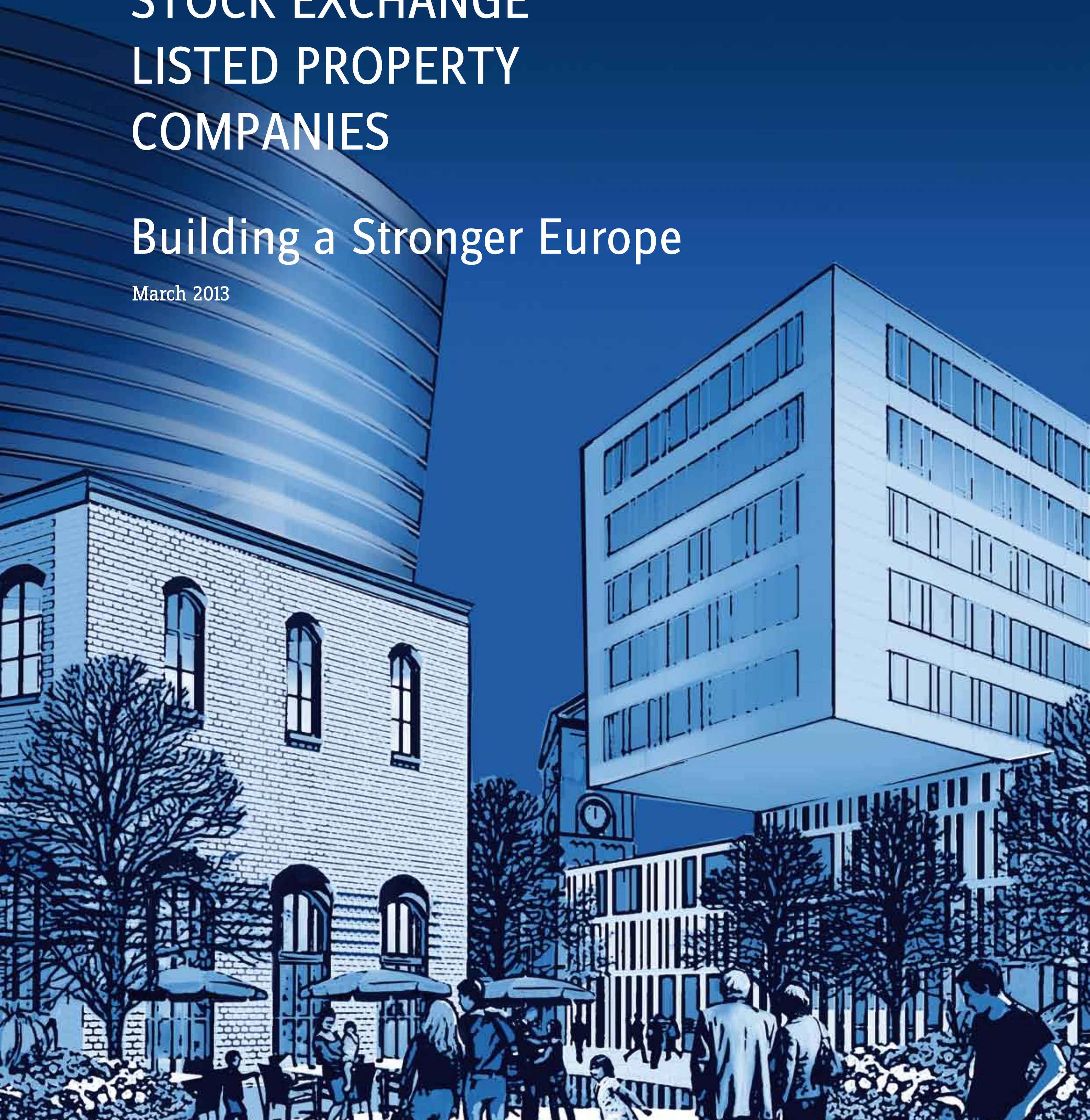
EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

STOCK EXCHANGE LISTED PROPERTY COMPANIES

Building a Stronger Europe

March 2013



This report considers the unique role that stock exchange listed property companies play in delivering, enhancing and operating the built environment. It further highlights the listed property sector's function in driving up standards in the broader property sector and the opportunity that growth in this sector can play in building a stronger Europe.

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TABLE OF CONTENTS

1. Executive Summary

This report highlights the unique contributions that listed property companies make to the health, vibrancy, efficiency and accessibility of the European property market:

- The direct contributions that listed property companies make to the economy through the services they provide to citizens – both in delivering the built environment and as an important source of accessible investment opportunities.
- The role that listed property companies perform in driving up standards and efficiencies in the broader property market which in turn improve the broader property sector's contribution to the economy.

This report provides evidence to support the rational observations that, due to their unique status, publicly listed property companies:

- Play a substantial role in the provision of business and residential accommodation.
- Are the leading 'innovators' in delivering and operating the built environment – responding more actively to the needs of tenants, the communities in which they operate and externalities such as the property sector's impact on the environment.
- Provide accessible, transparent investment opportunities with healthy corporate governance and accountability.
- Provide much need liquidity to an otherwise illiquid market.
- Have delivered solid long-term, diversified returns to shareholders.
- Have a positive effect on the rest of the property sector – in terms of professionalism, transparency, stability, liquidity and the quality of the built environment.

This report highlights the huge opportunity for governments and the EU to take proactive steps to deliver policies to grow the European listed property sector, streamlining the broader property sector to deliver to its full potential and build a stronger Europe.

2. Property: a platform for the economy

The built environment - the space and infrastructure that provides for the needs of businesses, families, hospitals, schools, and leisure activities - is fundamental to Europe's well-being by catering to its economic and social needs (see EPRA/INREV report *'Real Estate in the Real Economy'*). The commercial property sector is directly responsible for providing this essential service to businesses and citizens.

In 2011, the commercial property industry

- *Directly added **EUR 285 billion** to the European Union's economy - more than both the European automotive industry and telecommunication sector.*
- *Provided jobs for over **4 million people.***
- *Provided **3.5 billion square metres** of commercial property floorspace to Europe's businesses.*
- *Accounted for **6%** of the assets held by insurance companies and pension funds to support the long-term saving needs of pensioners and other savers.*

Property is a very capital-intensive business, and the private sector will always be needed to play an essential role in delivering long-term capital investment and expertise to meet Europe's real estate and infrastructure needs. This report shows that publicly listed property companies perform a leading role in delivering the property sector's contribution to the real economy. They are long-term players in the largest, most innovative and ambitious projects. They are at the forefront of efforts to improve environmental performance of Europe's infrastructure and, as publicly-owned companies, they operate within a constitution that is transparent, accountable and well regulated.

