EPRA NEWS

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

ISSUE 39
JULY/AUGUST 2011

FEATURES

REFERENCE

GUEST EDITOR
Allan Saunderson

Finding the right blend
How listed fits your portfolio.

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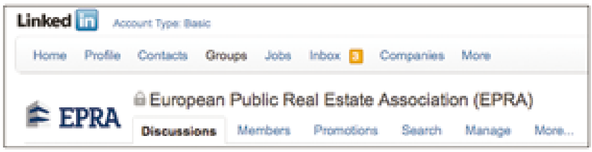


SPACE FOR NEW LISTINGS

Need for funding to boost European listed universe, but timing will be key.

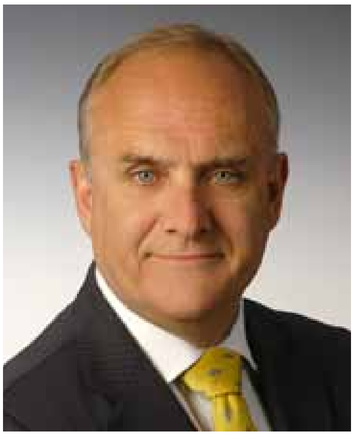
You are not alone. Remember that ancient movie ET by Steven Spielberg, or even his Close Encounters of the Third Kind? Well, just when you European listed real estate companies thought you were alone in this exchange-quoted universe, others are landing while still more circle the skies to check if they wish to touch down.

Even more new-exchangers would normally be on the way by now but, as Germany's Prime Office found to its cost last June - and before it, Berlin housing firm GSW - the glide path onto the stock market is strewn with obstacles, not all of their own making. Greek euro fears made the landing harzardous for both.

Take Germany for a moment: Its listed sector has been distinctly un-dynamic until recently. The culture is dominated by intermediation - Big Government, Big Labour, Big Industry and Big Banks. Where else is an industry such as car-making, currently in the midst of a boom throwing off billions in profit, suddenly granted EUR 1 billion in taxpayers' money to 'support' energy efficiency? Well OK, America's risible drilling tax-breaks for oil companies that are reporting USD 10 billion net per quarter... But aside from that? In Germany, the individual, the consumer, is frequently content to be told what's best for her/him. Investment advice

In Germany more than a few of us are calling for using the exchange to capitalise the EUR 24 billion or so in property ownership trapped in closed 'open' funds - a scandalous state of affairs that in most other markets would have sparked dramatic political consequences.

GUEST EDITOR
Allan Saunderson



from banks is the norm rather than the exception; the market is inherently mistrusted. It is uncontrollable and wont to irrational exuberance, say the Bigs, fairly *unisono*. Yet the need for new capital is chipping away at this mentality now. After EPRA's sharp criticism earlier this year about the lack of German political support for a woefully small listed property sector – very much on the mark – out comes a large-ish listed real estate firm GSW, blinking, into the light of the Frankfurt Stock Exchange floor. This April, at second try, GSW finally made its IPO. At EUR 468 million it gave Cerberus and Goldman Sachs's Whitehall Funds the exit they had been seeking since before the global crisis. And with residential assets to boot! That one event has had a strong impact on German real estate, demonstrating that institutions are prepared to contribute property equity to the right opportunity. GSW has been a strong catalyst. It caused a large swathe of German real estate sit up and think more deeply about their portfolio possibilities.

However, in June came the counter-argument. We were hopeful to get another genuine, honest-to-goodness REIT away when Prime Office, a tightly-run Munich company with a EUR 970 million portfolio, purred like a Bavarian Motor Works automobile engine out onto the exchange. Only it didn't work like that. Just as in the case of GSW at first attempt last year, Greek debt nerves caused institutions on roadshows to rein in their enthusiasm: Prime Office stock was not saleable as capital providers drew back. The company was forced, on June 21, to push back the IPO which managed to list finally on July 01.

But it is still justifiable to expect more IPOs. For in Germany and around Europe, these will not be the only aliens to land in the listed property universe in the next few months. Given some dampening of macro fears – and the cacophony of Anglo-Saxon euro break-up theorists on CNBC and Bloomberg – a listing trend could spread across Europe steadily over the next few months. Fact is that, with a mountain of debt refinancing approaching, funding, access to capital, will be taken wherever it can be found. In fact, debt finance is becoming so tricky that it threatens to hold back the entire sector recovery toward relatively normal transaction volumes.

As European real estate moves into the critical period for refinancing all that seven-year bank and securitised debt raised amid the heady euphoria of 2005-2007, the need for capital to keep property portfolios afloat and alive is acute. That is when equity has to step forward. It is in precisely under these circumstances that the stock market comes into its own: a platform for accessing equity and hybrid capital from a wide group of co-investing institutions and individuals. In Germany more than a few of us are calling for using the exchange to capitalise the EUR 24 billion or so in property ownership trapped in closed 'open' funds (GOEF) - a scandalous state of affairs that in most other markets would have sparked dramatic political consequences. In Germany? Please refer to the Bigs above.

However for more or less cultural reasons, it will not be the GOEFs that bring portfolios to the stock market. Why? Because the gulf between the intermediation proponents in the property fund world and the market exchange protagonists remains too wide. Example: Frankfurt manager SEB AM is seeking an institution to partner up to put new equity into its EUR 1.4 billion Berlin Potsdamer Platz asset. For CEO Barbara Knoflach, a listed solution would simply lie too far outside the fund mandate, be too long winded and expensive – with no guarantee of success.

As a result, it is more likely large industrial companies, perhaps utilities, large manufacturing groups, perhaps even the semi-state sector and/or the banks will provide the assets for flotation. And there is plenty there. At time of writing, Landesbank LBBW is preparing to sell its 24,000 housing portfolio to raise cash and meet EU requirements; utility Evonik is eyeing a long-term sale of its even more massive housing and commercial property holdings; the giant Metro retail group has shifted toward >

The gulf between the intermediation proponents in the property fund world and the market exchange protagonists remains too wide.

actively managing its EUR 8 billion of real estate in Europe - and who is to say that it will not, despite denials, take a leaf eventually out of the book of France's Carrefour and float a property unit while keeping control?

That's not even to mention the heartland of German manufacturing where companies own 75% of the property that they use, compared to the 40% owner-occupied in the Anglo Saxon economies of US and UK.

Just for the record, and much forgotten, is also the small German pre-REIT community left standing - or rather sitting - waiting for more opportune stock market times. These include a portfolio from IVG, and Hamburg's TAG which earlier this year took control of Cologne-based peer Colonia Real Estate. Others with announced REIT intentions are German Acorn, controlled by US private equity group Oaktree Capital, Frankfurt-based Polis and a small housing group CR Capital.

Some other indications of the increasing use of the stock market for 'replacement capital' in European property emerged in the first half of this year. One of the most unusual was the IPO of Canadian company Dundee which floated a REIT on the Toronto stock exchange with the express purpose of raising nearly CAD 1 billion to invest in German office property. The rationale? Diversification out of dollar-linked assets, plus a large dose of Germany's star macro pulling power these days. The investment portfolio already agreed is a northern German office package owned by a Luxembourg fund in which giant Texas-based private equity group Lone Star is a major investor.

We also saw a very interesting European example in early summer with Mediacité, a shopping mall and media centre in Belgium's third largest city Liège. It offered profit participation certificates, a kind of convertible bond which annually pays a defined portion of retail mall earnings in dividends and ultimately confers the right to convert to equity. Unfortunately, its offering had to be pulled at the last minute due to Greek nerves.

Even if I maintain that property listings will improve, I have to admit that, looking elsewhere around the continent, concrete examples of upcoming IPOs remain few and far between. In Italy, one company Beni Stabili, makes up 52% of the listed property community and there are no signs of any aliens circling to land in that universe for now. In France, the large quoted community has been fairly static for a while and most specialists expect not expansion but contraction of the sector through consolidation. In Spain, most of the listed sector is owned by the banks - so a stock market 'quotation' is in any case an irrelevance at present.

Despite the above, I fervently hope that Philip Charls succeeds in convincing not only Germany but other European sectors to take their listed property sectors much more seriously now - and that I was wrong to remind him of old Confucius saying: "Man who bang head against brick wall only get big headache."

Allan Saunderson is Founder and Managing Editor of *Property Investor Europe*, a specialist information platform on mainland Europe real estate investment and a widely-read thought leader in the industry. Based in Frankfurt, Saunderson was in the 1980s a Reuters financial journalist in London, Frankfurt and Paris, named Chief Financial Correspondent, France, in 1988. Two years later he was appointed Head of European Research for Bank Julius Bär, and soon afterwards named as adviser to the French Finance Ministry by Prime Minister Pierre Bérégovoy. In the mid-1990s he founded economic and monetary consultancy Eurozone Advisors, becoming a well-known Bundesbank/ECB watcher. He moved into real estate finance in 2002 and founded PIE in 2005 to track Europe ex UK for US and global real estate investors.

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Philip Charls, EPRA CEO

UPDATE FROM PHILIP CHARLS

EPRA's outreach programme to pension funds, Sovereign Wealth Funds, insurance companies, retail investors and regulators is broad and far-reaching - in terms of the type of investor and location. After-all, investment into European REITs has become increasingly global over the course of the past five years as investors seek diversification in terms of asset location, sector and currency.

Shareholder registers have evolved considerably over this period from, in many cases, from an almost solely domestic shareholder base to far more international one. EPRA continues to push the key messages of European listed real estate investment as we aim to attract capital from a broad group of potential and existing investors.

The growth in government-backed Chinese investment vehicles offers routes into a dynamic region, and provides the opportunity to build long-term partnerships.

With this in mind, EPRA Director of Research Fraser Hughes and I were in New York in June to participate to NAREIT's Investor Forum REITWeek 2011. The event had a record attendance over 2,000 delegates. The event is always a great opportunity for EPRA to meet with numerous investors, EPRA members and potential new members.

The feeling from the conference was upbeat but cautious. The investors we met reported that a growing number of pension funds, plan sponsors and consultants had re-assessed the role and benefits of holding REITs (both domestic and international) in a well-diversified real estate allocation and have - and will continue to - earmark increasing capital to the sector. All of the investment managers that we met reported (significantly) increased capital flows over the past 12-18 months as investors seek access to prime property, good management, liquidity and stable income. Needless to say, EPRA's working relationship with NAREIT continues to strengthen as we collaborate on issues of common interest.

The Asia-Pacific region is a growth region for us. The Japanese market sees investors seeking income and diversification over domestic Japanese bond and equity options. The fundamental arguments of diversification came to the fore following the Japanese disaster in March. We foster a close working relationship with the Japanese Association for Real Estate Securitization (ARES) and plan to organise a top level European panel session at their Annual Conference in December in Tokyo. The conference is attended by over 350 delegates, which over 25% are institutional investors - a fabulous platform for the European majors.

The growth in government-backed Chinese investment vehicles offers routes into a dynamic region, and provides the opportunity to build long-term partnerships. EPRA's Director of Finance Gareth Lewis and I were in Shanghai and Beijing in April to build on relationships forged over four years ago. Needless to say, it has proved an educational process for all involved, but the effort is paying dividends. Key themes discussed were the recent developments with respect to Chinese institutional investors investing into REITs outside of China - clearly a positive development for European listed property companies as all investors and regulators we met were keen to learn more about the European and global listed property sector.

Through our discussions with global investors, we know that there is strong demand for a broad and liquid German listed sector.

On a domestic level, the potential development of a Chinese REIT regime can be seen a positive step - further expanding the global 'REIT brand'. It was clear that there remains work to be done in educating Chinese investors, but the content of meetings and information we provided will help nurture developing relationships and continue to bridge the knowledge gap for both sides.

Meetings that we have conducted over the past three months, in particular in China and with European regulators have highlighted, in many cases, the relative lack of awareness of the basic attributes and key benefits of European and US REITs - particularly with respect to differences between these REITs and "funds". We are mindful of this going forward, and have been careful to add basic information on the structure of the REIT market, legal forms and key building blocks. The past four months have been a useful reminder of the need to sustain our efforts to a broad group of investors and regulators - not only dedicated listed real estate professionals.

We push forward our mission to expand the German listed market. On a positive note, we have seen growth, year to date, in terms of companies entering the FTSE EPRA/NAREIT Index. IVG is back, GSW successfully IPO'd, Prime Office (at the time of writing) close to listing and now Deutsche Annington firmly on the radar screen. However, a lot more needs to be done, over a long period of time.

We will focus extensively on growth in Europe at the EPRA Annual Conference on September 01-02 at the Landmark Hotel in London - a German panel on Day Two examining the hurdles that need to be overcome to expand the listed options for investors. Through our discussions with global investors, we know that there is strong demand for a broad and liquid German listed sector.

IN THE NEWS

Calling all students - Kingston Upon Thames town centre

EDUCATIONAL OUTREACH

EPRA Research Analyst Maikel Speelman delivered a guest lecture at Kingston University London on June 16, where some 20 MSc Real Estate students, all currently working in the real estate sector, were informed about the finance and funding aspects of listed real estate companies in Europe. Leaning on the four quadrants model, the various ways of attracting finance as well as investing in listed real estate companies were considered.

EPRA actively engages with universities in Europe and further abroad to educate future market participants in the fields of listed real estate. Please call us if you would like to know more.

SOLVENCY II ONGOING

Detailed provisions for the implementation of the Solvency II Directive still need to be adopted. A so-called 'Omnibus II Directive' is currently being negotiated by the European Council and European Parliament, which should provide for these provisions and in particular Solvency II implementation date. Although this should be confirmed only once the Omnibus II Directive has been formally adopted (early 2012), the latest Council draft indicates an implementation date that has slipped by a year and is now set to January 01, 2014. Transposition into national law is due by March 31, 2013 and some of its provisions will already produce effect as from July 2013, but any supervisory approval will take effect only past the January 2014 implementation date.

LISTED: OUTPERFORMANCE OF OTHER ASSET CLASSES

The Europe index quarter to June has climbed 5.4%, but in June itself it slipped 1.96%. This compares to -1.67% this quarter to June for the broader equities market, and 1.59% for bonds.

PENSION FUNDS REFORM

The provisional timeline for a publication of the Commission proposal for the revision of its Pension Funds Directive (IORP Directive) is getting clearer. Since the public consultation to which EPRA took part at the end of last year, the Commission has sought the advice of the European Insurance and Occupational Pensions Authority (EIOPA, one of the three recently created European Supervisory Authorities) on a number of issues.

EIOPA has till the end of the year to deliver its advice. Shortly after, the Commission will start an impact assessment with the objective of being able to adopt its proposal by the autumn. As part of the impact assessment, the Commission should convey a public Hearing towards February 2012, to which EPRA will participate.

Given the high probability that the pension reform borrows at least some of the Solvency II logic and provisions, this issue is likely to become a high priority for EPRA in the coming months and years. We urge members to join forces with us to look into how we can best influence the developing European pension funds framework. Time will be of the essence.

EPRA ANNUAL BPR AWARDS

EPRA recently launched its tenth Annual Report Review to determine the 2011 EPRA Annual BPR Awards. All companies in the EPRA/NAREIT FTSE European Index have been asked to provide hard copies of annual reports which will be reviewed by the Deloitte team over the summer. As in last year, companies will be awarded either a Gold, Silver or Bronze accreditation at the EPRA Annual conference in September as well as an award for the Most Improved Annual Report.

Initial observations following the close of the current reporting season show a significant increase in the level of adoption of BPR which are now used by 72% of the market cap of EPRA European Index - up from 60% in previous years.

ADDRESSING THE ACADEMICS

Fraser Hughes and Ali Zaidi attended the European Real Estate Society (ERES) conference in Eindhoven. The event was a gathering of some of Europe's leading academics presenting papers on numerous aspects of the real estate industry. EPRA ran an industry session on the Friday morning which was well attended. Alex Moss of Macquarie Group and Fraser set the scene with a presentation focusing on the current state of play in the industry. Dirk Brounen of Tilburg University and Hans op't Veld of PGGM completed the speakers to add their experience and opinion to the overall discussion.

The session was extremely interactive with a large part of the audience asking questions and airing opinions. Meanwhile EPRA's research group, chaired by Eamonn D'Arcy, met before the panel session to discuss current topics for the research agenda.

ANY WAY THE WIND BLOWS

EPRA observed IASB/FASB board meetings to discuss the profit and loss accounting for lessors that are scoped into new lease accounting (i.e. lessors of investment property that adopt the cost option under IAS 40 rather than properties at fair value). In their May meetings on lessee accounting the boards reversed a previous decision that would have allowed operating leases to maintain straight-line accounting. No such decision has been taken for lessors and last week's meeting explored whether a single 'de-recognition' approach could work for Lessors. This would require property companies that are scoped into the standard to de-recognise a portion of a building's book value each time it enters into a lease and would involve complex and subjective assessments. It would also reintroduce the problems of front end loading of income, and day-one gains.

The boards could not decide on how to overcome the complexities of valuing a portion of the building in a multi-tenanted building/shopping centre, and many board members including the majority of FASB seemed to be against the proposal. EPRA has continued to highlight its concerns with this approach.

EPRA participated in the latest gathering of REESA member associations during our China investor outreach trip. Items on the agenda included various common initiatives such as lease accounting, FASB's development of an "entity-based" scope definition of the US equivalent to IAS 40, distinguishing the REIT sector from the fund industry, EU regulation impacts and sustainability reporting.

AIFM DIRECTIVE OUTREACH

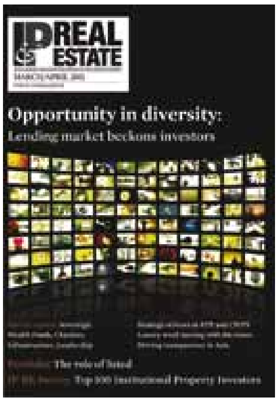
EPRA joined forces with NAREIT in May to tour a number of European capital cities to meet with regulators to discuss the listed property sector's position vis-à-vis the implementation of the AIFM Directive. In just four days, the group met with national authorities in Belgium, The Netherlands, Germany, Sweden, the UK and Ireland. The tour was part of a broader strategy to try and bring clarity to the AIFMD scope and ensure that the listed property sector is not caught up in legislation intended for fund managers.

ALLIANZ TO REBALANCE PROPERTY TOWARD INDIRECT

Retail German insurer Allianz aims to restructure its property portfolio, raising indirect investments to 20% from 5% now and shifting asset focus away from office and toward retail, says CEO Olivier Piani. He reiterated earlier remarks that the goal remains to raise real estate to EUR 30 billion total assets from EUR 18.8 billion now, and targets net portfolio growth of some 12% per year.

MEMBERS OFFERS

EPRA association membership not only offers anyone in the member organisation full access to the EPRA website/archive, regular research, economic, regulatory and index statistics updates; but much more. The following page lists several events and publication offers which are open to members.



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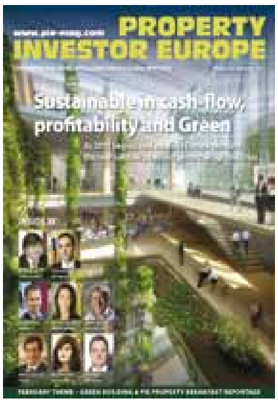

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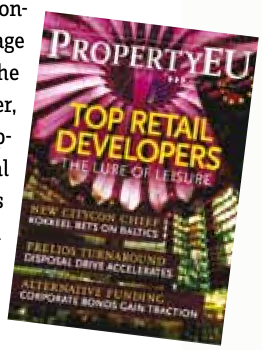

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FINDING THE RIGHT BLEND - PART II

In this second article[1] we investigate we investigate the key pricing signals from the most liquid and constantly priced markets, namely property securities and listed property bonds. There has been significant academic literature on this subject[2] and the purpose of this article is to examine some of the key relationships, and in particular the predictive power of property securities pricing in forecasting property value movements. In addition, and to complete the four quadrants, we look at the current state of the real estate debt market.

The standard valuation metric for European, and more particularly UK, real estate securities is the discount / premium of the share price to externally appraised NAV. It is important to note that there is a clear distinction between those markets such as the UK where REITs have regular, external valuation, and those that do not, such as the US, where a multiple of Adjusted Funds from Operations (AFFO) is the key valuation tool.

The key questions we attempt to answer are:

1) What is the historical relationship between price and NAV and how does this change post UK REIT conversion?
2) Do unlisted funds trades exhibit the same pricing patterns as the listed sector?
3) What are the relative liquidity levels in the listed and unlisted market?
4) What is the predictive power of REIT prices in forecasting future movements in their underlying NAV, and therefore the direct property market?
5) What is the relationship between dividend yields and both Government bond yields?
6) Does the listed debt market provide a viable investment option?

1) Historical relationship between price and NAV. How does this change post UK REIT conversion?

It should be remembered that prior to 2007 listed property companies had contingent capital gains tax (CGT) liabilities which were not netted off their stated NAV figures. This CGT liability led to a high level of discounts being attached to UK REITs pre REIT conversion in January 2007.

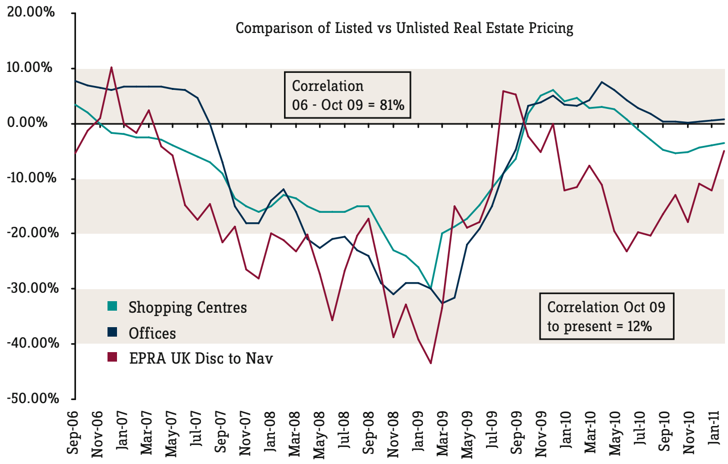
On average the CGT liability equated to around 15-20% of the NAV, which easily explains the average discount to NAV between 1989 and 2007 of approximately 18%. When looking at current valuations and pricing relative to NAV, it should be remembered that post REIT conversion these liabilities have been extinguished via payment of a conversion charge. Therefore, ceteris paribus, the sector can be expected to trade 15-20% closer to NAV, i.e. close to parity at a time of stable or modest capital growth.

2) Do unlisted Funds exhibit the same pricing patterns as REITs?

