EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Industry Newsletter

ISSUE 54
MAY 2016

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WORKING WITH AND FOR OUR MEMBERS

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work,

shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 215 active members, covering the whole spectrum of the listed real estate industry, EPRA represents over EUR 350 billion of real estate assets and 90% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

EPRA's mission is to promote, develop and represent the European public real estate sector. Through the provision of better information to investors, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe.

Find out more about our activities on www.epra.com

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- Univ. of Western Sydney, Property Research Centre
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- Swiss Prime Site
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UNITED KINGDOM
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- Blackrock Asset Management
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- Capital & Counties Properties
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- Deutsche Alternative Asset Management (UK)
- Deutsche Bank
- Ediston Property Investments
- ESP
- EY
- GIC Real Estate
- Goldman Sachs International
- Grainger
- Great Portland Estates
- Green Street Advisors
- Hammerson
- Hansteen Holding
- Helical Bar
- Henderson Global Investors
- intu
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- Jefferies
- JLL
- JPMorgan
- Kennedy Wilson Europe Real Estate
- KPMG
- Land Securities
- LondonMetric Property
- Medicx Fund
- Moody's Investors Service
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- Nabarro
- NewRiver Retail
- Nottingham Trent Univ.
- Picton Property Income Ltd
- Primary Health Properties
- Principal Global Investors
- Redefine International
- Safestore
- Schroders
- SEGRO
- Shaftesbury
- Standard Life Investment
- Stenprop
- St. Modwen Properties
- Target Healthcare REIT
- Tritax Big Box REIT
- TR Property Investment Trust
- UBS
- Unite Group
- Univ. of Aberdeen
- Univ. of Cambridge
- Univ. of Reading, CRER
- Urban & Civic
- Workspace Group

USA
- CenterSquare
- Cohen & Steers Capital Management
- Dickinson College
- Duff & Phelps
- EII Capital Management
- Fidelity Management & Research
- Forum Partners
- Neuberger Berman
- Northstar Realty Europe
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- Univ. of Cincinnati
- Ventas
- Virginia Tech Univ.
- Westfield Group
- W.P. Carey
- Zell–Lurie RE Center at Wharton

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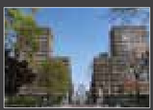

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UPDATE FROM *PHILIP CHARLS*

The times they are a-changin' in real estate investment to paraphrase Bob Dylan. There can be no better indication of that when the world's largest sovereign fund announces it is to sharply increase its portfolio allocation to property, including a significant exposure to listed real estate. Moving from a 5.0% to 7.0% target might not sound so significant, but for Norges, Norway's oil fund, that represents something like an additional € 14 billion this year, at a very conservative estimate, if its goal is reached.

The move by Norges symbolises how these great pools of institutional capital are being forced out of their traditional dependence on core fixed income by the relentless decline in yields created by central banks' QE policies. Real estate is the one alternative asset class that can absorb these huge flows and which is still offering attractive yields, through the dividend streams of REITs for example.

But perhaps even more important for the institutional investors following Norges' lead, is the way the oil fund is using a blended approach of combining non-listed and listed real estate in its portfolio. Extensive EPRA-sponsored research over the years has conclusively shown that a blended strategy can maximise the risk-adjusted performance of the property component and also capture the liquidity advantage of real estate stocks.

BNP Paribas Investment Partners' research paper: "Listed real estate – the asset class for the millennial investor" is featured in this magazine issue and provides further backing for the Norges' approach.

I'd like to think EPRA's representations to Norges played a part in their decision- making and we will certainly continue this close engagement and monitor the evolution of the fund's real estate investment strategy.

"Preparing for change in real estate" is the main theme of EPRA's Annual Conference in Paris in September and we provide an overview of the agenda in this issue of the magazine. >

Very few global companies have the vision for change built into their corporate DNA in the way Google has, so we are lucky to have Ray Kurzweil as a keynote speaker at the conference. Kurzweil was personally hired by Google founder Larry Page in a full-time position in 2012 to "work on new projects involving machine learning and language processing for the company." He is a public advocate for the futurist and transhumanist movements and a renowned commentator on the outlook for life extension technologies, nanotechnology, robotics and biotechnology.

Closer to home, we have a report on the well-attended EPRA 'Masterminds' panel at MIPIM this year, where the chief executives of three of Europe's largest listed real estate companies: Laurent Morel of Klépierre, Chris Grigg of British Land and Rolf Buch of Vonovia, predicted that property prices may rise higher this year from the weight of capital targeting the sector.

EPRA's Strategy Review last year called for more local events in smaller markets and to this end are participating in an Investors Conference at the Realty real estate trade fair in Brussels on May 25, in association with PropertyEU and CBRE.

EPRA makes two appointments to boost its public affairs communications, events & marketing initiatives

EPRA has made appointments in public affairs communications and events & marketing, two areas pinpointed as needing development by the Strategic Review conducted at the end of last year.

Kasia Jasik joins EPRA as Public Affairs Communications Advisor to improve the way that the association projects its brand externally and to enhance internal communication with its membership and associated organisations.

Jasik, a Polish national, joins EPRA from EuropaBio, the European Association for Bio-industries, where she was responsible for communications. Prior to that she worked for three years in developing media and social network strategies within the press and communications service of the EPP Group, the largest political grouping of Members of the European Parliament (MEPs).

EPRA has also appointed **Roxana Pantazica** as its Events & Marketing Manager to assist in organising its investor outreach efforts, enable its participation at industry events and to prepare the annual conference - to be held in Paris this year.

Pantazica, a Romanian national, joins from EurActiv, where she held similar responsibilities. A graduate in European Union Law from Leiden University in the Netherlands, she also has an academic background in Communication Studies and European Public Administration.

"Communication and events were two key areas where members felt EPRA needed to raise its game," said EPRA CEO Philip Charls. "Kasia's experience is perfectly matched to support our needs as we conduct a major expansion in our communication capabilities, while Roxana's expertise will enable EPRA to deliver an ambitious programme of successful events."

WHAT IS NEXT FOR THE UK REAL ESTATE MARKET *(AND THAT REFERENDUM)?*

MELANIE LEECH
CEO, BPF

Ahead of the UK referendum on EU membership planned for 23 June, we talk to Melanie Leech, Chief Executive of the British Property Federation.

1.How is the UK market behaving ahead of the UK referendum on EU membership?

We have certainly seen a slowdown in activity as we approach the EU referendum, much as we did before the Scottish referendum, and to an extent before the general election a year ago.

A recent report from the Royal Institution of Chartered Surveyors (RICS) said only five percent of its members reported increased demand from overseas investors for British commercial property in the last three months.

Depending on the outcome of the referendum, there could be more uncertainty to follow – anecdotal evidence at this year's MIPIM property conference in Cannes suggested that deals were being done with get-out clauses against a UK vote to leave the EU. There is no clarity about the future in that case - but more uncertainty, and therefore less investment, is a high probability in the short term.

2. What are the main drivers for the industry?

The UK's economy continues to do relatively well, certainly compared with other major economies. Growth seems steady and occupational demand is holding up. Furthermore, the UK's real estate market is one of the deepest and most liquid in the world and this – along with the UK's stability and strong property rights - attracts investment from all over the world.

That said, there is some talk about some parts of the commercial property market beginning to look a bit 'hot'. It is important to remember that the market is cyclical, and that it is almost a decade since a correction in prices last took place.

There continues to be a shortage in housing, which means that the residential sector offers lots of opportunities for investment. The build to rent sector has seen particular growth over the last couple of years, with over £4bn institutional investment entering the sector since January, and 40,000 units in the pipeline. The high demand for rental accommodation in the UK, coupled with the good yields and stable returns that the sector offers makes it very attractive to institutional investors.

3. What are the opportunities for the real estate sector in the coming years in the UK?

The build to rent sector remains a very attractive asset class for investors, and there is huge opportunity for growth over the coming years.

As London becomes ever more competitive, investors are also starting to look towards the UK regions. The government has put a lot of effort into promoting regional growth, and initiatives such as the Northern Powerhouse (covering Manchester, Leeds and Liverpool) have really taken off. If overseas investors look outside London they are likely to be attracted to areas that have a strong identity and vision for their future growth - much like Manchester has – and that have strong infrastructure pipelines. We hope that increased devolution across the UK will help city regions develop infrastructure pipelines that will attract more real estate investment.