It is nevertheless crucial to note that the European listed property sector is small relative to other major developed global regions. Only 1.8% of its investible commercial real estate is held within the publicly quoted sector compared to 6.7% in the North America and 6.1% in Asia.

This sub-optimal situation puts Europe at a distinct disadvantage, particularly at a time when private sector investment into businesses that deliver long-term investment into real estate and infrastructure, is critical for delivering economic growth.

3. Listed property companies

Listed property companies (including 'REITs')[1] are important players in Europe's commercial property sector. Around half of Europe's commercial property is owner-occupied, the remainder is owned and operated by various types of investor - mainly listed property companies, private property companies, non-listed funds and institutions. Listed property companies are the largest category of owner.

[1] see endnote

Figure 1 - Investment and management of the built environment

€ billion, 2011

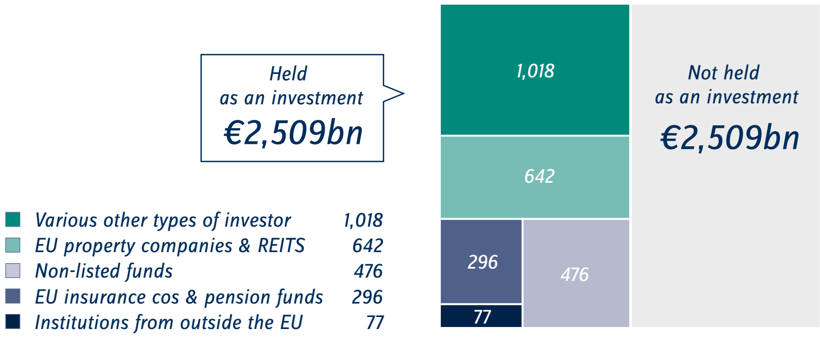


Figure 2 - Top 20 largest European listed property companies

	Company	Country	Exchange	
1	**Unibail - Rodamco**	France	NYSE Euronext Paris	NYSE Euronext
2	**Land Securities Group**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
3	**British Land Co**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
4	**Hammerson**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
5	**Swiss Prime Site**	Switzerland	SIX Swiss Exchange	SIX Swiss Exchange
6	**PSP Swiss Property**	Switzerland	SIX Swiss Exchange	SIX Swiss Exchange
7	**Klepierre**	France	NYSE Euronext Paris	NYSE Euronext
8	**Capital Shopping Centres Group**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
9	**Corio**	The Netherlands	NYSE Euronext Amsterdam	NYSE Euronext
10	**Derwent London**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
11	**Segro**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
12	**Capital & Counties Properties**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
13	**Deutsche Wohnen AG**	Germany	Xetra Deutsche Börse	XETRA DEUTSCHE BÖRSE GROUP
14	**Great Portland Estates**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
15	**Fonciere Des Regions**	France	NYSE Euronext Paris	NYSE Euronext
16	**Castellum**	Sweden	NASDAQ OMX Stockholm Exchange	NASDAQ OMX
17	**Deutsche EuroShop**	Germany	Xetra Deutsche Börse	XETRA DEUTSCHE BÖRSE GROUP
18	**Shaftesbury**	United Kingdom	London Stock Exchange	London STOCK EXCHANGE
19	**GSW Immobilien AG**	Germany	Xetra Deutsche Börse	XETRA DEUTSCHE BÖRSE GROUP
20	**Gecina**	France	NYSE Euronext Paris	NYSE Euronext

These companies are listed on the major stock exchanges throughout the world. They are important components of the most widely used country indices such as the British FTSE 100, French CAC 40, and Dutch AEX 25 etc. - just like other industry leaders in other market sectors such as Google, Royal Dutch Shell, HSBC, L'Oreal, LVMH, Siemens and Volkswagen Group. The stock exchange listing makes them accessible to all types of shareholders - from the largest pension funds to the 'man on the street', who are thus able to participate as stakeholders in these businesses and access the important diversification benefits of investing in professionally managed commercial real estate.

4. Delivery and management of the built environment

Driving up standards | **Building a stronger Europe**

Listed property companies are typically involved in delivering and managing property developments and portfolios on a substantial scale. Their size, professionalism and access to varied sources of finance via the public markets allows them to take responsibility for complex capital intensive and long-term projects that require unique management skills and expertise.

Figure 3 - Major European property companies committed development vs. Europe total

Developement rate in %

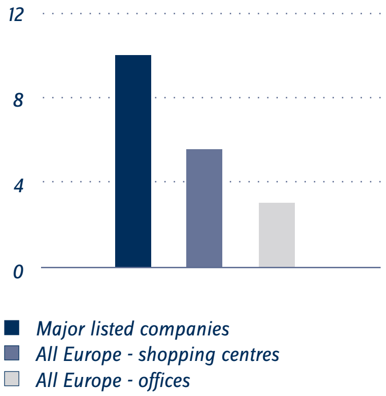


Figure 4 - Average property portfolio size in Europe

€ billion

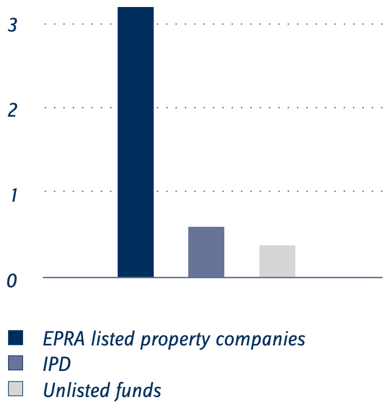
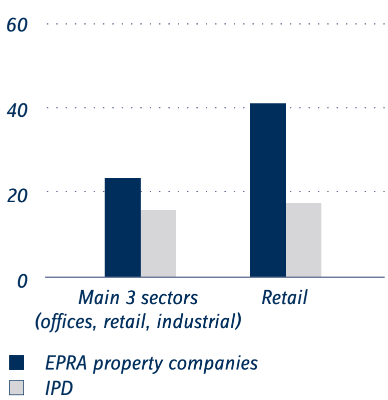


Figure 5 - Average property sizes, EPRA listed property companies vs. IPD

€ million



Listed property companies are industry leaders in adding to and improving the built environment. They are major players in the most substantial, ambitious, capital intensive and long-term projects that deliver the accommodation and infrastructure needs of European citizens. Relative to the size of their property portfolios, listed property companies devote 2-3 times as much investment to the development of new buildings and the improvement of existing buildings than the rest of the real estate industry.

