Click here for contents page.

EPRA NEWS

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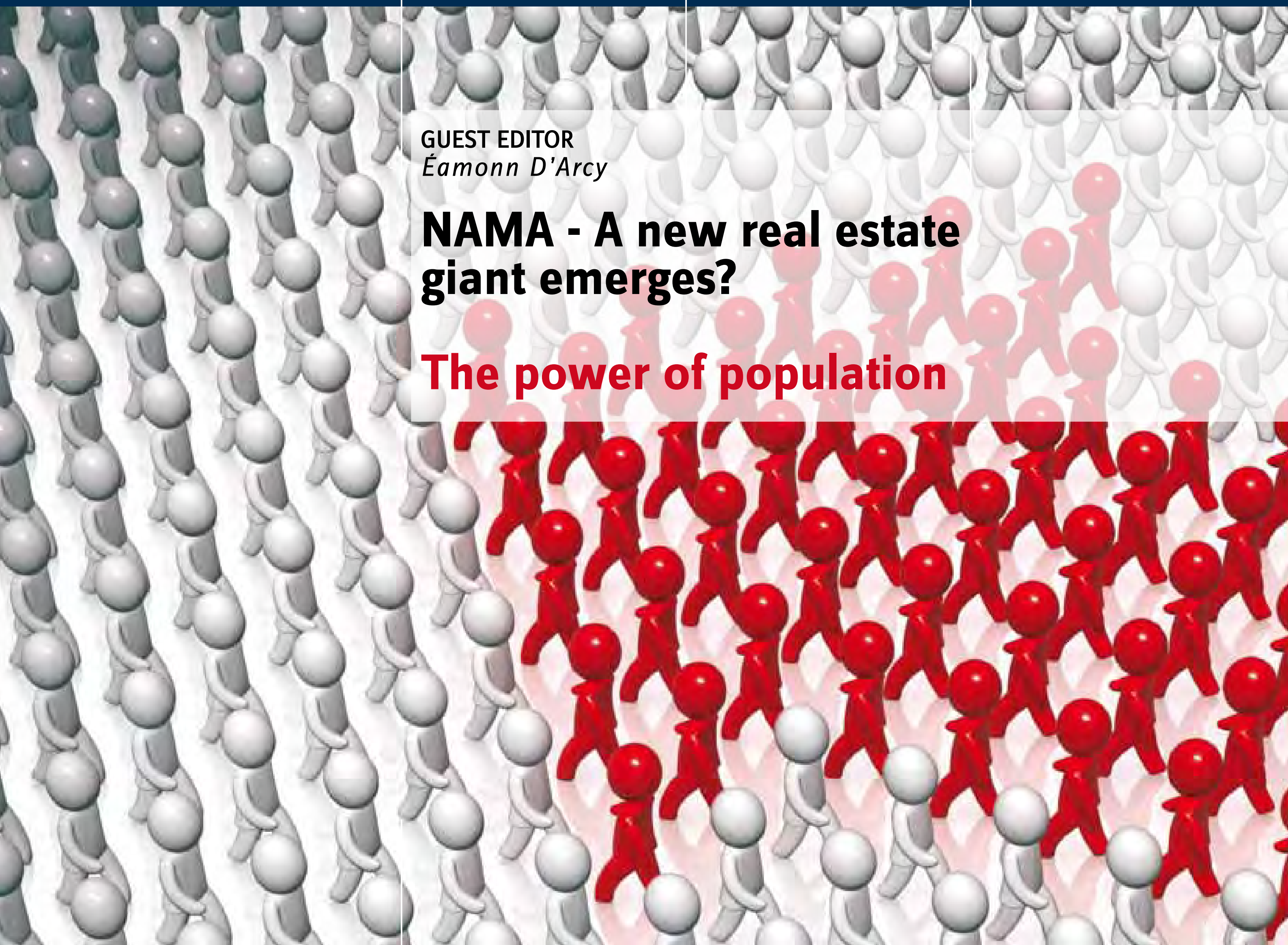

GUEST EDITOR
Éamonn D'Arcy

NAMA - A new real estate giant emerges?

The power of population

AS OF MAY 2010

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

AUSTRIA
- CA Immobilien Anlagen
- Conwert Immobilien Invest
- Sparkassen Immobilien

BELGIUM
- Banque De Groof
- Befimmo
- Cofinimmo
- Leasinvest Real Estate
- Solvay Business School (Brussels Univ.)

BRAZIL
- Iguatemi Empresa De Shopping Center

BRITISH VIRGIN ISLANDS
- Dolphin Capital Investors
- Eastern Property Holdings

CANADA
- OPTrust
- Presima

FINLAND
- Citycon
- CREF Center for Real Estate Investment & Finance
- KTI Finland
- Sponda

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- Affine
- AffiParis
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- Baker & McKenzie
- BNP Paribas
- Cegereal
- Credit Agricole Immobillier
- EUROSIC
- Foncière des Regions
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- Gecina
- ICADE
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- Silic
- Société de la Tour Eiffel
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- Fair Value REIT
- GAGFAH
- Hamborner
- Heitman
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- MEAG Real Estate Management
- PATRIZIA Immobilien
- POLIS Immobilien
- PricewaterhouseCoopers
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- RREEF Investment
- SEB Asset Management

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- Eurobank Properties REIC
- Lamda Development
- National Bank of Greece Property Services
- Pasal Development
- Trastor Real Estate Investment

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- Gazit Globe

ITALY
- Beni Stabili
- Immobiliare Grande Distribuzione
- Pirelli RE

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- Orco Property Group

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- APG Asset Management
- Atrium European Real Estate
- BPF Bouwinvest
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- MN Services
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RUSSIA
- PIK Group

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- Growthpoint Properties

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- Grupo Lar
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- Citigroup
- Clearance Capital
- Credit Suisse Securities
- Derwent London plc
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- Eurocastle Investment
- Evolution Group
- GIC Real Estate
- Clearance Capital
- Goldman Sachs International
- Grainger
- Green Street Advisors
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- Great Portland Estates
- Hammerson
- Henderson Global Investors
- Ignis Asset Management
- Invista Real Estate Investment Management
- JPMorgan
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- Land Securities
- Liberty International
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- Principal Global Investors
- Prologis European Properties
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- Scottish Widows Investment Partnership
- Safestore
- SEGRO
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- SJ Berwin
- Speymill Group
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- Thames River Capital
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- MIT Center for Real Estate
- Real Capital Analytics
- Real Foundations
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- Russell Investment Group
- Simon Property Group
- SNL Financial
- Taberna Realty Finance Trust
- The Tuckerman Group
- Univ. of Cincinnati
- Westfield Group
- Zell-Lurie RE Center at Wharton

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NAMA – A NEW REAL ESTATE GIANT EMERGES?

GUEST EDITOR
Éamonn D'Arcy

Despite the increasing sophistication of real estate investment markets, the characteristics and legacy of the most recent investment cycle in some countries fit well those of a classic real estate bubble. In the European context the Irish case provides a notable example of this bubble phenomenon.

Almost two decades of sustained above-average economic growth fuelled real estate investment by firms and households. With increasing demand for real estate assets prices increased. The inevitable lag in real estate supply added further upward pressure on price. This cyclical acceleration in price promoted speculation and over-evaluation, and the volume of outstanding loans and mortgage credit increased significantly.

The behaviour of the Irish banking sector added further to the bubble by supporting demand through arranging finance for very highly geared potential buyers. In particular, between 2004 and 2007 there was a massive growth in real estate-related lending with little recourse to appropriate due diligence of the risks involved. This insatiable appetite for real estate assets resulted in some Irish investors internationalising their activities in pursuit of superior return opportunities. This move was fully funded by Irish banks, thus exposing their balance sheets to real estate risks in a wide variety of geographies. In most respects the behaviour of both investors and lenders in this period suggested that real estate was considered as an almost riskless investment.

A further notable feature of this bubble relates to the characteristics of many of the investor and developer groups who emerged as key players in it. In general, very few had any significant supporting corporate infrastructure or access to capital markets other than through bank lending. Also, the majority had little or no obvious professional capacity related to real estate.

Click here for contents page.

With the onset of the credit crunch and the ensuing downshift in global market conditions, the true nature of the risks associated with Ireland's real estate bubble were soon manifest. Government support for the Irish Banking sector became necessary with the state taking significant holdings in most institutions. In the case of the institution which had the greatest exposure to real estate lending - Anglo Irish Bank - its complete nationalisation in January 2009 was necessary to stave off its total failure.

Aside from the near collapse of the Irish banking sector and an inevitable price correction in both commercial and residential real estate markets, there are other legacies of the bubble. These include the insolvency of some of its key investment and development players; a significant contraction in construction activity with obvious negative consequences for employment and GDP; and at current estimates a housing stock which is about 20% greater than what is required. This latter element has further depressed residential prices and exacerbated problems of negative equity in the residential sector.

A key element of the Government's approach to the recapitalisation of the Irish banking sector, was the establishment of a new state agency - the National Asset Management Agency (NAMA). Its remit was the acquisition of performing and non-performing real estate related loans from participating financial institutions. The objective was to remove potential toxic real estate loans from the balance sheets of the participating institutions with the institution concerned receiving a price from NAMA for the assets transferred, based on NAMA's assessment of their potential long-term economic value. The funds received from NAMA in return for assets, would recapitalise the institution.

Initial estimates suggest that the total book value of loans transferred will be approximately EUR 80 billion, with a potential long-term economic value in the region of EUR 50 billion and a current market value closer to EUR 40 billion. NAMA has the responsibility of managing the assets and securing a return to the state within a seven to ten-year time horizon on the assumption of uplift in asset values over the period to their assessed long-term economic value or beyond. Approximately two thirds of the assets are located in Ireland, with residual overseas (the majority of which are in the UK).

The process of asset transfer has been much more complex than expected. In particular, the necessity to establish actuate loan and assets valuations prior to transfer has been much more time-consuming than expected. Given the need to focus on establishing the long-term economic values of the assets transferred, assessments of asset quality have become central to the transfer process and have further increased its complexity. The accuracy of such assessments will have significant implications for the long-run ability of NAMA to achieve its goals within the timeframe set. In particular, the likelihood of residential development sites in provincial Irish towns ever recovering to their value at the peak of the bubble is highly questionable.

While it was initially expected that the first assets would have been transferred to NAMA in early 2010, the first tranche of EUR 16.03 billion was only transferred at the end of March. The discount applied was 46.9% which reflects the issues raised above concerning asset quality.

Initial estimates suggest that the total book value of loans transferred will be approximately EUR 80 billion.

From a real estate perspective, for NAMA to be successful it needs to be interpreted from the start as a major real estate entity and managed as such. In terms of real estate assets, its size places it among the top ten global real estate entities by asset value. It is larger than any listed property company in Europe and is more akin to global real estate giants such as GE Capital Real Estate. There is a wealth of real estate best practice available with respect to strategies for asset management, enhancement and disposal which it needs to fully embrace.

While it may be too early to draw definitive judgments on this issue, there is little or no evidence thus far of NAMA been viewed >

as primarily a real estate entity and its current modus operandi is clearly one of a government agency with little explicit professional capacity focused on its development as a potential real estate giant. Unless this issue is addressed, it is unlikely to achieve its stated goals.

At a wider level, given its very large asset base, NAMA could if appropriately positioned play an important role in increasing the range of real estate investment objectives accommodated by the Irish market. Specifically, it may conceivably be used to foster a REIT or funds market, thus broadening the capital raising base of the Irish real estate sector - the narrowness of which was a key contributor to the current post-bubble legacy. Such developments would obviously allow small retail investors access to the benefits of investing in real estate assets without the need for significant access to capital as necessitated by direct investment mechanisms.

It could reasonably be argued that, if an active professionally managed, transparent indirect real estate investment market had existed in the context of the boom years, it might have acted to mitigate the very poor direct investment decisions made by many small private investors by channeling the funds of such investors in its direction.

An increase in the sophistication of the Irish real estate investment market would also bring benefits in terms of raising the professional capacity of the sector with respect to its finance and investment skill-set. This is important given that deficiencies in the professional capacity of the sector directly contributed to the magnitude of the bubble and its toxic legacies.

In terms of the past experience of the legacies of extreme real estate bubbles, some interesting parallels can be made between the Irish case and that of the Japanese bubble experienced between 1985 and 1991. While the focus of the Japanese bubble was primarily on commercial rather than residential real estate there are many noticeable similarities. Both bubbles occurred at the end of a prolonged period of growth, were highly speculative in character and had a legacy of a significant debt burden in the banking sector. Furthermore, both post-bubble economies faced significant problems of economic competitiveness.

The impact of Japan's real estate debt burden on its banking sector contributed significantly to its 'lost decade' of low growth. This poor growth context stalled the recovery of real estate values with the result that asset prices took over 15 years to recover. The Japanese experience in itself provides a strong case for embarking on a NAMA-type initiative. Only time will tell if proves to be the correct strategy for dealing with the legacy of an extreme real estate bubble. However, its chances of success are very much predicated on the need to position itself as a real estate entity which plots its future course from this perspective alone.

Éamonn D'Arcy
Executive Director - ERES

Éamonn D'Arcy is the Programmes Director of the full-time MSc Real Estate Programmes in the School of Real Estate and Planning at Henley Business School, University of Reading. He is currently the Executive Director of the European Real Estate Society (ERES), the leading real estate research and education organisation in Europe and is the incoming president of the International Real Estate Society (IRES). His research and teaching interests focus on the internationalisation of real estate involvements, institutional frameworks for property market analysis, aspects of structural change in real estate markets and developments in the provision of real estate education.

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www.eres2010.org

Click here for contents page.

UPDATE FROM PHILIP CHARLS

Philip Charls, EPRA CEO

EPRA's ongoing goal is the improvement of REIT regimes across Europe in the face of an avalanche of legislation from regulators reacting to the downturn.

After months of flux, generally speaking listed real estate is entering a 'business as usual' period with total returns settling down to some degree of normality - indications are that the listed sector is past the worst in Europe. This hasn't gone unnoticed among global investors who are showing a strong appetite for listed real estate – a tendency confirmed during our Australia, China, Hong Kong and Singapore investor tour in April (see page 31).

FTSE, EPRA, NAREIT, plus a number of invited guests including CFO of Unibail-Rodamco Peter van Rossum, engaged in a road-show of Shanghai, Hong Kong, Singapore, Sydney and Melbourne to talk about the current state of play in the global market. The tour attracted a broad range of investors throughout the region. This initiative is one aspect of an outgoing programme of relationship-building in the region. We believe it is extremely important to build those relationships within the APAC market now, to be ready for business flowing west in the future. There is no getting around it, APAC capital will play an increasing role going forward for capital flows into the European sector.

APAC is seeing tremendous growth both in commercial and residential property and in capital available. Industry organisations like EPRA need to be there, working in partnership with APREA, to lend experience and support education surrounding listed Real Estate. Industry organisations also need to be there as a portal for capital flows west. The APAC market is fragmented in terms of vehicles, experience and capital. China for example is highly localised, funded internally and is heavily focused on development with cities that are expanding at a rapid pace.

The perception of property in China, from the man in the street, is heavily weighted towards residential ownership and benefits of rapid increases in value in recent years. However, there is a common feeling that a bubble could be developing and government concerns may see more stringent regulation in the market. On the other hand, mature markets like Japan and Australia offer a different landscape - high levels of professionalisation, REIT vehicles and a focus on commercial property ownership – or the more traditional landlord model.

Let's not ignore the fact that if we want to maximise this growth opportunity, European listed property must continue its efforts towards reporting transparency and the adoption of EPRA Best Practices Recommendations (currently followed by 65% of the European index). EPRA's working committees - drawn from the industry - are working to ensure European real estate can confidently engage with the most demanding of investors on that world stage. Our Reporting & Accounting Committee will come up with new recommendations in September this year.

EPRA's ongoing goal is the improvement of REIT regimes across Europe in the face of an avalanche of legislation from regulators reacting to the downturn. Key areas of attention are AIFM and Solvency II; and on the debt side is Basel III, which will limit lending for real estate purposes.

Damaging emissions from buildings is also becoming a *cause célèbre* for regulators. This challenge is being addressed by a new committee. This Sustainability Committee's aim is to raise the bar in terms of sustainability reporting for the sector.

Green research conducted by Maastricht University makes for grim reading. Taking Australia as the benchmark, Europe has some way to go. While 63% of listed companies in Australia know their energy consumption, Europe can muster only 31% with such insight. Likewise in CO_2 emissions - fewer than half as many companies in Europe report a figure. These figures drop substantially for the unlisted sector. Addressing the questions of reporting sustainability and transparency is, more than ever, investor-driven. With governments seeking to refill their coffers, this may present a popular source of revenue.

TOP-LINE PERSPECTIVES: CEO CONFERENCE

In line with EPRA's efforts to ensure greater cohesion within listed real estate across Europe, the third CEO Conference was held in Brussels in May moderated by McKinsey.

The 12 invited CEOs from the listed Real Estate sector who attended EPRA's CEO conference represented EUR 40 billion in market cap. This was a closed-door chance to shared some fundamental insights and challenges unique to their role.

Addressed by Credit Suisse economist Dr Alman Roy the proceeding evening, demographics underlay much of the subsequent discussions. Other key issues considered were:

1. Top line growth
2. Competitive positioning - Diversified or specialist?
3. Industry consolidation

Issues discussed: The property cycle - how to time it or how to not to time it; Where and when will opportunities arise given the illiquidity in the transactions market; When do you develop projects again; How will customer habits, working habits and demographics change the industry; How sustainable buildings, regeneration and the connected infrastructure will be pushed by investors going forward; Sector and country focused - which models are transferable cross border?; We "buy and manage" property not "buy and hold".

Click here for contents page.

"Look after your customers and you'll take care of your shareholders."

Gerard Groener, Corio:

Conference chairman Ian Coull (SEGRO) with Olivier Hamoir (McKinsey).

All of these issues were discussed within the framework of capital structure and how to achieve the optimal mix. Equity is available for the right opportunities; Partnership arrangements will see growth; The bond market offers interesting financing possibilities.

Photographs by Dominic Turnbull

A DEMOGRAPHIC PERSPECTIVE OF FISCAL SUSTAINABILITY

By Dr Amlan Roy and Sonali Punhani

Ageing-related expenditures are one of the fastest growing components of government expenditures. In this, his first article, economist Amlan Roy sets out the rolling, indeed tumbling, contours of the fiscal landscape facing 'the West'. This is a prelude to his Keynote appearance at the Annual Conference, where his focus will be on the investment realities and opportunities such raw demographics present.

"In coming decades, many forces will shape our economy and our society, but in all likelihood no single factor will have as pervasive an effect as the ageing of our population." Fed Chairman Ben Bernanke (October 4, 2006).

"...The seriousness of the challenge depends on how our economies and societies respond and adapt to these changing demographic conditions. Looking ahead, policymakers need to ensure long-term fiscal sustainability in the face of clearly anticipated risks as well as significant uncertainty." 2009 Ageing Report, Economic Policy Committee and European Commission.

Rapid and unprecedented demographic changes are adversely affecting most advanced countries. In this article, we provide an introduction to the acknowledged, yet not easily defined, concept of fiscal sustainability. We view fiscal sustainability as an ongoing concept, not just for now but for the future, and consider it to be very important not only over time but also across generations. We provide a selective assessment of the major demographic changes, current as well as projected, on the fiscal sustainability of countries[1].

