EPRA NEWS
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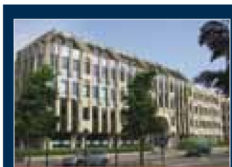

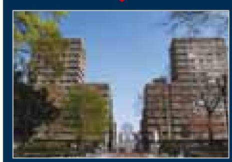

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IS THE OPEN-ENDED REAL ESTATE FUND AN ANACHRONISTIC INVESTMENT VEHICLE?

Open-ended real estate funds hold EUR 96 billion in real assets at the time of this writing. For the sake of comparison: There are but three REITs listed in Germany, and the combined market value of their real assets currently adds up to EUR 2.5 billion.

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GUEST EDITOR
Steffen Sebastian

Many observers, most notably international ones, are taking a critical view of the powerful position that open-ended real estate funds have in Germany.

Indeed, experts agree almost unanimously that the dominance of the open-ended real estate fund is one of the reasons why REITs have had such a hard time to establish themselves in Germany. Some even go so far as to suggest that open-ended real estate funds have virtually smothered the REIT as a vehicle - even though the latter has qualities principally superior to open-ended real estate funds.

In addition to the much-discussed liquidity problems, I believe the fee structure of the open-ended real estate funds merits criticism more than anything else. When subscribing fund shares, investors tend to pay an up-front fee between 5-6%, most of which goes toward the sales effort. On top of that, a fund of this type will levy another fee whenever shares are bought or sold, usually the equivalent of 1.0%. Add to this the standard acquisition expenses that a fund will have to pay when buying or selling property.

In sum, the transactions costs associated with an investment in an open-ended real estate fund are higher than those involved when investing in a REIT.

Then there are ongoing management fees that a fund will often map by itemising a total expense ratio (TER). The TER tends to vary considerably from one fund to the next. For instance, Aachener Grund-Fonds reported a TER of just 0.41% for the 2009 financial year, whereas Warburg-Henderson Deutschland Fonds Nr. 1 showed a figure four times as high at 1.55%.

REITs, by contrast, are characterised by a much more affordable fee structure. For one thing, the costs of subscribing listed REIT shares are minimal. Moreover, a REIT will charge neither a management fee nor premiums on transactions costs. This is explained to the fact that a REIT is simply not run by a company whose income consists essentially of investor fees. Of course, a REIT has management costs in the form of salaries. Another drawback of open-ended funds is that the statutory liquidity requirements impact their income basis. These require open-ended real estate funds to keep no less than 5% of their assets in securities available on short notice. In normal times, the cash share is considerably higher though - up to 50% in peak times. REITs guarantee their liquidity through stock trading, and therefore need not keep cash reserves on hand that yield little interest.

So far, the cost and income gap between REITs and open-ended real estate funds has hardly been analysed. Until two years ago, their demonstrable track-record of always having realised positive returns on investment in spite of all odds surrounded open-ended real estate funds like a nimbus. Ever since some funds did suffer first-time losses and proved unable to guarantee their liquidity, the shortcomings of the product have been the subject of public debate. >

Yet having realised that open-ended real estate funds are a comparatively costly investment vehicle, one need not necessarily jump to the conclusion that they will swiftly lose in significance. Many people base their investment decisions on the recommendations of their financial advisers. The latter, however, have a vested interest in earning the highest possible commissions. So REITs will continue to take the backseat to open-ended real estate funds unless the nature of the financial advisory system in Germany undergoes a radical change. For the time being, nothing suggests that such change is imminent.

Some suggest that open-ended real estate funds have virtually smothered the REIT as a vehicle – even though the latter has qualities principally superior to open-ended real estate funds.

At least as important a role in the decade-spanning success story of open-ended real estate funds is played by a deep-seated dread that Germans nurse vis-à-vis listed investments. Stock market risks and the steep price fluctuations of REITs or of listed real estate companies have caused open-ended real estate funds to look like an investment of decidedly stable value. The fact that open-ended real estate funds involve no stock market risk is an important advantage in the eyes of many German investors.

To appraise the value of their real assets, the funds hire surveyors who are, at least formally, independent. This has a levelling effect on share prices, which in turn calms investors. However, nothing has hurt the reputation of German surveyors as badly as the recent crisis of Germany's open-ended real estate funds.

Doubts over the accuracy of the valuations and the corresponding fear of value adjustments are an important reason why many investors pulled substantial amounts of money out of the funds. A number of funds got into trouble this way, and had to close down. Actually, the present weakness of the open-ended funds could also have a positive effect. They might translate into a window of opportunity for other investment vehicles on the German market. So far, only direct investments and closed-end funds have benefitted from the situation, though. Before this background, it is rather regrettable that the regulations of German REITs remain so very inflexible. They represent another reason why REITs have been unable to properly exploit the present market opportunities.

In my opinion, the fund closures and wind-ups will therefore prompt a market correction and a further consolidation within the open-ended real estate fund segment rather than boost the listed sector in any meaningful way. Indeed, the open-ended funds will continue to be the dominant investment vehicle for indirect real estate investments for many years to come.

Please note that the Guest Editor page is a space for outside comment on listed real estate, and does not necessarily reflect the opinion of EPRA.

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UPDATE FROM
PHILIP CHARLS

Philip Charls, EPRA CEO

We've just had three EPRA Insight events across Europe, which were designed to focus minds on this year's challenges. Following their success, I can see EPRA's position and role as more fundamental than ever.

2010 was a year full of success for EPRA. We have improved the quality of our work and significantly increased our visibility and influence among our European partners. Despite the harsh economic conditions in recent years, our membership remains constant at around 200. This stability is in itself an achievement, and demonstrates we clearly offer considerable value to our members.

> *Commission, Parliament and Council alike rarely understand the distinction between our industry and the 'financial' sector.*

We also have great expectations on them. We need greater involvement from our members as torchbearers for the sector, to overcome the fragmentation of REIT regimes across Europe. This means members in countries with an efficient REIT regime should mobilise their business partners and steer government policies to promote the local regime as a model of inspiration for European neighbours that have not yet introduced a REIT regime, or where existing REIT regimes are not as effective as that they should be.

Take France for example - clearly it is the listed champion in Europe. A market of over EUR 50 billion, 50 listed property firms, phenomenal growth since the introduction of the SIIC, France is a country in Europe with the largest proportion of the underlying assets held by the sector: 6.10% as compared with an EU average of around 3%. This success is down to the efforts of French real estate and organisations like the FSIF that led to the introduction of the SIIC and defended it for almost ten years with the French authorities. Their dedication and success inspires us at the European level. After all, real estate across Europe still doesn't hold the position it deserves.

A case in point is the German listed property sector. With only 1.5% of German real estate in listed companies, our sector is simply atrophied in the largest economy in Europe! Open-ended funds and SpecialFonds are predominant in Germany for a number of reasons, including the considerable influence of banks and investors' aversion to perceived risk. Like an unwieldy rusty car, this situation will become more and more difficult to fix especially since it is not backed by a strong performance case. In the last few years, the listed sector in Europe has consistently over performed the non-listed sector in terms of both capital growth and total return. This is notably due to a successful recapitalization, and the healthy state of the listed sector which continues to be best in class in terms of transparency, liquidity and management quality.

Furthermore, with a number of funds having suspended redemptions lately and a new law making GOEFs indeed less likely to fail again but at the expense of flexibility and liquidity, we are convinced it is essential for us to contribute as much as we can to unlocking this situation and facilitate the German listed RE in achieving its full potential. Feedback we get from investors globally is they would welcome this and are keen to up their holdings in the German listed sector.

On a broader level, our strategy for promoting the sector remains

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structured around three main areas: Reporting and Regulatory Affairs; Research, Indices and Investor Outreach; Events and Networking.

Throughout 2010 we had an unprecedented level of interaction with the European authorities and international organisations: European Commission, IASB and others. The strong involvement of our members has led to tangible progress in a number of areas.

Last year we streamlined our Best Practice Recommendations (BPRs) and focused on better performance indicators. We also initiated the development of recommendations and specific indicators of sustainability that should be finalised by the end of first semester.

We continue to develop our relationship with the IASB and are working hard to protect the environment in which our members operate. Our success on Lease Accounting is perhaps the most obvious recent example but it is not alone. EPRA is working with its counterparts in other regions within REESA in many other areas: Fair Value measurement, amendments to IAS 40, joint ventures to name a few.

Our industry advocacy function in Brussels has also considerably expanded. The wave of legislative initiatives that has emerged in response to the financial crisis of 2008 is significant in its volume as in its scope. Commission, Parliament and Council alike rarely understand the distinction between our industry and the financial sector. We must constantly educate, explain issues that are unclear and promote the unique features the sector offers to avoid being simply treated as investment funds.

We respond to public consultations; we are meeting with European institutions; we formulate our stance with the assistance of our members; and we mobilise the Press. We participate actively in public debate and policy to safeguard the interests of our industry in legislation such as the AIFM Directive, the OTC Derivatives Regulation, the reform of pension funds and many others.

Our sector is being reluctantly forced to come to terms with the cumulative impact of the AIFM Directive, Derivatives regulation, Solvency II and Basel III to name just a few. That's despite the fact that it is not the obvious intended or direct target of any of them. This comes at a time when the sector is busy trying to deal with issues that really are very relevant and crucial for the property sector and the real economy (like addressing the environmental impact of property development and operational buildings).

Our sector is healthy, and we'd like to keep it that way. It is therefore imperative that the regulatory authorities, whether at national or European level, understand the benefits of REITs for tax revenue but also for the economy in general. We are launching a study looking into the socio-economic benefits of REIT regimes.

On the research side, our Working Committee on Research has been restructured to accommodate our best academics. Their mandate is to ensure that the quality of our publications is best in class. The monthly output from the EPRA research team has also broadened in 2010. In addition to the regular monthly statistical bulletin, chart books, and reviews, we added the NAV, Transactions and LTV Reports.

On the index side, the FTSE EPRA / NAREIT Global Real Estate is widely recognised as the benchmark for investment in listed real estate. The index is constantly improving and attracting more and more investors for its reliability, consistency and transparency.

From an investors outreach point of view, of course Europe remains our primary target, but our industry is globalised and we need to promote the European sector with investors from other regions, including the US and Asia. Our visits to these areas provide an opportunity to broaden our investor base. In 2010 we met with more than 1,500 contacts during such visits - the latest taking place in China and Japan in December.

Our next trip to the Asia-Pacific region will take place in April and include Korea, Japan and Australia. Also supporting this investment drive, EPRA regularly organises seminars and other events that build and strengthen relationships in our industry. Our Annual Conference in September is the culmination of these networking opportunities; a constant reminder to all that it is people which make this sector tick.

IN THE NEWS

LEASE ACCOUNTING EXPOSURE DRAFT: REESA RESPONSE SUBMITTED

Back in December, EPRA submitted its response to the IASB/FASB's proposed changes to the lease accounting rules, on behalf of the Real Estate Equities Securitization Alliance (REESA). As well as expressing support for the exclusion of property lessors who report their investment property at fair value, the letter also expressed serious concerns with the proposed new leasing framework and the impact that this could have on property lessors at cost and property tenants.

REESA recommended a number of simplifications to the proposed model including the treatment of contingent rents and lease renewals. The REESA submission can be accessed here. On December 17, 2010, EPRA Director of Finance Gareth Lewis attended a Roundtable meeting with the IASB in London where he had the opportunity to discuss EPRA's views on the proposed changes with the IASB and FASB Boards as well as other industry representatives.

Recently the Boards met (on December 15-18) and made tentative decisions that will greatly simplify the proposed lease accounting and reduce subjectivity. On contingent rents the boards have decided only to include contingent rents due to index/rates, payments that are "reasonably certain"', and contingent rents "which lack commercial substance". The original proposal would have required a probability-based outcome approach that would have been highly subjective and which would have resulted in complicated calculations and periodic re-adjustments.

Similarly, the lease term has been redefined from "the longest possible" lease term to "the non cancellable period... together with any options...(where) there is a significant economic incentive for an entity to exercise the option" or for an entity not exercise an option to terminate the lease. These changes mark significant improvements on the original proposal. We believe that on top of the exclusion for Investment Property at Fair Value, this represents positive outcomes of our lobbying activities.

NEW RULES ON BELGIAN REITS

A royal decree on Belgian REITs was published early-January. Under the new legal REIT framework, a number of positive changes have been introduced. Existing Belgian REITs can now create joint ventures with institutional investors in a way similar to what already exists in the French and Dutch REITs regimes. The other important change relates to the rules on equity raising which should improve access to the capital markets.

These new rules shorten the minimum period for an open offer from a three weeks period to three days. After this period the company is free to do a straight public offering/book building for any part that is not taken up by the existing shareholders. This would appear to be a more efficient process for raising capital than exists in other European REIT regimes.

TAXATION OF CROSS-BORDERS DIVIDENDS DISTRIBUTION

The European Commission recently published a consultation on the Taxation problems that arise when dividends are distributed across borders to portfolio and individual investors. The consultation is open until April 30, 2011. EPRA is currently assessing whether this occasion provides us a useful opportunity to promote the positives surrounding European REIT regimes in this respect. Access the public consultation **here**.

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STRENGTH IN GOOD GOVERNANCE

The CFA Institute has released a report on the improving governance of Asian REITs which we believe holds true for all REITs. While real estate investment trusts provide many benefits to investors, these benefits can be clouded by poor governance that can weaken unit holders' rights. Regulators and industry participants in prospective and existing REIT markets must establish robust governance structures to minimise risk of expropriation by insiders and strengthen unit holders' rights. The full report can be found **here** on our website.

EPRA IN THE RING

EPRA's ongoing effort to boost the visibility of the listed real estate in EU circles continues apace. We are actively participating in various policy debates which affect the sector, and monitoring others in the pipeline. Here is an outline of some recent Commission public consultations where we have enabled Europe-wide reactions, and provided regulators with a window on the arguments, opinion and supporting materials of our membership. Follow these on the Commission's website **here**.

- Disclosure of Non-Financial Information by Companies - Ways to improve the disclosure by enterprises of non-financial information (environmental and social performance). Deadline: 24 January 2011. See the consultation page **here**.
- Green Paper towards adequate, sustainable and safe European pension systems - See the consultation paper on the Commission website here and EPRA's response on our website.
- Packaged Retail Investment Products Initiative - Proposed next steps in improving the European regulation of the retail investment market, raising investor protection standards and improving existing measures consistency across the different retail investment segments. Deadline: January 31, 2011.
- Taxation problems that arise when dividends are distributed across borders to portfolio and individual investors - Deadline: April 30, 2011. See the consultation document **here**.
- Green Paper on the future of VAT - Current VAT system and ways to improve its coherence with the single market and its capacity to generate revenue whilst reducing compliance costs. Deadline: May 31, 2011. See the Green Paper **here**.

EPRA NEW ADDRESS

EPRA will relocate to the following address as of April 01.

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All phone numbers remain the same.

REESA RESPONDS - IASB/FASB CONSULTATION ON TRANSITION ISSUES/ EFFECTIVE DATES

In a joint letter with the other organisations in REESA, EPRA has submitted a response to the IASB/FASB on transition issues and effective dates. We underlined our support for the exclusion from the Leases ED of investment property held at fair value under IAS 40. We also reiterated the significant impact that the Leases ED would have on lessors that are covered by the standard and sought further concessions on effective dates.

EPRA proposed that companies should have three full years to test-run systems, with the earliest application being January 01, 2015 - if the June 2011 target date for finalisation is met - with an option to adopt earlier.

MAPPING OUT A COMMON PATH

Late last year, on the 50th Anniversary of the US REIT, EPRA's CEO Philip Charls (left) presented to of NAREIT's Steven Wechsler a 300-year old map of Europe. With common roots and shared challenges, the gift illustrates our ongoing relationship and commitment to work together to enhance the position of listed real estate, globally.

INDEX PERFORMANCE OVER THE YEAR 2010

Here's a snapshot of the performance of the European market over the last year:

- Europe returned 16.94%. On a country level, heavyweights UK (+8.82%) and France (+14.21%) under-performed, and Sweden (+68.66%) and Switzerland (+51.66%) over-performed.
- On a sector level, European Office funds performed best with a return of +35.61%, followed by Healthcare with +27.24%. European Specialty took a loss of -32.80% and Industrial slipped -5.90%.
- Regarding the investment focus, the European rental sector outperformed the non-rentals, with returns of +17.35% and 5.08% respectively.
- Regarding the emerging markets in Europe, the performance was in line with the developed markets, a return of +16.25%

OPTIMISE YOUR INVESTMENT

NAREIT has launched its Real Estate Portfolio Optimizer. This downloadable tool enables investors to compare the returns, volatility and Sharpe ratio (risk-adjusted return) of different real estate portfolios.

Real estate portfolios that are too heavily concentrated in private equity real estate lack the diversification benefits that a more effective balance of public and private market real estate provides. Consequently, portfolios concentrated in private equity real estate funds have exhibited a sub-optimal risk /return profile. Putting approximately one-third of real estate in publicly traded REITs delivers better risk-adjusted returns for investors that traditionally rely on private real estate.

It calculates the actual portfolio performance on the basis of more than 176,000 possible combinations of portfolio allocations to publicly traded REITs and private equity core, value-added, and opportunistic funds.

Click **here** for more information.

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INSIGHT TO THE YEAR AHEAD

The opening weeks of 2011 welcomed in a series of European EPRA seminars aimed at focusing minds and expertise on the developments within individual markets.

Real estate and finance execs in London, Amsterdam and Paris were encouraged to turn out in force - EPRA members and non-members alike - to join the discussion on the direction and opportunities the listed real estate sector is likely to present. The format was the same as in previous years; only this time the EPRA Insight series added Paris to the line-up of relaxed, after work, and free-of-charge networking opportunities.

The quality of all the panelists, and their willingness to state hard numbers so early in the year, reflected a combative and entertaining series of discussions. This year the positives rang out across the circuit of EPRA events. In Amsterdam, Harm Meijer was upbeat for the coming 2-3 years, and saw France and Germany as particularly interesting. London's Toby Courtauld stated unequivocally that being a REIT now "is a great place to be!"

And as ever, all manner of scenarios for financing were tabled; with John Lutzius in London suggesting a clear winner being those reliant on asset-specific finance. Ian Marcus expected more tie-ups with Institutional capital; but viewed a horizon of increasing property allocations from the USD 7 trillion worth of Sovereign Wealth funds. Other cross-event issues were leasing lengths, Lease Accounting regulations & Solvency II in the pipeline and Prime vs. Secondary. On the very European demographic question, Gerard Groener was far from downbeat, pointing out that >

In all, around 550 people were present for the panel discussions, Q&A and canapés.

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Photos by Dominic Turnbull and Vincent Turin

"Ignore the averages. With the right products and the right managers you can make good returns going forward."

David Atkins, Hammerson

you can enjoy a roaring success in a mediocre environment as it really comes down to micro-economics and business fundamentals.

Hammerson's David Atkins summed up much of the mood at this year's event series. The persistence and affects of inflation and therefore monetary policy will be important. The debt situation will touch even the best capitalised, yet ultimately the prosperity of the tenant amid today's austerity is key. "But Ignore the averages" he advised, "with the right products and the right managers you can make good returns going forward."

We at EPRA would like to express our thanks to Nabarro, Loyens & Loeff and Foncière des Régions for their assistance at every level; contributing to the excellent turnout, ambiance and quality of the networking on hand. In times of uncertainly, debt, tax and regulatory challenges, we feel it critical that the sector is informed and remains a cohesive industry positioned well to adapt and embrace opportunities in 2011.

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John Lutzius CEO, Green Street Advisors	**Patrick Kanters** Managing Director, APG Asset Management	**Christophe Clamageran** CEO, Gecina
Toby Courtauld CEO, Great Portland Estates	**Harm Meijer** Head of European Real Estate Research Equities, JP Morgan	**Pierre Fleuriot** CEO, Credit Suisse in France
		Olivier Wigniolle Director General, Allianz RE France

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A SECTOR OF WITH ONE VOICE

by Fraser Hughes

Considering that our company and investment manager members tour the same potential investors as us, we are mindful that we must all be aligned and aware of the forceful array of materials and arguments supporting a commitment to listed real estate.

We are on the road throughout the year visiting a broad range of investors. We meet with Government Pension funds, company pension funds, pension associations, pension fund consultants, insurance companies, investment management companies, SWFs, high net worth individuals, retail investors, general investors, policy makers and opinion leaders. On a regular basis, we invite investment managers together to discuss their experiences with investors and the range of issues potential investors face and ask. For example, we held three investor meetings in London, Amsterdam and Paris in January.

Allocation imbalance

We estimate that the value of global financial assets to be in the region of USD 220 trillion. This includes equities, private debt, bonds, private equity and real estate - we exclude cash deposits. Of this total, we estimate that real estate comprises around 13%. Compare this against global allocations to real estate investment of approximately 10% and you could argue allocations should increase to meet the 'natural' weight going forward.

Our position is that listed real estate should comprise a meaningful portion of this allocation to the real estate asset class. Alex Moss and I have written (p23) about the importance of understanding all types of potential real estate investment - the four quadrants - and we believe that investors will increasingly incorporate mixes of listed, bonds and debt to achieve their underlying real estate exposure. Based on our discussions, we outline our key messages and reasons why listed real estate should get a healthy piece of the pie.

Dividends and cash-flow are crucial in the current environment. Versus global bonds and equities, REITs offer attractive yields. Investors look for quality tenants underpinning this cash-flow, with a healthy interest in potential earnings growth and dividend cover ratios. Of course, there is a clear difference between landlord-type companies and pure developers - the focus being on the former. Looking at the cash-flow, the discussion of the inflation hedge nature of real estate investment arises. It is an inflation hedge due to rents being linked to CPI, which feeds into dividend growth.

Investors like the transparency associated with listed real estate investment - of course this may vary from country and company, but in general we believe that the reporting and regulatory structures that listed companies must adhere to provide an excellent base on which to build. Listed companies will operate under REIT legislation, accounting rules, FSA/Stock Exchange rules, corporate governance guidelines and increasingly sustainability recommendation and guidelines. In addition, initiatives such as the EPRA Best Practices (BPR) and KPIs further enhance transparency for investors. Investors may also consider management costs of their real estate investment - direct/unlisted and listed and how do they compare?

Know the full story

Other core features of listed RE relate to the long-term performance of the listed sector vs. bonds, equities and other forms of RE investment. Focus on market valuations provides an indication of potential opportunities in the market, for example, discounts to Net Asset Value, plus the fact that unlevered listed portfolios match the performance of IPD direct metrics.