Listed property companies typically own and manage property portfolios on a substantial scale. On average their portfolios each contain EUR 3,275 million of property, which is 5.5 times bigger than the average investor and eight times bigger than the average unlisted property fund.

The average size of a property in EPRA-listed companies' portfolios is almost 50% larger than the average property in the Investment Property Databank (IPD)[2]. In the retail sector, the average property in a listed property company is over twice as large.

[2] see endnote

Economies of scale facilitate cost efficiencies, greater innovation and strategic portfolio planning, and allow listed property companies to develop and operate prominent urban developments such as modern shopping centres at the heart of many communities. They own or part-own 32 of the top 50 shopping centres in developed Europe. In the UK for example, they own or part-own 18 of the 20 biggest centres, significantly more than the institutions and fund managers who have an interest in 11 of them.

Figure 6
Ownership of the top 50 (by size) shopping centres in Europe

● *Owned or co-owned by a listed property company*

● *Not owned or co-owned by a listed property*

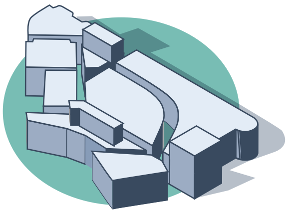
5. Community engagement, responsibility and customer focus

Driving up standards **Building a stronger Europe**

Whilst the traditional relationship between property owners in the broader real estate sector and their tenants can typically be described as a remote and sometimes confrontational relationship, a recent (2012) study by RealService has shown that the listed property sector today increasingly resembles a modern customer-facing industry with a strengthening focus on excellence in product and service delivery. The study found that 43 of the 50 largest listed property companies (86%) have embraced the customer (tenant) focused approach to property ownership and management to some degree.

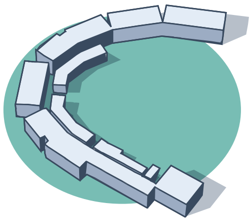
As perpetual businesses that operate continuously through many economic and property cycles, listed property companies activities are focused on meeting the long-term accommodation needs of businesses and communities. As such, they tend to undertake more dynamic management of the underlying property portfolio including development and major refurbishment activity.

Figure 7 - Listed property companies: – project examples



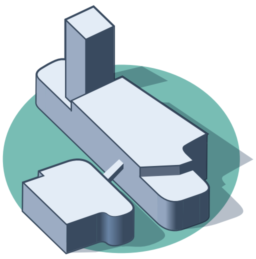
Westfield *Stratford City (UK)*
New development 2012

- *25,000 construction jobs*
- *18,000 permanent jobs (of which 10,000 in retail)*
- *175,000 m^2 (retail), 100,000 m^2 (offices)*
- *300 shops, 70 restaurants, 3 hotels, 17 screens*
- *200,000 visitors a day (4 mil people within 45 min.)*



Glasgow Fort *Glasgow (UK)*
Recent development 2004

- *Large shopping centre (36,500 m^2)*
- *More than 78 retail units*
- *1,400 permanent jobs created*
- *Dedicated motorway access (only mall in UK)*
- *Successful upgrade of Scotland's most deprived area*

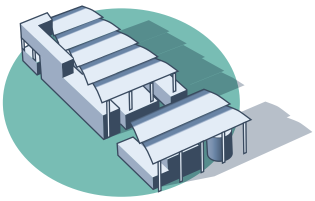


Le Nouveau Beaugrenelle *Paris (F)*
New development 2013

- *2.8 mil people within 30 minutes (18 mil/year)*
- *45,000 m^2 (mix of retail and offices on four floors)*
- *Urban regeneration of Front and Seine*
- *Full BREEAM & HQE sustainability certification*
- *1,000 retail jobs created*

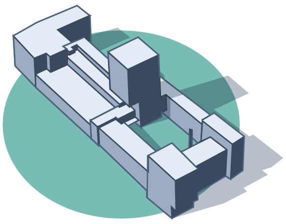
Alte Post *Hamburg (D)*
Extensive revitalisation 2009-2011

- *Addition of a new six-floors development*
- *9,800 m^2 (mix of retail and offices)*
- *Historical façade fully preserved*
- *Exclusive retail on ground and first floor*



Confluence *Lyon (F)*
New development 2012

- *Shopping centre on three floors (53,000 m^2)*
- *100 shops, multiplex cinema, fitness, restaurants*
- *Hotel with 150 rooms*
- *1,250 permanent jobs*
- *First centre to achieve BREEAM "very good"*



Löwenbräu *Zurich West (CH)*
Redevelopment and new development 2013

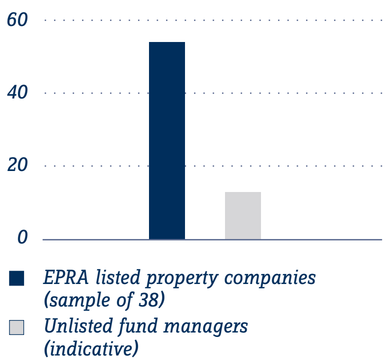
- *Set in Zürich West, a formal industrial area*
- *Offices and commercial space (10,200 m^2)*
- *New residential area of 40 appartments*
- *Large retrofitted hall dedicated to art exhibitions*
- *Former brewery with a 1897 old structure*

Not only do they devote more focus to the long-term development of the built environment, listed property companies also tend to directly undertake labour-intensive activities such as the day-to-day management of their buildings and they can develop closer relationships with the businesses and people which use them - having a greater presence in their local communities and environment. Figure 7 includes a few examples of long-term projects undertaken by listed property companies:

This contrasts with many other investors, such as fund managers, who typically out-source such day-to-day activities. In operating their businesses this way, listed property companies employ almost four times as many people as fund managers, relative to the amount of property they manage (see Figure 8). This way of working fosters a stronger relationship with the users of their buildings and a corresponding customer focus.

Figure 8 - listed companies vs. unlisted funds

Employees per € billion gross asset value



6. The discipline of the public markets - transparency and accountability

"Public companies let in daylight. They have to publish quarterly reports, hold share-holder meetings ... deal with analysts and generally conduct themselves in an open manner. By contrast, private companies and family firms operate in a fog of secrecy."

The Economist - May 2012

The transparent and 'liquid' nature of the public stock markets fosters good decision-making, healthy corporate governance, investor confidence and trust. The listed property sector reduces 'information-based contagion' (a key contributor towards systemic risk) by reducing the likelihood of opaque market bubbles and subsequent market shocks. It enhances the accountability of its managers - the directors and employees of the company, to its investors (the shareholders). As part of regulated stock markets, listed property companies provide high levels of disclosure and information.

