EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Industry Newsletter ISSUE 57 DECEMBER 2016

HAPPY 10TH ANIVERSARY UK REITS!

Read the interview with David Sleath

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*Welcome to our newest members

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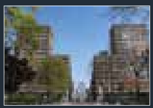

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UPDATE FROM *PHILIP CHARLS*

I was fortunate enough, with EPRA Research and Indices Director Ali Zaidi, to be at NAREIT's REITWorld in Phoenix, Arizona in mid-November and so to directly experience the aftermath of the U.S. presidential election result earthquake. Whatever you think about Donald Trump's victory, it's likely that the existing global political and economic order is going to see some profound shake-ups next year.

Europe's own political tremor with the Brexit vote in June has clearly had a strong impact on the relative performance of UK and Continental European listed real estate. The UK's total investment returns are down about -25.4% year-to-date in euros, although the currency effect also plays a large part here, while Continental Europe was up 0.35% over the same period. But we shouldn't forget that REITs are structured to appeal to income investors and here the picture is very similar. The UK's average dividend yield at about 3.73% is close to other Eurozone companies at 3.81%. This is what counts to investors in the long-term and will support the attraction of UK REITs regardless of Brexit.

While all eyes have been on the presidential election, another quieter shift in the market is gaining momentum in the U.S. and has extremely positive implications for listed real estate investment worldwide.

Blackrock, the world's largest investment manager by assets, recently introduced real estate as its fourth core product mix offering to U.S. retail equity investors alongside bonds, general equities and commodities. This follows listed real estate's debut on September 1st as a stand-alone investment sector in the Global Industry Classification Standard (GICS) used as benchmark for major equity indices worldwide and its separation from previous inclusion in the "Financials" stocks basket.

Although the Blackrock move is for now only focused on the giant U.S. REITs sector, EPRA's recent trip over the Atlantic also revealed that other U.S. investment houses are busy setting up dedicated real estate teams that focus on both listed and non-listed forms of property together as an investment asset class in its own right.

>

U.S. investment trends have a tendency to be imported across the pond and while some large European institutional investors already treat property as a single investment sector, there is huge scope for this to be extended, also into the retail market.

Our main barrier to benefitting from the higher capital flows potentially flowing to Europe is simply one of scale and we need those markets that haven't yet adopted REIT regimes to move towards them at a snappier pace.

To this end, EPRA was in Warsaw in late-November with a strong team of REIT experts to brief the Polish market on the best approaches to take in getting their own listed industry established on a solid base. I'd like to warmly thank Unibail-Rodamco, PGGM, PwC, the French property association FSIF and law firm De Gaulle Fleurance & Associés, for their assistance in Warsaw.

HAPPY 10TH ANNIVERSARY *UK REITs!*

> *We know that the property industry makes a fantastic contribution to the UK economy and we need to get that message across to politicians, businesses, government, the public at large and key influencers, like the media and the civil service.*

To wrap-up the momentous year we travelled to London to interview David Sleath, President of the British Property Federation and CEO of SEGRO. We discuss the evolution of UK REITs on the eve of their 10th anniversary and how they get to maturity.

ONE The UK celebrates the 10th anniversary of real estate investment trusts (REITs) next year. How has the UK property market changed?

"REITs were a catalyst to the broadening of the UK's listed real estate sector and the professionalisation of the way that companies organise themselves. Previously, many property companies were focused on creating capital growth and generating development gains - REITs encouraged management teams to focus more on income generation. Today we have a whole spectrum of REITs, ranging from those who focus on crystallising capital gains through building, developing and selling, to those which are much more income-oriented than before in their total return business model. In the current low interest rate environment, REITs which can deliver a relatively low-risk, income-focused total return have been popular with investors.

Companies are certainly more thoughtful about the construction of their balance sheets than they were 10 years ago, although perhaps this is more due to the repercussions of the Global Financial Crisis than the introduction of REITs.

Finally, shareholder registers have become much more international. REITs are a well understood phenomenon globally, particularly in the USA, and the introduction of REITs suddenly put UK listed property companies on the radar screen of international investors. Some companies were off limits because investors are restricted to only >

owning shares of REITs, like they are in Japan. This has been very beneficial for the sector.

In general, I think UK REITs are in much better shape now to cope with volatility in the direct real estate market, such as from Brexit, than they were in 2007."

TWO UK REITs were launched just before the crash in the Global Financial Crisis. What are the lessons?

"The benefits of leverage in a rising market can be wiped out and dwarfed by the pain and losses when the cycle turns. Virtually every company operates now with much lower leverage than in the mid-Noughties. There is also a greater focus on the quality of assets, which are considerably better today than a decade ago after a big clean up of portfolios. We all understand that you must have high quality, liquid assets when you need them. There's also been a noticeable increase in the number of sector-focused REITs and most of the newcomers are sector specialists."

THREE How do you see the REIT sector developing in the UK?

"Investors like the UK REIT model and see the sector as a good location to place capital, provided there's a wide enough choice in terms of companies on offer. While market conditions will distort how many IPOs there are, we need more companies to come through. I do expect this to happen. Let's not forget that 10 years isn't a very long time in terms of REITs; in the US it took 30 years before the market matured. In 2017 I expect the BPF will take stock of how well REITs are functioning and to identify where the opportunities lie for us to lobby government to make the changes needed to help the sector develop more rapidly."

FOUR What needs fixing?

"The one area where we would certainly like to see more progress is with the development of residential REITs. Ten years after the launch of the REIT regime in the UK, we have a burgeoning sector but no residential REITs at all, barring one privately owned institutional REIT. This is because the REIT regime is not well suited to residential investment because of the very fine and uncertain dividing line between what constitutes a trading transaction for tax purposes and what constitutes an investment. Clearly trading is a bad activity for the REIT Balance of Business conditions and so is taxable, whereas an investment is not. This uncertainty in tax treatment militates against REITs being set up to attract capital into residential property, especially institutional capital. Action in this area could help to grow the sector. One idea is for the introduction of seeding relief from Stamp Duty Land Tax (SDLT – a tax paid on purchases) for REITs. This would allow REITs to acquire a property with shares, exempting them from SDLT in order to facilitate the construction of a portfolio of residential properties.

At EPRA we would love to see the mutual recognition of the REIT status across Europe, although it is possible to operate reasonably efficiently as legislation stands today. Most international jurisdictions have bilateral tax treaties with other countries. Generally these are unrelated to the European Union so we don't expect the recent referendum vote to leave the European Union to cause major issues."

FIVE What is the BPF's position on Brexit?

"Brexit is at the top of the BPF's agenda and our engagement is focused on coordinating with the Prime Minister's office, the Treasury and the Department for Exiting the European Union on how they are approaching Brexit. They aren't giving much away at the moment! >

The first priority for the BPF is to maintain confidence in the UK as a place where you can invest.