The governments of rich countries face the prospect of much slower GDP growth due to the combined effect of ageing populations and labour forces. Slowing GDP growth along with the obligations to fulfil longer-term past promises made to citizens is leading to large fiscal strains and unsustainable finances in many of the most advanced nations. We feel strongly that current measures of fiscal deficits and debt do not adequately account for these long-term fiscal burdens. We highlight two alternative approaches, namely "Sustainability Gap" and "Generational Accounting" which try to address these limitations of commonly used fiscal deficit measures. In the light of this analysis, countries need to embrace active policies which will help them address their demographic challenges and thereby improve their fiscal sustainability.

1. A detailed elaboration can be found in the report - A demographic Perspective of Fiscal Sustainability, "Not just the immediate-term matters".

Click here for contents page.

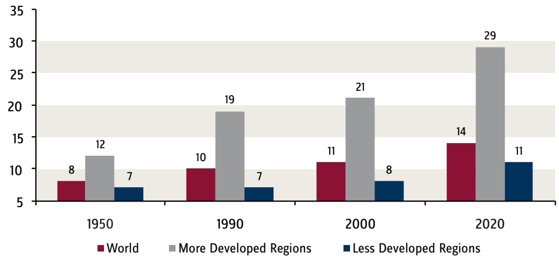
Inflation has complex effects on the conventional deficit in the presence of floating interest rate debt, making it hard to evaluate the meaning and implication of the conventional deficit numbers.

We present an initial overview of the adverse demographics and the current fiscal positions of 12 selected advanced countries. Next, we discuss the longer-term ageing-related government expenditure projections and their underlying drivers. After that we focus on the limitations of short-term fiscal measures and emphasis two alternative measures based on the concepts of Fiscal Sustainability and Generational Accounting. We conclude by suggesting policy measures in the areas of pensions, health care and long-term care.

Demographics

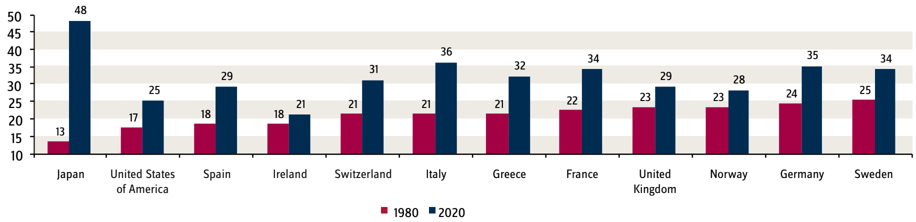
We present demographic indicators in order to facilitate cross-country comparisons of the impact of ageing on fiscal balances. Exhibit 1. presents the old age dependency ratios; a critical demographic feature that causes underlying fiscal strains of the older and richer countries.

Exhibit 1: Old Age Dependency Ratio - Regions Ratio of 65+ population per 100 working age persons (15- to 64-year-olds) Source: Credit Suisse



The old age dependency ratio has increased much more in the more developed regions than the less developed regions (UN, World Bank definitions) over 1950-2020E. This reflects the greater speed of ageing in the advanced countries of the world relative to the poorer ones.

Exhibit 2: Old Age Dependency Ratios - 1980 and 2020 (Ratio of 65+ to 100 persons of working Age 15-64) Source: Credit Suisse



Next, we consider the old age dependency ratios over 1980-2020E in 12 selected advanced countries: France, Germany, Italy, Japan, Norway, Sweden, Switzerland, Greece, Spain, Ireland, the UK and the US. Exhibit 2. displays the dramatic rise in old age dependency ratios across all of these countries. The range of old age dependency ratios has nearly doubled at the lower and upper end over the 1980-2020 period. In 2020, Japan is projected to stand out as the country with the highest old age dependency ratio followed by a tight pack of four countries: Italy, Germany, France and Sweden.

The rapid increase in the old age dependency ratios reflects the trends in two underlying demographic indicators - life expectancy at birth and total fertility rates (the number of children per woman of child-bearing age). Life expectancy at birth is projected to increase for all 12 selected advanced countries between 1980 and 2020, while total fertility rates are falling across all advanced countries, as women have fewer children, leading to the progressive ageing of the population in the richer countries.

This will impact their public finances significantly as the baby-boom generation reaches retirement age in coming decades. Policymakers and society in these 'rich' countries should worry about how living standards will be affected given higher old age dependency ratios and substantially lower GDP growth.

Fiscal positions and age-related government expenditures

The fiscal positions of the 12 selected countries - France, Germany, Italy, Japan, Norway, Sweden, Switzerland, Greece, Spain, Ireland, the UK and the US - are presented >

An immediate and permanent reduction in spending or an immediate and permanent increase in revenues equal to 3.2% of GDP would be needed to create a sustainable fiscal path for the next three-quarters of a century - US.

in Exhibit 3. Note the fiscal deficits reached their highest levels in 2009, not a surprise given the scope and magnitude of the current crisis.

Exhibit 3: General Government Balance (Percentage of GDP)

Source Credit Suisse

	1990	2000	2005	2009
United Kingdom	-1.6	1.4	-3.3	-11.6
Germany	-2.0	1.3	-3.3	-4.2
Italy	-11.4	-0.8	-4.3	-5.6
France	-2.4	-1.5	-2.9	-7.0
Norway	2.2	15.4	15.1	7.1
Greece	-14.5	-3.7	-5.1	-6.4
Spain	-3.6	-1.0	1.0	-12.3
Ireland	-2.8	4.8	1.6	-12.1
Sweden	3.4	3.8	2.0	-3.5
Switzerland	-0.2	2.2	0.1	-1.5
United States	-4.2	1.6	-3.2	-12.5
Japan	2.0	-7.6	-5.0	-10.5

In comparative terms, the general government balances of the US, the UK, Spain and Ireland are the weakest for 2009 followed by Japan, given the greater and broader impact of the current crisis in terms of employment, GDP, industry and other broad economic measures, including business and consumer sentiment.

There is substantial literature on why the widely reported conventional fiscal deficit measures do not always work and their limitations. As the IMF reports: "although the deficit measure is relevant primarily as an indicator of the macroeconomic consequences of fiscal policy, the set of consequences that policymakers desire to assess may itself determine the 'correct' deficit measure. In other words, there is no such thing as the fiscal deficit, but rather a series of alternate measures, each with its advantages and disadvantages."

An important issue here is that the conventional measure of fiscal deficit (Govt expenditures less current revenues) has widely accepted limitations as a measure of excess public demand. Therefore, the use of just one number to assess. the impact of fiscal policy on aggregate demand, inflation and other macroeconomic variables needs to be de-emphasised and the broader fiscal situation should be analysed.

For example, inflation has complex effects on the conventional deficit in the presence of floating interest rate debt, making it hard to evaluate the meaning and implication of the conventional deficit numbers.

A very important part of government policy is ignored in the conventional fiscal deficit measure, namely the adoption of contingent liabilities, such as deposit insurance (very important during the recent crisis), social security, health insurance and loan guarantees. These do not generate a current cash flow but rather an obligation regarding future cash flows.

While most of the focus of governments in power and policymakers is usually on short-term fiscal numbers (up to two years) and occasionally those over the medium term (up to five or seven years), many of the slightly longer-term fiscal promises owing to ageing are now causing some to worry about how much these burdens could be and who will pay for them - the existing or future generations. This is alluded to by Chairman Bernanke in the opening quote of this article. We later define and discuss a newer macroeconomic concept of fiscal sustainability that has been developed to deal with this issue; it is a concept to which governments are paying greater attention.

Ageing and increased government expenditures

A country's ageing population strains its finances due to increased age-related spending on pensions, health care and long-term care.

Click here for contents page.

Exhibit 4: Age-Related Expenditure Components (Percentage of GDP)

Country	Pensions			Health Care			Long-term Care			Total (incl Education and Unemployment Benefits)		
	Level	Change from 2007		Level	Change from 2007		Level	Change from 2007		Level	Change from 2007	
	2007	2035	2060	2007	2035	2060	2007	2035	2060	2007	2035	2060
EU27	10.2	1.7	2.4	6.7	1	1.5	1.2	0.6	1.1	23.1	2.7	4.7
UK	6.6	1.3	2.7	7.5	1.2	1.9	0.8	0.3	0.5	18.9	2.7	5.1
Germany	10.4	1.4	2.3	7.4	1.4	1.8	0.9	0.7	1.4	23.6	2.6	4.8
Italy	14	1.2	-0.4	5.9	0.9	1.1	1.7	0.5	1.3	26	2	1.6
France	13	1.4	1	8.1	1	1.2	1.4	0.5	0.8	28.4	2.7	2.7
Norway	8.9	4.3	4.7	5.6	1	1.3	2.2	1.2	2.7	24.9	6.8	9
Greece	11.7	7.7	12.4	5	0.9	1.4	1.4	0.8	2.2	22.1	9.1	15.9
Spain	8.4	3.4	6.7	5.5	1	1.6	0.5	0.5	0.9	19.3	4.3	9
Ireland	5.2	2.8	6.1	5.8	0.9	1.8	0.8	0.4	1.3	17.2	3.7	8.9
Sweden	9.5	-0.1	-0.1	7.2	0.6	0.8	3.5	1.3	2.3	27.2	1.5	2.6

Source: European Commission, EPC 2009

Country	Old Age/Disability Insurance			Health Care			Long-term Care			Total		
	Level		Change	Level		Change	Level		Change	Level		Change
	2005	2050	2005-2050	2005	2050	2005-2050	2005	2050	2005-2050	2005	2050	2005-2050
Switzerland	10.3	13.1	2.8	4.4	5.8	1.4	0.5	1.4	0.8	15.2	20.2	5

Source: Federal Finance Administration, 2008

Country	Social Security			Total Medicare			Total Medicaid			Total		
	Level			Level			Level			Level		
	2009	2050	2080	2009	2050	2080	2009	2050	2080	2009	2050	2080
US	4.8	5.7	6.1	3.5	9	13.5	1.8	3.2	3.7	10.1	17.9	23.3

Source: Congressional Budget Office: June 2009

Country	Pension			Health Care			Long Term Care			Total		
	Level			Level			Level			Level		
	2010	2030	2050	2010	2030	2050	2010	2030	2050	2010	2030	2050
Japan	9.7	10.7	13.7	7.1	8.9	7.3	1.5	2.8	4.3	18.3	22.4	25.3

Source: The Japanese Journal of Social Security Policy, Aug 2009

OECD, European Commission, academia and government organisations have developed a framework to project this age-related spending. Ageing is getting to be an issue because post-retirement life-spans are increasing in most rich countries.

Exhibit 4. shows that projected EU27 age-related public expenditures increase by about 2.7 percentage points of GDP over 2007-2035, and by 4.7 percentage points of GDP over 2007-2060. Most of the projected increase in public spending over the period 2007-2035 will be on pensions. The main contributor to the increase in the ratio of pension to GDP is represented by demographic factors (captured by the old age dependency ratio).

In Switzerland, public spending in the three given areas (Old Age/Disability Insurance, Healthcare and long-term care) will increase by five percentage points of GDP by 2050, from 15.2% to 20.2% of GDP. The largest component of the increase is on public pensions.

For the US, according to the CBO's 2009 projections, the growth in entitlement spending explains almost all of the projected growth in total non-interest spending, with Medicare and Medicaid programs largely contributing to that growth. Medicare and Medicaid are responsible for 80% of the growth in spending on the three largest entitlements (Health and Social Security programs) over the next 25 years and for 90% of that growth by 2080.

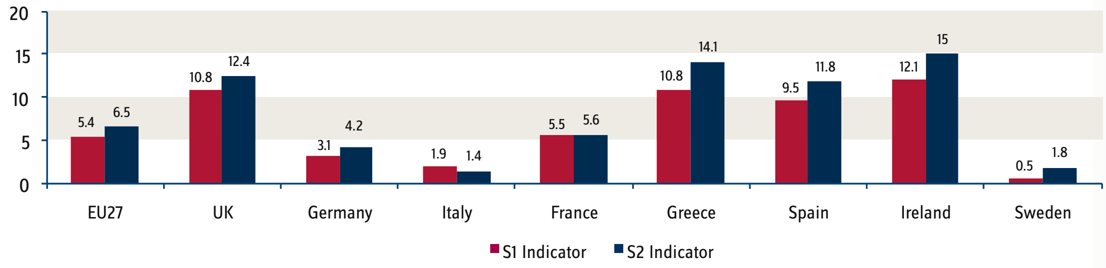
Fiscal Sustainability

The concept of fiscal sustainability relates to a government's ability to maintain the same set of policies indefinitely while remaining solvent, i.e. servicing its debt obligations without explicitly defaulting on them.

In order to assess the sustainability of fiscal policy, the European Commission's Sustainability Report 2009 derives two main sustainability gap indicators: S1 and S2. Both S1 and S2 show the size of the permanent budget adjustment required to ensure that the public budget constraints are met. S1 shows the adjustment to the current primary balance required to reach a target government gross debt of 60% of GDP in 2060. S2 shows the adjustment to the current primary balance required to fulfill the infinite horizon inter-temporal budget constraint.

The value of the S2 indicator shows a sustainability gap of 6.5% of GDP for the whole EU, and the S1 indicator shows a sustain- >

Exhibit 5: Sustainability Gap Indicators in EU Countries (Percentage of GDP) Source: Credit Suisse, EPC



ability gap for the EU countries of 5.4% of GDP. The long-term cost of ageing (LTC) contributes 3.2 points to the S2 gap and 2 points to the S1 gap for EU27. This shows that the long-term cost of ageing has a significant fiscal impact on average. The wide variations between the EU countries are illustrated in Exhibit 5. where we note the very high sustainability gaps that exist in the UK, Ireland and Greece.

A generational account is a set of numbers, one for each existing generation, indicating the average remaining lifetime burden imposed by the government on members of the generation.

Along similar lines, a report on the long-term sustainability of public finances in Switzerland (Federal Finance Administration) in 2008 derives the fiscal gap, which comes to 1.4% of GDP.

In the US, the fiscal gap calculated by the CBO for 2009 is 2.1% of GDP over the next 25 years and 3.2% of GDP over the next 75 years.

Exhibit 6: Fiscal Gap Indicators - Selected Countries/Regions

Adjustment required to current primary balance to: (Percent of GDP)		
Attain government gross debt of 60% of GDP in 2060 (S1 indicator)	EU	5.40%
Satisfy infinite horizon inter temporal budget constraint (S2 indicator)	EU	6.50%
Attain the debt target of 2003 debt ratio, i.e., 49% of GDP in 2050	Switzerland	1.40%
Attain the debt level from 2003, i.e., CHF 216 billion in 2050	Switzerland	2.00%
Attain the debt to GDP ratio over 25 years as prevailed in 2009	US	2.10%

Source: Credit Suisse, CBO, FFA, EPC

Exhibit 6. provides an at-a-glance summary of the different fiscal gap indicators for the EU, Switzerland and the US. What is important to appreciate is that different countries have different fiscal objectives as their targets, which ultimately influences the fiscal gaps that they calculate.

Generational Accounting

Following criticism of conventional fiscal deficit measures to account for a government's longer-term fiscal obligations, Generational Accounting was developed as an alternative approach. The backward-looking nature of measures such as deficits and debt make it difficult to gauge whether or not future fiscal commitments are affordable. These conventional measures relate to the government's current cash flow and hence do not give much information on the longer-term effects of fiscal policy on saving, investment and growth.

To address these limitations, two alternate measures have been proposed by Gokhale and Smetters (2003, 2006). The first is the fiscal imbalance (FI) which equals the current level of debt held by the public plus the present discounted value of future federal non-interest expenditures less the present discounted value of future federal receipts.

The second is the **generational imbalance (GI)**, which can be interpreted as the amount of "implicit debt" under current fiscal policy that past and current generations are passing to future generations, who must finance it through tax payments in excess of their benefits in present value. It helps us answer the question: *Which generation will pay for what the government spends?*

Policy recommendations for ageing countries

In *New Jobs, New People - The Demographic Manifesto*, a Credit Suisse Research publication (2000) addressed to the most ageing countries, we recommended that countries ought to adopt a mix of four policies to deal with the demographics 'time-bomb'. The policies include:

1. flexible enabled working with abolition of mandatory retirement ages,
2. increased female labour-force participation with use of new technologies,
3. selective migration
4. outsourcing/offshoring of non-core jobs.

Coping with the current budgetary impact faced by ageing countries requires a three-pronged strategy in our view. First, they need to achieve and sustain sound budg-

Click here for contents page.

It is a tough ask for governments that have the short-term view, but we believe the alternative of fiscal bankruptcy and downgrades is far worse.

etary positions by running down public deficits and debts faster. This would stimulate low interest rates and high and stable economic growth. Second, countries need to raise employment rates, especially among women and older workers, and also to raise labour productivity. Third, countries need to reform pension, healthcare and long-term care systems to ensure they are viable and adequate.

However pension reforms will be fully successful only if they are accompanied by longer and more flexible working lives. This would enable a higher accumulation of pension rights and would have a positive impact on the level of pensions relative to wages in the future.

The specific issues that need to be addressed as part of pension reforms are the following (i) tightening of eligibility rules for public pensions by increased retirement ages and implementing penalty deterrents for early retirement, (ii) promoting employment for older workers, and (iii) reducing generosity of pensions relative to wages. This will necessitate changes in training, education, tax systems, employment rules, etc.

Some examples adopted by ageing countries include measures to promote fertility (France), changes in retirement ages with pensioners re-engaging flexibly into the workforce (Japan), outsourcing and off-shoring (Germany and Japan), selective immigration (US, UK), encouraging women to better balance home and family life (tax benefits, crèches, etc. in Nordic countries and the Netherlands).

A holistic reform process across employment, pensions, health care, long-term care, education and training as well as migration is needed. It is a tough ask for governments that have the short-term view, but the alternative of fiscal bankruptcy and downgrades is far worse.

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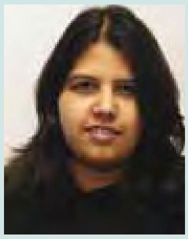

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CONVERTIBLE BONDS – THE ANSWER TO ALL REFINANCING CONCERNS?

By Gregor Bamert and Oscar Engellau

There has been a surge of convertible bond issues by listed real estate companies in the last 12 months. This interesting product is ideally suited to many companies at the current time, but is often misunderstood. Gregor Bamert and Oscar Engellau from Barclays Capital provide an overview of the product and outline its key attractions.

Click here for contents page.

Convertibles explained

A convertible bond can be thought of as consisting of a corporate bond and a call option on the company's equity. Each component has separate pricing considerations. The bond component is principally driven by prevailing interest rates and the implied credit spread of the issuer - a function of the perceived riskiness of the company. The pricing of the option component is principally driven by the volatility of the company's share price. By combining these two components, a convertible bond uses the option to 'subsidise' the bond component, leading to a lower running coupon cost than comparable 'straight' debt. From an investor perspective, the bond component creates a minimal return 'floor' and the embedded option provides upside potential with equity characteristics, i.e. unlimited upside.

This upside for investors causes many potential issuers to shy away from the product due to the perceived dilution. The reality is rather more complicated.

Dilution - real or perceived?

We need to consider both dilution on an asset basis (NAV) as well as on an earnings (EPS) basis. For both measures the critical question will be what the proceeds are used for. The most appropriate analysis may be to look at what happens if a company issues a convertible and purchases an asset at the prevailing market price.

Firstly, the call option in a convertible is only triggered at a premium to the existing share price - often some 20-40%. If the shares do not rise to the conversion price during the life of the instrument, then conversion will not take place. In this case the company will have received low-cost debt (due to the subsidy from the option) but experienced no dilution. Interestingly, even if conversion occurs, the transaction may still not be dilutive. With real estate shares trading at an average discount of 6%[1] to NAV across Europe this allows many companies to issue convertible bonds with a conversion price above their current NAV. If a company issues a convertible bond with a conversion price above current NAV and uses the proceeds to buy assets at the market price, the transaction is actually accretive to NAV.