Transparency goes hand-in-hand with the dissemination of good information and enables scrutiny, whereas a lack of such information leaves investors in the dark and flying blind. Listed property companies are not only subject to the daily scrutiny of their shareholders, but are also subject to the intense scrutiny of an army of analysts. 128 investment organisations with analyst teams monitor the 83 listed property companies in the FTSE EPRA/NAREIT Developed Europe Index. On average, each of these property companies has 11 organisations who monitor and react to management performance on a regular basis.

By contrast, the property fund sector is more fragmented, with over a thousand funds in Europe and the average portfolio containing only EUR 400 million of property - an eighth the size of the average listed property company within the FTSE EPRA/NAREIT Developed Europe Index. Scrutiny of these numerous funds is less intense, led by a few multinational and niche investment consultancies in each country. Based simply on the difference in number of entities, in order to provide the equivalent level of analysts' scrutiny that EPRA's listed companies receive, there would have to be over 1,500 organisations undertaking analysis of European unlisted property funds - which is clearly not the case given the concentration of analysis in the unlisted funds sector.

7. Transparency of property market data

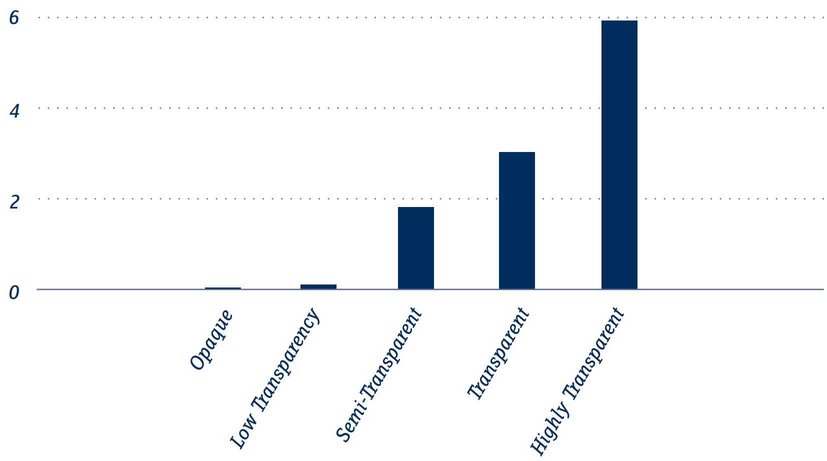
A healthy and sizeable listed property sector improves the overall transparency of a country's real estate market. Those are the findings of the recent Jones Lang LaSalle's 2012 Global Real Estate Transparency Index - a unique bi-annual survey covering 97 markets worldwide which aims to help real estate players understand important differences when transacting, owning and operating in foreign markets. High standards of transparency in the listed sector have a trickle-down effect on the rest of property market.

A transparent property market means that good and bad decisions by management are communicated to and assessed by investors - they are rewarded or punished accordingly. In this environment, the cream rises to the top, the real estate sector becomes more efficient and the essential service it provides to the economy improves. Overall, the quality of the built environment improves and this has a 'trickle-down' effect on the rest of the property sector and broader economy.

"Improving market fundamentals data and performance measurement, combined with better governance of listed vehicles, have underpinned much of the transparency progress over the past two years."

Jones Lang LaSalle's
2012 Global Real Estate Transparency Index

Figure 9
Larger listed sector improves overall transparency of the real estate Market - JLL
% listed of total Real Estate (average per country)



High financial reporting and governance standards ensure that good information is provided to investors and the general public. In their 2012 survey, Jones Lang LaSalle measured each country's transparency according to a number of criteria (for example, the availability of performance indices, financial reporting and governance standards, etc.) and then, on the basis of a composite score, ranked these countries from the least "opaque" to the most "highly" transparent. Figure 9 highlights the clear positive relationship between relative size of a country's listed property market and its overall transparency.

"Markets with established and high-quality returns data have a big advantage in attracting international capital and in supporting domestic investor allocations to real estate."

Jones Lang LaSalle's
2012 Global Real Estate Transparency Index

Such transparency reflects strong positions across the board in the listed property sector – unrivalled financial reporting standards, disclosure and corporate governance, and the quality of listed property's investment perfomance indices.

Good investment performance indices are part of this culture of disclosure and information within the listed property sector. As Figure 10 illustrates, EPRA's listed property indices cover 13 of Europe's 16 developed countries, representing companies that own a tenth of developed Europe's invested real estate. These indices have long pedigrees, on average having a 21-year history compared to 16 years for the direct property indices collated by IPD. Listed real estate indices are timely and capture market conditions, not being prone to the one-to-three month publication delay and the biases associated with limited transactional evidence in direct property indices.

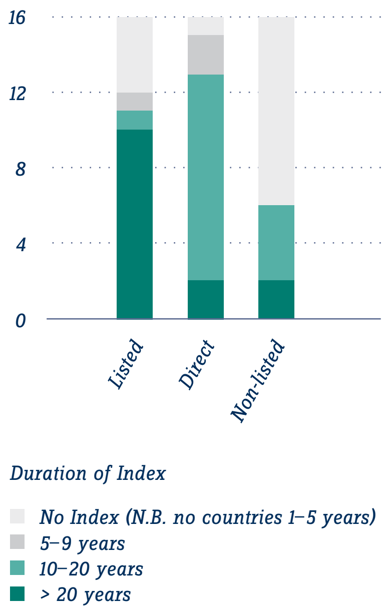
Performance indices for unlisted funds, by contrast, are in their infancy, with most established in the 2000s and having a history of less than ten years. At the country level, they only provide information on half a dozen European nations.

"The 2012 results reaffirm the relationship between real estate investment volumes and transparency. Rising levels of transparency are associated with higher levels of foreign direct real estate investment."