The next question to answer is how REITs trade relative to unlisted funds. Using data provided by JLL who have established a leading position in the secondary trading of units in unlisted funds, we show the correlation between the two. >

[1] For first article see EPRA Newsletter, issue 38
[2] Including Barkham and Ward, 1997, Patel, Pereira, and Zavodov 2009, and Krystalogianni and Tsolacos 2005)

Fig 1: Comparison pricing of REITs vs. Unlisted Funds 2006-2011



Source: JLL, Macquarie Research, EPRA

What is noticeable about this chart is the strong correlation (81%) in pricing between the two sectors in the period from September 2006 to October 2009. So far so good, but why then did the relationship break down from September 09 until recently, when does it resume? The answer, in our view is straightforward, and reflects the fact that the more liquid and continuously traded REITs were subject to all the macro influences impacting equities (rising oil prices, sovereign bail-outs, political upheaval etc) during 2010, while the unlisted funds' pricing remained more narrowly focused on the outlook for the recovery in commercial property values.

3) Relative Liquidity levels of listed and unlisted

Given that the benefit of liquidity comes with the cost of higher price movement, what are the relative liquidity levels?

According to Ashley Marks of Jones Lang LaSalle who are active in secondary trading in the unlisted market there was around GBP 1 billion traded in the secondary market in 2010, which was split broadly evenly between transactions executed by brokers and those executed principal to principal. Activity has clearly picked up over recent years, and IPD are set to provide a new Investible fund Index benchmark which will comprise only those Funds which are open to new investors. The liquidity available in the REIT sector should not be underestimated. Using British Land as an example, in the week that Lehmans were declared bankrupt (Sepember 15, 2008) the average daily value traded in British Land securities was above GBP 50 million, and that the total value traded in British Land shares in 2010 was GBP 4.5 billion. The current annual velocity of British Land free-float shares is approximately 95%. On average, velocity of the constituents of the FTSE EPRA/NAREIT Europe Index was in the range 70-100%.

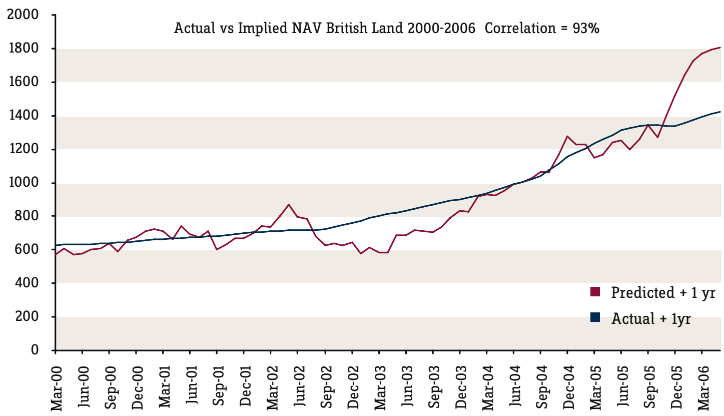
4) What is the predictive power of REIT prices in forecasting future movements in their underlying NAV, and therefore the direct property market?

We have split our analysis of the UK into pre and post REIT conversion, using a single stock example (British Land) to show how accurately the prevailing share price was forecasting future capital value movements, via the NAV. For the period 2000-2006 we have analysed the average discount to the actual NAV in 12 months on a monthly basis (= 41.9%). This high discount reflects not only the fact that there were contingent CGT liabilities, but also for at least half the period the sector was completely out of favour, during the TMT boom.

We have then multiplied the share price by the reciprocal of the discount to see what NAV the share price is forecasting. Finally, we have compared the implied NAV outcome with the actual, as shown below, and performed a simple regression analysis. As can be seen the relationship is very good, with a correlation of 93%, and indeed only shows a 'disconnect' during 2006, when the sector reacted positively to the forthcoming REIT legislation.

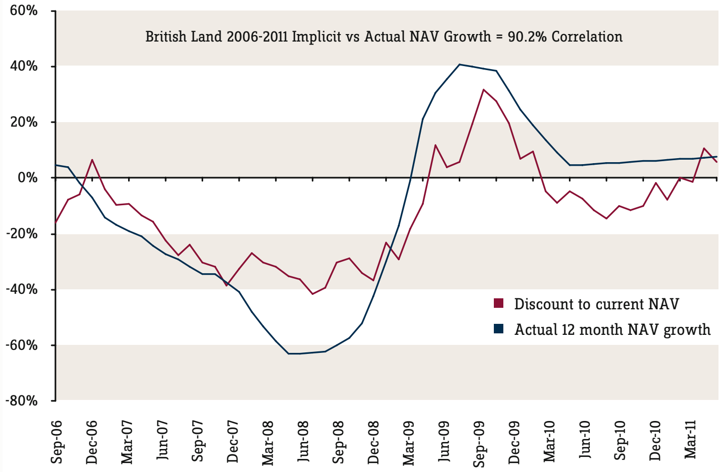
The shortcomings of the accuracy

Fig 2: Comparison of actual vs. implied NAV movements British Land 2000-2006



Source: Macquarie Research, company data

Fig 3: Comparison of actual vs. implied NAV movements British Land 2006-2011



Source: Macquarie Research, Company data

of forecasting in this period were clearly the variance of the discount over time, and the fact that companies would have different levels of contingent CGT in their portfolio. Post REIT conversion, however, the exercise becomes far simpler. Assuming that, inter alia, the REIT price is anticipating the NAV in the next 12 months, and given that there are no CGT issues, it can be assumed that the discount/premium of the share price to the current NAV reflects the level of value change anticipated in the NAV + 12 months. Therefore we plotted the discount/premium to current NAV and plotted this against the rolling 12-month change in the underlying NAV.

For the period from December 2010 (the last stated NAV) we have taken Macquarie forecasts. As can be seen the equity valuation is an extremely accurate predictor (90% correlation) of the eventual NAV outcome.

5) What is the relationship between dividend yields and both Government bond yields?

The other key metric in terms of pricing signals is the level of dividend yield to the local Government bond yield. We show below the long-term trend for the UK. As can be seen clearly, the long-term average is for property securities yields to trade below Govt bond yields (NB this is predominantly pre REIT conversion data). Notwithstanding the unprecedented downward movement in Govt bond yields as a result of QE, when dividend yields start moving up significantly above the long-term average, it gives a clear indication that declining capital values, and reduction in dividends is imminent. The current situation reflects the market expectation that bond yields are set to rise from their current level of 3.5%-3.7% to a more 'normalised' 4.5%-5.0% over the medium term.

6) Does the listed debt market provide a viable investment option?

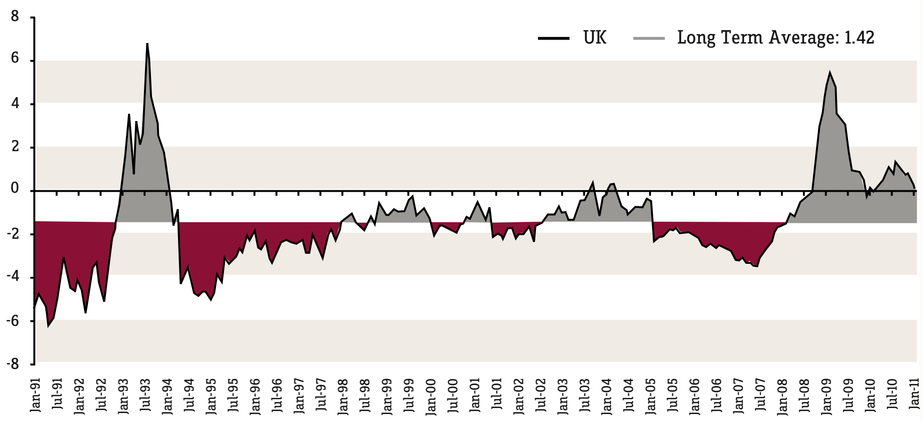
In Europe the capital raised since 2H has been focussed more on the corporate bond market rather than the equity market, taking advantage of current low benchmark rates. The listed debt element of the four quadrants is therefore increasing in importance as an investment option. In Europe we estimate that the size of the bond market, based on the constituents of the FTSE EPRA/NAREIT Europe Index, is in the region of USD 30 billion, or over 120 separate issues.

From the total list the issuance is heavily skewed to the larger names - as you might expect. France driven by Unibail-Rodamco, Klepierre and Gecina, comprises 40% of the total. The UK, due to a large extent to Land Securities, British Land, Hammerson and SEGRO totals approximately 33% of the issuance. It should be noted that European bond issuance in 2010 almost matched its 2006 high and we expect this trend to continue as the private debt market remains difficult.

The top 20 corporate bond issuers[3] comprise approximately half of the total market (USD 14 billion). The weighted average coupon of the top 20 is 4.7% with a current weighted average yield of 4.25%. The weighted average maturity is 2020 with a modified duration of 6.1[4]. All of the bonds are rated by one of the major agencies, with the exception of the British Land debenture >

[3] In this table we exclude convertible bonds. Convertible Bonds make up around 18% of the total value.
[4] Modified duration is a price sensitivity measure that estimates the rate of bond's price change with respect to changes in yield. In simple terms, for every 100 basis points change in yield, the bond price will change by the modified duration - in percentage terms. In the case of this portfolio, a change of 100 basis points results in a price shift of around 6%.

Fig 4: Long term div yield vs. ten-year bond yield



Source: Bloomberg, Macquarie Research, March 2011

Fig 5: Top 20 European corporate bond issuers

RANK	ISSUER	CPN	FIX	YR MTY	CRNT YLD	MODIFIED DURATION	US $ VALUE	RATINGS FITCH	S&P	MOODYS
1	Land Securities	5.39%		2027	5.13%	10.64	979	AA	AA	
2	Klepierre	4.00%	Y	2017	4.36%	5.21	954		BBB+	
3	Hammerson	4.88%	Y	2015	4.09%	3.76	954	BB+		Baa2
4	Klepierre	4.25%	Y	2016	4.04%	4.44	940		BBB+	
5	Unibail-Rodamco	3.38%	Y	2015	3.43%	3.67	866	A+	A	
6	Klepierre	4.63%		2011	1.79%	0.3	818		BBB+	
7	Land Securities	5.13%	Y	2036	5.22%	13.8	807	AA	AA	
8	Gecina	4.50%	Y	2014	4.18%	3.19	682		BBB-	Baa3
9	Gecina	4.25%	Y	2016	4.78%	4.3	682		BBB-	Baa3
10	Unibail-Rodamco	4.00%	Y	2011	1.79%	0.58	682	A+	A	
11	Unibail-Rodamco	4.63%	Y	2016	3.83%	4.83	682	A+	A	
12	Unibail-Rodamco	3.88%	Y	2020	4.38%	7.78	682	A+	A	
13	Gecina	4.88%	Y	2012	2.55%	0.81	674		BBB-	
14	Land Securities	4.88%		2019	3.61%	6.97	646	AA	AA	
15	British Land	5.26%	Y	2035	6.22%	12.92	533			
16	Land Securities	5.40%		2032	5.40%	12.48	521	AA	AA	
17	British Land	5.36%	Y	2028	6.12%	10.47	502			
18	Hammerson	5.25%	Y	2016	4.72%	4.84	484	BBB+		Baa3
19	Hammerson	6.00%	Y	2026	5.94%	9.73	484	BBB+		Baa3
20	SEGRO	6.75%	Y	2021	5.90%	7.49	483	A-		
	Top 20 Average	**4.73%**		**2020**	**4.25%**	**6.13**	**14,053**			

Source: EPRA, Reuters, Bloomberg, Co Accounts

issues. We believe that a portfolio of corporate bonds issued by the major real estate companies in Europe offers investors many opportunities.

In addition to the listed bond market, there are signs that the convertible market is increasing in favour, and we show below the leading Convertible issues in Europe.

We believe that this section of the research illustrates:

1) Property securities are an extremely accurate indicator of future value changes in the direct property market. As a result they can be used by portfolio managers in a tactical and strategic way to complement direct property / unlisted investments.

2) Listed and unlisted show a high degree of correlation in valuation terms for the majority of periods, with the listed sector having a significant liquidity advantage.

3) The listed debt market in Europe is growing, and offers a viable investment alternative to complement listed and unlisted exposure.

UK Debt - the refinancing mountain and opportunity

The primary source for analysing the existing market is the De Montfort University report which details the structure and maturity of the lending market in the UK. The headline figure is that with almost 70% or GBP 160 billion of the UK's senior and CMBS due to be repaid in the next five years, the main question is how long can the bank's strategy of 'extend and pretend' continue, and with a lack of debt availability at loan maturity, what refinancing options are available?

Contrasting structures in the UK and US

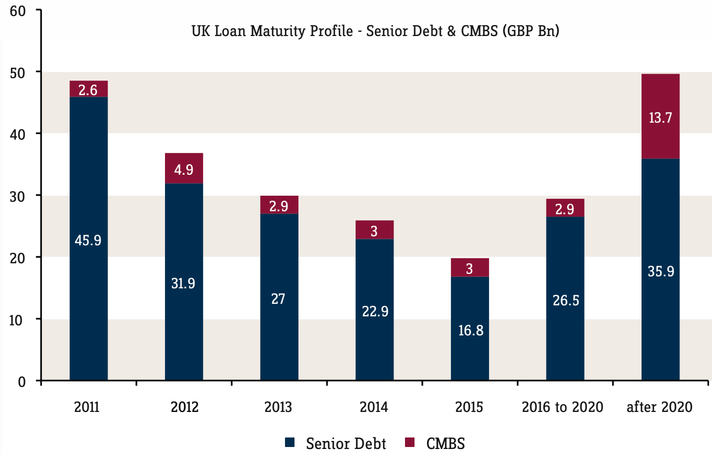
According to a report by DTZ in May 2011, outstanding debt in Europe is made up of 75% bank loans, 18% covered bonds and 6% CMBS. In North America the split is a little more diverse - 55% bank loans, 22% CMBS, 21% Insurance companies and other institutions and 2% covered bonds. Looking forward, we expect Europe to become more diverse - perhaps moving towards the North American split, as securitised options replace traditional lending. The intentions of major players like the Royal Bank of Scotland (RBS) and National Asset Management Agency (NAMA) are likely to shape the way investors gain exposure to property debt, replacing bank lenders in the future.

Fig 6: European convertible Bonds

ISSUER	CPN	MTY	CONVERTIBLE PRICE	EQUITY PRICE	CONVERT RATIO	PARITY	PREMIUM	OUTSTAND US$m
Unibail Rodamco	3.50	2015	203.00	149.95	1.23	184.44	10.06%	$784
Gecina	2.13	2016	120.00	96.25	1.06	102.03	17.62%	$436
Beni Stabli	2.50	2011	99.75	0.72	100.00	71.90	38.73%	$388
Swiss Prime Site	1.88	2015	106.37	72.35	1.39	100.64	5.69%	$317
IGD	3.50	2013	94.87	1.56	36.36	56.84	66.91%	$314
								$2,239

Source: EPRA, Reuters, Bloomberg

Fig 1 - The refinancing mountain – UK Property Debt Maturity Profile



Source: De Monfort University

Current transactions – a shape of things to come?

RBS currently has a GBP 1.6 billion loan portfolio (Project Isobel) up for sale, with Blackstone, Lone Star, Starwood Capital and Westbrook Partners all shortlisted investors. If the deal is successful, it could lead the way to further deals as RBS looks to wind down its GBP 44 billion of non-core property loans.

Part of the reason why the sale has taken so long to come to a conclusion is because RBS and its advisers have spent a long-time fine-tuning the structure to ensure the bank takes the smallest possible write-down. In this case, rather than selling down the equity in the portfolio in one go, RBS will first sell down between 25% and 50% of the equity into a fund-like structure, and retain the remainder itself. This will be secured against the highest-risk, highest-return portion of the loan portfolio. Second, RBS will sell down the remainder of the equity, preferably to institutional investors, over a period of several months. This will allow it to reduce the write-down it takes and smooth it out over several quarters and also sell parts of the portfolio to investors with a lower cost of capital.

The regulatory impact

Solvency II, as currently constituted, is likely to encourage EU insurance companies to switch from direct real estate allocations which will be subject to a 25% capital requirement to investment in real estate via lending. For example, UK insurers' holdings of secured debt have declined to an historic low of 2% of total assets. Theoretically UK insurers could lend up to GBP 30-45 billion to real estate in the UK, however the current lack of platform, processes and in-house real estate lending expertise could act as a constraint.[5]

In an IPD survey, 18 EU insurers shared a commitment to property, both as a risk diversifier and secure income delivery – a move into this space would fit that bill. Insurances companies like AXA, Allianz, Canada Life, Aviva, Met Life and Legal & General have already announced their intention to be active in originating senior debt of being participants in syndicated loans throughout the UK and Europe. It is clear that insurers will play an important role but we believe it is optimistic to expect to the extent indicated above.

An underdeveloped CMBS market

The UK CMBS market remains fairly stagnant and the pipeline of potential transactions remains extremely thin. Some CMBS instruments have secured extensions or have been restructured and changes in pricing are making new CMBS issues potentially viable. In the US, investor demand for CMBS has re-opened the market, with enhanced levels of transparency, reporting and mark-to-market relative to the UK. >

[5] Taken from Credit Suisse presentation at the EPRA Reporting Summit - May 2011.

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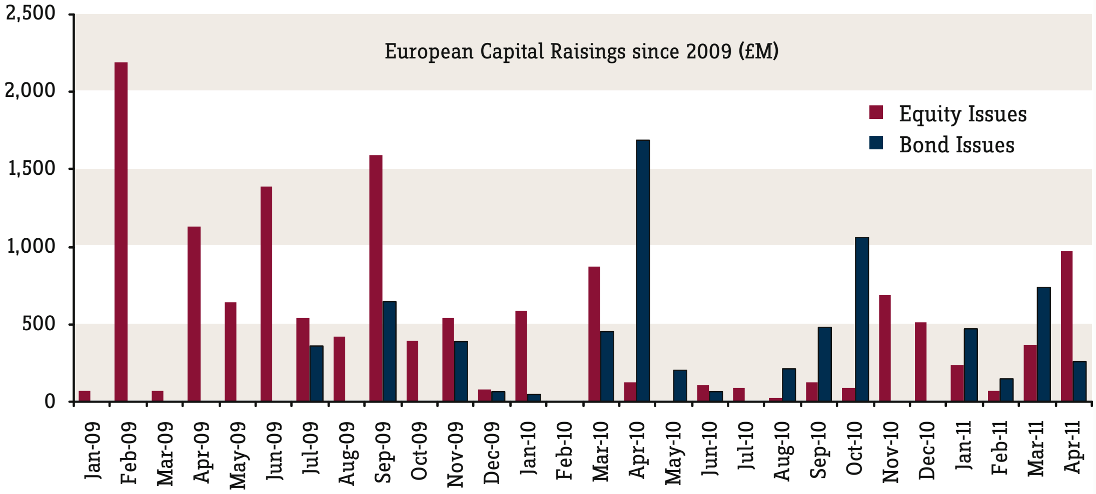
Fig 2 European listed sector capital raisings since 2009 (£m)



Source: Macquarie Research, Company data

It is estimated that USD 35-50 billion will price in 2011.[6] US CMBS 3-5 year AAA spreads are currently sub-200bps – European evident are currently just under 400 bps. Re-cap: spreads were 14-16 bps during the peak! For the UK to progress, investors will demand more conservative structures and greater disclosures compared against pre-crisis years. New UK CMBS are likely to contain single assets only – such as the Chiswick Park GBP 300 million (three tranche) CMBS currently marketed by Deutsche Bank. The AAAs are priced at 175bps over LIBOR.

Mezzanine Fund – filling the gap

According to Credit Suisse there are 38 UK funds currently trying to raise approximately GBP 10 billion of equity for mezzanine-style investors; although experience suggests that many of these may in fact not launch. Some 12 funds have achieved a first close – securing GBP 2.2 billion, with target returns in the range 7-20%. Only 11% of the equity is clearly earmarked for the UK. In a recent deal, GIC agreed to loan GBP 60 million to Blackstone as part of the Chiswick Park transaction. We believe this will only play a relatively minor role going forward although its popularity as an asset class within a Fund structure is increasingly popular.

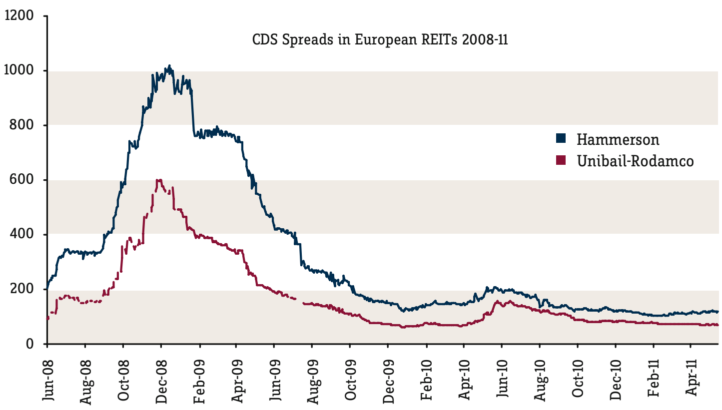
The covered Bond market

German Pfandbriefe operate under stringent regulations – with asset quality monitored by regulators and third party audits undertaken to ensure compliance. In 200 years there has not been one default. UK covered bonds attract a substantial amount of their demand from EUR- or USD-denominated investors, however they do not offer much granularity in the product for investors. The Bank of England supports the development of the UK-covered bond market in a bid to help lenders raise the funds required to lend. Developments in this area will not reduce bank's exposure to real estate but at least place some liquidity in the market.

Increased use of Debt Capital markets by REITs

For listed property owners the debt capital markets have become increasingly popular. Issues have picked up particularly in 2011, and we would expect issuance to continue throughout 2011 and beyond as companies seek to refinance existing facilities and rebalance their debt capital structure. The chart below the level of debt and equity issuance by listed European real estate companies since the beginning of 2009.

Fig 3 European REIT CDS spreads 2008-11



Source: Macquarie Research, Bloomberg

[7] Thames River Capital has a long history with 'hybrid' or 'blended' property investment. The TR Property Investment Trust (managed by TR since 1996) and the Property Growth & Income Fund (launched 2005), are long only physical and listed real estate securities funds.

[8] Legal & General recently announced the launch of their Hybrid Property Fund with UK DC pension schemes in mind. The strategy combines UK direct and global indirect funds (FTSE EPRA/NAREIT Global Index) and according to the manager provides greater diversification and liquidity, while reducing fund expenses and the entry and exit costs typically associated with direct property investment.