Secondly, the low coupon of convertible bonds also makes the instrument attractive from an earnings perspective as the coupon cost is typically well below the average portfolio yield. By way of example, the coupon cost for some recent convertible bond issues was 2.125% for Gecina 5.25% for Conwert Immobilien Invest SE, 4.375% for Wereldhave N.V. and 1.88% for Swiss Prime[2]. Interestingly these dynamics can be quite different in markets where the cost of debt is relatively close to the cost of equity as is the case in e.g. South Africa.

Thirdly, when compared to issuing equity as a funding source, convertibles look even more attractive, even upon conversion. This is because a convertible bond will convert at a premium to today's share price, whereas equity issues are normally executed at a discount.

REAL ESTATE	Deal Count	Deal Value (EUR)
2002	1	68,066,476
2003	1	341,245,004
2004	1	83,300,000
2005	1	109,171,147
2006	6	906,294,499
2007	7	2,711,606,117
2008	1	34,375,000
2009	5	1,133,389,053
2010 ytd	4	847,238,102
TOTAL	27	6,234,685,398

Table 1: Convertible Bond issuance by European Real Estate Companies

REAL ESTATE (as % of tot.)	Deal Value (% of tot.)
2002	0.3%
2003	0.8%
2004	0.5%
2005	0.8%
2006	6.2%
2007	8.8%
2008	0.2%
2009	5.0%
2010	11.9%
WA	3.3%

Table 2: Real Estate issuance as a % of total European Convertible Bond Issuance

Source: Dealogic, Barclays Capital

Consequently fewer new shares are issued upon conversion of the bond, compared to an immediate equity issuance - for the same cash proceeds as the below example highlights.

Company A requires additional funds to act on its investment plans. Their shares are trading at EUR 10, and the company is considering either a convertible bond or an equity issue to raise the required proceeds. Company A's advisors estimate that

	Equity Issuance	Convertible Bond
Share price - today	EUR 10.00	EUR 10.00
Issue / Strike price	EUR 9.00 (10% disc.)	EUR 13.00 (30% prem.)
Share price - at CB maturity	EUR 16.00	EUR 16.00
Cash proceed required	EUR 100 million	EUR 100 million
Shares issued	11.1 million	7.7 million

Company A can execute a share placing at a 10% discount (i.e. EUR 9/share), or launch a convertible at 30% premium (EUR 13/share). As the table above shows, a share placing adds almost 45% more shares for the same nominal cash proceeds.

Dividend and conquer

Typically holders of convertible bonds will receive the coupon >

1. EPRA Monthly Published NAV Bulletin March 2010
2. Attention needs to be paid to certain accounting considerations for convertible bonds whereby an interest cost higher than the coupon cost needs to be recognised.

as long as they hold the bond, but will not be entitled to dividend payments until they are equity holders. This is a key consideration especially as some listed real estate companies trade at significant dividend yields. Investors will look to the expected dividend yield in pricing a convertible and will view dividends paid as 'leakage' from the overall equity of the company and thus the value of the option. With REITs typically under an obligation to distribute a significant portion of their earnings this can prove problematic. Fortunately a number of solutions are available.

The convertible bond product provide a great opportunity for real estate companies to access a financing source which is available, relatively low cost, potentially accretive to NAV and can be accessed rapidly.

Firstly, companies can simply adjust the conversion terms by any amount of dividend that is paid during the life of the convertible ("full dividend protection"). This aligns the treatment of convertible and equity holders and may also allow issuers to achieve a higher initial conversion premium. However, by taking account of anticipated dividends, the effective premium is significantly reduced. Examples of companies using this approach include Unibail-Rodamco, Gecina and Conwert.

Secondly, companies can look to provide investors with dividend protection only above a certain threshold. This threshold can be set either in absolute terms (i.e. EUR per share) or in yield terms (% dividend yield). Effectively this allows issuers to set the level of protection at a level of dividends which is reflective of their current expectations. This approach has been used by Wereldhave.

So why now?

Convertible bonds have been part of the financing toolkit for many years, but have not been a major source of funding for real estate companies Why do we expect this to change? The answer lies in three points:

- **Availability** - with financing still constrained in many markets, the convertible market is clearly open.
- **Cost** - convertible bonds offer the highest benefit to companies which have a high cost of debt and high equity volatility. In the years up to the current crisis, real estate companies tended to have a low cost of debt and low equity volatility. In the current market however the high degree of equity volatility is a key attraction as it helps reduce the still elevated financing costs many companies face.
- **NAV accretive** - as mentioned above, as a way of financing asset acquisitions, convertible bonds have the distinct advantage of being NAV accretive, even for companies currently trading below NAV.

Based on these attractive characteristics, we have seen growing interest in issuance including from Wereldhave, CA Immo, Swiss Prime, Conwert and Gecina and Beni Stabili out of Europe and Prologis and MGM Mirage out of the US. "Having led transactions for companies as varied as Conwert, Wereldhave, Prologis and MGM Mirage, we have clearly demonstrated that convertibles can be attractive for real estate companies as a flexible funding source," says Brendan Jarvis, Managing Director and Head of the Real Estate Group EMEA at Barclays Capital.

The Wereldhave convertible bond issue re-opened the market in August 2009 and raised a total of EUR 230 million with a coupon of 4.375% per annum and five-year maturity. The initial issue size was EUR 200 million, but due to high investor appetite an increase option ("the green shoe") was exercised, adding an additional EUR 30 million.

The deal was multiple times oversubscribed and bonds were predominantly distributed to outright investors. "For Wereldhave, with relatively liquid shares, a convertible bond is a very quick way to raise funds. Convertible bond investors use parameters to make their investment decision that enable them to decide within a few hours. This means that, subject to satisfactory documentation completed afterwards, a company can raise funds at an opportunistic moment in the market," said Wereldhave Corporate Treasurer Charles Bloema. "A convertible bond can be a

2 Attention needs to be paid to certain accounting considerations for convertible bonds whereby an interest cost higher than the coupon cost needs to be recognised.

Click here for contents page.

Convertible bonds offer the highest benefit to companies which have a high cost of debt and high equity volatility.

way to raise money at a very low coupon. Wereldhave also took into consideration that a convertible bond should not be dilutive if it converted, as long as these elements are respected, it can be advantageous to everybody: convertible investors, shareholders and the company," he continues.

The Conwert Immobilien issue was executed in January 2010 at attractive terms for the issuer. A total of EUR 135 million was placed primarily with UK and French investors. With a conversion premium of 32.5% over the prevailing share price, the CB was specifically structured as a six-year transaction to better fit the existing debt maturity schedule. "The actual issuance itself, the strong market reception and the flawless execution have further added to the already strong Conwert name", says Conwert CEO Johann Kowar about his recent convertible bond placing.

Who are the buyers?

The resurgent markets following the credit crunch have attracted a broad range of investors to the convertible bond asset class. These investors view the product as a suitable compromise between limited downside and potential equity upside. The investor base of convertible issuers is broad based including outright buyers (pension funds, asset managers and insurance companies) as well as hedge funds, private banks and trading desks.

In summary

In the current market conditions, investor demand and the flexibility of the convertible bond product provide a great opportunity for real estate companies to access a financing source which is available, relatively low cost, potentially accretive to NAV and can be accessed rapidly.

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Gregor Bamert has responsibility for covering Real Estate clients across Western Europe with a particular focus on cross-border clients, strategic acquisitions, structured financings and capital markets. He has worked on a number of large portfolio acquisitions, capital markets financings and structured risk management. He is currently involved in several cross-border advisory projects.
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Oscar Engellau forms part of the Real Estate Investment Banking Team at Barclays Capital. He has a Pan-European focus and is also responsible for Nordic coverage. As part of the real estate sector team Oscar provides clients with a range of products including large scale M&A, Equity Linked and Capital Markets products as well as Strategic Advisory.
Oscar has significant investment banking experience, having worked on a number of successful transactions in Continental Europe, UK, the Nordic region and South Africa.
Oscar joined Barclays Capital in 2007 - previous positions include Investment Banking at Deutsche Bank as well as Equity Research at former Bear Stearns. Oscar holds a Master in Finance from Stockholm School of Economics and he is currently spending his fifth year in London.

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THE POWER OF POPULATION[1]

By Shaun Stevens and Joachim Kehr

Thomas Malthus may have had a pessimistic view of the virtues of population growth but his groundbreaking work in the field of demography demonstrated the primacy of population in understanding how economies and societies evolve over time.

For the property investor, the issue of demography is rather more prosaic. How will population change influence current and future investment decisions? The greying of Europe and the spectacular population shifts in Asia are the focus here, by way of contrasting the themes that are prevalent across the world. The changes expected over the medium term, say ten years and over 40 years, will be of interest to investors in listed property. Companies are expected to adapt their portfolios to the demographic developments that will dominate across countries and regions in the period perhaps as far out as 2050.

But global population dynamics are rarely straightforward and the next 30 to 50 years will not be a simple story of Europeans getting older and fewer in number, while their North American and Asian counterparts expand in number while ageing less rapidly. Within regions and countries there will be fairly substantial variations in population growth and decline and likewise important variations in the age composition of countries.

The fall and rise of populations

There will be clear winners and losers in population terms as the century progresses. For Europe it will be a century of decline, while Asia and North America will enjoy population expansion. Indeed, Asia currently represents 60% of the world's population and while that percentage is expected to drop to 57% by 2050 the absolute number of people living in Asia will grow to 5.1 billion[2].

It has been long established that the largest increase in inhabitants will take place in China, India and the US, while Africa, the Middle East, Southeast Asia and South Asia will witness the fastest population growth, while Europe will witness the steepest decline. In contrast a substantial amount of population growth is set to take place in extremely poor countries, which have high fertility rates. However, countries like Yemen, Bangladesh, and Liberia which will be in the vanguard of expansion, are unlikely to match the investment criteria of the majority of international real estate investors, particularly public companies, for the foreseeable future.

Migration will be one of the underlying population dynamics influencing North America and Europe. US population expansion has been boosted by net inward migration for many years as has that in Australia and New Zealand. Unlike in the developed West, most Asian nations will have negative net migration. Only Australia, New Zealand and possibly Singapore are expected to see immigration. These countries have traditionally been large benefactors of immigration and are likely to continue to be as their institutions and societies are conducive to integrating foreigners.

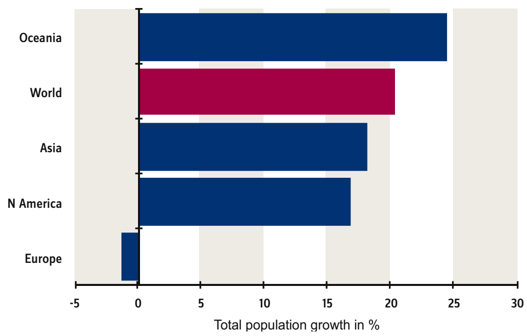


Figure 1. Population growth by region – 2010 to 2030

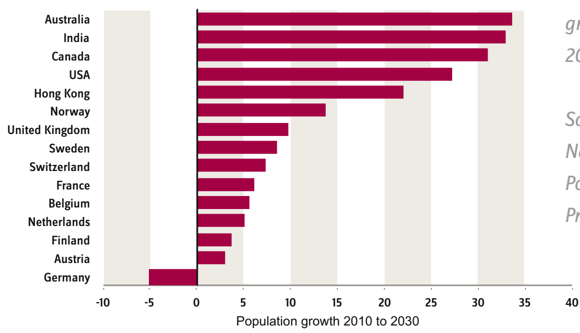


Figure 2. Population growth by country – 2010 to 2030

Source: United Nations 2008 Population Projections

1. "The power of population is indefinitely greater than the power in the earth to produce subsistence for man" Malthus T.R. 1798. An essay on the principle of population.
2. (Source: World Population Prospects: The 2008 Revision, UN 2009).

Click here for contents page.

China's rapid ageing process has fuelled worries that it might grow old before it grows rich.

Australia's population is expected to grow by 4 million to 28 million and New Zealand's from 4 to 5 million by 2050. Immigration has traditionally focused on attracting highly educated, working-age individuals, boosting economic growth and in future both nations will continue to benefit from a brain-gain. The UK population has expanded from an influx of workers from Eastern Europe in recent years and migration will continue to play a factor in population growth.

Changing population structures

Europe is the one region of the world that will experience population declines between now and 2030; and as the population declines it will age substantially. This will have major impacts across countries. As dependency ratios rise, the burden on the working age population will rise substantially. In Europe, the old-age dependency ratio[3] will rise from its current level of 24% to 36% by 2030 - which is well ahead of North America and Asia.

More alarmingly for policy makers, there will be potentially only two workers for every pensioner by 2050. Variations within regions are quite significant, with markets like Germany expected to see even more rapid ageing by 2030 and beyond, than the European average.

Japan and South Korea face rates of ageing that are arguably more severe than those in Europe. Japan's population is expected to fall by 12% until 2050, driven by low birth rates and South Korea's population is forecast to fall by 9% over the same period and age even quicker than Japan's, driven by emigration of working-age people. Labour participation in Japan in particular, falls even more rapidly than in Germany.

In China the one-child policy has curtailed population growth in the past, and by 2050 China's biggest population cohort will be those between 60 and 64. China's rapid ageing process has fuelled worries that it might grow old before it grows rich, while the remainder of Asia is unlikely to be confronted by population decline before 2050.

An EPRA study[4] in 2004 illustrated how property demand in Europe will vary across sectors over the next 20 to 30 years, indicating that property markets will become essentially replacement markets, although some housing and retail markets will see some albeit weak demand over the medium term. The European office sector was already faced with the beginnings of a significant shortfall in demand at the start of the century. In contrast, Asian emerging markets and North America and Australia, will >

Figure 3. Working population aged 15 to 64 by country in Europe (1950 to 2050: indexed 2000 = 100)

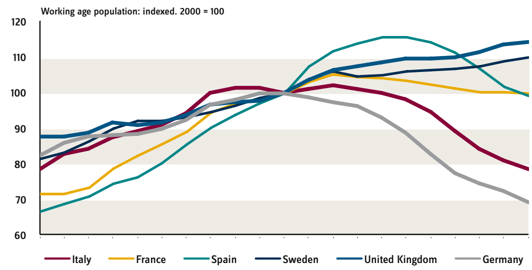
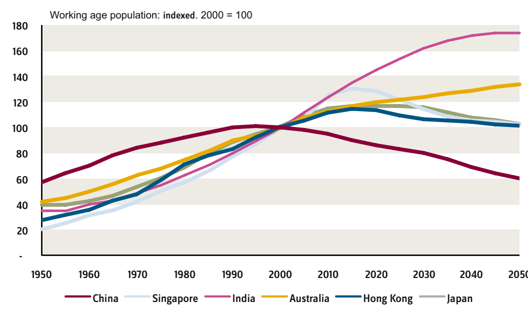


Figure 4. Working population aged 15 to 64 by country in Asia (1950 to 2050: indexed 2000 = 100)
Source: United Nations 2008 Population Projections



3. The old-age dependency ratio is the ratio of the population aged 65 years or over to the population aged 15-64. All ratios are presented as a % of the number of dependants per 100 persons of working age (15-64).
4. D Brounen, P. Eicholz 2004 Democratic Contraction and European Property Markets: EPRA

Figure 5. Population change by country in Europe – winners and losers 2010 to 2030.

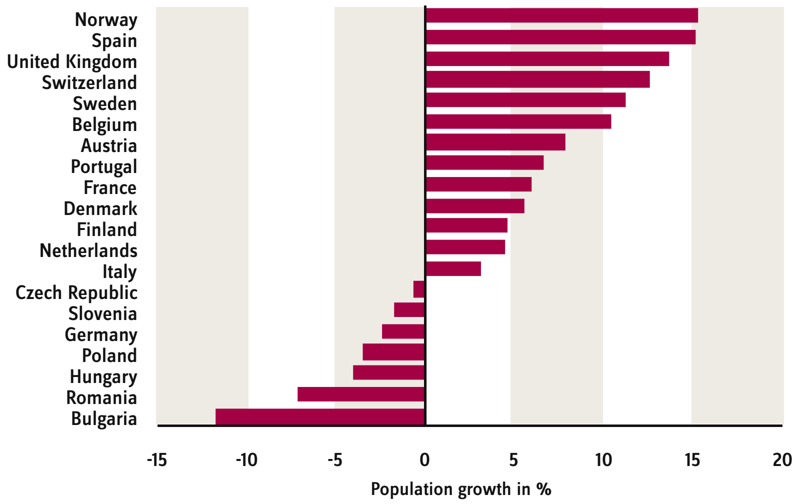
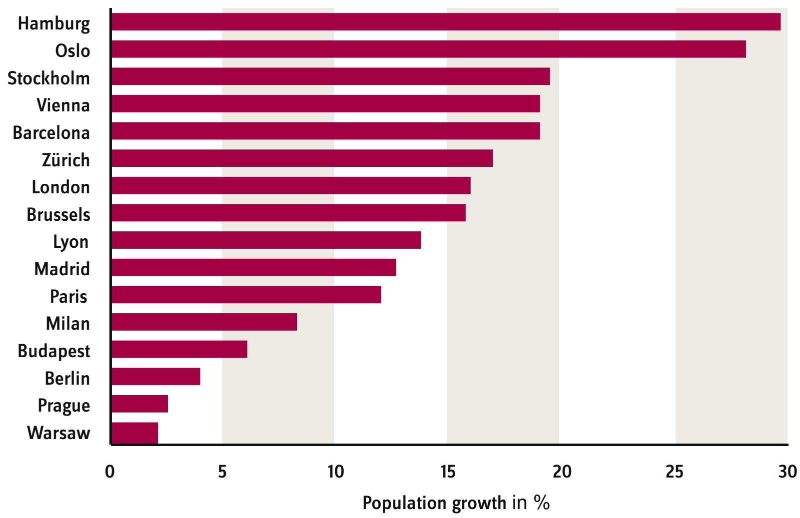


Figure 6. Population change by city in Europe – a sample of major city regions expected to experience population growth 2010 to 2030. Source: Eurostat 2010



enjoy ongoing demand for new space across property sectors. Markets like Central and Eastern Europe were only expected to provide short-term relief and indeed six years after the report was published, part of the windfall from the catch-up modernisation of the former Soviet Bloc countries has already been realised.

Another interesting aspect of population shift in Europe will be the extent to which populations move within countries. While Germany and Poland will see declines in their total populations, at the regional level there will be substantial variations. Markets like Hamburg can expect marked population expansion, as the westward shift of German and other European citizens continues. Likewise in Central Europe, while Hungary is forecast to experience a noticeable decline in its overall population, the Budapest region is set to expand appreciably up to 2030.

A distinct feature of the Asian landscape will be ongoing urbanisation. Cities such as Shanghai, Jakarta, Manila, Accra, Bangkok and Delhi are likely to grow into their country's respective socio-economic centre. They will be joined by Tokyo, which will defy Japan's negative growth patterns and expand further. Urbanisation will be a key trend of the 21st century as people head to the cities for better opportunities and lifestyle. This will lead to real estate in any of these cities seeing continued value-appreciation as land and space become scarcer.

Property and population

While falling population will pose numerous questions for property owners in mature economies, notably in Continental Europe and Japan, the residential and to a lesser extent the retail sectors will be less affected by the meltdown in numbers. Household growth rates will continue in many European countries in the short term which will be the key determinant of demand. Moreover, the inter-country drift of population will lead to national and regional capitals experience rising demand. The EPRA study from 2004 showed that household formation rates are expected to continue driving demand for residential property across Europe for the next five to ten years.

