
Capital Flows - World Focus on Europe

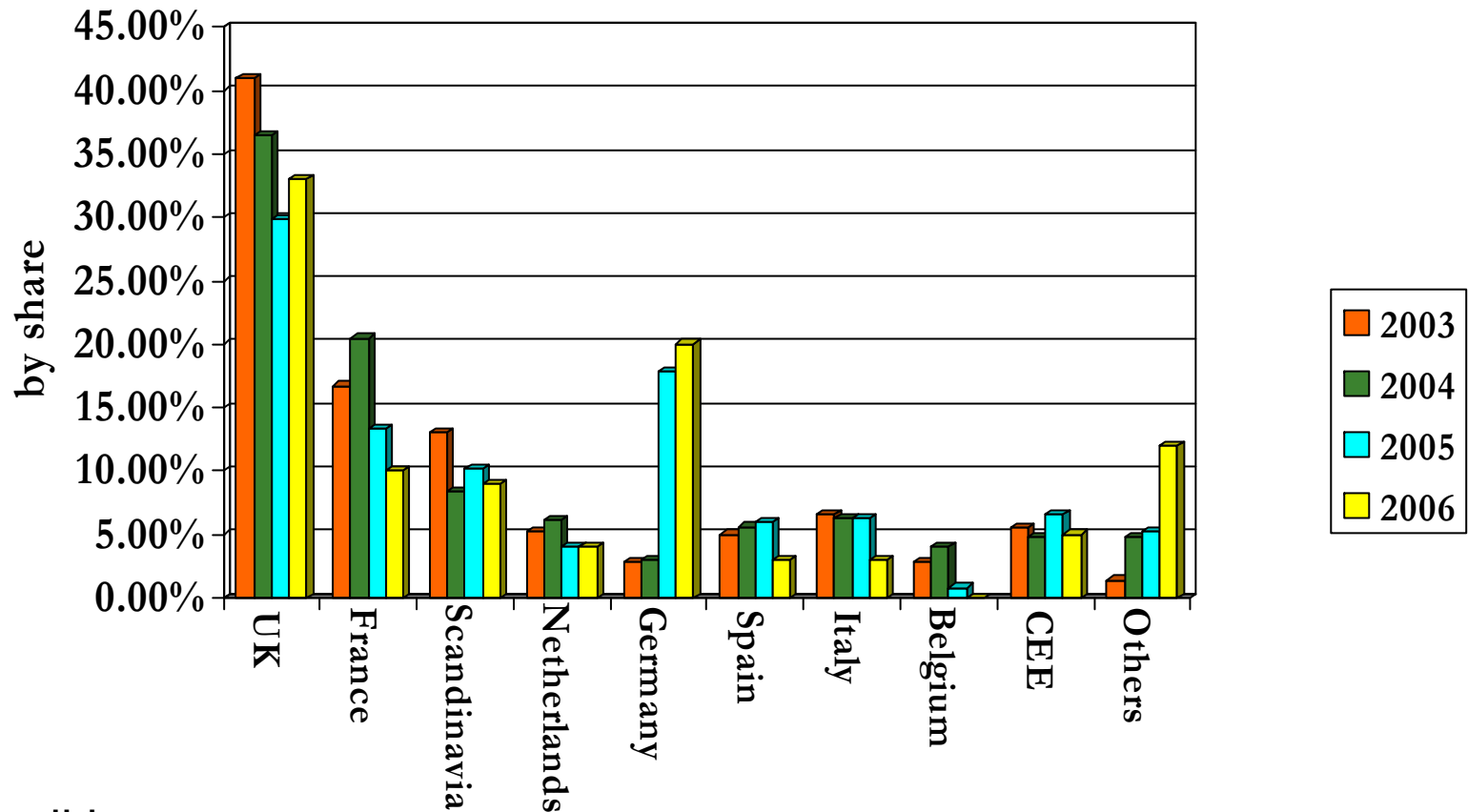
*Dr Karen Sieracki MRICS
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Montreal*

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World Focus on Europe

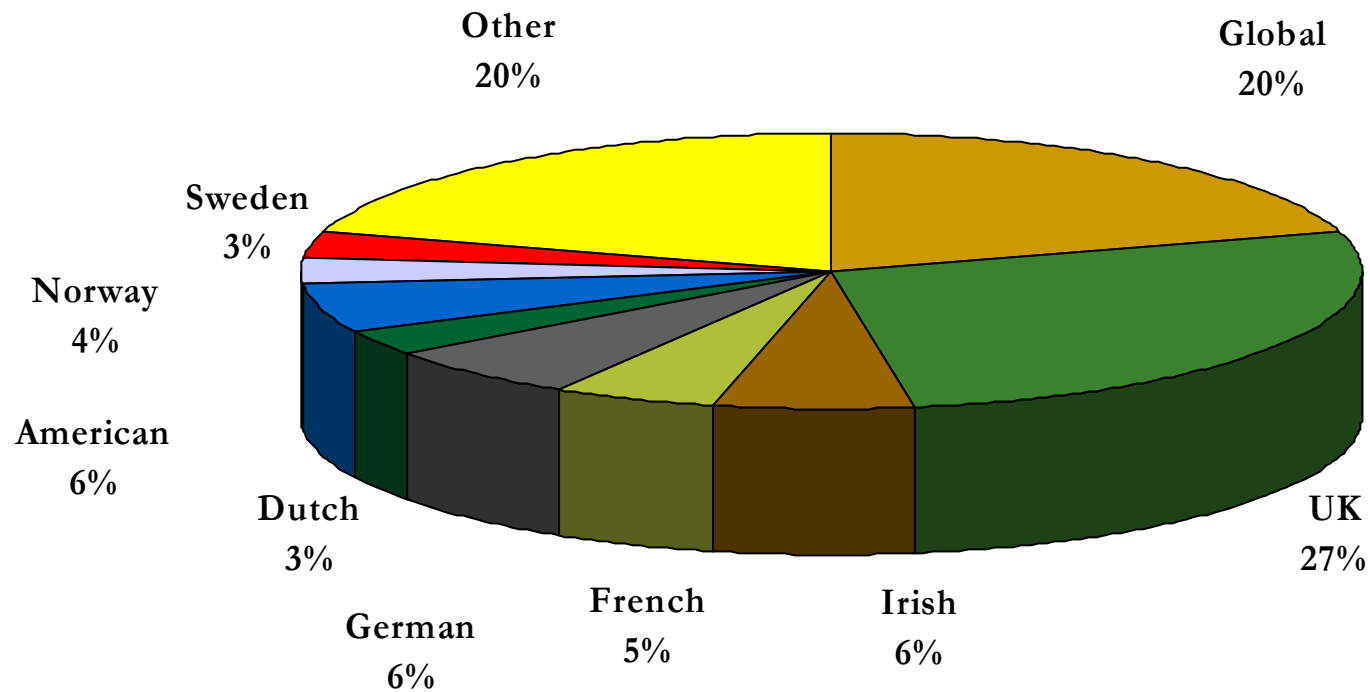
- Where
- Who
- What
- Yield compression
- Mind the gap
- Economic growth
- Rental growth