Stock price volatility increased during the crisis and has returned to normal levels as the economy has stabilised. Volatility increased in all liquid asset classes - equities, commodities, gold and oil. We believe that direct and unlisted markets are not immune and experience far more stress and turbulence, compared against reported smoothed valuations. Developments by IPD, MIT and Green Street on transaction-based or hybrid indices aim to provide more accuracy in the future - we welcome these advances.

The sector offers investors great opportunities to diversify allocations across sectors and countries, with access to developed and emerging markets. Finally, we believe that the listed sector recapitalised well over the crisis and is well prepared to take advantages going forward. The ability to raise capital, whether it be equity, debt or through bond issuance has been well documented.

FONCIÈRE DES RÉGIONS

FONCIÈRE PARTENAIRE

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Conception – réalisation PUBLICORP 10328. Crédits photo : O. Ouadah, Artefactory Lab, J. Biletta.

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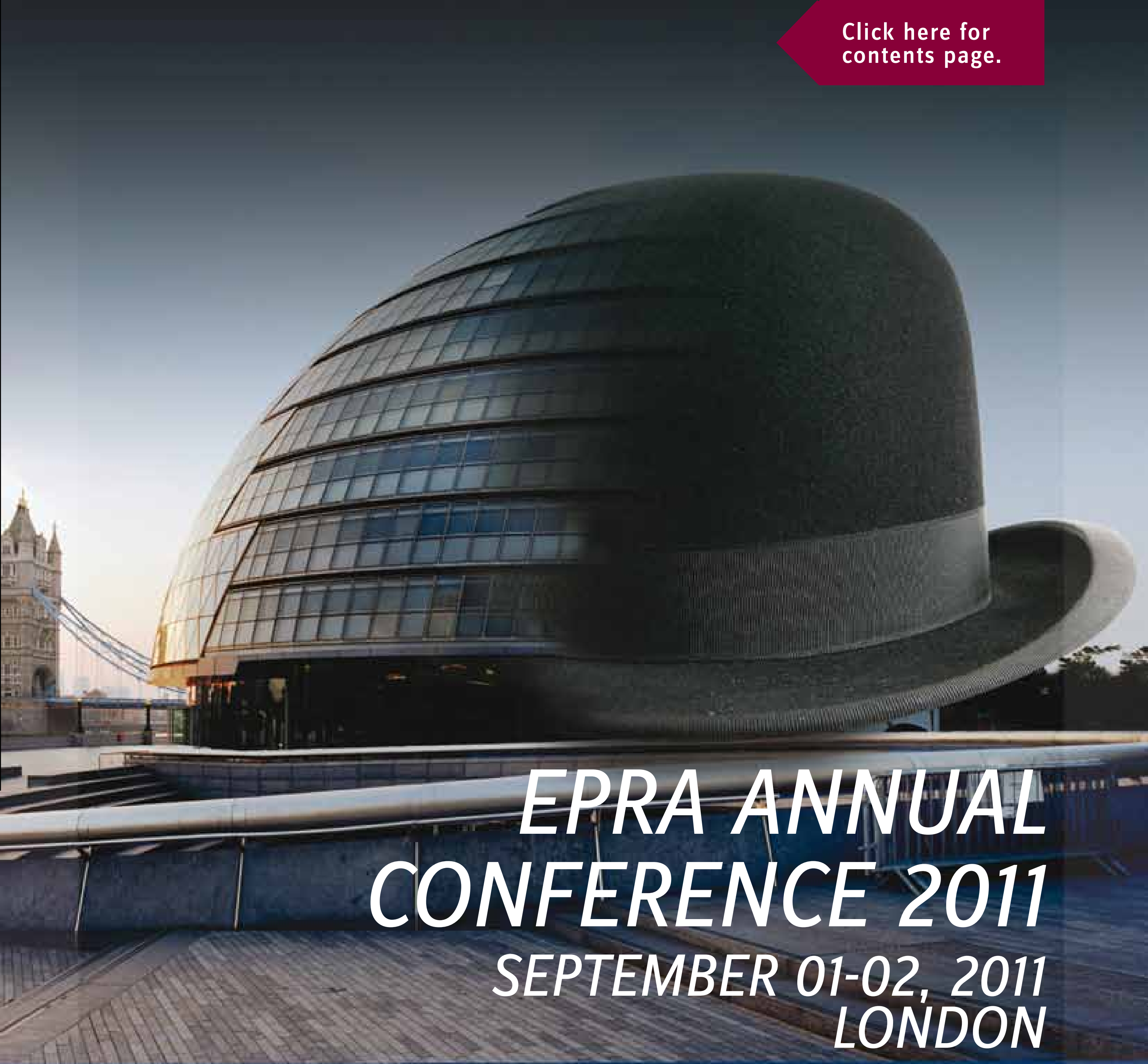

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JUDGEMENT DAY – IAS 12

Benjamin Franklin famously assured us that, in life, only death and taxes are certain. Since it is true that, despite rumours to the contrary, accountants are human, they will certainly face the former. However many of them have long concluded that reporting taxes, especially in the real estate sector, is often more to do with judgement than certainty.

Investors in real estate preparing their accounts under international standards are particularly sensitive to this, especially if different tax rates apply for rental income and gains on a sale. The applicable standard (known as IAS 12) obliges accountants to estimate the amount of taxation that would be payable when their properties are realised as cash - whether that realisation is through receiving rent from the tenants or from a future sale. This is known as 'deferred taxation' and can be a substantial liability on the balance sheet. For example, the Polish company, Globe Trade Center reported a deferred taxation liability of EUR 117 million at December 31, 2009 which represented some 11% of net assets. Similarly, PSP Swiss Property reported a liability of EUR 406 million, this being 16% of net assets.

Theoretical accounting

These significant amounts are usually difficult to interpret and may be discounted by users of financial statements. For example, many real estate companies present an EPRA Net Asset Value (NAV) in their financial statements in which deferred taxation liabilities are removed. This is of course a subjective assessment, but it is certainly the case that the required calculation does not allow the accountant to take into account the expected amount and timing of any tax payments - often resulting in what some would describe as 'theoretical' accounting.

Immofinanz, the Austrian property company, was quite outspoken on this matter in its 2009 annual report when it said: *"In contrast to other acquired assets and assumed liabilities, deferred tax liabilities must be recognised at their nominal value. The unequal valuation of these deferred tax liabilities normally results in goodwill as a technical figure"*.

The Swedish property company Castellum also highlighted the problem in its 2009 financial statements by stating that: *"In the balance sheet the deferred tax liability is based on [the assumption] that all properties are sold today with worst possible taxation outcome, i.e. a direct sale. The effective tax is lower because of both the possibility to sell properties in a tax-efficient manner, and the time factor that causes the tax to be discounted. At present, the actual discounted deferred tax liability is considered to be approx. 5%, giving a value of SEK 537 million which is considerably lower than the SEK 2,824 million accounted for."*

In any event, whatever view is taken about deferred taxation liabilities, the calculation of it requires an investor to have a clear idea of when and how their investment property will be sold. This can rarely be said with any certainty, so a good deal of judgement is called for - and it is important because in many jurisdictions rental income and gains on a property sale are assessed under different tax rates and the amount of the property value deductible for tax is different.

A step forward

In fact, international accounting standard setters have long recognised that for investment property

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measured at fair value (the predominant approach) it is difficult to establish how those values may be recovered in order to determine any associated deferred tax. Recent Ernst & Young surveys of IFRS financial statements in the real estate sector indicate that few companies explicitly say how they deal with this matter - and this has long been the case. In the UK, the financial statements of property companies Hammerson and Liberty International (both in 2005 prior to their entry into the UK REIT regime) took completely opposite approaches:

Hammerson set out that they calculated deferred taxation *"on the basis that properties will be realised predominantly through sale"* and provided GBP 406 million (being 7% of their real estate portfolio's value). Conversely, Liberty International disclosed that: *"The group does not provide for deferred tax on investment properties by reference to the tax that would be due on the sale of the investment properties"* and provided GBP 856 million (being 12% of their real estate portfolio's value). Comparability under these circumstances is much reduced.

In December 2010, international accounting standard setters issued an amendment to IAS 12 called 'Deferred Tax: Recovery of Underlying Assets' to specifically address this issue. The aim of the amendment is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property. From January 2012, the rules will include a rebuttable presumption that taxation on investment property measured using fair value model should be determined on the basis that its value will be recovered through sale.

The presumption is rebutted if it is held in a company whose business model is to use the investment property to generate rentals over time, rather than realise its value through a sale. The standard setters have not provided an example of a business model meeting these criteria, but acknowledged that the amendment may give rise to cases where the value of an investment property is assumed to be recovered entirely through sale, even though an entity expects it to be recovered partly through receiving rentals. Consequently there are still likely to be interpretation differences - perhaps because some may argue that any real estate investor from time to time sells assets, and as a result no property investment company could rebut the assumption of realisation by sale.

In general, however, companies that previously found it difficult to calculate deferred taxation should welcome this amendment as it does give a little more certainty.

What's missing?

The amendment is also notable for what it does not contain. In many jurisdictions it is common for properties to be bought and sold by transferring ownership of a separate legal entity formed to hold that property (a 'single asset' entity), rather than the property itself. >

From January 2012, the rules will include a rebuttable presumption that taxation on investment property measured using fair value model should be determined on the basis that its value will be recovered through sale.

Matt Williams, Director, UK Real Estate Group, Ernst & Young LLP

Matt is a director in Ernst and Young's real estate group in London and provides assurance services to a wide range of clients from private equity real estate funds to public listed property companies. Matt is a member of Ernst & Young's global IFRS committee and is an author of the global publication 'International GAAP'. Matt is also a member of the British Property Federation's finance committee.

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Deferred taxation is a complex and uncertain calculation, the result of which is often said to bear little resemblance to the actual 'value' of any inherent tax liability in a real estate portfolio.

A single asset entity may be formed for a number of reasons. For example, the insertion of a single asset entity between that 'real' owner and the property may limit the 'real' owner's liability for obligations arising from ownership of the property. More pertinently for accounting for deferred taxation, it may also provide shelter from tax liabilities arising on disposal of the property since, in many jurisdictions, the sale of shares is taxed at a lower rate than the sale of property.

This raises the question whether, in determining the expected manner of recovery of a property for the purposes of IAS 12, a company may have regard to the fact that a property held by a 'single asset' entity can be disposed of by disposing of the shares of the entity rather than the asset itself. In the absence of detailed guidance the general, but not exclusive, practice is for companies to account for deferred taxation on the basis of a property, rather than a share, sale. This is because where consolidated financial statements are prepared the asset in the balance sheet is the property held by, not the shares in, the single asset entity. In reality, however, single asset entities are generally sold with a significant discount on the nominal tax liability.

This issue has been a live one ever since, in their July 2005 meeting, standard setters promised to provide guidance when different deductions are available where the assets is sold separately or in a single asset entity. Consequently for the last six years the position has at least been ambiguous, especially as it was indicated during the development of this IAS 12 amendment that it would contain guidance on this issue.

Unfortunately, when published, the amendment did not provide any guidance. Accordingly, there still might still be circumstances where deferred taxation is calculated on the sale of the shares of a single asset entity. In such cases, no deferred tax liability would be recognised at all if the tax consequences of selling the single asset entity would be nil - even if that entity would have recognised fair value gains on its properties which would be taxable if and when the properties were sold at that value. It is unclear if this is the outcome the standard setters intend.

Deferred taxation is a complex and uncertain calculation, the result of which is often said to bear little resemblance to the actual 'value' of any inherent tax liability in a real estate portfolio. The amendment moves the game on a little, but the lack of guidance in at least one key area for real estate investors means reporting this form of taxation does not yet live up to Benjamin Franklin's assertion.

Ad Buisman, Partner,
Ernst & Young Accountants LLP and Global Director of Real Estate Assurance

Ad is a member of the leadership team of Ernst & Young's European Real Estate (RHC) Group as well as a member of the Global RHC Management committee. He joined Ernst & Young in January 1994 and provides professional real estate and construction services in the fields of Auditing, Corporate Real Estate Advisory Services and Transaction Support. In his capacity as EMEIA Construction Leader Ad also annually chairs the European CFO Round Table for Construction & Engineering.

Ad is a member of the Best Practices Committee of EPRA, leads Ernst & Young Global IFRS Real Estate & Construction interpretation desk and is also Global director for RHC assurance services.

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FINDING THE RIGHT BLEND

This article looks at blending listed and direct property exposure. We look at the tools and options available for combining or blending listed and direct exposure to one specific property market, in this case, the UK in a simple rules-based strategy.

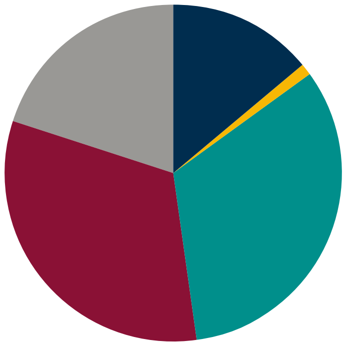
By way of background, it should be remembered that real estate accounts for around 14% of financial assets by value, but that most institutional real estate allocations are significantly below this.

Real Estate Investment Options - the four quadrants

Investors have for a while now had many options in which to obtain real estate exposure. However, there are two specific catalysts which have stimulated a surge in interest in combining a more liquid, listed element with direct exposure. Firstly, the inevitable move from Defined Benefit to Defined Contribution Pensions schemes which have a greater liquidity requirement, and require a form of real estate allocation that can provide exposure to the asset class in a more easily tradeable form. Secondly, the redemption issues which many Property Funds faced has led to product developers seeking to capture fund flows by creating a more liquid product.

A recent example would be press reports of Schroders creating a high yielding fund investing in listed real estate for investors. It specifically seeks to reduce the volatility of having to sell illiquid assets to provide liquidity for investors. As a blended property allocation based on the four quadrants approach is still relatively new and evolving, there is a continued requirement for research and analysis in the area and it is important to recognise that the level of data and liquidity available for different markets is variable. Figure 2 aims to summarise the main characteristics of each form of investment.

Figure 1 - Value of financial assests



Source: McKinsey Global Institute, Bloomberg, EPRA,

Blending Direct and Listed - relative returns

We believe the best approach to examine the issue of blending the four quadrants is to select one country and blend just two options initially. We would also emphasis the key point that we are not suggesting that is necessary to combine all four quadrants across all regions to provide effective solutions to specific product liquidity requirements. At its simplest, listed exposure can be added to enhance liquidity of a product to meet investor requirements, or a trading strategy can be developed to arbitrage between the two areas. As a first step, we look at the UK direct market - represented by the IPD All Property Index and the UK listed market - represented by the FTSE EPRA/NAREIT UK Index.

The UK has the longest time series on both the direct and listed side. In addition, the data sets are widely regarded as most representative of each market. Figure 3 outlines the straightforward rolling ten-year performance of the UK direct and listed sector, unlagged[1] - both capital and total >

Figure 2 - Real Estate Investment Quadrant – characteristics

	PRIVATE	PUBLIC
EQUITY	**Direct Real Estate Ownership**	**Listed Property Companies**
	· Greater control	· Transparency
	· Labour intensive	· Liquidity
	· Capital intensive	· Diversification at low cost
	· Ownership of maintenance operations	· Lower management costs
	· High income	· High income – particularly REITs
	· Illiquid	· Med/long proxy for direct
		· Easy to benchmark
	Indirect Real Estate (Private Funds)	· Lack of control
	· Direct property characteristics	· Short term volatility correlation to equities
	· Diversification	
	· External management	
	· Illiquid	
	· Less direct control	
	· Higher costs	
DEBT	**Direct & Indirect Lending**	**Listed Debt Securities**
	· Secured loans	· Diversified exposure easy to achieve
	· Favourable market conditions (attractive spreads)	· Liquidity
		· Reasonable transparency (credit agencies)
	· Ability to tailor credit profile through mix of senior & mezzanine	· Strong correlation to movements in interest rates
	Direct Lending (Senior & Mezzanine)	**Corporate Bonds**
	· Greater control than indirect	· Wide range of credit quality, based on issuers, sector, region, etc
	· Difficult to achieve diversification	
	· Lending platform expensive	· Unsecured obligation
	Debt Fund Investing	**CMBS**
	· More cost effective at smaller scale	· Ability to tailor credit exposure by class/tranche
	· Diversification easier to achieve	
	· Less ability to target and control investments	· Detailed understanding of securitisation documents required
		· Market remains closed

Source: Morgan Stanley, EPRA

returns. This provides an initial overview of returns, unadjusted for either risk, management costs, or liquidity. The FTSE EPRA/NAREIT UK Index outperforms IPD UK for a significant period of the analysis - 2000 to 2010. On the other hand, IPD UK total return outperforms the FTSE EPRA/NAREIT UK total return. The listed sector trades within the boundaries of the direct benchmark.

Mixing the blend – a rules-based trading strategy

While the chart above shows the "raw returns" historically and the stages of the cycle where listed and direct generate superior and inferior performance, the next step is to examine how a simple rules based strategy can arbitrage between the two markets. At a strategic level, we use a simple portfolio comprising 50% direct property and 50% listed property as starting point. A series of thresholds is calculated around the long term average discount to NAV (-18%) over the entire period. This can of course be recalibrated throughout the course of the strategy.

An upper and lower threshold is set at two thirds of one standard deviation - approximately 9%, either side of the long-term average discount. The weighting to listed property is adjusted 150bps for each month that listed property trades below (or above) the thresholds. For example, if the discount to NAV trades at 20% for a cumulative five months period, 7.5% extra is allocated to the listed allocation. Once discounts to NAV trades within the upper and lower band weights revert to 50/50.[2]

By combining the direct and listed market over the period and employing the trading strategy[3], it is possible to outperform both the direct and listed markets by some margin. In figure 3 we display the results of the strategy, clearly showing that the blended portfolio generates significantly better cumulative total returns than either direct property or property shares. This approach generates - an average annual return premium of over 100 basis points over that on direct property over this 32-year period.

As might be expected, the volatility of the returns generated by the simulated portfolio sits between that on direct property[4] and that on listed property[5]. Yunus, Hansz & Kennedy (2010) analysed the long-run relationships and short-run linkages between the private and listed real estate markets of Australia,

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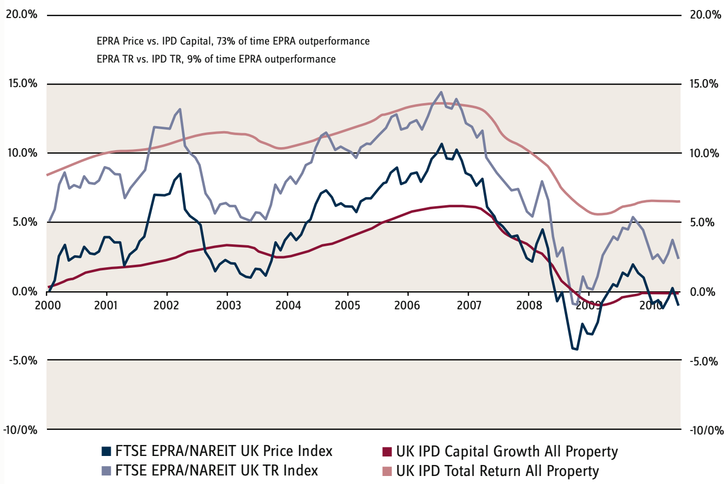
Figure 3 - Annualised rolling 10-year performance



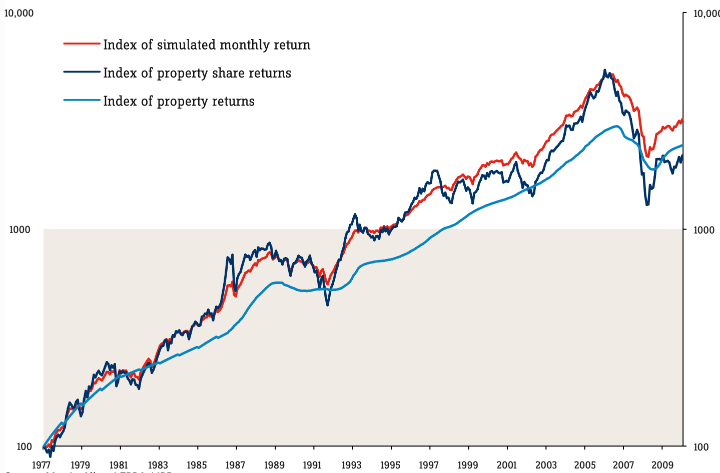
Netherlands, United Kingdom and the United States. Results indicate the existence of long-run relationships between the public and private real estate markets of each of the countries under consideration.[6]

Summary

We believe that we are now seeing the first products developed that seek to combine underlying real estate exposure with the investor requirement for liquidity. Given the importance of liquidity in DC schemes, and their expected growth we also believe that attention is firmly focussed on providing a (more) liquid real estate solution for this market, and that the listed sector will play an important role in providing this liquidity. In the next article we will look at pricing signals from the four quadrants, their correlation and liquidity and the specific advantages and limitations to be aware of when blending them together.

[1] Yunus, Hansz & Kennedy (2010) - Short-run analyses also reveal significant causal relationships between private and public markets of all countries under consideration. As expected, it was found that price discovery occurred in the public real estate market in that it leads but is not led by its private real estate market counterpart.
[2] This analysis was first published in issue 34 of the EPRA Newsletter - May 2010. The article was written by Martin Allen, now at Deutsche Bank Property Research.
[3] This simulation did not allow 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.
[4] Volatility using the valuation based methodology - we estimate that 'real volatility' is significantly higher when taking into account significant economic events and low transactions or lack of liquidity.
[5] The market movements experienced by stocks provide an opportunity to buy into property at levels that could never be achieved in the direct market.
[6] The research also states that for all countries, investors would not have realized long-term portfolio diversification benefits from allocating funds in both the private and public real estate markets since these assets are substitutable over the long run!

Figure 4 - Total returns from simulated portfolio compared with those from direct property and property shares



Source: Martin Allen / EPRA / IPD

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LEASE ACCOUNTING: MILLENNIUM BUG OR GAME CHANGER?

On November 08, 2010, we issued a comprehensive report called "Lease accounting: Game changer" on the lease accounting topic, with the objective to provide generalist investors and our client base insight on how earnings and balance sheets of users with large leased asset bases will be impacted, and to assess how listed real estate companies could be affected by changing tenant behaviour. So what is the situation now?

We set out the investment thesis that lease accounting will trigger cost increases and inflated balance sheets in 2013/14, which could trigger companies to buy back real estate, to optically fix balance sheets provided they have cash pots, steady earnings and a good equity basis, also on the back of low prevailing interest rates. Especially after writing on a complex topic like lease accounting, one continues to think about one's own assumptions and forecasts. After engaging in more discussions with industry players and seeing interest rates increase significantly over the past four months, we find a need to add two words to our thinking of lease accounting: "millennium bug". Hence the title: "Lease accounting: Millennium bug or game changer?" We will explain this addition in the conclusion.