The demand for residential real estate will increase throughout most Asian countries with the exceptions of most of Japan and South Korea. Demand will be driven by higher population levels as well as increased prosperity. At present, one Chinese occupies five to seven square metres. This compares to 40 square metres of living space per capita in Germany. Residential property demand will increase overall, with small apartments likely to see the sharpest rise in demand in the emerging mega-cities. This is already occurring in relatively affluent places with high population density, like Singapore and Tokyo, where so-called Mickey Mouse apartments of

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around 50 square metres have seen the sharpest rise in demand.

The profound shifts in the age structure of populations in Asia and Europe will present as many obstacles as opportunities. There is an often lazy assumption that ageing populations translate into greater demand for senior housing, retirement care, sunset villages etc. These changes that will certainly take place over a relatively short time-frame will have considerable implications for property demand.

The numbers of older households needing specialist accommodation will be a serious issue that will certainly excite the interest of some operators and investors alike. The caveat being that the provision of so-called senior housing is heavily dependent upon non-market factors like national and local government regulation and the availability of insurance or government payments to cover both care and rental costs. Population ageing means that the burden of paying for pensions care and housing will fall on a shrinking tax base in Europe and in parts of Asia. The type of welfare provision currently available in developed economies across the world may no longer be economically or politically viable for future generations.

A falling population in Europe, but most importantly a declining working age population, will have consequences for all property sectors, but especially offices. Countries like Germany and Italy will see some of the sharpest contractions in office demand. However, we have already witnessed policy moves in Europe involving the raising of retirement ages to tackle the rise in dependency ratios. In the post-credit crisis world that the developed economies inhabit there is a growing realisation that people will not be able to retire if they do not have income or assets. State transfer payments look set to decline, and if workers do not have sufficient financial or real assets, they will not be retiring. The growth in numbers of older people in the workforce will impact not only on working patterns but also on the type and location of office space that elderly office workers occupy.

Demand for office space will increase in Asia as the continuing shift from manufacturing to services and to high-skilled jobs takes hold. Agriculture and manufacturing are likely going to see their share of the workforce decline thanks to higher levels of automation. As more of the workforce shifts into the service sector, demand for office space will rise.

Increased labour participation from women and the elderly will likely support office space demand as well. In countries that are suffering from a declining workforce, increased labour participation can help in stabilising the workforce and help, at least in the medium-term, in offsetting the impact of ageing. Countries like Japan and South Korea, that have seen their workforce peak, will eventually experience falling demand as the workforce shrinks and office space becomes surplus, certainly in peripheral areas and cities.

Falling population will pose numerous questions for property owners in mature economies.

Demand for retail space will continue to grow across large parts of Asia, fuelled by growing numbers of individuals with larger disposable incomes and increased leisure time. The emerging mega-cities will see an expansion in retail space, specifically in the form of malls and large shopping centres. Internet shopping will unquestionably take a larger chunk of the retail market but is unlikely to fully replace the tangible shopping experience. Overall, urban retail space in Asia will benefit from a higher urban population density and the ongoing rise in consumer wealth.

In Europe, retail markets will rely more on rising incomes to drive demand. However, as the region emerges from the credit crisis laden with massive national and household debt, the demand impulse from rising personal wealth will be subdued in the near term. The Urban Land Institute's 2009[5] work on demographic change predicts that developers and retailers will still see Europe as a market with renovation and re-branding potential, focused on expanding cities and regions where future income growth is more predictable. >

5.ULI Europe October 2009, Retail and Demographics

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Investment Specialist

Shaun has worked as a Senior Investment Specialist for Fortis Investments since 2007 and has worked in the real estate industry since 1990. He was previously head of research and strategy in Continental Europe for Aberdeen Property Investors in Amsterdam and before moving to the Continent was a property market analyst with the Council of Mortgage Lenders in the UK. He began his working career as a researcher in the UK's Office of National Statistics. He has a BA in Social Administration from London University and is a qualified Chartered Surveyor (MRICS).

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The numbers of older households needing specialist accommodation will be a serious issue that will certainly excite the interest of some operators and investors alike.

Demography is destiny?

Population growth or decline will not translate in a straightforward manner into simple factors driving property demand. The reality will be somewhat more complex determined by the changing age composition of markets and the intra-regional shift of citizens. But awareness of the social and economic consequences of demographic change at the macro and micro level will add clarity to the investment decisions of both property owners and investors. Investors in the direct market as well as indirect investors will have to be aware of the trends as well as the limitations of the data and projections.

There are some obviously daunting changes in demand ahead for real estate companies and investors particularly in mature markets where typically global real estate securities investors are focused. Investors will need to be conscious of the suitability of companies' existing portfolios and current property pipelines to exploit the population changes which will drive property demand over the next ten years.

Given the uncertainty ahead, particularly in mature markets, demographic change is emerging a one of the most compelling arguments for investing in listed real estate as its liquidity is probably the best way to safeguard against getting stuck in a dying property market.

[Click here for contents page.](#)

CASTING THE NET

By Chris Luck

In its current form, who is likely to be caught by the Directive on Alternative Investment Fund Managers and with what effect?

The European Commission (EC) published its first draft of the Directive on Alternative Investment Fund Managers (AIFMs) on April 30, 2009. The Directive's objective was to increase regulation /investor protection measures for the management of investment activities that create systemic risk and contribute to financial instability.

The draft Directive was aimed at providing a regulatory framework for the regulation and oversight of the alternative investment fund industry in the European Union, in particular for the monitoring and management of risks that are of cross-border concern. This universe includes hedge funds and private equity funds but also extends to real estate funds. >

The Directive and the real estate sector

Despite correspondence from the European Commission many months ago that confirmed REITs and listed property companies were not the intended target of this Directive, the European Commission has subsequently made it clear that its intention is to include REITs (and the wider corporate real estate sector).

EPRA and other real estate organisations have lobbied hard to address this misclassification of our industry. We continue to make the case that it is not appropriate for the Directive to include the listed property sector for the following reasons:

- Listed real estate companies and European REITs are essentially normal operating companies and the listed real estate sector is distinguishable in its entirety from the international real estate fund sector;
- Neither ordinary listed real estate companies nor REITs have at any time caused systemic risks under existing regulation, nor are they likely to in future;
- The sector is in its entirety sufficiently regulated on all important aspects and transparent to investors and regulators.

EPRA has met the European Commission and discussed its concerns with the regulators on many occasions. Whilst there is still no clearly stated policy reason for targeting our sector, reading between the lines, it appears that the EC have simply looked at the fund management sector, noticed that a lot of real estate funds make up the sector, and then made the incorrect decision to target all forms of real estate, including property companies that own and operate real estate assets, rather than fund managers.

This is disappointing and it seems increasingly unlikely that the European Commission will be persuaded to exclude the listed real estate sector from the Directive. It is therefore necessary to address how it should be applied, or more particularly, how it should not apply.

Among EPRA's main concerns are the fact that by requiring European real estate companies to be authorised in their home states like fund managers the additional regulatory burden imposed on its members will increase management costs. It will also lead to reduced returns to investors, and reduce

Reading between the lines, it appears that the EU has simply looked at the fund management sector, noticed that a lot of real estate funds make up the sector, and then made the incorrect decision to target all forms of real estate.

EPRA Comment:

While the broad objectives of the Directive appear to be sound, the application of the Directive to the real estate sector in particular highlights both the muddled thinking of the EU with regard to how sensibly to achieve these objectives, and the clear political pressure being placed on the European regulators to respond to the recent financial crisis - and respond quickly.

From the start in early 2009, it seemed clear to most that the AIFM Directive was aimed at those sectors that had contributed in some way to (or at least not helped) the escalation of recent financial and economic problems, or were deemed to present a future risk due to lack of existing regulation. Publicly listed property companies, whose business is the ownership and operation of real estate assets and whose shares are traded hourly on the stock markets, did not appear to be the intended target of the Directive. This view was supported by the fact that other normal operating companies, such as Volkswagen, Tesco's and Unilever were, and still are, viewed as clearly outside the scope of the AIFM Directive.

Click here for contents page.

capital inflows into the sector from both inside and outside the EU without any corresponding increase in investor protection. The Directive could also potentially lead to widespread accidental non-compliance as many real estate businesses are likely not to realise that they are caught.

Please see the EPRA website for the latest EPRA Representation letters.

History and current status

Since the first draft of the Directive, the Swedish Presidency of the >

EPRA Comment:

There is a possibility that property companies including REITs could successfully argue that they fall within this scope exemption as providers of a product/service (provision of space and related services). Although there are many good reasons why such companies have more in common with normal operating companies than fund managers, it is clear that the European Commission currently takes a different view.

Assuming the scope of the Directive remains unchanged, the corporate real estate sectors best chance of being excluded from the Directive may be in influencing the interpretation of the Directive by national governments, who may have the time and inclination to draw the appropriate distinction between the corporate real estate sector and fund managers.

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Council of the European Union produced three further drafts; Jean Paul Gauzes, a French MEP, has produced a report for the European Parliament (dated November 23, 2009); and the Spanish, who assumed the Presidency of the Council of the European Union at the beginning of 2010, have produced a number of further drafts. Significant press and industry comment continues, and MEPs have tabled between 1,000-2,000 amendments to the Gauzes report.

The corporate real estate sectors best chance of being excluded from the Directive may be in influencing the interpretation of the Directive by national governments, who may have the time and inclination to properly understand the differences between the corporate real estate sector and fund managers.

At the date of this article the latest draft was dated March 11. 2010 and was to be voted on as a compromise proposal by the Council of Ministers on March 16, 2010. However, according to press reports the Directive was removed from the agenda due to the intervention of the UK Government. This is understood largely to be due to the threat to private equity and hedge funds in the UK. Another serious concern is the possibility of US retaliation to the Directive due to its restrictions which affect the marketing US funds in Europe. The European real estate sector may not have the same political impact but there are reasons for it to take notice as discussed above.

1. Headline issues for real estate companies

Is a real estate company caught?

(a) Scope: What is an AIF?
Broadly speaking, an AIF is a collective investment undertaking, which raises capital from a number of investors by issuing shares or units with a view to investing in accordance with a "defined investment policy" for the benefit of those investors. Investment extends to real estate, and an AIF can be established inside or outside the European Union.

b) Scope: Broad definition of an AIF
The definition of an AIF is very broad and captures closed-ended, open-ended and listed funds and other vehicles, including limited partnerships, trusts and companies. It looks as if ordinary real estate investment and trading companies and REITs are caught, despite previous indications that they would not be. Whilst many fund managers expected to be within the Directive, the typical listed real estate company did not and any intent to include them was not clear in the earlier drafts or impact assessment.

c) Scope: Where no external manager appointed
The Directive treats an "internally managed" AIF which does not appoint an external AIFM as an AIFM. In our view, this would include the general partner of a limited partnership or the trustee of a trust and could include an ordinary property trading or investment company managed by its board of directors. The application to such companies is unexpected and is an unwelcome extension of the scope of the Directive.

d) Scope: The AIFM
The Directive in broad terms does not regulate the AIF but the AIFM. It is the legal person responsible for portfolio management and risk management and can be the AIF itself. This means a listed real estate company itself could be considered an AIFM, (and the European Commission seems to endorse this view). The Directive applies to AIFMs in the European Union although there are politically sensitive proposals regarding funds outside it.

2. Are there exemptions?

Individual member states may choose to exclude from the scope of the Directive AIFs with gross assets of less than EUR 100 million or EUR 500 million if ungeared and without redemption rights in the first five years. This may be useful for smaller companies and JVs. There is also an exemption for holding companies where the main purpose on its group is to carry out a Business strategy by producing and selling goods and/of providing services to the customers of the group. It is arguable that a real estate company qualifies in this respect.

There are specific exemptions for

Click here for contents page.

other arrangements such as pension funds and sovereign wealth funds.

3. What are the benefits - a European passport?

The Directive includes a passport to market EU AIFs throughout the EU to professional investors. This will be of limited benefit to real estate companies as they already benefit from the Prospectus Directive.

4. What is the Impact of being an AIFM?

An AIFM must:
- be authorised in its home Member State;
- have a depositary;
- only delegate in accordance with the Directive;
- satisfy capital requirements (likely to be EUR 300,000 if internally managed but for externally managed 'AIFs' this can reach EUR 10 million);
- satisfy leverage and reporting requirements;
- comply with remuneration restrictions.

a) Impact - Authorisation

An EU AIFM will need to be authorised in its home member state within the EU and satisfy minimum capital requirements. The regulation of real estate companies seems unnecessary, especially when they are already subject to existing securities legislation which protects investors in relation to matters such as market disclosure, transparency and governance.

b) Impact - The ability to delegate

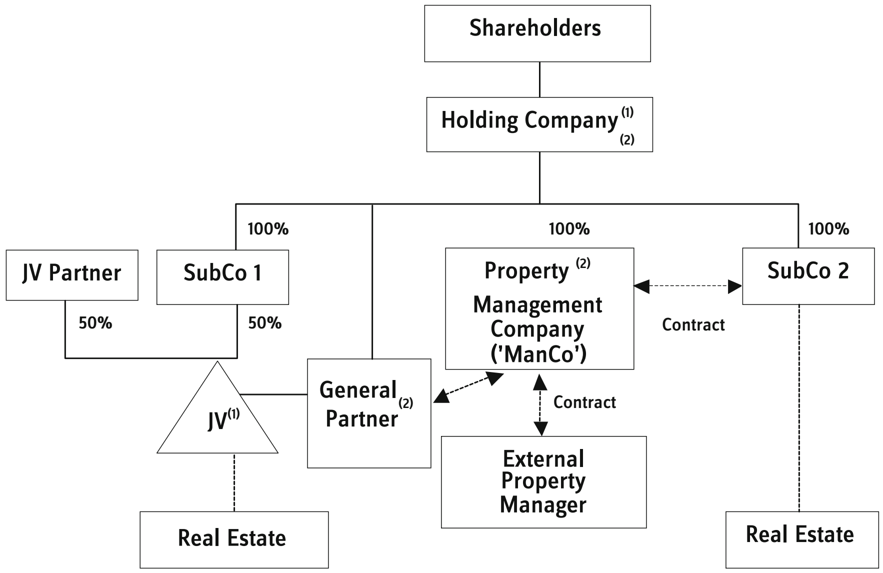
There will be a single authorised AIFM for each AIF. The AIFM has responsibility for all the AIF's investment and risk management functions. An AIFM is entitled to delegate those functions, but only to a person authorised by a regulator. An AIFM may delegate any other functions (including marketing, administrative and property management functions) to a person who is not authorised. The AIFM remains strictly liable for all acts of its delegates.

c) Impact-Depositaries

An AIFM is responsible for ensuring that it, or any EU AIF which it manages, appoints an independent depositary for that AIF (which must be established in the home member state of that AIF). An AIFM can not be a depositary.

The depositary of an EU AIF which holds "financial instruments" (which would include shares in property-owning SPVs and units in unit trusts) must be an EU bank, a MiFID firm or authorised by a regulator established in the home state of the AIF. A depositary's functions include:

- holding "financial instruments" (including share and unit certificates) in segregated accounts;
- verifying title to and keeping records of other assets (including underlying real estate assets); and
- fund administration, in particular calculating NAV and processing subscription and redemption applications where applicable. >

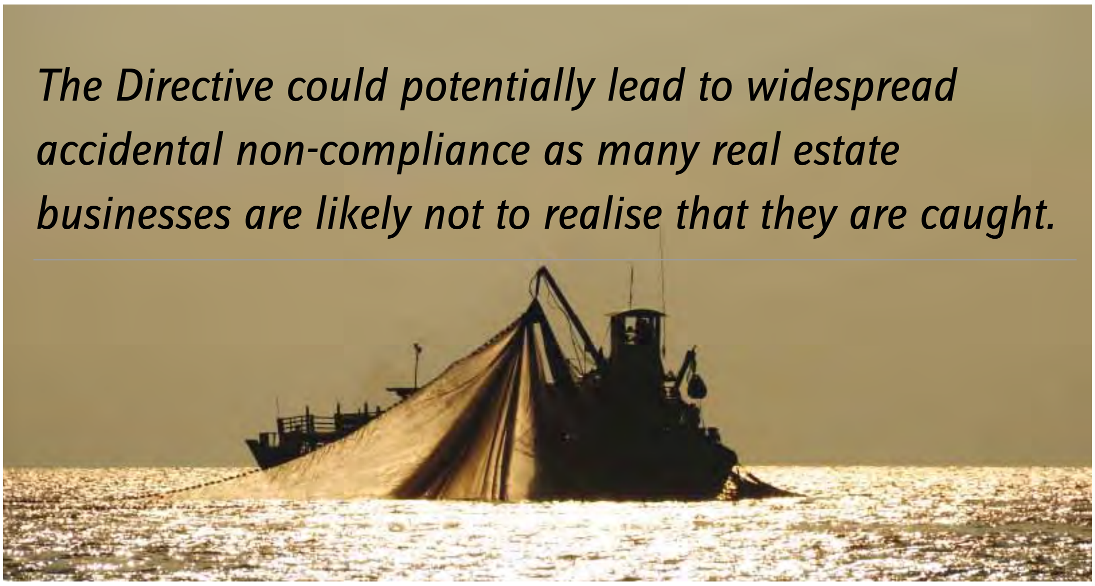


Is this an AIF/AIFM?

Set out above is a diagram of a typical real estate group structure in simple form. We have highlighted the impact the Directive in its current form may have on certain areas (assuming that no exemption or exclusion from the Directive can be used).

(1) This may be an AIF? (an "internally managed" company can be an AIF)

(2) This may be the AIFM?



Whilst a depositary is a familiar feature of UCITS funds, it is novel and unusual in a typical listed property business. Is there actually a sufficient resource and number of depositaries?

d) Impact - Valuation
An independent person will need to carry out the valuation of the assets of an AIF. This is already typical for a listed property company.

e) Impact - Leverage and transparency requirements
An AIFM which manages an AIF which uses leverage on a "systematic basis" must disclose to the relevant regulatory authority information about the leverage employed by that AIF. The Directive also contemplates allowing regulators to impose limits on the amount of leverage that an AIFM may employ on behalf of an AIF, and empowers the European Commission to adopt measures to clarify what amounts to use of leverage on a "systematic basis" and how to calculate leverage. This therefore hands considerable discretion to the European Commission in this area. The Directive also imposes onerous obligations on AIFMs to report information to regulators, which is unwelcome.

f) Impact - Remuneration
The Directive requires an AIFM to have remuneration policies to ensure that the remuneration which AIFs and AIFMs pay is linked to the long-term performance of the AIF. For example, highly paid managers will need to have at least 40-60% of their bonuses or carried interest deferred over an "appropriate" period (taking into account the AIF's life-cycle and redemption policy).

Practical steps

The public consultation period is over and the Directive is likely to be implemented into law in the Member States in the middle of 2012 at the earliest. Changes to the form of the Directive (specifically on scope and remuneration) are likely in the next few months. There will be transitional measures. For instance, closed-ended AIFs that are fully invested by the end of 2011 (and possibly later) will fall outside the Directive. However, there is still time to lobby and EPRA is doing so; should you wish to discuss the above please contact Gareth Lewis at EPRA.

Chris Luck
Partner at Nabarro

Chris Luck has been a Partner at Nabarro since 1988. Chris Luck advises quoted and unquoted real estate companies as well as funds and joint ventures. He is head of the firm's REITs Group and has been closely involved in the development of UK-REITS including acting on REIT conversions. Chris Luck's experience also includes significant international and cross-border transactions. He is also a member of the Nabarro's European Group.

