



EPRA/NAREIT Global Real Estate Index

Global Overview – Global Real Estate robust

Global Real Estate continued to plough forward in July. The EPRA/NAREIT Global Real Estate Index posted a gain of 1.4% during the course of the month. In comparison, the Global Equity market fell 1.7% and Global Bonds eased forward 60bps. All three regions moved forward. Asia added 2.5% and Europe gained 2.2%. North America crept forward 76bps. All returns are expressed in EUR.

Using compounded annual returns, over a five years period, Global Real Estate outperformed Global Equities and Global Bonds significantly. On average, Global Real Estate returned 9.9% annually, Global Equities declined 4.2% in comparison, and Global Bonds added 5.7% per annum. As a result, over the total five years period, Global Real Estate returned 50.7%, Global Equities lost 19.2% and Global Bonds added 31.9%.

Asia / Pacific

In the Asia/Pacific region, Japan was the only Asian country to finish behind. EPRA/NAREIT Japan (JPY) dropped 4.5% during the month. It was the Japanese development companies that drove the index down during the month. Residential developer Daikyo ended the month propping up the Global, Asian and Japanese stocks, with a loss of 16.5% in July. In fact, all of the Japanese developers lost ground during the month.

Four of the seven J-REITs in the index turned in a positive performance during the month. Japan Real Estate heading the list with an advance of 3.9%. The company recently organised a credit line for as much as 20 billion yen (USD 184 m) with Mizuho Corporate Bank and other Japanese lenders it said in a statement to the Tokyo stock exchange. Average volatility in the J-REITs is approximately 14% compared against over 35% for the Japanese developers.

General Property Trust rejected Lend Lease's increased bid of one Lend Lease share per 3.9 GPT units and 64 cents cash. Lend Lease argues that its increased bid is worth AUD 3.56 based on the implied yield would earn after a combination. Lend Lease CEO, Greg Clarke, stated that Australia's largest property developer will not 'overpay' after its increased bid was rejected. GPT said that the AUD 6.6 billion offer did not compensate its investors enough to combine its steady rental income with Lend Lease's more volatile property development business. Lend Lease's H1 2004 profit fell 42%. Lend Lease's Clarke concluded, "I don't see these discussions as over at all." GPT's CEO, Nic Lyons, said the GPT was also keen to keep talks alive. GPT was neutral for the month.

Macquarie Office Trust unveiled an AUD 856 m takeover bid for Principal America Office Trust, valuing the shares at AUD 1.37. The offer would provide Macquarie Bank with entry into the US office market, given that MOT's exposure to the US will increase from 7% to 45%. MOT's CEO, Simon Jones said they forecast excellent returns after a successful takeover of POA. He also indicated the deal made a more attractive proposal compared against buying directly into the US office market. POA's directors say the offer is fair and they plan to recommend the bid to shareholders, in the absence of an improved offer. MOT (+ 3.4%) and PAO (+ 13.5%) both ended July ahead.

The takeover and merger activity in the Australian market is set to continue according to Dennis Broit, Finance Director at Mirvac Group, but at the lower end of the market. Broit continued, stating that the companies involved are those unable to raise equity or buy assets on their own. However, Andrew Parsons, head of real estate securities for Lend Lease says that the merger activity is nearing an end, with three of the four largest players already subject to alliance propositions.

Moodys said that Australian LPTs have a 'stable outlook' going forward. Terry Fanous, senior vice president at Moodys in Sydney stated, "LPTs have moderate levels of financial leverage, continued resilience in earnings and cash flow, manageable debt-maturity profiles, high

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occupancy levels and active management of lease expiries, which continue to underpin the sector's solid credit quality. The EPRA/NAREIT Australia Index added a strong 5.8% during July. Volatility in Australia is currently at the 8% mark, reflecting the stable and mature nature of the LPT structure.

Of the Asian countries, the developer dominated EPRA/NAREIT Hong Kong Index jumped 6.5% during the month, providing the best returns for investors. Office stocks led the way in July, Hysan Development heading the pack (+ 21%). Hysan Development's board of directors issued a statement on 6 July confirming that there are no negotiations or agreements relating to intended acquisitions or realisations. The directors also indicated that they were unaware of any reasons causing the increase in prices and volumes. According to CB Richard Ellis, Hong Kong's office rents in prime areas may rise 5% more in the second half of 2004. The first half of the year saw rents in the financial district of Central and the commercial and tourist hubs of Tsim Sha Tsui and Causeway Bay rise 16%. Offices prices added more than 50% in the first half. The vacancy rate stands at 9%. Hong Kong office stocks Hong Kong Land (+16.7%), Great Eagle Holdings (+16.6%), and China Overseas (+14.1%) all benefited during the month.