IASB/FASB have proposed a lease accounting model - operating leases to disappear

The IASB/FASB have launched an unprecedented number of proposals for accountancy changes, in a stated official effort to:

1) improve existing accounting standards, and

2) bring more convergence to IFRS and US GAAP.

Both Boards have long waged a war against operating leases, and for many years the IASB has been determined to bring operating leases on balance sheet. Currently, users of leased assets can structure lease agreements to avoid recording a lease liability, as the current IFRS recognises operating (not on balance sheet) and capital leases (on the balance sheet). According to the Boards, this model:

1) leads to lack of comparability,

2) disregards relevant information about rights and obligations, and

3) does not give any visibility as to the financial liability leaving users touse 'rule of thumb' calculations such as multiplying the annual rent by six to eight.

On August 17, 2010, the Boards issued a joint Exposure Draft (ED) following their earlier discussion papers issued in March 2009. The ED sets out the proposal on accounting changes to leases: users of leased assets will be required to record leases as a right of use (ROA) asset and calculate a NPV for all expected lease payments in a corresponding liability.

The Boards recently met on February 15-18 and in an apparent climb down have tentatively decided to remove some of the most controversial elements of the proposed lease accounting.

The revised proposal will require all leases to be capitalized with reference to the following: 1) the revised lease term is defined as the 'non cancellable lease' term together with any options to extend the lease or not to exercise a right to terminate the lease. This is in contrast to the definition in the ED which would have required 'the longest possible' lease term. 2) the boards have tentatively decided that lease payments include "contingent rentals", such as yearly indexation, turnover and usage based rents that are 'reasonably certain', payments under "residual value guarantees" (if damages are

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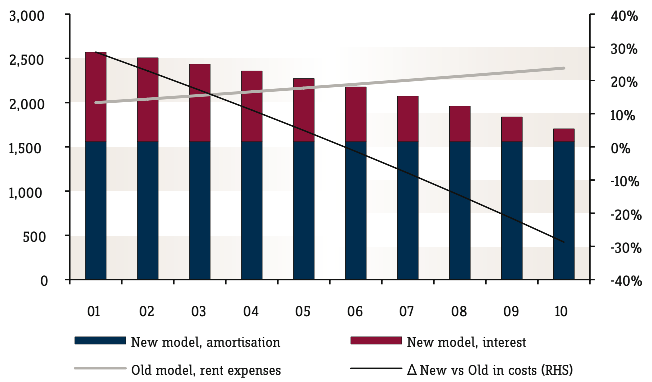
Chart 1 : Example of how costs will be inflated the first years of the lease

Source: RBS estimates



done to an asset, they must be paid for), and "term option penalties" that are reasonably certain to be incurred. The estimated rental streams using the previous variables are discounted using the

a) incremental borrowing rate of a company, or

b) the rate the lessor charges the lessee (i.e. the yield on the asset).

3) the boards recognise that there are two types of lease: a finance lease and 'other than finance lease' (in effect operating lease). The Boards have modified the treatment of 'other than finance leases' to give a P&L recognition pattern that is similar to operating leases today.

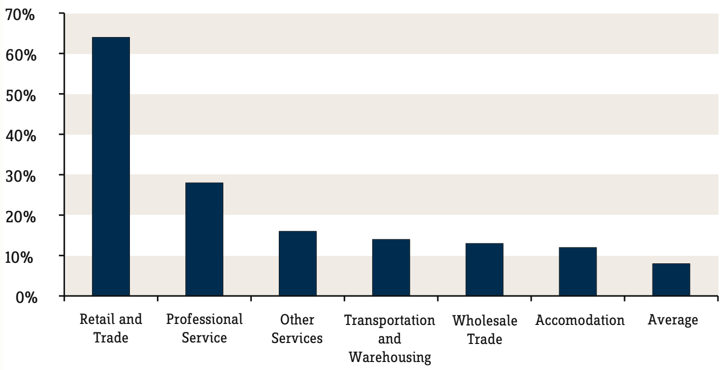
There was a four-month comment period on the exposure draft, which ended on the December 15, 2010. The most recent count shows that the Boards received 782 comment letters. About half of these comments come from the US, and roughly 55% of them come from preparers (companies who actually apply the accountancy rules), and only a negligible numbers from actual users, i.e. investors and analysts (we estimate less then 5%, actual numbers not disclosed by IASB/FASB), which is a shame in our view.

Indeed, we believe after reading the "comment letter summary" released by the IASB/FASB in January 2011, that most respondents to the exposure draft are supportive of a joint effort to develop a single, comprehensive and converged lease accounting model for both US GAAP and IFRS. Most respondents to the exposure draft supported the recognition of lease obligations. It seems that almost all users already make adjustments to capitalise operating leases on the statement of financial position and so they support the new "right-of-use" (RoU) model in principle.

While the tentative decisions agreed by the board on February 17 go some way towards simplifying the proposed lease accounting there remain fundamental flaws. Most importantly the accounting does not reflect the business of property companies - that are not financing companies- and lessees who do not view operating leases as finance arrangements. In addition, the model will result in serious distortions such as front-ending cost/revenue patterns and, for example, companies with a lower risk profile presenting a higher lease liability due to having a lower discount risk. In this and other ways comparability between companies is not in any way improved, complexity is increased rather than decreased, and information needed is not at hand by preparers. Although many comment letters support a change from the *status quo*, almost everybody is negative on the exposure draft. Indeed many believe that the proposal simply replaces one imperfect accounting standard with another imperfect accounting standard.

The boards should make clear that 'other than finance leases' are in fact what we all know them to be, operating leases.

Chart 2 : Example of industries affected - median increase in interest-bearing debt



Source: PwC, Rotterdam School of Management

Lessees and their P&Ls and balance sheets - the essential flaws in lease accounting

Rental payments will be replaced by interest and amortisation. The lease accounting model triggers an upfront cost pattern, with costs in the first years of the lease significantly higher (on a ten-year lease, the effect can be up to 25% higher cost in year 1), and last years significantly lower.

Users with large leased asset bases will see pre-tax costs increase 10-25% in 2013/14 under the old >

The model is flawed as subjectivity reigns, comparability between companies is not in any way improved, complexity is increased rather than decreased, and information needed is not at hand by preparers.

Table : Why lease accounting is flawed, and could change tenant behaviour

Step 1: Where we in theory agree, albeit we preferred the previous model
Change:
- record operating leases on the balance sheet, bring all leases on the balance sheet
- no "grandfathering" of leases, meaning leases signed before new IFRS rule will have to be capitalised as well
Quantitative consequence:
- debt increase average 58% (median 8%)
- costs increase 10-25% in year 1 due to upfront cost pattern under the old proposal. The current proposal says that for operating leases costs can be straight lined, in line with operating leases today. We are happy to see this change.
- in environment with rising rents/inflation, costs will be permanently overstated
Step 2: Examples of where the IASB/FASB have taken it too far
Methodology used to calculate the NPV of rental streams:
- discount rate used
as there will be a lack on info on yields on buildings, the incremental borrowing cost is used. This first widely varies between companies, but inflates the NPV as incremental borrowing cost is lower then property yields.
- contingent rentals included
The Boards have tentatively decided to include only contingent rents based on rates/index, reasonably assured contingent rents, payments which lack commercial substance.
- lease term with renewal options
the Boards have tentatively decided to include only the non-cancellable lease period together with any options where there is an economic incentive to extend the lease or not to exercise a right to terminate the lease.
Consequence:
- debt increases more than stakeholders will anticipate based on the "6-8 times time rule of thumb"
- balance sheets and profit and loss accounts will be more complex. The "new P&L" doesn't reflect underlying profitability, and does not improve user friendliness.
- comparability between companies does not improve, but rather diminishes
Step 3: Impact on different industries
Retail, transport, wholesale trade, leisure, telecoms, airlines and banking sector will be hardest hit as these are industries most reliant on heavy leasing.
Step 4: Tenant behaviour?
Scenario 1: The millennium bug
Investors will get used to new reality. Underlying cash flow doesn't change, except for some investments in IT, ERP systems and accountancy, gathering information on leases
Scenario 2: The game changer
Investors will continue to focus on PE ratio's and stated balance sheet metrics (net debt/EBITDA), and the complexity and lack of comparison between companies will not be tackled by investors. Hence, companies will try to "cook the books", by for example going for outright property purchases.
Source: RBS estimates

proposal of the Boards. Following their meetings on February 16-17 the Boards have indicated that 'other than finance leases' will have a P&L pattern similar to operating leases today i.e. by straight lining the lease liability/recevable. In either case, the front-ending revenue/cost pattern remains for finance leases. Balance sheets and net debt/EBITDA multiples will be inflated on our estimates. For some industries, the effects are severe. PwC estimates that the median increase in reported interest-bearing debt for retailers is 64%, and 28% for professional services.

Our reservation on the model is that lessors and lessees will need to account for the leases as financing arrangements (with an interest charge) even though investment property companies do not see themselves as financing companies and lessees do not see their operating' lease payments as finance costs but operating costs. The boards should recognise that 'other than finance leases' are what most us know to be- operating leases. It is not immediately clear whether the tentative decisions to present in the P&L 'other than finance leases' using a pattern that is in line with current operating leases suggests that no interest will be recognised. We would welcome this change.

Lessees and stakeholders

What if Sir David Tweedie, current head of the IASB, decides to retire in June 2011 with a big bang: lease accounting according to the last published exposure draft? In the US, the FASB can enforce any new rule, whereas in Europe, the EC has

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to sign off on any new IFRS before it will be voted in the European Parliament (and there is no history yet of proposals that are voted against, and probably lease accounting will not be the first). Having established that balance sheets are going to be inflated and costs in the first years of the adaptation (so from 2013/14) are significantly going to be inflated, next we need to make a call on how the tenant landscape will look like in four years time.

We said that debt will increase on average 58%. We first believe banks will not withdraw any financing. Lenders already take lease obligations into consideration, and so do credit rating agencies. In the end, cash flow creates capacity to repay loans and support interest payments. The proposal is not (in theory) affecting cash flows.

We do not foresee a large shift to shorter lease contracts of fewer renewal options. If companies want to engage in "structuring", the only way to decrease the lease liability is to engage in leases without renewal options. This creates rent risk on renewal period. Also, shorter lease durations leave tenants exposed to rent risk, but also risk that the tenant loses out on valuable real estate.

We could say lease accounting will give changes to P&L and balance sheet, but all non-cash related. Why bother? We have to bear in mind that IFRS is currently obligatory only for listed companies. Listed companies have shareholders and a daily share price that will vary depending on how the sentiment is. We believe there is a risk that share prices will react negatively, because lease liabilities are higher than the "six-to-eight times rent rule of thumb", but also that PE ratios are going to be elevated. In ten years time, nobody is going to remember the old IFRS and investors might focus on the PE multiple at that time.

There are two scenario's possible.

Scenario 1: The millennium bug scenario, would say that we shouldn't bother too much, given the Boards have mitigated the most controversial elements of the lease accounting on contingent rents and leases. The significant amount of negative feedback on the exposure draft suggests that companies may present two P&Ls, one old one, and one new one. The old one is an almost perfect representation of underlying earnings, and hence, share prices won't change that much. It's completely human to be afraid of new, radical changes, but in time, and provided that there is good investor education (and today that is not the case), the impact could be limited.

Scenario 2: This is much more daunting, the game changer scenario. In this scenario, investors will not comprehend the sudden debt burden on companies' balance sheets and hit on costs, and will discount those companies where the lease liability is higher then previously anticipated. In the end, the stock market is about perception. Companies are broken up into various pieces because the different divisions are separately worth more than the combination. Investors have a one-year time frame, and investment decisions are made based on short-term thinking. In other words, we need to bear in mind we don't live in a perfect world with perfect information, something that the lease accounting proposal seems to assume when coming up with such a complex proposal.

We believe we need to make a distinction between retailers, and users of office space. Retailers will no doubt be the industry hardest hit in terms of median increase in reported interest-bearing debt, 64% on median numbers (vs. average number of 8%), according to a PwC / Rotterdam School of Management study. Early December 2010, the EPRA requested PwC to conduct interviews with selected retailers, to discuss in detail the impact of the more complex areas of the proposed guidance.

In our view, key takeaways are that:

1) retailers do not view property leases as a financing arrangement but a function of selling space and operational and cost flexibility to their retail formulas,

2) many properties leased are high-end streets and malls, and not available for purchase,

Buying real estate could be ideal for companies with,

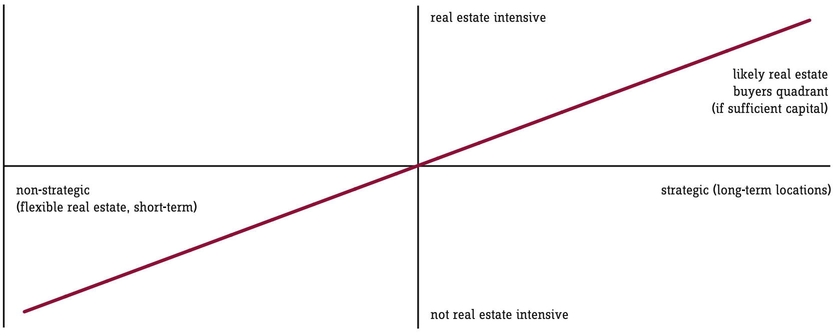
1) substantial real estate holdings,

2) real estate that is strategic for the operations of the business, and/or strategically placed, and

3) sufficient capital.

As retailers occupy space in shopping malls and high streets, space not often for sale, leasing is the only option and buying property is not feasible. The decision will >

Chart 3 : Most likely decision making framework for companies when it comes to buying real estate, in our view



Source: RBS estimates

be possible though for office buildings. Buying real estate could be jump-started by the current low cost of capital, very good state of balance sheets (net debt/EBITDA ratio's are projected to be the lowest since 2003 in 2012/13). Also, the lease accounting introduces a lot of debt (or atleast the appearance of debt) on the balance sheet. Buying assets can be done with cash, backed by equity. This creates a 'cleaner' balance sheet, at least on appearance.

The board's overriding aim should be to ensure the quality of accounting above timelines and other goals

The following chart illustrates the way in which we think companies will make a decision when it comes to buying real estate.

More optimistic about the future

Most of the comments we encountered to the exposure draft (and 782 comment letters is a lot) are negative on the way the lease liability is calculated. A lot of criticism has been put that both Boards have been emphasising meeting specific project time-lines, instead of providing a high quality standard. They communicated that significant changes are needed to the ED if the Boards are to proceed with a comprehensive standard on leases.

The recent decision to simplify the accounting for contingent rentals and renewal options reduces some of the pain and indicates that the Boards may be willing to make further adjustments to address some of the concerns raised in the comment letters. Furthermore the Boards have indicated that further field-testing will be performed on elements of the proposals (one of the key recommendations of respondents) assessing the cost/benefit of changes that the board may make in the final standard.

The last published time table by both Boards states that a final standard is expected by mid 2011. Given Sir Tweedie's long held ambition to see operating leases on balance sheet and his prominent role as IASB chairman, his retirement in June will no doubt put pressure on the IASB to reach this timeline although the massive negative criticism and comments from the board suggest that an extension may also be likely. Indeed the FASB has publicly stated it "may look into postponing some decisions, given the negative feedback".

We understand the Boards are determined to go ahead with this standard, however they should not lose sight of the serious concerns prepares and users have about the proposed accounting. The Boards' overriding aim should be to ensure the quality of accounting above timelines and goals. Prepares and users have legitimate concerns that the accounting does not reflect their business and that it will lead to serious distortions and every possible means should be made to reflect this. In the end, accountancy is a tool for all stakeholders to assess the financial performance of a company.

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EPRA's UNDERLYING GEOGRAPHICAL EXPOSURE

AND SUCCESS OF DIVERSIFICATION

In a time when geographical and sovereign exposure is in the spotlight of equity and debt markets, it is important to have a detailed understanding of the geographical asset exposure of the companies that are the constituents of the FTSE EPRA/NAREIT Europe index.

Although we recognise the need to assess the micro-economic environment of assets to be able to make a balanced judgment, we believe that on an EPRA-wide level we can only realistically discriminate to the level of countries and asset classes. We therefore have categorised all assets (around EUR 230 billion) owned by EPRA member companies by segments and by country of location.

One of the key findings is that the country weightings in the EPRA index (as defined by the cumulative weight of companies listed in one country) sometimes substantially differs from the relative amount of assets held by EPRA member companies in that country. In other words, the underlying or 'see-through' exposure of companies is different from country weights of the EPRA index. Also, we find that companies with concentrated asset exposure have underperformed diversified companies in the long run.

The EPRA index weights of countries sometimes differ substantially from the underlying asset exposure in that country, a mismatch caused mainly by assets not domestically owned, effects of free-float capped index weighting, leverage on real estate companies' balance sheets and trading discounts to Net Asset Value (NAV). We have compared the distribution of assets owned by all EPRA index members with their countries' respective market cap weight in the index to see where surprises may be found.

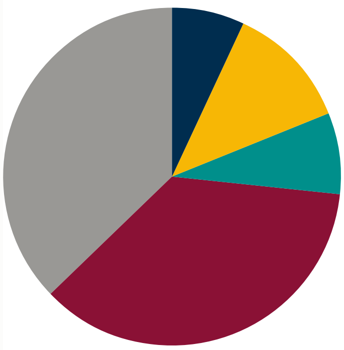
Companies listed in the UK, France and the Netherlands are the main weights of the index. But looking at the economic exposure an >

Table : EPRA vs Assets

COUNTRY	EPRA MKT CAP RATE	ASSET WEIGHT OF COUNTRY	ABS DIFFERENCE
UK	34.3%	25.4%	9.0%
FRA	29.4%	25.7%	3.7%
NETH	10.8%	3.5%	7.3%
SWIT	6.5%	5.3%	1.2%
SWED	6.1%	7.4%	-1.2%
GER	3.6%	11.7%	-8.1%
BELG	3.5%	3.6%	-0.1%
OEST	1.9%	1.4%	0.5%
FIN	1.5%	2.3%	-0.8%
ITA	0.9%	5.0%	-4.1%
NOR	0.7%	1.1%	-0.5%
SP	0.4%	3.6%	-3.2%
GRC	0.3%	1.0%	-0.7%
Total	**100%**	**96.9%**	**3.1%**

We would qualify the EPRA index as a conservative index, with a defensive spread of assets mostly concentrated in the higher rated countries of Europe.

Figure 1 - Sector breakdown



Source: RBS/EPRA

investor in the index faces, it becomes clear that the UK and The Netherlands have a far higher weighting in the index than the relative share of total assets owned by EPRA members in those countries. Therefore, the economic relevance of the UK and The Netherlands for investors in the EPRA index is less than would be expected based on the market cap weighting. Reasons for this are for example high free-float weightings for the UK and Dutch listed names, as well as a propensity of the Dutch listed companies to hold assets outside of The Netherlands (i.e. Eurocommercial Properties and Corio)

The weight flip-side

On the other hand, the exposure to Italy, Germany and Spain is higher than we expected on the basis of the EPRA weights. In the case of Italy and Spain, the reason for the discrepancy is mostly due to the lack of locally listed companies and their balance sheet issues, combined with the fact that much of the Spanish and Italian asset base is held by foreign investors. For both countries, 55% of assets included in the EPRA index are owned by foreign listed companies.

Germany is a more special case. The country asset share vs. the EPRA weighting of its listed companies has the highest discrepancy at 8%. Several factors contribute to this, including high leverage of German listed companies and lower free-float weightings. The segment distribution in Germany is also markedly different from that of the other countries, as 57% of assets held in Germany are residential in nature vs. 12% of total assets for the EPRA average. The higher leverage on the residential portfolios explains a large part of the low German weight in the EPRA. Other factors are the immaturity of the German listed real estate market and the presence of the German Open Ended Funds (GOEFs) that hold a significant portion of the German CRE market.

Looking at the percentage of assets owned by companies in the country of listing as a measure of geographical dispersion, then the most international companies are listed in the Netherlands (27% of assets domestically owned) and Austria (33%), followed by France (73%). On average, 20% of EPRA companies' assets are located outside the listing country.

Peripheral exposure of the EPRA index remains very low.

When considering the sovereign risk EPRA member companies are exposed to, we can quickly forget about Greece, and Portugal. The combined asset exposure of companies making up the EPRA is only 1%. Corrected for the exposure of its domestic players (illiquid companies and facing serious financing issues), Spain makes up a modest 1.9% of total EPRA-owned assets, instead of 3.6%; and Italy, corrected

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for domestic exposure, makes up 2.7%, instead of 5%. There is no exposure to Ireland. Therefore, exposure to Portugal, Italy, Ireland, Greece and Spain remains low (10% including domestic exposure and 5% excluding).

On the whole, the exposure the EPRA index offers does not equal an evenly distributed 'European exposure' as the core European countries - France, UK, Germany, Nordics, Switzerland, Belgium, Netherlands and Austria - contain around 90% of total assets owned. We would qualify the EPRA index as a conservative index, with a defensive spread of assets mostly concentrated in the higher rated countries of Europe.

Office and retail properties make up 73% of the EPRA assets, evenly split

Another interesting aspect of exploring the segmentation of the index is the split between the different real estate asset classes. For the whole EPRA universe, the asset segmentation is 37% retail, 36% office, 7% industrial/logistics, 12% in residential assets and 8% in other real estate. The other asset class refers to the more 'exotic' real estate that among others contains nursing homes, leisure, parking and restaurants.

Countries that show large deviations from the average are Germany with 57% of German assets invested in residential real estate and Switzerland and Belgium where respectively 63% and 60% of local assets are invested in office real estate. The highest concentration in retail assets is found in The Netherlands with 73% of local assets held in retail properties. In absolute terms the largest asset classes are UK retail property at EUR 26 billion, closely followed by French retail and offices at EUR 24 billion each, each making up approx. 10% of total asset held by EPRA companies that add up to around EUR 230 billion.