The first priority for the BPF is to maintain confidence in the UK as a place where you can invest. This is important for the property industry and the health of our occupiers. Secondly, we need to make sure that the government delivers on infrastructure and developments such as Crossrail (the high speed rail link crossing London), a next generation nuclear power station at Hinkley Point and a new runway at Heathrow. These are critical because they unlock opportunities for investment in real estate and other assets. Thirdly, the UK is a magnet for global talent and skills, which is important for the construction and property development industries. As a nation, we aren't developing the necessary skills for our own work force so we have to import them from abroad. We want the UK to be place where we can develop home grown talent as well as attracting talent from across the world.

The government will be distracted and receiving lots of solicitations. We recognise that we will have limited opportunities to get its ear, so it's important to make sure that as an industry body we are very focused on our goals."

SIX What are the challenges for the BPF in this context?

"We represent an industry that is often regarded with suspicion and not as the force for good that it is. The BPF has got to think about its engagement on day-to-day issues, particularly in the context of Brexit. We know that the property industry makes a fantastic contribution to the UK economy and we need to get that message across to politicians, businesses, government, the public at large and key influencers, like the media and the civil service. This means getting out there to promote what we do, raising our profile and improving our image. It will ensure that the property industry is taken seriously and gives us a seat at the table when it comes to making important decisions."

SEVEN What is the outlook for the UK market in 2017?

"For the property industry as a whole there are a wide range of views on how the UK occupier and investment markets will fare over the next few years. We saw the market slow down in terms of investment in the UK in the second and third quarters. There were immediate signs of panic after the June 23rd referendum because the result was a surprise for most of us. We saw this in the rush of redemptions for open-ended funds as investors took their money out on talk of Britain facing a downward death spiral. Today, those retail property funds are enjoying net inflows as investors have realised that real estate looks pretty attractive in the context of a low interest rate environment. The spread between UK government bond and property yields is at an all-time high and pricing is holding up pretty well for better quality assets.

There were immediate signs of panic after the June 23rd referendum because the result was a surprise for most of us.

For SEGRO, we've seen good occupational demand this summer and into the last quarter of the year, which I expect to continue in 2017. The logistics sector is benefiting from structural changes brought by online retailing and the fact that there isn't much space available in the main urban locations necessary for "last mile delivery" of goods direct to people's front doors. From an investment standpoint, demand for good quality logistics assets remains very strong and pricing has remained relatively firm post Brexit. I'm positive about the outlook for our sector."

David Sleath
Segro/BPF

David Sleath joined SEGRO as Finance Director in 2006 and was promoted to CEO five years ago. A chartered accountant, he was previously finance director of Wagon plc and a partner at Arthur Anderson, where he worked for 17 years. Sleath is the British Property Federation's Current President, a board member of EPRA and an independent director of Bunzl Plc.

APG'S KANTERS SAYS LISTED PROPERTY STOCKS LOOK *ATTRACTIVE AFTER SLIDE IN PRICES ON ECB POLICY OUTLOOK*

Europe's listed property sector is attractively priced following a sell-off in October and as operating fundamentals remain healthy, said Patrick Kanters, Global Head of Real Estate & Infrastructure at APG Asset Management, the investment manager for giant Dutch pension funds.

The FTSE EPRA/NAREIT Index for Developed Europe declined 8.3% in the first 10 month of 2016, in contrast with gains for the Asia-Pacific region and the US. Sparking the declines in Europe were concerns that the European Central Bank might start to taper its "quantitative easing" bond-buying activities in the first step towards eventual interest rate increases.

"Pricing, with sometimes quite steep discounts to net asset value, makes the listed market fairly attractive again compared with the private markets,'' he said in an interview in early November at APG's headquarters building in Amsterdam. Kanters, who is a board member of EPRA, will be a panellist at its Insight event in the Dutch capital on January 12th.

"We were already far more prudent or reluctant to invest on the private side of the sector in what we call prime or super-core assets, because we thought that pricing was already getting a bit too high with enormous competition for assets. Now with the recent share price falls in Europe, we've become more interested in quite a few of the listed companies," he said.

APG is a frontrunner among institutional investors in using the listed sector and private markets to invest in real estate, which represents approximately 10% of APG's EUR 444 billion of assets under management as of the end of the third quarter of 2016. The real estate portfolio's current mix is 60% in the listed sector and 40% non-listed – a mixture of club funds, co-investment and joint ventures with leading operators. That might shift more in favour of stocks, depending on the investment opportunities, although it cannot exceed the ceiling of 70% imposed by APG's portfolio construction rules.

Europe currently makes up about 36% of APG's real estate portfolio with investments focused mainly in the northwest and south of the region, while the US is 39% and the Asia-Pacific region makes up the balance. APG has set a zero allocation to Japan from a long-term perspective, although that does not prevent it from investing there in the shorter term, he said.

"Around three or four years ago the majority of the investments were in Europe and we changed that balance by gaining more exposure to the US, which has a lot to do with the long-term, higher economic and demographic growth that drives real estate returns,'' he said in the interview conducted before the US presidential election.

"How we actually build up these portfolios is very much opportunity-driven," he said, pointing to its decision in October to take a 75% stake in the 1.7 million square foot Edinburgh St James shopping and leisure centre, residential and hotel development in the Scottish city alongside TH Real Estate. That's as concerns about the UK's exit from the European Union deterred other investors, he said.

This real estate strategy has generated a long-term average return of just north of 9%, which clearly contributed to the 5 to 7% return that needs to be generated to meet the liabilities of APG's defined benefit pension fund clients, which include the savings plan for the Dutch civil servants, ABP. It is an approach that is finally starting to interest other investors, Kanters said.

"We don't really differentiate between the listed or private real estate. It really is the same asset class and this has been tested and backed by lots of academic evidence," he said. "In the medium term it does provide us with some sort of diversification because the two do not fully move in sync and are not fully correlated. In real estate we're looking to have exposure to the demand-supply dynamics driven by key market trends and economic cycles."

These parameters make offices less attractive to APG as a pure long-term investment as market timing is of importance due to the higher cyclicality of this sector. "When we expose money to private investment on the office side, its very important for us that we structure our strategy to be able to time our entry and exit."

Property stocks and real estate investment trusts (REITs) provide APG with the ability to deploy money in sectors like regional shopping centres, German residential and global logistics operators, where the companies dominate and have the best assets, he said. As market leading operators, this has opened up co-investment opportunities alongside listed companies such as its investment in the Westfield Stratford shopping centre in London. Other attractions are the cost-effective way of deploying capital since large-scale private investments carry higher transaction costs. Because of their size APG's interests in some listed companies are as illiquid as the private sector, he noted. "But bear in mind the private sector has caught up and can, subject to market conditions, far more easily traded nowadays."

Europe's listed sector needs a broader choice in subsectors like hotels, student housing, data centres, healthcare and senior living. While this will take time and is subject to market conditions, "I'm very positive that the investible universe will further increase as strong and innovative operators are being established on the private side," he said.