4. What are the things we should remain cautious about?

The EU referendum and the associated uncertainty aside, we will be keeping a careful eye on government policy over the coming year. The government is committed to eliminating its budget deficit and we are alert the risk of further taxes on commercial real estate (CRE). Despite its important contribution to society and the economy, Government sees CRE as politically uncontentious and taxing it as something that will not alienate voters. It will be up to us to engage with government and make sure that it understands fully the potential cost of imposing arbitrary taxes on a sector that is an important contributor to the UK's economic and social infrastructure.

Melanie Leech
British Property Federation

Melanie joined the British Property Federation as Chief Executive in January 2015, following nine years as Director General of the Food and Drink Federation.
She began her working life as a Police Constable in the Metropolitan Police Service.
She joined the civil service (HM Customs) in 1988 and subsequently held senior roles in the Department for Culture, Media and Sport, the Office of the Rail Regulator and the Cabinet Office.
Melanie is Chair of the CBI Trade Association Council and a Fellow of the RSA. In 2015 she was awarded a CBE for services to the food and drink industry.

www.bpf.org.uk

SWISS PROPERTY SUCCESS STORY

LUCIANO GABRIEL
CEO, PSP SWISS PROPERTY

Following on the last edition's interview with Shaftesbury, we speak to PSP Swiss Property, one of Switzerland's leading real estate companies, known for a very specific business model. CEO Luciano Gabriel gives us his views on the Swiss market and how the company keeps their portfolio in great shape, demonstrating the listed sector's commitment to regeneration.

ONE Why invest in PSP Swiss Property?

"PSP Swiss Property is a transparent 'pure play': we invest in one sector and one country only – commercial properties in Switzerland. We focus on offices in prime locations and, to a lesser degree, in high street retail. Investors know what they get and they appreciate our specific business model. Furthermore, we pursue a long-term strategy aimed at optimising net asset value and earnings per share. Also, since our Company's IPO in 2000, we have consistently raised the dividend payout. In other words, we generate a continuous stream of smoothly increasing dividends for our shareholders. This year, on 6 April, we paid out CHF 3.30 per share for the 2015 business year, corresponding to a dividend yield of nearly 4% in relation to the year-end share price of CHF 88. This is remarkable considering the current low to negative interest rate environment in Switzerland. In terms of value generation for investors, our shares have outperformed their European counterparts since they were first listed in 2000."

TWO Have you ever considered investing outside Switzerland?

"This is a strategic question we regularly pose ourselves. The answer has always been that it's better for us to focus on our home market, which we know best. Going beyond Switzerland would undermine our business model. We keep focusing on the office markets in Switzerland's main business centres, where we expect growing demand for commercial space over the long-term. Most of our properties are in locations with dynamic labour markets, because this is where companies are set up and expand due to the talent and labour pool they can pick from. This is mainly the case in Zurich, Switzerland's engine of growth, as well as Geneva and Basel. While demand in Bern, the country's capital, is stable, it's not really a growth market. In the rest of Switzerland, we take a cautious case-by-case approach."

THREE What's the growth story for PSP?

"Overall the Swiss economy will expand by around 1% this year and probably in the foreseeable future as well. While this growth rate may be slightly higher than in neighbouring countries, it remains modest. As a result, demand for office space is unlikely to increase. We expect the rental market overall to move sideways or slightly downwards in the next three to five years. Currently, we are in a situation with overlapping weak economic cycle and long-term structural change of the demand for commercial space. However, this is not really a problem for PSP Swiss Property. In such a sluggish environment, the prime locations and the quality of our buildings represent a clear competitive advantage. Also in a stagnant market we have a great opportunity to attract tenants from elsewhere to move to our new or newly renovated properties in their preferred locations. Many commercial properties on the market today are outdated; when larger companies decide to move or to centralise in one place, they clearly prefer new buildings. Often, these decisions are related to changes in management, collaboration or communications models within a company. Here, our strength is really showing. We have built up a competitive edge over the past years by pursuing a strategy that focuses on the quality of our properties and not on the size of our portfolio. The vast majority of our buildings are in great shape; some properties, however, which are located just outside the central business districts, no longer meet today's requirements. Here, we opt for total renovations or even the demolition to replace older buildings with new constructions offering everything modern tenants expect. We invest in improving the quality of what we already own instead of competing with pension funds and insurance companies simply to expand our portfolio – and paying prices which we consider inappropriate."

FOUR What is the outlook for interest rates, the economy and the exchange rate.

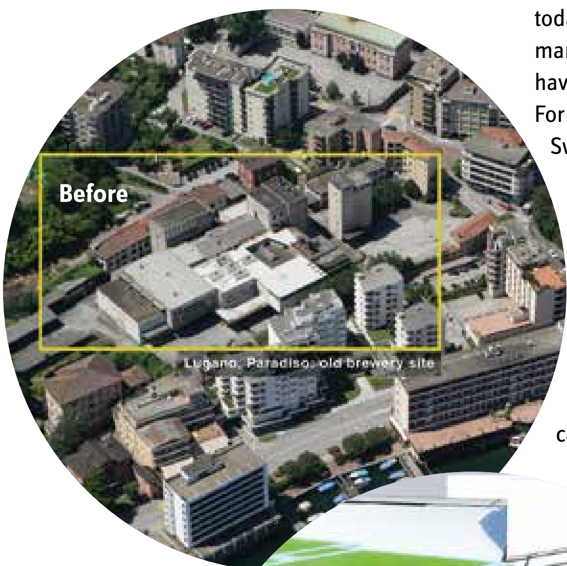
"If we were convinced that the Swiss National Bank would continue its current policy for years and years, we would start buying aggressively. However, we don't think that we are in a stable financial equilibrium. It's just a matter of time until there will be some serious disruption on the markets. But, of course, nobody knows exactly what will happen and when. That's why we keep leverage low and remain cautious in everything that we do. Our priority is to optimise the value of our properties with a long-term view." >

Office space

PSP Swiss Property transformed the old Hürlimann Brewery site into mixed-use development for offices and leisure, including the office of Google.

Urban Living

When finalized, the old industrial brewery site in Paradiso, on the shore of Lake Lugano, will be transformed into build for-sale apartments.



FIVE How has PSP's portfolio changed over time?

"We made our first big acquisition in 2001, buying a CHF 409 million portfolio from Swisscom. But the biggest step was in 2004, when we merged with REG Real Estate Group, a former Swiss brewery. In fact, most of our development sites are former brewery sites. We acquired a CHF 1.2 billion property portfolio, consisting predominantly of very well located investment properties. We thus became the owner of properties that would hardly be available on the Swiss market today – not least because the investment market is so illiquid. Since the merger, we have made very few individual acquisitions. For quite some time now, competition from Swiss institutions such as pension funds and insurance companies has been so strong that we have not been able (and willing) to make any larger scale acquisitions. Conversely, we sold quite a number of properties in peripheral regions. But, as I mentioned before, our focus has been on improving the existing portfolio anyway with significant capital expenditures on selected individual properties."

SIX Do you expect market conditions in Switzerland to change to create investment opportunities?

"In the Swiss market, there is a buy-and-hold mentality. The real estate capital gains tax is just too high for short holding periods. As a result, property investors hold on to their investments for years. It's also a market with relatively low leverage, which means that forced sales are rare. Most investors are equity investors – pension funds, insurance companies, companies with surplus cash or

...most of our development sites are former brewery sites. We acquired a CHF 1.2 billion property portfolio, consisting predominantly of very well located investment properties

wealthy families. If you don't have investors who have to exit the market in difficult times, supply remains small. In the rental market, the overall demand for commercial space is stagnant and rents are declining slightly. On the other hand, property prices are going up, because institutional investors have nowhere else to go in this low to negative interest rate environment. As a consequence, the investment market is very, very competitive and it's difficult to find good assets at reasonable prices. In Zurich, for instance, we are talking about net initial yields significantly below 3% for the few opportunities available on the market. In addition to accepting such low net initial yields, it is often unclear how you should be able to sustain even this level, taking into account upcoming lease contract renewals or renovation costs to keep existing tenants. We think certain investors are a little too aggressive when it comes to pricing. In short: we do not expect any substantial changes in the market in the short run."