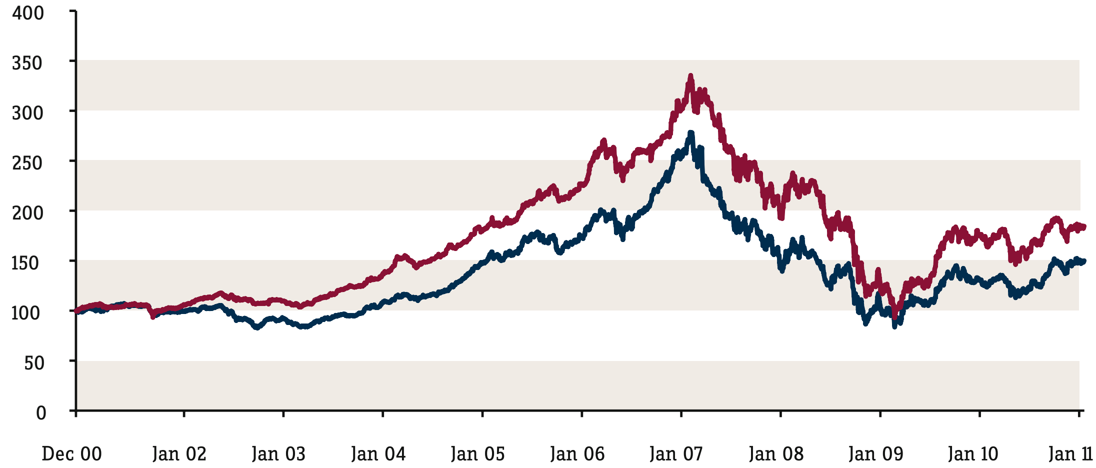
How diversified is the real estate sector and where is diversification more popular?

In general we believe institutional investors have a preference for focused exposure when investing in real estate stocks. We therefore would expect companies that have the ability to invest in volume domestically to do so. This would then naturally apply to French and UK listed companies, as these countries house the largest investment markets.

As can be expected, the large, more liquid investment market in the UK has led companies to retain more domestic exposure (92% of asset owned by UK listed companies are located in the UK), while French companies, led by the large cap players like Unibail-Rodamco, Klepierre and Foncière des Regions have expanded more internationally and hold 74% of their assets domestically. On the company level, we find that more than half or 48 out of the 82 companies in the EPRA index have assets located just in their country of listing. Significant among these companies are the UK and German listed companies. Out of 30 UK listed companies, 24 have assets only in the UK and for the German companies, seven out of eight only have assets in Germany. In terms of asset class diversification, there are fewer companies just focused on one real estate segment: just 19 out of the 82 companies are focused on one segment.

We constructed a ranking of the EPRA index member companies to measure asset concentration. We apply a widely used concentration measurement tool called the 'Herfindahl-index' to construct a ranking of asset concentration amongst EPRA member companies. In this calculation we consider asset class (office, retail, etc) and country diversification as equally "different" and >

Figure 2 - Performance high to low diversification



Source: RBS/EPRA

We would qualify the EPRA index as a conservative index, with a defensive spread of assets mostly concentrated in the higher rated countries of Europe.

each asset class per country ranks as a separate category. This means that a single asset class company, with assets in just one country scores a 1. Wereldhave is the most diversified company in the EPRA and scores 0.14. The average EPRA index score for all companies is 0.52.

For the UK listed companies the average diversification measure stands at 0.51, indicating substantial segment diversification in the absence of geographical diversification. For German listed companies this number averages at 0.81, indicating a highly concentrated segment and geographical exposure, namely in German residential real estate. French and Dutch listed companies follow with average scores of 0.46 and 0.25 respectively.

A simple test of the success of diversification or concentration of asset exposure is comparing the share price returns of highly diverse and highly focused companies. When comparing two baskets of ten companies, with the highest and lowest concentration coefficients, we find an interesting fact. The basket of more diversified companies has shown significant price outperformance over the past ten years.

The price return of the more diversified companies (average score of 0.21) was 83% or 6.3% p.a., outperforming the basket of least diversified companies (average score of 0.92) that showed a 4.1% price return p.a. Part of the outperformance was caused by the fact that the top ten of the more diversified companies includes some of the most successful real estate companies over the past decade including Unibail-Rodamco, Klepierre and Foncière des Regions.

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LISTED PROPERTY AND AIFMD – IN OR OUT?

After a year and a half of intense debates, the European finance ministers have agreed on a text for the Alternative Investment Fund Managers Directive (AIFMD) which was adopted by the European Parliament on November 11, 2010. The Directive will affect any alternative asset manager wherever in the world it is based, seeking to raise institutional capital in Europe.

The preamble of AIFMD suggests that its scope of application is confined to entities managing AIF as a regular business (AIFM), regardless of whether the AIF is internally or externally managed or of whether it is listed or not. Hence, the scope of application of AIFMD is rather broad. From the legal perspective this raises the concern, that the definition of the AIF could capture substantially all listed property companies, including REITs. Such an interpretation would imply considerable momentum of risk that significant damages be caused to listed property companies and of undermining the efficient functioning of the European listed real estate sector as whole. Also, investors may be confused as to clearly distinguishable product types of regularly traded stock and funds.

What is new under AIFMD?

AIFMD introduces a substantially new legal framework for the asset management industry which was only partially regulated until now. Asset Managers not previously affected will need to procure for a regulatory capital of at least EUR 125,000 (EUR 300,000 in the case of an internally managed AIF). Even small managers managing small exempt funds will face registration and exhaustive reporting requirements.

According to the AIFMD, asset managers shall provide periodic reporting to national regulators including details of illiquid assets, leverage and risk management methods. Hence, managers' processes as well as internal and external reporting to investors and regulators across a wide range of business areas will require considerable enhancement. Under the AIFMD, risk management shall be separated from other units and act on the basis of a sound risk management policy. While the precise scope of depository's >

liability remains to be agreed in the Level 2 implementing measures, the range of responsibilities of custodians and depositories has been significantly increased.

In addition, AIFM will need to create a remuneration policy which establishes adequate remuneration structures. The implementation of a formal liquidity process, annual reports and extensive requirements of disclosure to investors are the key challenges to be managed by AIFM until 2013, when the AIMFD is likely to come into force in the EU. AIFMD represents a significant alteration to the business environment for the global asset management industry, subjecting alternative funds and their managers evidently to the regulatory net. So far, one may agree that there is some legitimacy to change the world of fund managers.

Such an interpretation would imply considerable momentum of risk that significant damages be caused to listed property companies and of undermining the efficient functioning of the European listed real estate sector as whole.

Listed property - the unique nature of the segment

The listed property sector can be divided into two main players - ordinary listed property companies and listed REITs. In operational terms, there is very little difference between these two vehicles. Both are regular listed companies with internal management, indefinite life, constituted with capital divided into tradable securities. Activities of the European listed property sector have been embedded in a comprehensive legal framework long before the first debate on the regulatory scheme of fund managers started.

According to the current European and national legislation, listed companies are subject to the rigorous regulatory regime of public markets which allows them to access new capital through markets where shares can be traded and new capital can be raised publicly through public offering procedures. Consequently, the very nature of listed companies is very different from the unlisted real estate fund sector, where the share capital is marketed as fund units through distribution agents like placement agents.

Regulation framework of listed companies

The sector of listed property companies is in its entirety sufficiently regulated with respect to all important aspects of transparency and organisational matters. Requirements regarding the management qualifications, minimum equity, business plan, risk profiles, funding rules and transparency are already binding and enforceable on the listed companies under the existing European legislation. All relevant information of listed entities is to be published and made available to the regulatory authorities by mandatory law (e.g. MiFID, Transparency Directive and Market abuse Directive). The latter grants comprehensive protection for private and institutional investors.

According to the Prospectus Directive 2003/71/EC, listed companies are required to publish a prospectus in case of securities being offered to the public or admitted to trading. Directive 2004/39/EC on markets in financial instruments establishes wide-ranging organisational requirements for investment firms performing investment services and activities, reporting requirements in respect of transactions in financial instruments and transparency requirements in respect of transactions in shares taking place on regulated markets. These provisions are supplemented by additional requirements of the Market Abuse Directive 2003/6/EC stipulating provisions on misuse of information by issuers and transaction reporting.

Furthermore, the European legislator has set up a solid framework of provisions, which provide for the protection of investors from potential conflicts of interest of certain entities whose shares are listed in a regulated market (Directive 2007/44/EC on procedural rules and evaluation criteria for assessment of acquisitions and increase of holdings in the financial sector; Direc-

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AIFMD represents a significant alteration to the business environment for the global asset management industry.

tive 2004/25/EC on takeover bids; Directive 2003/125/EC regarding fair presentation of investment recommendations and the disclosure of conflicts of interest; Commission's Regulation (EC) 1287/2006 on record keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading). In addition, the Regulation 1606/2002/EC obliges listed companies to apply the International Financial Reporting Standards (IFRS) for consolidated financial reports and Directive 2006/43/EC requires financial reports to be audited by authorised external auditors.

The above said provides conclusive evidence that there is neither justification nor need to subject listed real estate companies to any kind of additional authorisation, ongoing management or transparency requirements as stipulated by the relevant AIFMD provisions. As a matter of fact, such requirements are producing unnecessary duplication of existing legislation, create inappropriate compliance burden and generate additional costs and expenses with no discernible benefit, thus impeding the efficient functioning of the public market.

AIFMD scope: carve-outs for the listed sector?

Unsurprisingly, during the drafting process the stakeholders have repeatedly pointed out that there is no justification at all to include the listed sector in the scope of the AIFMD. However, the European legislator in defence has opted for a pragmatic approach, by deliberately leaving open the issue of listed companies and defining the scope parameters in broad terms.

Nevertheless, EU legislator has, nonetheless recognised the very special nature of listed companies by introducing, albeit too few, exemptions for AIF's whose securities are offered to the public and who are therefore required to publish a prospectus in accordance with the Prospectus Directive (i.e. limited disclosure obligations to investors: article 23.3 AIFMD; grandfathering provisions with regard to marketing requirements of an EU AIF: article 59.2 AIFMD). Unfortunately, however, no comprehensive transitional provisions comparable to those of closed end funds have been included in the Directive.

Looking closer at the wording of the Directive shows, feasible solutions suitable to exclude listed companies from the scope the AIFMD seem to be possible. However, the wording of the Directive allows a wide margin of discretion as to applicable exclusions, which inevitably requires not only clarification within the upcoming Level 2 implementing measures but also on the national level during the implementation process.

(i) Exemption 1: Definition "Defined investment policy"

AIFMD applies to AIFM, which manage one or more alternative investment funds (AIF). So, what is a fund? Under the Directive, AIF means any collective investment undertaking (including investment compartments thereof), not being an UCITS raising capital from a number of investors, with a view to >

The AIFM Directive contains several carve-outs which may be taken as starting points to help develop appropriate approaches for the exclusion of the listed companies from the scope of AIFMD on the national level.

investing it in accordance with a defined investment policy for the benefit of those investors.

Hence, the definition of an AIF requires that the managed investment fund applies a "defined investment policy" for the benefit of the investors. Unfortunately the AIFMD does not contain any definition of the term "defined investment policy". This implies the risk that any kind of constitutional document set up by the company may be falling under that definition. Any property or other holding company (regardless of the industry sector in which it operates), whose activities include investment, may therefore be said to implement a "defined investment policy", although the only concern of such constitutional document would be to determine the broad range of allowed business strategy as will be further determined and revised by the management of the company as for any regular corporate entity.

However, these uncertainties in interpretation should not prevent from making appropriate distinctions: A "defined investment policy" of a fund is clearly distinguishable from a statutory purpose where the actual ongoing business strategy will be constantly interpreted and determined by the board and management of the company as for a regular corporate entity. This may or may be not changed from year to year. It may result in entering new markets, M&A activities, rights issuance, any capital markets borrowing whatsoever.

The criterion of a "defined investment policy" therefore aims at excluding normal operating companies from the scope of the Directive, thus referring evidently only to those investment policies which are commonly drafted and implemented by the asset management industry. Whereas in a case of a (typically external managed) closed-end or open-end fund, the fund manager executes a pre-defined investment strategy, which is given to investors as part of their decision to invest in a company and which requires the approval of investors or regulatory authority in order for that policy to be changed, the case of a listed company is substantially different.

The statutes of a (typically internally managed) listed company with own staff and business infrastructure resources are not established for an agreed limited period of life as with ordinary institutional funds. Depending on the business purpose and subjective interpretation of strategy by such individuals as board members, MDs, CEOs, CFOs etc, a listed company can change the company's strategy substantially. The business purpose of a listed company is no different from any other industrial company. In contrast, managers of "real" funds have no or very limited discretion to change direction since they are acting on the basis of narrowly defined investment strategy documented in the prospectus.

The above said should be used to excluding listed companies from the scope of the AIFMD. The structure of an investment policy set up by a classical closed-end fund is significantly different from the rather general business purpose

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contained in the articles of association of a listed company. It is therefore desirable that a conceptual clarification will be introduced by the European legislator in the Level 2 implementing measures, where the specific types of AIFM have to be determined by the ESMA.

(ii) Exemption 2: Holding Companies

Some corporate forms of listed companies may be able to qualify for a "holding company" exemption in the AIFM Directive. Article 2 (2) of the AIFMD stipulates, that the provisions of the new regulation are not applicable to holding companies. Article 4 (1) (r) of the Directive defines holding companies as "Companies with shareholdings in one or more other companies the commercial purpose of which is to carry out a business strategy or strategies through its subsidiaries, associated companies or participations in order to contribute to their long-term value and which is either: (i) a company whose shares are admitted to trading on a European regulated market and which is operating for its own account; or (ii) not established for the main purpose of generating returns for its investors by means of divestment of its subsidiaries or associated companies" as is ev dent in the company's annual report or other official documents.

While the provision clearly refers to listed companies, article 2 (2) also requires that the holding company carries out a business strategy through its subsidiaries, associated companies or its participations. Strangely, this implies that companies holding real estate assets directly do not qualify for this exemption. Moreover, it is questionable in how far the term "business strategy" can be construed as any kind of real estate investment activity. Clearly, listed property companies have a business strategy, or would anybody disagree? However, while being desirable for purposes of our analysis, such an understanding would rather lead to a general exemption, which was not intended by the legislator as the Recitals indicate.

Although there are substantial arguments that certain listed companies could comply with the prerequisites set by article 2 (2) AIFMD, the scope of this provision is vague and therefore rather difficult to define. Level 2 guidance can be expected as the term business strategy requires interpretation generally to make sense of it.

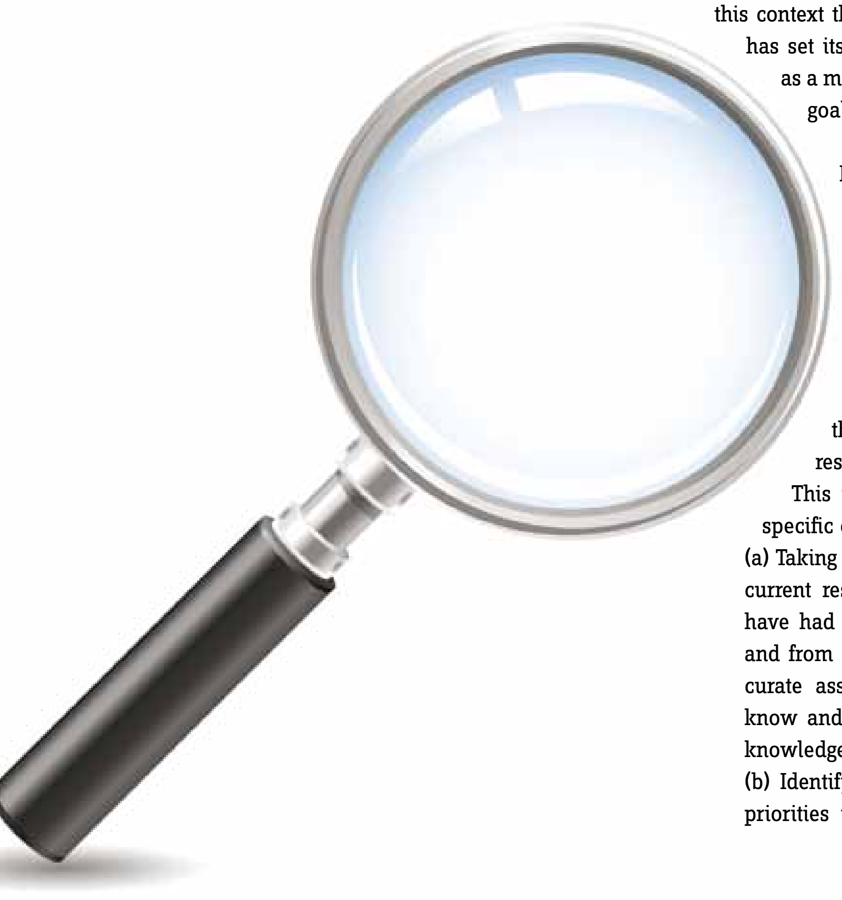
A conclusion required

The shares of listed property companies are bought and sold at stock exchanges, by investors all over the globe. If the shares of a listed property company were subject to additional supervisory requirements, such as imposed by the AIFMD, this could result in consequences on the sector, the business itself and the efficient functioning of the public market. Investors would be confused since a clear profile of a fund product would disappear.

The inclusion of the listed sector within the scope of the AIFMD has been widely criticised by stakeholders since existing legal provisions provide a sufficient regulatory framework to address the concerns of investors who participate in companies whose shares are traded publicly. The AIFM Directive contains several carve-outs which may be taken as starting points to help develop appropriate approaches for the exclusion of the listed companies from the scope of AIFMD on the national level. It seems desirable that a conceptual clarification will be introduced by the European Legislator through a set of unambiguous and concise Level 2 implementing measures, which facilitate viable regulatory solutions for the listed sector.

FOSTERING CONSTRUCTIVE ENGAGEMENT WITH THE REAL ESTATE RESEARCH COMMUNITY

A new EPRA Research Committee has recently been formed drawing on inputs from both academic and private sector researchers. A key objective of the committee is to formalise and improve the channels of engagement between EPRA and the Global Real Estate Research Community.



Since its inception EPRA has prioritised active engagement with this community via initiatives such as the academic circle and through a significant number of research relationships with individual researchers. However, much of what has happened has been largely spontaneous in character.

As the activities of EPRA have expanded, it has become necessary to take such relationships to a new level as a means of securing optimal research engagement for the EPRA membership and ensuring that the research priorities of the listed sector are accurately addressed. Within this context the research committee has set itself a number of tasks as a means of achieving such goals.

Firstly, to formulate a three-year research agenda which serves both to formalise current research and which clearly communicates EPRA's research priorities to the wider real estate research community. This involves a number of specific elements.
(a) Taking stock of both past and current research projects which have had an EPRA involvement and from this developing an accurate assessment of what we know and where the significant knowledge gaps exist.
(b) Identifying relevant research priorities which can be further refined through a wider consultation with the EPRA membership possibly at the annual conference
(c) Putting in place a supporting research infrastructure in terms of a clear code of ethics and formal ground rules for the EPRA research programme
(d) Communicating the research agenda to the wider research community and targeting research.

This is the most immediate and pressing task for the EPRA research committee

Secondly, to identify appropriate forums for communication and engagement, specifically in terms of direct inputs to EPRA events such as the annual conference but also at wider industry, academic, educational and governmental platforms. In the academic realm the committee has discussed the possibility of sponsoring a special edition of an appropriate research journal as a mechanism for raising the status and profile of EPRA research within the academic research community.

Thirdly, to engage with a range of organisations with common research interests as a means of being aware of research initiatives elsewhere and also to identify synergies and opportunities for cooperation. This list would obviously include NAREIT and APREA but should extend to INREV, IPD, the Investment Property Forum (IPF) and the both the European Real Estate Society (ERES) and its six sister societies

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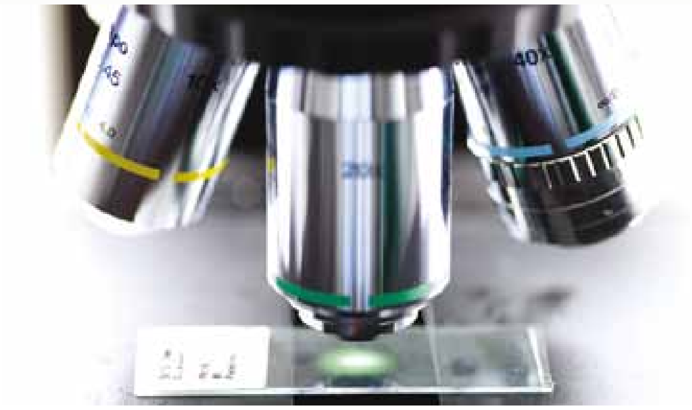

through the International Real Estate Society (IRES).

Fourthly, to launch a limited number of EPRA early career research fellowships as mechanism for supporting young researchers develop research related to the EPRA Research Agenda. At a wider level such an initiative would serve to raise the profile of EPRA and its research programme with the next generation of real estate researchers. It may also deliver in terms of yielding fresh thinking and innovative approaches which address key research priorities.

Finally, to explore the possibility of launching a competitive EPRA-branded summer internship programme as a mechanism for raising the profile of EPRA and its members with the current generation of real estate students in Europe's top real estate schools.

As the activities of EPRA have expanded, it has become necessary to take our research relationships to a new level as a means of securing optimal research engagement for the EPRA membership and ensuring that the research priorities of the listed sector are accurately addressed.

This is likely to deliver significant benefits to EPRA in terms of raising its profile with a cohort from which the real estate sectors future leaders and practice innovators are likely to emerge. While not directly research-related, the committee is well placed to successfully execute such an initiative given the educator expertise contained within it.

While these goals are inevitably ambitious, they are nevertheless achievable. Collectively they will serve to raise the profile of EPRA and its research programme and ultimately deliver best practice cutting-edge research to its membership.

Éamonn D'Arcy is the CB Richard Ellis Fellow in International Real Estate in the School of Real Estate and Planning at the Henley Business School, University of Reading and chair of the EPRA research committee. He was recently elected to the EPRA Board of Directors and has served on the board of the European Real Estate Society (ERES) for over ten years. He is also the current president of the International Real Estate Society (IRES).

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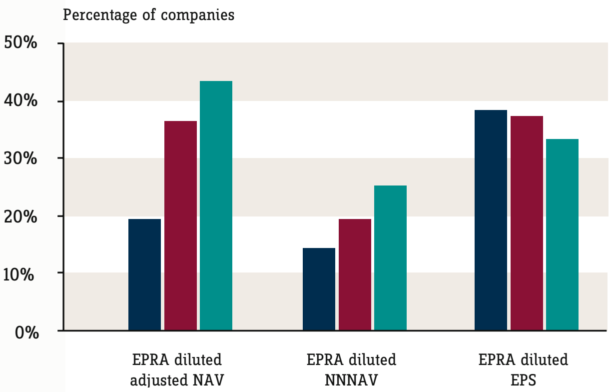
NEW ADDITION TO EPRA FINANCE TEAM

In late-2010 EPRA was pleased to announce the addition of Mohamed Abdelrahim, our new Finance Manager to join EPRA's Reporting and Regulation team, led by EPRA Director, Gareth Lewis.