Kanters still expects European interest rates to remain low "for a long time" to support economic growth.

"Overall the property markets are in healthy shape: showing rental growth, a balance of supply and demand, but also barriers to new development that is pushing up rental prices," he observed. "There are enormous differences, however, between cities with healthy demographic and economic growth and those where the picture is entirely different. Germany as a whole is not a pretty picture, for example, so it's all about investing in the right cities."

Kanters, who is a board member of EPRA, will be a panellist at its Insight event in the Dutch capital on January 12th.

Patrick Kanters
APG Asset Management

Kanters joined APG Asset Management when it was ABP in 2005 following an 11-year spell at ING Real Estate. He is an executive board member of EPRA, served as Chairman of Inrev's Management Board and is a non-executive member of GRESB's board. He has a post doctorate degree in Real Estate from the University of Amsterdam.

DUTCH REIT PIONEERS READY *FOR PROMOTION IN EU LISTED PROPERTY LEAGUE*

The Netherlands was the pioneer of European REITs with its Fiscal Investment Institution regime (FBI) the first created in 1969, but it has not sustained its place in the European league of listed real estate markets. The four domestically quoted companies that are constituents of the EPRA Developed Europe Index have a combined free float market capitalization of about EUR 4.8 billion, meaning the Dutch are now ranked eighth behind neighbouring Belgium, and slightly above Austria, if French behemoth Unibail-Rodamco's Amsterdam listing is excluded from the picture. >

A country which has the second largest private occupational pensions sector in Europe, and some of the biggest cross-border institutional real estate investors in the world, including APG and PGGM, appears not to be punching its weight in the listed market to the extent suggested by the scale of its domestic capital base, size of economy and underlying property investment stock.

"We have a lot of institutional capital in the Netherlands, but the regulatory regime means it's more attractive for investors to own direct real estate here than invest in the shares of domestic REITs," Daniel van Dongen, Treasurer of the Dutch Stock Listed REITs Association and CFO of Dutch office REIT NSI said.

He pointed to the FBI restrictions on limiting a single shareholder stake in a Dutch REIT to 45% and the heavy capital weighting attributed to the equities portfolios of insurers through the Solvency II regulation, despite the many research papers that show listed real estate performs more like the underlying property holdings in the long-term, with less volatility and so risk, than stocks generally.

We were solidly backed by EPRA over the AIFMD and could draw upon their research resources and lobbying efforts in Brussels.

"We can't tackle all these regulatory issues at a Dutch level and we believe that the lobbying element of EPRA in signalling the industry's concerns to the European authorities is one of the most important parts of its role," Van Dongen added.

But regulation has not been the only hurdle holding back the growth of REITs in the Netherlands. Structural issues in the key office and retail markets in recent years have depressed values, meaning REITs focused on domestic investments traded at a discount to NAV, so discouraging new listings.

Van Dongen said the Dutch office sector had probably completed most of the value impact of its shake-out of overhanging supply since the financial crisis and is bottoming out with the main Amsterdam market, notably the South Axis business district, leading the upswing into the next cycle.

Retail property is similarly perking up on the back of growing consumer confidence and economic growth, but structural problems remain.

"Would we consider investing in Dutch retail now? It's a very difficult call as there's still a lot of oversupply and you need to be very selective in the choice of locations and tenants as we've seen with a number of high profile bankruptcies such as the V&D department store chain," Evert Jan van Garderen, Finance Director of retail REIT Eurocommercial Properties and Chairman of the Dutch REITs association, said.

"Another issue we have is somewhat archaic Dutch retail market practices, as the legal system makes it difficult for landlords to impose turnover rents and that means there's a lack of flexibility on what the appropriate rental level should be for the tenant, or information on how their businesses are doing," he added.

The Dutch REITs association was set-up in the summer of 2008 to lobby on common issues for members, such as taxation, with the financial authorities. It now comprises five companies: Eurocommercial Properties, NSI, Unibail-Rodamco, Vastned and Wereldhave, after former founding member Corio was taken over by France's Klépierre.

In the eight years of its existence the association has successfully worked on a number of issues of concern to its members with the Dutch finance ministry and financial markets authority (AFM). These included facilitating parent company guarantees for borrowing by subsidiary vehicles and also the handling of developments and redevelopments within the FBI structure.

"It was previously difficult to redevelop our own properties within the FBI, but then the law was changed, so we can now develop or redevelop for our own portfo-

lio through a tax paying subsidiary. We exchanged paying some tax for taking back flexibility in development possibilities. Previously we were forced to sell the property, have it redeveloped, and then buy it back again, which was not very logical," Van Dongen said.

Another step forward was persuading the authorities to treat certain ancillary services, such as catering, that are beyond pure property investment, but nevertheless intrinsic to modern asset management, as being allowed by an FBI if rendered by a subsidiary subject to corporate tax.

Like listed real estate bodies in Belgium and Germany, the Dutch association cut its teeth at an international level with its national petitioning against the EU threat to treat REITs as investment funds, rather than property companies within the Alternative Investment Fund Managers Directive (AIFMD).

"We were solidly backed by EPRA over the AIFMD and could draw upon their research resources and lobbying efforts in Brussels. The whole lobbying campaign was a great success for the industry as we achieved our aims of not being sucked into the AIFMD and REITs being treated the same whether they are in France or the Netherlands," Van Garderen concluded.

So how is the listed industry to grow in the Netherlands? The Dutch REITs confessed to being slightly envious of the market's evolution in Germany, which grew from only about 9% of the market cap of the EPRA Developed Europe index in 2012 to closer to 21% in 2016 on the back of the explosive expansion of the listed residential sector. The Dutch housing market has also experienced fast rising prices in the main cities over the past two years and residential property isn't excluded from the REIT regime in the Netherlands as is the case in Germany, but it remains to be seen whether domestic and international private equity investors will opt for the IPO route to exit their residential investments in the country.

Perhaps star transfers from Belgium might also offer future hope for the promotion of the Dutch listed league. Belgian logistics REIT WDP and healthcare and office REIT Cofinimmo, which both have substantial investments in the Netherlands, are currently in talks to become members of the Dutch REITs association. The new entrants are more than welcome. Joint action and a single voice are key founding principles of the association and the strength of that voice grows proportionally with the size of the capital base backing it up.

Evert Jan van Garderen
Eurocommercial Properties

Evert Jan van Garderen (54), a graduate of Erasmus University Rotterdam, joined Eurocommercial Properties N.V. in 1994 as CFO after working for five years as a solicitor with a major Dutch law firm and subsequently as legal counsel for Robeco Group, the international investment group based in Rotterdam. He is both a Chartered Accountant and a qualified lawyer.