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Click here for contents page.

FAR EAST OUTREACH

by Mark Cooper, Editor AsiaProperty

REESA delegation in Singapore.

Escaping from Europe just before the continent was draped with an ashen shadow, some of EPRA's leading lights found much to cheer in a series of investor events in the Asia Pacific region, still the world's big hope for growth.

Unibail-Rodamco chief financial officer Peter van Rossum joined EPRA chief executive Philip Charls and research director Fraser Hughes on a whirlwind tour of Asia as part of the EPRA outreach programme, spreading the word on listed real estate to a willing audience of investors and sharing knowledge with property companies and their counterparts in REESA.

Van Rossum, a former Asia Pacific finance director with Shell who knows the region well, says: "Asian investors need global exposure and they can't ignore Europe." Unibail-Rodamco has a number of Asian investors on the roster and would like more.

Asian investors treat listed real estate companies as they do other investments, more qualitatively than quantitatively. A company's long-term reputation is important to them. "They want to meet and to get comfortable with management," says van Rossum.

On the quantitative side, EPRA has plenty of data to make the case for European listed real estate, from both a diversification and performance perspective.

Fortunately for EPRA and its members, listed real estate is meat and drink to Asian investors. Real estate investment trusts are only significant in Australia, Singapore and Japan, but listed property companies make up a significant part of the stock market in >

Global investment opportunities

EPRA's goal on every continent remains the same - to raise awareness of listed real estate, and of course to promote investment allocations into European listed real estate. A supporting objective is to nurture a wider appreciation of the fundamental management and reporting qualities of listed real estate over other asset classes, and its broader contribution to taxation revenue and employment.

- Listed RE has successfully raised equity over the past 18 months, and is especially well positioned relative to other forms of real estate investment.
- Transaction volumes have dropped considerably compared to 2007 peaks, but there is movement year to date.
- Arrested the development of rising LTVs, and European listed sector is trading close to NAV.
- Listed is a proxy to direct RE in the medium to long-term.
- Investment is global - Europe, Asia, Americas (Developed & Emerging).

jurisdictions with a small or non-existent REIT sector.

While there is a positive dialogue between Asia and Europe, there remain significant differences in the listed real estate sector, especially in the field of corporate governance. EPRA's counterpart, the Asian Public Real Estate Association, is working hard to spread the message but van Rossum says: "We have a lot of alignment between the sectors in Europe and North America but it is not the same for Asia so it makes excellent sense to build a dialogue."

One major difference is the prevalence of externally-managed vehicles in Asia, often dominated by their sponsor. APREA is lobbying a number of jurisdictions to encourage more choice between internally and externally-managed vehicles.The mood at APREA's 2010 Leaders Forum, held in Singapore last month but largely closed to European delegates by smoke, was positive. Investors are cautious about the overall economic picture but are keen on listed real estate.

Brett Gordon, head of listed real estate for APG Asset Management Asia, which manages the EUR 200 billion ABP pension fund, said: "In Asia, listed has to play the dominant role" and declared that APG would be - even for its unlisted investments - "aligning ourselves very closely with local listed developers."

However, in recent weeks economic uncertainty has hit markets all over the world. In Asia, worries about the China residential bubble and the government's attempts to let it down without bursting have hit real estate stocks, especially in China and Hong Kong, where many Mainland companies are listed.

A high profile casualty was Swire Group's attempt to demerge and float its real estate business, which was pulled due to a lack of demand from investors. Some analysts blamed the issue being overpriced, but oddly only mentioned that the IPO failed.

Melbourne investor gathering - Philip Charls, Julie Andrews (FTSE), Fraser Hughes, Roberto Fitzgerald (Property Council of Australia), Nick Wade (Northfield Information Services)

Click here for contents page.

However, a number of floats are expected in Asia this year with Singapore the jurisdiction of choice, especially after the first new REIT since 2007, Cache Logistics Trust, was successfully listed there earlier this year. Indian developers want to list portfolios as REITs in Singapore and rumour has it that Japanese portfolios could be listed as S-REITs also. Australia's REITs, after 18 months of retrenchment, consolidation and balance sheet clearing, are ready to expand again.

Clearly, how the second half of the year pans out will be significantly dependent on China, but equally clearly, most of the action will be in the listed sector.

We'd like to thank the following organisations for their support and coordination efforts on this trip: Property Council of Australia, APREA and ERES. The tour addressed over 200 Pension Funds, Sovereign Wealth Funds, Institutional Funds, Private Banks, Consultants, and retail Investors.

"Asian investors need global exposure and they can't ignore Europe."

Peter van Rossum, Unibail Rodamco

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Swire blames "deterioration of market conditions" as it abandons $3bn flotation plan for property spin-off

Question mark over wave of flotations as Swire aborts IPO

The abandonment of Swire Properties' initial public offering has cast doubts over whether the flurry of flotations predicted for this year will happen.

Hong Kong's Swire Group had planned to raise up to $3.09bn from the demerger of its property arm and the listing of a 14% stake. The move would have allowed Swire Properties, less international than its peers, to re-focus on mainland Chinese developments.

The developer originally sought to sell 910m new shares, or 13.79% of its enlarged share capital, in a HK$20.75-HK$22.90 range, to raise up to $2.80bn. It also had the option to raise the deal size by 15% to raise a maximum of $3.09bn.

In a statement, Swire said: "In the light of the deterioration in market conditions since publication of the prospectus on 3rd May 2010, Swire Properties has formed the view that it would be inadvisable to proceed."

Chairman Christopher Pratt said: "The company is naturally disappointed at this outcome but feels that it would be wrong to proceed with the proposed spin-off. Consideration was given to amending the terms of the offering, but it was felt that this would undervalue the world-class assets of Swire Properties and be against the interests of shareholders."

Market opinion was divided on why the flotation failed. Some argued that investors were not attracted to the pricing, which reflected a 5-14% discount to net asset value, compared with up to 30% discounts for its peers.

However, worries over property bubbles in mainland China and Hong Kong have sent listed property stocks down nearly 10% in the past two weeks.

Additionally, global investor uncertainty over Europe's sovereign debt problems and delays over UK insurer Prudential's rights issue, to fund a bid for AIA, have been blamed for the recent cancellation of a number of IPOs.

But others reckon 2010 will still be a vintage year for Asia Pacific real estate flotations.

HSBC, joint bookrunner on the Swire Properties flotation, is understood to be working on six property IPOs, mainly in Singapore, where DLF is set to float DLF Assets Limited for $1.2bn later this year.

ARA asset management and CWT raised $417.3m for their Cache Logistics Trust last month and the S-REIT was trading above the offer price last week.

Investment bankers say IPOs for a number of large Japanese real estate portfolios are being considered, while Australia's REITs are ready to expand again after 18 months of retrenchment, consolidation and balance-sheet clearing.

Despite a number of high-profile disasters from overseas expansion, a number of A-REITs and managers are looking to boost their overseas presence, with Asia a target.

2 NEWS
Government measures to cool Chinese housing market are set to shave 20% off prices

8 ANALYSIS
Domestic investors regain the upper hand as opportunity funds sell out of hotels market

14 PROFILE
An outline of the leading players in the growing Asian property fund of funds sector

19 SURVEY: FINANCE
Domestic banks held their ground as the debt crisis hit foreign property lenders

25 RESEARCH
Key data on Asia's occupational, non-listed and listed property markets

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BRICKS AND MORTARBOARDS

By Dr Andrew Baum

Education in real estate is finally taking to the stage. An example: the HEC Business School in Paris, Morgan Stanley Real Estate and Unibail-Rodamco recently announced a partnership to create the 'Real Estate Chair' at HEC Paris to promote academic and business education across Europe in the fields of real estate economics, finance and management.

How can real estate professionals further their education?

The main objectives of the HEC initiative are to develop courses focused on real estate economics and finance for masters and MBA students at HEC Paris. This is intended to extend the global reach of the real estate industry and its leading players and develop sophisticated professionals with the necessary skills to succeed in the global real estate industry and to recruit quality talent. These are noble objectives, which could be advanced with great benefit to the sector as a whole if more widely embraced.

This programme will include specific educational courses focused on international real estate finance, economics, asset management and development as well as on real estate transactions.

In the Netherlands, the Amsterdam School of Real Estate was set up as a foundation in 1991, with an initial connection to the University of Amsterdam. Now fully independent, it awards Master of Real Estate and Master of Science in Real Estate degrees earned by practitioners through part-time home study and classes delivered at a dedicated site near the Central Station in Amsterdam.

Similar specialist MSc courses in real estate have been offered for some time by Cass Business School, London, by Reading University, by the European Business School near Frankfurt, and by others. What is really new, however, is a focus on the MBA market and management development for real estate professionals.

The wider RE significance

The global real estate industry >

How does or should a business like Vodafone organise its real estate assets alongside its human resources and its debt and equity capital?

(defined broadly: see below) contributes more than 10% of global GDP; buildings also contribute around half of all global carbon dioxide emissions. Real estate also comprises around 50% of the world's assets by value and 10% of the value of all pension and savings funds. Ultimately, real estate assets provide security for some 70% of all bank lending. This is an important industry and an important asset class. Yet there are few management development programmes in Europe focussed on real estate, and there is a very limited tradition of investing in management or leadership development in the real estate sector. Nonetheless, there are signs of change.

The University of Reading for one, has a reputation as being the 'university of the land', famous for agriculture and property. Henley Management College, founded in 1945, was the first UK business school and developed a leading MBA programme. When the Henley Business School was formed on the merger of the University of Reading and Henley Management College in August 2008, this created a full service business school, able to offer business education from undergraduate to board level. The move brings together Henley's reputation for executive education and MBA programmes with Reading's international business research and courses for the financial and real estate markets.

Henley Business School's sustainable business programme has as its objective "to work with companies to develop and implement sustainable strategy and management to enable them to succeed in an increasingly complex world." Given the relationship of the built environment and property development to carbon emission, real estate professionals have a pressing need to understand how to develop and implement a sustainable strategy, combining leadership, technical expertise, financial motivation, environmental issues, reputation and professional ethics.

The first indicator of this potential has been the development of the Henley MBA (Real Estate) which is offered from September 2010. In principle, the concept involves a large majority of standard Henley MBA content, with real estate linkages. The primary target market is technically-qualified real estate professionals who are likely to have graduated with undergraduate or postgraduate real estate degrees, and typically work for real estate service providers, property companies and developers, banks and fund managers, as well as local and central government. The programme offers the 'best of both worlds' - a general management development programme with a strong connection to the world of real estate.

The MBA (real estate) course aims to develop a strategic, holistic and integrated perspective of real estate businesses, organisations and management. It aims to provide personal development opportunities to help programme members develop their management capabilities, their capacity for and commitment to continuous learning, and their capability to work in and to lead teams in different situations. A sister programme (the MBA in construction) further supports the broad Henley definition of the real estate sector.

Real Estate as a Corporate Asset enables real estate to be viewed as a factor of production alongside human and financial capital in the broadly-based (non real estate) organisation. How does or should a business like Vodafone organise its real estate assets alongside its human resources and its debt and equity capital? Should it concentrate its real estate resources or decentralise? What tools can it use to optimise this decision? Should it lease or buy - and again, how should it optimise this decision? Just consider how many companies face these questions.

The Real Estate Environment examines the external factors that are likely to shape the longer term business planning process for real estate organisations. This includes reference points to marketing, reputation and brand; environment, social and sustainability issues; economics; and ethics, professionalism and corporate governance.

Developing the Sustainable Real Estate Enterprise focuses on the individual. How can the leader/manager of a real estate organisation promote growth and change? How, for example, can he/she promote geographic expansion through joint ventures and partnerships? How should he/she think about the vertical expansion of real estate services and develop profitable innovation in the real estate sector? How can

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Henley Business School

cultural change be pursued and achieved for the good of the real estate business?

The MBA foundation

Reading/Henley is not the only institution that is waking up to the idea of management education and real estate. For example, Harvard's famous Graduate School of Design has run its Advanced Management Development Program in Real Estate (AMDP) for ten years. But the UK and continental European business schools are following suit. London Business School, Oxford and Cambridge are all now in the real estate market through their MBA programmes, and executive education offerings will naturally follow.

In addition to its MBA, for example, Henley offers a three-day open programme - Leading the Sustainable Real Estate Enterprise - aimed at the real estate industry, based on existing Henley management development programmes but with real estate reference points. This is offered for the first time on June 30 to July 02, 2010 - and fortunately coincides with the Henley Royal Regatta.

The leading UK business schools have joined the party

Following pressure and encouragement from an active real estate club, and encouraged no doubt by the Chairman of its Board of Governors (real estate veteran John Ritblat) the London Business School (which offers the top global MBA, according to the *Financial Times* rankings) has introduced a real estate 'elective' into its MBA programme for the first time in 2010. This elective is intended to link the world of investment theory and analysis to the business of real estate investment and finance. The academic basis of the elective is in financial economics, and the focus is international.

In response to student demand, the Said Business School, Oxford, and the Judge Business School, Cambridge have also begun to offer new real estate electives within its MBA programmes for the last three years or so. The Oxford MBA real estate elective, for example, "explores and explains real estate as an economic sector, an industry, a business, an investment, an asset, a resource, a project, a profession, and a discipline; and as a catalyst for organisational, social and environmental change.

Using case studies, texts, research and analytical methods, the course shows how real estate enterprises and projects originate; how to finance, market and manage real estate 'products'; and how leaders in non-real estate businesses, and in the public and not-for-profit sectors, use real estate in strategically and operationally. Special emphasis is given to the changing roles of real estate executives and professionals, methods of creating economic and social value, the dynamics of emerging markets, and opportunities for careers in real estate".

Real estate electives within MBAs - or MBAs with a real estate tag - may not be the best way to attract real estate professionals into further education. But these initiatives are a sure sign of the coming together for the first time of the real estate world and the world of management development, for their undoubted mutual benefit.

For more information, see

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Dr Andrew Baum
Dr Andrew Baum is Professor of Land Management at the University of Reading, and Honorary Professor of real Estate Investment at the University of Cambridge.

Contact:
ab@andrewbaum.com

INDIRECT: A SOLID INVESTMENT

By Martin Allen

Using property shares to improve returns from direct property portfolios.

Property shares are the original property derivatives, in the sense that their returns are derived from those of direct property.

Admittedly, the returns from property shares are significantly more volatile than those from direct property, principally because of financial gearing within property companies and the tendency for property shares to trade at premiums and discounts to NAV. However, there is no reason to suppose that either of these factors should result in any systematic deviation of property share returns from direct property share returns over time.

One way to test this is to compare the cumulative total returns of property shares and direct property over as long a time period as possible. A chart of cumulative total returns on UK property shares and UK commercial property since mid-1967 shows practically identical returns over the more than 42-year period to the beginning of 2010 (see Exhibit 1). This provides very clear evidence that the returns from property shares match those from direct property over the long term.

Favourable volatility

Given the equivalence of returns from property shares and direct property over time, and the strong tendency for premiums and discounts to NAV to revert to the mean, it should be possible systematically to take advantage of the volatility of property shares to generate greater returns than those separately generated by a portfolio of just direct property. There are numerous ways of constructing such an algorithm.

The simple approach adopted here is to start from a base case portfolio comprising a 50:50 split between property shares and direct property. Then the weighting to

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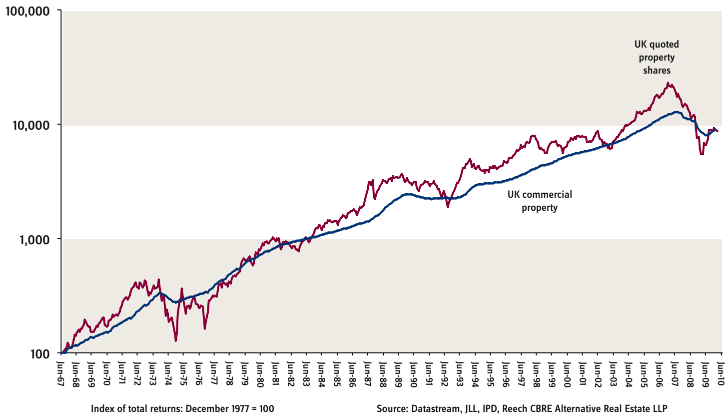

Exhibit 1: Cumulative total returns on UK commercial property and UK quoted property shares

A combined portfolio of property shares and direct property can generate superior returns to those of either of the component parts.

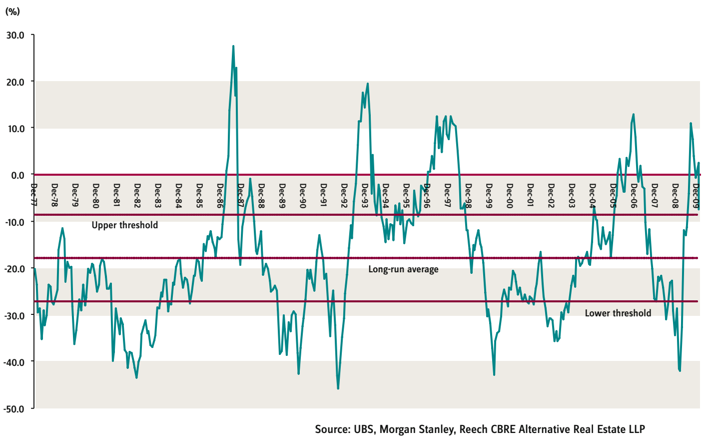

Exhibit 2: Average discounts to NAV for UK property shares

property shares is increased (or decreased) by 1.5 percentage points for every month that property shares trade below (or above) lower (or upper) discount to NAV thresholds. The thresholds used here are equally spaced either side of the -17.8% long-run average discount to NAV over the period since from December 1977 to December 2009 (see Exhibit 2). The upper and lower thresholds are set at two thirds of one standard deviation, or 9.3 percentage points, either side of this long-run average discount to NAV. When the discount to NAV falls back within either threshold, the property share versus direct property weighting reverts to the base case of 50:50 (see Exhibit 3).

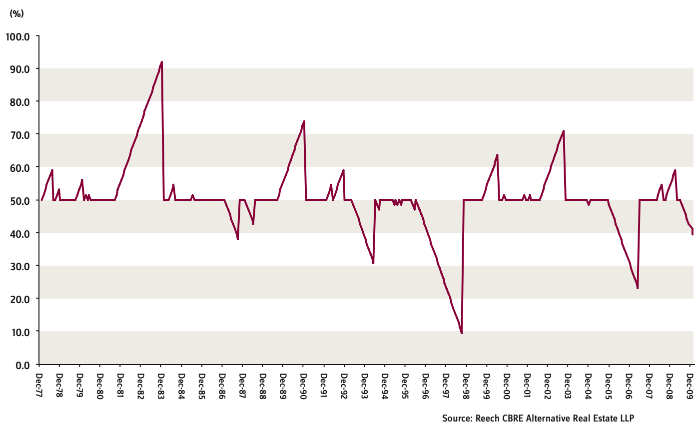

Exhibit 3: Weighting to UK property shares in simulated portfolio

The result is that the simulated portfolio generates significantly better cumulative total returns than either direct property or property shares (see Exhibit 4). As might be expected, the volatility of the returns generated by the simulated portfolio sits between that on direct property and that on property shares (see >

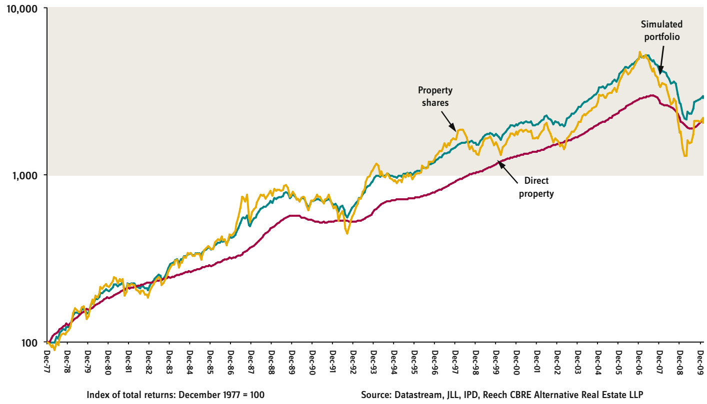

Exhibit 4: Total returns from simulated portfolio compared with those from direct property and property shares

Exhibit 5: Summary of results of simulation

(%)	Total returns	Standard deviation
Direct property	10.0	1.1
Property shares	10.1	6.2
Simulated portfolio	11.2	3.3

Covers period from December 1977 to December 2009

Source: Reech CBRE Alternative Real Estate LLP

Exhibit 5). This higher volatility may put off some direct property investors. However others might well be tempted by the additional returns that this approach generates - an average annual return premium of over 100 basis points over that on direct property over this 32-year period.