From an investor perspective, one would expect liquidity in the secondary market to deepen as more investors play an active role.

Trading CDS spreads

At the more exotic end there has been interest in derivative instruments generally, and within the debt market specifically, CDS spreads. However, as can be seen below these are shorter-term trading instruments predominantly suitable at times of financial crisis only, although on a company-specific basis they have attractions.

Summary

It is clear that a broad range of investors have re-examined their overall real estate strategies post-crisis, and pre implementation of Basel III and Solvency II. The over-riding theme is to group together real estate departments that have historically operated independently. The aim is to bring all real estate disciplines under one roof and use alternative forms of investment vehicles to achieve optimal portfolios through the real estate cycle. This approach is exemplified by hybrid property funds such as those managed by the likes of Thames River Capital[7] and more recently Legal & General[8] to strategies straddling both debt and equity.

We expect public debt to play an increasing role in the future and growth of the bond and convertible bond market in Europe over the past three years is a clear reminder. From an investor perspective, one would expect liquidity in the secondary market to deepen as more investors play an active role. The lending markets will remain difficult - availability of debt will decrease and the cost of debt will likely increase.

We expect more influence from the insurers as the banks try to navigate their way in the coming years - by choice or design, the banks will not return to historic levels of lending. However, we believe that listed real estate companies will enjoy a competitive advantage in their ability to access a diverse pool of capital and offer investors attractive opportunities on both the debt and equity side of the balance sheet.

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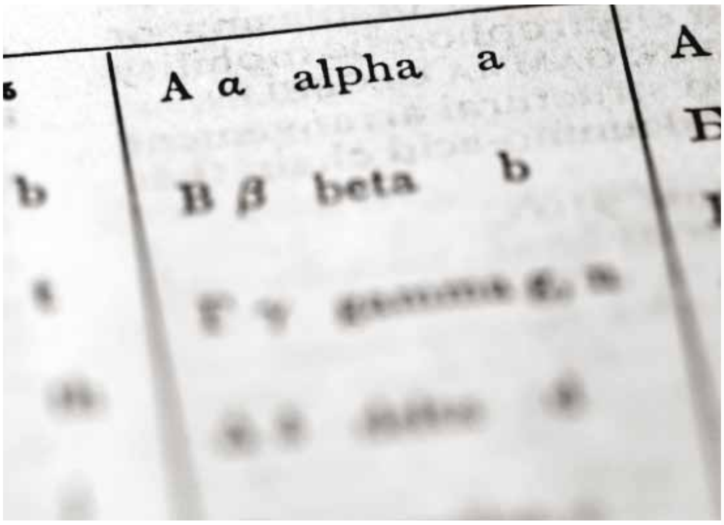
WHEN STRαTEGIES EMERGE

Emerging markets as an alpha-generating global subset.



The emerging markets real estate securities universe has grown considerably over the last seven years, generating unique investment opportunities and attracting interest not only from the global real estate securities industry but also from the global general equities industry. Over the past few years, Global Real Estate Securities (GRES) managers have been seeking investment ideas within the Emerging Markets Real Estate Securities (EMRES) universe to deliver an alpha component to their global real estate portfolios.

We would go even further and claim that there is a standalone investment opportunity utilising EMRES for funds-of-funds, high net worth individuals as well as institutional investors. This opportunity provides an unexploited structural growth opportunity with access to emerging markets traditionally inaccessible via private real estate funds, offering benefits from risk diversification and lower intra-market correlation.

From the end of 2004, when real estate markets started to see significant growth in the number of listed companies, until the end of April 2011, EMRES delivered an annualised price appreciation of 12.7% in USD as measured by the Emerging Markets FTSE EPRA NAREIT Index (FENEI ticker)[1] versus a total return of 5.9% in USD for the developed markets as measured by FTSE EPRA NAREIT Global Developed Index (RUGL ticker). Some investors argue that given the higher volatility in the emerging markets, investors were not rewarded with higher risk-adjusted returns during this time period. We argue that volatilities between emerging markets and developed markets have been converging, confirmed by the performance analysis of the above-mentioned period.

Weekly return data suggest that the above-mentioned returns were achieved with 30.4% annualised volatility for the emerging markets and 26.1% annualised volatility for the developed markets. Hence, investors were indeed able to reap benefits of higher alpha generation in EMRES. We believe that this investment opportunity has not been fully accessed yet, and the ability to reap outsized investment returns on a risk-adjusted basis continues to exist.

This is further supported by the possible convergence of valuation multiples between developed and emerging markets. We are not calling for full convergence, given the difference in cost of capital for emerging markets companies compared to those in developed markets. We do believe however that gradual re-rating of multiples in emerging markets to levels above their historical averages should occur given the higher growth premiums and the imbalance of available supply and pent-up demand for real estate space in the emerging markets contrasted with the relatively lower growth rates and subdued demand for real estate space in the developed world.

Additionally, the developed market price to earnings multiples could witness gradual retrenchment

[1] Please note that the FENEI index is a price appreciation index only (not total return). The history of the total return index on Bloomberg only goes back to 2008 hence for simplification purposes we use the FENEI index instead understating the return by annual dividend return (ca in the 2-3% range).

relative to their historical levels, especially as the developed world enters the tightening cycle and the developed markets' cost of capital begins to increase.

How different is investing in emerging markets than in developed markets?

One factor when investing in emerging markets is the challenge in accessing information and the constantly changing nature of the real estate universe in these jurisdictions. It is fair to say that the majority of real estate companies in the emerging markets listed space are nascent and have limited experience complying with public markets requirements. However, these companies have demonstrated quick progress up the learning curve and have generally improved their level of disclosure.

Most of these companies originated as family-run companies with the relatively high sponsors' ownership stake that limits free-float of shares and liquidity for outside investors. Family ownership can be both a positive and a negative, as it could lead to problematic situations in which managers lose focus but could equally align family and shareholder interests.

Good governance?

Corporate governance has often been raised as a major deterrent to investing in many of the emerging markets highlighted above. As global investors, we would like to point out that this issue is not unique to the emerging markets but is a global issue overall. Comfort with management teams is one of the key variables in the underwriting process, as are risk assessment and investment pipeline feasibility. In India specifically, we have recently witnessed a series of investigations into corporate governance and applied practices in the real estate sector. Despite only a few companies involved in the investigation process, the market correction was undifferentiated as many companies with strong management teams were unduly negatively impacted.

In India, we see these companies as particularly attractive investment opportunities. Within the broader emerging markets universe, a number of companies are transparent entities adhering to sustainable development programs, fostering independent boards, and contributing to social and philanthropic activities. Although we take the issue of corporate governance very >

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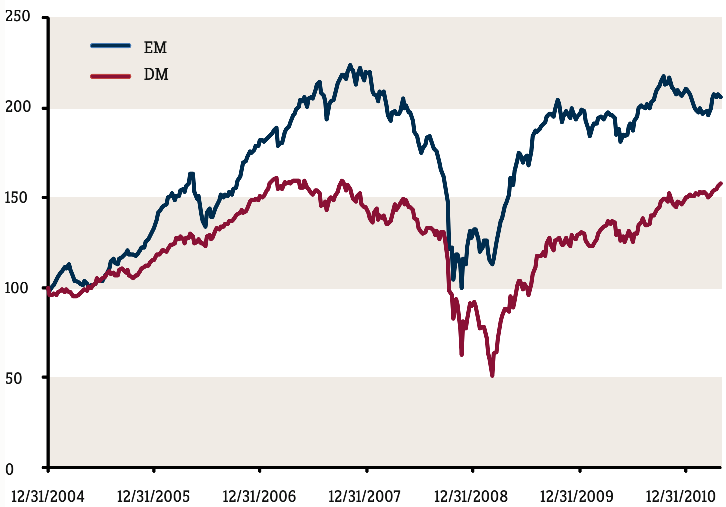
Cummulative Performance (2004-2010): Emerging Markets vs. Developed Markets



Source: Bloomberg.
Notes: For charts above, Developed Markets ("DM") as measured by FTSE EPRA NAREIT Developed Markets Index (RUGL ticker, total return version). Emerging Markets ("EM") as measured by FTSE EPRA NAREIT Emerging Markets Index (FENEI ticker, price only version).

Market Performance

COUNTRY	2011 YTD	2010	2009	2008
Argentina	-17%	69%	131%	-71%
Chile	-3%	122%	165%	-65%
Brazil	2%	42%	287%	-74%
CEE, Russia, Turkey	13%	15%	169%	-77%
China	0%	-5%	133%	-66%
India	-15%	-3%	136%	-78%
Indonesia	6%	53%	162%	-64%
Malaysia	11%	43%	76%	-45%
Mexico	-10%	-3%	67%	-67%
Middle East	-11%	3%	31%	-45%
Phillipines	-3%	80%	117%	-65%
South Africa	-2%	40%	45%	-32%
South Korea	-4%	11%	73%	-65%
Taiwan	-3%	32%	85%	-22%
Thailand	16%	60%	160%	-59%
Total	**0.24%**	**21.49%**	**129.20%**	**-60.53%**

FSL universe, simple averages, in USD

INDEX PERFORMANCE	2011 YTD	2010	2009	2008
Total	**-4.19%**	**15.21%**	**84.15%**	**-64.17%**

TENEIU Index used for performance in 2011 and 2010. FENEI Index in USD used for performance in 2009 and 2008.
Source: Bloomberg. Notes: TENEIU is total return index which was launched at the end of 2008; for previous periods only price appreciation version of the index is available thus for illustrative purposes we use the FENEI Index

seriously, we believe the overall perception of questionable corporate governance has put an unjustified stigma on the sector as a whole.

Most of the emerging markets companies undertake development activity which entails higher risk, per se. Furthermore this development activity is usually concentrated in the residential sector with over 50% of the universe heavily exposed to homebuilding, which coincides with the investment opportunity set in demanded residential sector. Today, the number of companies with stabilised income-generating asset portfolios is fairly limited, even though many companies have been embarking on investment portfolio build-up as they reinvest their gains from development activity.

Additionally, a majority of these companies are not tax-efficient real estate trusts, as just a few emerging markets have real estate trust laws or similar REIT-like structures in place. For instance, Malaysia, Mexico, South Africa, Thailand, Taiwan and Turkey do have REIT structures, but many of them exhibit limitations. Also, the number of listed entities providing stable dividend distributions is quite limited.

All these factors point to the somewhat opaque nature of investing in the emerging markets and need to be well understood prior to investing. Allocation of time and resources, an on-the-ground presence, as well as company visits are key elements that will drive the success of investment decisions. When properly understood, the market mispricing and inefficiencies of these seemingly non-transparent entities can lead to identification of interesting investment opportunities and excess alpha generation.

Although we take the issue of corporate governance very seriously, we believe the overall perception of questionable corporate governance has put an unjustified stigma on the sector as a whole.

What is the correlation between emerging markets real estate securities and general equities? Do these suggest investment benefits?

Our research suggests that the degree of intra-market correlation is lower in the emerging markets than the intra-market correlation in the developed world. While correlations in the developed world tend to hover around 85%, in the emerging markets they are closer to 30-40%. Similarly, correlations in the EMRES relative to their domestic equity market counterparts are lower at around 70%. These figures do suggest diversification benefits from portfolio construction and asset allocation perspectives.

Can emerging markets real estate securities be accessed via general equities emerging markets funds or private equity funds?

We would argue that real estate securities are under-represented in global emerging market equity indices with only a 3% weight. Thus, general equities emerging markets funds do not do justice to investing in real estate securities. Additionally, most private equity funds only offer exposure to the bigger emerging markets like China, India or Brazil. Today, very few private equity funds offer meaningful access to what we call frontier markets like Chile, South Africa, Malaysia, Philippines or Indonesia, mostly due to a lack of potential exit routes. At different points in time, investors may want to access these markets via public markets allowing benefits of diversification and a liquid exit option. We believe EMRES offer a liquid option or even a short-term access option if needed.

COUNTRY	ARGENTINA	CHILE	BRAZIL	CEE	CHINA	INDIA	INDONESIA	MALAYSIA	MEXICO	M. EAST	PHILIPPINES	S.AFRICA	S. KOREA	TAIWAN	THAILAND	DM R.EST.
Argentina	1															
Chile	0.39	1														
Brazil	0.50	0.54	1													
CEE	0.57	0.39	0.54	1												
China	0.39	0.45	0.45	0.44	1											
India	0.61	0.41	0.65	0.42	0.51	1										
Indonesia	0.16	0.25	-0.14	0.16	0.23	-0.12	1									
Malaysia	0.15	0.50	0.50	0.27	0.28	0.54	-0.02	1								
Mexico	0.62	0.38	0.56	0.57	0.29	0.55	0.15	0.34	1							
Middle East	0.57	0.52	0.45	0.53	0.44	0.47	0.29	0.13	0.67	1						
Philippines	0.55	0.41	0.52	0.38	0.27	0.70	0.05	0.29	0.67	0.49	1					
South Africa	0.12	0.24	0.19	0.16	0.45	0.22	0.46	0.32	0.16	0.12	0.27	1				
South Korea	0.26	0.31	0.43	0.31	0.05	0.13	0.03	0.44	0.19	-0.01	0.20	0.09	1			
Taiwan	0.56	0.23	0.31	0.17	0.44	0.57	0.04	0.02	0.39	0.36	0.45	-0.13	0.02	1		
Thailand	0.60	0.36	0.61	0.40	0.38	0.72	-0.02	0.26	0.57	0.47	0.62	0.11	0.26	0.49	1	
DM Real Estate	0.55	0.44	0.79	0.60	0.40	0.81	-0.08	0.48	0.68	0.60	0.69	0.22	0.29	0.41	0.77	1

Source: Bloomberg. Note: Three year correlations above were calculated using local real estate indices subject to their existence and local general equity indices; where local real estate indices were not available substituted with representative real estate large caps to derive results.

How have emerging markets performed in the pre-crisis and post-crisis environment?

It will not come as a surprise that in the years 2004 through 2007 when high beta investments were favoured by the investor community, emerging markets outperformed the developed markets three times on a risk-adjusted basis. Emerging markets delivered a cumulative return of 207% with an annualised standard deviation of 22% and the developed markets delivered a 51% cumulative return with 15% volatility. Not surprisingly, emerging markets underperformed in 2008 as the lower liquidity profile, risk-off trade and fear of development exposure put downward pressure on performance.

Emerging markets sold off 64% compared to the developed markets at 48%. To the surprise of many, emerging markets represented the first subset of the investment universe to recover post-crisis. To that point, Chinese real estate developers started the recovery in the fourth quarter of 2008. In 2009, emerging markets witnessed a V-shaped recovery with a stunning 83% return (relative to a 38% return for the developed world).

A number of emerging markets real estate companies actually managed to surpass their previous valuation peak in 2009 and 2010. Since 2010, emerging markets lagged the developed world delivering a 15% return in 2010 (versus 20% for the developed markets) and -4% year-to-date return in 2011 (versus +8.2% for the developed world). The underperformance in the emerging markets universe is due primarily to tightening bias as these countries began to tackle inflationary pressures and implement selective policy measures to prevent the formation of residential bubbles.

We conclude that the cycles between emerging and developed markets differ: the peak in developed markets was achieved prior to the emerging market's peak. Emerging markets bottomed earlier and reached their peaks earlier. Even though EMRES witnessed sharper correction, EMRES were able to recover faster. The peak to trough decline from today's point of view has been similar, around 20%, as the below numbers suggest.

Additionally, we would argue that sophisticated investors with global real estate portfolios should seek emerging markets portfolio inclusions due to the different timing of cycles and lower correlation benefits highlighted above.

Are there indices that offer reliable benchmarking?

From 2004 to 2008, there was no reliable emerging markets benchmark against which investment manager's performance could be compared. The efforts undertaken by EPRA to develop an emerging markets index have been broadly welcomed by the client, investor and consultant communities. The index was

>

Real Estate Markets vs. Underlying Domestic Equity Markets

COUNTRY / 3 YEAR CORRELATIONS	
Argentina	0.80
Chile	0.51
Brazil	0.83
CEE, Russia, Turkey	0.76
China	0.73
India	0.89
Indonesia	0.20
Malaysia	0.65
Mexico	0.77
Middle East	0.72
Philippines	0.75
South Africa	0.25
South Korea	0.52
Taiwan	0.57
Thailand	0.75
Total	**0.65**

Source: Bloomberg.
Note: Three year correlations above were calculated using local real estate indices subject to their existence and local general equity indices; where local real estate indices were not available substituted with representative real estate large caps to derive results.

MARKETS	DATE	INDEX VALUE
DM pre-crisis peak	22/02/2007	3965.53
DM bottom	09/03/2009	1121.97
DM recent peak	31/05/2011	3160.49
EM pre-crisis peak	06/11/2007	4141.53
EM bottom	21/11/2008	1048.53
EM recent peak	13/10/2010	3091.87

Source: Bloomberg (DM = RUGL Index, EM = FENEI Index) launched by the end of 2008 and the EPRA committee has been working hard to fine tune and improve the index over last 18 months. Today, EPRA's emerging markets index is the most suitable index for benchmarking purposes offering a range of back-tested performance series.

There are still a few issues to be resolved over the coming quarters and we trust EPRA's emerging markets index will be the proxy going forward. From our managerial perspective we see three areas that could eventually be addressed. We think that the China weight is under-represented within the benchmark (which we believe EPRA is going to address via inclusion of H-shares.) Relative to China and India, Brazil seems over-represented in the index at 30% and similarly South Africa seems over-represented with around a 15% weight.

How do we define the emerging markets?

Our firm's definition of emerging markets includes companies with a dominant presence by asset location in emerging markets, regardless of the country of listing. For practical investment purposes, we look at companies with market capitalisation in excess of USD 100 million. Thus, a Chinese developer listed in Hong Kong, in our view, is an emerging markets company, as is a Russian developer listed on the AIM in London. A Singapore-listed entity with over 50% of its assets located in emerging markets would also be considered an emerging markets company. This is a very pragmatic definition of the emerging markets space with a looser interpretation of the investment subset than that used by FTSE EPRA NAREIT. Hence, our investment subset is larger than the one defined by the FTSE EPRA NAREIT index. We present the investment universe below and provide a comparison to the emerging markets universe as defined by the Emerging Markets FTSE EPRA NAREIT index.

Where do we see interesting investment opportunities today?

As we head into the second half of 2011, the outlook for emerging markets real estate securities is starting to look more attractive than the outlook for developed markets, specifically within the traditional

Emerging Markets Universe: FSL vs. FTSE EPRA NAREIT

	FSL RESEARCH		FTSE EPRA NAREIT EM INDEX	
COUNTRY	WEIGHT	NUMBER OF CONSTITUENTS	WEIGHT	NUMBER OF CONSTITUENTS
Argentina	0.20%	1	0.00%	0
Chile	0.60%	2	1.28%	1
Brazil	11.87%	25	31.60%	17
CEE, Russia, Turkey	8.17%	32	3.84%	8
China	37.30%	50	8.93%	7
India	7.22%	28	6.72%	13
Indonesia	2.06%	13	5.78%	9
Malaysia	4.36%	21	7.20%	12
Mexico	1.67%	5	5.24%	5
Middle East	9.53%	32	4.25%	3
Phillipines	4.24%	9	5.67%	6
South Africa	4.23%	12	13.90%	6
South Korea	3.45%	2	0.00%	0
Taiwan	2.39%	15	0.22%	1
Thailand	2.73%	13	5.37%	9
Total	**100.00%**	**260**	**100.00%**	**97**
LatAm	14.33%	33	38.12%	23
EMEA	21.92%	76	21.99%	17
Asia	63.74%	151	39.89%	57
Total	**100.00%**	**260**	**100.00%**	**97**

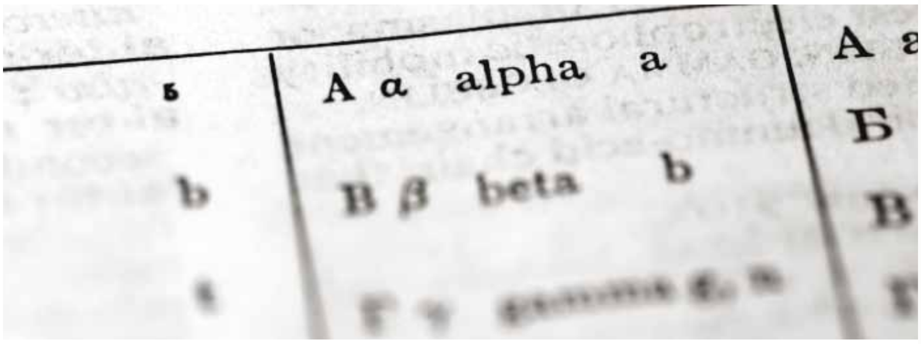
Source: FSL Research, EPRA

BRIC markets. We expect to see a reversal in the underperformance of the emerging markets during the past 18 months.

The tightening cycle in emerging markets, that caused major headwinds in performance, seems to be nearing its end. However, the developed markets will likely be challenged by the ending of quantitative easing and loose monetary policy. Our risk-adjusted returns currently suggest a 1000bps gap between the emerging and developed markets which suggests around a 20% absolute return for emerging markets. On a risk-adjusted basis, that would equate to around a 750bps spread or a 16% annualised absolute return in local currencies.

There is additional capacity for higher performance when considering potential emerging markets' foreign exchange gains. While in 2010 our investment team was more focused on investment opportunities in "frontier" emerging markets like Indonesia, Thailand and the Philippines, in 2011 they will likely see better risk-adjusted return opportunities in the major BRIC markets. We believe that the number of players and the emerging markets landscape will continue to grow and change.

Undoubtedly, there will be regions that will outperform and underperform and the spread between best and worst performing emerging markets will continue to be large. Yet, either scenario will present investment opportunities for outperformance. Unlike some sceptics, we believe that emerging markets real estate securities do not only represent higher beta but rather a higher beta with outsized alpha when a selective approach is applied.



Our experience suggests that the higher beta risk can be managed with selected hedging instruments without necessarily sacrificing long-term returns. In our investment experience, the partially hedged version of emerging markets securities portfolio actually offered superior risk-adjusted returns by not necessarily sacrificing absolute returns. We view the nature of the investment opportunity described above as a structural one rather than cyclical.