The Where – European Cross Border Investment by Destination



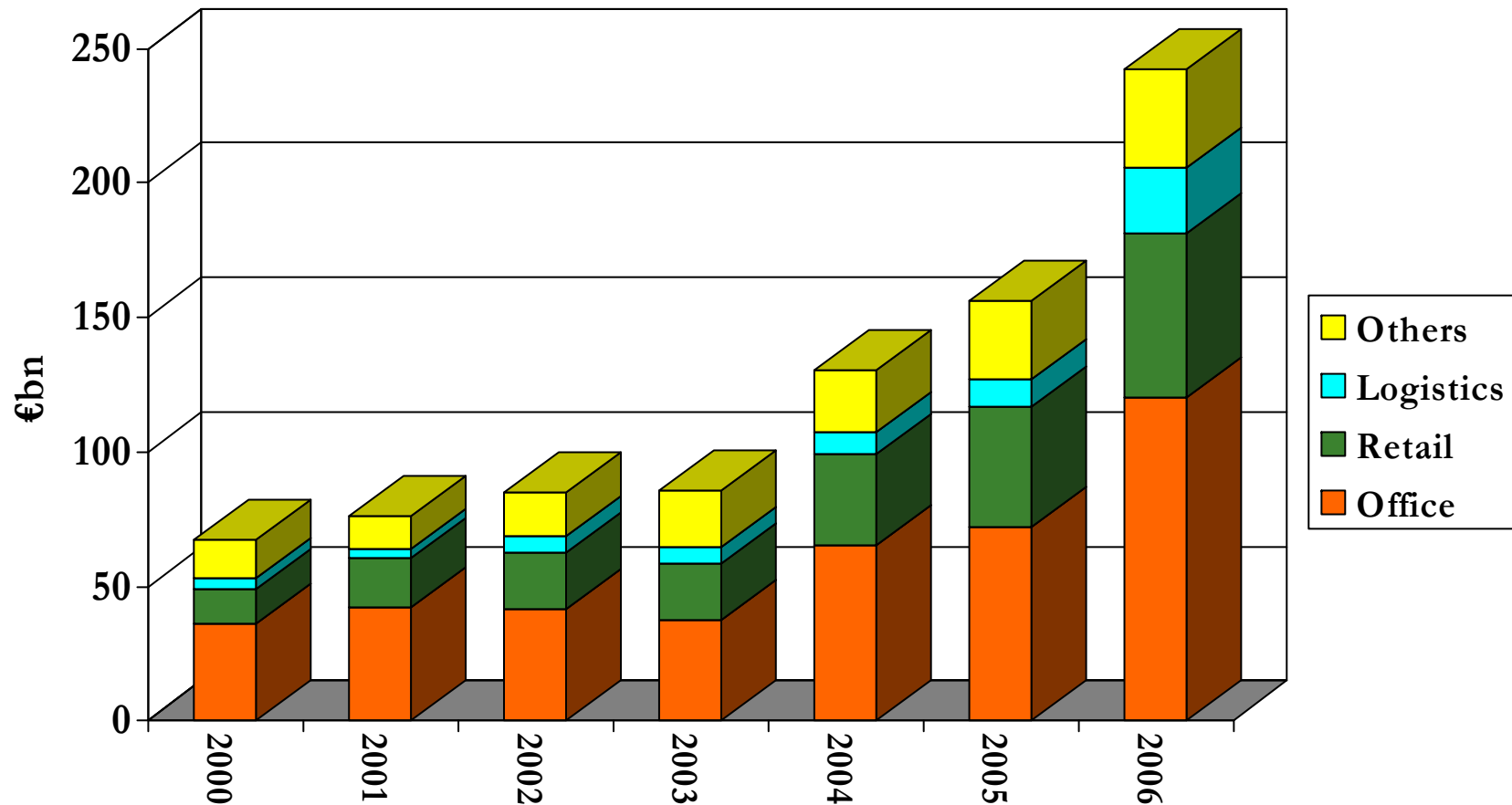
Source: JLL

The Who – European Cross Border Investment by Nationality



Source: PMA

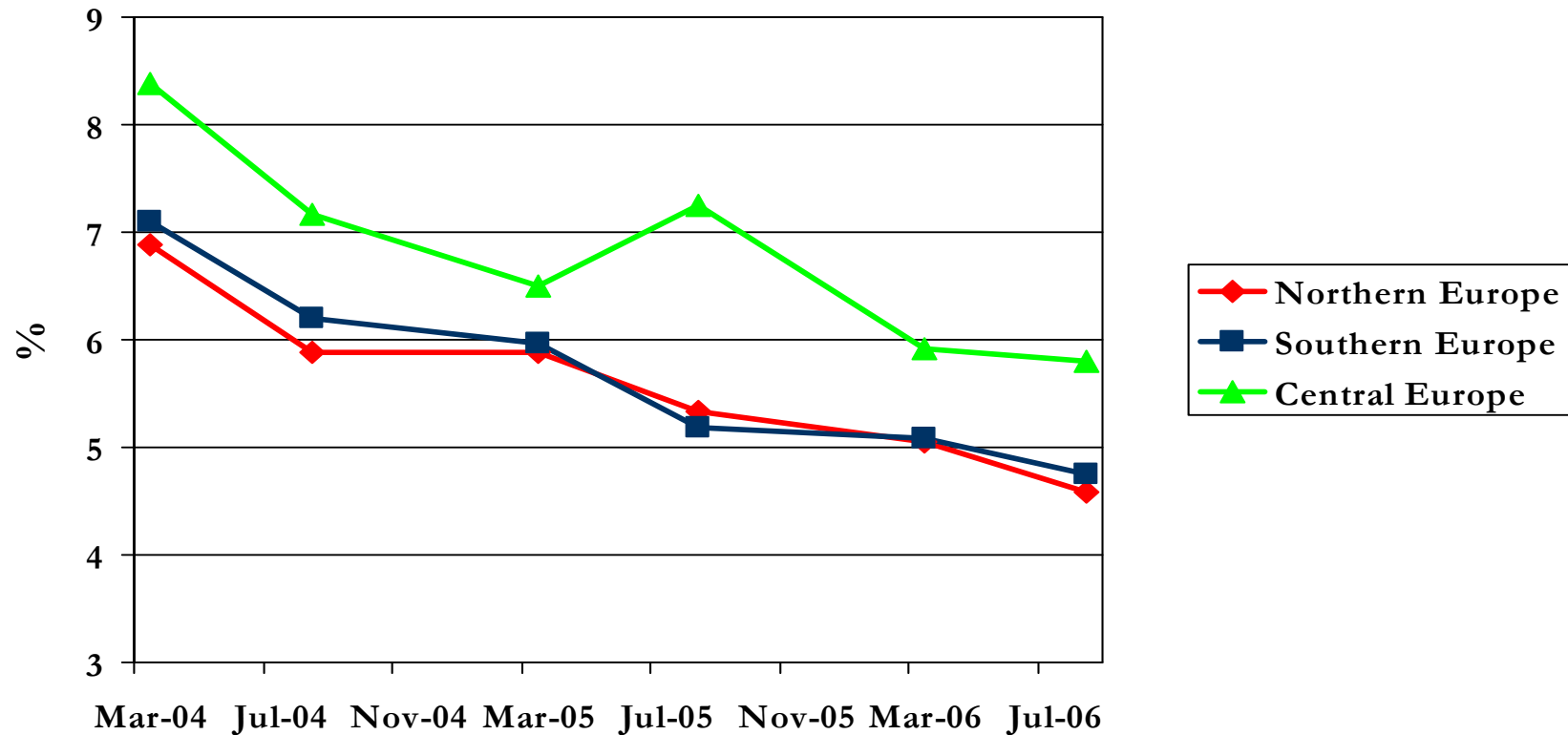
The What – European Cross Border Investment by Sector