SEVEN What does PSP spend each year to keep your buildings fresh and attractive for tenants?

"In a normal year, we invest around CHF 50 million in our investment portfolio. This does not include demolitions and redevelopments of individual buildings and sites; this amounts to a total of around CHF 300 million combined in 2016 and 2017. This is one of the reasons why we allow our overall vacancy rate to rise – we voluntarily give up some rental income in the short term for the prospect of lower vacancy rates and higher rental income in the medium term. Some-times it is obvious that we will not be able to gain a new tenant when an existing large one leaves, unless we carry out a radical renovation. Clearly, it makes sense to keep a building vacant for a while and invest the necessary time and resources to enhance its appeal and marketability."

EIGHT How do you approach developments and what part do residential assets play in your strategy?

"Developments represent about 8% of our portfolio. We develop exclusively sites that we already own. We don't buy land for building. In Switzerland, land is just too expensive compared to the value of the finished development. And there is also a considerable downside risk during the planning and construction phase. As to rental housing, it is a strictly regulated market in Switzerland that does not really offer great upside potential. Consequently, residential assets are not a major strategic option for us and we will not invest in residential property for the long-term. When we develop one of our existing sites, we focus on achieving the highest potential value for a specific location. If the answer lies in residential use, we usually build for-sale condominiums. This is the case, for example, at our planned project in Lugano/Paradiso and the residential part of our ongoing development project in Rheinfelden. Indeed, the construction of condominiums on our own land was part of our success story in the past."

Luciano Gabriel
PSP

Luciano Gabriel joined PSP in 2002, initially as its Chief Financial Officer before becoming CEO five years later. Prior to this, he spent four years in charge of corporate finance and group treasury at Zurich Financial and 14 years at UBS in various roles in London, Milan and Zurich. Mr Gabriel is the current Chairman of EPRA's Board of Directors.

www.psp.info

EPRA Annual Conference 2016 – THE event to be listed in

Real estate – preparing for change

Attracting over 300 delegates every year from the listed real estate sector, our flagship event provides a platform for high-level networking and reflection on the opportunities created by an expanding sector.

This year's edition will be held in Paris, with a French property tour kicking-off the first day in Paris Centre, La Défense and Paris North & East providing delegates access to top management on the site of some prime Parisian assets. The main day will introduce outstanding speakers including Google futurist Ray Kurtzweil and the current Mayor of Paris, Anne Hidalgo, who will present their thoughts on the industry and its prospects.

"When the wind of change blows, some people build walls, others build windmills." (Chinese proverb)

With development coming at an ever-increasing speed in a capital intensive industry, the governing theme for the 2016 Conference is "Preparing for change in real estate". The real estate sector has to integrate the market's own mega-trends with urbanisation, demographic and wealth changes, globalisation, specialism, technology, sustainability and regulation.

Programme for the conference

Tuesday
06 September, 2016

French Property tour
There will be 3 tours to choose from, each managed by a leading bank:
- Paris CBD
- Paris La Défense
- Paris North & East

Wednesday
07 September, 2016

Real Estate - Preparing for change Welcome by EPRA CEO & Chairman
European Economic Vision Q&A
Technology & behavioural trends affecting real estate (inc sustainability) Key note: **Ray Kurzweil – Google** Presentations and debate on retail trends and office trends
Lunch with keynote speech
EPRA Research Latest findings
EPRA Financial Workshop
Future of Paris - Key note: **Anne Hidalgo - Mayor of Paris**
Real Estate and GICs – Implications for our industry
Global Investor Panel
Cocktails
Dinner

Thursday
08 September, 2016

Thursday will bring together a choice of 18 small and mid cap companies which you don't hear from everyday. All index constituents, they will pitch to an investor audience throughout the final conference day of presentations.

The companies will be chosen based on investor survey, bringing the most innovative and agile into the spotlight.

We look forward to seeing you in Paris!

#EPRAParis2016

Ray Kurzweil

Rightful heir to Thomas Edison

We are pleased to welcome Ray Kurzweil, one of the world's leading inventors, thinkers, and futurists, with a thirty-year track record of accurate predictions, as the keynote speaker at this year's conference.

Called "the restless genius" by The Wall Street Journal and "the ultimate thinking machine" by Forbes magazine, Kurzweil was selected as one of the top entrepreneurs by Inc. magazine, who described him as the "rightful heir to Thomas Edison." He holds twenty honourary Doctorates, and honours from three U.S. presidents.

Kurzweil was the principal inventor of:

- the first CCD flat-bed scanner,
- the first omni-font optical character recognition,
- the first print-to-speech reading machine for the blind,
- the first text-to-speech synthesizer,
- the first music synthesizer capable of recreating the grand piano and other orchestral instruments,
- and the first commercially marketed large-vocabulary speech recognition.

Kurzweil will present his insights on the coming technology and behavioural trends in Real Estate.

Kurzweil has written five national best-selling books, including New York Times best sellers *The Singularity Is Near* (2005) and *How To Create A Mind* (2012).

He is Co-Founder and Chancellor of Singularity University and a Director at Google, heading up a team developing machine intelligence and natural language understanding.

Anne Hidalgo

Madame La Maire

"I am the first woman mayor of Paris. I am aware of the challenge."

Originally from the Spanish province of Cádiz (famous for being the only town that did not surrender to the French during Napoleon's attempted occupation in 1810), Anne Hidalgo was a prominent political figure in France before even aspiring to being the mayor of Paris.

She served in three cabinets under the Jospin Government as adviser, consultant and technical officer to the different cabinets: in the Ministry of Employment and Solidarity, then for the Secretary of State for Women's Rights and Vocational Training, and in the Ministry of Justice.

Anne Hidalgo led the Socialist Party in the French municipal elections in 2001, as a result being appointed First Deputy Mayor of Paris, until 5 April 2015 when she assumed office as Mayor of Paris, following the March 2014 municipal elections.

Come, meet and greet Madame la Maire at EPRA Annual Conference!

EPRA'S 'MASTER-MIND' PANELLISTS SEE SCOPE FOR *MORE ASSET PRICE GROWTH IN 2016*

Property prices may rise higher this year from the weight of capital targeting the sector, the chief executives of three of Europe's largest listed real estate companies predicted during EPRA's packed Masterminds panel discussion at the annual MIPIM trade fair in Cannes on March 16.

Asked by moderator Allan Saunderson, Editor Emeritus of Property Investor Europe magazine, how they view the current real estate cycle, Laurent Morel of Klépierre, Chris Grigg of British Land and Rolf Buch of Vonovia agreed that pricing reflects the attraction of real estate assets to yield-hungry investors.

"Very low interest rates affect the way people are thinking about returns," said Chris Grigg, the CEO of London office and UK retail specialist British Land. Historical comparisons about the pricing "are not as obvious as they otherwise might be," he added, highlighting how 50-year UK swap rates are hovering around just 1.5%.

Grigg predicted that prices will continue to rise for offices in central London, however he expects rental growth for Grade A space to rise in tandem with price gains to keep net initial yields stable. The outlook for pricing is more mixed for retail properties in the UK, he said, with scope for yields to fall for assets, with the exception of the largest and most in-demand investment properties.

Laurent Morel of shopping centre owner Klépierre anticipates "lower yields" for "good assets" - large shopping centres and buildings in prime shopping locations in continental Europe - because of the scarcity of investment-grade stock on the market. Similarly, Rolf Buch, CEO of Germany's largest listed residential investment company Vonovia, expects the housing shortage to be supportive for rental growth and prices. He noted, however, that "certain cities are getting too expensive" in Germany.

None of the panellists are taking advantage of lower interest rates to borrow more to fund acquisitions, preferring to reduce their debt and lock in cheaper financing costs. Grigg said this discipline is a result of shareholder pressure following the financial crisis of 2008 and 2009, when many property companies were caught out from being over-leveraged: "If it goes wrong, it tends to go badly wrong." Instead, British Land is focusing on its underlying operating performance, he said. >

> *"None of the panellists are taking advantage of lower interest rates to borrow more to fund acquisitions, preferring to reduce their debt and lock in cheaper financing costs"*

“Buch gave the example of the 40% saving achieved in purchasing windows for Vonovia’s €800 million a year capital expenditure budget for its 360,000 residential units.”