Jana Sehnalova
An Executive Director and Global Portfolio Manager at Forum Securities. In the past, Sehnalova extensively covered European, Australasian and emerging markets real estate companies and spent a significant amount of her time on the ground in the US, Europe and Asia. She holds an LLM in law *(summa cum laude)*, from Charles University's Faculty of Law in Prague, Czech Republic. She also holds an MBA from the University of Economics in Prague, where she participated in an MA exchange program at the University of North Carolina's Kenan Flagler Business School and an LLM exchange program at the University of Hamburg in Germany. Sehnalova speaks seven languages.

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As we head into the second half of 2011, the outlook for emerging markets real estate securities is starting to look more attractive than the outlook for developed markets, specifically within the traditional BRIC markets.

SMALL CAPS TOO OFTEN FALL UNDER THE RADAR?

Perception may be one thing, but the big numbers behind small caps shouldn't be ignored.

"As an investor, why would you bother to invest in small caps?" is a question which is often put to me as the former head of Kempen & Co's European Real Estate Research team. In running a multi-billion Euro real estate fund, it is indeed a very valid question, since small caps make up 39% of the number of companies, yet only account for 8% of the total market cap.

Consequently small caps need to significantly outperform to make a difference to investors' alpha on their total portfolio. "Liquidity is too low, so I can get in but I can't get out" is a sentiment often echoed when small caps are the focus of discussion.

However, closer examination of past data reveals that small caps can offer superior returns, and recent equity and bonds issues show that all companies from small to large caps can successfully tap the equity and debt capital markets. Specialised small caps with good management and good cash-flow returns form the basis of long-term value creation and should be considered as core holdings.

Optimising your portfolio via specialised smaller and medium-sized companies

European listed property companies are highly specialised and mainly focus on single sectors such as retail, offices, residential or industrial. Specialised companies enable investors to optimise their portfolios, allocating investments to those markets and sectors they believe will outperform based on cash-flow, revaluation of assets, increasingly important currency effects and other macroeconomic factors.

The three largest UK companies invest in both offices and retail, and have market caps between EUR 4 billion and EUR 7 billion. Only five out of the 30 UK companies that are included in the FTSE EPRA/NAREIT Europe index have a market capitalisation of more than EUR 2.5 billion. Smaller companies are highly focused on sectors such as student housing and self-storage, or only focus on specific submarkets, or in some cases just a few blocks in the London office market. As things stand, the vast majority of UK property companies only make domestic investments.

Most continental European office, residential and industrial companies invest in one-to-three countries. Only continental European retail companies have invested in multiple countries - and as a result now have sizable portfolios. Four out of nine of the largest continental European companies are pan-European retail companies, with the other companies focusing

European small cap real estate companies with market caps of less than EUR 500 million have outperformed larger companies in bull and bear markets since the end of 2004.

on the French office sector (three) and the Swiss office sector (two).

More than 80% of the companies in the FTSE EPRA/NAREIT Europe index have a market capitalisation of less than EUR 2.5 billion, and nearly half of these companies have a market capitalisation even less than EUR 500 million. Only 14 companies have a market capitalisation of more than EUR 2.5 billion, yet these companies account for 59% of the total EUR 119 billion market cap of the FTSE EPRA/NAREIT Europe index.

Small caps can generate superior returns

European small cap real estate companies with market caps of less than EUR 500 million (based on current FTSE EPRA/NAREIT Europe constituents) have outperformed larger companies in bull and bear markets since the end of 2004. The average total return in European real estate small caps was 213% during the period from the end of 2004 to the peak in February 2007, -58% from the peak to the trough of March 2009 and 190% from the trough to the writing of this article. In all three periods, small caps enjoyed superior returns than mid caps (EUR 500 million to EUR 2.5 billion) and large caps (more than EUR 2.5 billion).

The value-weighted average of small caps is however much lower, this is particularly evident in the last period which has seen some companies in the FTSE EPRA/NAREIT enjoying stellar performances e.g. UK Minerva (almost 1,500% total return), Quintain (more than 700%), TAG (425%, Germany), CA Immo (425%, Austria) and Société de la Tour Eiffel (413%). Moreover, the performance of small caps in the period from the end of 2004 to the trough in March 2009 was clearly superior to that of large and mid caps. The performance of the various categories has been more or less in line since then, yet it is interesting to note that a random investment of EUR 1,000 in March 2009 would have resulted in EUR 2,900 when investing in a small cap, EUR 2,570 in a large cap and EUR 2,290 in a mid cap.

The above is based on the current constituents of the FTSE EPRA/NAREIT, the market caps at the beginning of each period and the total return series in local currencies. We have not corrected for survivorship bias, since this is hardly in evidence with real estate companies having been able to tap the equity market even in times of economic headwind such as early 2009. Furthermore using current constituents we have not corrected for takeovers.

Equity markets always open to small and mid cap companies

Big is beautiful has been the rule of thumb for many years - with larger companies benefitting from economies of scale leading to efficient corporate structures having access to equity and debt capital markets, and more importantly being able to get sizable credit lines from banks. With banks scaling down their real estate loan books, such benefits traditionally enjoyed by the bigger companies have been on the wane.

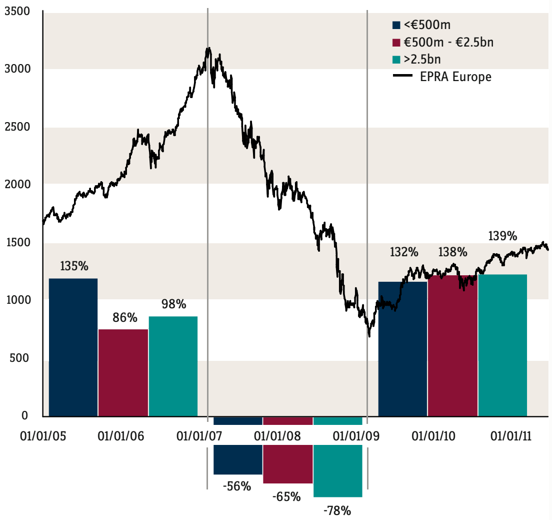
Equity capital markets have always been open to companies with a good equity story and they are likely to remain open with dedicated real estate investors taking on new investment opportunities to add to the >

EPRA small, mid and large caps in the EPRA Europe index

	SMALL	MID	LARGE	
	>€500m	€500m - > €2.5bn		Total
Total Market Cap (EUR billion)	9	39	71	119
% of Total	8%	33%	59%	100%
# Companies	31	35	14	80
	39%	15%	18%	100%
Average Market Cap (EUR million)	295	1,121	5,048	1,488

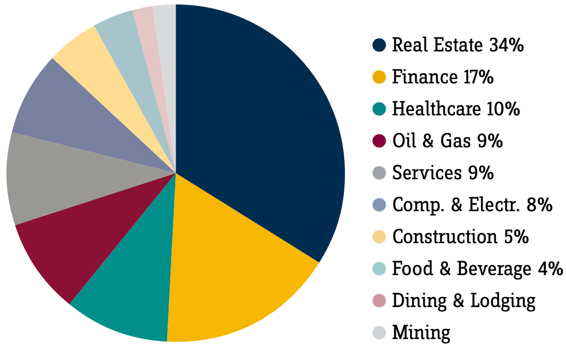
Source: EPRA and Kempen & Co

Value-weighted average total return of European real estate small, mid and large caps



Source: EPRA, datastream and Kempen & Co

European convertible bond issues, year-to-date



Source: Dealogic and Kempen & Co

Dick Boer
Executive Director Corporate Finance European Real Estate, has been with Kempen & Co since 2002. From 2006 to March 2011 he headed Kempen's award-winning European Real Estate Research Team. Dick was #3 Real Estate stock picker in Europe in 2010 by Starmine. Recently he advised: GSW on the largest IPO in Europe in 2011, the Prime Office IPO, Carrefour on the spin-off of Carrefour Property and on the largest cross-trade in Europe in 2011. Dick holds an MSc in Financial Econometrics from the Erasmus University of Rotterdam.

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other investments in their portfolios. In the last two years, a number of smaller and medium-sized companies have raised more than EUR 50 million in new equity including: Alstria (Germany), Beni Stabili (Italy), Capital Shopping Centres (2x UK), Citycon (Finland), Deutsche Europshop (Germany), Eurocommercial Properties (Netherlands), IVG (2x Germany), Liberty International (UK), Nieuwe Steen Investments (Netherlands), Norwegian Property (2x Norway), Shaftesbury (2x UK) and VastNed Retail (Netherlands). We exclude rights issues, which appear always possible as long as the discount is high enough.

Real estate companies are #1 convertible bonds issuers, year-to-date

The European real estate sector accounts for approximately one third of all convertible bond issues, year-to-date. Issuing convertibles is an attractive option for companies seeking to lower their coupons. The potential dilution effect is limited for companies that are currently trading at premiums to NAV and issue convertibles with strike prices at premiums between 12.5% and 35%.

Convertible bond investors, like all investors, look for liquidity, which makes convertible issues below EUR 100 million more difficult. Nevertheless the German company TAG was successful in issuing a EUR 70 million convertible to finance the public offer for German Colonia. Other medium-sized and smaller companies that have successfully tapped the convertible bond market include Beni Stabili (Italy), Cofinimmo (Belgium), conwert (Austria), Derwent London (UK), Immofinanz (Austria), Mobimo (Switzerland), Silic (France), and Wereldhave (Netherlands). Many of the above companies have been first time issuers.

Other debt instruments open to real estate companies

European real estate companies have not only tapped the convertible bond markets, but also have found their way to the normal bond market and the US private placement market. Most normal bond issues in the last 18 months have come in at or above market size (EUR 500 million) and have been issued by larger companies. Corio (Netherlands) SFL (France) and Gecina (in 2010 and 2011, France) did EUR 500 million issues. French companies Unibail-Rodamco (EUR 700 million and EUR 635 million) and Klepierre (EUR 700 million and EUR 200 million on July 2010) have issued multiple bonds. Medium sized and smaller companies have issued smaller bonds e.g. the Belgian Intervest Offices (EUR 75 million) and Befimmo (EUR 162 million).

Size does matter to ratings agents, and smaller companies thus opt not to apply for ratings and aim to issue bonds to retail investors (albeit at a higher cost). Intervest Offices is not rated and has issued five-year bonds at a 280 bp spread in June 2010.

While focus remains on the larger firms, there's a lively, well financed and versatile strata of investment potential beneath the surface going under-tapped, if not untapped, by many. Can you honestly say you have explored these opportunities?

Convertible bond investors, like all investors, look for liquidity, which makes convertible issues below EUR 100 million more difficult.

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Accommodation is limited, please register early!

Day One

ECONOMY, STRATEGY, INVESTMENT & SUSTAINABILITY

09:00	**EPRA Chairman & CEO Opening**
09:20	**Keynote Speaker: Ian Shepherdson (High Frequency Economics)**
10:10	**Panel Session I - Building on experience.**
	Moderator: Andrew Baum (Henley Business School). **Sam Zell, Leon Bressler**
11:00	**BREAK**
11:30	**CEO Conference Update - Christophe Kullmann (FDR)**
11:40	**Panel Session II - View from the bridge.**
	Moderator: Andrew Baum (Henley Business School). **Guillaume Poitrinal (Unibail-Rodamco), David Atkins (Hammerson), Alex Otto (ECE)**
12:30	**BPR Award:** In association with Deloitte
	Sustainability KPIs launch
13:00	**LUNCH**
14:30	**Concurrent Session I: Analyst Spotlight**
	Moderator - Patrick Sumner (Henderson). **Marcus Phayre-Mudge (Thames River Capital), Harm Meijer (JP Morgan), John Lutzius (Green Street), Timon Drakesmith (Hammerson)**
14:30	**Concurrent Session II: Update from the North America**
	Moderator - Steve Wechsler (NAREIT). **Michael Cooper (Dundee REIT), Don Wood (Federal Realty), Ron Havner (Public Storage)**
15:30	**Networking Break**
20:00	**Dinner - Natural History Museum**

Day Two

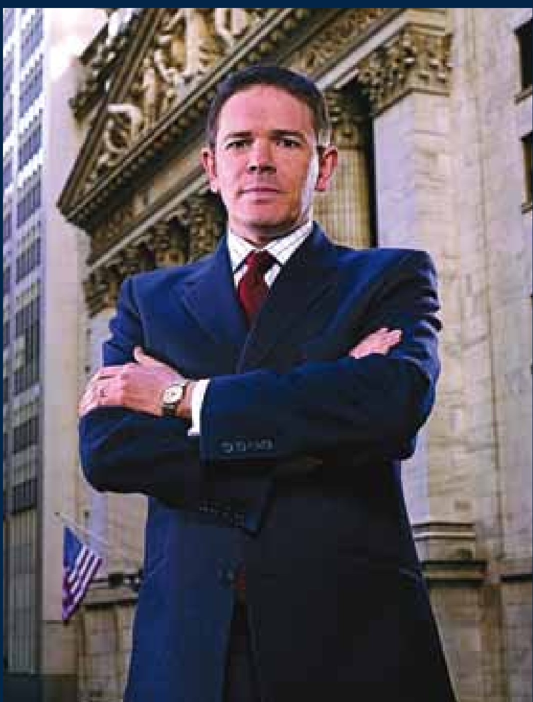
NEW BEGINNINGS

09:00	**Keynote Speaker: Lord General Richard Dannatt**
10:00	**Panel Session III - Unlock Germany: what can we do?**
	Moderator - Hans op't Veld (PGGM). **John Carrafiell (GreenOak), Ulrich Holler (DIC), Olivier Elamine (Alstria), Christian Ulbrich (JLL)**
10:45	**BREAK**
11:15	**Concurrent sessions - The future, with a small/mid cap focus**

1. Europe in 50 Years	**1. Healthcare**
2. Small/Mid Investors view	**2. Residential**
3. CEE Panel Discussion	**3. Business Parks**
	4. Logistics/Infrastructure

13:00	**Networking Lunch**
15:00	**Conference End**

CONFERENCE SPEAKERS



Day One Speaker
Dr Ian Shepherdson

Dr Ian Shepherdson is a foremost global economist who has been described by the London Times as one of "the best economists in the City". His publication, Daily Notes, in is widely read by investors, policymakers and dealers in 20 countries. Named top US forecaster of 2003 by the Wall Street Journal, he is frequently quoted in the UK and international press and has made many television and radio appearances.

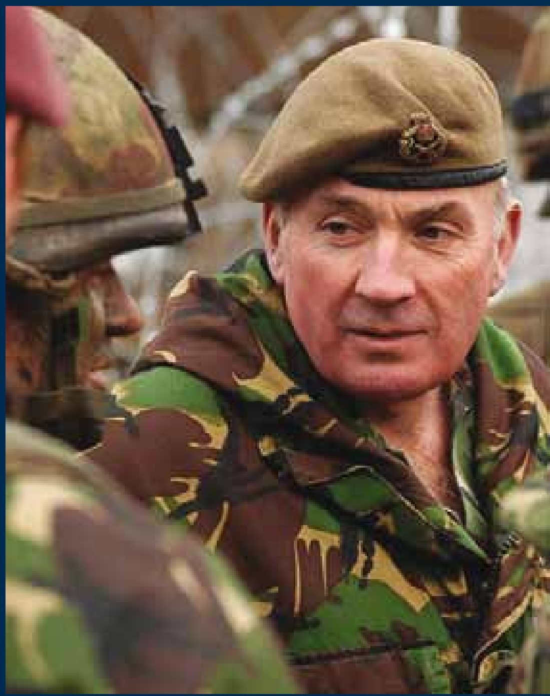
He offers a unique perspective on the economy and global financial markets. As one of the world's significant voices on the US & UK economy, he encourages organisations to grow globally in order to thrive. One of the first economists to argue, as early as the autumn of 2005, that the US housing market was facing a major collapse that would trigger a recession, he is a high profile British economist who offers some unique perspectives.

Day Two Speaker
General Lord Richard Dannatt, GCB, CBE, MC

Lord Dannatt is possibly the most successful Generals of our times. He was appointed Chief of the General Staff, the professional head of the Army, in 2006. He was a key advisor in David Cameron's defence team while the Conservatives were in opposition.

Lord Dannatt is ideally positioned to offer companies seeking advice on leadership and all global issues including risk and security, his analysis and assessment based on his British Intelligence and security expertise, (and he is happy taking questions right across the board). A decorated officer for bravery during a long illustrious military career, Lord Dannatt is renowned for his courageous words, standing up for issues he strongly believes in.

Included in his many prestigious appointments over the years, is the ceremonial position of Constable of the Tower of London. He is Chairman of the Durham Global Security Institute, a Trustee of the Windsor Leadership Trust, a Founder Patron of the Service charity Help for Heroes, Patron of the war-zone charity, Hope and Homes for Children and of Street Child of Sierra Leone.



For more information, visit:
www.epra.com/conference2011

EPRA CFO SUMMIT

The EPRA Reporting & Accounting Committee held its annual Summit in Brussels to discuss key finance, reporting and regulatory issues affecting listed property companies.

The CFO Summit in Brussels, May 26-27, enjoyed another excellent turnout with around 40 attendees participating in the roundtable discussion. Chaired by Peter van Rossum of Unibail-Rodamco, this regular Committee get-together included EPRA-member CFO's, investors, and advisors.

EPRA CEO Philip Charls and Finance Director Gareth Lewis opened the summit with an overview of current EPRA priorities including key regulatory issues affecting the sector. The apparent risk that property companies could be scoped into the AIFM Directive continues to cast a cloud over the sector and is closely related to broader concerns over the confusion between property companies and 'funds'.

The Committee reviewed the significant progress achieved on BPR adoption and discussed specific issues raised in the draft BPR Additional Guidance (to be launched in July 2011). The Guidance is intended to assist stakeholders in the application and understanding of BPR and should be a very useful complement to the BPR. Warren Austin of Hammerson and Chair of the EPRA Sustainability Reporting Committee provided an overview of the draft new EPRA Sustainability BPRs (to be officially launched in September 2011).

As in previous summits, the agenda included discussions on the progress of key IASB/FASB projects including Leases, IAS 40 and the direction of the US equivalent standard for investment properties currently being developed by the FASB.

The summit included presentations and discussions on a number of topical finance issues facing the sector. Ian Marcus, managing director at Credit Suisse and member of the Bank of England Property Forum, and Pierre Schoeffler, IEIF senior advisor, provided an insight on the current and future European landscape for bank lending to property companies. Rogier Quirijns, European head of research at Cohen & Steers, led a discussion on issues affecting the efficient process for raising capital in the European real estate environment.

The presentations initiated lively input on issues affecting the sector and as always, provided a good steer for the Reporting & Accounting Committee on priorities for the coming year. The committee will meet again in September on the sidelines of the EPRA Annual Conference and review progress on outstanding issues.

Gareth Lewis

Gareth is Director of Finance at the European Public Real Estate Association (EPRA), based in Brussels, where he is responsible for leading EPRA's initiatives and policy positions with respect to REITs, taxation, financial reporting and EPRA's Best Practices Recommendations. Before taking up this post in May 2008, he was the Director of Finance and Investment at the British Property Federation where he was responsible for formulating BPF policy on a wide range of property finance and investment related issues.

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WHEN CEOs MEET

The CEO Conference event, now in its fourth year, provides a rare private forum in which CEOs can share experiences, build relationships and consider areas where a group positions are viable in these times of fast-moving capital, 24-hour coverage and wide-reaching regulatory shifts.

The 2011 conference took place in May in Brussels, moderated by Andrew Baum of Henley Business School and Dirk Brounen of Tilburg University and chaired by Christophe Kullmann of Foncière des Régions. This year, the companies whose CEO was present represented a full market cap of EUR 44 billion, or 43% of the European index. This factor alone suggests that attending CEOs can gather insight based on a significant proportion of the European sector.

Some of the questions considered:

- The characteristics of leverage.
- How to make globalisation work for you?
- The risk and opportunity of European demographics.
- Sustainability and the listed sector.
- What does it take to be a CEO?

Most of us here use leverage to surf the cyclicity wave of the market. This gives us fantastic flexibility and is not available to the direct sector.

Photos by Dominic Turnbull

Dominic Turnbull
Events & digital media director

Previously, Dominic enjoyed a journalistic career at Reed Elsevier before balancing his time between London and Budapest working in the architectural field. He finally moved to Amsterdam in late-2007 working in Communications at Akzo Nobel & Nike.

REAL ESTATE LEADERSHIP: A LADDER TO THE TOP

Identifying and developing leadership talent is a top priority issue for all organisations. Identifying high potential individuals early, understanding their development needs, and actively building their capability through training are all necessary to ensure that businesses have the proper leadership to compete successfully. A revealing survey by Henley Business School explores the attitude of 'leaders' towards leadership, the characteristics required and the triggers which motivated them to achieve.

In the *Harvard Business Review* (January 2010) examined the long-term performance of more than 1,000 global companies in an attempt to compile a list of corporate leaders who delivered the most shareholder value over the course of their tenures. Among other things, the study compared the performance of CEOs who have MBAs and those who do not. The MBAs came out on top, by a long way: from 1,109 CEOs from companies based in Germany, UK, France, and the United States, the 32% of CEOs who had an MBA ranked, on average, 40 places better than the CEOs without an MBA.

This is an example, among many, of applied leadership research with a simple conclusion. However, while something is known about the corporate sector, our understanding of leadership issues in professional service sectors, and the real estate sector in particular - even the education and qualification levels of CEOs - is very limited. In order to make a contribution towards this understanding, Henley Business School undertook research in late 2010 and 2011, sponsored by SEGRO plc and supported by EPRA.

The purpose of this research study is to understand more about leaders of the real estate industry, and in particular the training and formative experiences of leaders of the industry based in the UK and continental Europe (CE). Through this research we aim to lay the foundation for a better understanding of the executive training needs of the industry, and to foster an awareness of the need to develop strategic thinking and authentic leadership towards a sustainable and responsible world of property.

The research method

An initial survey was completed in

late 2010. This preliminary research study was focused on the UK. A second survey, undertaken in Spring 2011, focused on continental Europe.

The UK and continental Europe studies each had two component parts.

- First, by means of an online questionnaire survey, we set out to establish the typical profiles of leaders in the real estate industry in terms of qualifications, experience, demographic profile and training.
- Second, through a series of interviews and workshops with leadership in the field of real estate investment, development, management and consultancy, we set out to identify the key experiences and qualities that enable senior executives to progress to the top of their profession and function effectively.

The sample

The questionnaire was sent out to around 100 individuals - Chairmen, CEOs and Senior Partners in property companies and REITs, fund managers and real estate service providers. The survey responses were completed between December 01, 2010 and May 27, 2011. There were 54 questionnaire respondents, a response rate of around 55%. 24 were UK-based; 30 were based in continental Europe.