Jones Lang LaSalle's
2012 Global Real Estate Transparency Index

Figure 10
Length of investment performance indicies to mid-2012 developed Europe countries

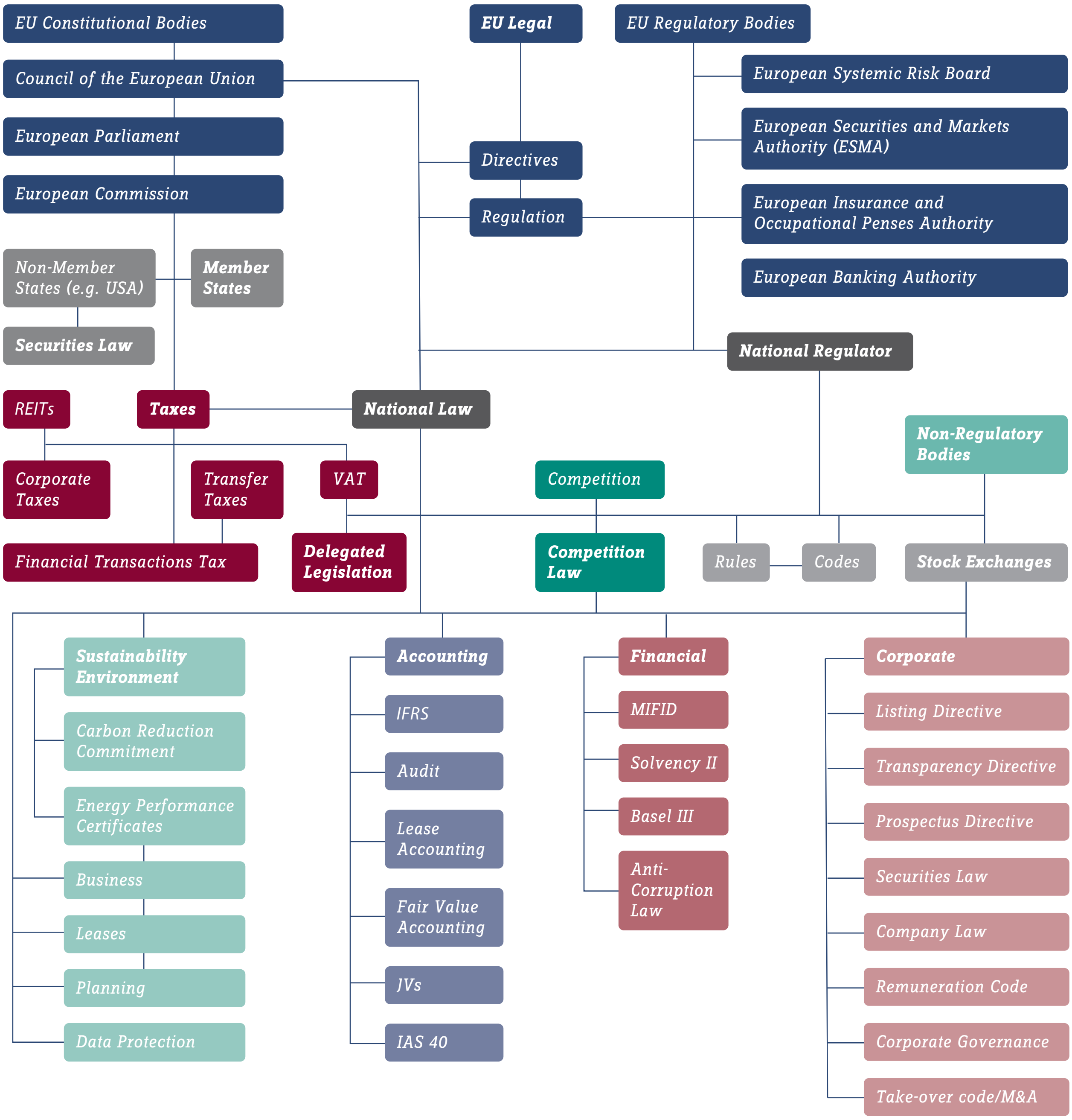
Number of countries (16 in total)



8. Regulation

Regulation applying to publicly quoted companies such as International Financial Reporting Standards (IFRS) and EU corporate governance rules, creates the framework which governs these companies. This underlies the market-driven discipline that ensures that transparent information is provided to specialised investors and the general public.

Figure 11
Regulation applying to listed property companies

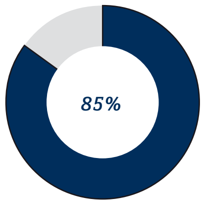


9. Reporting standards

EU law requires listed property companies to publish audited financial statements in accordance with International Financial Reporting Standards (IFRS). This provides a level of assurance on the quality of information provided to shareholders, creditors and other stakeholders in the business.

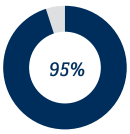
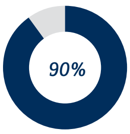
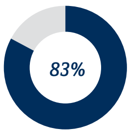
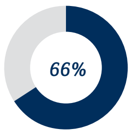
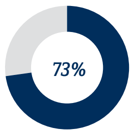
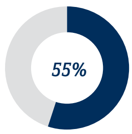
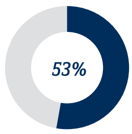
Investors are often hungry for even more detailed, consistent and sector-specific information to enable them to make more informed decisions with regards to their investments. As Figures 12 and 13 show, the stock exchange listed property companies have responded to this demand, voluntarily adopting sector-specific reporting practices (the EPRA Best Practices Recommendations, "BPR"), which are developed in consultation with the investment community. These BPR go beyond the IFRS requirements and enhance the quality of information provided to investors. Adoption levels of these environmental Key Performance Indicators (KPIs) are at 85% of the total market capitalisation of the European FTSE EPRA/NAREIT index.

Figure 12
European listed property companies adopting the EPRA BPR



Adopted
Not adopted

Figure 13 - Adoption of sector-specific EPRA KPIs

	Fair value vs. cost reporting	***Use of external valuer***	***Net Asset Value (NAV)***	***Earning per share (EPS)***	***Other Performance measures***
IFRS	*Allows investment property to be recorded at fair value or cost (less depreciation)*	*No requirement*	*Generic NAV extracted from financial statements*	*Generic EPS (IAS 33)*	*No guidance*
EPRA	*Recommends that investment property at fair value (e.g. price to exchance property)*	*Recommends use of external valuer at least annually*	*EPRA NAV - tailored to investors in investment property companies*	*EPRA EPS - tailored to investors in investment property companies*	*EPRA NNNAV. Net Initial Yield, Vacancy Rate - tailored to investors in investment property companies*
Adoption *EPRA index*					 *EPRA NNNAV*  *EPRA Vacancy*  *EPRA NIY*

Adopted
Not adopted

10. Towards sustainability in Europe's built environment

Driving up standards **Building a stronger Europe**

As would be expected from publicly listed companies, the listed property sector is leading the charge for the broader real estate market in responding to this investor pressure.