Morel agreed, saying that Klépierre is not interest in “growth for growth’s sake, but growth with quality,” while Buch said that Vonovia is reluctant to pay high prices for assets, so it is reducing the company’s leverage to give it the necessary firepower for opportunistic purchases in the future.

Vonovia’s growing platform has delivered genuine economies of scale, Buch said, when questioned if a property company’s size matters. He gave the example of the 40% saving achieved in purchasing windows for Vonovia’s €800 million a year capital expenditure budget for its 360,000 residential units.

All of the panelists welcomed stock index changes that will separate listed real estate from the traditional “financial” classification of equities. Real estate “is the biggest asset class in the world and so should be regarded on its own,” Morel commented.

When asked about the challenges that he faces, the Klépierre CEO said it was responding to the changing patterns of shopping and lifestyles of consumers, driven by online commerce. This has made retailers and shoppers focus on city centres and locations with good public transport connections. Later in the Q&A session, he outlined how demographic shifts are creating winners and losers among towns and cities, with wide disparities in local economic performance that are not captured in national statistics.

Buch said that Germany faces a massive problem in providing the 400,000 affordable homes a year needed to accommodate the well-publicised immigration pressure, in addition to existing housing demand. He estimates that only 60,000 affordable homes get constructed each year in Germany.

“This is a challenge and I can tell you openly that no politician or me, for that matter, has any clue of how we will manage it,'' he said.

When asked about the UK referendum on its membership of the European Union, Grigg observed that the uncertain outcome had led to “people taking their foot off the gas” in terms of investments in the London housing market, while the share prices of the largest UK property companies and London-focused groups have also come under pressure.

“We think it’s better to stay in the EU,'' the British Land CEO said, a sentiment echoed by his fellow panellists.

“We think it’s better to stay in the EU,'' the British Land CEO said, a sentiment echoed by his fellow panellists.

NORWEGIAN SOVEREIGN WEALTH FUND *TO BOOST EXPOSURE TO REAL ESTATE*

Norway's €730 billion sovereign wealth fund plans to increase its exposure to real estate to 7.0% of its portfolio from 5.0% currently, according to media reports at the end of March. If Norges achieves its target, then the world's largest sovereign wealth fund could pour an additional €14 billion into property markets this year, including a significant proportion into listed real estate companies.

EPRA's investor relations team, in partnership with academic and investor members, has been actively engaging with Norges and supplying the fund with research and data on the performance of the listed market and its place in an institutional investment portfolio over a number of years. That interaction has intensified in recent months.

The switch to higher yielding real estate has come largely at the expense of Norge's fixed income investments where yields have slumped, but the liquidity advantages and superior performance of blending property stocks and non-listed property in institutional portfolios are also believed to have played a key role in the fund's decision making.

In order to meet its target, Norges plans to increase the number of staff in its property operations from 104 to 200 by 2017, according to its latest annual report.

"Our goal is to build a global, but concentrated, real estate portfolio. The strategy is to invest in a limited number of major cities in key markets while seizing opportunities in the global logistics market," the fund added in the report.

"Net rental income is expected to be relatively stable over time, generating a steady cash flow for the fund."

The Financial Times quoted Michael Maduell, president of the Sovereign Wealth Fund Institute as saying the Norwegian oil fund had been "late to the real estate game" when compared with other state-run funds such as the Abu Dhabi Investment Authority, the Kuwait Investment Authority and the GIC in Singapore.

Other large investors are likely to follow Norges' lead and boost their property exposure according to Nick Holt, head of Asia-Pacific research at Knight Frank, in the FT article.

He estimated that around two-thirds of the world's 50 sovereign wealth funds, which collectively oversee $6.5 trillion of assets, are already invested in property. Those with no, or lower, investments in real estate will probably attempt to catch up.

"If Norges achieves its target, then the world's largest sovereign wealth fund could pour an additional €14 billion into property markets this year, including a significant proportion into listed real estate companies."

Real estate, which is treated as a separate asset class within the Norwegian sovereign wealth fund's portfolio, was its best-performing asset class last year, returning 10% - much higher than its 3.8% return on general equities and 0.33% on bonds.

THE AMERICA REALITY

NAREIT was the first to promote REITs back in the 1960s. How the market and their approach has changed.

NAREIT represents the diverse US real estate industry, including equity REITs (which own commercial properties), mortgage REITs (which invest in mortgage securities), public non-listed REITs and private REITs. US REITs collectively own nearly USD 2 trillion of real estate assets and, by making investment in commercial real estate available in the form of shares, its REIT members enable all investors – and importantly, small investors – to achieve what, once, only large institutions and the wealthy could. This core message of the "democratisation of real estate" is one which resonates especially loudly in the US market.

REIT-based real estate investment historically has delivered long-term performance and strong dividends for investors. Over the last 20 years, stock exchange-listed US REITs delivered their shareholders a compound annual total return of 11.1%, higher than the S&P 500's 9.8%. In 2014, listed US REITs paid out USD 41 billion in dividends. This is one factor which makes the task of NAREIT lobbying in Congress just that bit more effective as the numbers speak for themselves. Indeed, a decade of data consistently turns up the same result: a 20% exposure to listed real estate provides the optimum performance in any portfolio. Unlike many industry or interest groups, they can enter the lobby grinder at the Congress with an honest and solid story. Yet that's not enough.

"The biggest issue we face is perception over reality" said Mike Grupe (Exec Vice President). It's ironic that despite such clarity, some investors and regulators just don't get it. Education of policy-makers and investors is still a massive challenge."

"Unlike many industry or interest groups, they can enter the lobby grinder at the Congress with an honest and solid story."

The volatility factor, for example, still weighs heavily on some. Some investors find a comfort in seeing a constant portfolio value year-on-year – via public non-listed REITs for example, whose shares just are not traded – despite the fact that far better returns could have been achieved. Grupe points out that this is just not rational, but remuneration is not always based on a long-term strategy! >

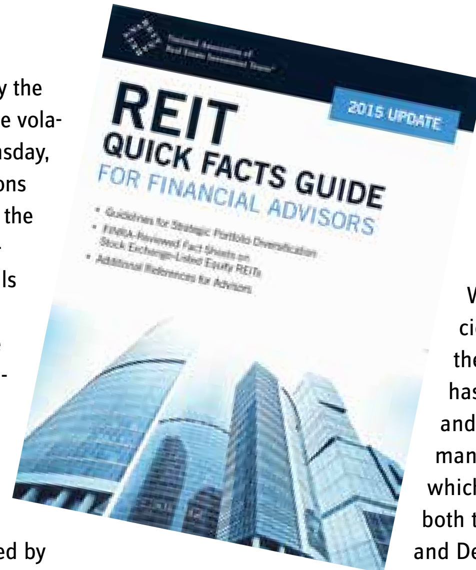
Such is the challenge faced by the Outreach teams at NAREIT: the volatility myth, interest rate doomsday, bad press over REIT conversions which has often merged with the totally unconnected tax inversion story [large multinationals acquiring foreign-based companies to shift their corporate HQ], all combined with a general lack of understanding.

In this context, it is essential for NAREIT to take a lead in education spearheaded by two in-house economists. This enables them to respond quickly and with academic rigour to media and investors' queries. Over the years, the Association has also developed a fearsome array of in-house research collateral from its research teams. A wide range of sponsored research gives NAREIT an even greater analytical capability, partnering with universities like MIT, and respected bodies like Morning-Star and Wiltshire. The subtlety of recurring analysis, such as: "a portfolio holding with under 5% REIT content brings higher risk due to less temporal diversification" can be filtered through all NAREIT messaging to the USD 18.8 trillion Defined Benefit, Defined Contribution and Individual IRA target areas.

NAREIT reaches directly to the financial advisers with hands-on printed tools that rebuff misconceptions surrounding REITs. The packs go so far as to offer recommendation on how to use the data provided to best share their arguments to retail investors and pension holders.

A bearer of good news

Another of NAREIT's key advantages in speaking to investors is that they "do not have a budgetary impact". The Outreach team are not looking at selling a product and therefore investors are more comfortable in speaking openly. From this, NAREIT finds itself in the privileged position as being viewed as an



independent arbiter with respected and trusted research to offer to investors.

With top agencies in support, the Association has considered and formally tested many messages which appeals to both the Republican and Democratic base. With an estimated 70 million US citizen voters already holding REIT assets in their 401K retirement plans – either by choice or chance – few politicians would recklessly promote any tax reform that would potentially damage this massive investor base. "They really wouldn't want to mess that one up!" he says.