The EPRA/NAREIT Singapore Index (SGD) ended the month 7% up. Office developer Keppel Land finished above the rest of its peers. The company leapt 15.5% in July. Managing Director Kevin Wong said that the company could consider selling USD 989 million of assets to a real estate investment trust. He stated, "A REIT is a very good vehicle, and it certainly will be one of the avenues we would look at." Residential developer, Capitaland jumped 14.6% during July, on optimism that home sales may increase as a result of the pace in economic recovery. Allgreen (+ 8.8%) and Wing Tai Holdings (+ 8.5%) also gained from the renewed optimism in the residential market.

On a broader note, Singapore is projecting its strongest economic expansion in four years, with the government predicting the \$91 billion economy expanding as much as 7.5% in 2004, after three recessions in six years.

Europe

The EPRA Europe Index (EUR) added 2.2% in July. EPRA UK (EUR), the largest country in Europe, led the advance (+ 3%) of the larger countries. EPRA Netherlands (+ 2%) also responded well. The EPRA France Index provided robust results, pushing forward 1.4% in July. EPRA Spain recorded the largest gain of all of the European countries, with an addition of 7.4%. Broad European volatility stands at approximately 14%.

UK office investor Minerva received a number of approaches concerning a possible takeover offer in July. CEO Andrew Rosenfeld said that talks were at a 'preliminary stage'. The company plans to build the city of London's tallest office tower, towering 712 ft, or 50 floors. Minerva was the largest gainer in EPRA/NAREIT Global Real Estate Index in July, leaping 24%. The Times reported that the New York buy-out company Blackstone Group, and Australia based Multiplex Group and Westfield Group are among the companies thought to be interested.

Residential investor, Grainger Trust added 8.2% during the month. The company announced on 1 July that it had entered into a new GBP 900 million banking facility. The new facility comprises three tranches: a GBP 225 m 5-year term loan, a GBP 475 m 5-year bullet revolving credit facility, and a GBP 200 m term loan amortising evenly between 7 and 10 years. Andrew Cunningham, the deputy CEO and finance director said, "the majority of the new facility will be used to replace some GBP 665 m of our existing facilities, and will reduce the average interest margin we pay, reduce associated costs and provide us with greater flexibility in the way we manage our property portfolios and financing.

Swedish office company Fabege received a takeover offer from Wihlborgs on 19 July. Wihlborgs offered to buy the company for USD 550 m, or SEK 108 in cash per class A share and SEK 105.5 for each class B share. In a telephone interview, Wihlborgs deputy CEO Olle Knaust said, "we started buying shares in Fabege because it was a cheap way to buy real

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estate and we plan to merge the two businesses.” Fabège added 9.2% in July. The European commission has forecast that the Swedish economy, the largest in the Nordic region, is predicted to expand by 2.3% in 2004, compared against a 1.7% growth rate in Europe.

Foncière Lyonnaise was deleted from the EPRA/NAREIT Global Real estate Index on 23 July following the successful takeover offer by Spanish office investor, Inmobiliaria Colonial. The Spanish company advanced 12.4% in July.

North America

Over the Atlantic, US real estate stocks slipped back in July. The US Index eased off 50bps in USD terms, during the course of the month. EPRA/NAREIT Canada (CAD) hit a positive note, with a gain of 2.5%. The EPRA/NAREIT North America Index (USD) lost 29bps.

Big news in the North American market is still the Simon Property Group bid for Chelsea Property Group, the largest REIT specialising in outlet centres. On 21 June, Simon and Chelsea announced a definitive agreement whereby Simon will acquire all of the outstanding Chelsea shares. The cash and stock deal is valued at USD 3.5 billion. The acquisition is set to further diversify Simon’s broad-based mix of retail assets. Chelsea’s Japanese assets also offer Simon a route into the Asian market. Chelsea shares cooled 15bps in July after the price of the stock jumped 19.7% in June. Simon, the second largest REIT in the US, crept forward 37bps during the month.

Keystone Property Trust announced on 30 July that based on a preliminary vote count, Keystone’s common stockholders voted to approve the company’s merger agreement with Prologis. The industrial investor has a portfolio of 143 properties, including properties under development, aggregating over 34 million square feet in the Eastern United States. Keystone tiptoed forward 25bps, while Prologis took a larger stride (+3.4%). A Nikkei news report also stated that both Prologis and AMB are accelerating investment into distribution centres in Japan with more than USD 923 million each. Prologis is expected to raise about 120 billion yen in one or two years for a second fund in Japan, after raising a similar amount in 2003.

Diversified investor, Ventas (+ 9.3%) headed the North American performers list in July. On 1 July, Standard & Poors announced that it had raised its corporate credit ratings on Ventas from BB- to BB. S&P also revised its outlook on the company to stable from positive. S&P said that the upgrade acknowledged the company’s steady improvement on both its business and financial profiles. Retail stocks Borealis Retail (+ 7.3%) and Kimco Realty (+ 7%) both responded positively in July.