Source: JLL

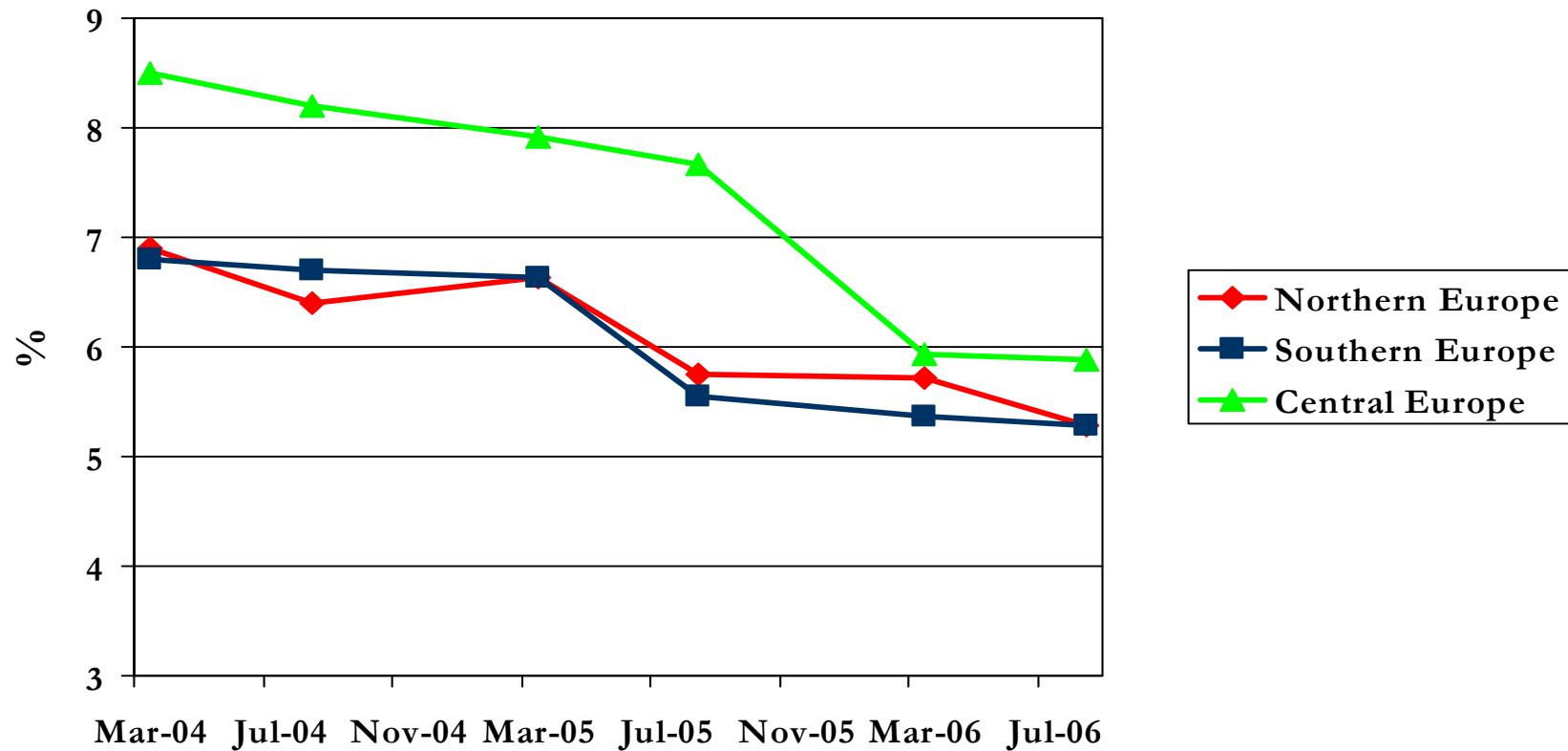
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Yield Compression – Prime Retail Shop Yields



Source: KASPAR, EuroProperty

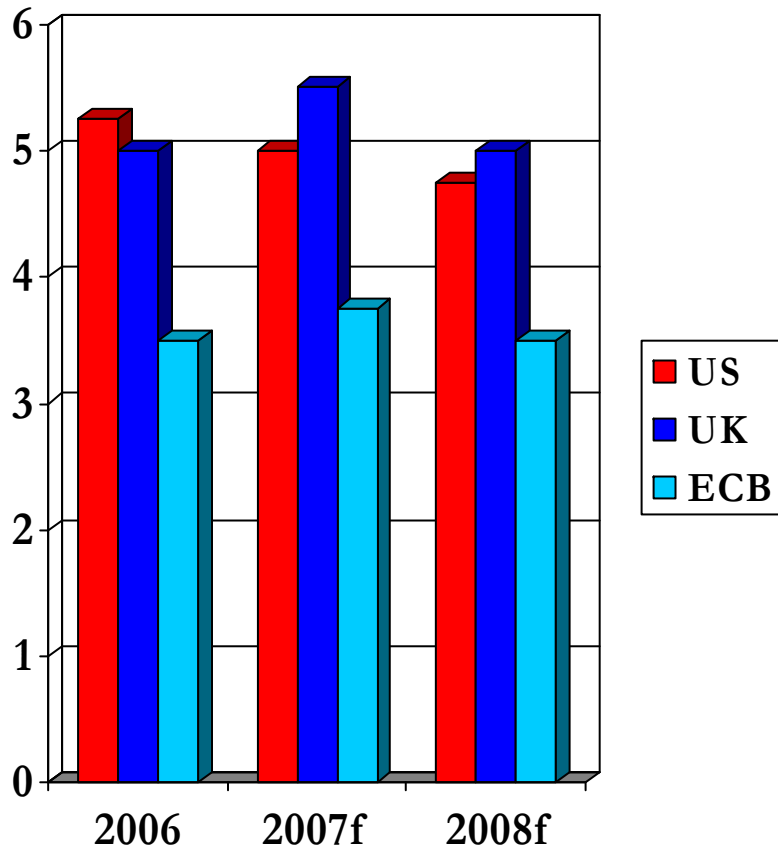
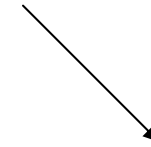
Yield Compression – Prime Office Yields



Source: KASPAR, EuroProperty

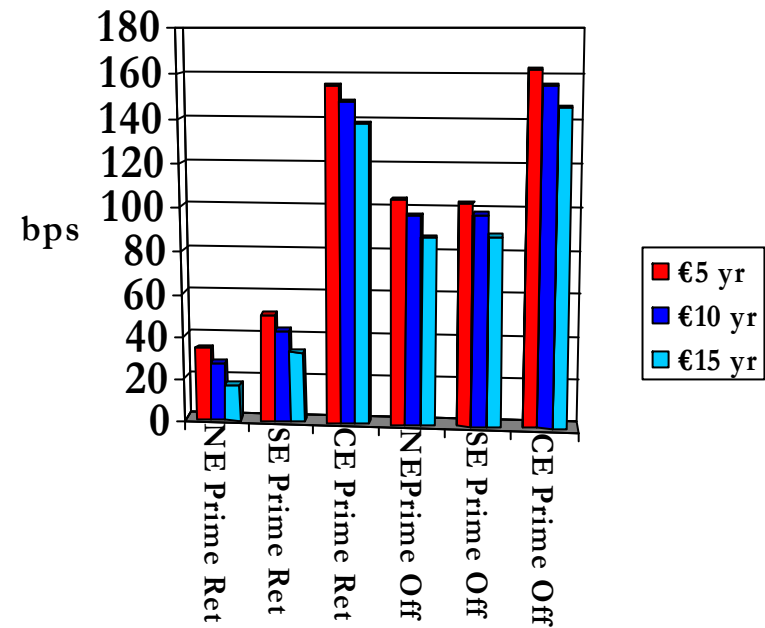
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Interest Rates – Mind the Gap