Daniel van Dongen
NSI

Daniel van Dongen (45) graduated in Business Economics at the Groningen University (1995) and is a chartered management accountant with a post-grad from the Amsterdam University (2000). Daniel worked in several international corporate finance and business control positions in logistics and telecommunications before he started working in Real Estate in 2005 as the group controller for Wereldhave. Daniel joined NSI as a CFO in 2009.


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A NEW REIT LEGISLATION *FOR POLAND?*

by Tobias Steinmann, EPRA Public Affairs Director

Poland ticks most of the boxes for a successful introduction of a REIT regime. It is the most developed financial market across Central and Eastern Europe with the largest stock exchange in the region. It has a healthy provision of assets with prime properties accounting for around 5-7%. There is also an underutilised potential of financial assets from Polish households amounting to more than EUR 400 billion.

In this context, a Polish REIT regime is long overdue. It would give a considerable boost to the market, activating local capital and drawing in foreign investors. In addition, Polish REITs could be an attractive tool for commercial real estate projects in the country.

Hence, we were pleased to hear, roughly a year ago, that the government started to work on REIT legislation. EPRA has been advocating for a Polish REIT regime from the very beginning. Earlier this year in Warsaw, we gave a presentation at the first ever REIT event in Poland. The event gathered more than 200 representatives of the real estate sector and provided a great opportunity for sharing mutual expertise, networking and alignment on further actions in promoting a REIT regime in the country. We had several meetings with local experts and key market players. Recently, a national industry association has been formed. To capitalise on this, in late November we organised another panel with EPRA members, experts and fellow representations from national associations at a second REIT conference in Warsaw in November. >

firmy

WYWIAD | PHILIP CHARLS

z prezesem EPRA rozmawia Adam Roguski

REIT-y atrakcyjne dla inwestorów

REIT-y w Polsce | Spółki chcą zakładać REIT-y i czekają na wejście w życie ustawy regulującej ten rynek

Rzeczpospolita

Dziś w „Rzeczpospolitej"

Rząd ma problem z ustawą sklepową

Chiny mocniej stawiają na Polskę

Deloitte. Rzeczpospolita

Konferencja

30 listopada 2016

Philip Charls (EPRA CEO) gave the introduction and outlined why REITs in Europe have been such a success and what the crucial framework was to make it happen. Dorian Kelberg, Executive President of the French real estate association FSIF, and Blaise-Philippe Chaumont, partner in the De Gaulle Fleurance & Associés law firm in Paris who handled the creation of the French SIIC regime in the Ministry, presented the benchmark example for developing a successful regime. Hans Op't Veld from PGGM presented the view from one of Europe's largest pension funds. Ruud Vogelaar and Sandrine Berbel from Unibail-Rodamco laid out the tax efficiency requirements from the perspective of Europe's largest REIT. Finally, Bruno Lunghi, partner of PwC in France, summarised his experience within Europe's oldest and – along with the UK – most mature REIT regime. A lively discussion provided an interactive and fruitful experience for everybody. Philip Charls also gave a full-page interview to Parkiet, the leading business and financial newspaper in Poland, outlining the EU listed sector's perspective.

This all comes as the Ministry of Finance has been presenting its draft proposal for a REIT bill in October 2016. They have also launched a consultation to which registered stakeholders were allowed to comment. Responsibility for drafting the REIT regime falls to Deputy Prime Minister Mateusz Morawiecki, who continues his former portfolios from the Ministry of Finance and Ministry for Economic Development. According to the draft, a public company with a registered office in Poland, whose business activity includes mainly the lease of commercial real estate shall be granted a REIT status.

Certain statutory requirements must be met, such as[1]:

1. The share capital shall be at least PLN 60 million (around EUR 15 million);
2. The company shall be formed for an indefinite period of time;
3. Real estate or shares in qualified subsidiaries or other REIT-status public companies shall amount to 70% of the total value of assets;
4. At least 70% of net profit from sales shall come from lease or sale of real estate;
5. The total balance sheet value of the liabilities of a REIT-status company shall not exceed 70% of the balance sheet value of its assets;
6. At least 90% of a REIT-status company's profits [...] shall be distributed in the form of dividends in each fiscal year (to the extent such profits are not reinvested in real estate or in a shareholding of at least 95% in companies that hold real estate the value of which forms at least 70% of the balance sheet value of their assets);
7. The company's profits from the lease of real estate are generated from at least three real properties.

The status of a REIT would allow for exemption from tax on income derived from inter alia lease of real estate, sale of real estate as well as from dividends received from qualified subsidiaries. It should be noted that the term 'real estate' shall exclude residential buildings and dwellings.

While some of the requirements seem to provide a solid framework for a Polish REIT regime, other points would need improvement.

The new regulation has an ambitious schedule of coming into force on 1 January 2017. We will continue the dialogue with our Polish counterparts and contacts and monitor all the developments closely. The chance of having a REIT regime in Poland is close and what we have seen so far could be a first step towards a truly successful regime.

[1] *'Greenberg Traurig – REITs in Poland', pages 2-3*

LISTED PROPERTY COMPANIES SEIZE GROWTH OPPORTUNITIES *IN EUROPE'S BURGEONING STUDENT HOUSING SECTOR*

Christian Teunissen
Xior Student Housing

Christian Teunissen has headed Xior Student Housing for the last nine years. Since 2005, he has built up a real estate portfolio as a developer, investor and manager after a career in insurance. In 2000 he left Fortis AG to establish his own insurance company which he sold five years later to Van Dessel Verzekeringen.

Christian Teunissen says attending a conference in London four years ago switched on the light bulb for him by highlighting the growth potential for the student housing business that he started in 2007.

"It was a revelation because it was so professional and the companies were all managing properties in the US way,'' recalls Teunissen, describing what led him to grow a "hobby" investment into Xior Student Housing, the Belgian REIT he heads.

Using some of the proceeds from the sale of a business, Teunissen started out with a single property in Leuven, the university town east of Brussels. The company now has a portfolio in Belgium and the Netherlands valued at EUR 214 million, as of June 30th. Xior sold shares in an IPO a year ago to fund an acquisitions programme that he predicts will double the portfolio to more than 3,000 units by the end of 2017.

Fast-growing newcomers like Xior are grabbing the opportunities arising as student housing transforms from a fragmented market of small, local operators into a sector dominated by larger platforms with national footprints. As Teunissen found, the UK is Europe's most mature market and serves as its model. Britain's largest operator is Unite Group, which celebrates its 25th anniversary this year. It has been listed since 1999 and houses more than 50,000 students in more than 140 properties across the UK.

Europe's opportunities stem from a structural shortage of purpose-built and modern accommodation for a growing and increasingly international body of students. Surveys show that students, particularly those paying for their studies, regard good accommodation as a cornerstone to their enjoyment of university life and are willing to pay more to live in close proximity to their peers, the campus and city centre attractions.