NAREIT is acutely aware that their remit is a national one, to represent their members at the Federal level. This is where they spend the majority of their efforts in lobbying those on the Hill. However, they will, where necessary, become involved at a State level when there are potentially wider ramifications. A recent legal battle in Hawaii was one such occasion where NAREIT was asked to provide expert industry evidence to the court – such is the reputation they have built up.

Setting the right tone

The Association aims to set the background tone via mass-market videos, website and blogs. NAREIT's most effective technique is to personalise and simplify their advertising. Through their "How can you own?" advertisements, it delivers a simple message which is easily understood. NAREIT is also aware that more often than not, they try to tell people everything they need to know rather than what they want to hear. That's why through the use of focus groups, NAREIT continually adjusts its messages based on scientific and quantifiable feedback.

NAREIT also sees the strength in working with other real estate bodies, including EPRA, which build the reputation of the global listed real estate sector. As part of the REESA alliance, NAREIT work closely with the other REESA members on joint initiatives ranging from financial standards to sustainability reporting. This not only ensures that best practice is spread across the entire listed real estate world, but that the REESA alliance has a coherent, unified message.

To assist the development of the 'REIT' brand, NAREIT established the .REIT domain. The domain is open to all REITs across the world and can be used as an effective branding tool to raise the profile of REITs.

The US market enjoys many differences to Europe's listed sector. Its benchmarks, Federal powers, tax and pension provisions and lower turnover of staffers in Washington mean that NAREIT works differently from EPRA. In fact, half of Congress has turned over since Obama's inauguration. Europe and EPRA's challenge takes into account national-level tax focus, lower personal investable income, in-built social safety nets and a regular flush-out at EU level. We especially focus on Reporting metrics and transparency, with an actively trading and weighted index based on ground rules.

Despite these differences, the story on both sides of the Atlantic is remarkably similar. In the long-run, REITs perform in the same manner as direct holding of real estate. They provide stable, long-term returns, while offering the liquidity of equities. This is a simple, clear message which both NAREIT and EPRA will continue to promote in representing the publicly listed real estate sector.

Designing it-shopping places

The Retail Only® spirit means a portfolio of leading shopping centers in Europe's most dynamic urban areas; it also means bringing retailers innovative responses to their expansion plans and offering our 1.2 billion visitors a year a rich and unique experience.

Klépierre, Retail Only®

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KLEPIERRE

M&C Saatchi Little Stories

LEEDing the way

As part of EPRA's fact-finding tour to the US and NAREIT [which you can read about on page 17], EPRA took the opportunity to speak to the US Green Building Council (USGBC) to hear about its efforts in promoting sustainability in commercial real estate.

EPRA met with Roger Platt, Senior VP to discuss the role and development of the USGBC and its plans for the future. Platt explained that despite its present day position, the USGBC was somewhat of an unexpected success. Initially established by a small group of sustainability practioners looking to quantify their own sustainability credentials, the USGBC now employs over 250 staff and heads a conglomerate of five rating systems. Every day, 250,000m2 of commercial space is LEED-certified, with double that amount being registered for future certification.

Platt believes that the success of the LEED system comes down to its organic growth, with owner-occupiers – prominent brands – initially wanting to work within an overtly sustainable building. From this, tenants of buildings then pushed to occupy sustainable spaces and finally investors are now demanding sustainable certification. With this new level of scrutiny, Platt believes that property company CEOs now need to understand sustainability and ratings to an entirely new level – as investors are knocking at their door.

LEED has no interest in directly competing with other schemes. Platt believes the strength of the LEED brand is that a LEED building "is a LEED building" no matter where it is located. BREAM on the other hand, is targeted to the local market and conditions and therefore caters to a different audience.

Platt highlighted interesting regional dynamics when it comes to displaying LEED certification. In developing markets, the U.S. stamp carries a certain amount of kudos to objectively certify a local developer's claims to be green. In more developed markets, especially where local buildings are in many areas at a higher level than what LEED necessitates, there is an element of "LEED fatigue".

Platt says that the LEED brand is not above criticism and is something which they in fact relish. "We need to be bashed by investors and environmentalists". This is in-part why LEED has been so successful. It does not cater for one particular group. Environmental groups would like LEED to be at the forefront of sustainable practices. Market practioners would prefer a more commercial approach. By treading this admittedly fine line, LEED has been able to develop into a market leader.

Aware of the need to improve the performance of existing buildings, which clearly make up the majority of the market place, USGBC introduced 'LEED in practice'. This has helped to push up standards for existing buildings and make them comparable to those of new developments.

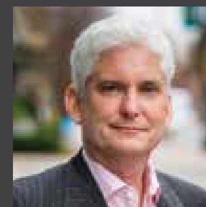
Not content with heading five accreditation platforms, USGBC has expanded its remit to providing technology to display real-time performance of sustainability. The interactive, easy to use system clearly displays a building's performance. This allows both the users and owners of the building to assess how sustainable they are being. On visiting the USGBC office, EPRA noted they proudly displayed their platinum plaque. Interestingly Platt observed, there have been occasions where the USGBC's own office has dipped to a gold rating – demonstrating how sustainability is an ongoing process. >

"There have been occasions where the USGBC's own office has dipped to a gold rating – demonstrating how sustainability is an ongoing process."

To encourage building owners to keep on top of their sustainability performance, each accreditation is dated with the year the building was successfully inspected. "The plaque is theirs to keep", says Platt, "but adding the year helps to create a stigma" if the award is several years old.

One of the questions EPRA was keenest to ask was about the green premium – do green buildings trade or lease at a premium? The short answer is yes, but in more ways than one. Platt believes that a certified building - in addition to earning higher rents than non-certified buildings - also experience reduced vacancy time. For Platt, measuring vacancy time is another very effective measure of the accreditation's success, rather than looking only at rental or sales price increases. There is certainly a "brown discount" for the non-certified buildings which is why they take longer to lease up.

> *"The plaque is theirs to keep", says Platt, "but adding the year helps to create a stigma" if the award is several years old.*



Roger Platt, *SVP of Strategic Planning, Green Business Certification, Inc. (GBCI)*

Roger serves as Senior Vice President, Strategic Planning for GBCI, Mr. Platt brings 30 years of experience with the U.S. and global real estate industry to help ensure GBCI provides top quality customer experience and can competently – and strategically – compress the period of time necessary to positively impact buildings and related infrastructure in over 150 countries.

www.gbci.org

LISTED REAL ESTATE – *THE ASSET CLASS FOR THE MILLENNIAL INVESTOR*

Research by BNP Paribas Investment Partners

Listed real estate has come of age as a significant asset class in its own right. Its size and diversity have expanded considerably over the last 15 years, although many investors have yet to accept this. Despite the worldwide growth in real estate investment trust (REIT) regimes and research on the potential benefits, many still favour investing in real estate directly or in non-listed investment vehicles.

Our research shows investors can improve the risk/return profile of balanced portfolios by allocating to global listed real estate. We believe one of the more thought-provoking findings is that listed real estate's liquidity characteristics – real estate stocks can be bought and sold easily – have allowed investors to continue investing in real estate despite the recent financial market volatility.

Listed real estate as a portfolio diversifier

The search for the highest possible portfolio returns has intensified in recent years as expected returns on risk-free assets have plunged. Real estate has come more sharply into focus as portfolio strategists recognise its attractive income and overall returns.

Against this backdrop, we have assessed whether listed real estate can improve the risk and return characteristics of a multi-asset portfolio, using a robust optimisation[1] technique.

Our research shows that including listed real estate in an allocation can improve returns dramatically without increasing volatility. Exhibit 1 shows the optimal listed real estate weight is almost 9%, improving the Sharpe ratio by a significant 14%.

Should REITs be included in institutional real estate portfolios?

One of the most persistent investor criticisms of listed real estate is that over the short term, these stocks behave like other equities and are just as volatile, while direct property markets and stock markets are uncorrelated, making the direct sector a portfolio diversifier, while listed real estate is not.

On the whole, academic research into the relationship between the performance of listed and direct real estate investment suggests that the returns from both asset classes are comparable in the long run. We agree. Listed real estate companies manage properties and collect rents and their capital expenditure and development costs are similar to those of unlisted real estate companies. The value of listed real estate companies is affected by the same changes in property markets and values over the long term.