Between November 2011 and May 2011, we also held ten interviews with UK CEOs, and 15 interviews with continental European CEOs during an EPRA workshop.

The point was forcefully, and repeatedly, made that interpersonal skills such as communicating, listening and persuading, were sadly neglected in real estate education.

The interview

In the interviews, we used a semi-structured interview format built around eight questions in one-to one and small group discussions.

What turning points in your career prepared you for leadership?

Many, if not most, of the participants had held early positions of responsibility throughout their formative years. Likewise, at tertiary level, a good number had taken on extra-curricular leadership roles. Few cited their undergraduate educational experiences as being especially transformative, whilst all those who had attended formal graduate or executive training programmes declared that they derived great benefit. Indeed, one described a short course at INSEAD as "life-changing"; another the MBA at Cranfield as being "transformative"; and one more that having a personal coach as being a "significant turning point".

The first job, the first boss and the first big project (including an influential client) all figured as notable turning points. Other key experiences were working as Personal Assistant to the Senior Partner; starting-up a new department; establishing an international office; and meeting and working with someone "special".

International experience of various kinds came to the fore as a common point of self-realisation and aspiration. Whether it was the broader cultural milieu of Europe, the excitement of emerging markets in the Middle or Far East or the cutting-edge of American business practice, working overseas was seen by most participants as a mind-changing episode in their professional lives and a stepping-stone to later leadership.

In the continental European sample, there was more evidence of a formal approach to developing leadership, and several examples of "leadership being thrust upon me". >

SEGRO
WHERE BUSINESS WORKS

Do / did you have a mentor or role model?

Mentors and role models were often found in the first place of work, sometimes among parents and other family members, and once in the form of a client, but (in the UK sample) never formally appointed or sought. A typical comment was "no mentor, but several role models". Among the CE sample were two examples of formal mentor/life coach roles, and one comment that previous leaders "were models for what NOT to do".

What do you think you would have benefitted from but did not get in your education, training or career development?

Many interviewees cited International experience, formal management education, and "an exposure to other ways of doing things and a broader perspective". In the UK sample there was common regret about a lack of management education, while in the CE sample were regrets about a lack of real estate skills at the beginning of the career and a more commonly expressed absence of gap years, MBA opportunities or time off to study.

What previous experience have you gained, and what in particular did you gain from it?

- Of the UK respondents, a small majority had international experience; all had worked in different property sectors; but only two had worked in other industries (banking).
- Within the CE sample, a clear majority had international experience and more had worked in different industries (including construction, engineering and banking) with less experience of different property sectors.

What skills do you think future leaders of real estate will require?

People skills, leadership skills, breadth and strategic vision, how to process large quantities of relevant information, real estate basics and financial skills were all cited, plus "an open mind and the guts to be different."

Particular comments included:

- "the capacity to mobilise or motivate teams and being quicker to move";
- "independence of mindset; following your own route; be energetic and do not be afraid of change; be able to adapt to other cultures/ systems";
- "to define a strategy and to stick to this on a long term basis";
- "strategic vision, team player, dealing with adversity, ambiguity, uncertainty, energy, confidence and conviction" and
- "motivational communication, out of the box thinking, team playing and modesty."

What are the strongest forces / influences driving change in the real estate markets?

The forces cited most were globalisation, demographics and urban concentration, finance, regulation and risk management, and technology. Interesting comments included: "short term investors, long term asset". Sustainability was mentioned by a minority.

What is missing, in your opinion, from the general leadership skill-sets displayed in the current real estate industry?

- Thinking strategically; people skills; marketing and communication skills, innovation; debt experience; better understanding of the income statement as well as the balance sheet; lack of international perspective; sustainability; and, especially in the UK sample, creativity ("too much old boy network - the RICS is outdated, with a big and unbridgeable split between general practice and investment" and "CEOs can be too slow and resistant to change".
- "The ability to manage assets in a much more business-like manner and to have a proper working knowledge of the tenants' businesses."
- "The ability to have a clear mission, communicate it to all the stakeholders and then to delegate to ensure that the mission is completed in line with expectations."

Are there other relevant issues you wish to raise?

Examples: "Listening is more important than talking"; "be honest - we don't know it all"; "be non-territorial"; "think of yourself last"; "real estate in the UK has been 'spoilt' by long leases, and shorter leases now demand a much more dynamic approach to management".

Who do you most admire as a leader?

Popular real estate leader models included Guillaume Poitrinal of Unibail-Rodamco; Leon Bressler; Patrick Vaughan; Sam Zell.

A couple of eminent CEOs notably stated, quite unequivocally, that their role as leaders was about people, not about making or losing money.

So what are they saying?

Three prevailing themes recurred throughout the interviews.

- First, a broader and strategic perspective was demanded of real estate leaders.
- Second, international experience was of inestimable worth in developing leadership potential.
- And third, property is a people business requiring greater emphasis on the softer skills of leadership and management.

Management, business and finance; people skills

The point was forcefully, and repeatedly, made that interpersonal skills, such as communicating, listening and persuading, were sadly neglected in real estate education. Even marketing and negotiating, which lay at the heart of so much property business, were scantly treated. There was also little exposure to different ways of thinking about and doing things.

Strategic perspective

Another common cri de coeur was the need to develop greater leadership capacity throughout the industry in the art and science of strategic thinking, planning and decision-making. Being able to understand and deal with increasing turbulence, and tackle the complexity, risk and uncertainty that come with it, was seen as an immediate and growing imperative for real estate leaders, both current and aspiring. "We are poorly prepared for change" was one individual indictment.

Future attitudes and aptitudes

There was widespread recognition that the building momentum of globalisation, sustainability and responsibility would demand of real estate leaders a greater understanding of the driving forces of change - social, technological, environmental, economic and political - and a facility to forge resilient strategies for their organisations in the face of growing complexity, heightened uncertainty and variable risk.

Values, standards and ethics

Generally, there was an appreciation that society expected higher levels and standards of performance, accountability and transparency of business - together with more effective monitoring regulation and enforcement. The emerging cadre of leaders would have to be familiar with, and comfortable about, directing and managing real estate organisations in this setting of stricter governance. More specifically, some participants observed that there was a need on the part of the real estate industry to respond more actively to the expanding role of corporate social responsibility and to take more pride in the public realm.

Cross-border competence

One UK CEO interviewed: "Cross-border skills (in the UK) are appalling!" There was common agreement that property professionals should be better versed in the legal, economic and cultural conditions prevailing in the markets and societies where they practice and conduct business.

Mastering business basics

A frequently expressed view was that leaders in the UK real estate industry used to get where they are, and largely still do, by being good surveyors, not by being good at business, or by being good managers. This, it was commonly held, is changing, and is much less of an issue in CE.

Property as a product

By contrast, it was felt by a number of participants (especially in CE) that there was a need to return to a position where property was understood, whether it be for investment, development, management, marketing or valuation purposes, more for its inherent functional and physical qualities than simply as just another financial asset class. This required a special kind of informed and experienced leadership.

Leading and managing people

Several leading CEOs emphasised that, above all else, real estate was a 'people business', and this sentiment was echoed to varying degrees by virtually all those interviewed. Indeed, a couple of eminent CEOs notably stated, quite unequivocally, that their >

It was widely recognised that in many, if not most, property organisations a handful of star performers created disproportionate amounts of value.

role as leaders was about people, not about making or losing money. They, and others, also held strongly that the principles they personally espoused should be seen to be practiced unwaveringly and set standards for the organisation as a whole. Almost everyone contributing highlighted the need for future leaders to comprehend 'the big picture', developing a broader perspective on the world of property and the influences brought to bear upon it.

The importance of looking after what were popularly described as 'the rainmakers' was stressed repeatedly. It was widely recognised that in many, if not most, property organisations a handful of star performers created disproportionate amounts of value. Competitiveness depended upon recruiting and retaining such smart people. Special leadership strategies to give them space, connectivity, scope, support and respect were required. Furthermore, as one CEO stated: "The deal makers want a say". In the same context, there was an appreciation that more attention should be paid to identifying and nourishing potential talent throughout the organisation in all aspects of its work.

The changing nature of work

Surprisingly few of those interviewed offered opinions regarding how changes in space, human resources, technology, the workplace and the nature of work itself might affect leadership styles and strategies. Those who did comment, however, envisaged major shifts in terms of location, creativity, communication, collaboration, knowledge and information. it was felt that leadership, at all levels, would be affected in many ways as yet unexplored, but in particular by communication technology.

What next?

The three prevailing themes bear repetition.

- International experience is of inestimable worth in developing leadership potential. The profiles of current CEOs stress international experience, and it is clear that this is a key-indicator of later success.
- Leaders crave the opportunity to develop a broader and strategic perspective, yet fewer than 20% have MBAs, compared to over 30% in the corporate sector according to Harvard Business Review.
- Finally, property is a people business requiring greater emphasis on the softer skills of leadership and management, which is missing from the most popular education programmes used by real estate CEOs.

It is an easy conclusion to draw that more aspiring real estate leaders should go to business school.

Authors

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Diary

OUTREACH CHINA:

ADDRESSING MISPERCEPTIONS AND PROMOTING THE 'REIT BRAND'

All investors and regulators were keen to learn more about the European and global listed property sector.

EPRA CEO Philip Charls and Director of Finance Gareth Lewis visited China in April together with NAREIT for a series of meetings with a number of the largest Chinese institutional funds. Meetings were held in Shanghai and Beijing with investors as well as government agencies and regulators.

The first stage of the trip was Beijing, where the team met with The Shanghai Stock Exchange (SSE) to discuss new REIT-related product developments with their Qualified Domestic Institutional Investor (QDII) product team. Although the QDII market is heavily regulated and got off to a slow start in China due to being launched at the top of the market, changes are afoot on the regulatory side and there is growing interest in launching cross border ETF products for the REIT market.

The team also met with the UBS Fund management and discussed the challenges of launching REIT products in China. This highlighted a key theme that followed in the remainder of the meetings - the lack of understanding in the market around the European and US REIT model (active corporate operating businesses vs. the more passive bond-like vehicles in Asia).

Before departing to Beijing the team presented on the Global, European and US REIT markets to a broad range of attendees at a FTSE Seminar.

The second stage of the trip took the team to Beijing for a series of meetings to coincide with the APREA conference. Individual meetings were held with China Life (Asset Management Arm), PICC, CITIC Trust Co, China Investment Corporation (CIC), State Administration of Foreign Exchange (SAFE), SSF - National Council for Social Security Fund and the China Securities Regulatory Commission (CSRC).

Key discussion points were the recent developments concerning Chinese institutional investors investing into REITs outside of China, and the potential development within China of a domestic Chinese REIT regime. All investors and regulators were keen to learn more about the European and global listed property sector. It was clear that there was much to be done in educating Chinese investors but the meetings, and information we provided was a good starting point in developing further dialogue and bridging the knowledge gap.

We are confident that there will be future opportunities to exchange information and continue to promote the sector. The meetings did highlight the relative lack of awareness of the attributes of European and US REITs and were certainly a useful reminder of the need to sustain our efforts towards this region.

Note to self: Back in China in December to continue promoting the European sector.

NO RESPITE FROM EU LOBBYING!

These are busy days for EPRA on the EU stage. While the backdrops keep changing, the actors, twists and high drama remain.

In the past few months there hasn't been any shortage of occasions to engage with policy-makers on regulatory issues affecting our sector. Of course there are ongoing dossiers such as the Directive on Alternative Investment Funds Managers (AIFM) and the Regulation on OTC Derivatives on which we have had to focus our representation efforts. But these are not the only ones in our EU representation universe.

Legislative monitoring and softer engagement, such as responses to public consultation and early meetings with Commission officials, take place continuously on upcoming initiatives and emerging issues. More than ever, we count on our members' continued involvement and active support of our efforts with their first-hand expertise.

The table below highlights some of the key regulatory initiatives on our agenda.

AIFM

We have been talking about the AIFM Directive for a long time. However, its adoption at the end of last year didn't mark the end of our lobbying efforts - on the contrary. As the legislation started moving through the second level of the decision procedure, only our target audience changed. Indeed, it became critical to engage with national market authorities and continue advocating a coherent interpretation of the ruling according to which listed property companies should not be considered within the scope of the AIFMD.

Over the past few months EPRA has joined forces with other industry organisations, such as our US counterpart NAREIT, to tour a number of European capitals meeting with regulators to discuss the listed property sector's position vis-à-vis the implementation of the AIFM Directive. So far our group has met with national authorities in Belgium (FSMA), The Netherlands (AFM), Germany (BAFIN), Sweden (Fiansinspektionen), the UK (FSA) and Ireland (CBI). There has been continuous dialogue with these authorities since then, and further meetings are planned in other European markets.

OTC Derivatives Regulation

The OTC Derivatives Regulation is still at the first stage of the legislative process. The European Parliament's Economic and Monetary affairs

INITIATIVE	BUSINESS RELEVANCE	STATUS	ACTIONS TAKEN
AIFMD	High	Level 2 Ongoing	Ongoing Lobbying
OTC Derivatives	High	Level 1 Ongoing	Ongoing Lobbying
Solvency II	Indirect	Level 2 Ongoing	Ongoing Lobbying
CRD IV (Basel III)	Indirect	Expected July/September	Monitoring
Pensions Funds Reform	Indirect	2011/2012	Contribution to EC Consultation
Cross-border Dividends Taxation	Medium	2011/2012	Contribution to EC Consultation
Financial Activities Tax	Medium	2011/2012	Monitoring
EU REIT Regime	High		Ongoing Lobbying

committee adopted its report at the end of May and the text is expected to be adopted in plenary session by mid-July. On the Council side, it is now clear that a final decision will not be made under the Hungarian Presidency's mandate, but in the second-half of the year and most likely not before September/October 2011. EPRA and other representative organisations have been working hard to ensure the real estate sector is not subject to burdensome cash collateral and central clearing requirements, but legal certainty on this point is still not to be taken for granted as proposals for an explicit exclusion have not been taken up so far. We continue engaging with all actors involved and are likely to do so over the coming months and possibly years if the procedure follows the same route as the AIFMD.

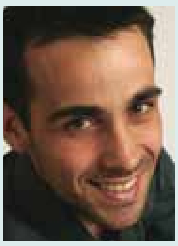
We continue engaging with all actors involved and are likely to do so over the coming months and possibly years if the procedure follows the same route as the AIFMD.

Once AIFMD and OTC Derivatives are off the table, can we expect a respite from EU Regulation? In short… no!

The legislative pipeline does not seem to be running dry anytime soon. The proposed revision of the EU's Capital Requirement Directive (so-called 'CRD IV') which will transpose the provisions of the Basel III agreements into the EU legal framework should be published in September. The European Commission is consulting advisory bodies on the proposed revision of the pension funds Directive (IORP Directive) as we speak, and will start its impact assessment early 2012 in view of adopting it by the autumn.

There also are the detailed implementation of Solvency II proposals to consider - which, while it is currently unclear precisely how this might impact insurance companies holding of property equities, will surely have a significant impact.

A Financial Activity Tax proposal also threatens to emerge in the coming months or years. "Surely this can't apply to the listed property sector" I hear you sigh. You would think not. But bear in mind that the current proposals seek to equate "fund management" with "financial activity" (subject to tax). If the experiences from the AIFM Directive teach us anything, it's not to underestimate the regulators' lack of awareness over the differences between the business of owning & managing property and the very different business of fund management.



Romain Triollet
Romain is EPRA's Director of Public Affairs. Romain's main responsibilities are to promote the activities and positions of EPRA and its members on the EU stage, and to foster good working relationship with EPRA's stakeholders - in particular EU institutions, governments and other business organisations. EPRA's EU representation activities are led jointly by Romain and EPRA Director of Finance, Gareth Lewis.

REITs, 50 YEARS AND GOING STRONG

Despite continued scepticism form parts of the real estate investment community, REITs have become a significant – and still growing – global force. New research reviews the past 50 years and reveal regional focus and size of REIT among the key performance drivers as authors Dirk Brounen and Sjoerd de Koning explain.

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For many, 2010 was a year of recovery. Recovering distressed debt, recovering stock prices, and recovering from a dramatic episode of financial history. But 2010 was also a year of celebration. In 1960, the US Congress passed the Real Estate Investment Trust (REIT) Act, in order to expand the traditional investment universe beyond stocks and bonds. Fifty years later, this REIT standard is adopted in 34 different countries and has fuelled the evolution of a mature global asset category that currently consists of 537 different companies, representing a sum total of well over EUR 500 billion. A good moment to look back, reflect and learn from the years that have gone by. [1]

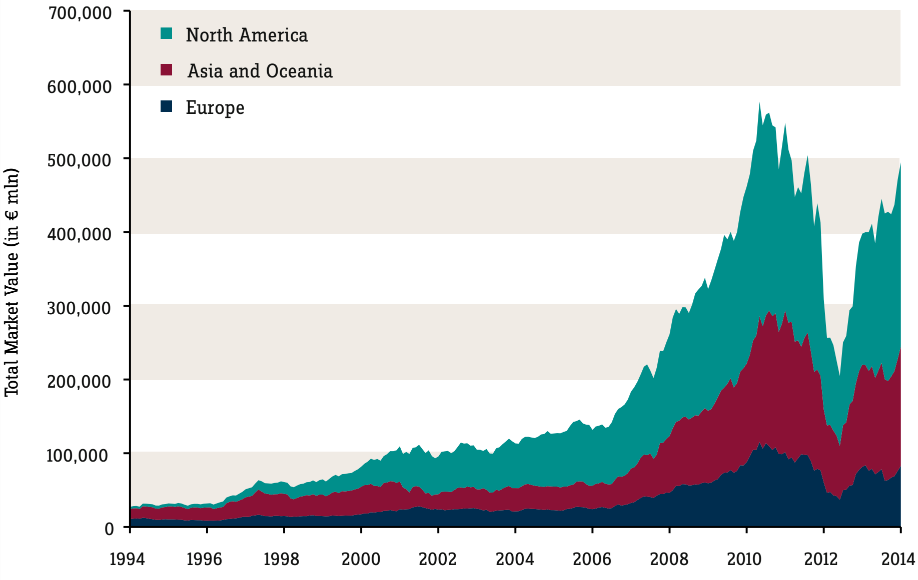
The early years

The 1960 REIT Act resulted from a tactical lobby of investment bankers. It recognised that the time was right to design new investment products for retail investors, and lobbied for the REIT to enhance the supply of investments. In the early years, however, few investors shared the enthusiasm of the banker. But suddenly during the early 90s, a rare combination of unrelated favourable circumstances caused a title wave in the US REIT capitalisation. At a time when interest rates were low and real estate prices 'cheap' (just after the overbuilding crisis in the late eighties), regulators suddenly opened up the REIT market to institutional investors, and enhanced the appeal of REIT vehicles through a series of favourable tax reforms.

In a matter of four years, the US REIT market tripled in size and turned into a success that was soon discovered by authorities around the globe.

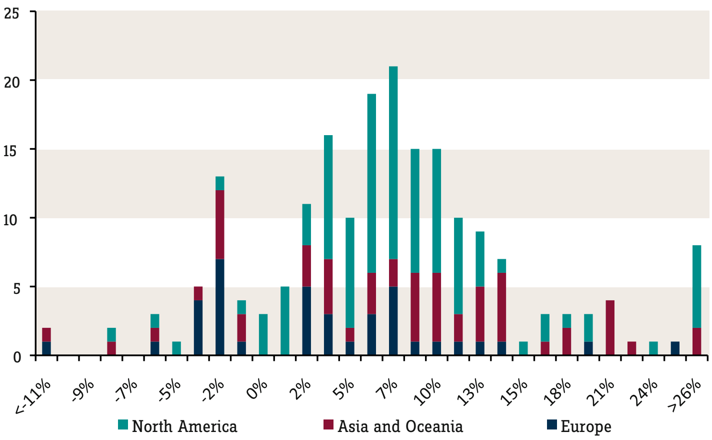
During the past two decades, the REIT regime went on tour, causing waves of REIT introductions first in Asia, and in more recent years in Europe, with the UK and Germany as latest adopters. Today, the REIT regime is present in financial markets around the world. Figure 1 plots the evolution of the total market capitalisation of REIT markets in our sample, across continents. In 1990, the global REIT market equalled a sum total of only EUR 25 billion. By 1997, after the US REIT boom this number quadrupled to EUR 100 billion, and ten years later peaked at EUR 600 billion. Since the trough of the recent financial crisis, REIT markets around the world have again doubled in value, and today matured into a solid asset class.

Figure 1: REIT Market Capitalisation



[1] The full paper of this analysis is available free download as EPRA Research Report at www.epra.com

Figure 2: REIT Outperformance (annualized alpha)



After controlling for risk, REITs on average outperformed common equity by 4% a year.

REIT performance, important lessons from the past

Celebrating a 50-year jubilee also calls for a review of the past. The most relevant REIT period to consider here relates to the past two decades, when the REIT market effectively matured. We analysed the return dynamics of 210 REITs in Asia, Europe, and North America for the period 1990-2010 and searched for outperformance. The annualised alpha of REITs ranged between -3% (for the Netherlands) to 15% (for Canada) and averaged at 4% for our full sample.

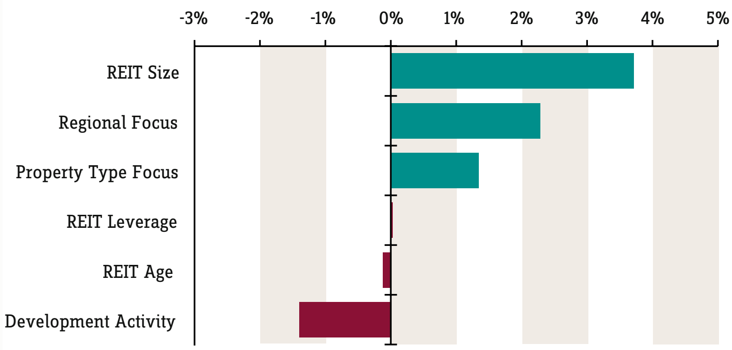
This means that, after controlling for risk, REITs on average outperformed common equity by 4% a year. Figure 2 below shows that most of that outperformance was found in Europe and North America. The Asian markets also performed weak at times.

To identify the factors and strategies that are key to REIT outperformance, we also performed additional regression analysis in which we relate individual REIT alpha's to a set of firm characteristics and portfolio strategies. We correct for continental variations and find that REIT alpha is highest among large REITs that manage portfolios are specialised regarding the geographic dispersion. Evidently, focus and size are key when it comes to REIT performance.