In the UK, higher education establishments accepted a record 532,000 students in 2015-16, or more than five times the intake of thirty years ago, and the projections are for this number to keep rising. Since universities are focusing on teaching and research, they work with private specialists that operate properties on their behalf or lease their own properties directly to students. It is a pattern replicated elsewhere in Europe. Many local planning authorities encourage this approach because they want control over how "studentification" affects residential neighbourhoods.

"The housing markets of British university cities are already under pressure even before you take on board the impact of increasing student numbers," said Paul Hadaway, CEO of the UK's Empiric Student Property. "This creates a lot of pressure that is supporting the sector's fundamentals and shows why student housing has such good prospects," he said, adding that

Empiric's rents, which include utility bills and insurance, are rising by 2-3% a year while remaining below potential market levels.

The sector's supply and demand dynamics are generating rental growth that outstrips inflation. Savills estimates that property yields for standing assets in the UK range from 4% to almost 6.75%, rising even higher for purpose-built residences that the companies develop themselves. Xior's yields average 6% and rise to as much as 7.5% for developments, Teunissen said.

We are looking at how we can accompany people through their university careers along different price points.

In the low interest rate environment such returns attract investor interest. A record EUR 8.48 billion of student housing transactions occurred in Europe last year, 76% of which were in the UK, according to data compiled by Real Capital Analytics. Investment volumes only exceeded EUR 1 billion for the first time in Europe in 2011 as private equity investors assembled portfolios and institutional investors backed established operators. Since 2013, listed sector specialists have started to play a more significant role in the European sector as Empiric and Xior have joined Unite. They account for 10% of EUR 3.39 billion of investment in student housing in the first 10 months of this year, according to RCA.

Empiric has raised a total of more than GBP 520 million in equity and GBP 310 million of debt to finance acquisitions of standing assets or to forward-fund developments. In the past eight years it has grown from a single property in Bristol, southwest England, into a company with a portfolio of 75 assets in the UK, including 23 developments, valued at GBP 524 million as at June 30th.

Empiric targets buildings in the centres of prime university cities or within walking distance of the university. The assets provide 50-200 beds typically arranged in high-end studios or apartments with two to three bedrooms, which it leases directly to individuals or to groups of mainly international students and postgraduates. Other operators typically focus on larger blocks aimed at first year students.

"We are looking at how we can accompany people through their university careers along different price points - whether they are the budget sharers, the premium singletons, or the premium house sharers," explains Hadaway. >

Paul Hadaway
Empiric Student Property

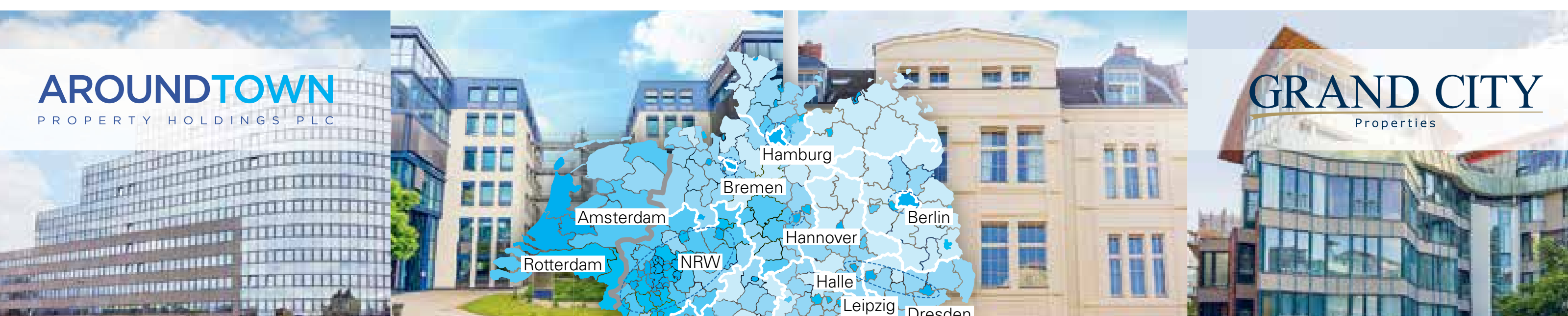
Paul Hadaway has been a property investor since 1997 following a career as an architect in Hong Kong and London. He has worked with Tim Attlee since 1999 on a variety of real estate development projects. In 2009, the pair focused on the acquisition, development and management of student housing through Empiric.

His comments highlight how student housing is becoming more sophisticated and offering a variety of accommodation to suit budgets, including residences offering gyms and concierge services.

Hadaway expects part of the next phase of Empiric's growth will come from bringing the day-to-day management of all of its properties in-house by 2018 under its Hello Student operating brand, since outsourcing costs erode approximately 25% of the gross rental income. This will enable it to increase net operating income through economies of scale in procurement and the development of new services.

"What's exciting about the future is that we have got over the hurdles of building scale and we expect that cash flows will soon fully cover the dividend," Hadaway said. "We have become a fixture in the student world and now we are looking at growing our net operating income by diversifying our income streams. We think the UK is a big enough market where there's still plenty of opportunity."

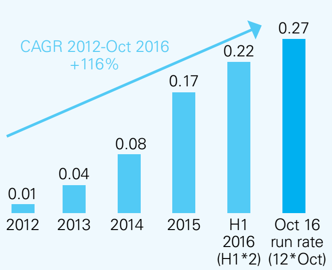
Teunissen echoes his comments: "Xior only opened a residence in Brussels this year and we aren't in the rest of the French-speaking part of Belgium yet. We're also absent, for the moment, from the major Dutch university cities of Amsterdam, Leiden and Utrecht."



- Aroundtown is a specialist real estate investment group with a focus on value-add and income generating properties primarily in the German real estate markets since 2004
- Market cap Sep 2016 €3.2 billion
- Investment Grade rating by S&P (BBB)

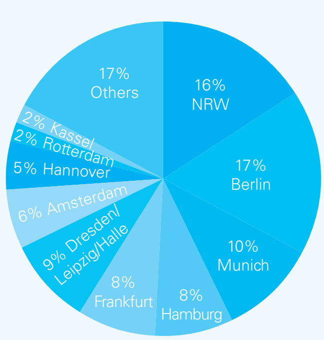
- Grand City Properties is a specialist real estate company focused on investing in and managing value-add opportunities in the German residential real estate market
- Market cap Sep 2016 €3 billion
- Investment Grade rating by Moody's (Baa2) and S&P (BBB) with positive outlook

FFO I PER SHARE (IN €)

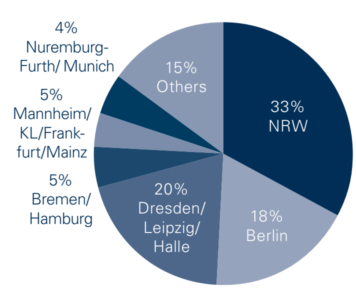


* Residential portfolio is accounted for at the holding rate of 33%

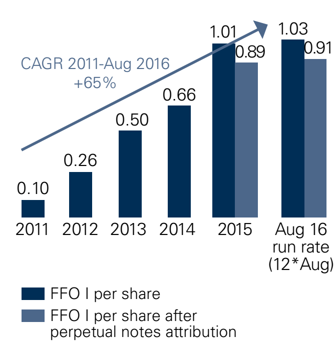
REGIONAL DISTRIBUTION BY VALUE*



REGIONAL DISTRIBUTION BY VALUE



FFO I PER SHARE (IN €)



