



EPRA/NAREIT Global Real Estate Index

Global Overview – Global Real Estate in front

Global Real Estate continued on the right path in June. The EPRA/NAREIT Global Real Estate Index posted a gain of 2.6% during the course of June. In comparison, the Global Equity market increased 2.2% and Global Bonds tip-toed ahead 4bps. All three regions moved forward. North America added 3.1% and Europe gained 3.5%. Asia crept forward 82bps. 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 8.6% annually, Global Equities declined 2.4% in comparison, and Global Bonds added 4.9% per annum. As a result, over the total five years period, Global Real Estate returned 50.7%, Global Equities lost 11.6% and Global Bonds added 26.9%.

Asia / Pacific

In the Asia/Pacific region, Japan finished ahead of the pack in June. EPRA/NAREIT Japan (JPY) climbed 4.9% during the month. It was the Japanese development companies that piled on the big gains in June. Residential developers Sumitomo Realty & Development and Goldcrest headed the Japanese stocks topping the list. Sumitomo leapt 16% during the month, leading the Japanese stocks. The Nikkei Financial Daily reported that foreign ownership in the company had tripled in the last year to just over 33%, on the back of expectations that land prices will stop falling as a result of Japan's economic recovery. Goldcrest added 11.9%.

The Nikkei paper also stated that both Mitsui Fudosan (+7.2%) and Mitsubishi Estate (+1.9%) had increased their efforts outside of the Japanese market, with the aim of broadening their investor base. In particular Mitsui Fudosan made its first visits in 13 years to about 60 institutional investors in May.

Office developer Heiwa real Estate (+ 8.1%) rebounded back after losing over 10% in May. The company sold USD 91 million of four-year bonds convertible into its stock to repay debt in June. JCR assigned a BBB+ rating to the bond, while affirming the BBB+ ratings on the outstanding bonds and senior debts.

The six J-REITs in the index turned in a stable month with returns in the range –1.2% to +1.6%. Average volatility in the J-REITs is approximately 14% compared against over 35% for the Japanese developers.

On 25th June, the Westfield Group merger was approved by 99% of the shareholders. The effective date of the merger is 5 July. The merger will create a group with approximately AUD 34 billion of property assets and interests in 123 shopping centres with 19,500 retailers in Australia, New Zealand, the United States and the United Kingdom. Westfield Group will become the largest real estate company in the world. Westfield Trust (+ 3.3% in June) will be deleted from the EPRA/NAREIT Indices effective on the close of business 2 July. Westfield Group will become eligible for the EPRA/NAREIT Global Real Estate Index as at 1 October, following changes to the ground rules of the index.

Lend Lease Corporation and General Property Trust announced a merger proposal on 24 May. The major terms of the proposal are: for every Lend Lease share, investors receive 3.8 GPT shares. General Property Trust eased up 87bps in June.

The Australian Financial Review in June indicated that major Australian companies such as Westfield and Lend Lease continue to buy into the UK retail sector. Westfield Group, Lend Lease and Multiplex have stakes in almost GBP 3 billion of shopping centres in the UK. More than 60 million people in the UK spend more than GBP 210 billion annually, however, the

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total retail space per person is about two thirds that in Australia. Ownership is also more fragmented in the UK than it is in Australia.

Moody's said that Australian LPTs have a 'stable outlook' going forward. Terry Fanous, senior vice president at Moody's in Sydney stated, "LPTs have moderate levels of financial leverage, continued resilience in earnings and cash flow, manageable debt-maturity profiles, high 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 steady 1% during June. Volatility in Australia is currently at the 8% mark, reflecting the stable and mature nature of the LPT structure.

Of the Asian countries, developer dominated Hong Kong fell back for the third month running. The EPRA/NAREIT Hong Kong Index (HKD) fell 3% in June. At a stock level, only one of the ten Hong Kong stocks ended the month higher. Office developer China Overseas Land jumped 5.3%. The Hong Kong property arm of China's construction ministry plans to borrow about HKD 2 billion (USD 256 billion) to buy land and fund projects, bankers close to the deal said. The company is in talks with at least five banks.

Kerry Properties (-7.4%) propped up the Hong Kong list in June following a jump of 13% in May. Kerry received shareholder approval to invest USD 300 million in a hotel, office, residential and retail complex in Shanghai, betting on rising demand for luxury properties in China's top commercial city. Kerry Properties Chairman Ang Keng Lam said, "the area where we're planning this project is 'the crown' of property sites in Shanghai."

The EPRA/NAREIT Singapore Index (SGD) ended the month 4% up. Office developer Singapore Land finished head and shoulders above the rest of its peers. The company leapt 16.3% in June. The Business Times reported that rental prices for office space in Singapore have stopped falling for the first time in three years as the economy rebounds. Singapore Land is one of the city's biggest landlords. On a broader note, Singapore is projecting its strongest economic expansion in four years, with the government predicting the \$94 billion economy expanding as much as 5.5% in 2004.