Large REITs outperform smaller ones by almost 4% a year, and regional focus enhances the annual return by yet another 2%. Also regarding portfolio spread across property type, we find evidence that specialised REITs do better. Figure 3. shows also shows that participations in real estate development projects reduced the performance of REIT during the past two decades. Leverage and firm age were of minor importance.

When considering the systematic risk (beta) of REITs, we find that continental variations still tend to be vast. Asian REITs exhibit a risk profile that exceeds the US market by over 10%, while European REIT beta's are lowest in the world. Individual REIT beta's are mainly a function of leverage, with high beta's for REIT with a lot of debt, also well before the credit crisis.

Figure 3: Key Drivers of REIT Alpha



A bright future ahead?

Indeed, it seems that REITs have matured and are now an assets class with appeal to investors, both institutional and retail. Listed real estate markets have been around for almost a century now, with firms like Brixton Estates listing their shares on the stock exchange in 1924. But the REIT regime is around for 50 years today, and has pushed the evolution of listed real estate onto a new level, especially in recent years.

The ease of trading listed REIT stocks and the competitive risk: return ratio have developed it into a steady component of a well diversified investment portfolio. The regulatory criteria that prescribe a high dividend payout policy, cap leverage levels and reduce the span of activities to real estate operations has ensured that REITs qualify as a transparent and low-risk investment. The next 50 years will be hard to predict, but with societies ageing, we are likely to move into an era in which the older investor community will appreciate high yielding investments. The ride will remain bumpy at times, but the REIT will carry on.

Originally published in *IPE Magazine.*

INDEX INCLUSION – WHAT DOES IT TAKE?

An overview of the main selection criteria for the FTSE EPRA/NAREIT Real Estate Index Series, and the fast-entry route.

Property companies and investors are very aware of the benefits of being included within the FTSE EPRA/NAREIT Real Estate Index Series. Not only does it provide exposure and visibility to all index constituents but it also can enhance the liquidity and broaden the investor base of the company significantly.

In order to safeguard index quality, a detailed and fully transparent set of ground rules are maintained on an ongoing basis. Freely available online, from all index partners websites - FTSE, EPRA and NAREIT - the rules are the basis of the selection criteria that allow property companies to become part of the most widely used Global real estate index. The rules determine the structure of the quarterly review process, as well as being applied daily when reacting to corporate actions. The 'fast-entry' rule for IPOs provides new companies with the opportunity for index inclusion from their first day of trading.

The review process

On a quarterly basis, the global real estate universe, consisting of approximately 3,700 stocks for Developed markets and 1,300 for Emerging markets, is screened by the index partners for index eligibility. Each company is tested on the five main index criteria. In order to enter - or remain within - the index, each of the five criteria must be met. The five criteria relate to the company's business model, size, liquidity, reporting standards, and free-float. All criteria are in place to guarantee that the index is a solid investible benchmark of focused listed real estate companies. The five criteria are outlined below:

1) Relevant real estate income

The FTSE EPRA/NAREIT Indices are designed to capture the performance of real estate investments globally and providing real estate investors with an as wide and accurate benchmark as possible. Therefore, only companies with sufficient exposure to direct real estate investments can be selected and deemed eligible, before being included in the index. As a result, only companies which derive more than 75% of EBITDA from relevant real estate activities can enter the index. Relevant real estate activities generally - and primarily - consist of rental income and/or development profits. In the very few occasions when the ground rules have not provided sufficient guidance, the index committees provide interpretation in the overall spirit of the index, and as such, ensure the focus and purity of the index.

2) Size criteria

In order to allow investors to take sizeable positions in index constituents, the companies which are included have to be of a certain size, which is measured as the free-float adjusted market capitalisation of a company. In contrast to a 'fixed' size barrier, the index uses a 'relative' size measure; meaning that only companies larger than a certain % threshold of the existing index can enter the index. The thresholds differ per region and can be found in Table 1 together with current thresholds in absolute terms (as at June 2011). To maintain its inclusion, a company should not fall to half of this relevant inclusion threshold

CASE STUDY

1 Relevant real estate income

At the Q2 Quarterly Review in June 2011, IVG Immobilien AG, Mobimo Holding AG and Wallenstam AB all entered the FTSE EPRA/NAREIT Index based on increased percentages of EBITDA being derived from relevant real estate activities as compared against previous years. As soon as each company's annual report is published, the analysis for the next round of quarterly reviews are updated.

Table 1

REGION	ADDITIONS	EXCUSIONS	ADDITION TRESHOLD AT JUNE 2011 (EUR MILLION)
Developed Asia	=/> 0.30%	< 0.15%	637.1
Developed EMEA	=/> 0.10%	< 0.05%	98.1
North America	=/> 0.10%	< 0.05%	281.8
Emerging Asia Pacific	=/> 0.20%	< 0.10%	43.1
Emerging EMEA	=/> 0.30%	< 0.15%	39.0
Emerging Americas	=/> 0.30%	< 0.15%	77.8
AIM	=/> 1.50%	< 0.75%	37.7

Table 2

ACTUAL FREEFLOAT	FREEFLOAT BAND
</= 15%	0%
> 15% </= 20%	20%
> 20%</= 30%	30%
> 30%</= 40%	40%
> 40%</= 50%	50%
> 50%</= 75%	75%
> 75%	100%

size during following reviews. This 'buffer' structure is used to prevent companies from moving in and out of the index within a short time-span due to small changes in size and ensure stability of the index's constituents, hence lowering unwanted turnover for global investors.

3) Liquidity criteria

An important feature of the FTSE EPRA/NAREIT Index is that it provides sufficient levels of liquidity, making it not only an accurate performance benchmark, but also a tradable index consisting of tradable constituents. In order to become eligible for index inclusion, a company has to have a median monthly liquidity of 0.05% of their free-float adjusted shares in issue in at least ten out of 12 months to March. Liquidity is tested once a year; and current constituents have to pass the test at 0.04% in at least eight out of the 12 months in order to remain eligible.

4) Reporting criteria

Only companies which publish publically available annual accounts in English are eligible for index inclusion. This rule avoids any language issues and forces a common platform for company reporting. The rule allows the partners to examine companies in terms of relevant real estate income, and also facilitates broad investment analysis of the Index constituents by potential investors. The report has to be audited and include a profit & loss statement, balance sheet, Director's review and full notes to the accounts. In contrast to the other criteria, compliance with this rule is a company decision to implement - and as such it's within their control. The growth of the Emerging Index can be partly attributed to the adoption of English reporting.

5) Free-float criteria

To ensure the index is tradable, market capitalisation is free-float adjusted resulting in company weights that reflects the underlying liquidity of the share. Companies with a free-float below 15% are not eligible for the index, even if they meet the 'size criteria', unless their full market capitalisation is above USD 2.5 billion and the free-float is larger than 5%. To enhance index stability and prevent continuous minor adjustments, the free-float for constituents is banded (see table 2).

Next to the size rule, the liquidity rule is also based on free-float adjusted figures. Large shareholders with board seats, company directors, and shares under a lock-up agreement are all regarded non free-float. This does not mean that each holding above a certain % threshold are regarded non free-float, rather they are considered on a case-by-case basis guided by the Ground Rules.

Fast entry

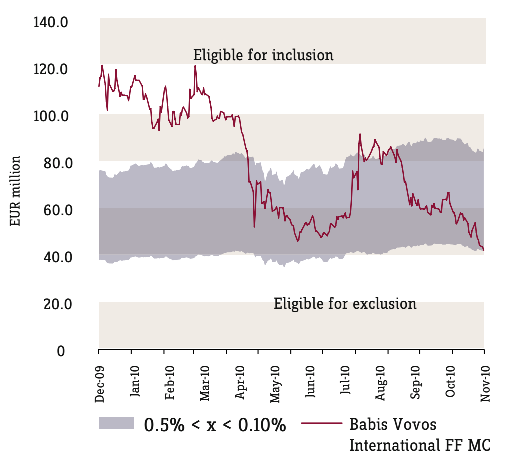
Next to the quarterly review process, which allows listed companies to enter the index once they have passed all eligibility criteria, the 'Fast Entry Rule' allows for IPOs to enter the index on the first day of trading. The fast entry rule lets investors participate in sizeable property company IPOs which would otherwise have likely entered the index during a following quarterly review. Similar to the standard review, fast

CASE STUDY

2 Free-float size criteria

At the Q4 2010 quarterly review held in December, Babis Vovos failed the size criteria and was subsequently deleted from the Index. Graph 1 displays the free-float adjusted market capitalisation of Babis Vovos and the inclusion and exclusion band based on the free-float market capitalisation of the FTSE EPRA/NAREIT Developed EMEA Index.

FTSE EPRA/NAREIT Developed Europe Index

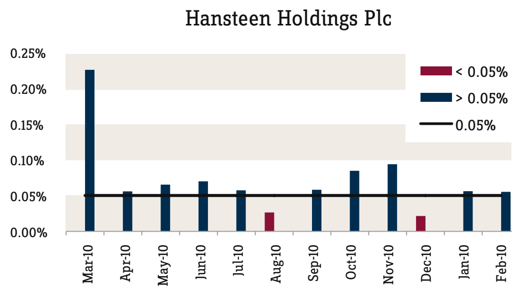


Continually monitored, the ground rules safeguard transparency, consistency, reliability and relevance. In order to enter the index - or remain within it - each of the five criteria must be met.

CASE STUDY

3 Liquidity criteria

Hansteen Holdings was included in the FTSE EPRA/NAREIT Index Series following the Q1 2011 quarterly review held in March 2011. During previous reviews the company passed on four of the five criteria, the exception being liquidity. Graph 2 displays the liquidity of Hansteen during the 12 months leading up to March 2011. It is clear that Hansteen passed the ten out of 12 months minimum requirement for new inclusions.



CASE STUDY

4 Reporting criteria

On the emerging markets side, Emlak Konut GYO was added to the FTSE EPRA/NAREIT Emerging EMEA Index at the Q2 2011 quarterly review in June 2011, following the publication of the company's latest English Annual Report.

CASE STUDY

Fast entry

In April 2011, fast entry was applied to GSW Immobilien after it successfully IPO'd on the German Stock Exchange. Free-float was banded at 75% due to existing shareholders' lock-up agreements. The minimum required size was just over EUR 188 million based on 20bps weight of the FTSE EPRA/NAREIT Developed EMEA Index - five days prior to the proposed listing date.

Note: Index Inclusion is independent to - and completely separate from - membership of EPRA as the Association representing the interests of the European Listed Real Estate. It is, however, recommended that constituents and potential constituents take an active part in the EPRA's many initiatives and help support the wide success of the sector.

entries need to pass a certain size threshold. The threshold for fast entries is however notably higher than for the standard quarterly review. For example, whereas the minimum size for inclusion during a standard inclusion in the EMEA region is 0.10% of the regional free-float market capitalisation, to qualify for fast entry a minimum size of 0.20% of the same index is required. The other index criteria such as relevant real estate income, English reporting and free-float are equally valid and tested on potential fast entrants to ensure the company remains eligible during the following quarterly reviews. In order to test these criteria, a publically available English Prospectus is mandatory.

Committee meetings

Proposed inclusions and exclusions to/from the Index are approved or rejected during the three separate regional committee meetings - America, EMEA and Asia Pacific, held every quarter. These meetings commence after the markets close in their respective region. Although inclusion and exclusions are based on publicly available information, committee members contribute valuable insight, knowledge and experience in their specialist markets to monitor the application of the ground rules by the index partners.

Property companies, investors and investment managers all benefit from understanding how the indices work - especially as the FTSE EPRA/NAREIT Indices are globally recognised as the leading benchmark for listed real estate. In practice, this is step one in the investment process, as many mandates use the Index as their investible universe; reinforcing the need for a high quality and transparent approach to the index's management. Together, index constituents as well as index users create the structure for a transparent and investible listed real estate sector.

All information can be found in more detail in the ground rules at: www.epra.com/indices_ground_rules.jsp or contact EPRA Research.

Maikel Speelman
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At the end of June 392 constituents are part of the FTSE EPRA/NAREIT Global Index, spread over developed and emerging markets, tracking a combined free-float market capitalisation close to EUR 650 billion

EUROPE INDEX EXPANSION

We are pleased to welcome three new entrants to the Europe index following June's quarterly index review. They all passed the required eligibility criteria. These additions not only expand the index, they also contribute to its geographical diversification and reinforce its attractiveness for investors further.

EPRA's overall objective is the continued growth of the listed real estate sector in Europe, and the increased visibility and market capitalisation that will result from this index expansion are most welcome.

After the three inclusions, the index stands at 85 constituents and includes the leading property companies of 16 European economies. These represent a free-float market capitalisation of approximately EUR 100 billion.

Wallenstam

Wallenstam

We are Swedish property development company which manages, builds and develops properties for sustainable living and enterprise in Gothenburg, Stockholm and Helsingborg.

The business started in 1944 and today our total lettable area for our 300 buildings is around 1.3 million sqm, which generates approximately SEK 1.5 billion in rentals. The property holding is valued at approximately SEK 24 billion and the customer base consists of around 11,000 households and 2,000 commercial contracts. It also invests in the production of renewable energy with the aim of becoming self-sufficient. The company's shares have been listed on the Stockholm Stock Exchange since 1984.

The overall operational target is that the net asset value per share shall amount to SEK 100 in 2013. Until then we also want to build 2,500 apartments. Thus far we have received land allocations for 1,200 apartments, of which the majority of projects are under construction. Our vision is to be a leading city developer and the market-leading property owner in our regions. In our view city development is just as much about developing our existing holding as it is about new construction - a combination that creates value for the company, our owners and cities alike.

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IVG Immobilien AG

We are one of the major real estate companies in Europe. The company manages assets worth approx. EUR 22.0 billion and is located with approx. 590 employees (FTE) in 19 selected major German and European cities.

Via this network of local branches, IVG manages inter alia on balance properties with a market value of EUR 4.3 billion. In northern Germany IVG constructs and operates underground storage caverns for oil and gas.

In the fund segment IVG is the leading provider of tailored property funds for institutional investors. In combination with the closed-end funds for private investors, IVG manages funds and mandates amounting to a volume of EUR 15.3 billion.

Probably IVG's most prominent property currently is the landmark THE SQUAIRE at Frankfurt Airport, extending over a length of 660m and a width of 65m with 140,000 sqm lettable space. Nearing completion THE SQUAIRE resembles a whole city in microcosm under a single roof, situated directly at Germany's main mobility hub. More details at: www.thesquaire.com

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Mobimo Holding AG

The company was established in Lucerne in 1999 and has been listed on the SIX Swiss Exchange since 2005. The Mobimo Group has an attractive portfolio mix of investment properties providing stable income and development properties offering extensive value enhancement potential.

Investments are targeted mainly in the promising locations of Zurich and Lausanne/Geneva and in the economic regions of Basel, Lucerne/Zug, Aarau and St. Gall.

With a property portfolio that has an overall value of over CHF 2.0 billion, Mobimo is one of the leading real estate companies in Switzerland. The portfolio contains development properties with an investment volume of more than CHF 1 billion up to 2015 (as at December 31, 2010).

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A TRANSPARENT SHIFT – EPRA BPR

Indications following the close of the recent financial reporting season show a significant increase in BPR adoption among European listed property companies. This vindicates the considerable efforts over the last couple of years put in by EPRA member companies, investors and advisors to refocus and simplify the EPRA BPR.

EPRA BPR were developed ten years ago with a view to enhancing transparency within the listed sector and attract investment.

The 2010 financial season is over and once again listed property companies continue to show leadership in improving the consistency and comparability of financial reporting through adoption of the EPRA Financial Reporting Best Practices Recommendations (BPR). These are now used by over 72% of companies in the EPRA/NAREIT FTSE Europe Index, compared to 60% in previous years, making the investor-approved EPRA performance measures the benchmark standard for the industry.

The EPRA BPR were developed ten years ago with a view to enhancing transparency within the listed sector and attract investment. Initially, they were almost entirely focused on promoting consistent application of the new International Financial Reporting Standards (IFRS) - a substantial challenge, given that, for many European companies, IFRS was a significant move away from local accounting standards.

Starting in 2009 EPRA undertook a significant exercise to refocus the BPR on core recommendations for key performance measures (EPRA EPS, EPRA NAV, EPRA NNNAV, EPRA Vacancy Rate and EPRA Net Initial Yield).

It is difficult to overstate the significant efforts that listed property companies have undertaken to develop and adopt the BPR. Today they are used by more than 50 listed property companies (representing over 72% of the EPRA/NAREIT FTSE Europe Index) - the vast majority of which report two or more EPRA KPI's. EPRA NAV continues to be the most widely reported EPRA KPI although the number reporting EPRA EPS is rising with 12 companies reporting these for the first time this year.

As shown in Figure 2 over the page, levels of BPR adoption in the key markets of the UK, France and Benelux are all above >

Figure 1 EPRA/NAREIT FSTE Europe Index applying 1 or more BPR

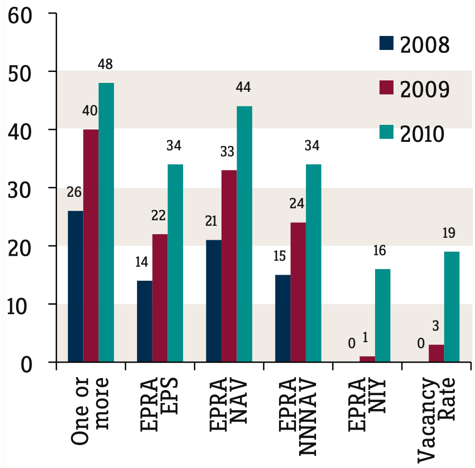
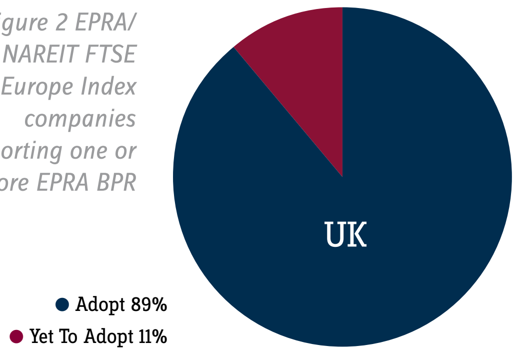
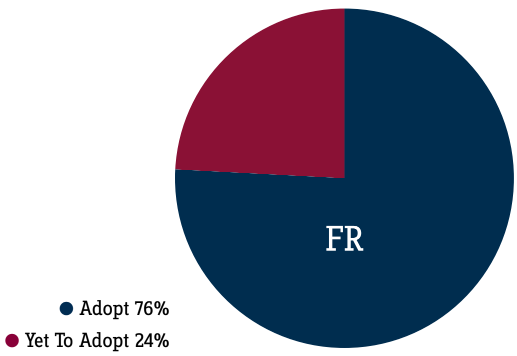


Figure 2 EPRA/ NAREIT FTSE Europe Index companies reporting one or more EPRA BPR





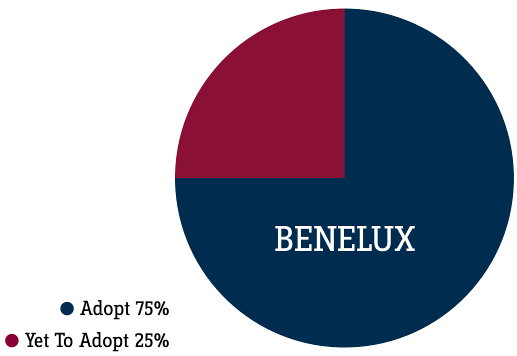


Figure 3 Companies adopting BPR for the first time in 2010

	NAME	COUNTRY	²MARKET CAP (MEUR)
1	Gecina	France	6,202
2	Fonciere des Regions	France	3,978
3	PSP Swiss Property	Switzerland	3,003
4	Befimmo	Belgium	1,070
5	Deutsche Wohnen	Germany	904
6	CLS Holdings	UK	349
7	ING UK REIT	UK	211
8	Affine	France	146
	Total		**15,863**
	% of EPRA index (EUR 122 billion)		13%

75%. As in previous years the UK continues to have the highest level of adoption, although progress has been made in France with two large companies adopting for the first time in 2010. EPRA recently met with a number of French companies that have indicated that they are in the process of transitioning to reporting the BPR. Similar efforts will focus on Germany, Sweden and Switzerland which we hope will boost the level of adoption.

Figure 3 above, shows that in 2010, eight companies representing 13% of the market cap of the EPRA/ NAREIT FTSE index Europe adopted one or more of the EPRA KPIs for the first time, including two of the largest French property companies.

These developments are great news for the listed property sector and demonstrate its strength in being able to collaborate effectively and deliver real structural change in a short space of time. As always, the efforts of the members in voluntarily devoting their time and expertise to the EPRA cause are greatly appreciated. EPRA continue to believe that consistency and transparency in performance reporting is a key attribute for the sector which alongside other attributes, put the listed property sector in a strong position for growth.

EPRA launches tenth Annual Report awards

On June 16, EPRA launched its tenth Annual Report Review to determine the 2011 EPRA Annual BPR Awards. All companies in the EPRA/NAREIT FTSE European Index have been asked to provide print copies of annual reports which will be reviewed by the Deloitte team over the summer. As per last year, companies will be awarded either a Gold, Silver or Bronze accreditation at the EPRA Annual conference in September, as well as competing for Most Improved Annual Report award. For more information, please contact Gareth Lewis: Gareth.lewis@epra.com or Claire Faulkner: cfaulkner@deloitte.co.uk

Mohamed Abdel Rahim

Mohamed studied at the Manchester Business School (2005) before joining Deloitte where he worked in audit for three years. After earning his Chartered Accountant (ACA) qualification, Mohamed worked at Orco Property Group, an EPRA member based in Luxembourg. Mohamed's main responsibilities are to develop the EPRA best practices and to assist Gareth Lewis, EPRA Finance Director, in IASB/FASB representation.

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EPRA REPORTING

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

Global REIT Survey 2011

Baker & McKenzie

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Quality In Everything We Do

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MACQUARIE

pwc

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

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

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

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

350 pages & online!

VISIT SITE

About EPRA

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

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EPRA ANNUAL REPORT AWARDS 2010/11 – NEW BPR, NEW FOCUS

The EPRA Annual Report survey performed by Deloitte will shortly get underway. The survey includes a review of the annual reports of approximately 80 listed real estate companies across Europe, all of which are members of the FTSE EPRA/NAREIT Europe Developed Index.

The continuing purpose of the survey is to promote awareness of the EPRA Best Practices Recommendations (the BPR). The BPR aims to raise the standard of financial reporting through improving clarity, transparency and consistency in financial reporting.