Our research confirms that, in the US, direct real estate and listed real estate have a low investment return correlation over shorter time periods. However, this rises over the longer term. In the UK, this correlation has always been high and increases over time. >

by Shaun Stevens

1 Bootstrapping optimisation takes into account the estimation error in risk and return forecasts by generating several hypothetical asset return scenarios, sampling from the historical distribution of asset returns and finding the portfolio that is optimal across the simulated scenarios. We used this optimisation to find the optimal portfolio allocation which maximises the Sharpe ratio of multi-asset portfolios for global, US, EMU and UK investment universes. We considered the impact of allowing the portfolio to also invest in listed real estate. The other asset classes considered on a regular basis by investors are equities, bonds and commodities.

Exhibit 1: Maximum Sharpe ratio portfolio allocation for a global portfolio with and without listed real estate. Monthly returns in local currencies. 30 September 1990 to 30 September 2015

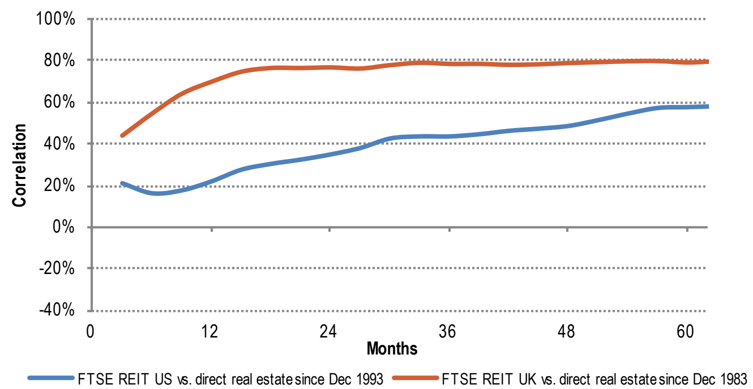
		Maximum Sharpe ratio portfolios Listed real estate	
		excluded	Included
Equities	MSCI World	19.0%	15.3%
Bonds	Citigroup US GBI 10Y+ Yea	31.8%	28.2%
Corporates bonds	Merrill Lynch Global Broad Market Corporate index	42.7%	43.5%
Commodities	S&P GSCI Commodity index	6.4%	4.4%
Listed real estate	FTSE EPRA/NAREIT Developed	0.0%	8.6%
Annualised excess return (USD)		4.9%	5.7%
Volatility of returns (USD)		5.8%	5.9%
Sharpe ratio		0.89	1.01

Data source: FTSE EPRA, MSCI, S&P and FactSet

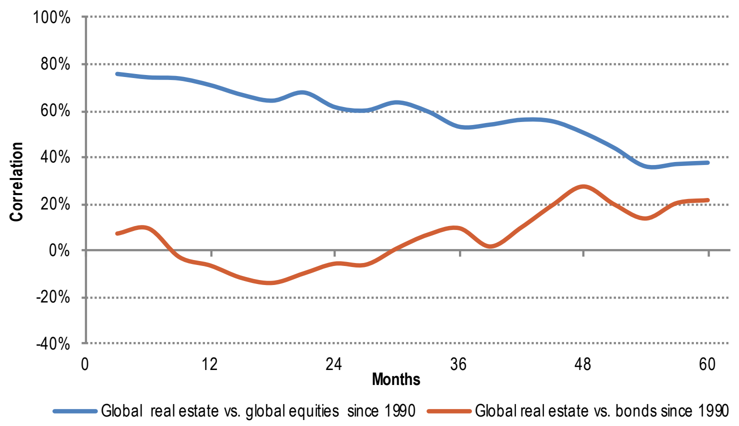
Exhibit 2 (Right): Correlations between listed real estate total returns and returns from direct real estate for the US and UK over different investment horizons.
30 September 1993 to 30 September 2015.

The results are compelling: in the shorter term, listed real estate tends to behave more like general equity, but over longer-term horizons, it is more correlated with direct real estate.

Exhibit 3 (Bottom right): Correlations between global listed real estate total returns and returns from global equities and bonds over different investment horizons.
30 September 1990 to 30 September 2015, based on quarterly returns in USD.



Data source: FTSE EPRA NAREIT, NCREIF, FactSet,, IPD based on quarterly returns in USD for the US and GBP for the UK



Data source: FTSE EPRA NAREIT, Citi, MSCI

The liquidity advantages of listed real estate

Concerns about the growing global economic and financial risks are making many long-term investors hesitant. In such a context, we believe the advantages of listed real estate market in terms of liquidity are particularly important. The flexibility of listed real estate should also be attractive to investors seeking diversified exposure to global markets.

The difference in liquidity can be illustrated >

2015						
	Listed real estate			Direct real estate		
% of portfolio liquidated	50%	90%	100%	100%	100%	100%
				fastest	average	slowest
Time required for transaction	1 day	2 days	10 days	7 weeks	5 months	> 1 year

2013						
	Listed real estate			Direct real estate		
% of portfolio liquidated	50%	90%	100%	100%	100%	100%
				fastest	average	slowest
Time required for transaction	1 day	2 days	11 days	6 weeks	5 months	9 months

Data source: Jones Lang LaSalle Inc., FactSet

by assessing how long it would take to sell a direct property portfolio and a similarly sized global listed real estate portfolio.

Let's define the global direct real estate portfolio. This consisted of EUR 1 billion of prime modern properties: 35% office, 35% modern shopping centres, 10% residential, 10% industrial & hotels and 10% others. All were class A properties located in major global or mega cities, with 45% in North America, 40% in Asia Pacific and 15% in Europe.

Our EUR 1 billion listed real estate portfolio consisted of the FTSE EPRA NAREIT global developed index stocks. Current market conditions are determined by the recent traded volume for each stock[2].

Separated into three regional sub-portfolios, the direct real estate portfolio would take an estimated 6-8 weeks to sell in optimal market circumstances, around four months in current market conditions (November 2015) and more than a year in less favourable market conditions. It would take just two days to sell 90% of the listed real estate portfolio and 11 days to dispose of it fully.

The research also shows that it takes slightly more time to sell a large global portfolio of good quality direct assets than two years ago, when this analysis was first carried out, even though demand in underlying occupier markets is now better than 18 to 24 months ago. This suggests investors are becoming more discerning as they conclude that the market is entering the latter stages of the cycle.

Exhibit 4 (Above): Average number of days to liquidate 50%, 90% and 100% of a EUR 1 billion global portfolio of listed and direct real estate in similar market conditions as those in 30 November 2015. Local currency terms, monthly data 2015.

Conclusion

This BNP Paribas Investment Partners research reinforces the findings of academic research by many others, including the European Public Real Estate Association. The research shows that listed real estate can adequately replace direct real estate in investor portfolios as it offers a comparable exposure to direct real estate over the long term. It makes sense for portfolio managers to add listed real estate to a multi-asset portfolio to generate alpha. Listed real estate has significant liquidity advantages, allowing investors to change allocations in a matter of days.

Given the current uncertainty in global capital markets and economies, we believe investors can earn higher returns by considering an allocation to listed real estate.

Shaun Stevens
Shaun Stevens is the real estate strategist in the listed real estate team of BNP Paribas Investment Partners and is responsible for investment strategy. He has worked for the company in real estate investment since 2007 and has been active in the real estate industry in a number of analytical and investment advisory roles for more than 25 years.
www.realestate.bnpparibas.fr

2 The selling rule allows for selling up to 25% of the recent average volume of each stock every day. We used the average volume estimated over the previous 20 working days and the average monthly volume estimated over the last five months. These two averages are comparable and the results are the same whichever we use.


EPRA
BPR
Contrasting
results
Does your Annual Report
paint a clear and
credible picture by
adopting industry-wide
reporting metrics?
ANNUAL
REPORT
2016
EPRA BPR GOLD
FINANCIAL REPORTING
EPRA BPR SILVER
FINANCIAL REPORTING
EPRA BPR BRONZE
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EPRA TO LEVERAGE EVENTS TO BOOST *INSTITUTIONAL INVESTMENT IN EUROPEAN LISTED PROPERTY SECTOR*

By Laurent Ternisien, Senior Advisor, EPRA

When EPRA's Investor Relations Committee scheduled its spring meeting for Stockholm in April, we seized the opportunity to add an extra day, allowing our corporate members to meet potential investors and their advisers.