SPOTLIGHT ON EMPIRIC
STUDENT ACCOMMODATION PROPERTY IN LEEDS

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SPOTHLIGHT ON XIOR
VOSKENSLAAN RESIDENCE IN GHENT

BREXIT "PRE-NEGOTIATIONS" – *THE INEVITABILITY OF POLITICAL GRANDSTANDING*

by Tobias Steinmann,
EPRA Public Affairs Director

People speak about a hard Brexit or a soft Brexit. Theresa May announced that she is aiming for neither, but a customised relationship between the UK and the EU which could be translated as a clean Brexit. Many outcomes are possible. For now, what we can expect is a dirty Brexit. At least until after the upcoming elections in 2017 in several EU Member States.

Mrs May has already experienced a nice introduction at her first EU Council meeting in October where EU heads of state welcomed her in a quite unpleasant atmosphere. Council President Donald Tusk let the UK prime minister wait for five hours, before giving her the floor at 1 a.m., five hours after everybody sat down for dinner. The diplomatic reaction was cold and clear. They listened in silence and did not respond. "The basic principles and rules, namely the single market and the indivisibility of the four freedoms, will remain our firm stance", Tusk was later quoted.

The Brexit "pre-negotiations" are going to be a strong show of political grandstanding, especially with key elections next year in Germany and France.

Angela Merkel, who confirmed recently to run for a fourth term as German Chancellor, has shown little willingness so far to negotiate on the EU four freedoms. And even if François Fillon, who was described by The Guardian as a "a tea-drinking Anglophile", should enter the Elysee Palace and wanted to show some cordialité to the UK, he would have to do so against the opposition of Berlin. With the triggering of Article 50 not expected until March 2017 at the earliest, and Merkel facing a tough re-election campaign in the months to follow, London should not expect too many concessions, at least not until after the September elections.

What are the perspectives for the UK finance sector?

FTI Consulting carried out a survey about the post-Brexit hopes and fears of 154 large pension funds with over USD 10 trillion assets under management. Eight out of ten believe there will be a cut-back on immigration, but less than half are concerned about it. Interestingly, nearly 50% of the same investors believe passporting rights will remain, which is quite an optimistic view compared to the prevailing concern in the City of London.

The amount of lost income from passporting rights would be considerable, as table 1 demonstrates.

The UK financial sector employs more than one million people and pays as much as GBP 67 billion in tax each year. The Financial Times reports that if London secures similar access to the current arrangement within the single market, the UK could lose GBP 500 million a year in tax revenues and 4,000 jobs. The data was >

Table 1: EU passports

	Total	Inbound[1]	Outbound[2]
Number of passports in total	359,953	23,532	336,421
Number of firms using passporting	13,484	8,008	5,476

[1]Inbound: EU27 passports into the UK
[2]Outbound: UK passports into the EU27

Table 2: EU relationship options

		EU member	EEA (Single Market only)	EFTA (Free Trade Agreement)	Custom Union	MFN	'Duty-free'
		28 European member states	Norway, Liechtenstein, Iceland	Switzerland	Turkey	Australia	Monaco, Singapore
Free movement of goods, services, capital and workers		YES	YES	YES	NO	NO	NO
Free movement of citizens (people) – up to 3 months		YES	YES	YES	NO	NO	NO
EU rules (EU Treaties, Regulations and Directives)	Influence	YES	Very limited	NO	NO	NO	NO
	Compliance	YES	YES	YES, but some opt-outs	SOME	NO	NO
Free to negotiate trade deals and set tariff levels with non-EU countries		NO	YES	YES	NO	YES	In principle, but slower
Fiscal contribution		YES	YES (83% of full rate)	YES (52% of full rate)	NO	NO	NO

With restrictions on Britain's ability to trade with the rest of the EU, 35,000 financial services jobs could be at risk, along with as much as GBP 5 billion in tax revenue.

gathered by the Oliver Wyman consultancy for TheCityUK, a lobby group that argued for remaining in the EU. They further argue, in their worst-case scenario, with restrictions on Britain's ability to trade with the rest of the EU, 35,000 financial services jobs could be at risk, along with as much as GBP 5 billion in tax revenue. These figures are not particularly shocking bearing in mind the impressive number of one million people employed by the financial sector. However, the authors describe this scenario as "conservative" because it does not consider the effects of job losses and lower spending on the wider economy. The findings have been presented to the UK Treasury and other government departments.

Brussels outlook

From our vantage point here in Brussels, we can say that Michel Barnier, who has been appointed as head of the European Commission's Brexit task force is biding his time. He has started touring EU capitals to understand their positions, together with his deputy Sabine Weyand, a senior official from the department of trade, with reportedly close connections to Chancellor Merkel. The exit negotiations will be conducted by the Commission but under a close supervision of the Council.

The latest of potential deals between the UK and the EU being whispered by politicians is a Free Trade Agreement like CETA - with one addendum: a bilateral agreement on financial services market access that would go beyond the FTA. A deal that allows London-based firms to secure a form of access to the EU single market would help preserve London's position as the financial centre. For the EU side, Britain could not just offer to align its rules with the EU's but also to transfer some of the oversight to EU authorities. For example, the European Banking Authority could retain its powers over British banks, as would the European Securities and Markets Authority with the exchanges and so on.

Those pushing for "Canada Plus" hope it could be a solution once the Brexit negotiations reach a level of detail. It is certainly possible to envisage an agreement that could be sold as a win-win for both sides. The EU has a history of reaching a compromise even if it is made at the eleventh hour. The catch is the freedom of movement. But it would not be the first time if, after enough grandstanding, the EU side finally found its way to an adjustment (or improvement) of the rules. Frau Merkel has already given some food for thought in a recent interview, confirming once again that the EU would not divide its four freedoms but also indicating that there is room for discussion on the level of benefits available to EU citizens who exercise their right of free movement.

Realistically, we cannot expect any details soon. But we can expect the tonality to change the longer the negotiations proceed - from dirty to clear. In the end, we may see a new pillar in the EU relationship options outlined in table 2, somewhere between Switzerland, Turkey and Australia.

It is certainly possible to envisage an agreement that could be sold as a win-win for both sides.

EPRA'S MENTORING PROGRAMME FOSTERS NEW GENERATION OF *TALENTED WOMEN FOR TOP JOBS AND BOARDS OF LISTED PROPERTY COMPANIES*

During Hélène de Clisson's recent maternity leave she received an e-mail from Citycon CEO Marcel Kokkeel, her mentor under a EPRA programme, forwarding a media report about a take-over involving her employer, Gecina.