This is the tenth year of the Annual Report Awards and the annual reports will be reviewed for compliance with the revised EPRA BPR published in October 2010.

Following consultation with a number of investors and property companies the BPR have undergone significant revision during the last year. The number of recommendations has been reduced and clearly prioritised, focusing on the key EPRA performance measures such as the EPRA EPS and NAV metrics and including definitions of Net Initial and Topped-up Net Initial Yield.

The results of the survey will identify the extent to which the new BPR have been adopted.

Consistent approach

Following the success of the new approach applied in 2010, the 2011 awards will continue to recognise the significant effort and contribution many companies make in their annual reporting and in applying the BPR.

The BPR aims to raise the standard of financial reporting through improving clarity, transparency and consistency in financial reporting.

Recognition will be available through the following Award categories:

In addition to recognising the top annual reports by Award category, a 'Most Improved' award will again be made for the annual report of the company showing the greatest improvement in compliance with the BPR and a real move towards embracing transparency and clarity in reporting.

Award focus

The focus of the 2011 review will be on the adoption of the revised BPR, highlighting areas where companies have been consciously adopting the revised BPR.

Gold Award

- For stand out annual reports including exceptional compliance with the BPR

Silver Award

- For annual reports scoring highly based on compliance with the BPR

Bronze Award

- For annual reports scoring well based on compliance with the BPR

Klépierre's Jean-Michel Gault collects the 2010 Most Improved Annual Report award.

“ Our survey aims to support EPRA and its membership as the BPR move into the next stage of development. The revised BPR signpost the priorities for reporting in the real estate sector and we expect to see widespread support from companies. ”
Claire Faulkner, Real Estate Partner, Deloitte

“ Results from the 2011 reporting season show that EPRA's efforts to upgrade and prioritise the Best Practice Recommendations are paying off. The Deloitte survey and EPRA Annual Report Awards are an important part of our efforts to promote the BPR and raise the standards and comparability of financial reporting across Europe. ”
Gareth Lewis, Director of Finance, EPRA

Award presentation
The results of the review will be presented by Deloitte at the annual EPRA Conference in September 2011 together with the key findings of the survey.

If you have any questions or queries about the survey please contact:

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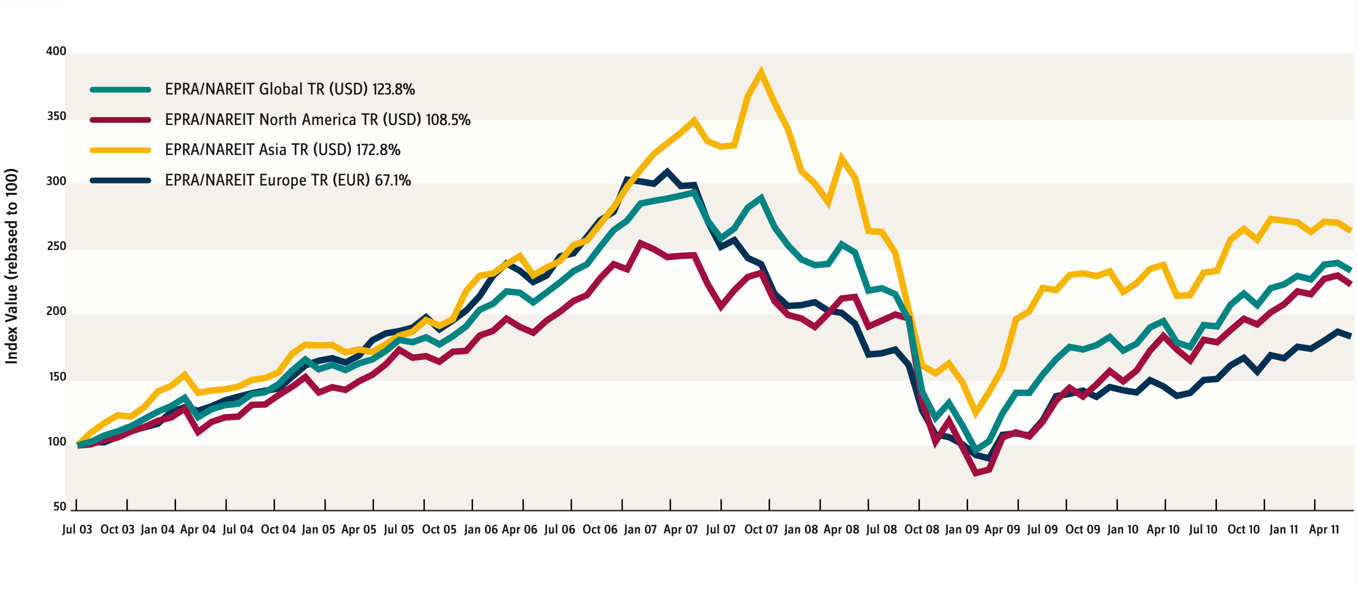
Deloitte.

FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
GLOBAL



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (June-30)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
↑ Quintain Estates	UK	Non-Rental	Diversified	12.15	12.15	42.86	40.35	-7.85	0.00%
↑ Deutsche Wohnen	Germany	Rental	Residential	9.89	9.89	14.29	87.59	28.82	0.02%
↑ Capital & Counties Properties	UK	Rental	Retail	9.51	9.51	31.83	83.10	-NA-	0.00%
↑ Equity Lifestyle Properties *	USA	Rental	Residential	6.28	6.92	14.95	32.26	14.29	0.02%
↑ Bunnings Warehouse Prop *	Australia	Rental	Retail	3.39	6.66	14.83	3.43	7.60	0.07%
↓ New World Development	Hong Kong	Non-Rental	Diversified	-11.31	-11.31	-16.16	-5.01	1.04	0.03%
↓ Keppel Land	Singapore	Non-Rental	Diversified	-11.49	-11.49	-21.31	-5.24	6.83	0.02%
↓ Ashford Hospitality *	USA	Rental	Lodging/Resorts	-12.75	-12.05	31.09	72.58	40.67	0.02%
↓ Felcor Lodging Trust *	USA	Rental	Lodging/Resorts	-14.45	-14.45	-24.29	6.81	-17.81	0.00%
↓ Extendicare REIT *	Canada	Rental	Health Care	-15.90	-15.33	27.23	31.85	14.00	0.08%

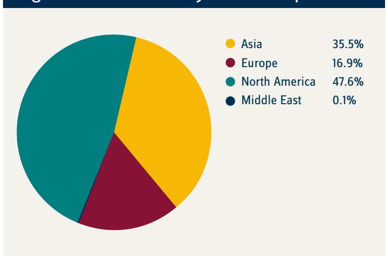
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	Total Net (%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
1 Simon Property Group *	USA	Rental	Retail	23,480.52	8.31	19.96	47.65	12.39	0.03%
2 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	19,315.03	9.17	-9.41	8.10	9.69	0.02%
3 Westfield Group *	Australia	Rental	Retail	14,757.57	7.01	-1.36	-1.43	1.04	0.09%
4 Unibail-Rodamco *	France	Rental	Diversified	14,558.89	14.47	16.72	39.30	11.79	0.05%
5 Mitsubishi Estate	Japan	Non-Rental	Diversified	12,521.84	5.95	-5.44	13.71	-9.60	0.01%
6 Equity Residential Props *	USA	Rental	Residential	12,166.05	4.31	20.18	47.62	19.51	0.02%
7 Vornado Realty Trust *	USA	Rental	Diversified	11,840.90	4.19	15.49	31.41	5.49	0.03%
8 Boston Properties *	USA	Rental	Office	10,660.82	3.77	26.99	51.61	7.81	0.02%
9 Mitsui Fudosan	Japan	Non-Rental	Diversified	10,373.31	4.93	-12.85	11.91	-10.08	0.02%
10 HCP *	USA	Rental	Health Care	10,275.00	3.64	6.12	19.63	8.72	0.05%

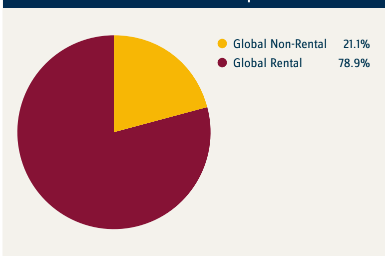
Indices

Index Description	Market Cap (EUR m)	Close Value June-30	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
EPRA/NAREIT Europe TR (EUR)	89,413.34	2,120.06	15.45	17.70	-11.24	4.18%
EPRA/NAREIT Asia TR (USD)	306,179.92	2,352.2	13.95	14.66	-11.67	3.41%
EPRA/NAREIT North America TR (USD)	337,107.80	3,476.5	25.49	43.36	-5.34	3.69%
EPRA/NAREIT Global TR (USD)	768,453.88	2,851.93	18.18	24.74	-9.25	3.65%

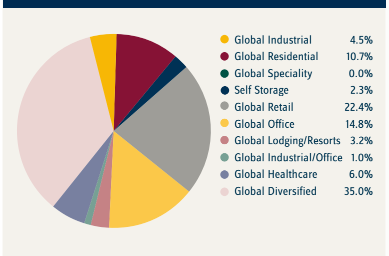
Regional Breakdown by Market Cap



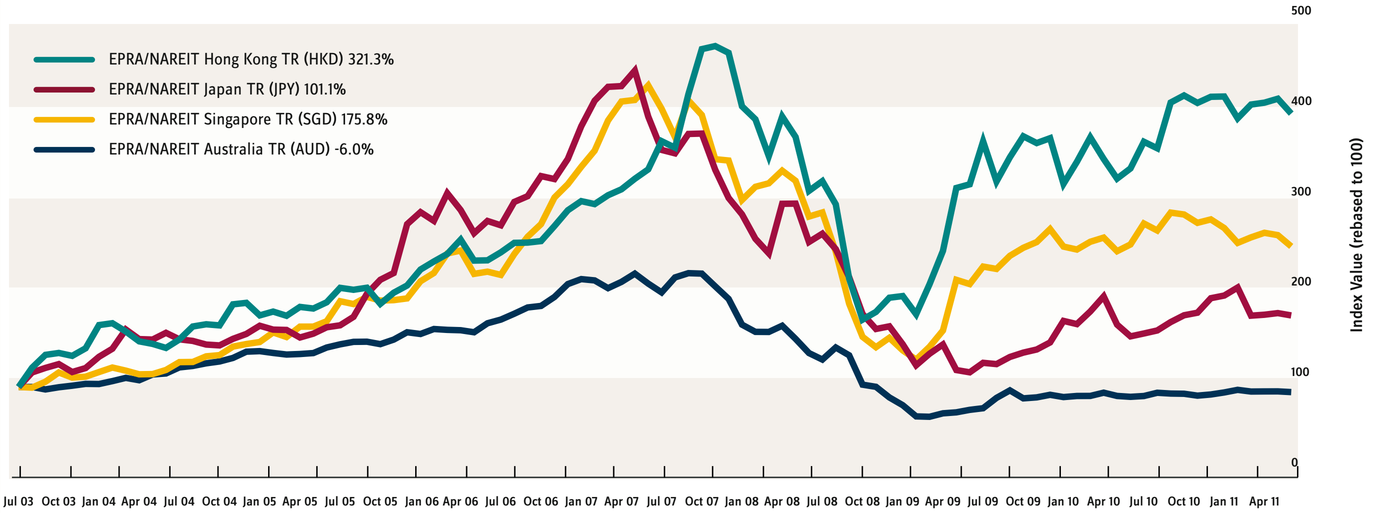
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
ASIA



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (June-30)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
↑ Bunnings Warehouse Prop *	Australia	Rental	Retail	3.39	6.66	14.83	3.43	7.60	6.50%
↑ Nomura Real Estate Holdings	Japan	Non-Rental	Diversified	6.54	6.54	-9.74	18.98	-NA-	1.87%
↑ Cmnwealth Prop Office *	Australia	Rental	Office	2.73	5.74	23.37	6.99	-0.91	5.85%
↑ Soho China	Hong Kong	Non-Rental	Diversified	3.73	3.73	20.24	52.41	-NA-	4.50%
↑ Sumitomo Realty & Dev	Japan	Non-Rental	Diversified	3.59	3.59	-6.19	18.47	-7.92	1.12%
↓ Agile Property Holdings	Hong Kong	Non-Rental	Diversified	-9.87	-9.87	9.03	52.67	20.25	2.41%
↓ Yanlord Land Group	Singapore	Non-Rental	Diversified	-10.45	-10.45	-28.57	-30.64	-NA-	1.02%
↓ Premier Investment Co. *	Japan	Rental	Diversified	-10.70	-10.70	-6.70	8.95	-6.22	6.79%
↓ New World Development	Hong Kong	Non-Rental	Diversified	-11.31	-11.31	-16.16	-5.01	1.04	3.23%
↓ Keppel Land	Singapore	Non-Rental	Diversified	-11.49	-11.49	-21.31	-5.24	6.83	2.49%

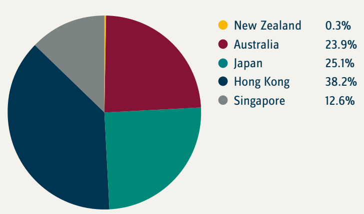
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	Total Net (%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
1 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	19,315.03	9.17	-5.76	8.10	9.69	2.47%
2 Westfield Group *	Australia	Rental	Retail	14,757.57	7.01	-7.28	-1.43	1.04	9.12%
3 Mitsubishi Estate	Japan	Non-Rental	Diversified	12,521.84	5.95	0.36	13.71	-9.60	0.85%
4 Mitsui Fudosan	Japan	Non-Rental	Diversified	10,373.31	4.93	1.17	11.91	-10.08	1.60%
5 Hongkong Land Hldgs	Hong Kong	Rental	Office	8,555.07	4.06	3.14	46.18	16.34	2.25%
6 Sumitomo Realty & Dev	Japan	Non-Rental	Diversified	7,274.09	3.45	8.11	18.47	-7.92	1.12%
7 Wharf Holdings	Hong Kong	Non-Rental	Diversified	7,251.74	3.44	0.75	46.11	-NA-	1.83%
8 Hang Lung Properties	Hong Kong	Non-Rental	Diversified	6,311.79	3.00	-4.23	8.16	20.21	2.23%
9 Westfield Retail Trust	Australia	Rental	Retail	6,111.76	2.90	3.44	-NA-	-NA-	0.00%
10 China Overseas Land	Hong Kong	Non-Rental	Residential	6,035.84	2.87	6.51	15.46	29.94	1.62%

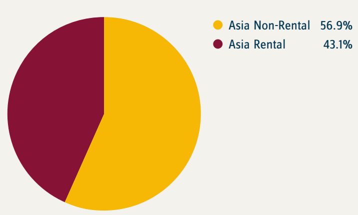
Indices

Index Description	Market Cap (EUR m)	Close Value June-30	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
EPRA/NAREIT Australia TR (AUD)	68,094.32	1,314.37	2.87	5.86	-11.80	6.26%
EPRA/NAREIT Hong Kong TR (HKD)	906,203.99	2,615.79	-4.41	17.75	8.29	2.54%
EPRA/NAREIT Japan TR (JPY)	6,179,625.01	1,903.61	-9.61	14.84	-11.72	2.55%
EPRA/NAREIT Singapore TR (SGD)	47,323.01	1,475.43	-10.47	-0.84	-3.97	3.22%

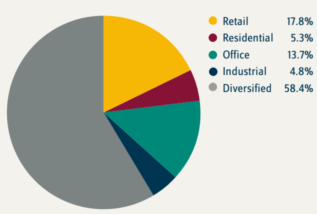
Country Breakdown by Market Cap



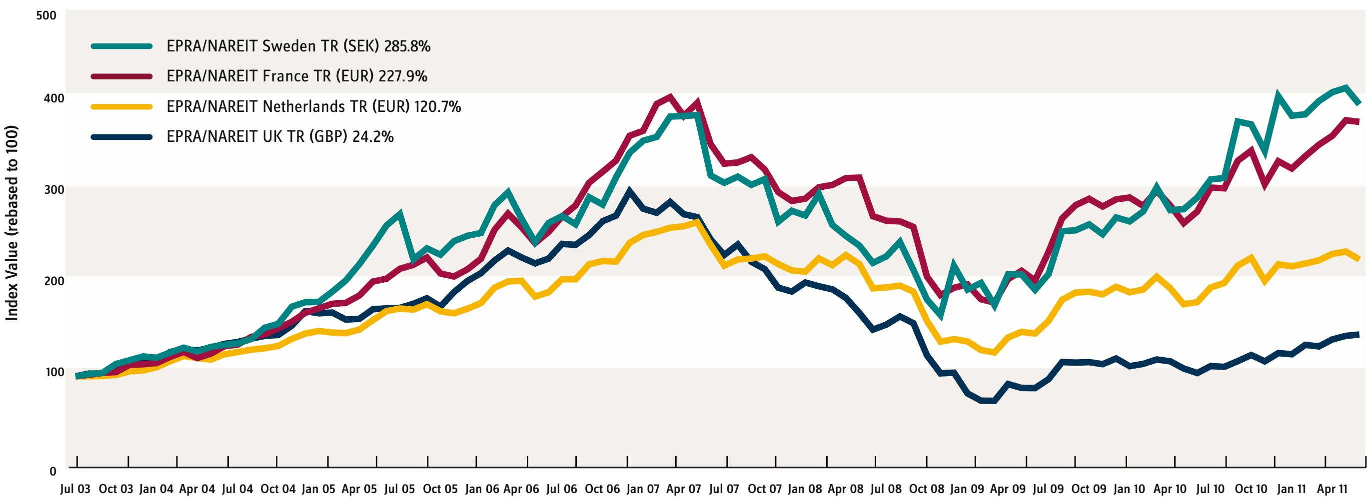
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
EUROPE



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (June-30)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
↑ Quintain Estates	UK	Non-Rental	Diversified	12.15	12.15	42.86	40.35	-7.85	0.00%
↑ Deutsche Wohnen	Germany	Rental	Residential	9.89	9.89	14.29	87.59	28.82	1.67%
↑ Capital & Counties Properties	UK	Rental	Retail	9.51	9.51	31.83	83.10	-NA-	0.00%
↑ Workspace Group *	UK	Rental	Office	6.14	6.14	32.15	40.70	-30.54	2.73%
↑ Ivg Immobilien	Germany	Non-Rental	Office	5.95	5.95	-NA-	-NA-	-NA-	0.00%
↓ Gagfah	Germany	Rental	Residential	-7.25	-7.25	-14.84	-10.53	-9.36	9.97%
↓ Citycon OYJ	Finland	Rental	Retail	-7.74	-7.74	6.49	33.83	4.73	1.29%
↓ Azrieli Group	Israel	Rental	Diversified	-7.87	-7.87	-6.42	4.56	-NA-	2.16%
↓ Big Yellow Group *	UK	Rental	Self Storage	-9.84	-8.38	-8.22	7.14	3.87	2.92%
↓ Safestore Holdings	UK	Rental	Self Storage	-8.91	-8.91	12.95	25.33	-0.32	3.62%

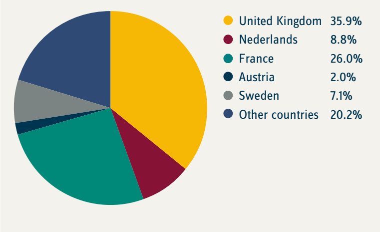
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	Total Net (%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
1 Unibail-Rodamco *	France	Rental	Diversified	14,558.89	14.47	16.72	9.72	11.79	5.02%
2 Land Securities *	UK	Rental	Diversified	7,350.19	7.31	32.74	-7.60	-4.59	3.31%
3 British Land *	UK	Rental	Diversified	5,966.47	5.93	24.10	-6.44	6.12	4.27%
4 Corio *	Netherlands	Rental	Retail	4,158.83	4.13	6.30	4.78	2.65	5.89%
5 Hammerson *	UK	Rental	Retail	3,771.84	3.75	21.44	-5.90	-3.67	3.31%
6 PSP Swiss Property	Switzerland	Rental	Office	3,026.76	3.01	10.07	7.38	11.90	3.51%
7 Capital Shopping Centres Group *	UK	Rental	Retail	2,850.16	2.83	-1.67	-5.64	-6.58	3.75%
8 Klepierre *	France	Rental	Retail	2,699.17	2.68	15.08	4.60	1.26	4.74%
9 SEGRO *	UK	Rental	Industrial	2,539.16	2.52	17.50	-18.00	-19.88	4.58%
10 Swiss Prime Site	Switzerland	Rental	Office	2,409.98	2.40	8.46	8.92	14.40	4.85%

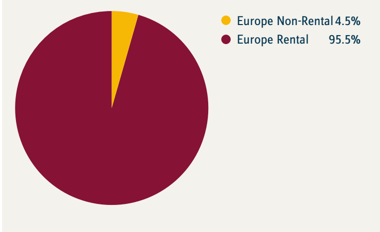
Indices

Index Description	Market Cap (EUR m)	Close Value June-30	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
EPRA/NAREIT UK TR (GBP)	32,461.13	1,909.95	16.29	40.78	-1.19	3.32%
EPRA/NAREIT Netherlands TR (EUR)	8,802.05	3,372.15	2.37	25.77	5.09	6.4%
EPRA/NAREIT France TR (EUR)	25,979.90	5,195.03	12.85	35.05	11.21	4.93%
EPRA/NAREIT Sweden TR (SEK)	65,435.54	6,188.28	-2.19	34.57	21.07	3.56%