Source: DB, JP Morgan

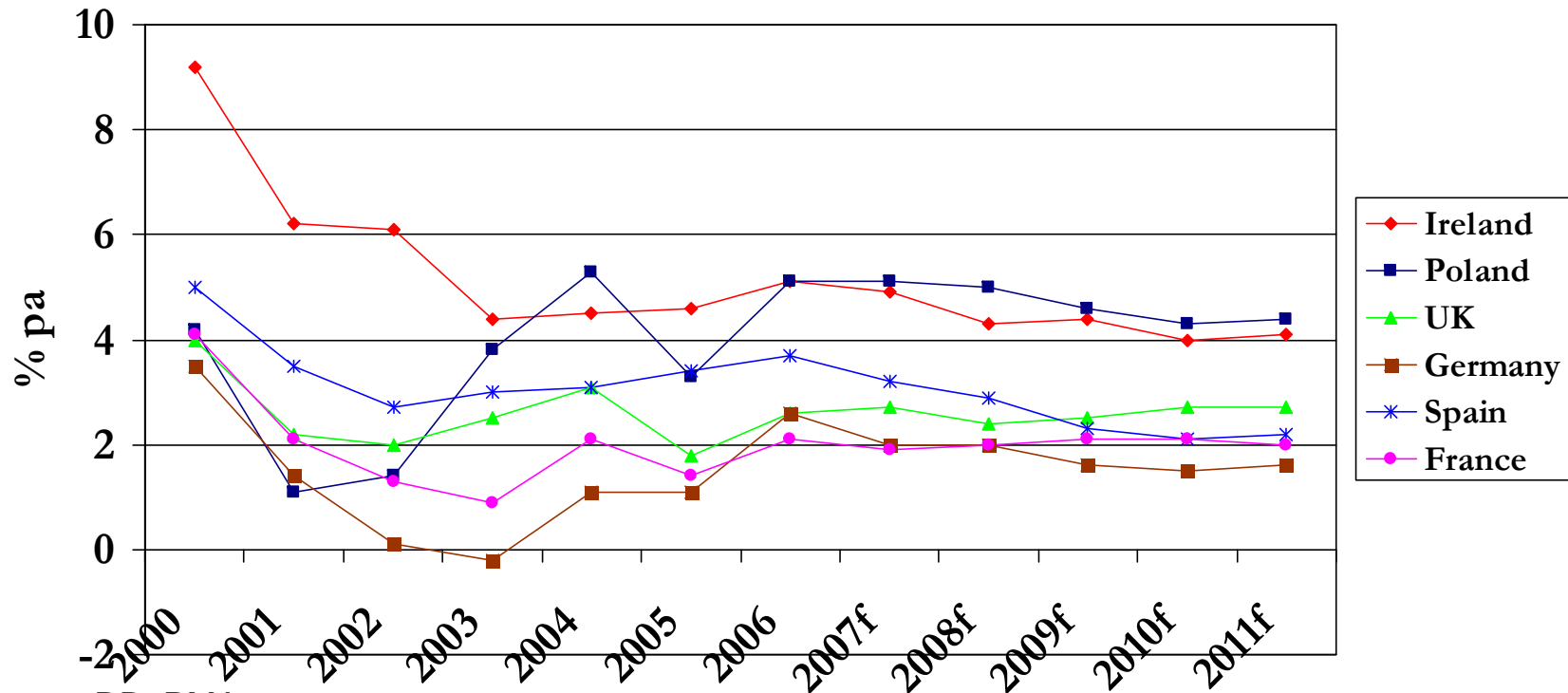
Property Yield Margin over Swaps



Source: KASPAR, Thomson

Economic Growth - Countries

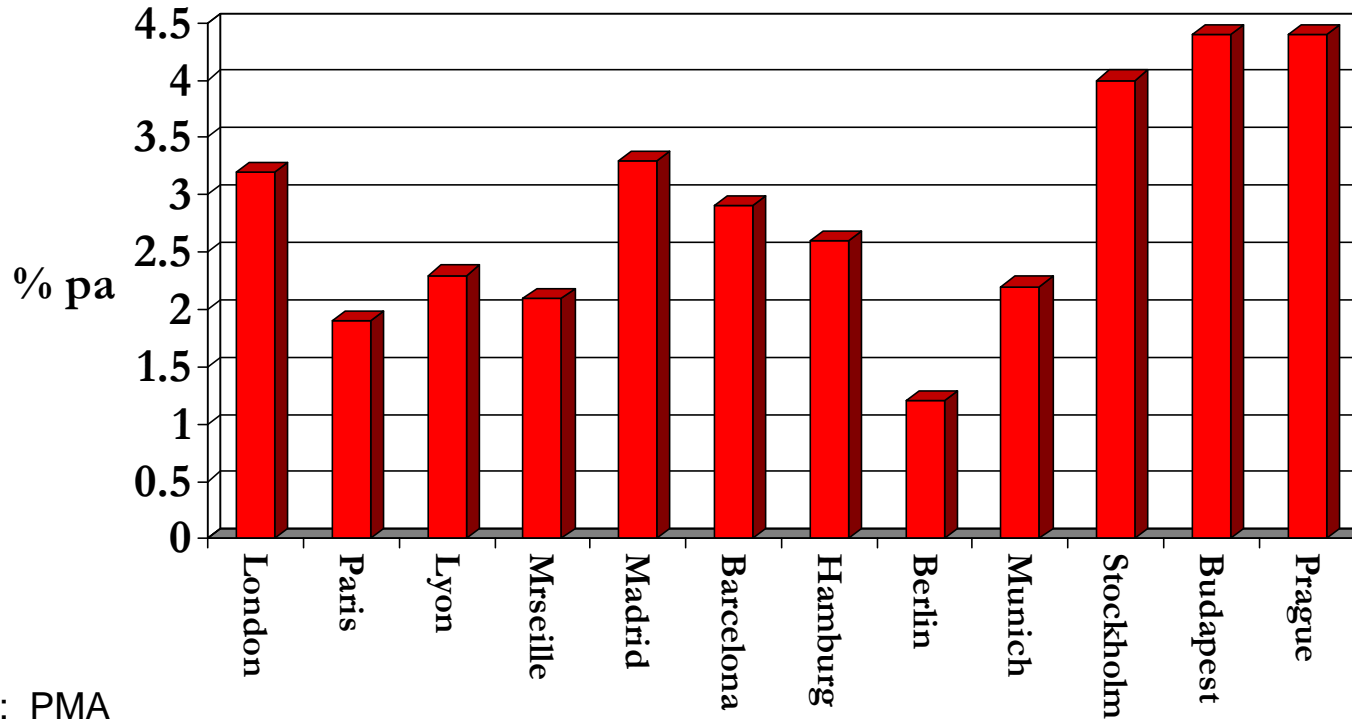
European Countries Economic Growth % pa



Source: DB, PMA

Economic Growth – European Cities

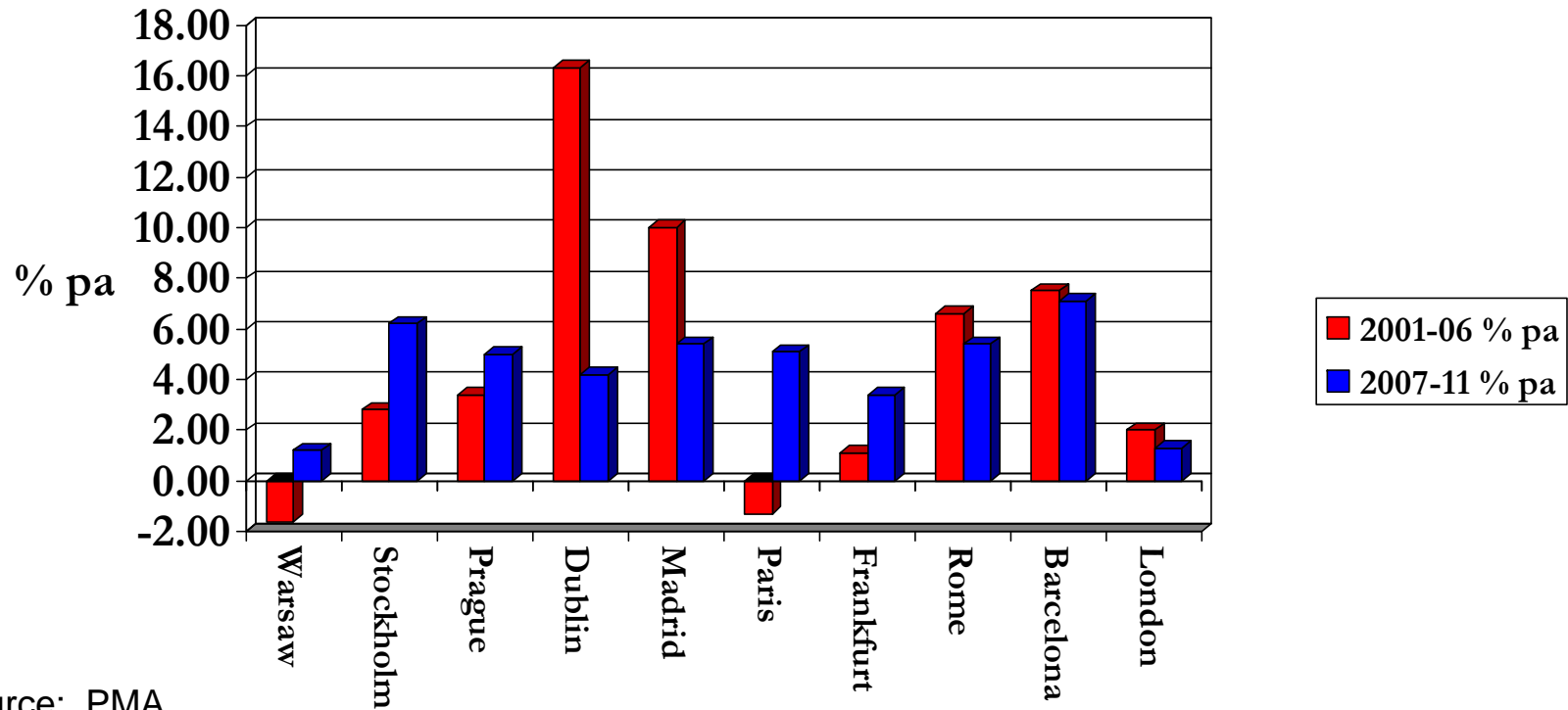
European Cities Economic Growth 2007-11 % pa