Mohamed Abdelrahim joins EPRA from Orco Property Group, an EPRA member based in Luxembourg. His appointment is in recognition of the growing importance of the EPRA Best Practices Recommendations (BPR) and EPRA's representative activities towards the IASB/FASB and other regulators. Mohamed's main responsibilities are managing and promoting the EPRA BPR as well as EPRA's continued efforts to protective and enhance the reporting environment for the listed property sector.

Mohamed was raised in Brussels and is fluent in French and his native Arabic. He has a Bsc. Management (Int. Business Economics) from the Manchester Business School and a Chartered accountant (ACA) qualification from Deloitte, London. He says: "I am delighted to be back in my home-town of Brussels and to be part of the EPRA team working with industry leaders and representing our members."

Since joining EPRA, Mohamed Abdelrahim has already been heavily involved in EPRA's response to the Leases Exposure Draft and EPRA's recent drive to simplify and improve the BPR - responding to queries, meeting CFOs and investors. According to Mohamed: "Since EPRA undertook the extensive exercise in 2010 to simplify the BPR and focus on industry KPIs, we've received very positive feedback. There are clear indications that in the 2011 reporting season we will see a big step-up in the number of companies applying the BPR for the first time, improving their BPR disclosure and adopting the agreed performance measures."

Over the coming months Mohamed will be putting the finishing touches on additional BPR guidance which provides further background on the BPR, FAQs and best practice examples. It is clear from meetings with members and advisors that this guidance will be greatly appreciated and it is hoped that an initial version will be on the EPRA website very soon.

On the lobbying side, Mohamed was involved in EPRA's response to the Lease ED, which he helped to finalise, and the recent submission to the boards on Transition Issues and Effective dates. The response on transitions issues aims to provide further concessions for companies covered by the new lease accounting. He continues to follow IFRS developments and liaise with members and advisors on important reporting issues that may be of concern.

The BPR Additional Guidance will help users in apply the BPR.

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MY WORD IS MY BOND

In 2009, companies in the FTSE EPRA Europe Index raised a record EUR 8 billion equity in difficult capital markets - this attracted a lot of attention for the listed sector. Now bonds are turning heads as the dust settles.

The dramatic equity activity of 2009 was the first time since the launch of the FTSE EPRA Europe Index that more capital was raised through the equity market compared against the corporate bond market. (Figure 1). Last year property companies returned to the 'norm' by again tapping the corporate bonds market. Due to continued difficulty in the debt markets, we expect companies to issue corporate bonds going forward, and subsequently take up a higher proportion of the balance sheet than historically. As the majority of debt issued in 2006-2007 is set to mature while restrictive regulatory measures take effect. In addition, we see increased interest in the corporate bond market and we expect secondary liquidity to deepen in the future.

On a global level, USD 183 billion of corporate bonds are outstanding for FTSE EPRA/NAREIT Global Index constituents - this relates to 1,153 issues as of February 2011. The developed market companies have issued the bulk of the amount and account for 93%. On a regional level, Americas corporate bonds is 61%, while Asia (22%) and EMEA (17%) combined is just under 40%.

Compared with outstanding equity of the three regions, the EMEA proportion is fairly similar and accounts for 14%. The Americas, collectively, represent a significantly higher share in outstanding debt compared to equity. One could conclude that the corporate bonds market of North America is relatively more advanced as compared against other regions.

Bond markets solid - globally

Issues that are heavily over-subscribed are strong signals that corporate bonds and convertibles continue to comprise an important proportion of the liabilities on the balance sheet. Bond issues by property companies are continuing to attract interest and have been making the headlines over the past 12 months.

Issues that are heavily over-subscribed are strong signals that corporate bonds and convertibles continue to comprise an important proportion of the liabilities on the balance sheet.

Figure 1 - Capital raised EPRA Europe USD

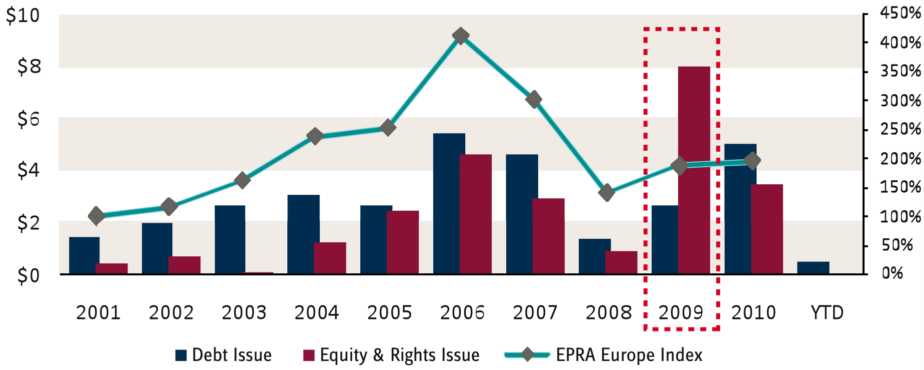


Table 1

ISSUER DESCRIPTION	SERIES	COUNTRY	REGION	FACE OUTSTANDING (USD)
WESTFIELD GROUP	Developed	Australia	Asia Pacific	$ 1,400,000,000.00
WESTFIELD GROUP	Developed	Australia	Asia Pacific	$ 1,400,000,000.00
SIMON PROPERTY GROUP LP	Developed	United States	Americas	$ 1,250,000,000.00
HCP INC	Developed	United States	Americas	$ 1,200,000,000.00
ALDAR PROPERTIES PJSC	Emerging	UAE	EMEA	$ 1,021,102,500.00
KLEPIERRE SA	Developed	France	EMEA	$ 954,380,000.00
HAMMERSON PLC	Developed	United Kingdom	EMEA	$ 954,380,000.00
CAPITALAND LTD	Developed	Singapore	Asia Pacific	$ 941,640,000.00
KLEPIERRE SA	Developed	France	EMEA	$ 939,518,940.00
CAPITALAND LTD	Developed	Singapore	Asia Pacific	$ 941,640.000.00
SIMON PROPERTY GROUP LP	Developed	United States	Americas	$ 900,000,000.00

Table 2

ISSUER DESCRIPTION	SERIES	COUNTRY	REGION	FACE OUTSTANDING (USD)
KLEPIERRE SA	Developed	France	EMEA	$ 954,380,000.00
HAMMERSON PLC	Developed	United Kingdom	EMEA	$ 954,380,000.00
KLEPIERRE SA	Developed	France	EMEA	$ 939,518,940.00
UNIBAIL RODAMCOSE	Developed	France	EMEA	$ 865,759,000.00
UNIBAIL RODAMCOSE	Developed	France	EMEA	$ 865,759,000.00
KLEPIERRE SA	Developed	France	EMEA	$ 818,040,000.00
UNIBAIL RODAMCOSE	Developed	France	EMEA	$ 783,955,192.24
GECINA	Developed	France	EMEA	$ 681,700,000.00
GECINA	Developed	France	EMEA	$ 681,700,000.00
UNIBAIL RODAMCOSE	Developed	France	EMEA	$ 681,700,000.00

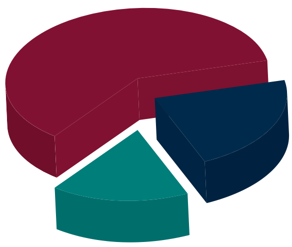
In the US, HCP REIT raised the largest ever amount by a property trust in unsecured notes in January. The senior unsecured notes achieved net proceeds of USD 2.4 billion and an average yield of 4.8%. Simon Property's USD 500 million offering was upsized to a USD 1 billion, on the back of demand from an unusually wide range of institutional investors. Last month, in Asia, the margin over government bonds dropped to 26 basis points, from 230 bps in April 2009 for J-REITs bonds. It should be noted that the Japanese REIT sector was, and continues to be, heavily backed by the government. Comparable premium for US REITs has narrowed to 199 basis points from 1,079 in the same period European firms raised their highest amount since 2006 in corporate bonds last year. Gecina raised EUR 500 million in a single issue - offering a coupon of 4.25% with a maturity of five years in January 2011. The issue was over-subscribed by more than six times, and highlighted the healthy interest in real estate backed debt.

The story is no different in the emerging markets, where the current amount outstanding for FTSE EPRA/NAREIT Global Emerging Markets stocks is USD 12 billion. Growthpoint Properties of South Africa raised ZAR 500 million with the first corporate bond to be issued by a local property company to finance the largest single property deal in South Africa. The issue, consisting of senior unsecured bonds with four-year maturity was nearly four times over-subscribed.

Bond capital

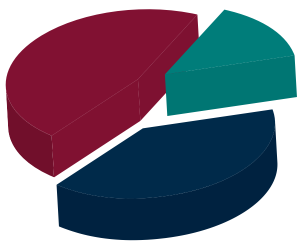
A result of the financial crisis is lower leverage ratios of the property sector. At the same time the traditional lenders - namely banks - have become more conservative and selective. Although the European listed sector with its current LTV of 46% coupled with strong management teams may enjoy preference, the banks may be more restrictive. Basel III, effective in 2012, will raise capital requirements for banks which could result in higher costs for the borrower. Financing through bonds can extend the loan maturity; some bonds reach a 50-year duration, compared against a much shorter average commercial loan duration. Fixed coupons issues enable companies to 'lock-in' attractive rates.

Piechart 1 - Bonds outstanding amount USD



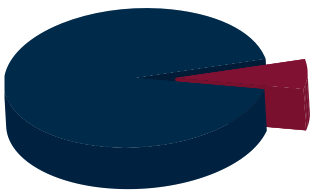
● Asia 22% ● EMEA 17% ● Americas 61%

Piechart 2 - Freefloat Market Cap USD



● Asia 39.02% ● EMEA 14.1% ● Americas 61%

Piechart 3 - Bonds Outstanding Amount USD



● Developed 93% ● Emerging 7%

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Figure 2 - Capital Raised by US REITs (USD)

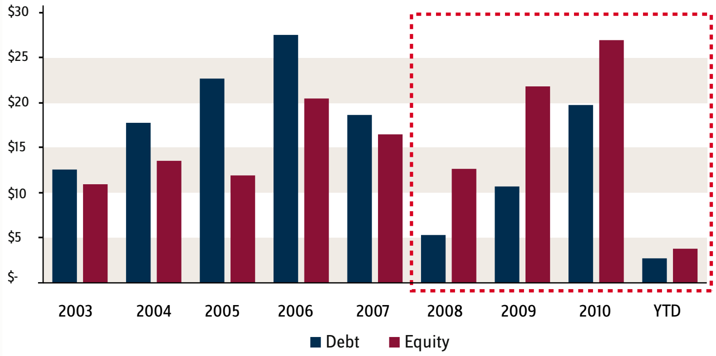
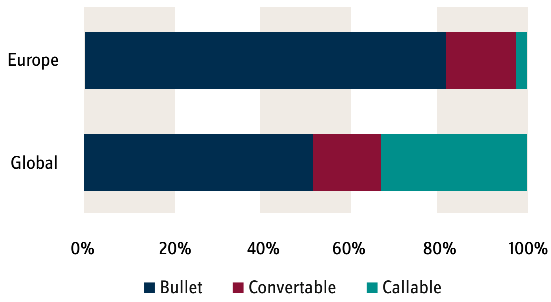


Figure 3 - Outstanding amounts in EMEA bonds - USD



Not surprisingly, according to the EPRA capital structure study of listed companies, the primary criteria for selecting one source of capital over another is cost. Financing assets and developments with available free cash comes above all other types of finance. Following this, companies prefer to raise cash by selling assets. Thirdly, property companies look at raising new debt. Issuing new shares to raise equity is number fourth preferred method. This pecking order explains the situation in 2009.

Relative market stabilisation in 2010 also restored the norm for the European property sector - EUR 5.5 billion was raised compared to EUR 3.5 billion in equity. Interestingly, US REITs continue to raise more in equity than debt. The CMBS market played a bigger role in the US and still has to recover (perhaps it will never recover!) to the pre-crisis level.

Companies in the EMEA region have bonds outstanding worth EUR 30 billion with Developed markets comprising the vast majority. Table 2, Regional heavyweights, France and UK, make up 75% of the total amount outstanding. All of the top ten company slots are occupied by UK and French REITs.

Investor side - stability

From an investor's viewpoint, REIT bonds offer an interesting set of opportunities. Stable returns in the form of coupons and a known maturity date represent an efficient method for gaining exposure to prime European assets. In addition, protection from interest rate hikes can be secured by opting for floating-rate bonds.

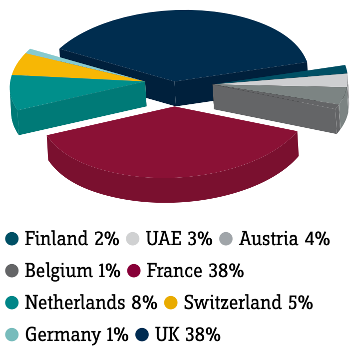
Callables are less preferred by investors as their issuers are able to call in outstanding bonds in favourable conditions, when market lending rates fall at the expense of the bonds holders. The amount of callable bonds issued by EPRA Europe is only 2% - in stark contrast to the global average of 33%. Finally, 16% of bonds issued are in the form of convertibles, leading to an equity stake at maturity. The average maturity in Europe for bond issued last year was ten years.

The Solvency II directive (effective 2013) will have an adverse effect on the equity investors. Solvency II will require insurers and (possibly) pension funds to keep a buffer (cash or gilts) of 40 cents for every EUR 1 invested in shares. Bond investments in the same companies are not included in this legislation.

Bonded the REIT way

EPRA Europe constituent companies have an average LTV of 43%, and only 10% of outstanding total debt maturing in the coming 12 months. Strong recurring cash flows, robust balance sheets and the ability to access capital all stack up well for listed property companies. Whether REIT bonds fall under fixed income or real estate allocations, all depends on the investor. Looking at both, the investor and issuer side, the corporate bonds market will be very interesting in the midst of today's evolving financial regulations.

Piechart 4 - Outstanding amounts in EMEA bonds - USD



Ali Zaidi joined the research team on October 2007. His initial projects were working on the emerging market indices for the FTSE EPRA/ NAREIT Global Real Estate Index and the European Corporate Governance report. Zaidi holds a BA in Economics and Business and completed his MSc in International Finance at the University of Amsterdam.

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HYBRID MODELS FOR PROPERTY INVESTMENT

The global property[1] market provides investment opportunities to supplement a domestic property investment portfolio when compared with other assets. Investing in non-domestic property provides access to a larger range of property sectors; diversity of reputable tenants as well as accessing non-aligned underlying growth factors of international economies.

Through investment in global property, investors can gain further exposure and diversification benefits as individual countries or regions follow different economic cycles. Since real estate cycles do not typically evolve in tandem between countries, investing on a global basis expands the investment opportunities from a purely domestic focus.

An Australian case study

The following article outlines the current metrics of the Australian property market; examines the historical performance of unlisted and listed property markets within Australia; considers the merits and drawbacks of an unlisted approach to property investment, and outlines the advantages associated with the inclusion of listed property within a direct property portfolio - a hybrid, or blended property model. An outlook for Australian listed property is provided which serves as a broad indicator of global listed market trends.

Australian property market

The Australian property market accounts for around 2% of global investment grade property[2]. It has total assets of approximately $256 billion and is constituted across a range of vehicles including unlisted property funds, syndicated investment structures as well as a well-developed listed property market[3].

Table 1 shows the sector breakdown for Australian direct and Australian listed property. The global property sector breakdown is also shown and highlights the significant weights across all sectors.

Australian direct property is heavily weighted towards retail and office with a smaller allocation to industrial and specialist sectors.

Demand in Australia

Demand in Australia for property stems in part from high superannuation savings brought about by Australia's compulsory superannuation savings scheme. The allocation

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Table 1 – Sector breakdown – asset type

SECTOR	GLOBAL DIRECT PROPERTY (%)	AUST DIRECT PROPERTY (%)	AUST LISTED PROPERTY (%)
Retail	33	47	61
Office	35	42	23
Industrial	17	9	14
Residential	10	-	-
Mixed Use / Other*	5	2	2
Total	**100**	**100**	**100**

Source: ING REIM, 2009; PCA, 2010; UBS, 2010

*Mixed Use / Other – includes hotel/leisure, agriculture, development sites, car parks, petrol stations

to property by Australian superannuation investors is around 9.5% of total superannuation assets or $117 billion as at June 2010. Institutional investment in Australian property represents in excess of 50% of the available investment grade property.

Australian unlisted property

Traditionally, Australian unlisted property has shown synthetically low correlations with other asset classes, provided relatively stable capital reflecting low volatility of returns – though in part attributable to the relative infrequency of valuations, and represented an effective means for diversification within a real estate investment portfolio.

Drawbacks

However, direct real estate, particularly in an unfamiliar non-domestic jurisdiction, carries some limitations and disadvantages.

Liquidity will always be a constraint as is the reversion risk of the timing of scheduled fund horizon. Rollover risk exists also – there is no certainty that the unit-holder majority aligns with an individual investor's requirements regarding the rollover or fund termination and consequent liquidity. There are often foreign investor restrictions which can act as an impediment. Local knowledge is critical in real estate management and appropriate local representation is important.

REITs provide investors with daily unit pricing, high liquidity as well as quarterly dividend payments, typically providing a strong income boost to investment portfolios.

Australian listed property

Investors accessing the property marketplace through allocations to listed property have sought relatively stable earnings alongside capital security. REITs provide investors with daily unit pricing, high liquidity as well as quarterly dividend payments, typically providing a strong income boost to investment portfolios.

Some institutional investors seek to exploit the dividend paying nature of REITs via dividend yield plays. This is typified by investors purchasing REIT stocks just prior to the payment of a distribution, with a view to capturing the income and selling the stock post-distribution. The strategy is centred on the premise that the stock price will in some cases fall by less than the value of the distribution. >

The wide ranging accessibility of REIT investments through stock exchanges combined with the liquid nature of listed vehicles has enabled the creation of indexed property products which track the performance of the benchmark - ie, ETFs. This form of investment is currently not possible in Australian unlisted property markets.

Liquidity premium

The pricing of listed securities is subject to a range of factors including capital management activities of REIT managers, variance between market expectations of expected earnings and actual earnings as well as investor sentiment. Although liquidity is available, investors in REITs can be faced with a variable liquidity premium - as evident in listed markets throughout the recent financial crisis.[4]

Outlook for AREITs

Following the successful major recapitalisation of the sector, as well as reductions in debt, the AREITs currently offer attractive income yields while trading closer to NAV (circa 7% discount as of December 2010).

With valuations stabilising, AREITs are positioned to reduce current discounts moving in 2011. However, some see a lack of investor confidence in the AREIT market to deliver on direct property market returns combined with the negative spill over effects of the broader equity markets means discounts to NTA could continue in 2011. In addition, managers facing high interest costs will require further debt reductions as well as asset sales to achieve to bolster earnings.

AREITs vs. Australian unlisted property

Correlations of returns

Table 3 details the unlagged correlation of returns from Australian direct property with the returns from Australian listed property for periods over 30 years to January 2011.

On the basis of these data, the relationship between the returns from Australian unlisted property and Australian listed property is weak, with correlations diminishing over lengthier terms. For investors seeking to enhance risk-adjusted returns, investing in assets that do not exhibit the same pattern of performance effectively reduces volatility of a total portfolio.

A hybrid model

A hybrid model for property investment incorporates allocations to both listed and unlisted property. It allows investors to access the benefits associated with each form of property investment, whilst reducing the drawbacks typically experienced within each asset class. By allocating a proportion of a portfolio to listed property, the liquidity constraints arising from the corresponding allocation to direct property can be offset. Meanwhile,

Table 3 – Global property correlations

ASSET CLASS	AUSTRALIAN UNLISTED PROPERTY				
	5 YEARS	10 YEARS	15 YEARS	20 YEARS	30 YEARS
Australian Listed Property	0.26	0.31	0.30	0.20	0.14

Source: S&P/ASX, 2011; Atchison Consultants, 2011

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Table 4 – Asset allocation analysis – global direct and global listed

	P1 (%)	P2 (%)	P3 (%)	P4 (%)	P5 (%)	P6 (%)
Australian Unlisted Property	0	10	20	30	40	50
Australian Listed Property	100	90	80	70	60	50
Total	100	100	100	100	100	100
Expected Return	6.8	6.8	6.9	6.9	7.0	7.0
Volatility	4.3	4.1	4.5	5.3	6.4	7.6
Change in Return (% From P1)	-	0.7	1.4	2.2	2.9	3.6

Source: Atchison Consultants, 2010

the overall volatility arising from the listed contribution will be dampened by the allocation to unlisted property. In this way, listed and unlisted property will work to complement each other within an investment portfolio.

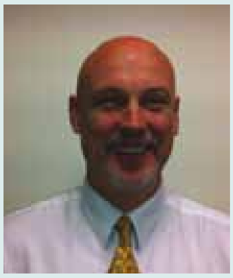
To illustrate, optimisation analysis has been undertaken evaluating the impact of introducing an Australian listed property allocation into a range of investment portfolios. Table 4 shows returns and volatility of returns for six alternate portfolios using historical returns and volatility of returns based on 20 years historical data to December 2010. Australian unlisted property returns have been modelled using the Mercer Unlisted Property Funds Index while Australian listed property returns have been modelled using the S&P / ASX 200 A-REIT Accumulation Index.

Table 4 shows on an historical basis that by allocating a proportion of a representative unlisted property portfolio to listed property, there is a positive impact on the expected return of the portfolio. Portfolio P4 has a 30% allocation to listed property which leads to a 2% increase in the return potential compared to the unlisted only Portfolio P1.

Volatility of returns increases with increased allocations to Australian listed property. However this is attributable to the inherent nature of the pricing of listed securities which are valued daily and influenced by a range of market factors including sentiment and expectations. The relative volatility of unlisted property is lower as a result of the lower frequency of smoothed valuation in addition to the absence of contribution from market factors.

Through the inclusion of listed property in an unlisted real estate portfolio, investors will achieve increased liquidity; enhanced diversification benefits, regular cash dividends in addition to gaining access to a broader range of investible forms of property.

[1] For the purposes of this paper, global property denotes investment grade non-domestic real estate.
[2] Source: EPRA, 2010
[3] Listed property accounts for approximately 21% of Australia investment grade real estate.
[4] At the end of 2007, AREITs were trading at a discount to NAV of 5%, but diminished earnings expectations and weakening property values resulted in a 30% discount 12 months later. The price of liquidity increased substantially as market fundamentals deteriorated.



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Over a 20-year career as a professional, Mark Wist has developed expertise in investment analysis and evaluation, investment consultancy, research, asset management, property valuation, risk assessment & governance, corporate advisory, strategy creation/implementation, fund manager appraisal, construction/project management and due diligence analysis specialising in real estate. He is a Chartered Surveyor and Registered Valuer.

