces of research (carried out by the University of Cambridge) will be to provide investors with a clear picture of how investing in listed real estate stocks can add benefits to a multi-asset portfolio, in terms of risk and reward. ◀



## Global Real Estate Universe

Countries	2004 GDP (\$ Bn)	2004 GDP per capita (\$)	2004 Real Estate (\$ Bn)	30-Dec-05 Total Listed (\$ Bn)	28-Feb-06 Total RE v Listed RE (%)	28-Feb-06 Stock Market (\$ Bn)	28-Feb-06 Stk Mkt v Listed RE (%)
Japan	4,371	34,329	1,967	116,2	5,91%	4,969	2,34%
Hong Kong/China	1,620	1,240	289	74,2	25,72%	1,621	4,58%
South Korea	612	12,697	237	0,9	0,39%	740	0,12%
India	585	549	79	0,6	0,72%	603	0,10%
Australia	516	25,935	232	83,0	35,72%	737	11,26%
Taiwan	292	12,840	113	5,1	4,46%	522	0,97%
Indonesia	231	969	38	1,4	3,79%	92	1,56%
Thailand	145	2,238	31	3,5	11,03%	134	2,60%
Malaysia	106	4,522	29	7,0	23,86%	189	3,68%
Singapore	97	22,204	87	21,8	25,04%	270	8,07%
Philippines	79	922	13	4,9	38,38%	42	11,65%
New Zealand	79	19,802	35	2,4	6,77%	37	6,58%
Vietnam	40	480	5	-	0,00%	0	0,00%
<b>Total Asia-Pacific</b>	<b>8.774</b>	<b>20.759</b>	<b>3.157</b>	<b>321,0</b>	<b>10,17%</b>	<b>9.955</b>	<b>3,22%</b>
Germany	2,430	29,484	1,094	7,6	0,70%	1,422	0,54%
United Kingdom	1,854	30,757	1,043	63,2	6,06%	3,023	2,09%
France	1,784	29,521	803	23,7	2,95%	2,002	1,18%
Italy	1,461	25,158	657	6,1	0,92%	885	0,69%
Spain	880	21,845	396	17,8	4,50%	739	2,41%
Russia	462	3,163	112	0,5	0,41%	732	0,06%
Netherlands	533	32,638	240	15,8	6,60%	585	2,70%
Switzerland	320	42,993	144	5,4	3,73%	979	0,55%
Belgium	304	29,423	137	3,8	2,79%	305	1,25%
Sweden	300	33,377	135	15,5	11,47%	446	3,47%
Turkey	244	3,543	62	1,1	1,80%	201	0,55%
Austria	256	31,299	115	9,2	7,98%	166	5,55%
Norway	222	48,490	100	1,9	1,91%	228	0,83%
Denmark	210	38,858	95	1,7	1,83%	190	0,91%
Poland	217	5,611	64	1,0	1,60%	108	0,95%
Greece	173	16,227	78	0,6	0,73%	165	0,35%
Finland	162	31,079	73	1,3	1,74%	236	0,54%
Ireland	156	39,348	70	-	0,00%	114	0,00%
Portugal	147	13,939	59	-	0,00%	80	0,00%
Czech Republic	91	8,851	31	-	0,00%	46	0,00%
Hungary	83	8,265	28	0,1	0,27%	37	0,20%
Romania	59	2,635	13	-	0,00%	21	0,00%
Ukraine	53	1,094	9	-	0,00%	27	0,00%
Slovakia	33	6,137	10	-	0,00%	6	0,00%
Slovenia	28	13,740	11	-	0,00%	7	0,00%
Luxembourg	27	58,498	12	1,5	12,50%	25	5,99%
Bulgaria	20	2,658	5	-	0,00%	4	0,00%
<b>Total Europe</b>	<b>12.508</b>	<b>27.012</b>	<b>5.595</b>	<b>177,8</b>	<b>3,18%</b>	<b>12.777</b>	<b>1,39%</b>
Mexico	652	6,211	199	0,1	0,03%	266	0,02%
Brazil	536	2,913	127	0,6	0,46%	582	0,10%
Argentina	146	3,734	38	0,6	1,61%	75	0,81%
Venezuela	99	3,974	26	-	0,00%	8	0,00%
Colombia	87	2,067	18	-	0,00%	54	0,00%
Chile	80	5,053	23	0,4	1,77%	140	0,29%
Peru	62	2,264	14	0,1	0,39%	29	0,18%
<b>Total Latin America</b>	<b>1.664</b>	<b>4.375</b>	<b>444</b>	<b>1,7</b>	<b>0,39%</b>	<b>1.153</b>	<b>0,15%</b>
United States	11,092	37,852	4,991	525,1	10,52%	16,282	3,23%
Canada	877	26,984	395	29,9	7,57%	1,369	2,18%
<b>Total Nth America</b>	<b>11.969</b>	<b>37.056</b>	<b>5.386</b>	<b>555,0</b>	<b>10,30%</b>	<b>17.651</b>	<b>3,14%</b>
<b>World</b>	<b>34.915</b>	<b>-</b>	<b>14.581</b>	<b>1.055,5</b>	<b>7,24%</b>	<b>41.537</b>	<b>2,54%</b>

Sources: World Bank Organisation, FTSE, EPRA.