"Listed property companies show a much better environmental performance than do their private counterparts. The low scores may be partly due to the limited disclosure, as a result of which there is inadequate public scrutiny of property funds that operate in the private market. Moreover, the finite life of some private funds may lead to a more short-term focus and may hinder investments in energy efficiency. We conclude that private funds should consider their listed counterparts as benchmarks for "best practices" in environmental performance."

Global Real Estate Sustainability Benchmark (GRESB) 2011 Report

Whether due to legislation or market pressures, investors into real estate have started to take an active stance towards integrating information on the sustainability of buildings and portfolios into their investment decisions. This activity is not simply being driven by a desire to make responsible investments, but rather by the positive influence that sustainability factors have on both risk and return of real estate companies and funds. This market development is being driven largely by the institutional investors.

Many institutional investors, such as pension funds, have no direct control over the buildings they own, but they do have discretion over the property companies and investment managers they select. As the evidence mounts regarding the improved performance that implementing sustainability measures provides, an increasing number of real estate investors will select the property companies, investment managers and funds that have taken seriously the implementation of sustainability measures into the organisation and the operation of property portfolios.

This is further evidenced by the sector's recent moves to introduce EPRA Best Practices Recommendations (BPR) for environmental performance reporting (figure 14). These measures are developed in consultation with the investment community and enhance the quality of information provided to investors. In the space of just one year, adoption levels of these environmental KPIs are at 66% of the total market capitalization of the European FTSE EPRA/NAREIT index.

Figure 14 - Environmental reporting standards of EU listed property companies

	Sustainability Reporting	***Absolute Measures***	***Intensity Measures***	***Coverage***
Regulation	*No requirements specifically tailored to real estate companies*	*No requirements in most EU countries with the exeption of a few e.g. France*	*No requirements*	*No requirements*
EPRA	*Recommendations on reporting absolute and intensity measures specifically tailored to property companies*	*Recommends that companies report the total amount of Water, GHG emissions, Energy and Waste*	*Recommends that property companies report the intensity of usage (total amount divided by persons or surface area)*	*Recommends that companies report the % of the portfolio covered by the data*
FY 2011 Adoption (EPRA index)	*65%*	*54%* *Water*	*45%* *Water*	*34%* *Water*
		52% *GHG*	*47%* *GHG*	*37%* *GHG*
		52% *Energy*	*40%* *Energy*	*37%* *Energy*
		36% *Waste*	*30%* *Waste*	*18%* *Waste*

Adopted

Not adopted

11. Capital raising and market stability

Driving up standards **Building a stronger Europe**

The listed property sector makes a positive contribution to the ongoing stability of the real estate markets and the continuous provision of its crucial services to the economy. There were zero insolvencies over the last ten years within the FTSE EPRA/NAREIT Developed Europe Index. This is in contrast to the unlisted sector - where, according to data from Property Funds Research, 22 (almost a fifth) of the 127 closed-ended funds launched in Europe in 2007 have been wound-up prematurely. Even the open-ended funds are vulnerable, as the recent experience of German open-ended real estate funds illustrates - a third of them, accounting for approximately EUR 30 billion of property, are currently either in liquidation or are still closed for redemptions and facing an uncertain future.

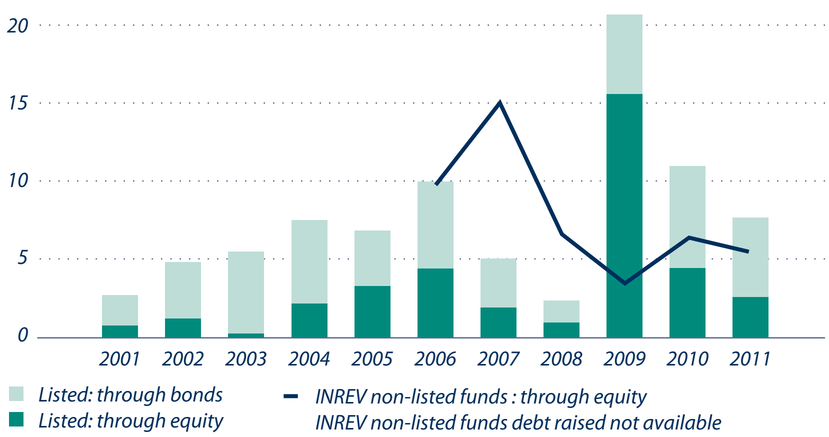
The combination of accessibility and transparency allows listed property companies to attract capital from the widest range of investors, whether that is through debt or equity capital. This is a crucial attribute during difficult periods in the economic cycle.

Even during the recent economic difficulties, listed property companies have continued to raise significant amounts of capital, enabling them to provide an uninterrupted service to Europe's businesses. Access to the public markets is an important feature that allows listed property companies to do this. Over the last 11 years, listed companies have raised a total of EUR 60 billion, split roughly equally between equity and bonds.

Capital raising in the listed property sector is more counter-cyclical than the unlisted funds sector. Management decide when they wish to raise funds in the market and shareholders are able to buy or sell their investments at any time. This contrasts with many fund structures where, for example, fund managers were subject to a 'wall of money' at the height of the last real estate cycle and mass redemptions during the financial crisis (which forced fund managers into a 'fire-sale') - contributing to further instability. Listed property companies were under less pressure to commit capital to overpriced property at the peak of the cycle and are able to utilise alternative options when property prices fall.

The recognition that listed property companies - given their indefinite lifespan - are long-term businesses also helps with their capital raising. By contrast, the closed-ended funds - which account for the majority of capital invested in non-listed real estate funds in Europe - have pre-defined lifespan, an average of about 9.5 years according to data from Property Funds Research.