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Tony Singh
Tony Singh joined Atchison Consultants as an Investment Analyst in October 2009. Tony provides research and analysis pertaining to property investment and financial markets. Prior to this Tony was a research analyst with Melbourne based marketing firm The Klein Partnership. He completed a Bachelor of Business (Economics and Finance) (Applied) from RMIT University.

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Diary OUTREACH FAR EAST

As part of our ongoing efforts to highlight the potential of the European listed property sector, EPRA's Fraser Hughes and Philip Charls completed an end-of-year investor tour in the Far East.

Tuesday, December 07

The team first met with the ARES International Committee (the Japanese property association) to support our engagement with Japanese pension funds. This was the preamble to an EPRA presentation to over 50 pension funds and 300 delegates highlighting the benefits of the listed real estate market. As always, take up of the FTSE EPRA/NAREIT indices continues to grow, with a particular demand for insight into Europe's fundamental data such as NAV vs. Price and LTV.

Wednesday, December 08

A further 60 delegates from investment management companies were addressed as part of a combined EPRA/FTSE/Northfield event. Designed to attract fund managers and product developers, feedback was excellent and there was a clear need for the EPRA offering and education of the European sector.

CIC - Excellent relationship-building, and a commitment to review European investments.

Thursday, December 09

On to Beijing, China, the EPRA duo joined with Ian Marcus of Credit Suisse and their local investment heads Lian Yi and Sun Jianyong. Of note was an interest in the historic performance aspects, e.g. yields, listed vs. other asset class, and the relationship between the direct and listed market. China Investment Corporation was our next host - one of the world's largest SWFs. Excellent relationship-building, and a commitment to review European investments.

Friday, December 10

The Korea National Pension System (KNPS) enjoyed our attentions - a top-then global pension fund by AUM. Again, education was sought on the relationship between the direct and listed market. KNPS was followed by the Korea Investment Corporation (KIC).

Note to self: Next push to represent European listed sector out East - April 2011.

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ANALYST ROUND-UP – ARE YOU COVERED?

The following table shows the coverage list as it currently stands. Please note that stocks can be added or deleted to coverage lists and subsequently this table, in its current form, has a limited shelf-life. However, we encourage banks to update us directly with their coverage list, enabling EPRA publish an accurate list on: www.epra.com.

The scope is the FTSE EPRA/NAREIT Europe Index constituents by European bank's research/analyst teams. We obtained coverage lists from the major banks active in sector directly and searched on various data vendors and company websites for analyst coverage of individual companies. In addition, we also contacted company investor relations departments directly - response was very good. This article aims to provide an update of this survey.

Overview

In terms of the numbers of companies covered the analyst community, we cover the 83 index constituents. Since last year's edition, Dutch bank Kempen & Co, with the launch of their UK coverage, has takes the lead in terms of absolute number of companies covered: 48. Goldman Sachs, JPMorgan and Bank of America Merrill Lynch come in at second place with 34 property companies under coverage.

Currently, of the 83 European real estate companies that are included in the FTSE EPRA/NAREIT Developed Europe Index, only one is not being tracked by an analyst: UK-based Daejan Holdings. This is an improvement over last year, when four out of 79 constituents were not covered. In terms of market capitalisation, this means that currently 99.82% of the index is covered, as compared to 99.53% last year.

Conclusion

We have seen regular demand for the analyst coverage since the last time we produced the analyst coverage matrix 12 months ago. Subsequently, we have updated the list and plan to maintain a 'live' service on the new version of www.epra.com to be launched in the coming months.

We encourage banks and the companies themselves to update us on a regular basis to ensure our overview is accurate - whether or not they are index constituents.

Call to Action:

- Companies: who covers you?
- Banks: who do you cover?

Do update us regularly on:
ltb@epra.com

Laurens te Beek
Laurens te Beek holds a BA in Business Economics and a MSc in Economics from University of Amsterdam. He started his career at Euronext Indices BV where he gained extensive knowledge of the FTSE EPRA/NAREIT Global Real Estate Index. He then worked as an International Analyst at European Investors Inc. In May 2006 Laurens joined EPRA.

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ltb@epra.com
+32 (0)2739 1011

ANALYST COVERAGE TABLE

Company	Country	Full Mkt Cap (EURm)	Index Constituent?	% Free Float Weight	Kempen	Goldman Sachs	JPMorgan	Bank of America Merrill Lynch	UBS	Crédit Suisse	ABN AMRO	Royal Bank of Scotland	Société Générale	Morgan Stanley	Peel Hunt	HSBC	Petercam	Citi	Exane BNP Paribas	Matrix	Aurel Leven Securities	CA Cheuvreux	ING	Green Street Advisors	Macquarie
Unibail - Rodamco	FRA	13,111.68	13,111.68	13.87%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		Y	Y		Y		Y	Y		Y	Y
Land Securities Group	UK	6,303.53	6,303.53	7.09%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y	Y	Y				Y	Y
British Land Co	UK	5,648.34	5,648.34	6.24%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y	Y	Y				Y	Y
Corio	NETH	4,376.79	4,376.79	4.63%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			Y		Y		Y	Y	Y	Y	Y
Hammerson	UK	3,598.69	3,598.69	4.03%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y	Y					Y	Y
Capital Shopping Centres Group	UK	3,808.46	2,856.34	3.13%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y		Y				Y	Y
Segro	UK	2,764.74	2,764.74	2.99%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y	Y					Y	
Klepierre	FRA	5,197.31	2,598.66	2.84%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		Y	Y		Y		Y	Y		Y	Y
PSP Swiss Property	SWIT	2,490.39	2,490.39	2.74%	Y	Y	Y		Y					Y					Y						
Fonciere Des Regions	FRA	4,173.75	2,086.87	2.23%	Y	Y	Y	Y				Y	Y	Y					Y		Y	Y	Y		
Swiss Prime Site	SWIT	2,737.86	2,053.40	2.26%	Y				Y																
Derwent London	UK	1,827.42	1,827.42	2.06%	Y	Y	Y	Y	Y	Y				Y	Y	Y		Y		Y				Y	
Castellum	SWED	1,683.42	1,683.42	1.83%	Y	Y			Y			Y		Y								Y			
Gecina	FRA	5,568.89	1,670.67	1.78%	Y	Y		Y					Y	Y					Y		Y				
Icade	FRA	4,153.30	1,661.32	1.76%	Y	Y				Y		Y	Y	Y			Y		Y		Y	Y			
Wereldhave	NETH	1,521.94	1,521.94	1.63%	Y	Y	Y	Y	Y	Y	Y	Y	Y				Y				Y	Y	Y		
Dt Euroshop Na	GER	1,419.86	1,419.86	1.51%	Y			Y	Y	Y	Y		Y			Y	Y				Y		Y		Y
Great Portland Estates	UK	1,381.01	1,381.01	1.48%	Y	Y	Y	Y	Y	Y			Y	Y	Y	Y		Y		Y				Y	
Eurocommercial Properties	NETH	1,372.74	1,372.74	1.48%	Y	Y	Y	Y	Y	Y	Y	Y					Y		Y			Y	Y	Y	Y
Cofinimmo	BELG	1,315.04	1,315.04	1.42%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			Y		Y				Y		Y
Mercialys	FRA	2,543.88	1,271.94	1.34%	Y	Y					Y	Y	Y			Y	Y		Y		Y	Y			Y
Silic	FRA	1,643.83	1,232.87	1.31%	Y	Y		Y			Y	Y	Y				Y		Y		Y	Y			
Hufvudstaden A	SWED	1,626.38	1,219.79	1.32%	Y	Y			Y		Y	Y										Y			
Fabege	SWED	1,202.42	1,202.42	1.31%	Y	Y			Y			Y		Y								Y			
Shaftesbury	UK	1,195.37	1,195.37	1.31%		Y	Y	Y	Y	Y					Y	Y		Y		Y				Y	
Capital & Counties Properties	UK	1,070.37	1,070.37	1.13%			Y	Y	Y	Y				Y	Y									Y	
Ca Immobilien	OEST	1,066.91	1,066.91	1.13%	Y	Y																			
Sponda Oyj	FIN	1,049.80	1,049.80	1.21%	Y	Y		Y	Y		Y	Y									Y				
Befimmo (Sicafi)	BELG	1,009.92	1,009.92	1.08%	Y					Y	Y	Y	Y				Y						Y		
Conwert Immobilien Invest	OEST	974.31	974.31	1.04%	Y	Y	Y			Y						Y					Y	Y			Y
Vastned Retail	NETH	966.75	966.75	1.01%	Y	Y	Y	Y		Y	Y	Y					Y						Y		
Deutsche Wohnen AG	GER	921.52	921.52	0.93%	Y	Y		Y	Y	Y				Y		Y									Y
Kungsleden	SWED	914.41	914.41	1.00%	Y	Y			Y		Y										Y	Y			
London & Stamford Property	UK	818.18	818.18	0.86%				Y		Y				Y	Y			Y		Y					
Wihlborgs Fastigheter	SWED	764.91	764.91	0.83%	Y							Y													
Gagfah	GER	1,809.45	723.78	0.78%	Y	Y	Y	Y		Y						Y									Y
Allreal Hld N	SWIT	1,425.65	712.83	0.78%					Y																
ProLogis European Properties	NETH	943.44	707.58	0.77%	Y		Y				Y	Y					Y						Y	Y	
Azrieli Group	ISR	2,274.78	682.43	0.75%																					
Beni Stabili	ITA	1,304.62	652.31	0.74%	Y	Y	Y					Y	Y						Y			Y	Y		
Nieuwe Steen Inv	NETH	640.64	640.64	0.69%	Y					Y	Y	Y					Y						Y		
F&C Commercial Property Trust	UK	814.21	610.65	0.66%																					
Norwegian Property ASA	NOR	608.66	608.66	0.67%	Y							Y													
Citycon	FIN	758.15	568.61	0.62%	Y	Y			Y			Y									Y				
Big Yellow Group	UK	489.91	489.91	0.54%		Y	Y	Y						Y	Y			Y		Y					
Klovern AB	SWED	566.12	424.59	0.48%																					
Unite Group	UK	383.33	383.33	0.41%			Y	Y	Y					Y	Y			Y		Y					
Helical Bar	UK	377.10	377.10	0.40%			Y	Y							Y			Y		Y					
TAG Immobilien AG	GER	374.24	374.24	0.43%	Y																				
Grainger	UK	498.91	374.19	0.40%			Y	Y							Y			Y		Y					
Warehouses De Pauw	BELG	493.96	370.47	0.39%	Y						Y						Y				Y		Y		
Workspace Group	UK	345.96	345.96	0.35%			Y	Y							Y	Y		Y		Y					
Societe de la Tour Eiffel	FRA	341.29	341.29	0.36%	Y	Y		Y									Y								
Alstria Office	GER	662.20	331.10	0.36%	Y		Y			Y	Y		Y			Y									
UK Commercial Property Trust	UK	1,101.29	330.39	0.36%																					
Safestore Holdings	UK	306.33	306.33	0.33%	Y			Y							Y			Y		Y					
St.Modwen Properties	UK	402.68	302.01	0.33%			Y	Y							Y			Y		Y					
Development Securities	UK	289.30	289.30	0.30%			Y	Y	Y						Y					Y					
DIC Asset AG	GER	375.93	281.95	0.32%	Y						Y		Y			Y									
Inmobiliaria Colonial S.A.	SP	1,761.31	264.20	0.29%					Y																
Quintain Estates and Development	UK	261.54	261.54	0.28%			Y	Y							Y					Y					
Technopolis	FIN	255.44	255.44	0.27%							Y														
Vastned Off/Ind	NETH	238.08	238.08	0.24%	Y		Y				Y	Y					Y						Y		
Primary Health Prop.	UK	234.50	234.50	0.25%											Y										
ING UK Real Estate Income Trust	UK	205.60	205.60	0.22%																					
Immobiliare Grande Distribution	ITA	453.97	181.59	0.20%			Y						Y						Y			Y			
Colonia Real Estate	GER	174.80	174.80	0.09%						Y						Y									
Minerva	UK	168.63	168.63	0.20%											Y										
Intervest Offices	BELG	330.41	165.20	0.18%							Y														
Daejan Hdg	UK	536.10	160.83	0.18%																					
CLS Holdings	UK	319.52	159.76	0.17%																					
Invista Foundation Property Trust	UK	157.79	157.79	0.17%																					
Wereldhave Belgium	BELG	388.44	155.37	0.17%	Y						Y												Y		
Patrizia Immobilien	GER	294.64	147.32	0.16%			Y									Y									
Zueblin Immobilien Holding AG	SWIT	177.23	132.92	0.15%																					
Eurobank Properties Real Estate Investment Co	GRC	396.50	118.95	0.13%														Y							
Leasinvest	BELG	267.12	106.85	0.12%	Y						Y						Y				Y		Y		
Standard Life Inv Prop Inc Trust	UK	87.23	87.23	0.09%																Y					
Mucklow (A.& J.)Group	UK	209.58	83.83	0.09%					Y						Y										
IRP Property Investments	UK	102.88	77.16	0.09%																					
Affine	FRA	137.03	68.51	0.07%	Y								Y												
ISIS Property Trust Ld	UK	90.33	67.75	0.07%																					
Lamda Develop/R	GRC	170.33	51.10	0.05%												Y									
Total		117,231.27	92,376.93	100.00%	48	34	34	34	30	26	24	23	23	22	22	21	18	17	17	17	16	16	15	14	14
Coverage %																									

Click here for contents page.

ANALYST COVERAGE TABLE

Oriel Securities	Barclays Capital	Berenberg Bank	Evolution Securities	Numis Securities	Rabo Securities	Deutsche Bank	Liberum Capital	Nomura	Nordea Equity	ABG Sundal Collier	DnBNOR Markets	DZ Bank	Panmure Gordon	SEB Enskilda	Bankhaus Lampe	Collins Stewart	Danske Markets	Execution Noble	Handelsbanken	KBC Securities	Singer Capital	Swedbank	Tradition Securities	AlphaValue	Day by Day	Evli Bank	UniCredit Research	Alandsbanken	Carnegie	Commerzbank	Keijser Securities	Kepler Capital	Oehman Fondkommission	Bank Degroof
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ANALYST COVERAGE TABLE

Company	Country	Full Mkt Cap (EURm)	Index Constituent?	% Free Float Weight	Close Borthers	M.M. Warburg	Seymour Pierce	Silvia Quandt	WestLB Equity	Bankhaus Metzler	Charles Stanley	Fairfax	HSH Nordbank	Vontobel Securities	Zuercher Kantonalbank	Arbuthnot Securities	Cenkos Securities	FIM	Metzler	Pohjola Bank	Solventis	Theodoor Gilissen	Baader Bank	Banca Akros	Banco Sabadell
Unibail - Rodamco	FRA	13,111.68	13,111.68	13.87%																					Y
Land Securities Group	UK	6,303.53	6,303.53	7.09%							Y					Y									
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Lamda Develop/R	GRC	170.33	51.10	0.05%																					
Total		117,231.27	92,376.93	100.00%	5	5	5	5	5	4	4	4	4	4	4	3	3	3	3	3	3	3	2	2	2
Coverage %																									

Click here for contents page.

ANALYST COVERAGE TABLE

Equita SIM	Erste Bank	Gilbert Dupont	GSC Research	Mediobanca	Neue Zuercher	Solventis	SRC Research	VFB	AEK	Ahorro Corporation	Alpha Finance	Altium Capital	Arctic Securities	Arden Partners	Avior Research	Banca Leonardo	Banesto Bolsa	BBVA	Brewin Dolphin	Cazenove	CBSeydler	CLAI Finance	CS Capital	DS Securities	Edge Capital Markets	Equinet Institute	Erik Penser	Espiritu Santo	First Securities	GBC Investment Research	Hamburger Sparkasse	I.B.I.	Independent Research	Intermonte
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ANALYST COVERAGE TABLE

Company	Country	Full Mkt Cap (EURm)	Index Constituent?	% Free Float Weight	Investec	Meitav Investment	Migdal Capital	Mirabaud Finance	Natixis	Pareto Securities	Pegasus Securities	PHD AM	Piraeus Securities	Psagot Investment	Raiffeisenbank	Standard & Poor's	TSAF/Viel	Viscardi	Warburg Research	Wood & Company	Puilaetcodewaay		Total
Unibail - Rodamco	FRA	13,111.68	13,111.68	13.87%												Y							30
Land Securities Group	UK	6,303.53	6,303.53	7.09%																			27
British Land Co	UK	5,648.34	5,648.34	6.24%																			26
Corio	NETH	4,376.79	4,376.79	4.63%					Y														26
Hammerson	UK	3,598.69	3,598.69	4.03%																			25
Capital Shopping Centres Group	UK	3,808.46	2,856.34	3.13%																			25
Segro	UK	2,764.74	2,764.74	2.99%																			22
Klepierre	FRA	5,197.31	2,598.66	2.84%													Y						25
PSP Swiss Property	SWIT	2,490.39	2,490.39	2.74%																			10
Fonciere Des Regions	FRA	4,173.75	2,086.87	2.23%																			14
Swiss Prime Site	SWIT	2,737.86	2,053.40	2.26%																			4
Derwent London	UK	1,827.42	1,827.42	2.06%																			20
Castellum	SWED	1,683.42	1,683.42	1.83%																			17
Gecina	FRA	5,568.89	1,670.67	1.78%																			10
Icade	FRA	4,153.30	1,661.32	1.76%																			13
Wereldhave	NETH	1,521.94	1,521.94	1.63%																			19
Dt Euroshop Na	GER	1,419.86	1,419.86	1.51%					Y														32
Great Portland Estates	UK	1,381.01	1,381.01	1.48%																			22
Eurocommercial Properties	NETH	1,372.74	1,372.74	1.48%																			20
Cofinimmo	BELG	1,315.04	1,315.04	1.42%																			16
Mercialys	FRA	2,543.88	1,271.94	1.34%																			15
Silic	FRA	1,643.83	1,232.87	1.31%																			12
Hufvudstaden A	SWED	1,626.38	1,219.79	1.32%																			17
Fabege	SWED	1,202.42	1,202.42	1.31%																			17
Shaftesbury	UK	1,195.37	1,195.37	1.31%																			18
Capital & Counties Properties	UK	1,070.37	1,070.37	1.13%																			8
Ca Immobilien	OEST	1,066.91	1,066.91	1.13%																Y			7
Sponda Oyj	FIN	1,049.80	1,049.80	1.21%																			18
Befimmo (Sicafi)	BELG	1,009.92	1,009.92	1.08%																	Y		9
Conwert Immobilien Invest	OEST	974.31	974.31	1.04%											Y								14
Vastned Retail	NETH	966.75	966.75	1.01%																			12
Deutsche Wohnen AG	GER	921.52	921.52	0.93%																			18
Kungsleden	SWED	914.41	914.41	1.00%																			16
London & Stamford Property	UK	818.18	818.18	0.86%																			10
Wihlborgs Fastigheter	SWED	764.91	764.91	0.83%																			12
Gagfah	GER	1,809.45	723.78	0.78%																			17
Allreal Hld N	SWIT	1,425.65	712.83	0.78%																			4
ProLogis European Properties	NETH	943.44	707.58	0.77%																			8
Azrieli Group	ISR	2,274.78	682.43	0.75%		Y	Y							Y									6
Beni Stabili	ITA	1,304.62	652.31	0.74%																			13
Nieuwe Steen Inv	NETH	640.64	640.64	0.69%																			7
F&C Commercial Property Trust	UK	814.21	610.65	0.66%																			2
Norwegian Property ASA	NOR	608.66	608.66	0.67%						Y													10
Citycon	FIN	758.15	568.61	0.62%																			15
Big Yellow Group	UK	489.91	489.91	0.54%																			10
Klovern AB	SWED	566.12	424.59	0.48%																			12
Unite Group	UK	383.33	383.33	0.41%																			9
Helical Bar	UK	377.10	377.10	0.40%																			6
TAG Immobilien AG	GER	374.24	374.24	0.43%																			8
Grainger	UK	498.91	374.19	0.40%																			8
Warehouses De Pauw	BELG	493.96	370.47	0.39%																			8
Workspace Group	UK	345.96	345.96	0.35%	Y																		14
Societe de la Tour Eiffel	FRA	341.29	341.29	0.36%																			5
Alstria Office	GER	662.20	331.10	0.36%																			19
UK Commercial Property Trust	UK	1,101.29	330.39	0.36%																			2
Safestore Holdings	UK	306.33	306.33	0.33%																			11
St.Modwen Properties	UK	402.68	302.01	0.33%																			6
Development Securities	UK	289.30	289.30	0.30%																			10
DIC Asset AG	GER	375.93	281.95	0.32%														Y					17
Inmobiliaria Colonial S.A.	SP	1,761.31	264.20	0.29%				Y															6
Quintain Estates and Development	UK	261.54	261.54	0.28%																			4
Technopolis	FIN	255.44	255.44	0.27%																			5
Vastned Off/Ind	NETH	238.08	238.08	0.24%																			9
Primary Health Prop.	UK	234.50	234.50	0.25%																			4
ING UK Real Estate Income Trust	UK	205.60	205.60	0.22%																			2
Immobiliare Grande Distribution	ITA	453.97	181.59	0.20%																			7
Colonia Real Estate	GER	174.80	174.80	0.09%																			10
Minerva	UK	168.63	168.63	0.20%																			2
Intervest Offices	BELG	330.41	165.20	0.18%																			4
Daejan Hdg	UK	536.10	160.83	0.18%																			0
CLS Holdings	UK	319.52	159.76	0.17%																			1
Invista Foundation Property Trust	UK	157.79	157.79	0.17%																			2
Wereldhave Belgium	BELG	388.44	155.37	0.17%																			3
Patrizia Immobilien	GER	294.64	147.32	0.16%															Y				9
Zueblin Immobilien Holding AG	SWIT	177.23	132.92	0.15%																			3
Eurobank Properties Real Estate Investment Co	GRC	396.50	118.95	0.13%																			2
Leasinvest	BELG	267.12	106.85	0.12%																			7
Standard Life Inv Prop Inc Trust	UK	87.23	87.23	0.09%																			2
Mucklow (A.& J.)Group	UK	209.58	83.83	0.09%																			3
IRP Property Investments	UK	102.88	77.16	0.09%																			1
Affine	FRA	137.03	68.51	0.07%								Y											4
ISIS Property Trust Ld	UK	90.33	67.75	0.07%																			1
Lamda Develop/R	GRC	170.33	51.10	0.05%							Y		Y										3
Total		117,231.27	92,376.93	100.00%	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1	1		
Coverage %																							

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

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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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MIPIM - The world's property market - 22nd edition
Date: March 08-11, 2011
Palais des Festivals, Cannes, France

MIPIM is the leading marketplace for investors, developers, local government and other real estate professionals, which provide a unique opportunity for industry decision-makers to meet, develop long-term relationships and showcase their latest development projects.