"Marcel said that if it came off, this was the kind of opportunity that I should explore in order to advance my career," said the director of asset management at the French REIT, who returns to work in early December following the birth of her second child. "I really appreciated it. His practical advice, the support and time that he has devoted to me have given me more confidence about fulfilling my ambitions."

Proposed by Gecina's Human Resources department, she is one of 15 young female executives drawn from EPRA's membership who have joined the association's mentoring programme with senior industry executives. EPRA aims to expand the programme further in 2017 because of a growing waiting list of applications.

EPRA established the programme last year to address the gender diversity gap in the top management and boardrooms of Europe's listed property companies. The programme is designed to help companies promote and hire women by developing a pool of talent that will form the next generation of senior executives and board members.

Women occupy 21% of the board seats of the 91 companies in the FTSE EPRA/NAREIT Developed Europe Index as of June 30th, up 1 percentage point from the same period a year earlier, EPRA's research shows. This headline figure masks, however, considerable differences between countries and the impact of large companies. Management consultancy McKinsey highlights in its Women Matter research that listed companies with a top quartile representation of females in their executive committees are more profitable and have higher standards of governance than those with none.

Women occupy 21% of the board seats of the 91 companies in the EPRA Developed Europe Index , up one percentage point from the same period a year earlier, EPRA's research shows.

"Getting to the top is tough for anybody but women are held back by perceptions about their role in the family," said Rachel Lavine, CEO of Gazit-Globe and Vice-Chairman of Atrium European Real Estate. "Family life has been a support not a hindrance to my career, which is how employers should look at it."

Hélène de Clisson
Gecina

She mentors Irina Lenchuk, a consultant at the global property advisory firm RealFoundations, whose past experience in managing development projects in her native Russia and her current work have impressed Lavine so much that she is an avid supporter of the programme.

"My ambition is to be CEO"

RealFoundations were very early adopters in the diversity programme, recognising from the outset the use of the scheme in promoting successful women. Andrew Carey, Managing Director Europe commented "This is part of our global programme to support diversity in the workplace and RealFoundations are extremely appreciative of the high quality mentoring provided by the EPRA mentors to our staff."

Marcel Kokkeel
Citycon CEO

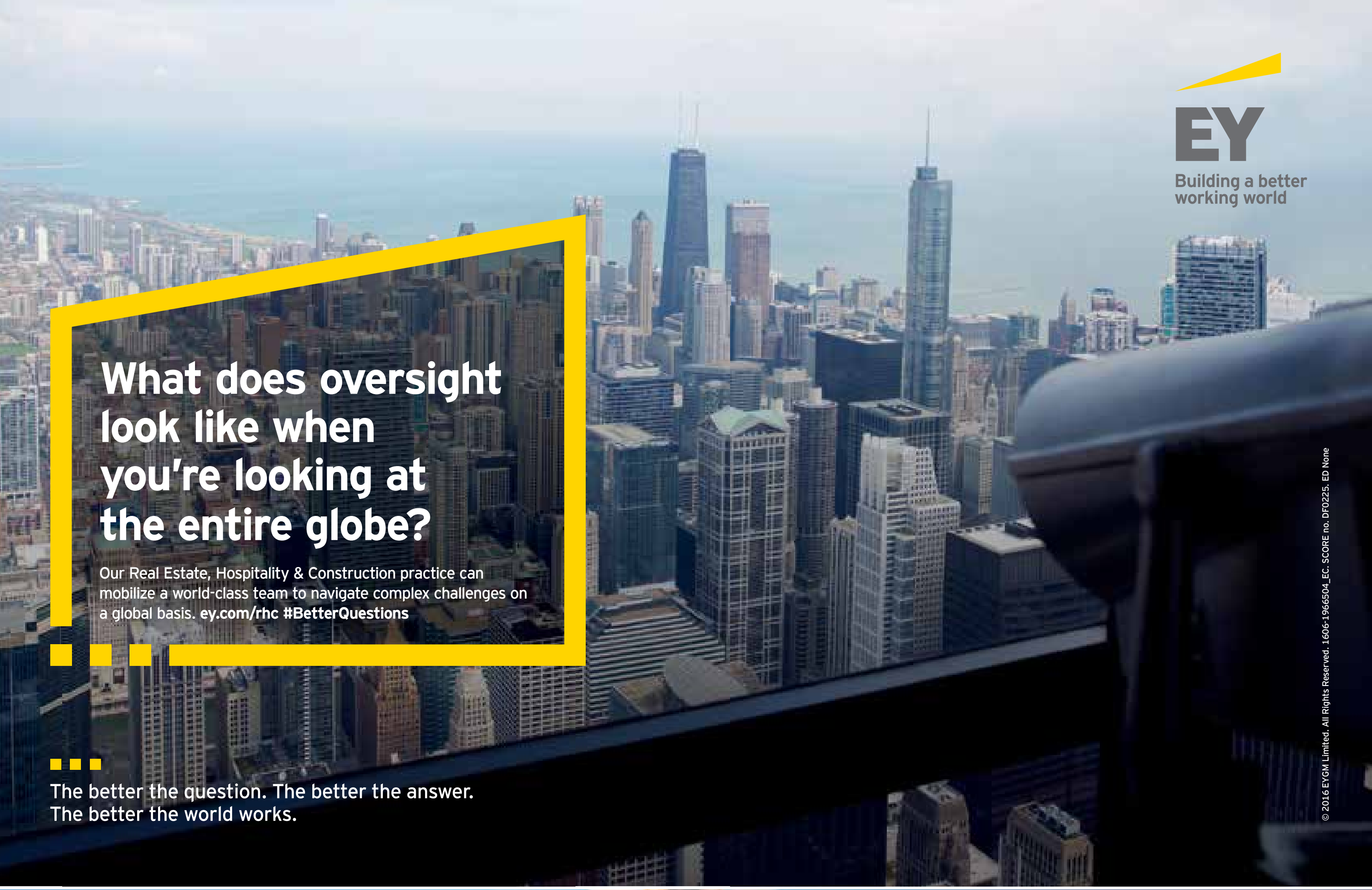
For Clisson, the tips and feed-back from Kokkeel have helped her find focus in her career progression, which she hopes might lead to a CEO role one day.

"My ambition is to become a CEO," she said. "It's hard to advance as a woman in the property industry and in the French corporate culture, but I don't see motherhood as a barrier to my ambitions. Marcel's counsel and our candid conversations have been very beneficial for my personal development."

Irina Lenchuk
RealFoundations

Kokkeel himself says the mentoring programme helps him in his approach to management, since he too gets valuable insights from his French protégé.