Figure 15
Capital raised by listed property companies vs. unlisted funds, Europe
As % of lagged market cap / INREV NAV



12. Liquidity – the platform for a more dynamic and responsive built environment

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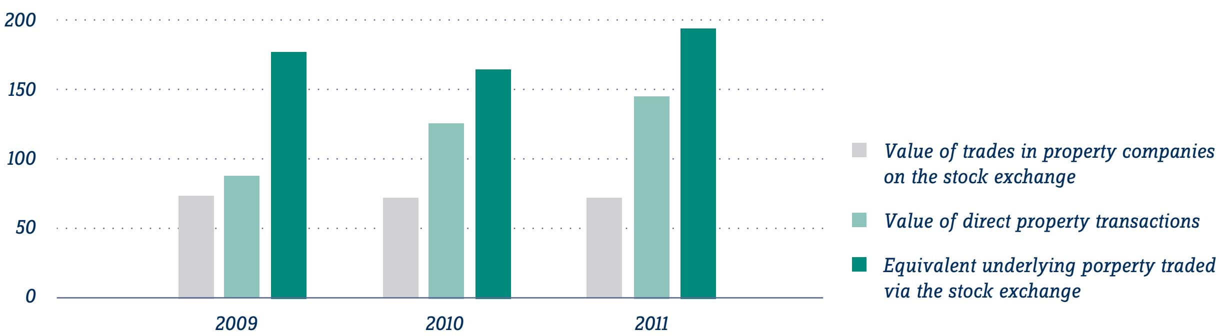
The liquidity that the listed sector brings to the otherwise illiquid property market provides the following key benefits:

- *Enhancing the quality of the built environment – liquidity improves information flow and allows good and bad management decisions to be rewarded or punished by investors.*
- *Allowing investors to effectively manage their overall blended real estate exposure – particularly important in stressed market situations.*
- *The democratisation of real estate - providing the opportunity for small investors to participate alongside larger investors.*

Figure 16 - Trading volumes in direct and listed real estate markets, Europe

€bn



Although these companies are perpetual businesses operating and managing long-term assets, the listed market in which they function provides the opportunity for investors to invest over their own required time horizon and 'vote with their feet' by buying or selling their shares at any time. On average, every share of a property company is transacted once a year, compared to about every ten years for direct property in the UK and as little as every 20 years in other European countries.

Despite being a thirtieth the size of the direct property investment market, the smaller, listed property sector delivers a much more dynamic trading market than the direct property market, due to its liquidity, low transaction costs and accessibility. Figure 16 compares the trading volumes (market value) of direct property transactions, against the value of property company shares traded and the underlying value of direct assets effectively 'changing hands' when shares are acquired or sold. It shows that the volume of property effectively transacted in the listed property market is significantly more than the value of direct transactions.

Listed property company shares also trade eight times more frequently than units in the UK's non-listed property funds. The challenges facing the non-listed funds sector in providing liquidity were highlighted by the failure of the German open-ended funds sector where access to a quarter of invested capital is still frozen.

The dynamism of the listed sector evidenced above, relative to other sectors, provides important transactional evidence in the otherwise illiquid real estate market and confers other benefits as described below:

Providing a 'pressure valve' to property markets in times of stress

As the financial crisis unfolded, pension funds, banks and other investors looked to reduce their exposure to real estate and the liquidity of the public markets provided those investors with a convenient exit. Whilst this had a negative effect on share prices – which proved to be relatively volatile during this time – without the liquidity and financial transparency provided by publicly traded REITs, the property markets and the economy in general would undoubtedly have been in a much worse situation.

Enhancing the quality of the built environment...

Liquidity in the secondary markets enhances the quality of the underlying built environment. A more efficient, liquid real estate market ensures that the invested equity rotates around the system at enhanced rates and which, by default, will ensure that the built environment is renewed more often than historically has been the case.

Every transaction in the individual shares of listed property companies essentially reflects an individual investor's (whether large or small) assessment of management decisions and actions with respect to its property portfolio, and an assessment of the quality of that underlying portfolio. This high liquidity ensures management are more motivated to respond to issues such risk of obsolescence, the long environmental performance of buildings and tenant issues, and ultimately provides occupiers with more up-too-date and better quality premises that are more suited to their business practices.

The democratisation of real estate investment...

Importantly, the liquid nature of listed property companies facilitates the 'democratisation' of real estate - by providing the opportunity for small investors to participate alongside larger investors, in otherwise inaccessible investment opportunities.

13. Investment performance of listed property companies

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An important characteristic of commercial real estate is its capability to generate a strong, consistent income stream over a long investment timeframe. Studies show that when the holding period of an investment in a listed property company increases, the returns investors receive are similar to the returns on the direct real estate market. In other words, investment in the shares of listed property companies provides real estate returns over a medium to long-term time horizon. Similarly, the returns will differ from those of general equities, allowing investors to benefit from the diversification opportunities that real estate offers.

Figure 17 - Comparative investment performances (20 years to June 2012)

Total Return, %

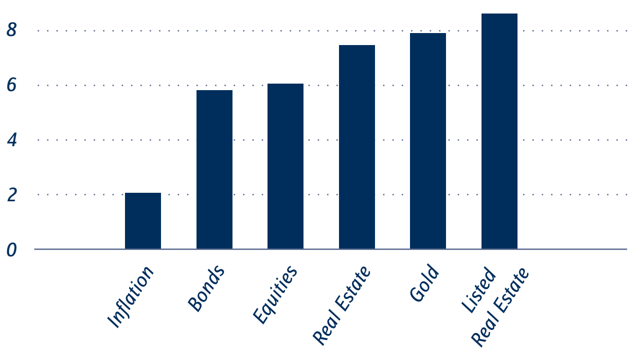
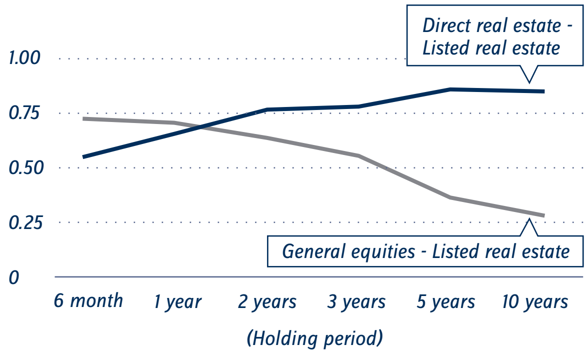


Figure 18 - Correlations with General Equities and Direct Real Estate



An important characteristic of commercial real estate is its capability to generate a strong, consistent income stream – an attractive investment attribute even in a slow-growth environment, and one in which continuing low interest rates have severely limited the yields and appeal of fixed income investments.

When managed correctly, real estate can offer a stable source of income and capital appreciation to investors, outperforming inflation over the long-term. The quality and efficiency of a building and its management ultimately gets measured by the long-term stable returns it provides to its investors, supported by the relationship based on trust with the tenants and these tenants' ability to successfully operate their businesses from these buildings.

As Figure 17 shows, when compared to other asset classes, real estate appears to be able to provide higher income returns as well as capital returns. When compared to other real estate investment vehicles, listed real estate companies have demonstrated better performance as well.

From an investor's perspective, the crucial attribute of listed property companies and REITs is that over a medium to long-term investment horizon, they provide an accessible form of exposure to real estate returns – see Figure 18. As such, they provide all the essential diversification attributes that make real estate such an important alternative investment class for meeting the long-term savings needs of European citizens, but in a form that is accessible to all types of investors.