Expect more Investor Outreach initiatives like this event throughout the year as EPRA looks closer to home in Europe to encourage institutional investors to take a fresh look at listed real estate for their portfolios.

Property tours and one-on-one meetings, designed particularly for smaller-cap companies to present themselves to potential investors are now a feature of EPRA Annual Conference programme, which will be held in Paris this coming September. These initiatives complement our successful ongoing investor outreach programmes in Asia.

It is clear that we have plenty of work to do in Europe when we compare the situation with that across the Atlantic. Not only do US pension funds and other institutional investors earmark two percentage points more in their allocations to real estate, but the number investing through the listed sector is almost double that of their European peers, at 37% (read about the profile of a European investor on the next page).

There are 23 institutions with at least EUR 1 billion of holdings of shares that are in the FTSE EPRA/NAREIT European Developed Index, our analysis shows. EPRA's role is to clearly grow that number.

EPRA has a library of research in our "toolkit" that demonstrates the many advantages of owning listed real estate, either entirely or through blended portfolios, in order to dispel questions about volatility and other frequently raised concerns. EPRA clearly has a strong message to promote a sector that delivers strong long-term income growth to match the underlying assets with the added benefits of high liquidity, the best sustainability standards and the most capable management teams.

> *"There are 23 institutions with at least EUR 1 billion of holdings of shares that are in the FTSE EPRA/NAREIT European Developed Index, our analysis shows."*

As part of EPRA's Investor Outreach initiative, we will participate in industry-wide events as well as creating our own. In May, EPRA members will participate in a panel discussion at the Realty trade fair in Brussels. It will be an occasion for our Belgian members, including many REITs, to present themselves to a delegation of Asian investors invited by the local city and regional development boards. We anticipate similar initiatives in Germany, Spain and Portugal later this year, working closely with the relevant national organisations.

EPRA's efforts to promote the listed property sector hinge on having an ear to the needs of our members and tailoring events accordingly, particularly small and mid-sized companies, as well as relaying investor feedback to our membership.

THE PROFILE OF *A EUROPEAN INVESTOR*

When we look at European investors' interest in real estate, and particularly listed real estate, there are specific themes that demonstrate the way their behaviour is evolving, especially when compared to what is happening in the US.

In the first instance, it is important to note that all investor surveys on asset allocation highlight an under exposure to real estate compared to the target allocation. Existing allocations are at least 100bp under the target allocation of some 5.5% in Europe and this gap appears even wider in the US. There is a clear trend over the last few years towards real assets that the vast majority of research and allocation modelling confirms.

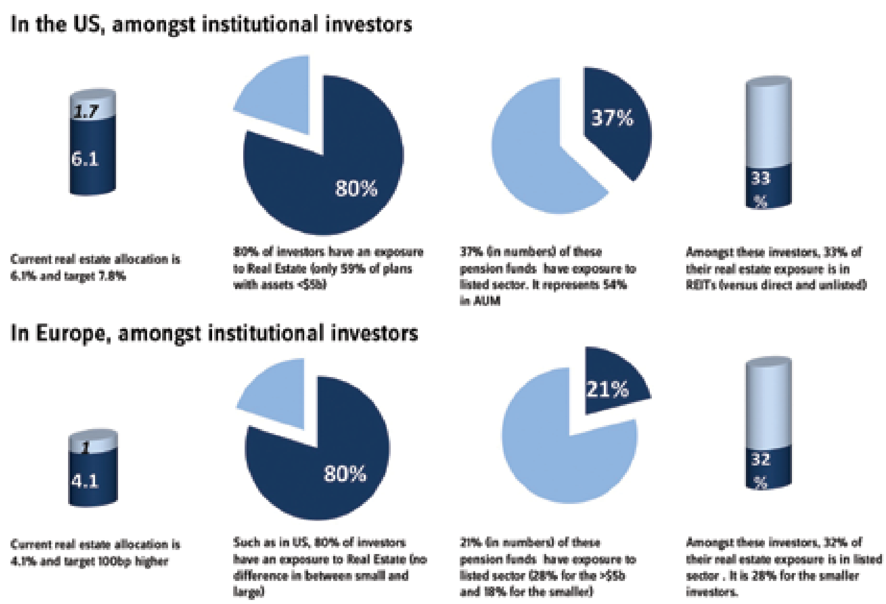
Despite this, it seems there are still around 20% of European institutional investors that do not have a separate real estate allocation. This number is in line with US experience and seems to reduce over time. For these generalist asset owners who are thinking of developing a real estate investment plan, listed real estate would seem to be able to play an important role given the relatively easy allocation.

When you delve in to the detail behind the 80% of investors who already have a real estate allocation, the exposure to listed real estate is, on average, one third versus two thirds to both unlisted and direct. Once again, it is similar to the situation in the US. Obviously, this average masks a very wide dispersion of allocation to listed real estate from a few percentages by some investors to a full allocation to listed by others and a 50/50 split for some of the large Dutch pension funds. This is in line with some recent research reports on blended portfolios for real estate.

The largest potential allocations we can identify in Europe appear to be those investors who have real estate exposure without having listed allocations. By number of investors, it counts for nearly 80% of the total today in Europe, meaning only 21% by number of investors are blending listed and unlisted. Significantly, this percentage is two times higher in the US and this confirms the potential in Europe to increase this part of the market. It is reassuring to see that this far higher allocation in the US has continued to grow over the last few years. At the same time, the smaller investors appear much more reluctant to develop their listed real estate exposure when the largest have embraced it.

How could we target this potential universe? Highlighting that listed real estate is real estate, with the same characteristics as direct real estate and all the further advantages when used in a blended strategy should be always on our minds. It is clear there are particular characteristics of the US market that have assisted the growth trajectory. Firstly, the nature of the investors (the shift from DB to DC); secondly, the size of the listed real estate sector and, finally, the size of individual REITs with their specialisation around one product more than one specific geography - something to consider in Europe too!

Real estate allocation of institutional investors



Source: Preqin Real Estate On-line (Feb 2016) and EPRA & NAREIT calculations

All these numbers are based on an analysis of the Preqin database and are consistent between North America and Europe. It should be noted that the data is more based on a survey than the results of an in-depth asset allocation review but it nonetheless demonstrates some important trends which have been confirmed by all interviews with investors to date.

EPRA | REPORTING

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

Global REIT Survey

CLIFFORD CHANCE

Deloitte.

EY Building a better working world

KPMG cutting through complexity™

LOYENS LOEFF
ATTORNEYS • TAX LAWYERS • CIVIL LAW NOTARIES

NAREIT

pwc

Each REIT regime is unique. The latest survey updates the regulatory changes which have occurred this year – across 37 countries.

The 11th REIT Survey, covers four continents. It is a hugely collaborative effort – with major contributions from Deloitte, PWC, Ernst & Young, KPMG, Clifford Chance, Loyens & Loeff and NAREIT.

We've seen the major REIT regimes withstand recent traumas and remain popular with investors and governments around the globe. This is evident from the ability of many REIT regimes to raise capital and the attention paid by the authorities to the continued development of existing regimes. A new, online, interactive REIT Survey will be launched soon.

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

Visit: www.epra.com/reitsurvey

About EPRA

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

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ERES INDUSTRY SEMINAR MARCH, 2016

European Commission: 830.000 m2 spread over 54 buildings

After an eight year break, EPRA, in collaboration with ERES (European Real Estate Society) and INREV, hosted an academic seminar focused on Belgium's real estate industry. The participants of the seminar were presented with an in-depth analysis of real estate in the European Union's capital – Brussels.

Brussels has a total office stock of over 13 million square metres, 13% of which are occupied by European Institutions and another 22% is occupied by Federal institutions. Combining strong, long-term office occupancy by European and Federal institutions, low rent levels compared to other Western European cities, adequate city infrastructure, convenient rail and air connections to other cities makes Brussels "an island of stability" – offering a gross yield of 5 to 5.3% on office properties (2015).

Brussels has a total office stock of over 13 million square metres, 13% of which are occupied by European Institutions.