This simple simulation has not allowed for transaction costs, and full allowance for these would reduce the return premium generated. On the other hand, it should also be possible to come up with a more sophisticated algorithm that generates a higher return premium.

Martin Allen

Martin is a partner at Reech CBRE and manages the Spire Real Estate fund which launched in January 2010. The fund is a directional long/short fund that invests mainly in quoted property shares in Europe (including the UK). For over 21 years prior to joining Reech CBRE, Martin was a 'sell-side' equity research analyst covering the quoted property sector in Europe (including the UK), most recently as team leader at Morgan Stanley and prior to that at UBS (formerly Warburg). He holds an M Eng degree in Manufacturing Engineering from Cambridge, is Chairman of the Academic Committee of EPRA (European Public Real Estate Association), a member of the Investment Property Forum and an external member of the investment committee of St John's College, Cambridge.

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Global Demographics and Pensions Research

10:30 Panel session I - 'Clash of the Titans'
Moderator Andrew Baum
12:00 Panel Session II - 'Sustainability; Green-washing or Green fingers?'
Moderator Piet Eichholtz
13:00 CEO Conference Update
Ian Coull (SEGRO)
14:45 Across the pond - the US perspective
15:45 Networking Break
19:30 Gala Dinner

Day 2

Capital Structure and Current Affairs

09:15 Keynote speaker - Nando Parrado
A survivor of the 1977 Andes plane crash, whose remarkable experience is changing our thinking toward overcoming adversity and facing up to personal challenge.
10:15 Panel Session III - Capital Structure
Moderator Colin Lizieri
11:45 Panel Session IV - Current Affairs
14:30 Conference End

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PROPERTY COMPANIES, FINANCING DECISIONS AND RISK

By Jamie Alcock, Andrew Baum and Colin Lizieri

How does capital raising affect the performance of European firms? How do property companies make their financing and capital budgeting decisions? What factors influence debt to equity ratios? Does practice differ across firm type or country? How does capital structure influence target rates of return for property companies?

These questions are perhaps the most fundamental questions in real estate finance, yet we know surprisingly little about them. In particular, the divergence between academic theory and observed empirical evidence has yet to be sufficiently explained.

To reconcile this, the real estate finance group at the University of Cambridge's Department of Land Economy will soon launch a survey of European real estate firms, with the support of EPRA. We hope this will become a regular survey and extend to include the capital financing decisions of private unlisted funds alongside listed REITs and property companies. Preliminary results will be presented at the EPRA conference in September. In this brief article, we raise some of the issues and questions we hope to cover in the survey.

Capital structure on shifting sands

The issues surrounding capital structure and investment decisions have become increasingly important since the global financial crisis. The liquidity crisis, capital market turmoil and the related fall in real estate capital values placed many property companies in financial stress. The near complete closure of public debt markets, reluctance by banks to lend, a tightening of credit terms and covenant pressures from increasing loan-to-value ratios all contributed to problems for companies. Firms that were in a stronger position to ride the cycle and benefit from market recovery faced difficulty in raising capital.

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Figure 1. The impact of gearing: Source: EPRA, Bank of England, authors

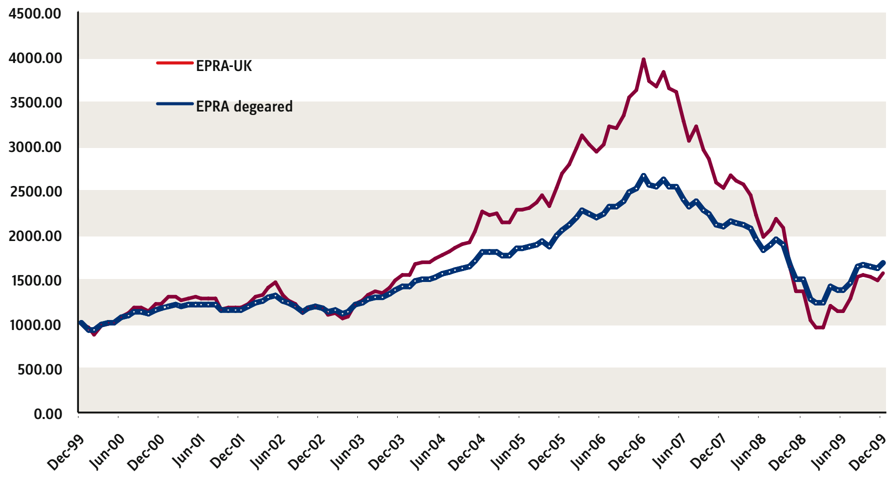
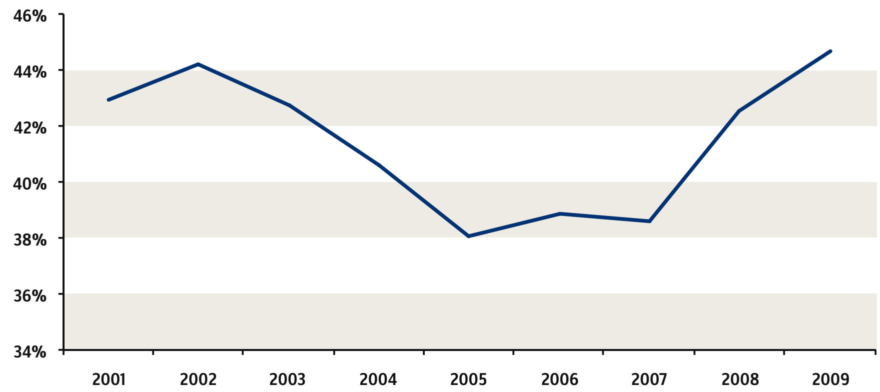


Figure 2. Property company average leverage: Source: SNL, authors.



Early 2009 saw major equity raising exercises by many REITs across Europe, with British Land and Land Securities both raising in excess of GBP 740 million, but those that could or did not raise new equity in the 2008-2009 round of equity re-capitalisations found themselves in trouble (the case of Brixton being the most extreme example of this).

Just three years before that, gearing was rewarded by the market as both listed and unlisted property investors used the easy access to credit to grow their business and to deliver high rates of capital growth - the buying pressure driving up prices further. The mantra seemed to be "Gearing enhances returns" - with little consideration of the corollary, that leverage increases volatility and risk for equity holders.

As a simple illustration, Figure 1. shows the impact of leverage on UK property companies using a simple degearing model and the average debt-to-value ratio of UK REITs. It is readily evident that leverage accentuated the upswing and magnified the downturn. Whether investors benefited from typical debt levels depended critically on the timing of their investment.

Overall, the volatility of the leveraged series is around 67% higher than the degeared series: an increase in risk that should be (but is not obviously) compensated by higher expected returns for shareholders. Figure 2. plots changes in leverage ratio for European property companies from 2001-2009: the shifts reflect changing capital values and the market cycle but also mark changes in the risks faced by equity holders.

Volatility vs returns

Firms that increase their debt equity ratios increase the expected returns for shareholders - but increase the volatility of returns. If those firms are taxable, then borrowing provides a tax shield, but increases the risks and costs of financial distress. REITs, given their tax status, benefit less from the tax shield and might thus be expected to have lower debt ratios than taxable property companies.

Do property companies attempt to maintain a stable debt-to-value ratio or do they increase their debt levels when there is easy credit availability or low interest rates? Do firms attempt to time changes in debt-to-equity ratios with the property cycle? If firms do engage in 'opportunistic' increases in debt levels, then there are significant implications for the risks that shareholders face and the returns that they require. >

Have innovations in financial analysis, use of real options analysis and simulation techniques made significant inroads in the property industry?

Research suggests that, in general, firms undertaking seasoned equity offerings or rights issues suffer relative falls in their share price of up to 3%. But are REITs different?

Finance theory suggests that there is a hierarchy - a 'pecking order' - for firms to raise capital. Firms should use internal funds and assets before raising external capital; next they should raise debt, since this brings tax benefits and signals management confidence in the firm and its future earnings. Only then should a firm raise new equity. Research suggests that, in general, firms undertaking seasoned equity offerings or rights issues suffer relative falls in their share price of up to 3%.

But does this apply in real estate markets and for REITs? US research on REITs points to a fall in value of around 0.5% relative to the market on announcement - the smaller fall attributed to tax status and to the comparative ease of valuing the property assets. European property company research by Dirk Brounen and Piet Eichholtz found relatively higher falls, in excess of 1%: however falls were lower for REIT structures (where tax benefits are absent) and for those with high debt to equity ratios (where financial distress is a key factor). The equity raising efforts of European companies in 2009 may be understood in this light.

Capital structure affects a firm's cost of capital, which combines the cost of debt with the required return on equity. A firm must earn more than its cost of capital to add value for shareholders. We know very little about property companies' cost of capital and its relationship with their capital budgeting decisions. Do firms use WACC as their target rate of return or discount rate? If so, how do they estimate the elements of WACC, in particular the required return for shareholders? If not, how do they derive their discount rates, hurdle rates or target rates of return, how do they form buy/sell decisions?

Decision-making process risk

This raises wider questions of the risk management processes within property companies. At individual project level, how are acquisition and development decisions taken? What is the balance between formal investment modelling and the intuitive, 'gut feel' heuristics that dominate popular perceptions of the industry? At portfolio level, do property companies use formal top-down diversification strategies or rely on a deal driven, stock selection strategy? For REITs and property companies that are active across national boundaries, how are currency issues dealt with? Have innovations in financial analysis, use of real options analysis and simulation techniques made significant inroads in the property industry?

Our prior expectations are that we will find a huge variation in practice across property companies in Europe, from formal, sophisticated, analysis-driven models to strongly individualistic informal, deal-driven approaches. We suspect that size and focus will be important; that developer-traders will adopt different practices to property investment companies; and we anticipate that we will find national, cultural differences. Our research will explore these themes.

It is likely that practices will change over time, with the credit cycle, with the property cycle, with shifts in legislation and regulation and with new knowledge. Over time, we hope to present that evolving picture of risk management and financial decision making in property markets.

Colin Lizieri
Grosvenor Professor of Real Estate Finance at the University of Cambridge and Fellow of Pembrooke College

Colin Lizieri has over 20 years experience in real estate research and consultancy and has published widely on real estate finance, investment and office market dynamics. His latest book, *Towers of Capital* (BlackwellWiley), examines the linkages between international capital flows, financial crises, and the office markets of major global cities. Colin will moderate the Capital Structure panel at the EPRA conference in September.

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cml49@cam.ac.uk


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IPE Real Estate is positioned at the interface of institutional investment and the real estate industry. Drawing on its international network of correspondents and supply-side research, the magazine and website's mission is to bring to light the views and activities of European pension funds and other capital owners (insurance companies and other plan sponsors) investing in real estate and keep them up-to-date with the rapid evolution of real estate as a sophisticated, global asset class.

IPE Real Estate's association with the main industry representative bodies located across Europe, North America and Asia provides a vital contribution to the debate as well as additional relevance and objectivity. AFIRE, APREA, AREF, BPF, EPRA, INREV, IPF, NAREIT, PCA, PREA and NAREIM. We can also draw on the unique experience of our sister title, Investment and Pensions Europe (IPE) which has been talking to European pension funds and other capital owners for the last decade. IPE Real Estate is a regular bi-monthly publication.

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PROPERTY INVESTOR EUROPE

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The mission of Property Investor Europe magazine and its weekly Property Finance Europe newsletter/daily news-intelligence is to bring transparency to Mainland Europe real estate so that global investment professionals understand risks, rewards, opportunities across its diverse jurisdictions.

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British GRI, 2010

Date: June 09, 2010

The GRI will bring together the leading lights of the property industry for the British GRI in London to discuss the issues facing real estate decision-makers today. Like all GRI meetings, the British GRI will have no speakers and no panelists, just informal discussions in small groups, where everyone participates equally.
Venue: Intercontinental Hotel, Park Land

Contact: registrations@globalrealestate.org

Expo Real Germany

October 04-06, 2010

Venue: New Munich Trade Fair Centre, Munich, Bayern, Germany

EXPO REAL, the 13th International Commercial Property Exposition, is being held at the New Munich Trade Fair Centre from 04 to 06 October 2010. It is a networking exhibition for interdisciplinary and international projects and business. It caters to the full spectrum of the real-estate industry: property consultants and project developers, banks and investors, corporate real-estate managers, cities and economic regions, as well as property services providers.

Contact: petra.gagel@messe-muenchen.de

BARCELONA MEETING POINT

Date: October 20-24, 2010

Barcelona Meeting Point (BMP) is the only international and professional real estate exhibition in Spain. On an annual basis, since its founding in 1997, it has become an essential gathering for the real estate industry in the autumn.

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Contact: bmpinfo@bmpsa.com

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EXPO ITALIA REAL ESTATE

Expo Italy Real Estate

Milan, Italy

Date: June 08-10, 2010

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Date: November 17-19, 2010,
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CITYSCAPE JEDDAH

Cityscape Jeddah
Date: June 07-09, 2010
Cityscape Jeddah 2010 is the foremost arena for Saudi real estate stakeholders to showcase their projects and services, network with key investors and developers from around the world and participate in content driven discussions with industry leaders. Consisting of a large scale exhibition, content driven conferences and a plethora of other informative networking functions, Cityscape Jeddah 2010 will serve as a platform to bring further positive development as well as transparency to the burgeoning Saudi Arabian market.

www.cityscapeglobal.com

ERES

European Real Estate Society
Date: June 23-26, 2010
Milan, Italy
The annual conference providing an open forum for the exchange of ideas and research in real estate finance, economics, appraisal, investment and asset management. The ERES conference has established itself as the leading real estate research conference in Europe and it currently is one of the largest such events worldwide.

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Date: September 02-03, 2010
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Cityscape Dubai
Date: October 04-07, 2010
Cityscape Dubai is recognised a leading international business-to-business real estate investment & development event. It is an annual networking exhibition and conference that enhances and supports the vision for the real estate growth worldwide to an international audience from over 100 countries.

Adding to the display of iconic architecture, revolutionary developments and unparalleled investment opportunities in both mature and emerging markets, the new features for 2010 include greater networking opportunities through a restructured conferences programme as well as not-for-profit interactive sessions like connect seminars, investor round tables and city leaders forums.

www.cityscapeglobal.com

CITYSCAPE
INDIA

Cityscape India
Date: December 08-09, 2010
Cityscape India 2010, claimed to be India's largest business-to-business real estate investment and development conference, will take place from December 08-10, 2010. The world's top real estate developers, investors, leading architects, consultants, engineers and other professionals involved in the design and construction of real estate will attend Cityscape India to source new investment opportunities, build profitable relationships and access unbiased information on the Indian real estate market.

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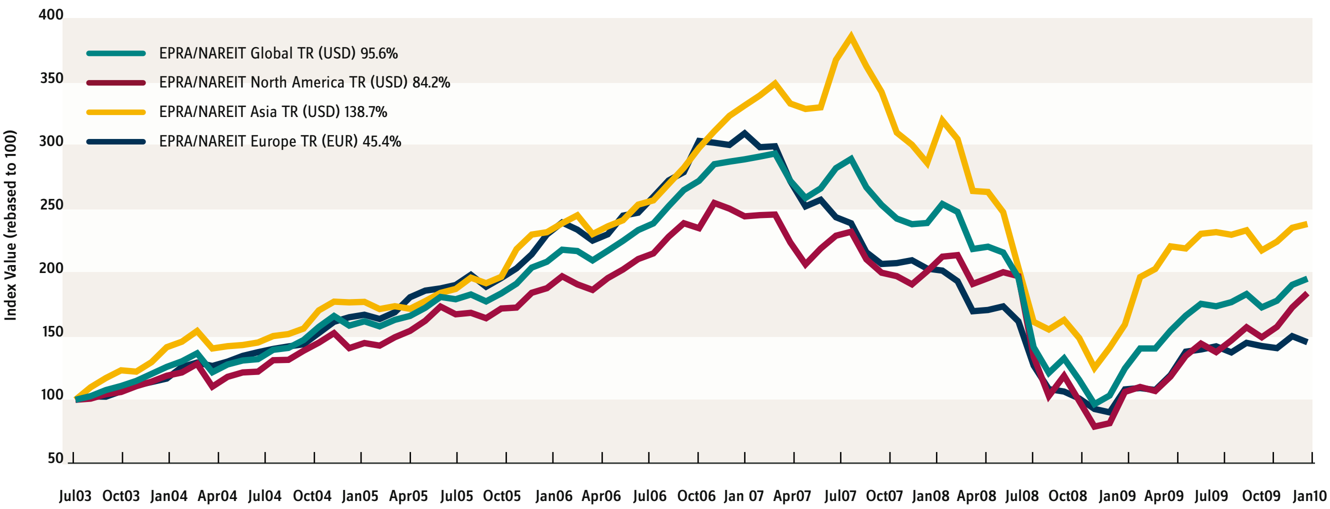
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES

GLOBAL



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Rtn (%)	Total Rtn (%)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
↑ Felcor Lodging Trust *	USA	Rental	Lodging/Resorts	42.28	42.28	125.28	309.60	-27.05	0.00
↑ Glimcher Realty Trust *	USA	Rental	Retail	34.32	34.32	152.22	177.96	-29.88	0.06
↑ Premier Investment Co. *	Japan	Rental	Diversified	26.34	30.62	32.13	28.85	-20.96	0.08
↑ Tokyo Tatemono	Japan	Non-Rental	Office	29.76	29.76	23.16	33.93	-34.42	0.02
↑ Ashford Hospitality *	USA	Rental	Lodging/Resorts	29.71	29.71	100.43	207.95	-4.17	0.00
↓ Hopson Development	Hong Kong	Non-Rental	Residential	-17.86	-17.86	-8.04	74.08	-15.20	0.02
↓ KWG Property Holdings	Hong Kong	Non-Rental	Diversified	-18.44	-18.44	-23.21	53.33	-NA-	0.01
↓ Eurobank Properties *	Greece	Rental	Diversified	-20.51	-20.51	-27.43	-11.81	-20.48	0.10
↓ Lamda Development	Greece	Non-Rental	Diversified	-21.66	-21.66	-46.57	-26.09	-34.60	0.00
↓ Babis Vovos	Greece	Rental	Diversified	-28.13	-28.13	-37.13	-43.67	-53.62	0.00