Source: PMA

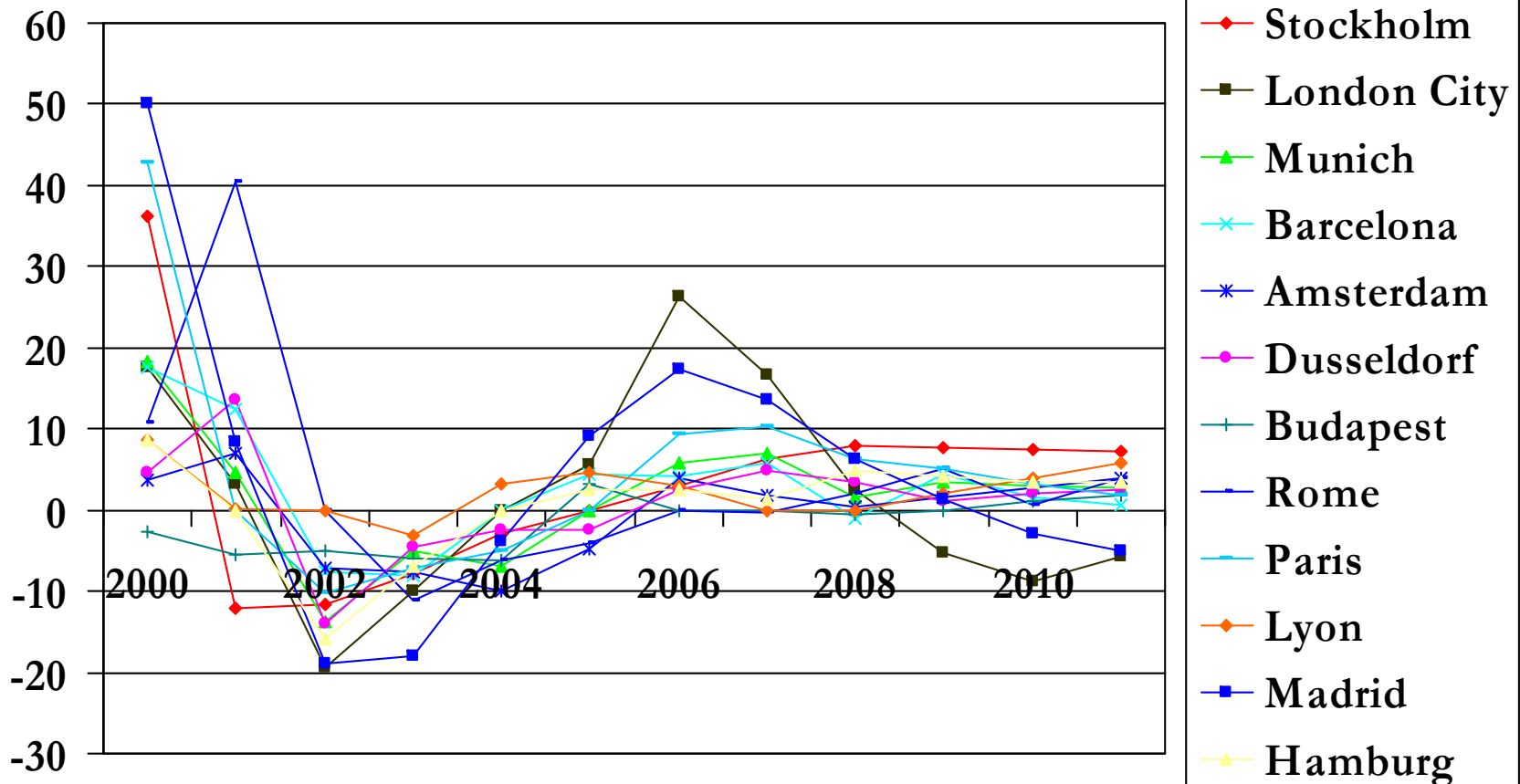
Retail Rental Growth - European Cities

European Cities Retail Rental Growth Changes



Source: PMA

Office Rental Growth



Source: PMA

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UK Real Estate Investment

End of the gold rush?

CRE Conference Montreal

Dr Karen A Sieracki MRICS

April 2007

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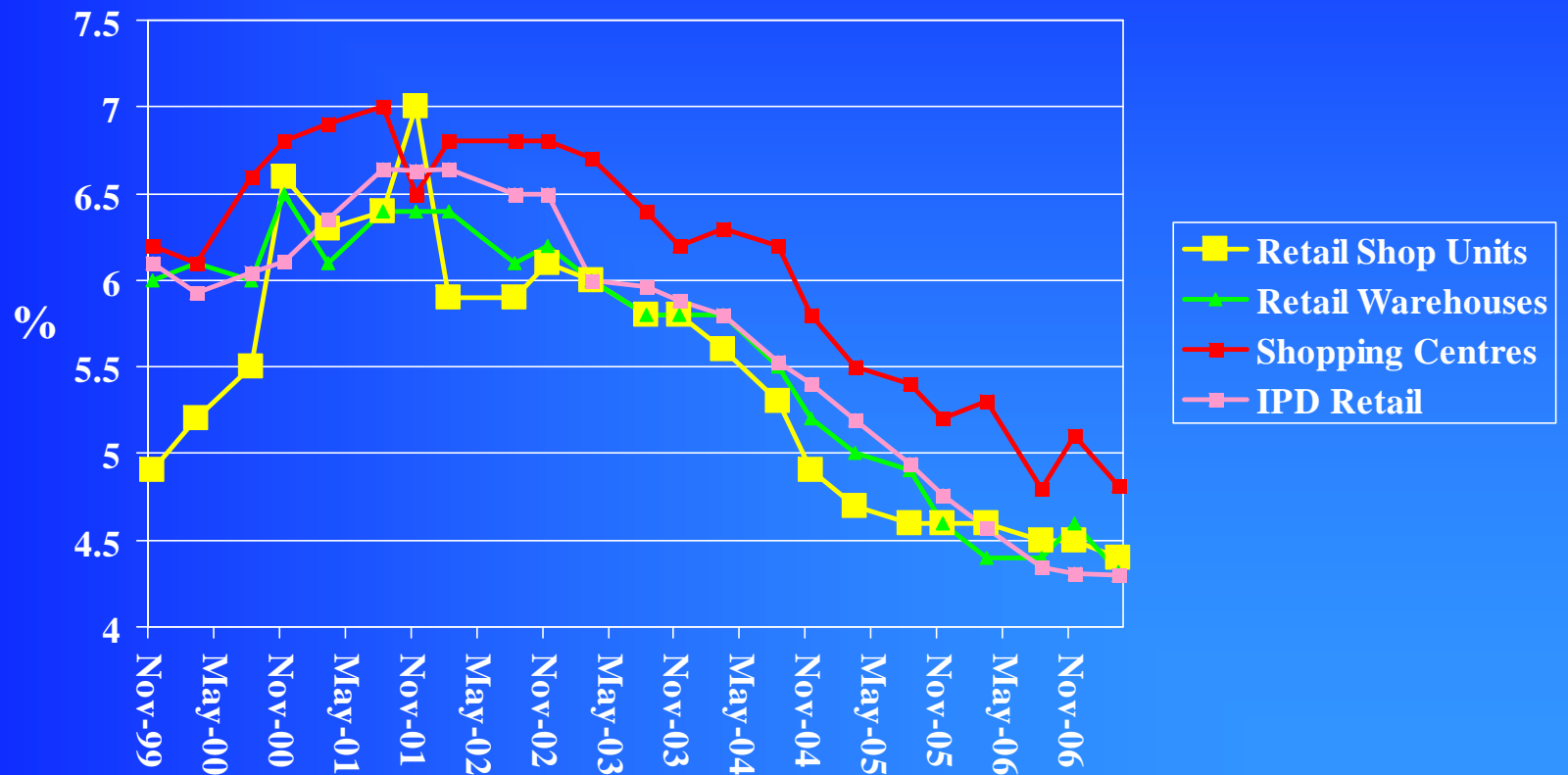
UK Real Estate Investment Market