Be part of the real estate industry's most proven business platform to promote your business and showcase your projects to 18,000 active professional from 81 countries, identify profitable ventures, and close deals in four intensive days.

EPRA members attending MIPIM for the first time will benefit from:
- Free entrance to the exhibition area
- Year-round access to MIPIMWorld, our online database and networking tool

This offer is strictly limited to investors and financial institutions and restricted to one person per company per country.

Please check eligibility by contacting Alexandra Benmoussa on: +33 (0141 90 44 36, or at: alexandra.benmoussa@reedmidem.com. A formal invitation will then be sent to you accordingly.

www.mipim.com

MAPIC - The international market for retail real estate - 17th edition
Date: November 16-18, 2011
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MAPIC brings together the key players in retail real estate, in one place and at one time, providing major business opportunities on a global scale. It attracts 7,400 key retail property professionals from 67 countries, among them 2,000 retailers, 750 specialised investors and 100 local authorities

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The world's property market in Asia Pacific
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Access the best business opportunities at the world's leading Asian property market.

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- A showcase of the most lucrative development projects from 46 countries.

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24, 25 & 26 May 2011 Tour & Taxis Brussels

Reality
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Check eligibility by contacting Annelies Dedecker on: +32(0)9241 94 26, or at: annelies.dedecker@artexis.com.

This invitation is strictly limited to investors and financial institutions, and restricted to two persons per company per country.

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ABU DHABI

Cityscape Abu Dhabi
The Cityscape Abu Dhabi Real Estate Investment and Development Exhibition and Summit is set for its fifth edition from April 17-20, at the Abu Dhabi National Exhibition Centre.

The event is a platform for discussion and face-to-face interaction for senior-level real estate investors, developers and professionals. The four-day event includes an exhibition, a summit, workshops and multiple networking opportunities such as the Investor Round Tables, the CEO Networking Breakfast, Networking Lunch, Welcoming Reception and more.

EPRA members have been granted complimentary access to the following 2011 events:
- Cityscape Abu Dhabi Welcoming Reception (April 16)
- Middle East Real Estate Summit (April 17-20)*
- Cityscape Abu Dhabi Exhibition (April 17-20)
- Investor Round Tables (April 17-20)
- CEO Networking Breakfast (April 18)
- Cityscape Awards for Real Estate in the Middle East and North Africa (April 18)
- Cityscape Abu Dhabi Cocktail Party (April 19)
- (Total value USD 1,740)

Visit : www.cityscapeabudhabi.com/epra
for further details on various functions.

Please note: this offer is limited and will be allocated on a first come first served basis. Priority will be given to those who RSVP by March 17. To take up this offer, please send an email with your EPRA membership and contact details quoting "EPRA" to: csinvestorrelations@iirme.com. You will then receive a call or email to process your registration.

* Subject to company profile

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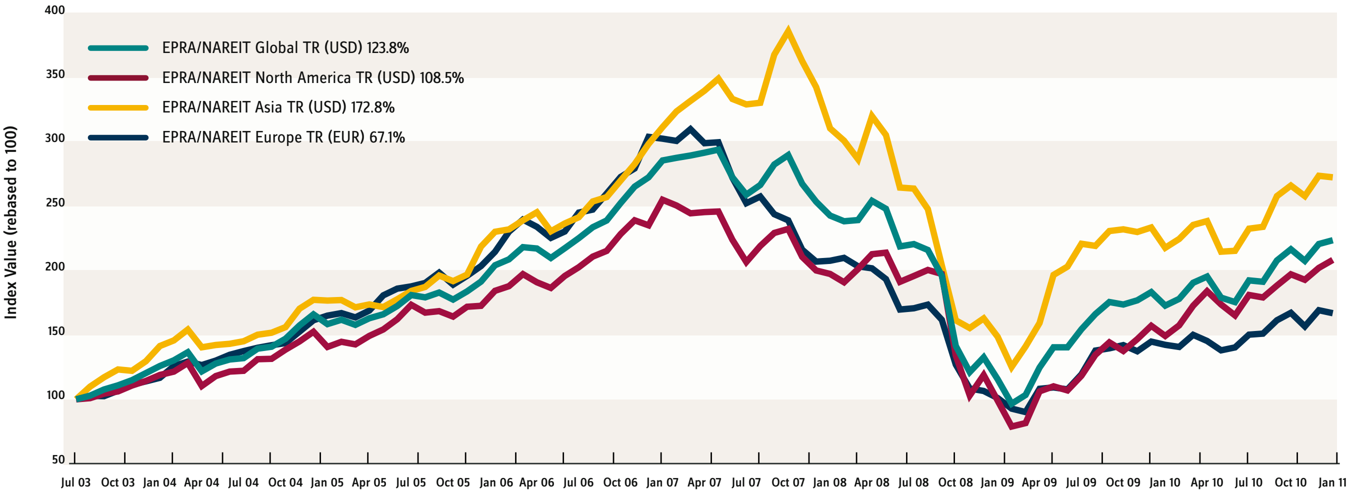
GLOBAL



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Jan)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
↑ Patrizia Immobilien	Germany	Rental	Residential	28.39	28.39	28.39	57.51	4.34	0.00
↑ Minerva	UK	Non-Rental	Diversified	26.18	26.18	26.18	38.89	-10.50	0.00
↑ First Industrial Realty *	USA	Rental	Industrial	16.67	16.67	16.67	99.61	-28.69	0.00
↑ Inmobiliaria Colonial S.A.	Sweden	Rental	Diversified	14.55	14.55	14.55	-61.82	-65.93	0.00
↑ Douglas Emmett	USA	Rental	Office	11.02	11.02	12.23	34.71	-5.02	0.02
↓ City Developments	Singapore	Non-Rental	Diversified	-9.55	-9.55	-9.55	5.97	-NA-	0.01
↓ Fabege	Sweden	Rental	Office	-10.25	-10.25	-7.70	64.77	9.07	0.03
↓ Agree Realty Corp *	USA	Rental	Retail	-11.23	-11.23	-3.51	28.99	-0.28	0.09
↓ Capital Shopping Centres Group *	UK	Rental	Retail	-11.97	-11.97	-11.97	7.25	-14.36	0.04
↓ Japan Prime Realty Inv. *	Japan	Rental	Office	-12.04	-12.04	-7.10	33.86	-3.09	0.06

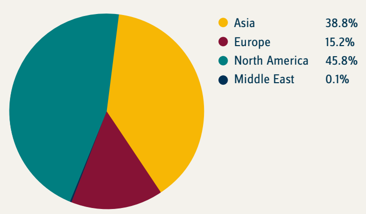
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
1 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	0.70	0.70	2.79	32.30	12.09	0.02
2 Simon Property Group *	USA	Rental	Retail	1.97	1.97	3.50	43.01	8.78	0.03
3 Westfield Group *	Australia	Rental	Retail	2.71	2.71	10.96	12.44	3.06	0.10
4 Mitsubishi Estate	Japan	Non-Rental	Diversified	2.92	2.92	3.72	6.40	-9.99	0.01
5 Mitsui Fudosan	Japan	Non-Rental	Diversified	3.03	3.03	4.39	10.10	-6.71	0.01
6 Unibail-Rodamco *	France	Rental	Diversified	-5.81	-5.81	-0.41	6.83	4.06	0.06
7 Vornado Realty Trust *	USA	Rental	Diversified	5.71	6.54	8.56	39.86	2.82	0.03
8 Equity Residential Props *	USA	Rental	Residential	4.31	4.31	7.70	74.57	16.93	0.03
9 Public Storage *	USA	Rental	Self Storage	7.45	7.45	10.12	41.05	14.35	0.03
10 HCP *	USA	Rental	Health Care	0.82	0.82	4.59	35.73	9.86	0.05

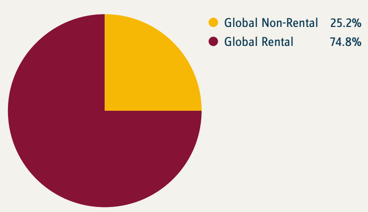
Indices

Index Description	Market Cap (EUR m)	Close Value Jan	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
EPRA/NAREIT Europe TR (EUR)	89,413.34	2120.06	15.45	17.70	-11.24	4.18
EPRA/NAREIT Asia TR (USD)	306,179.92	2352.2	13.95	14.66	-11.67	3.41
EPRA/NAREIT North America TR (USD)	337,107.80	3476.5	25.49	43.36	-5.34	3.69
EPRA/NAREIT Global TR (USD)	768,453.88	2,851.93	18.18	24.74	-9.25	3.65

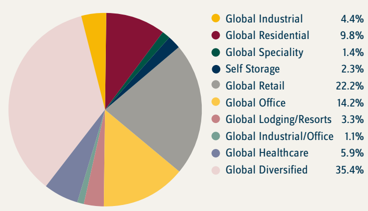
Regional Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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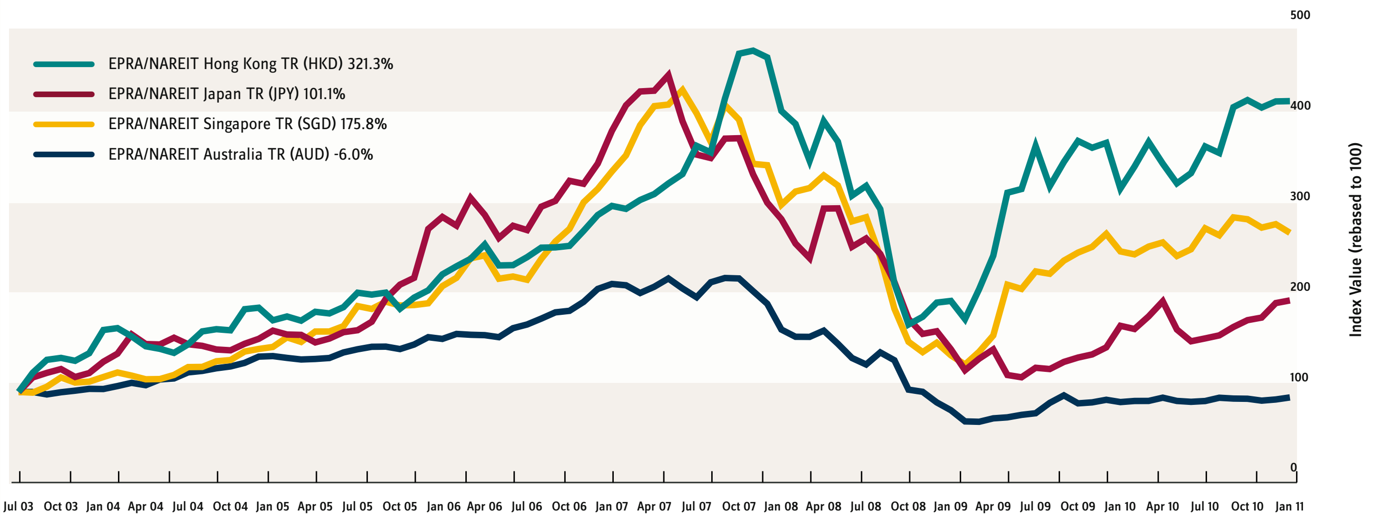


Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Jan)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
↑ Charter Hall Office reiT *	Australia	Rental	Office	9.47	9.47	9.47	5.76	-22.97	5.69%
↑ ING Office Fund *	Australia	Rental	Office	8.11	8.11	15.14	4.75	-5.37	6.50%
↑ United Urban Investment *	Japan	Rental	Diversified	7.90	7.90	26.65	66.76	17.91	4.98%
↑ New World China Land	Hong Kong	Non-Rental	Diversified	7.88	7.88	10.27	35.29	3.02	2.22%
↑ Mori Trust Sogo REIT *	Japan	Rental	Office	7.55	7.55	12.40	11.56	-0.33	5.34%
↓ FKP Property Group	Australia	Non-Rental	Diversified	-7.02	-7.02	-4.21	17.00	-14.59	3.02%
↓ Allgreen Properties	Singapore	Non-Rental	Diversified	-7.63	-7.63	-4.24	-3.42	8.45	3.67%
↓ Yanlord Land Group	Singapore	Non-Rental	Diversified	-8.33	-8.33	-8.33	-12.50	-NA-	1.09%
↓ City Developments	Singapore	Non-Rental	Diversified	-9.55	-9.55	-9.55	5.97	-NA-	0.70%
↓ Japan Prime Realty Inv. *	Japan	Rental	Office	-12.04	-12.04	-7.10	33.86	-3.09	6.23%

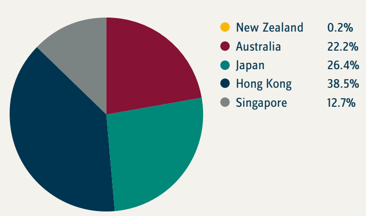
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
1 Sun Hung Kai Props	Hong Kong	Non-Rental	Diversified	0.70	0.70	2.79	32.30	12.09	2.08%
2 Westfield Group *	Australia	Rental	Retail	2.71	2.71	10.96	12.44	3.06	9.55%
3 Mitsubishi Estate	Japan	Non-Rental	Diversified	2.92	2.92	3.72	6.40	-9.99	0.77%
4 Mitsui Fudosan	Japan	Non-Rental	Diversified	3.03	3.03	4.39	10.10	-6.71	1.32%
5 Hongkong Land Hldgs	Hong Kong	Rental	Office	-2.49	-2.49	-0.28	53.52	18.40	2.27%
6 Sumitomo Realty & Dev	Japan	Non-Rental	Diversified	2.68	2.68	3.71	24.83	-4.95	1.00%
7 Wharf Holdings	Hong Kong	Non-Rental	Diversified	-1.51	-1.51	-1.51	52.59	-NA-	1.70%
8 Hang Lung Properties	Hong Kong	Non-Rental	Diversified	-5.91	-5.91	-3.96	31.74	19.73	2.08%
9 Capitaland	Singapore	Non-Rental	Diversified	-2.96	-2.96	-1.48	-5.31	4.15	2.92%
10 Stockland Trust Group *	Australia	Non-Rental	Diversified	0.00	0.00	6.22	2.52	-3.97	6.28%

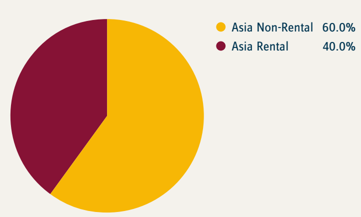
Indices

Index Description	Market Cap (EUR m)	Close Value Jan	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
EPRA/NAREIT Australia TR (AUD)	70,186.87	1308.97	2.45	5.76	-17.76	6.51
EPRA/NAREIT Hong Kong TR (HKD)	944,009.55	2738.6	0.07	29.74	0.88	2.3
EPRA/NAREIT Japan TR (JPY)	679,9203.85	2137.33	1.49	16.20	-11.58	2.42
EPRA/NAREIT Singapore TR (SGD)	51,098.66	1592.74	-3.35	8.03	-3.50	3.08

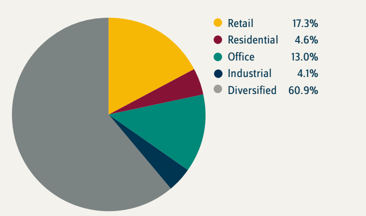
Country Breakdown by Market Cap



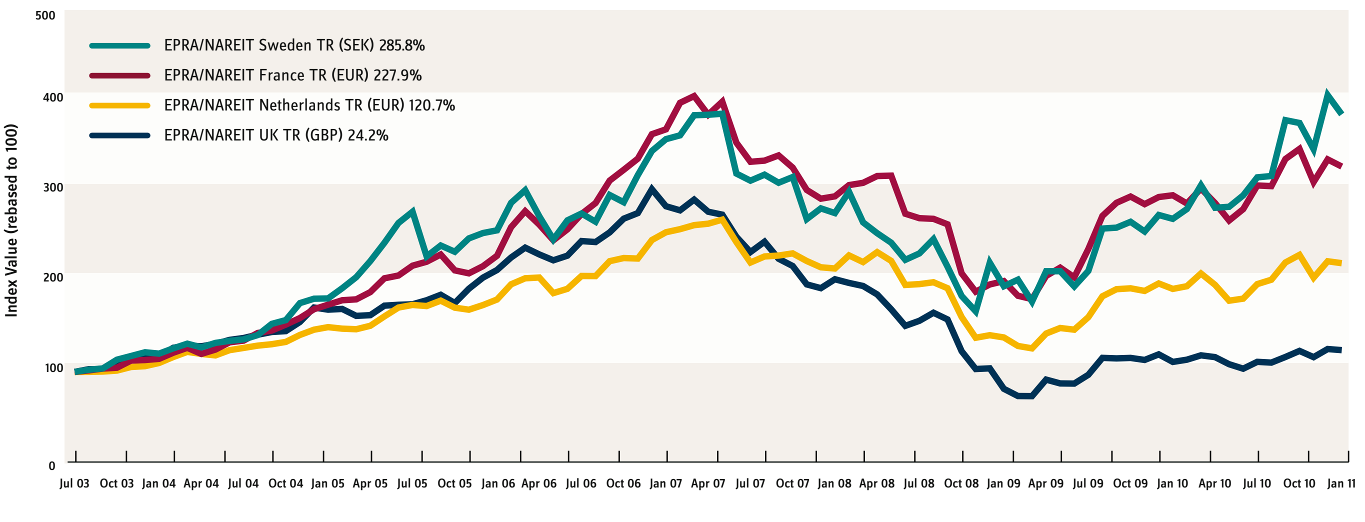
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
EUROPE



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Jan)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
↑ Patrizia Immobilien	Germany	Rental	Residential	28.39	28.39	28.39	57.51	4.34	0.00%
↑ Minerva	UK	Non-Rental	Diversified	26.18	26.18	26.18	38.89	-10.50	0.00%
↑ Inmobiliaria Colonial S.A.	Sweden	Rental	Diversified	14.55	14.55	14.55	-61.82	-65.93	0.00%
↑ Safestore Holdings	UK	Rental	Self Storage	10.19	10.19	14.21	8.57	-0.34	3.46%
↑ Beni Stabili	Italy	Rental	Office	9.95	9.95	12.32	17.81	3.36	2.16%
↓ Quintain Estates	UK	Non-Rental	Diversified	-7.14	-7.14	-7.14	-33.62	-40.87	0.00%
↓ Klovern AB	Sweden	Rental	Diversified	-7.35	-7.35	-3.68	36.46	13.36	3.97%
↓ Hufvudstaden A	Sweden	Rental	Office	-7.83	-7.83	-5.16	36.70	8.31	2.90%
↓ Fabege	Sweden	Rental	Office	-10.25	-10.25	-7.70	64.77	9.07	2.84%
↓ Capital Shopping Centres Group *	UK	Rental	Retail	-11.97	-11.97	-11.97	7.25	-14.36	4.49%

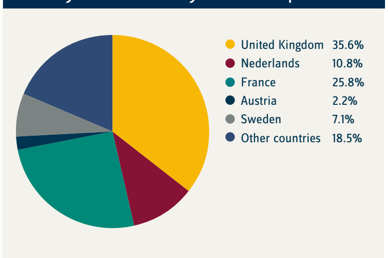
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
1 Unibail-Rodamco *	France	Rental	Diversified	-5.81	-5.81	-0.41	6.83	4.06	5.74%
2 Land Securities *	UK	Rental	Diversified	0.07	0.07	4.23	9.68	-17.57	4.15%
3 British Land *	UK	Rental	Diversified	-1.14	0.10	5.60	24.78	-9.84	5.01%
4 Corio *	Netherlands	Rental	Retail	-0.79	-0.79	4.73	12.91	1.82	5.56%
5 Hammerson *	UK	Rental	Retail	2.88	2.88	6.82	17.52	-13.63	3.65%
6 Capital Shopping Centres Group *	UK	Rental	Retail	-11.97	-11.97	-11.97	7.25	-14.36	4.49%
7 PSP Swiss Property	Switzerland	Rental	Office	-1.67	-1.67	1.93	25.43	10.07	3.66%
8 SEGRO *	UK	Rental	Industrial	4.16	4.16	9.26	-0.34	-27.98	4.73%
9 Klepierre *	France	Rental	Retail	-1.61	-1.61	3.02	3.11	-4.37	4.71%
10 Swiss Prime Site	Switzerland	Rental	Office	-1.72	-1.72	-1.72	21.31	11.71	0.00%

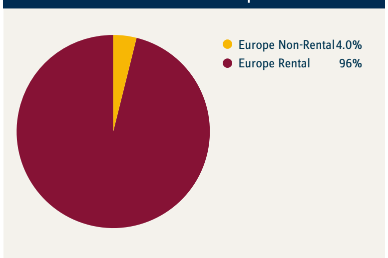
Indices

Index Description	Market Cap (EUR m)	Close Value Jan	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
EPRA/NAREIT UK TR (GBP)	27,457.72	1626.34	-0.98	11.76	-15.09	3.84
EPRA/NAREIT Netherlands TR (EUR)	9745.96	3262.48	-0.96	14.85	0.90	5.83
EPRA/NAREIT France TR (EUR)	23,215.62	4494.55	-2.36	10.77	3.61	5.18
EPRA/NAREIT Sweden TR (SEK)	56,670.14	5994.46	-5.25	42.94	11.77	3.79