14. Europe's listed property sector - opportunity for smart economic growth

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Europe houses around 40% of the world's commercial real estate but only 14% of the world's listed property market - the sector is clearly underdeveloped versus other developed markets. European policy makers therefore have a huge opportunity to improve the contribution that the real estate sector makes in driving the economy towards smart, sustainable and inclusive growth, by putting in place policies that encourage the expansion of the publicly-quoted property companies.

The European listed property sector is small relative to other major developed global regions - see Figures 19. Only 1.8% of its investible commercial real estate is held within the publicly-quoted sector compared to 6.7% in the North America and 6.1% in Asia.

Within Europe, there is also much variation among countries between the relative size of the listed property sector as a percentage of the total underlying real estate - see Figure 20.

There are many historical reasons for the above differences (regulatory, cultural and market-based) which are not the subject of this report. However the conclusions of this report do highlight the opportunity presented at both a national level and EU-wide to achieve smart economic growth through growth in these listed property markets.

Figure 19 - Size of the total real estate market per region

€ billion

	Total real estate	*EPRA Index Market Capitalisation*	*EPRA Index vs. Total real estate*
North America	*5,599.0*	*372.7*	*6.7%*
Asia-Pacific	*4,231.2*	*257.6*	*6.1%*
Europe	*5,768.6*	*103.1*	*1.8%*

Figure 20 - Size of the total real estate market per country in Europe

€ billion

	Total real estate	*EPRA Index Market Capitalisation*	*EPRA Index vs. Total real estate*
United Kingdom	*813.3*	*38.2*	*4.7%*
Sweden	*67.6*	*7.8*	*4.6%*
Switzerland	*194.8*	*8.8*	*4.5%*
France	*929.4*	*25.9*	*2.8%*
Finland	*87.5*	*1.8*	*2.1%*
Netherlands	*281.7*	*5.8*	*2.1%*
Belgium	*169.9*	*3.1*	*1.8%*
Austria	*38.0*	*1.6*	*1.2%*
Germany	*1,188.3*	*8.8*	*0.7%*
Norway	*152.5*	*0.6*	*0.4%*
Italy	*743.2*	*0.5*	*0.1%*

Endnotes and Sources

Data and estimates collated in association with Paul Mitchell Real Estate Ltd.
The following relate to the corresponding endnotes appended to figures and tables and in the text.

1 'REIT a term that historically refers to a 'Real Estate Investment Trust' - a property vehicle that has a special 'flow-though' tax status. However, it is now a brand that has come to be used in the market to describe listed property companies more generally (rather than 'Trusts') including those that do have a special tax status.

2 Investment Property Databank (IPD) is an independent body that provides performance and risk analysis for real estate for investors, managers, REITs, lenders and advisors. IPD's property performance benchmarking is its core activity, with investors and fund managers in each market providing detailed portfolio information which, when assembled and analysed, is used to assess investment performance.

Figure 1 *EPRA/INREV, Real Estate in the Real Economy,* September 2012

Figure 2 EPRA

Figure 3 Total Europe – Paul Mitchell Real Estate Consultancy estimates, based on various agents' reports. Major listed property companies – Green Street Advisors, July 2012.
For major listed companies, the value of committed development as a proportion of property portfolio value. For all Europe - floorspace under construction as a proportion of total stock of shopping centre or office floorspace. Listed companies' committed development covers schemes currently under construction or with a committed start date.

Figure 4 Listed property companies are EPRA end-2011 estimates, IPD derived from the end-2011 IPD Pan-European annual Property Index, unlisted funds derived from Property Funds Research, European Universe, end 2011.

Figure 5 Listed based on a sample of 25 EPRA companies using information from company websites and annual reports, IPD based on various end-2011 IPD Annual Property Indices.

Figure 6 Paul Mitchell Real Estate Consultancy and EPRA research.

Figure 7 *European Listed Property Companies: Progress Towards Customer Focus – RealService 2012*

Figure 8 EPRA

Figure 9 Paul Mitchell Real Estate Consultancy estimates derived from listed property company annual reports, and from fund managers' websites or annual reports.

Figure 10 Property Funds Research, European Universe, end 2011

Figure 11 *Jones Lang Lasalle 2012 Global Real Estate Transparency Index / EPRA.* Jones Lang LaSalle measure each country's transparency according to a number of criteria (for example, the availability of performance indices for the unlisted funds sector, the financial reporting and governance standards in the listed sector etc) and then, on the basis of a composite score, rank these countries from the least ("opaque") to the most ("highly") transparent.

Figure 12 Research by Paul Mitchell Real Estate Consultancy.

Figure 13 Nabarro LLP Solicitors, London Office

Figure 14 EPRA Research

Figure 15 *Global Real Estate Sustainability Benchmark - GRESB Report 2011*

Figure 16 EPRA Research

Figure 17 Unlisted fund data supplied by Property Funds Research. German open-ended fund data: - BVA, Offene Immobillienfonds: Status and Fondvermögen, August 2012, and Morgan Stanley, German Open-Ended Funds: The Great Unwind, October 2011

Figure 18 Listed – EPRA companies equity & rights issues expressed as a proportion of the previous end-year EPRA market capitalisation. Unlisted funds capital raising gratefully supplied by INREV and then expressed as a proportion of previous year unlisted funds estimated NAV.

Figure 19 EPRA / Real Capital Analytics - 'Equivalent underlying property traded via the stock exchange' is calculated as the number of shares in listed property companies traded multiplied with the underlying 'direct property portfolio' value per traded share.

Figure 20 Annualised total returns in local currencies over a 20-year period at June 30, 2012. Global, except for Inflation, which is on a European level. Sources: Eurostat, JP Morgan, IPD, Bloomberg, FTSE, EPRA, NAREIT.

Figure 21 General equities = FTSE Eurotop 100 Index (price index in EUR), Listed real estate = FTSE EPRA/NAREIT Developed Europe Index (price index in EUR), Direct real estate = De-geared EPRA Europe NAVs (in EUR), data range = December 1989 – September 2012

Figure 22 FTSE EPRA/NAREIT Developed Global Index (Freefloat Market Cap). 31-Oct-12: - Developed Europe (37%). 14.1% underlying global real estate

Figure 23 EPRA, Prudential - Data as of 31 October 2011, Total real estate as of December 2011

Figure 24 EPRA, Prudential - Data as of 31 October 2011, Total real estate as of December 2011

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