- Economic overview
- Market pricing – direct real estate
- UK REITs
- UK unlisted real estate funds
- UK real derivatives
- Further thoughts

Economic Overview- Summary

- Steady economic growth around the long term average
- Case of event risk and effect on markets
- More threat from without than from within
- But potential change of political landscape
- Global issues feature with local impact
- Manage the uncertainty

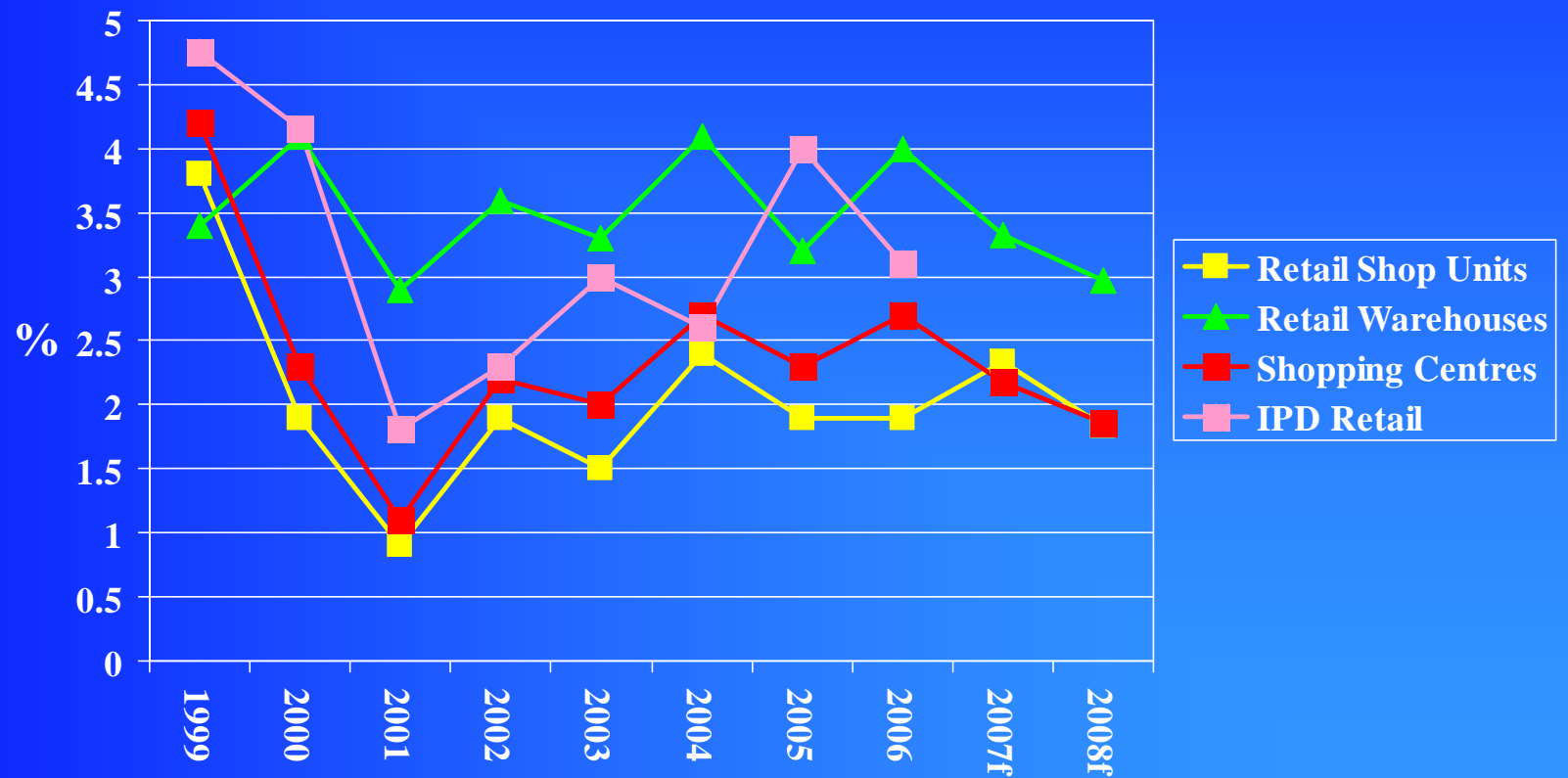
Market Pricing – Prime Retail Yields



Source: KASPAR,
EG Capital

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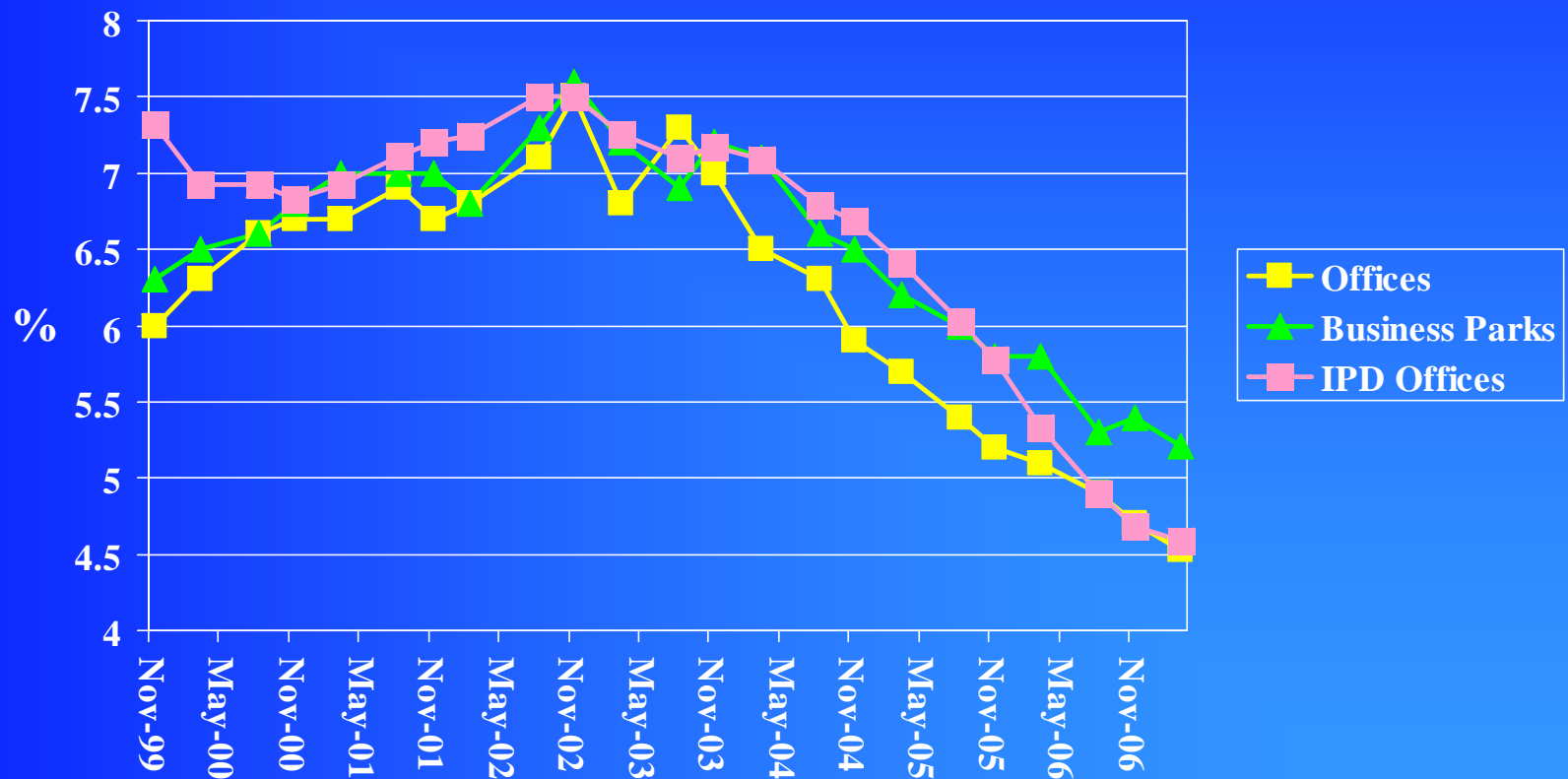
Market Pricing – Retail Rental Growth