## Provisional Programme

### Thursday, 7 September 2006

- 08:00 – 09:15 Breakfast and conference registration
- 09:15 – 09:30 Opening remarks by Serge Fautré, Chairman of EPRA
- 09:30 – 10:15 **Keynote speaker:** **Nick Tyrrell, JPMorgan Asset Management**
- 10:15 – 11:15 **Panel Discussion I** **OUTPERFORMANCE BY PROPERTY COMPANIES**  
 Moderator Struan Robertson, Morgan Stanley  
 Panel members: Representatives of the four companies with the highest 3-year total return in Europe, with a market cap exceeding €1 bn (or more)
- 11:15 – 11:45 Break
- 11:45 – 13:00 **Academic Circle**  
 Discussion leader: Prof. Tony Ciochetti, MIT  
 Presentations by: 3 leading Universities
- 13:00 – 14:30 Lunch
- 14:30 – 15:30 **Panel Discussion II** **OUTPERFORMANCE BY PROPERTY COMPANY INVESTORS**  
 Moderator Ian Hawksworth, Hongkong Land  
 Panel members: Two sell-side analysts and two fund managers
- 15:30 – 18:00 Networking by boat on the Danube
- 19:00 Cocktails & Dinner  
 Dress code: tenue de ville
- Award presentations:**
1. EPRA Best Annual Report 2005, sponsored by PGGM
  2. EPRA Best Small/Mid Cap Performance Award 2005, sponsored by Kempen & Co
  3. EPRA Best Large Cap Performance Award 2005, sponsored by LaSalle Investment Management

\* On Thursday EPRA will organise a partner's programme \*



## OUTPERFORMANCE

# Provisional Programme

### Friday, 8 September 2006

08:00 – 09:00 Breakfast

09:00 – 09:45 **Keynote speaker:** **To be confirmed**

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

10:00 – 11:00 **Session I: IS THERE A FUTURE FOR SELL-SIDE EQUITY RESEARCH**  
 Moderator: John Gellatly  
 Panel members: To be arranged with moderator

10:00 – 11:00 **Session II: PROGRESS ON REITS IN EUROPE**  
 Moderator: Ronald Wijs, Loyens & Loeff  
 Panel members: To be arranged with moderator

11:00 – 11:15 Break

11:15 – 12:15 **Session III: BROADENING THE INVESTOR BASE**  
 Moderator: Paul Rivlin, EuroHypo  
 Panel members: To be arranged with moderator

11:15 – 12:15 **Session IV: THE CENTRAL EUROPEAN PROPERTY MARKETS**  
 Moderator: Jean-François Ott, Orco Property Group  
 Panel members: To be arranged with moderator

12:30 – 14:00 **Panel Discussion III: OUTPERFORMANCE IN RESIDENTIAL REAL ESTATE**  
 Moderator: To be confirmed  
 Panel members: To be confirmed

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

14:00-15:30 Lunch

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## CONFERENCE

**REGISTRATION FEE:** EPRA members € 1,250.= excl. VAT / Non-members € 2,500.= excl. VAT

**MEETING LOCATION:** Corinthia Grand Hotel Royal, Erzsébet Krt. 43-49, 1073 Budapest, Hungary, Tel +36 1 479 4000, Fax +36 1 479 4333, www.CorinthiaHotels.com

**PAYMENT CONFERENCE:** Upon receipt of EPRA invoice. Payment of invoice by:  
(1) Bank transfer (bank details will be shown on the invoice) or  
(2) Cheque (if paying by cheque, please add an additional 10% to your registration fee for bank processing)

**CONFERENCE CANCELLATION POLICY:** If cancellation is notified to EPRA in writing:

- before 19 June 2006: free of charge
- between 19 June and 17 July 2006: 50% of the conference fee
- after 17 July 2006: full registration fee

You may transfer your registration, without penalty, to another member of your organisation.

**Please indicate your interest:**

**7 September 2006:**

Dinner:  Yes  No  
Networking Boat Tour:  Yes  No  
Partners programme:  Yes \*  No

\* Partner's first & last name:

.....

**8 September 2006:**

Concurrent sessions:  I or  II  
 III or  IV  
Lunch:  Yes  No

## HOTEL

Hotel accommodation is not included in the registration fee. EPRA has negotiated a special room rate for participants of the Annual Conference at the Corinthia Grand Hotel Royal.

- No hotel
- Yes, check-in date: ..... / 09 / 2006, check-out date: ..... / 09 / 2006
- Superior room, single use € 199.=
- Superior room, double use € 219.=  
(rates are per night including breakfast and excluding local taxes)

**PAYMENT HOTEL:** By credit card when checking out:  
 American Express  MasterCard  Visa  Diners Club

Name cardholder: .....

Credit card number: .....

Expiration date: ..... / .....

**HOTEL**

**CANCELLATION POLICY:** If cancellation is notified to EPRA in writing:

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- between 19 June and 17 July 2006: 50% of the total accommodation costs
- after 17 July 2006: 100% of the total accommodation costs

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