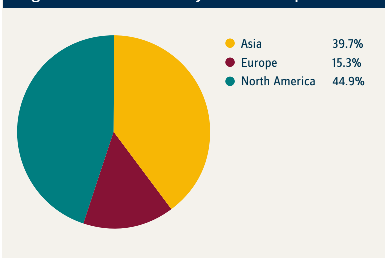
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
1 Westfield Group *	Australia	Rental	Retail	20,873.62	4.04	6.78	29.17	-7.68	0.08
2 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	20,437.18	3.96	-4.94	39.01	8.43	0.02
3 Simon Property Group *	USA	Rental	Retail	19,413.98	3.76	11.55	77.07	-4.51	0.03
4 Mitsubishi Estate	Japan	Non-Rental	Diversified	14,215.42	2.75	15.70	33.28	-22.48	0.01
5 Unibail-Rodamco *	France	Rental	Diversified	12,583.11	2.44	-7.29	25.85	-8.42	0.05
6 Mitsui Fudosan	Japan	Non-Rental	Diversified	12,332.89	2.39	12.97	42.39	-20.03	0.01
7 Vornado Realty Trust *	USA	Rental	Diversified	11,270.50	2.18	19.20	75.49	-7.69	0.03
8 Equity Residential Props *	USA	Rental	Residential	9,597.24	1.86	34.01	99.88	2.21	0.03
9 Public Storage *	USA	Rental	Self Storage	9,302.25	1.80	18.98	45.77	3.19	0.03
10 Boston Properties *	USA	Rental	Office	8,216.31	1.59	17.58	60.58	-8.49	0.03

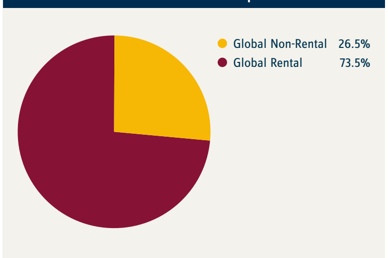
Indices

Index Description	Market Cap (EUR m)	Close Value 30 Apr	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
EPRA/NAREIT Europe TR (EUR)	79,283.43	1,842.48	0.34	34.42	-21.39	4.79
EPRA/NAREIT Asia TR (USD)	272,666.18	2,108.07	2.13	49.79	-11.14	3.78
EPRA/NAREIT North America TR (USD)	308,686.89	3,245.14	17.13	73.44	-9.16	3.71
EPRA/NAREIT Global TR (USD)	686,771.96	2,572.45	6.59	56.77	-12.51	3.91

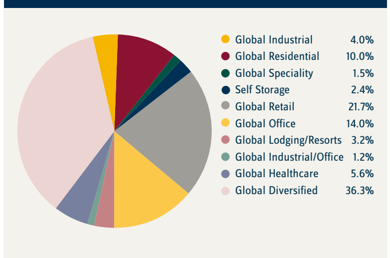
Regional Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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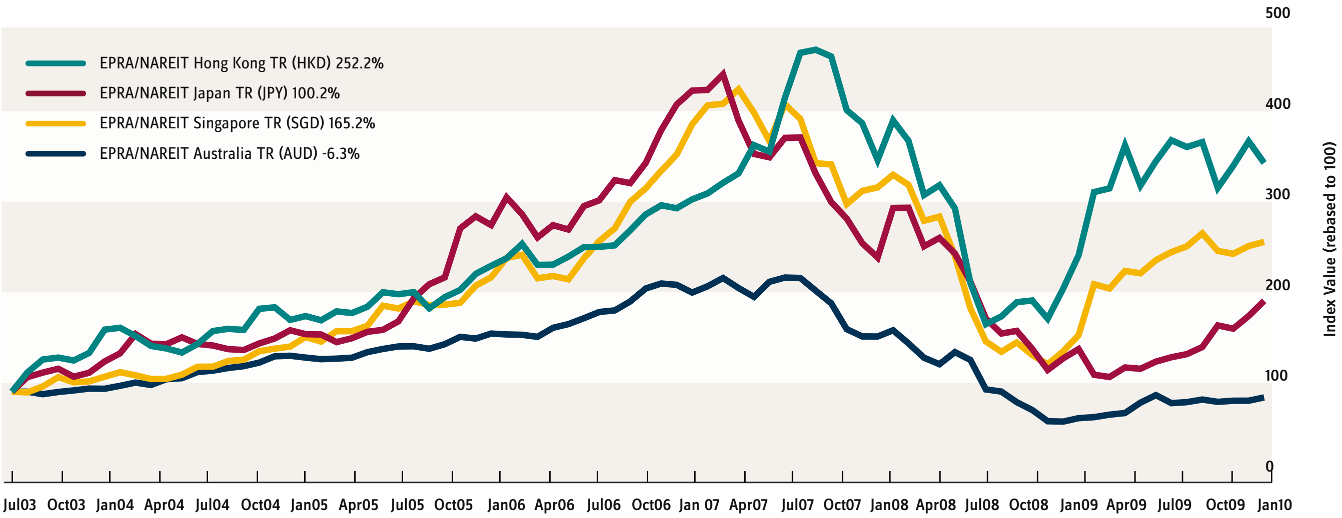
ASIA



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Rtn (%)	Total Rtn (%)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
↑ Premier Investment Co. *	Japan	Rental	Diversified	26.34	30.62	32.13	28.85	-20.96	8.02%
↑ Tokyo Tatemono	Japan	Non-Rental	Office	29.76	29.76	23.16	33.93	-34.42	2.29%
↑ Kenedix Realty Investment *	Japan	Rental	Diversified	23.26	27.36	25.91	40.84	-24.56	7.33%
↑ FKP Property Group	Australia	Non-Rental	Diversified	19.58	19.58	8.23	56.65	-33.82	4.04%
↑ NTT Urban Development	Japan	Non-Rental	Office	15.95	15.95	49.68	15.97	-30.89	1.31%
↓ China Resources Land	Hong Kong	Non-Rental	Residential	-14.22	-14.22	-17.91	4.11	16.05	0.95%
↓ Shimao Property	Hong Kong	Non-Rental	Residential	-14.85	-14.85	-17.39	41.92	-9.12	1.89%
↓ Shenzhen Investment	Hong Kong	Non-Rental	Diversified	-16.67	-16.67	-27.27	8.41	-14.48	5.42%
↓ Hopson Development	Hong Kong	Non-Rental	Residential	-17.86	-17.86	-8.04	74.08	-15.20	1.91%
↓ KWG Property Holdings	Hong Kong	Non-Rental	Diversified	-18.44	-18.44	-23.21	53.33	-NA-	0.74%

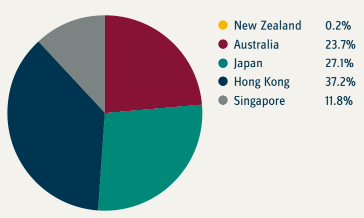
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
1 Westfield Group *	Australia	Rental	Retail	20,873.62	4.04	6.78	29.17	-7.68	7.76%
2 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	20,437.18	3.96	-4.94	39.01	8.43	2.32%
3 Mitsubishi Estate	Japan	Non-Rental	Diversified	14,215.42	2.75	15.70	33.28	-22.48	0.94%
4 Mitsui Fudosan	Japan	Non-Rental	Diversified	12,332.89	2.39	12.97	42.39	-20.03	1.26%
5 Sumitomo Realty & Dev	Japan	Non-Rental	Diversified	7,388.85	1.43	12.13	65.96	-23.58	1.03%
6 Hongkong Land Hldgs	Hong Kong	Rental	Office	6,787.84	1.31	10.10	120.40	7.23	2.99%
7 Stockland Trust Group *	Australia	Non-Rental	Diversified	6,656.50	1.29	1.01	35.92	-15.66	8.52%
8 Capitaland	Singapore	Non-Rental	Diversified	6,543.32	1.27	-9.17	40.22	-16.87	2.79%
9 China Overseas Land	Hong Kong	Non-Rental	Residential	6,082.00	1.18	-6.22	13.45	18.09	0.91%
10 Hang Lung Properties	Hong Kong	Non-Rental	Diversified	5,717.76	1.11	-6.31	32.34	9.04	2.39%

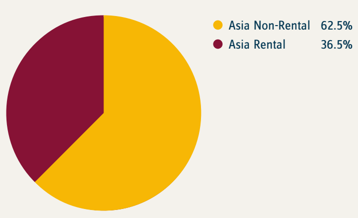
Indices

Index Description	Market Cap (EUR m)	Close Value 30 Apr	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
EPRA/NAREIT Australia TR (AUD)	69,415.82	1,305.2	2.54	32.21	-24.33	7.82
EPRA/NAREIT Hong Kong TR (HKD)	786,764.32	2,289.51	-6.12	40.61	3.40	2.35
EPRA/NAREIT Japan TR (JPY)	6,949,166.07	2,127.08	15.09	36.13	-22.67	2.51
EPRA/NAREIT Singapore TR (SGD)	4,4129.38	1531.61	-3.44	63.28	-13.92	3.07

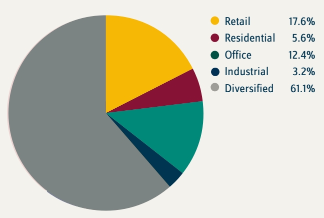
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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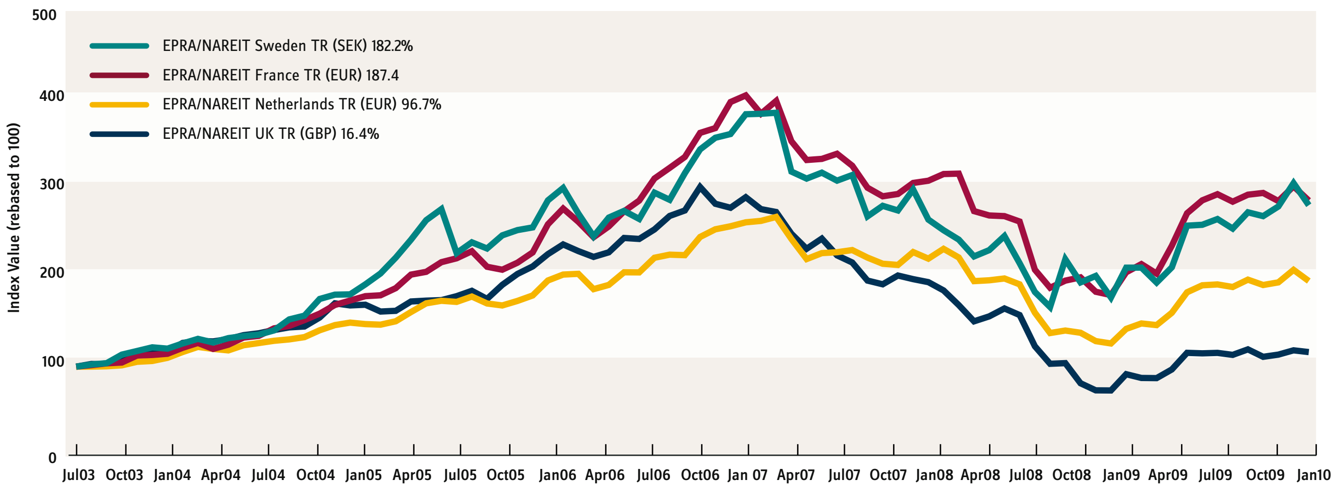
EUROPE



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Rtn (%)	Total Rtn (%)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
↑ Minerva	UK	Non-Rental	Diversified	20.21	20.21	52.16	854.17	-34.66	0.00%
↑ Derwent London*	UK	Rental	Office	6.00	6.00	9.70	75.61	-11.02	1.86%
↑ CA Immobilien Anlage	Austria	Rental	Diversified	5.13	5.13	19.37	56.13	-27.26	0.00%
↑ Standard Life Inv Prop	UK	Rental	Diversified	5.02	5.02	-0.75	69.69	-12.92	10.57%
↑ ING UK Real Estate Income Trust	UK	Rental	Diversified	4.17	4.17	-5.12	89.29	-17.94	12.40%
↓ Kungsleden	Sweden	Rental	Diversified	-18.59	-11.98	1.52	22.73	-14.29	8.12%
↓ Unite Group	UK	Rental	Specialty	-15.30	-15.30	-27.01	124.21	-24.46	0.00%
↓ Eurobank Properties*	Greece	Rental	Diversified	-20.51	-20.51	-27.43	-11.81	-20.48	9.85%
↓ Lamda Development	Greece	Non-Rental	Diversified	-21.66	-21.66	-46.57	-26.09	-34.60	0.00%
↓ Babis Vovos	Greece	Rental	Diversified	-28.13	-28.13	-37.13	-43.67	-53.62	0.00%

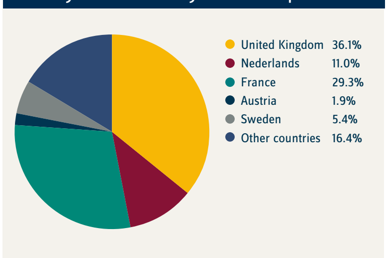
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
1 Unibail-Rodamco*	France	Rental	Diversified	12,583.11	2.44	-7.29	25.85	-8.42	5.26%
2 Land Securities*	UK	Rental	Diversified	5,734.72	1.11	-2.77	22.13	-22.00	5.43%
3 British Land*	UK	Rental	Diversified	4,657.20	0.90	0.59	15.28	-22.47	5.55%
4 Corio*	Netherlands	Rental	Retail	3,919.28	0.76	-2.82	37.20	-5.98	6.06%
5 Liberty International*	UK	Rental	Retail	3,514.00	0.68	-4.68	35.77	-18.16	3.36%
6 Hammerson*	UK	Rental	Retail	3,082.85	0.60	-7.38	26.27	-23.97	4.02%
7 Fonciere Des Regions*	France	Rental	Diversified	2,716.08	0.53	8.92	86.67	-11.22	6.82%
8 SEGRO*	UK	Rental	Industrial	2,611.80	0.51	-7.60	34.58	-35.94	4.53%
9 Klepierre*	France	Rental	Retail	2,300.13	0.45	-3.89	61.16	-13.57	4.80%
10 PSP Swiss Property	Switzerland	Rental	Office	2,102.37	0.41	9.83	24.07	-0.44	3.89%

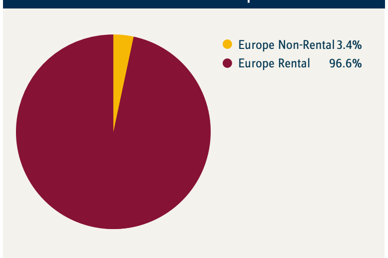
Indices

Index Description	Market Cap (EUR m)	Close Value 30 Apr	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
EPRA/NAREIT UK TR (GBP)	24,843.11	1,524.85	-2.57	27.26	-25.16	4.19
EPRA/NAREIT Netherlands TR (EUR)	8,702.18	2,907.15	-0.78	37.90	-9.41	6.5
EPRA/NAREIT France TR (EUR)	23,221.94	3,939.60	-2.26	39.20	-9.32	5.42
EPRA/NAREIT Sweden TR (SEK)	41,243.53	4,384.46	2.91	33.28	-9.87	5.18

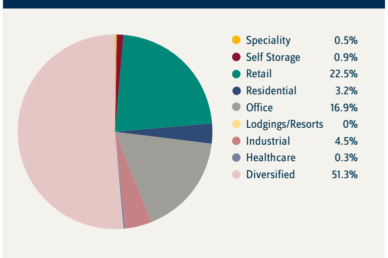
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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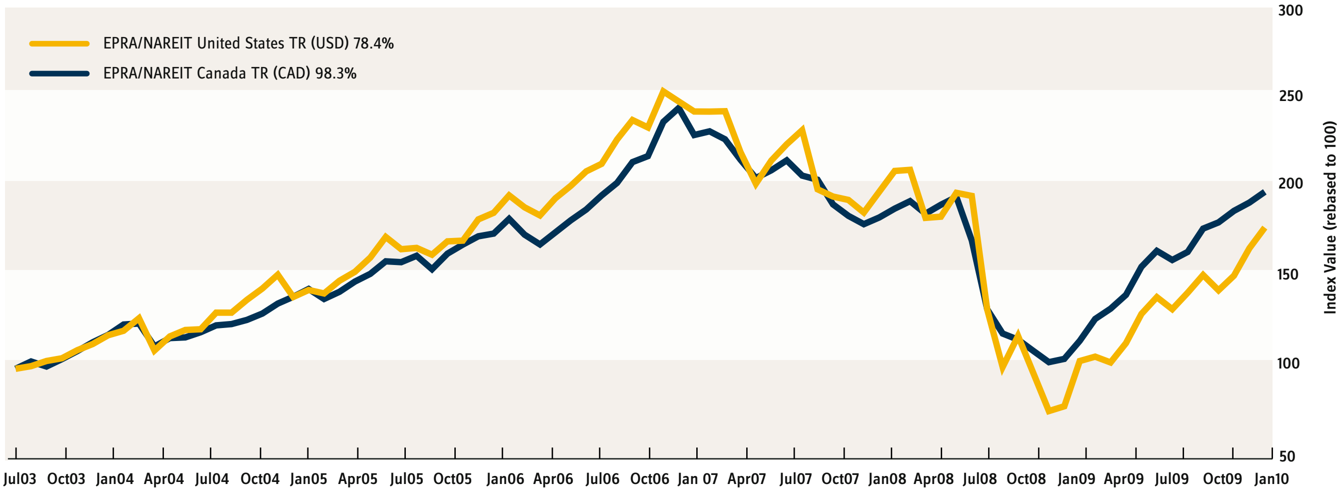
NORTH AMERICA



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Rtn (%)	Total Rtn (%)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
↑ Felcor Lodging Trust *	USA	Rental	Lodging/Resorts	42.28	42.28	125.28	309.60	-27.05	0.00%
↑ Glimcher Realty Trust *	USA	Rental	Retail	34.32	34.32	152.22	177.96	-29.88	5.87%
↑ Ashford Hospitality *	USA	Rental	Lodging/Resorts	29.71	29.71	100.43	207.95	-4.17	0.00%
↑ Pennsylvania Real Estate *	USA	Rental	Retail	26.62	26.62	86.64	107.61	-24.03	3.80%
↑ Education Realty Trust *	USA	Rental	Residential	23.17	23.17	46.07	52.93	-15.45	2.83%
↓ Orient Express Hotel	USA	Rental	Lodging/Resorts	-3.74	-3.74	34.62	110.97	-36.04	0.00%
↓ Medical Properties Trust *	USA	Rental	Health Care	-4.10	-4.10	0.50	91.95	-5.55	7.96%
↓ Saul Centers *	USA	Rental	Retail	-4.52	-4.52	20.67	25.38	-5.73	3.64%
↓ Universal Health Realty *	USA	Rental	Health Care	-6.00	-6.00	3.72	5.61	4.12	7.22%
↓ Extendicare REIT *	Canada	Rental	Health Care	-12.13	-11.46	-0.42	101.41	-11.66	9.13%

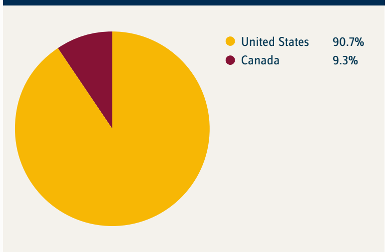
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
1 Simon Property Group*	USA	Rental	Retail	19,413.98	3.76	11.55	77.07	-4.51	2.70%
2 Vornado Realty Trust*	USA	Rental	Diversified	11,270.50	2.18	19.20	75.49	-7.69	3.12%
3 Equity Residential Props*	USA	Rental	Residential	9,597.24	1.86	34.01	99.88	2.21	2.98%
4 Public Storage*	USA	Rental	Self Storage	9,302.25	1.80	18.98	45.77	3.19	2.68%
5 Boston Properties*	USA	Rental	Office	8,216.31	1.59	17.58	60.58	-8.49	2.54%
6 Host Hotels & Resorts*	USA	Rental	Lodging/Resorts	7,987.66	1.55	39.33	116.08	-11.65	0.25%
7 HCP*	USA	Rental	Health Care	7,080.32	1.37	5.17	50.52	-0.95	5.79%
8 Avalonbay Communities*	USA	Rental	Residential	6,371.87	1.23	26.71	84.71	-2.17	3.43%
9 Ventas*	USA	Rental	Health Care	5,559.35	1.08	7.98	66.70	7.06	4.53%
10 Kimco Realty*	USA	Rental	Retail	4,710.50	0.91	15.23	30.20	-26.70	4.11%