Source: KASPAR,
EG Capital

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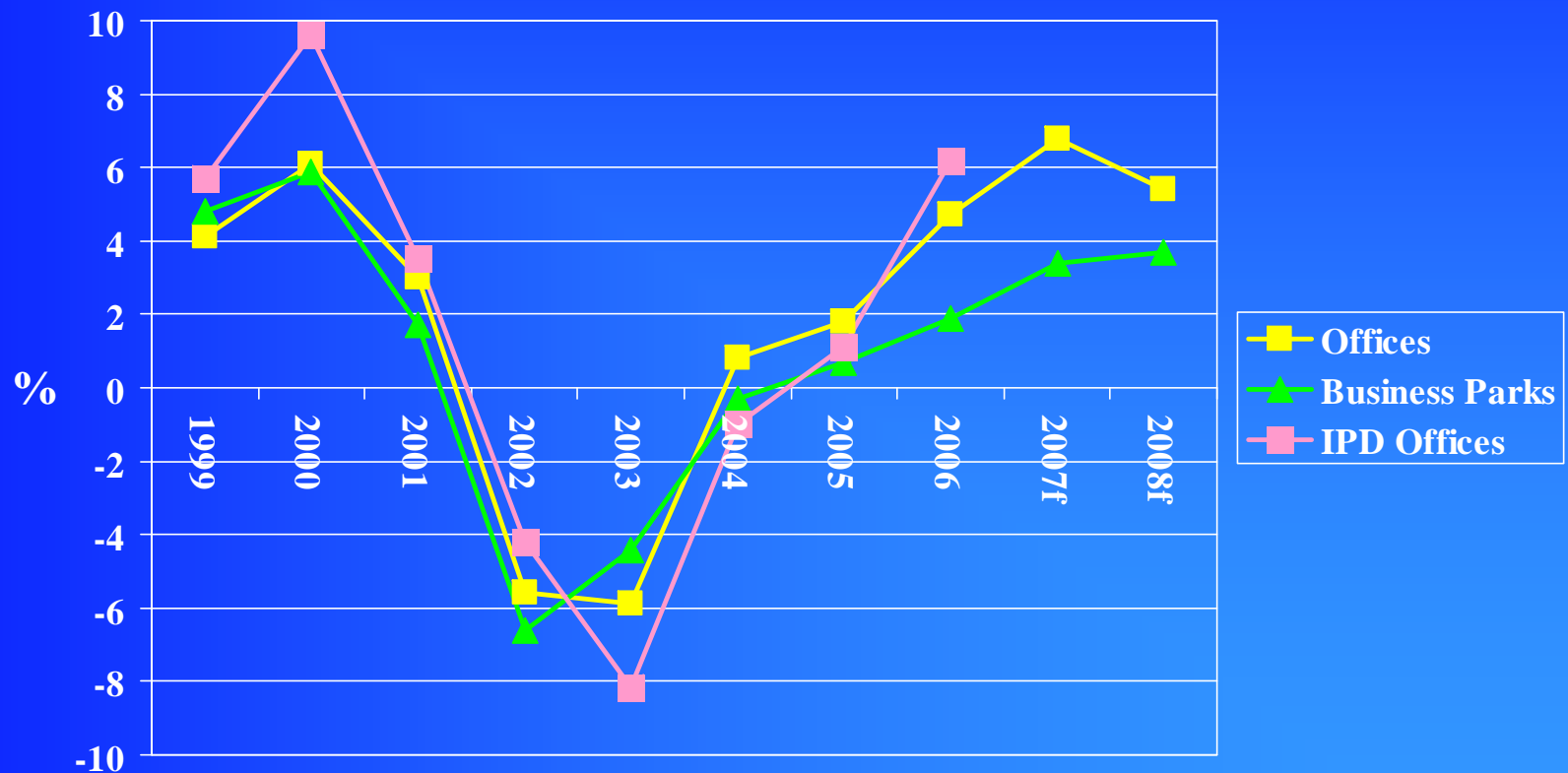
Market Pricing – Prime Office Yields



Source: KASPAR,
EG Capital

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Market Pricing – Office Rental Growth



Source: KASPAR,
EG Capital

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UK Real Estate Market

Summary

- Total returns c 10% in 2007, c 6.5% in 2008
- Overpriced – retail all sectors, industrial and distribution
- Underpriced – offices and business parks
- Sell secondary all sectors
- Buy modern offices, retail opportunities

UK REITS

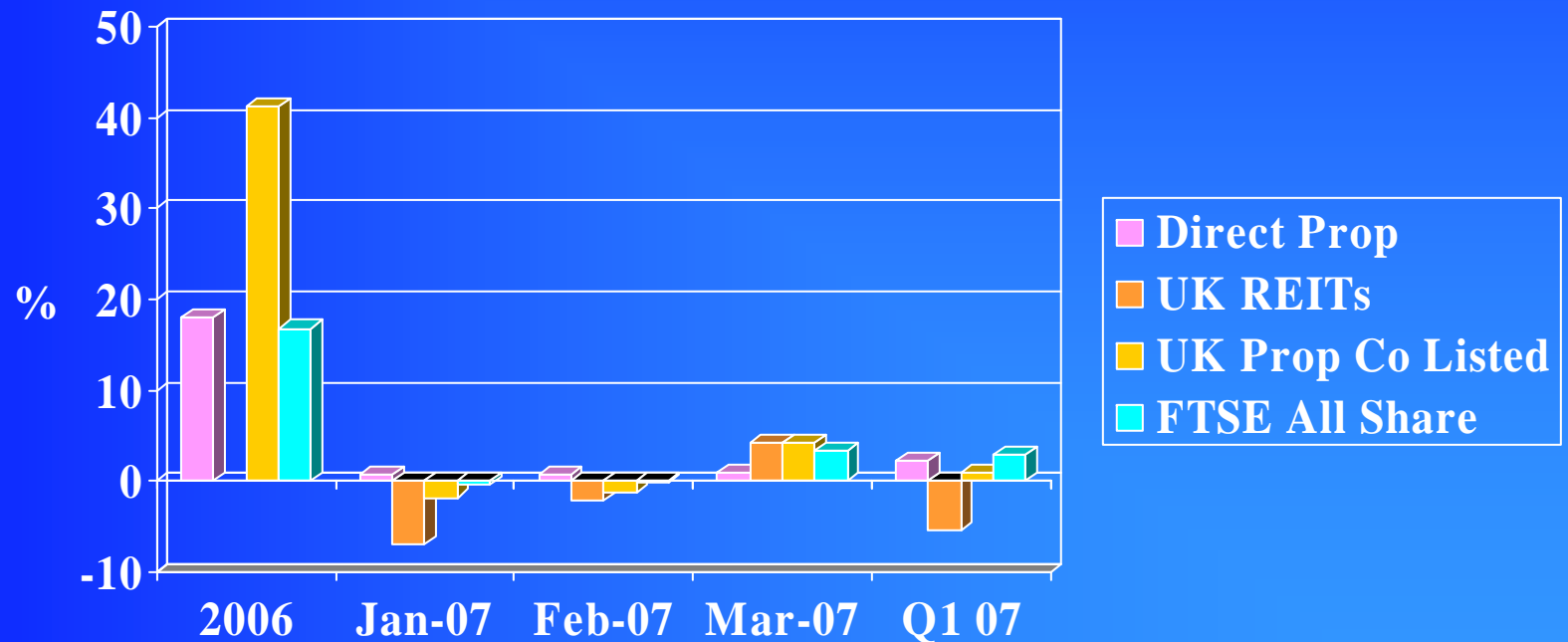
- Started 1 Jan 2007
- Must be UK resident company closed ended which is listed on a recognised stock exchange (not AIM)
- Property rental business with at least 3 properties with no one property more than 40% of the total capital value
- Rents from owner occupied property not tax exempt
- Distribution 90% of tax exempt profits
- Gearing ratio 1.25 interest cover ratio
- Developments must be held for 3 years
- Conversion charge 2% of capital value

UK REITS

- 13 now, started with 9, another 4 within next 3 months, 4 thinking about it
- 6 specialist, 7 diversified
- Market cap £32.9bn mid March – size range £9.5bn - £0.1bn
- Average dividend yield 2.25%
- Budget changes mid March –
 - 1 yr grace to satisfy 75% income and asset test
 - REIT can be established with 12 months to pay 2% conversion charge
 - AIFs now tax transparent as REITs