On the flip side, US hotel stocks had a difficult month. Meristar Hospitality and Prime Hospitality lost 15.2% and 13.6% respectively, to hold up the list of the North American stocks.

Following the Federal Reserve’s announcement to raise the fed rates to 1.25%, up 25bps, Fitch ratings responded by giving its views on the REIT sector. Tara Innes, Managing Director in Fitch’s REIT group said, “REITs very opportunistically refinanced their debt and preferred stock in a very favourable rate environment, leaving them with predominately fixed rate borrowings and thus reducing their exposure to the raise in interest rates. All else being equal, rate increases of the magnitude anticipated by Fitch could result in a 4-6% decline in operating earnings and FFO. While marginally negative, the effect on debt service coverage levels of roughly 20 basis points would be unlikely to warrant whole-scale downgrades in the sector.

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The following table highlights the performance of regions and countries over a number of time periods:

Index Description	Curr	Total	Total	Total	Total	Total	Total	36 Mths Vlty (%)
		Rtn (%) - 5 Yrs	Rtn (%) - 3 Yrs	Rtn (%) - 1 Yr	Rtn (%) - 6 Mths	Rtn (%) 30-Jul-04 YTD	Rtn (%)	
Global	EUR	9.91	4.04	22.95	7.76	1.43	14.42	14.15
Asia	EUR	5.23	1.23	35.75	5.91	2.46	17.34	18.60
Europe	EUR	11.16	11.63	37.62	17.87	2.20	20.73	13.99
North America	EUR	13.25	4.28	13.35	5.16	0.76	11.12	15.41
Global Ex-Asia	EUR	12.26	6.08	19.23	8.38	1.14	13.59	13.69
Global Ex-Europe	EUR	9.36	2.89	19.57	5.34	1.23	12.88	15.49
Global Ex-North America	EUR	8.34	6.78	36.46	11.15	2.34	18.76	15.67
Japan	JPY	5.25	5.14	52.72	14.48	-	4.50	26.28
Hong Kong	HKD	4.70	5.01	52.54	-	9.45	6.52	6.83
Australia	AUD	11.85	12.62	21.65	17.79	5.83	17.60	8.34
Singapore	SGD	-	7.07	4.24	27.12	9.11	6.99	14.10
Euro Zone	EUR	11.62	14.98	28.79	14.56	1.65	17.77	12.38
Euro Zone Net	EUR	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-
Europe Ex UK	EUR	12.73	14.28	29.59	14.16	1.36	16.43	12.19
Europe Liquid 40	EUR	10.67	11.23	38.24	18.67	2.45	20.89	14.14
Europe Liquid 40 Net	EUR	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-
Europe Liquid 40 Ex UK	EUR	12.17	16.91	30.77	14.95	1.95	17.28	12.75
Europe Liquid 40 Ex UK Net	EUR	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-
Netherlands	EUR	12.17	16.68	26.65	15.17	2.00	19.01	12.76
France	EUR	12.82	15.81	34.76	17.63	1.42	19.03	14.27
Spain	EUR	15.97	29.02	57.01	17.39	7.37	30.38	22.17
Germany	EUR	-	7.82	-	13.51	9.29	4.87	-
Austria	EUR	5.52	8.45	7.05	5.20	0.45	6.03	3.76
Belgium	EUR	7.28	13.41	12.50	4.67	1.13	8.23	6.29
Italy	EUR	20.31	14.02	38.92	22.37	0.73	26.17	19.41
Finland	EUR	17.18	21.61	34.36	9.76	-	0.77	7.93
Greece	EUR	1.06	1.78	5.42	5.42	1.16	5.42	4.49
UK	GBP	9.47	12.29	37.81	17.77	1.68	17.32	17.20
UK Net Index	GBP	-NA-	-NA-	-NA-	-NA-	3.26	-NA-	-NA-
Switzerland	CHF	4.04	7.01	20.59	9.63	0.77	11.59	6.71
Sweden	SEK	18.81	14.27	36.11	13.12	1.21	11.75	17.78
United States	USD	14.96	14.28	20.93	1.94	-	0.50	6.31
Canada	CAD	14.24	14.29	20.30	1.25	2.45	4.86	12.37

Source: EPRA

The EPRA Monthly Statistical Bulletin is available from www.epra.com.

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Notes:

The EPRA/NAREIT Global Real Estate Index consists of the largest and most heavily traded real estate stocks in Asia, Europe and North America. As at 30 July, there were a total of 247 stocks in the index.

The EPRA/NAREIT Global RE Index is free float weighted. Full details of the free float weightings for each company are downloadable from the www.epra.com website. The ground rules are also available from the website.

Free downloads are available upon request to the members of the association on a daily basis. Downloads are sent via e-mail at the close of business. The information contained in downloads enables users to accurately benchmark/track against the EPRA/NAREIT Global RE Index series. Contact: info@epra.com.

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