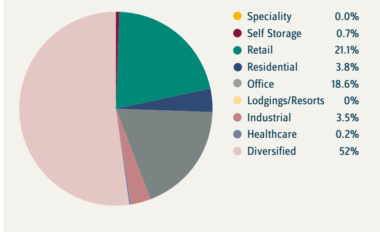
Country Breakdown by Market Cap



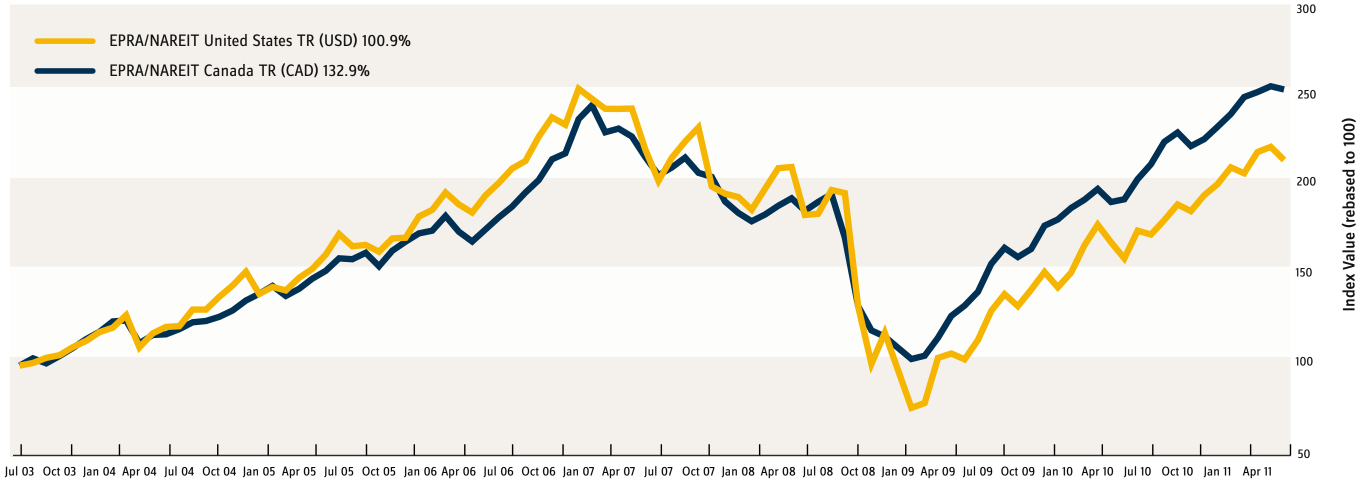
Investment Focus Market Cap Breakdown



Sector Breakdown



NORTH AMERICA



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (June-30)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
↑ Equity Lifestyle Properties *	USA	Rental	Residential	6.28	6.92	14.95	32.26	14.29	2.40%
↑ Strategic Hotels & Resorts	USA	Rental	Lodging/Resorts	5.83	5.83	33.84	61.28	-8.92	0.00%
↑ Pebblebrook Hotel Trust *	USA	Rental	Lodging/Resorts	4.94	5.56	-NA-	-NA-	-NA-	1.78%
↑ Northern Property REIT*	Canada	Rental	Residential	3.10	3.53	13.54	38.46	15.89	5.00%
↑ Chesapeake Lodging Trust *	USA	Rental	Lodging/Resorts	1.91	3.11	-NA-	-NA-	-NA-	4.69%
↓ Brandywine Realty Trust *	USA	Rental	Office	-9.17	-9.17	5.06	12.00	-4.28	5.18%
↓ Corporate Office Props *	USA	Rental	Office	-12.17	-11.00	-4.13	-13.24	1.35	5.30%
↓ Ashford Hospitality *	USA	Rental	Lodging/Resorts	-12.75	-12.05	31.09	72.58	40.67	1.61%
↓ Felcor Lodging Trust *	USA	Rental	Lodging/Resorts	-14.45	-14.45	-24.29	6.81	-17.81	0.00%
↓ Extendicare REIT *	Canada	Rental	Health Care	-15.90	-15.33	27.23	31.85	13.10	8.06%

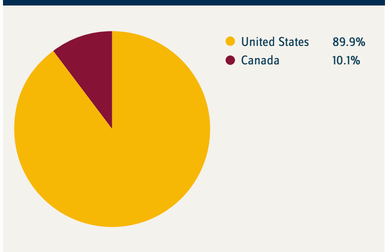
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	Total Net (%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
1 Simon Property Group *	USA	Rental	Retail	23,480.52	8.31	19.96	47.65	12.39	2.75%
2 Vornado Realty Trust *	USA	Rental	Diversified	11,840.90	4.19	15.49	31.41	5.49	2.96%
3 Equity Residential Props *	USA	Rental	Residential	12,166.05	4.31	20.18	47.62	19.51	2.25%
4 Public Storage *	USA	Rental	Self Storage	10,036.39	3.55	16.80	33.50	14.96	3.33%
5 Boston Properties *	USA	Rental	Office	10,660.82	3.77	26.99	51.61	7.81	1.88%
6 Host Hotels & Resorts *	USA	Rental	Lodging/Resorts	7,954.84	2.82	-4.76	26.26	8.94	0.71%
7 HCP *	USA	Rental	Health Care	10,275.00	3.64	6.12	19.63	8.72	5.23%
8 Avalonbay Communities *	USA	Rental	Residential	7,732.87	2.74	18.84	41.34	16.91	2.78%
9 Ventas *	USA	Rental	Health Care	5,923.08	2.10	6.62	17.00	11.51	4.36%
10 Kimco Realty *	USA	Rental	Retail	5,217.62	1.85	9.31	43.01	-14.02	3.86%

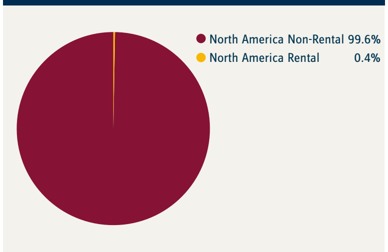
Indices

Index Description	Market Cap (EUR m)	Close Value June-30	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
EPRA/NAREIT Canada TR (CAD)	40,067.26	4,506.24	12.24	31.74	11.62	5.11%
EPRA/NAREIT United States TR (USD)	367,928.02	3,778.98	10.04	34.28	4.55	3.4%

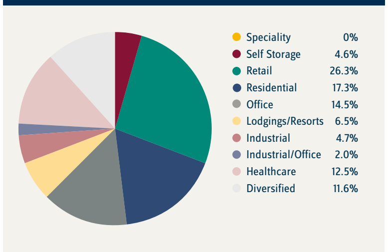
Country Breakdown by Market Cap



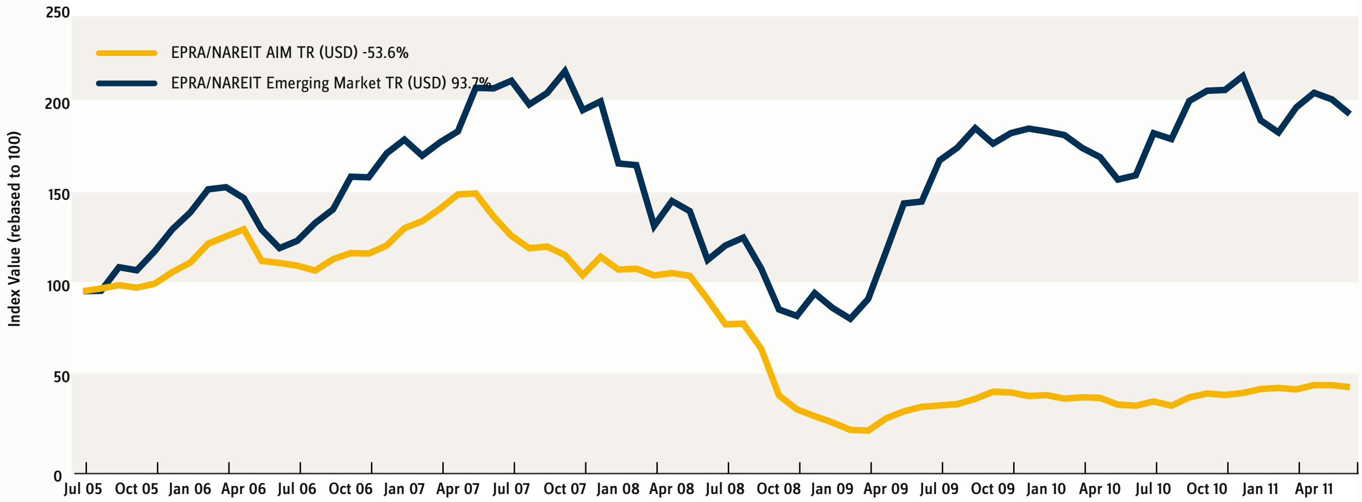
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
EMERGING MARKETS



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (June-30)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
↑ LBS Bina Group BHD	Malaysia	Non-rental	Diversified	37.90	37.90	47.41	69.31	35.99	0.00%
↑ Parsvnath Developers	India	Non-rental	Diversified	12.50	12.50	-18.11	-23.57	-6.18	0.00%
↑ General Shopping Brasil	Brazil	Non-rental	Residential	8.94	8.94	2.37	63.61	2.34	0.00%
↑ Eastern & Orient	Malaysia	Non-rental	Diversified	8.05	8.05	36.44	83.11	-2.72	1.77%
↑ Glomac Bhd	Malaysia	Non-rental	Diversified	4.57	7.14	13.64	50.00	27.13	3.69%
↓ DLF	India	Non-rental	Diversified	-12.19	-12.19	-27.81	-26.51	-18.27	0.95%
↓ IVRCL Assets & Holdings	India	Non-rental	Diversified	-13.99	-13.99	-38.73	-63.09	-25.43	0.00%
↓ Gafisa	Brazil	Non-rental	Residential	-14.60	-14.60	-36.39	-29.08	-16.75	3.08%
↓ Peninsula Land	India	Non-rental	Diversified	-16.96	-16.96	-26.77	-35.05	-0.95	3.23%
↓ Prestige Estates Projects Ltd	India	Non-rental	Diversified	-18.92	-18.92	-29.82	#DIV/0!	-NA-	0.00%

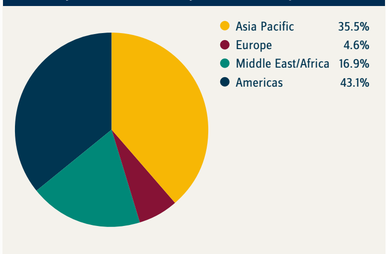
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	Total Net (%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
1 PDG Realty S/A Empreendimentos e Participacoes Ord	Brazil	Non-rental	Diversified	4,358.74	16.82	-11.82	17.57	16.12	1.92%
2 BR Malls Participacoes S/A Ord	Brazil	Rental	Retail	3,501.29	13.51	5.35	53.32	33.06	0.93%
3 Growthpoint Prop Ltd	South Africa	Rental	Diversified	2,965.77	29.21	3.38	26.10	24.21	6.88%
4 Redefine Income Find	South Africa	Rental	Diversified	2,148.64	21.16	2.13	17.92	22.62	8.15%
5 Cyrela Brazil Realty S/A Empreendimentose e Participacoes Or	Brazil	Non-rental	Diversified	2,079.64	8.02	-30.40	-22.06	-10.52	2.27%
6 MRV Engenharia e Participacoes SA	Brazil	Non-rental	Residential	2,065.86	7.97	-15.82	3.38	4.98	2.59%
7 Emaar Properties	UAE	Non-rental	Diversified	1,694.06	16.68	-13.90	-0.11	-34.45	3.31%
8 DLF	India	Non-rental	Diversified	1,660.34	7.77	-27.81	-26.51	-18.27	0.95%
9 Gafisa	Brazil	Non-rental	Residential	1,407.70	5.43	-36.39	-29.08	-16.75	3.08%
10 Ayala Land	Philippines	Non-rental	Diversified	1,284.51	6.01	-4.78	16.45	18.21	0.78%

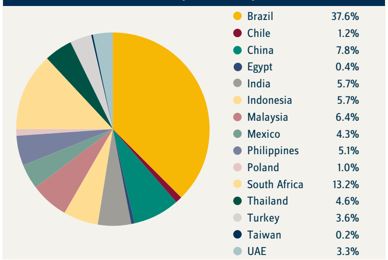
Indices

Index Description	Market Cap (EUR m)	Close Value June-30	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) June-30
EPRA/NAREIT Emerging Market TR (USD)	60,184.98	1,915.91	-16.31	-3.36	5.80	2.68%
EPRA/NAREIT AIM TR (USD)	21,370.05	1,736.68	-16.46	-10.11	2.72	1.93%

Country Breakdown by Market Cap



Global Breakdown by Country

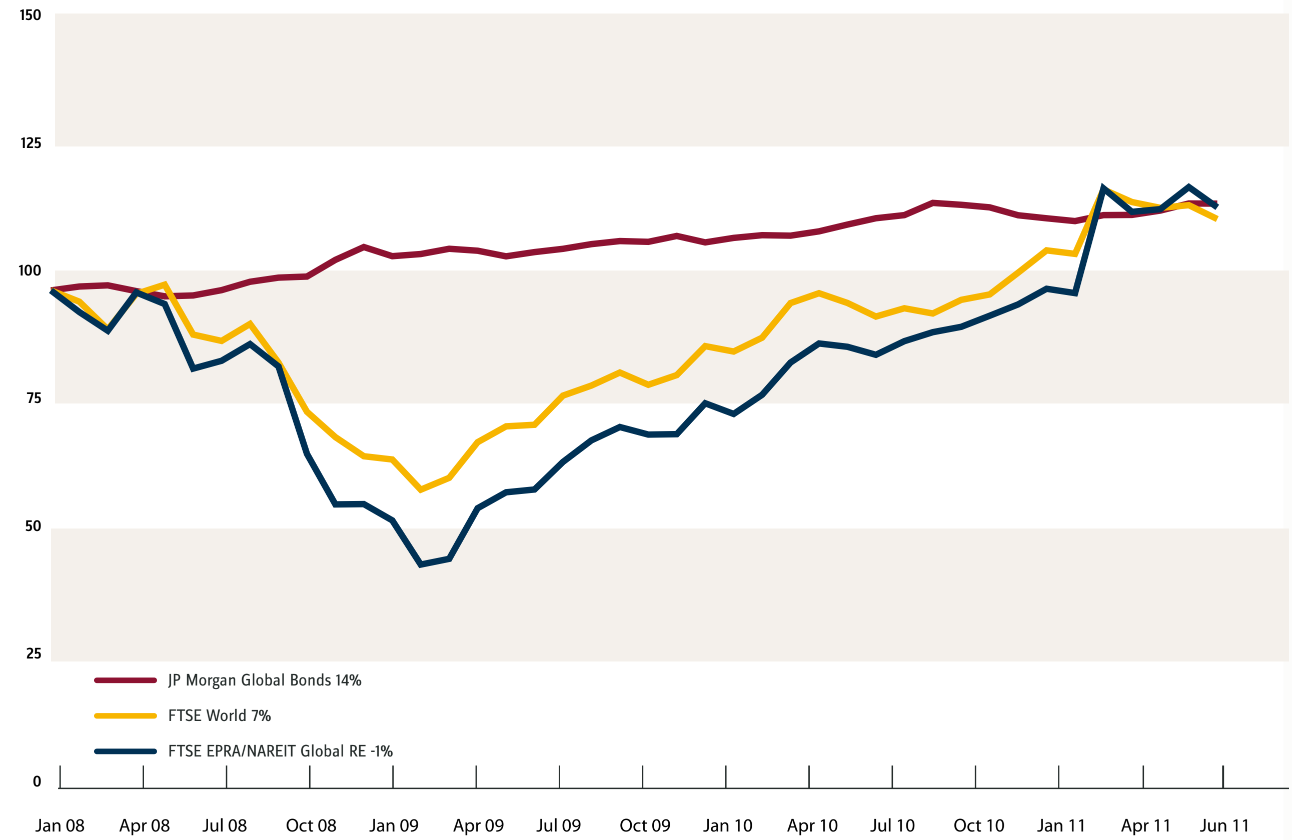


FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

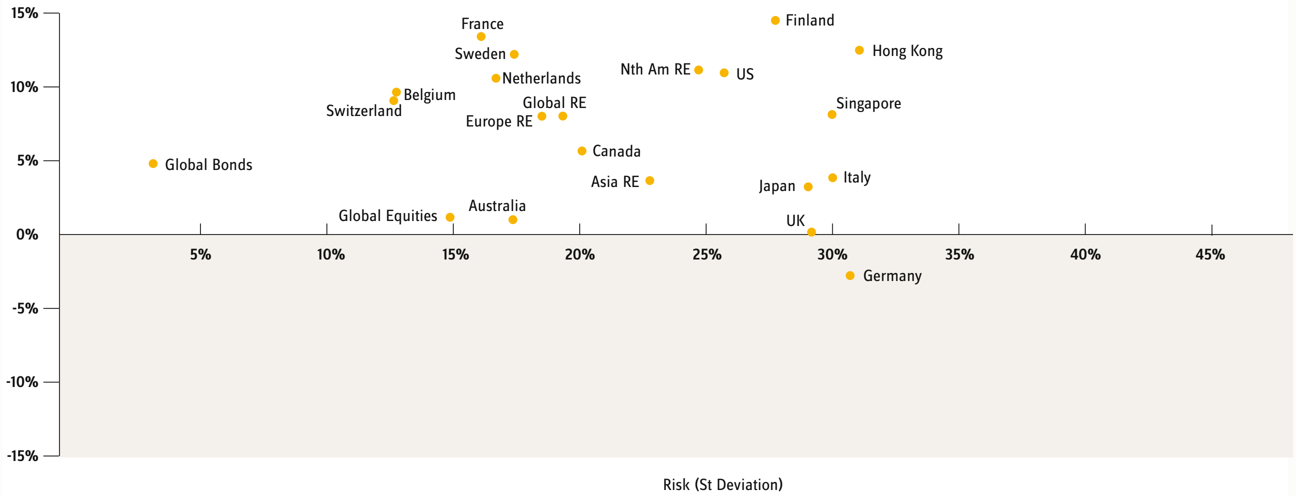
Countries	2009 GDP ($ Bn)	2009 GDP per capita ($)	2009 Real Estate ($ Bn)	30 Jun 11 Total Listed ($ Bn)	30 Jun 11 No. of Companies	30 Jun 11 Index Mkt Cap ($ Bn)	30 Jun 11 Total RE v Listed RE (%)
Japan	4,806	37,696	2,162	170.0	370	77	7.86%
Hong Kong/China	4,530	3,490	1,058	183.0	393	116	17.30%
South Korea	962	20,106	403	1.0	55	-	0.25%
India	1,259	1,172	204	8.0	183	-	3.91%
Australia	928	46,414	418	73.0	174	73	17.48%
Taiwan	340	15,050	129	4.0	31	-	3.09%
Indonesia	492	2,178	98	7.0	66	-	7.13%
Thailand	257	4,035	63	4.0	113	-	6.34%
Malaysia	197	7,724	60	0.7	140	-	1.17%
Singapore	181	41,514	163	39.0	146	39	23.97%
New Zealand	125	31,122	60	3.2	22	1	5.22%
Pakistan	155	965	24	1.0	6	-	4.23%
Philippines	155	1,749	29	4.0	64	-	13.91%
Vietnam *	86	1,035	13	-	-	-	0.00%
Total Asia-Pacific	**14,474**	**19,439**	**4,884**	**497.9**	**1,763**	**305**	**10.19%**
Germany	3,380	40,977	1,521	42.0	153	9	2.76%
United Kingdom	2,472	41,119	1,391	68.0	164	52	4.89%
France	2,661	42,560	1,198	77.0	125	38	6.43%
Italy	2,144	36,509	965	6.0	8	1	0.62%
Spain	1,474	34,281	663	21.0	33	-	3.17%
Russia	1,352	9,259	437	8.0	26	-	1.83%
Netherlands	802	49,157	361	15.0	19	13	4.16%
Switzerland	473	63,542	213	8.0	11	11	3.75%
Belgium	472	45,585	212	7.0	29	5	3.30%
Sweden	441	49,089	199	15.0	53	10	7.56%
Turkey	647	9,041	208	6.0	37	-	2.89%
Austria	384	46,915	173	12.0	17	3	6.95%
Poland	450	11,658	157	7.0	45	-	4.46%
Norway	399	87,249	180	5.0	16	1	2.78%
Denmark	316	58,315	142	12.0	36	-	8.45%
Greece	325	30,564	146	5.0	26	0	3.41%
Ireland	245	59,861	110	2.1	4	-	1.91%
Finland	246	47,231	111	3.0	8	3	2.71%
Portugal	235	22,329	102	2.0	12	-	1.96%
Czech Republic	190	18,519	77	-	-	-	0.00%
Hungary	137	13,604	50	-	7	-	0.00%
Romania *	171	7,667	52	-	-	-	0.00%
Ukraine *	139	2,862	30	-	-	-	0.00%
Slovakia *	88	16,346	35	-	-	-	0.00%
Slovenia *	49	24,400	22	-	-	-	0.00%
Luxembourg	53	113,930	24	-	1	-	0.00%
Bulgaria *	47	6,222	13	-	-	-	0.00%
Total Europe	**19,792**	**37,755**	**8,790**	**321.1**	**830**	**145**	**3.65%**
Egypt	112	1,374	19	11.0	48	-	57.40%
Israel	149	21,132	63	12.0	152	-	18.93%
Morocco	85	2,684	18	3.0	5	-	16.54%
South Africa	261	5,258	70	8.6	7	-	12.35%
Total Africa/Middle East	**607**	**30,447**	**171**	**34.6**	**212**	**-**	**20.30%**
Mexico	977	9,311	316	1.0	3	-	0.32%
Brazil	1,516	8,127	469	2.0	26	-	0.43%
Argentina	294	7,599	89	0.6	2	-	0.67%
Venezuela *	288	11,549	100	-	-	-	0.00%
Colombia	224	5,478	61	-	-	-	0.00%
Chile	164	10,373	55	2.0	17	-	3.63%
Peru	122	4,482	31	1.0	13	-	3.24%
Total Latin America	**3,585**	**8,495**	**1,121**	**6.6**	**61**	**-**	**0.59%**
United States	14,104	48,130	6,347	402.0	974	368	6.33%
Canada	1,397	43,468	629	76.0	152	42	12.09%
Total Nth America	**15,501**	**47,710**	**6,976**	**478.0**	**1,126**	**409**	**6.85%**
World	**53,959**	**-**	**21,942**	**1,338.2**	**3,992**	**860**	**6.10%**

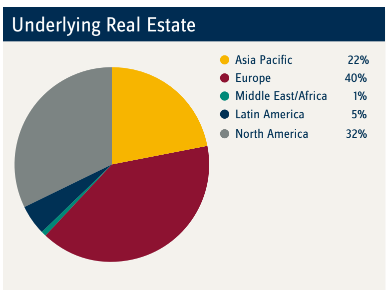
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

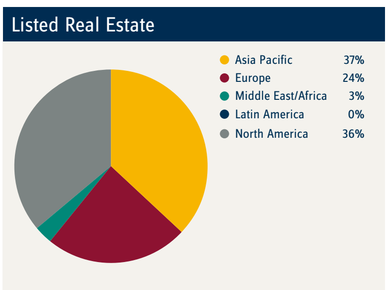
Global real estate vs equities & bonds



Rolling 10-years risk/return local currencies - countries







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EPRA

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