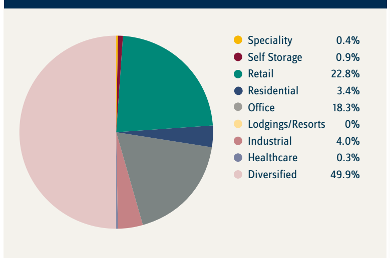
Country Breakdown by Market Cap



Investment Focus Market Cap Breakdown



Sector Breakdown



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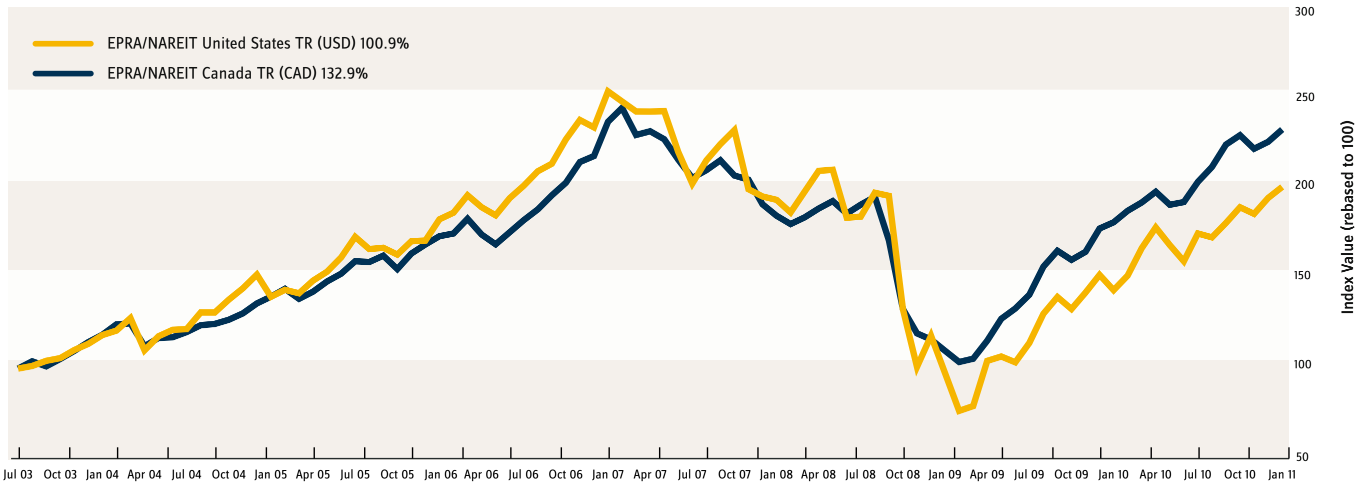
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
NORTH AMERICA



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Jan)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
↑ First Industrial Realty *	USA	Rental	Industrial	16.67	16.67	16.67	99.61	-28.69	0.00%
↑ Douglas Emmett	USA	Rental	Office	11.02	11.02	12.23	34.71	-5.02	2.17%
↑ Extra Space Storage *	USA	Rental	Self Storage	10.52	10.52	14.54	75.59	13.15	2.08%
↑ Duke Realty Corp *	USA	Rental	Office Mixed	9.95	9.95	14.04	25.53	-10.58	4.96%
↑ Hospitality Properties *	USA	Rental	Lodging/Resorts	7.94	9.90	11.85	16.50	-5.28	7.24%
↓ Campus Crest Communities	USA	Rental	Residential	-5.85	-5.85	-4.94	#DIV/0!	-NA-	0.96%
↓ Pennsylvania Real Estate *	USA	Rental	Retail	-5.99	-5.99	-2.89	57.48	-13.70	4.39%
↓ Orient Express Hotel	USA	Rental	Lodging/Resorts	-6.39	-6.39	-6.39	24.59	-38.17	0.00%
↓ Getty Realty *	USA	Rental	Retail	-7.16	-7.16	-1.09	43.44	9.67	6.61%
↓ Agree Realty Corp *	USA	Rental	Retail	-11.23	-11.23	-3.51	28.99	-0.28	8.77%

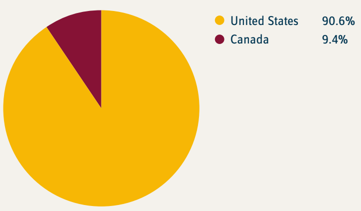
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
1 Simon Property Group *	USA	Rental	Retail	1.97	1.97	3.50	43.01	8.78	3.15%
2 Vornado Realty Trust *	USA	Rental	Diversified	5.71	6.54	8.56	39.86	2.82	3.13%
3 Equity Residential Props *	USA	Rental	Residential	4.31	4.31	7.70	74.57	16.93	3.38%
4 Public Storage *	USA	Rental	Self Storage	7.45	7.45	10.12	41.05	14.35	2.94%
5 Boston Properties *	USA	Rental	Office	9.61	9.61	12.14	48.84	3.40	2.12%
6 Host Hotels & Resorts *	USA	Rental	Lodging/Resorts	3.58	3.58	3.69	74.81	5.40	0.22%
7 HCP *	USA	Rental	Health Care	0.82	0.82	4.59	35.73	9.86	5.01%
8 Avalonbay Communities *	USA	Rental	Residential	3.00	3.00	6.18	55.98	11.32	3.08%
9 Ventas *	USA	Rental	Health Care	5.68	5.68	9.67	36.39	11.73	3.86%
10 Kimco Realty *	USA	Rental	Retail	0.28	0.28	5.27	50.00	-15.49	3.98%

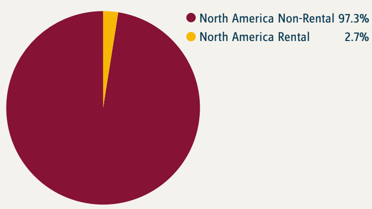
Indices

Index Description	Market Cap (EUR m)	Close Value Jan	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
EPRA/NAREIT Canada TR (CAD)	34,979.08	4136.98	3.04	28.45	7.99	5.36
EPRA/NAREIT United States TR (USD)	336 312.34	3542.61	3.16	39.97	1.22	3.43

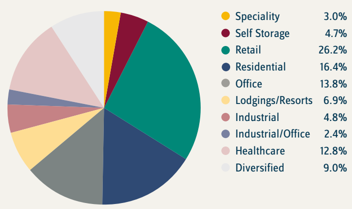
Country Breakdown by Market Cap



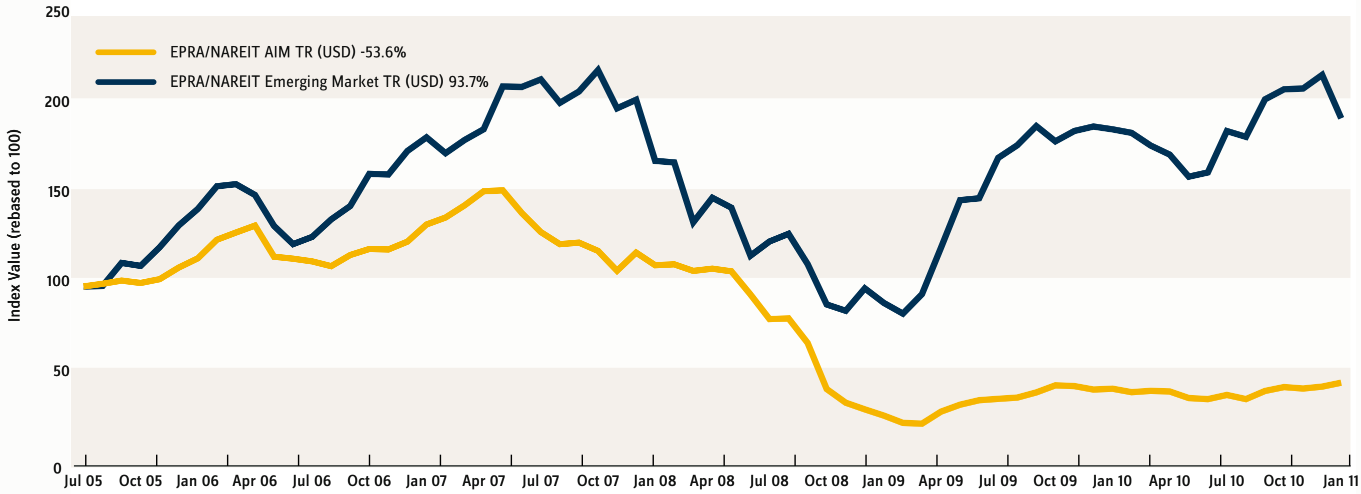
Investment Focus Market Cap Breakdown



Sector Breakdown



FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
EMERGING MARKETS



Top 5 and Bottom 5 Performers

Company	Country	investment Focus	Sector	Price Return (%)	Total Return (Jan)	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
↑ LBS Bina Group BHD	Malaysia	Non-rental	Diversified	12.07	12.07	12.07	-19.25	8.78	0.00%
↑ Tebrau Teguh Bhd	Malaysia	Non-rental	Diversified	10.14	10.14	10.14	22.56	-8.39	0.00%
↑ Glomac Bhd	Malaysia	Non-rental	Diversified	9.70	9.70	9.70	40.37	12.47	3.52%
↑ SP Setia	Malaysia	Non-rental	Diversified	7.90	7.90	7.90	60.40	11.06	1.75%
↑ Hung Poo Real Estate Development	Taiwan	Non-rental	Diversified	7.01	7.01	7.01	9.32	12.63	7.09%
↓ IVRCL Assets & Holdings	India	Non-rental	Diversified	-24.41	-24.41	-24.41	-49.25	-31.25	0.00%
↓ Orbit Corporation	India	Non-rental	Diversified	-25.00	-25.00	-25.00	-58.89	-45.10	2.50%
↓ Unitech	India	Non-rental	Diversified	-27.33	-27.33	-27.33	-35.17	-49.79	0.42%
↓ Aldar Properties PJSC	UAE	Non-rental	Diversified	#N/A	#N/A	#N/A	#N/A	-NA-	3.07%
↓ Ansal Properties & Infrastructure	India	Non-rental	Diversified	-30.91	-30.91	-30.91	-37.15	-43.40	1.20%

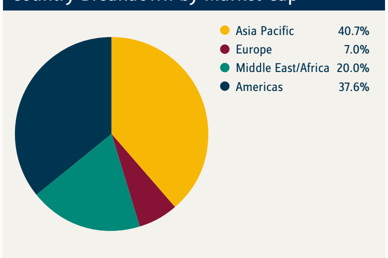
Top 10 on Market Cap

Company	Country	investment Focus	Sector	Market Cap (EUR m)	(%) Weight	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
1 PDG Realty S/A Empreendimentos e Participacoes Ord	Brazil	Non-rental	Diversified	-9.25	-9.25	-9.25	22.85	18.97	1.12%
2 Growthpoint Prop Ltd	South Africa	Rental	Diversified	-6.11	-6.11	-6.11	30.25	12.70	7.04%
3 Cyrela Brazil Realty S/A Empreendimentose e Participacoes Or	Brazil	Non-rental	Diversified	-15.74	-15.74	-15.74	-12.75	-5.86	2.56%
4 Redefine Income Find	South Africa	Rental	Diversified	0.86	0.86	21.19	20.35	5.49	7.50%
5 BR Malls Participacoes S/A Ord	Brazil	Rental	Retail	14.92	14.92	53.43	69.17	8.98	0.75%
6 Gafisa	Brazil	Non-rental	Residential	8.05	8.05	0.71	8.80	-1.83	0.85%
7 DLF	India	Non-rental	Diversified	-7.51	-7.51	-2.78	-4.61	-27.75	0.57%
8 Emaar Properties	UAE	Non-rental	Diversified	-NA-	-NA-	-NA-	-NA-	-NA-	5.12%
9 SP Setia	Malaysia	Non-rental	Diversified	7.90	7.90	7.90	60.40	11.06	1.75%
10 MRV Engenharia e Participacoes SA	Brazil	Non-rental	Residential	3.36	3.36	18.95	53.49	12.80	1.03%

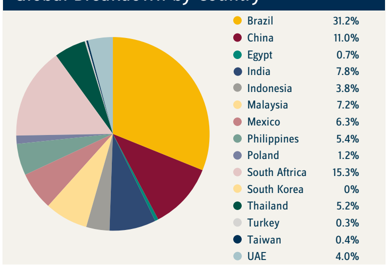
Indices

Index Description	Market Cap (EUR m)	Close Value Jan	Total Rtn (%) YTD	Total Rtn (%) -1Y	Total Rtn (%) -3Y	Div Yld (%) Jan
EPRA/NAREIT Emerging Market TR (USD)	53,684.33	1991.38	-13.02	13.21	-3.36	2.6
EPRA/NAREIT AIM TR (USD)	21,859.63	1823.72	-12.28	5.14	-12.86	1.79

Country Breakdown by Market Cap



Global Breakdown by Country



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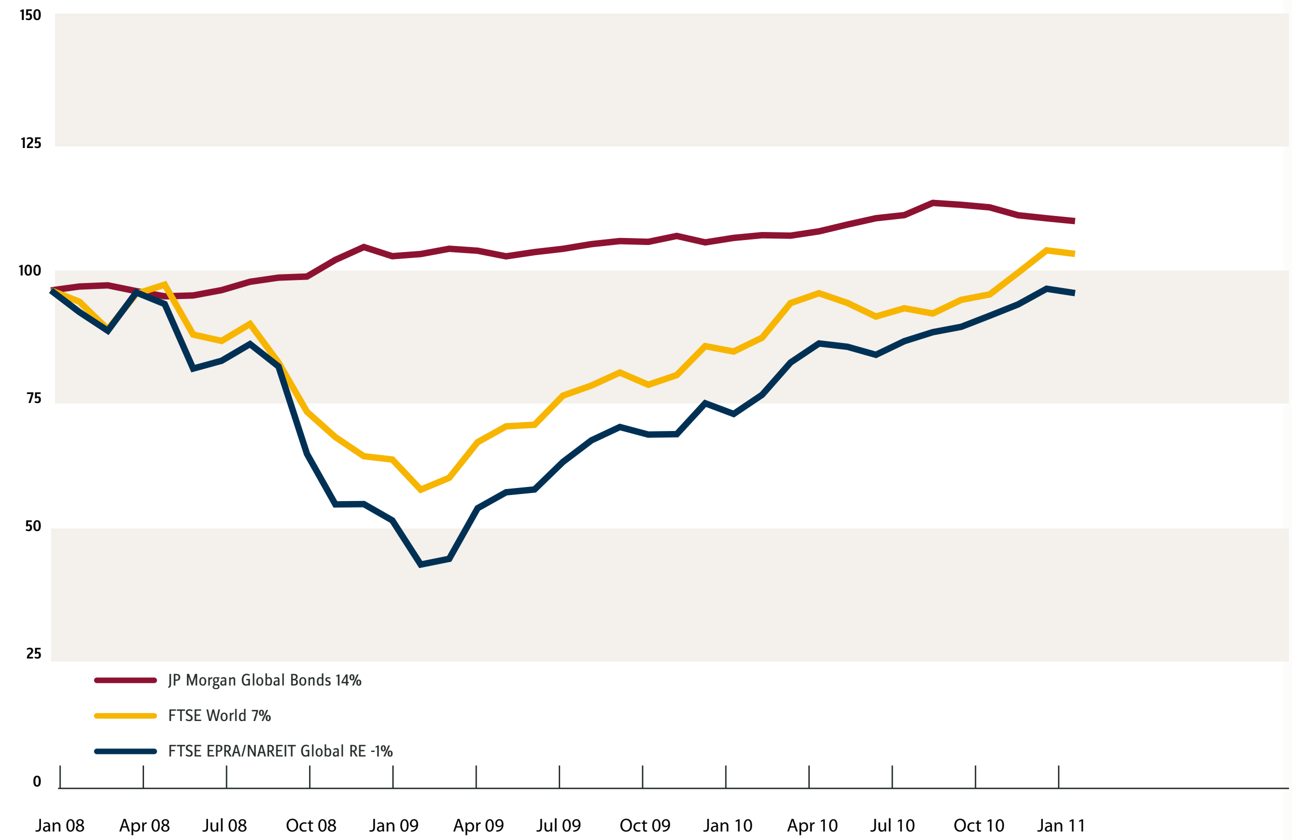
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

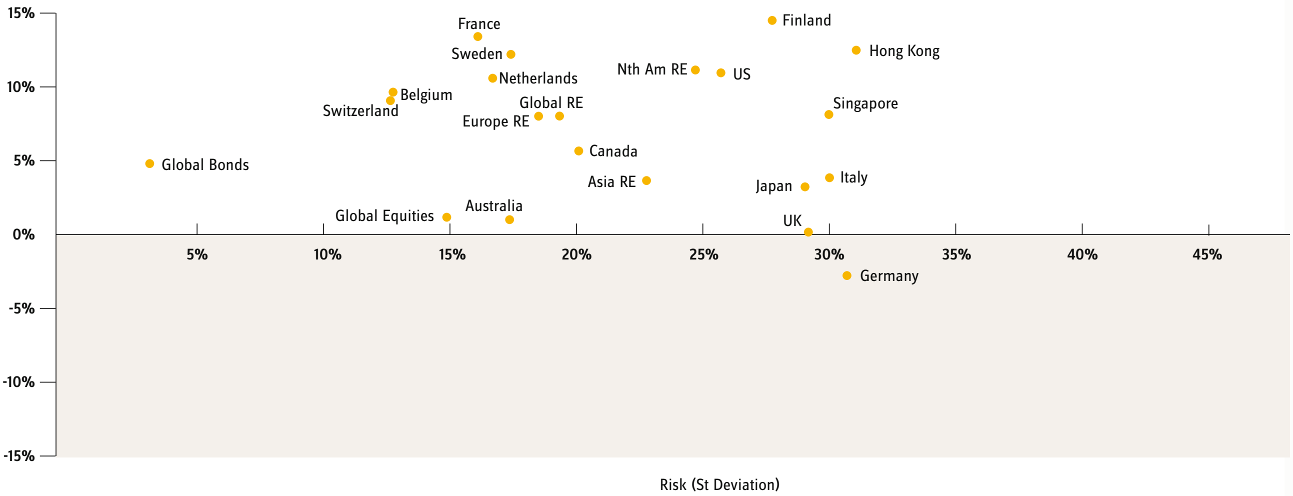
Countries	2009 GDP ($ Bn)	2009 GDP per capita ($)	2009 Real Estate ($ Bn)	31 Jan 11 Total Listed ($ Bn)	31 Jan 11 No. of Companies	31 Jan 11 Index Mkt Cap ($ Bn)	31 Jan 11 Total RE v Listed RE (%)
Japan	4,806	37,696	2,162	165.0	113.0	83	7.63%
Hong Kong/China	4,532	3,492	1,058	172.0	200.0	121	16.25%
South Korea	962	20,106	403	1.0	12.0	-	0.25%
India	1,230	1,145	198	8.0	16.0	-	4.04%
Australia	928	46,414	418	76.0	65.0	70	18.20%
Taiwan	340	15,050	129	4.0	31.0	-	3.09%
Indonesia	492	2,178	98	0.1	30.0	-	0.14%
Thailand	257	4,007	63	4.0	140.0	-	6.36%
Malaysia	197	7,724	60	0.7	88.0	-	1.17%
Singapore	181	41,514	163	38.0	50.0	40	23.36%
New Zealand	125	31,122	60	3.2	8.0	1	5.22%
Pakistan	155	965	24	-	-	-	0.00%
Philippines	155	1,749	29	4.0	52.0	-	13.91%
Vietnam	80	961	12	-	-	-	0.00%
Total Asia-Pacific	**14,440**	**19,479**	**4,877**	**476.0**	**805.0**	**315**	**9.76%**
Germany	3,380	41,008	1,521	26.0	41.0	6	1.71%
United Kingdom	2,472	41,119	1,391	62.0	124.0	44	4.46%
France	2,661	42,560	1,198	73.0	62.0	32	6.10%
Italy	2,144	36,924	965	6.0	8.0	1	0.62%
Spain	1,474	34,281	663	22.0	15.0	-	3.32%
Russia	1,352	9,259	437	5.0	-	-	1.14%
Netherlands	802	49,157	361	13.0	12.0	13	3.60%
Switzerland	473	63,542	213	8.0	11.0	8	3.75%
Belgium	472	45,585	212	6.0	19.0	4	2.83%
Sweden	441	49,089	199	13.0	15.0	9	6.55%
Turkey	647	9,041	208	-	12.0	-	0.00%
Austria	384	46,915	173	11.0	13.0	3	6.37%
Poland	450	11,658	157	6.0	8.0	-	3.82%
Norway	399	87,249	180	4.0	6.0	1	2.23%
Denmark	316	58,315	142	2.0	5.0	-	1.41%
Greece	325	30,564	146	2.2	6.0	0	1.50%
Ireland	245	59,861	110	2.1	1.0	-	1.91%
Finland	246	47,231	111	3.0	5.0	3	2.71%
Portugal	235	22,329	102	-	-	-	0.00%
Czech Republic	190	18,519	77	-	-	-	0.00%
Hungary	137	13,604	50	0.3	2.0	-	0.52%
Romania	171	7,667	52	0.5	-	-	0.97%
Ukraine	139	2,862	30	-	-	-	0.00%
Slovakia	88	16,346	35	-	-	-	0.00%
Slovenia	49	24,400	22	-	-	-	0.00%
Luxembourg	53	113,930	24	-	1.0	-	0.00%
Bulgaria	47	6,222	13	-	-	-	0.00%
Total Europe	**19,792**	**37,805**	**8,790**	**265.1**	**366.0**	**123**	**3.02%**
Egypt	112	1,374	19	11.0	2.0	-	57.40%
Israel	149	21,132	63	4.1	-	-	6.53%
Morocco	85	2,684	18	3.0	-	-	16.54%
South Africa	261	5,258	70	8.6	7.0	-	12.35%
Total Africa/Middle East	**607**	**30,447**	**171**	**26.8**	**9.0**	**-**	**15.69%**
Mexico	977	9,311	316	0.1	3.0	-	0.03%
Brazil	1,503	8,059	464	0.7	26.0	-	0.15%
Argentina	294	7,599	89	0.6	2.0	-	0.67%
Venezuela	288	11,549	100	-	-	-	0.00%
Colombia	224	5,478	61	-	-	-	0.00%
Chile	164	10,373	55	0.3	17.0	-	0.54%
Peru	122	4,395	31	-	6.0	-	0.00%
Total Latin America	**3,572**	**8,464**	**1,116**	**1.7**	**54.0**	**-**	**0.15%**
United States	14,104	48,130	6,347	377.0	195.0	336	5.94%
Canada	1,397	43,468	629	55.0	45.0	35	8.75%
Total Nth America	**15,501**	**47,710**	**6,976**	**432.0**	**240.0**	**371**	**6.19%**
World	**53,970**	**-**	**21,952**	**1,190.5**	**0.1**	**46,578**	**2.56%**

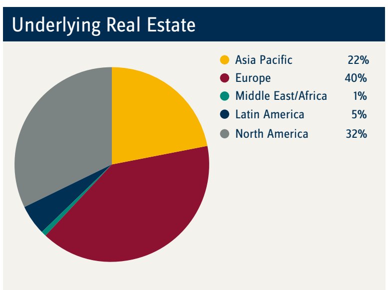
FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDICES
TOTAL MARKET

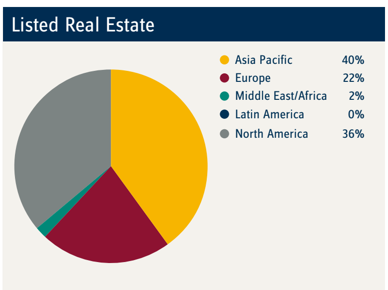
Global real estate vs equities & bonds



Rolling 10-years risk/return local currencies - countries







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