According to the research conducted by Cushman & Wakefield, 2015 was a year of significant investments in Belgium where over EUR 4.3 billion was invested in real estate. From this number, more than EUR 850 million was invested by Asian investors and over EUR 500 million came from the US. Belgian REITs were also active on the investment market, with EUR 860 million invested.

While not the most vibrant market, the overall mood was that Belgium will continue attracting investors due to its favourable location, stable yields and the unexplored opportunities in sectors such as healthcare and student housing.

To support academic research in the field of listed real estate, EPRA commissions several research papers per year that address the topics of current interest in the listed real estate industry.

In 2016, four academic papers are due to be published offering an insight on the following topics – an analysis of how new financial market regulations impact the size and the performance of the European listed real estate sector, a study that explores how interest rate changes affect REIT values and returns and a research examining economies of scale in European REITs and listed real estate companies and their impact on companies during recessions and a financial crisis. The last paper aims at understanding the mechanisms through which investments in environmentally sustainable real estate influence the value and performance of international listed real estate investment companies.

European institutions use more than 1.700.000 m² in the Brussels CBD

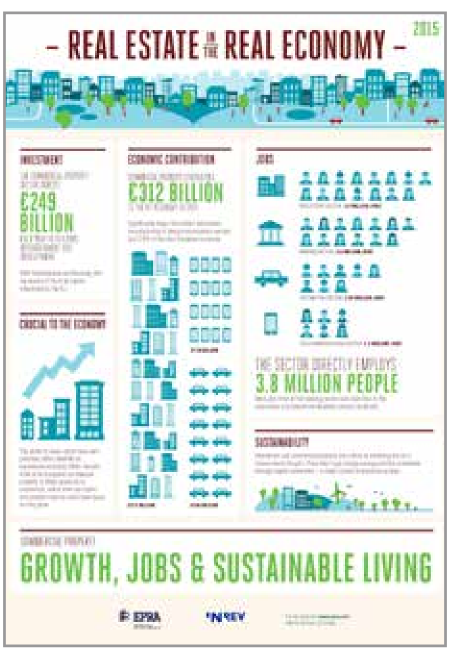
European Parliament: 520.000 m²

HEIGHTENING AWARENESS OF REAL ESTATE'S ECONOMIC CONTRIBUTION *IS THE BEST WAY TO SHAPE PUBLIC POLICY*

By Tobias Steinmann, Director of Public Affairs, EPRA

It is time that Europe's real estate industry got more strident about its contribution to the real economy, so that it is more effective in shaping laws and regulations.

Raising awareness will be one of the main priorities of EPRA's efforts in Public Affairs this year. Not enough policy-makers in our national capitals and in Brussels know that the real estate sector employs 3.8 million people - which is more than the European Union's automotive and telecoms sectors combined. How many of them know that the commercial property makes more than a EUR 300 billion contribution to the EU economy each year? Or are aware that on sustainability issues, commercial and residential property can make a significant contribution to meeting the EU's lower CO2 emissions commitments?



These facts, from our research with fellow real estate organisation INREV, give EPRA a solid foundation from which to engage policy-makers and other stakeholders.

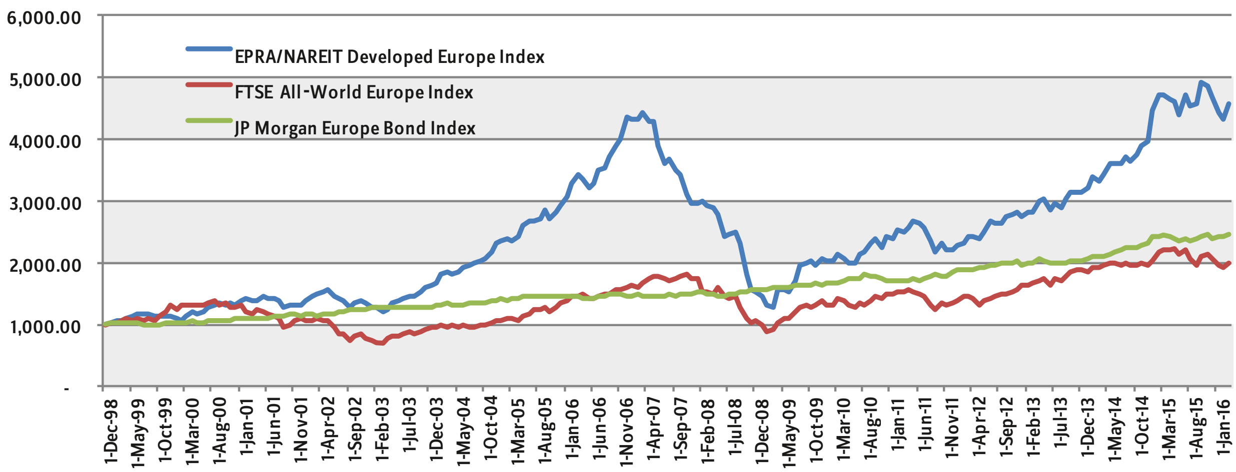
One of the most pressing issues at a pan-European level will be EPRA's work on the Anti-Tax Avoidance proposals of the European Commission, which seek to incorporate the OECD's Base Erosion and Profit Shifting (BEPS) recommendations. Armed with facts about the contribution made by the listed real estate sector, EPRA is strengthening the dialogue with key Permanent Representatives of the Member States, as well as Members of the European Parliament, on topics that include a proposed limitation of interest deductions for third party debt, which could create drawbacks for our industry.

Similarly, the same facts help us to explore growth opportunities on a national level and work together, with real estate partners, in ongoing discussions about introducing REIT regimes, such as in Poland and Sweden. By sharing best practices from other jurisdictions in Europe - linking it in with economic growth, jobs and sustainability, - EPRA can help advance the debate.

In Germany, we will leverage our research which demonstrates that the listed real estate sector tracks the underlying market over the medium to longer term and is a stable, long-term income-producing investment. Our studies indicate how listed real estate securities in a blended real estate portfolio can enhance returns. This will support efforts on a local basis to persuade state pension funds to lift their bar on equity investments.

EPRA's longer-term objective will be to reach a level where real estate has its own advocates in policy-maker circles who understand what is at stake given its economic contribution. In the meantime, our industry should not be bashful about engaging with stakeholders with a confidence fitting for one of the world's largest investment asset classes.

Comparison of Asset Classes

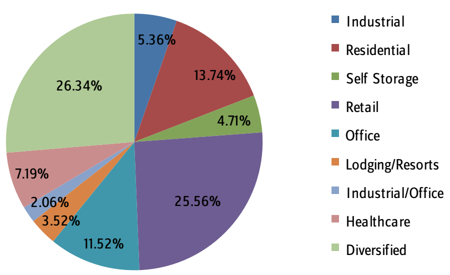


Value snapshot (April 2016)

Europe	(Latest) Monthly	Year to date	1 year	(Long-run) 10 year
Total Return (%)	0.20	-2.40	-1.20	3.20
NAV discount premium (%)	20.53	-1.20	1.41	-9.57
Loan-to-Value (%)*	37.59	37.49	-	40.45
Dividend yield (%)	3.15	3.09	-2.89	2.48

* not an average but an absolute value at a certain point in time

Global sector breakdown



Top 10 European performers (April 2016)

FTSE EPRA/NAREIT Global Index

	Stock	Country	Investment Focus	Sector	Price Return Apr-16	Dividend Return Apr-16	Total Return Apr-16
C154388	Lar Espana Real Estate SOCIMI SA	ES	Rental	Diversified	9.37	0.00	9.37
C123374	Capital & Counties Properties	UK	Rental	Retail	7.19	0.00	7.19
C85158	Assura	UK	Rental	Health Care	6.69	0.00	6.69
C33946	Workspace Group*	UK	Rental	Office	6.64	0.00	6.64
C49691	Hamborner REIT AG*	DE	Rental	Diversified	2.21	4.41	6.62
C159035	Klovern B	SE	Rental	Diversified	2.72	3.81	6.53
C33075	Primary Health Prop.*	UK	Rental	Health Care	4.66	1.26	5.91
C40999	Wereldhave Belgium*	BE	Rental	Retail	0.31	4.30	4.61
C44089	Gecina*	FR	Rental	Diversified	4.38	0.00	4.38
C04618	Picton Property	UK	Rental	Diversified	4.30	0.00	4.30

*REIT

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