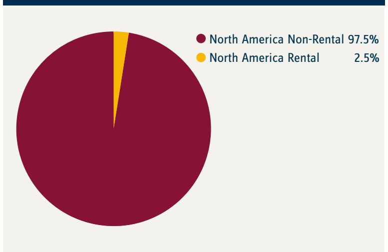
Indices

Index Description	Market Cap (EUR m)	Close Value 30 Apr	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
EPRA/NAREIT Canada TR (CAD)	29,021.21	3522.23	11.49	71.65	-5.09	5.83
EPRA/NAREIT United States TR (USD)	280,033.87	3145.48	17.32	71.08	-9.76	3.50

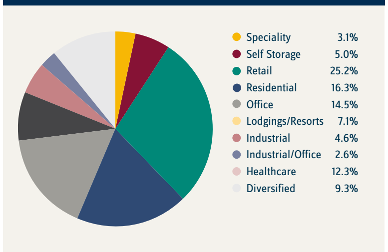
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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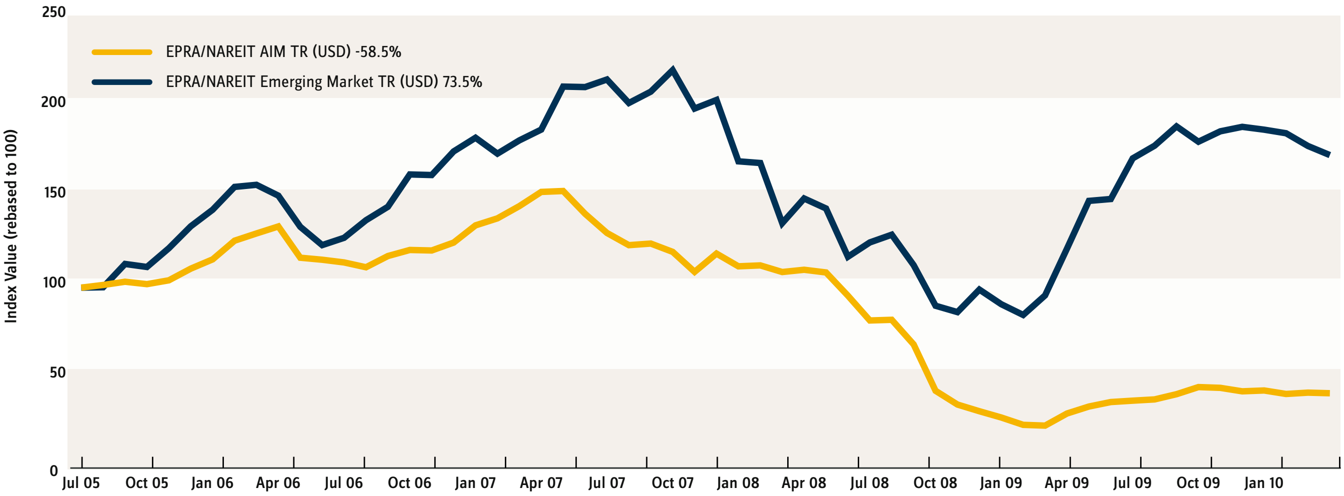
EMERGING MARKETS



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Rtn (%)	Total Rtn (%)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
↑ Summarecon	Indonesia	Non-rental	Diversified	18.07	#N/A	63.33	276.92	20.94	0.31%
↑ Agre Empreendimentos Imobiliarios S/A	Brazil	Non-rental	Diversified	17.83	#N/A	60.20	275.83	-22.43	0.00%
↑ Sunway City Bhd	Malaysia	Non-rental	Diversified	17.82	#N/A	20.00	84.83	-5.35	2.50%
↑ Ansal Properties & Infrastructure	India	Non-rental	Diversified	15.93	24.70	15.28	165.22	-33.63	0.61%
↑ Unitech	India	Non-rental	Diversified	15.65	29.83	3.45	89.68	-25.93	0.12%
↓ Land & Houses	Thailand	Non-rental	Residential	-16.53	28.86	-19.84	40.89	-8.01	7.13%
↓ Preuksa Real Estate	Thailand	Non-rental	Industrial/office	-17.14	#N/A	-18.54	#DIV/0!	-NA-	3.79%
↓ Amata Corp	Thailand	Non-rental	Industrial/office	-17.58	25.81	-6.12	79.49	-13.07	2.94%
↓ China Merchants Prop (B)	China	Non-rental	Diversified	-20.13	8.36	-23.81	12.46	-6.30	0.82%
↓ Poly (Hong Kong) Investments (Red Chip)	China	Non-rental	Diversified	-21.19	#N/A	-19.65	211.16	39.77	0.56%

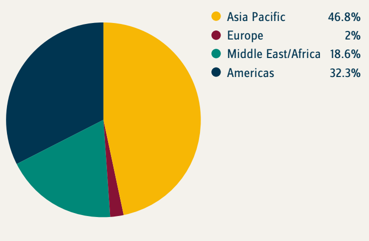
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
1 Cyrela Brazil Realty S/A Empreendimentose e Participacoes Or	Brazil	Non-rental	Diversified	-0.28	48.26	-14.29	55.66	4.53	0.88%
2 DLF	India	Non-rental	Diversified	1.18	38.45	-13.81	35.42	-NA-	0.64%
3 Unitech	India	Non-rental	Diversified	15.65	29.83	3.45	89.68	-25.93	0.12%
4 Growthpoint Prop Ltd	South Africa	Rental	Diversified	3.19	3.98	8.79	12.00	4.06	7.71%
5 Redefine Income Find	South Africa	Rental	Diversified	0.77	9.49	12.55	17.00	4.44	7.65%
6 Gafisa	Brazil	Non-rental	Residential	-3.66	62.92	-15.30	28.13	-4.74	1.01%
7 BR Malls Participacoes S/A Ord	Brazil	Rental	Retail	5.43	13.75	2.98	35.16	14.11	0.00%
8 MRV Engenharia e Participacoes SA	Brazil	Non-rental	Residential	-0.89	54.55	-12.77	78.98	-NA-	1.02%
9 Ayala Land	Philippines	Non-rental	Diversified	5.77	12.28	22.22	115.78	-1.51	0.44%
10 Poly (Hong Kong) Investments (Red Chip)	China	Non-rental	Diversified	-21.19	#N/A	-19.65	211.16	39.77	0.56%

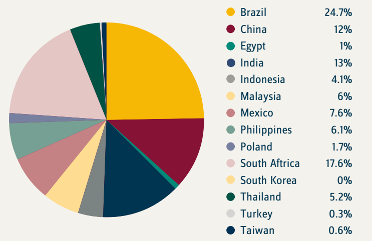
Indices

Index Description	Market Cap (EUR m)	Close Value 30 Apr	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) 30 Apr
EPRA/NAREIT Emerging Market TR (USD)	4,4191.14	1,969.17	5.98	52.17	-4.27	2.28
EPRA/NAREIT AIM TR (USD)	20,693.09	1,899.40	4.88	37.47	-7.54	1.51

Country Breakdown by Market Cap



Global Breakdown by Country



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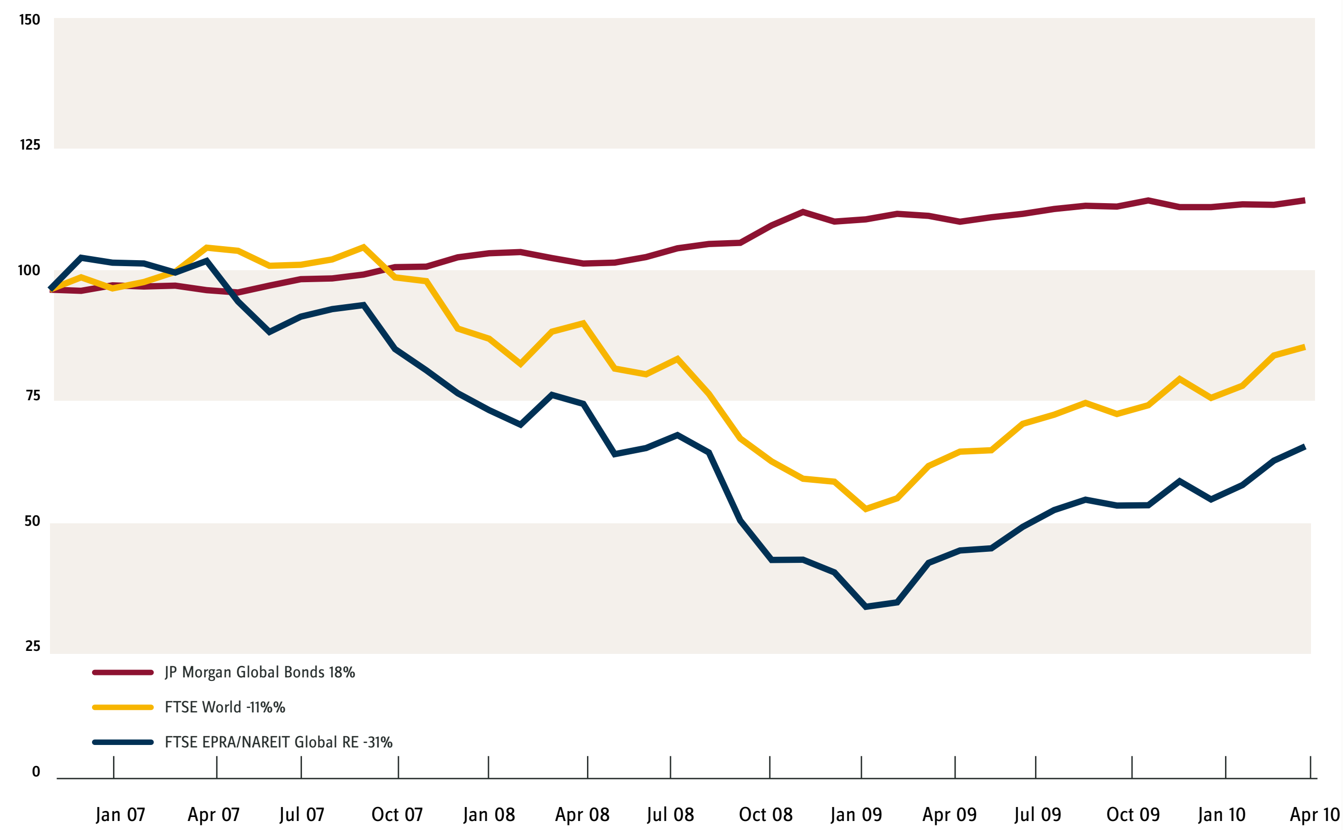
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

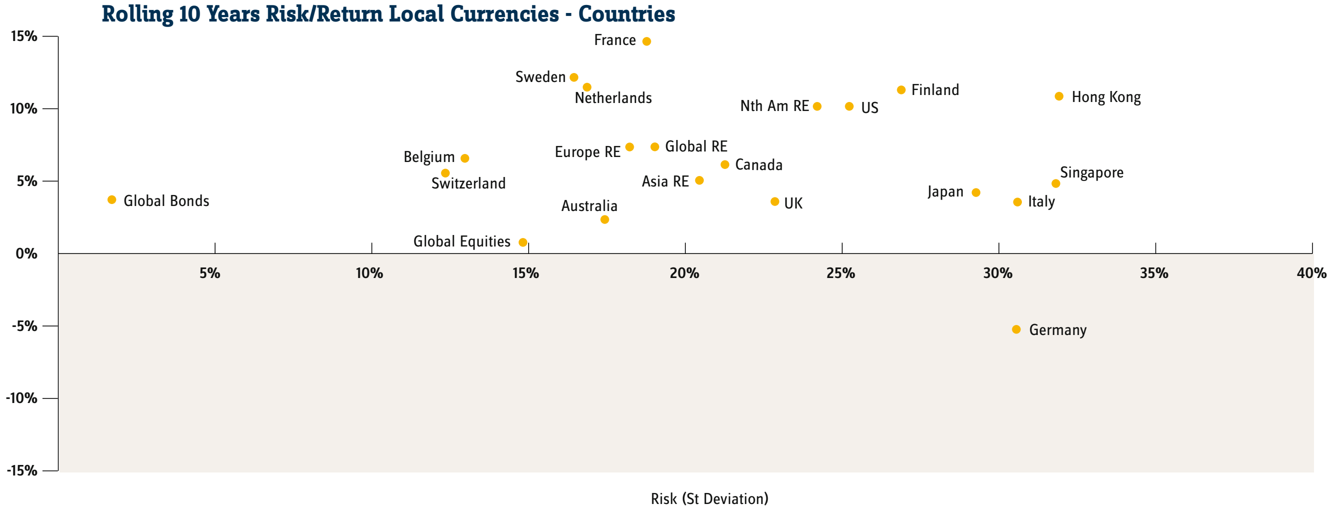
Countries	2008 GDP ($ Bn)	2008 GDP per capita ($)	2008 Real Estate ($ Bn)	30-April 10 Total Listed ($ Bn)	30-April 10 Total RE v Listed RE (%)	30-April 10 Stock Market ($ Bn)	30-April 10 Stk Mkt v Listed RE (%)
Japan	4,438	34,809	1,997	159.0	7.96%	3,760	4.23%
Hong Kong/China	2,983	2,284	605	167.0	27.62%	5,257	3.18%
South Korea	946	19,777	394	1.0	0.25%	900	0.11%
India	977	909	146	8.0	5.49%	1,412	0.57%
Australia	741	37,035	333	66.0	19.81%	1,282	5.15%
Taiwan	340	15,050	129	4.0	3.09%	745	0.54%
Indonesia	365	1,615	66	0.1	0.21%	265	0.05%
Thailand	204	3,200	46	4.0	8.65%	188	2.13%
Malaysia	162	6,870	47	0.7	1.48%	331	0.21%
Singapore	144	33,001	129	36.0	27.84%	484	7.43%
New Zealand	118	29,565	56	3.2	5.59%	33	9.65%
Pakistan	127	811	18	-	0.00%	45	0.00%
Philippines	121	1,369	21	4.0	19.29%	95	4.20%
Vietnam	61	732	8	-	0.00%	-	0.00%
Total Asia-Pacific	11,726	19,123	3,996	453.0	11.34%	14,799	3.06%
Germany	3,034	36,806	1,365	21.0	1.54%	1,314	1.60%
United Kingdom	2,496	41,408	1,404	56.0	3.99%	2,990	1.87%
France	2,352	37,606	1,058	63.0	5.95%	1,752	3.60%
Italy	1,926	33,169	867	6.0	0.69%	612	0.98%
Spain	1,274	31,636	573	22.0	3.84%	658	3.34%
Russia	1,025	7,023	302	5.0	1.65%	563	0.89%
Netherlands	695	42,591	313	13.0	4.16%	316	4.12%
Switzerland	397	53,261	179	8.0	4.48%	1,059	0.76%
Belgium	411	39,751	185	6.0	3.24%	263	2.28%
Sweden	409	45,465	184	12.0	6.53%	497	2.41%
Turkey	557	7,784	170	-	0.00%	269	0.00%
Austria	337	41,184	152	9.0	5.94%	120	7.50%
Poland	359	9,293	116	6.0	5.17%	158	3.81%
Norway	343	74,917	154	3.0	1.95%	246	1.22%
Denmark	284	52,382	128	2.0	1.57%	211	0.95%
Greece	278	26,134	125	2.2	1.76%	89	2.47%
Ireland	228	57,422	103	2.1	2.05%	64	3.29%
Finland	219	41,952	98	3.0	3.05%	193	1.55%
Portugal	203	19,246	84	-	0.00%	87	0.00%
Czech Republic	148	14,436	56	-	0.00%	47	0.00%
Hungary	122	12,126	43	0.3	0.60%	33	0.79%
Romania	131	5,838	36	0.5	1.38%	18	2.78%
Ukraine	113	2,332	23	-	0.00%	46	0.00%
Slovakia	61	11,200	21	-	0.00%	5	0.00%
Slovenia	41	20,415	17	-	0.00%	11	0.00%
Luxembourg	43	93,741	20	-	0.00%	20	0.00%
Bulgaria	33	4,419	8	-	0.00%	6	0.00%
Total Europe	17,516	34,618	7,783	240.1	3.08%	11,645	2.06%
Egypt	112	1,425	19	11.0	56.71%	115	9.56%
Israel	149	21,874	64	4.1	6.46%	168	2.47%
Morocco	67	2,182	13	3.0	22.32%	87	3.45%
South Africa	261	5,368	70	8.6	12.26%	406	2.12%
Total Africa/Middle East	589	30,848	167	26.8	16.00%	776	3.45%
Mexico	939	8,947	300	0.1	0.03%	389	0.03%
Brazil	1,103	5,914	307	0.7	0.23%	1,270	0.06%
Argentina	221	5,710	61	0.6	0.99%	486	0.12%
Venezuela	187	7,506	56	-	0.00%	5	0.00%
Colombia	172	4,054	42	-	0.00%	143	0.00%
Chile	143	9,017	46	0.3	0.66%	244	0.12%
Peru	93	3,378	22	-	0.00%	79	0.00%
Total Latin America	2,858	6,959	834	1.7	0.20%	2,618	0.06%
United States	13,079	44,667	5,885	367.0	6.24%	14,482	2.53%
Canada	1,241	38,606	558	46.0	8.24%	1,768	2.60%
Total Nth America	14,319	44,142	6,444	413.0	6.41%	16,250	2.54%
World	**47,010**	**-**	**19,224**	**1,134.5**	**5.90%**	**46,087**	**2.46%**

FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

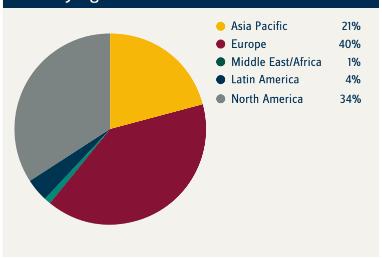
Global Real Estate vs Equities & Bonds



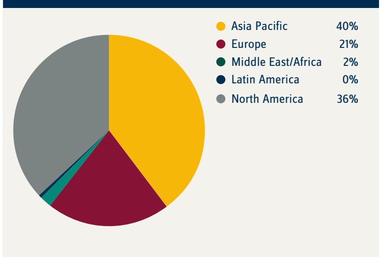
Rolling 10 Years Risk/Return Local Currencies - Countries



Underlying Real Estate



Listed Real Estate



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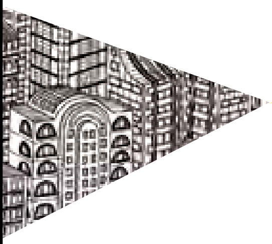

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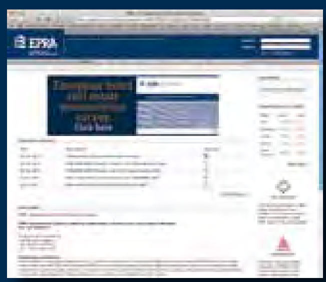

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