"The competition for talent means corporate loyalty isn't as prevalent as it was in the past, so the challenge for all of us in the industry is to build the loyalty of the next generation of managers by working to fulfill their ambitions," he said.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Dear Santa

What we would like for Christmas from the property industry

The dreaded question

Almost every time we meet an investor new to the quoted property sector, the dreaded question is asked. The one we cannot answer despite having covered this sector for years – we have nearly thirty years of combined property research experience between the four of us in the team. The one we cannot answer despite this being such an important topic.

"So how much maintenance capex do these companies spend?"

Yes, that is the dreaded question. Maintenance capex is a critical measure. And yet for most companies we cover we do not have the answer to this question.

We're not asking for much
We would like company disclosures to address two very simple issues:
(1) How much maintenance expenditure has the company spent in the reporting period?
(2) How was that expenditure treated from an accounting perspective; was it expensed or capitalised?

Potential justifications and explanations why companies do not disclose this

Other than for German residential companies and a few others, disclosure and transparency on capital expenditure remains limited to non-existent. Yes, we appreciate that differentiating between types of capex can be challenging; maintenance capex for office and industrial assets tends to be rolled up into redevelopment at the end of a lease. But even so, we think there should be a better and more transparent way to disclose on this. Also, we argue that retail property, which is a large part of the aggregate portfolios of the listed sector, requires a regular maintenance spend.

EPRA best practice recommendations

Some companies comply with EPRA's best practice recommendations on capital expenditure providing a breakdown between capex spent on acquisitions, development, on the like-for-like portfolio and other capex. But that does not necessarily help us to address the two issues we raised above.

Why we think this matters more than ever

Improved disclosure should lead the equity market to reward those companies that spend an appropriate amount of maintenance capex by providing insights on the sustainability of rental growth and to what extent the dividend is covered. We think this matters more so than ever given current investor concerns about ageing portfolios, and the perceived rising cost of maintaining like for like rental growth while facing eCommerce headwinds.

New Year's resolution

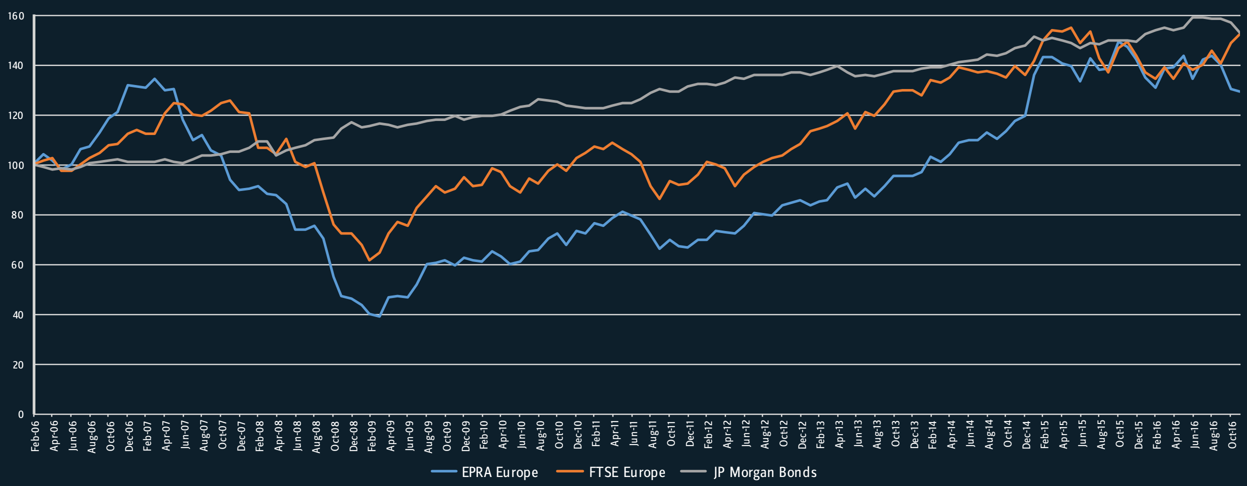
We also think owners of businesses are entitled to receive this meaningful piece of the financial analysis jigsaw. Those companies that screen well on this have an opportunity to differentiate themselves.

Bart Gysens
Morgan Stanley

Bart Gysens serves as a Managing Director in charge of Morgan Stanley's pan-European property research team. He has been nr1 ranked individually by Extel for the last three years, and his team is also currently nr1 ranked in both the Extel survey and the Institutional Investor survey. He has been a property analyst since 2002 when he first joined Morgan Stanley. Bart has an MA in Applied Economics from K.U.Leuven, Belgium and he is a CFA charter holder. He is fluent in Dutch, French and English, and also speaks Spanish and German.

INDEX FOCUS

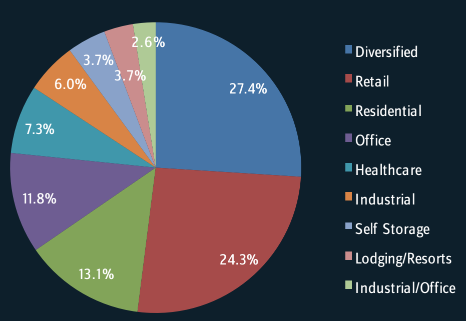
Comparison of Asset Classes



Index Snapshot 2016 year-to-date

Europe (EUR) Total rtn %	Year to date	1 year	5 year	(Long-run) 10 year
Developed Europe	-9.15%	-12.29%	14.04%	0.64%
Dev. Europe Ex-UK	0.35%	-0.79%	14.35%	3.67%
UK	-25.43%	-30.82%	12.44%	-4.62%
Germany	5.74%	5.03%	19.33%	-0.05%
France	-0.61%	-4.46%	13.15%	5.33%

Global Sector Breakdown



Top 10 European Performers 2016 year-to-date

FTSE EPRA/NAREIT Global Index

Stock name	Country	REIT Status	Sector	Investment Focus	Total return year-to-date	Total return 1 year	Total return 5 year
Entra ASA	NOR	Non REIT	Office	Rental	30.11%	27.42%	-
Castellum AB	SWED	Non REIT	Diversified	Rental	24.85%	22.81%	14.31%
ADO Properties SA	GER	Non REIT	Residential	Rental	22.08%	32.04%	-
Hufvudstaden	SWED	Non REIT	Diversified	Rental	19.68%	18.89%	17.83%
Conwert Immobilien Invest SE	OEST	Non REIT	Diversified	Non-Rental	17.66%	24.21%	15.13%
Deutsche Wohnen AG	GER	Non REIT	Residential	Rental	15.56%	12.98%	25.24%
Allreal Holding AG	SWIT	Non REIT	Office	Non-Rental	15.16%	19.82%	7.94%
Medicx Fund Limited	UK	Non REIT	Healthcare	Rental	15.00%	15.34%	-56.47%
Gecina	FRA	REIT	Diversified	Rental	14.99%	12.77%	18.06%
Norwegian Property	NOR	Non REIT	Office	Rental	14.41%	18.86%	6.72%

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