Europe

The EPRA Europe Index (EUR) added 3.5% in June. EPRA France, one of the largest countries in Europe, led the advance (+ 6.3%). EPRA Italy (+ 6.8%) also responded well. The largest country/index by market capitalisation, the EPRA UK Index (GBP) provided robust results, pushing forward 3.4% in June. Of the larger countries, EPRA Netherlands stepped forward 4.9%, during the month. EPRA Switzerland (+ 2.4%), its neighbour EPRA Germany (+4.5%), and EPRA Spain (+ 3.3%) all added. Broad European volatility stands at approximately 14%.

UK office developer Workspace (+15.1%) topped the European performers list in June. The advance was Workspace's largest monthly gain since December 2001. Workspace is London's largest landlord for small businesses. The company reported a rebound in occupancy rates in its final quarter, following a tough first nine months. Occupancy is expected to hit 90% in this fiscal year.

Italian diversified investor Aedes added 14.4% during the month, and Helical Bar, the UK property developer climbed strongly (+13.4%). Helical Bar announced in June that the value of its net assets rose 13.5% in its fiscal year as demand to rent office space increased. Unite Group, the UK student accommodation provider advanced 13.2%. Unite Group announced on 25 June a partnership with BT to provide students with a high speed broadband internet service.

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Diversified investor, Tornet of Sweden, is currently under offer by LRT Acquisition AB, a company 60% controlled by Lehman and 40% by Stockholm based Ratos AB. LRT currently hold approximately 82% of Tornet shares. Tornet paid a special dividend of SEK 127 on 29 June. Tornet shares advanced 12.6% in June. A number of deals have been completed in the last six weeks. Canary Wharf, Sophia and Benchmark all being deleted from the EPRA Europe Index.

North America

Over the Atlantic, US real estate stocks responded well for the second consecutive month. The US Index added 3% in USD terms, during the course of the month. EPRA/NAREIT Canada (CAD) also hit a positive note, with a gain of 2%. The EPRA/NAREIT North America Index (USD) added 3%.

Big news in the North American market was 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 jumped 19.7% in June, the largest climber Globally. Simon lost 30bps during the month.

June also provided a positive story for hotel developers and investors. Innkeepers USA and Felcor Lodging added 15.3% and 13.7% respectively. Winston Hotels (+12.5%) and La Quinta Properties (+12.2%) also responded well.

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 (%)	Rtn (%)	Rtn (%)	Rtn (%)	Rtn (%)	Rtn (%)	
		- 5 Yrs	- 3 Yrs	- 1 Yr	- 6 Mths	30-Jun-04 YTD		
Global	EUR	8.55	1.91	28.49	12.81	2.63	12.81	14.44
Asia	EUR	3.73	- 1.74	38.67	14.52	0.82	14.52	18.92
Europe	EUR	10.66	10.30	38.14	18.13	3.48	18.13	14.04
North America	EUR	11.34	2.40	21.19	10.28	3.13	10.28	15.68
Global Ex-Asia	EUR	10.93	4.31	25.45	12.32	3.22	12.32	13.92
Global Ex-Europe	EUR	7.75	0.60	26.19	11.50	2.42	11.50	15.83
Global Ex-North America	EUR	7.20	4.20	38.32	16.05	2.02	16.05	15.96
Japan	JPY	6.09	5.64	68.38	32.23	4.88	32.23	29.20
Hong Kong	HKD	2.61	1.41	61.13	0.29	3.03	0.29	31.57
Australia	AUD	11.03	10.53	15.97	11.12	0.99	11.12	7.86
Singapore	SGD	- 8.41	- 0.05	34.38	6.64	4.00	6.64	31.19
Euro Zone	EUR	6.17	8.69	21.46	11.08	3.84	11.08	12.20
Europe Ex UK	EUR	7.26	8.31	23.83	10.32	3.40	10.32	12.06
Europe Liquid 40	EUR	5.38	4.47	33.04	14.63	2.31	14.63	14.38
Europe Liquid 40 Ex UK	EUR	7.04	8.99	24.18	10.29	3.49	10.29	12.65
Netherlands	EUR	11.00	15.18	22.79	16.68	4.90	16.68	12.89
France	EUR	13.72	15.40	36.96	17.36	6.43	17.36	14.28
Spain	EUR	15.16	25.95	40.29	21.43	3.16	21.43	22.01
Germany	EUR	- 6.84	- 12.86	14.22	8.55	4.52	8.55	30.59
Austria	EUR	5.42	8.43	6.74	5.56	2.78	5.56	3.76
Italy	EUR	19.10	13.20	41.76	25.25	6.76	25.25	19.47
Belgium	EUR	6.76	14.02	12.35	7.03	2.81	7.03	6.37
Finland	EUR	15.41	21.36	38.27	8.77	9.27	8.77	19.10
Greece	EUR	0.83	1.39	4.21	4.21	0.86	4.21	4.45
UK	GBP	9.47	11.65	41.58	15.39	3.35	15.39	17.21
Switzerland	CHF	3.05	7.42	18.48	10.73	2.10	10.73	6.75
Sweden	SEK	18.54	12.69	43.21	10.41	1.73	10.41	17.95
United States	USD	14.12	13.79	28.53	6.84	3.02	6.84	15.49
Canada	CAD	12.53	14.05	24.74	2.35	0.33	2.35	12.36

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 June, there were a total of 241 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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