UK Real Estate Performance

Performance %



Source: IPD, FTSE, AME
Capital

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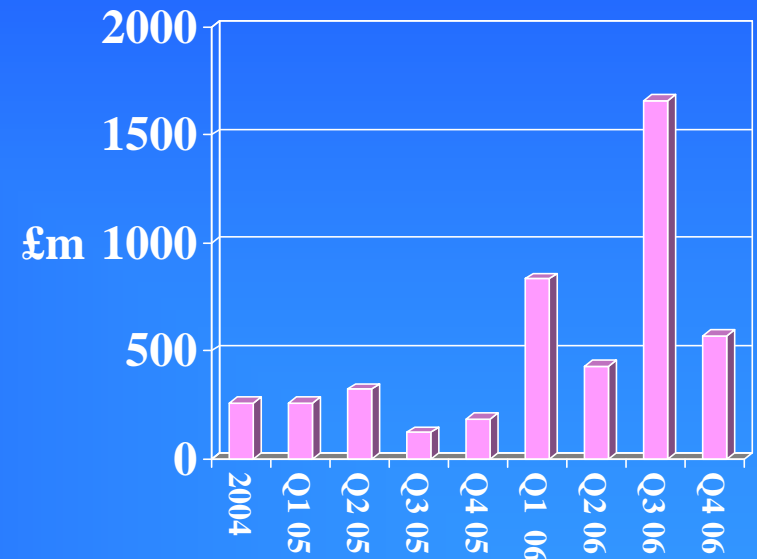
UK Real Estate Unlisted Funds

- 149 total, mostly institutional
- 72 diversified
- 90 core
- Various structures – open, closed, JPUT, GPUT, PUT, ltd partnership
- All have some tax leakage
- AIFs need to convert to OEIC and be onshore to take advantage of UK REIT tax parity

UK Real Estate Derivatives

- 15 banks licensed
- IPD not the only index - FTSE/MSS
 - HHPI
- Over £4.7bn total value
- Some sector specific
- Entry of hedge funds, some solely derivs
- Pricing – lower margin over libor for 08

Notional Value of Trades £m



Source: IPD

UK Real Estate – Future Thoughts

- Still problems with start ups – 4% SDLT + 2% conversion charge
- For opco/propco intergroup transfers exempt from 4% SDLT but cannot leave main group for 3yrs
- No private REITS
- More fluid investment landscape with more choice, wider investor pool
- Global funds with different mix
- How does this all fit in Europe – aim for a true European REIT

German Real Estate Investment

A revival story. . .

CRE Conference Montreal

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German Real Estate Investment Market

- Overview
- Economy
- Population
- Retail market
- Office market
- G-REIT
- Summary

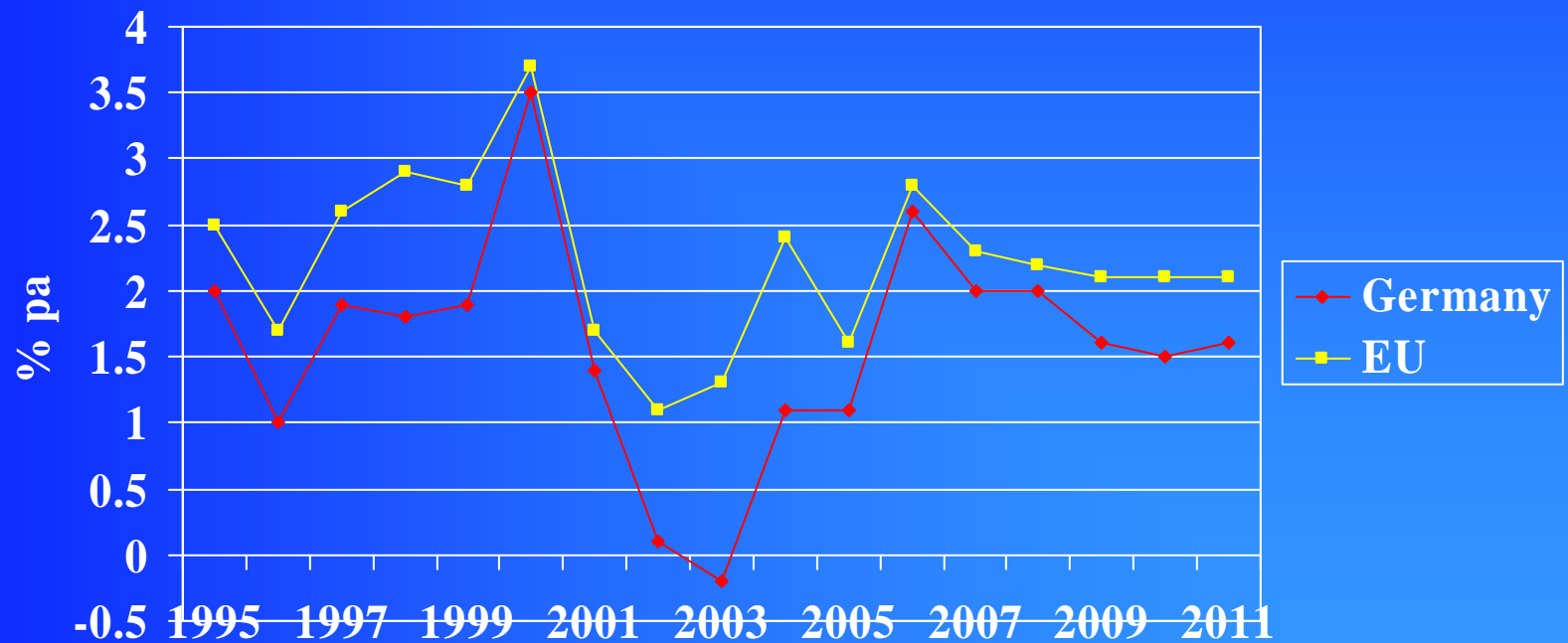
Germany - Overview

- Population 82.4m
- Largest economy in Europe
- 11th richest European country by GNP per capita
- Globally, number 16
- Home ownership 40%



German Economy

GDP

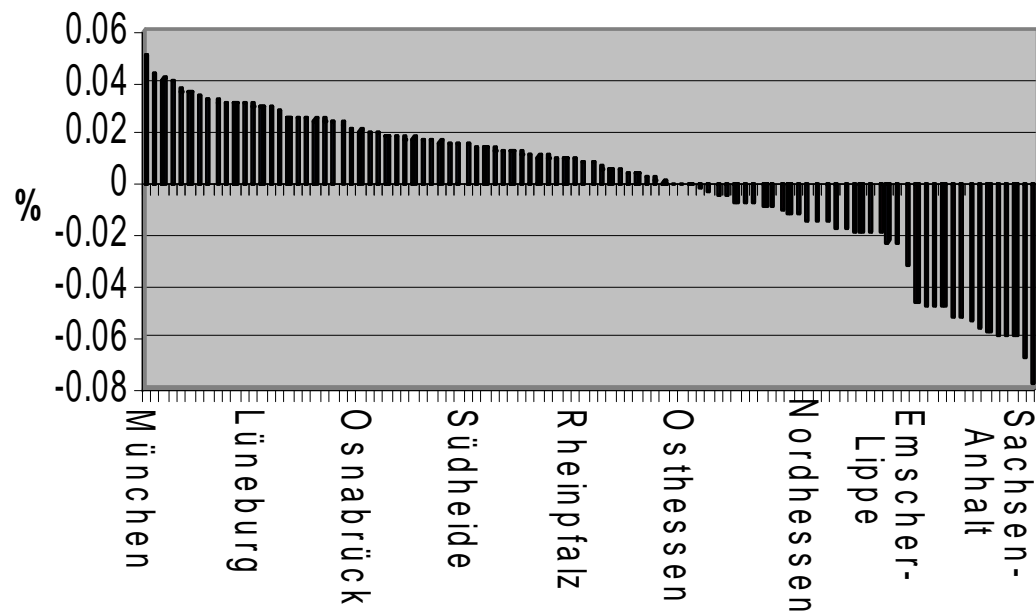


Source: DB, PMA

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German Population

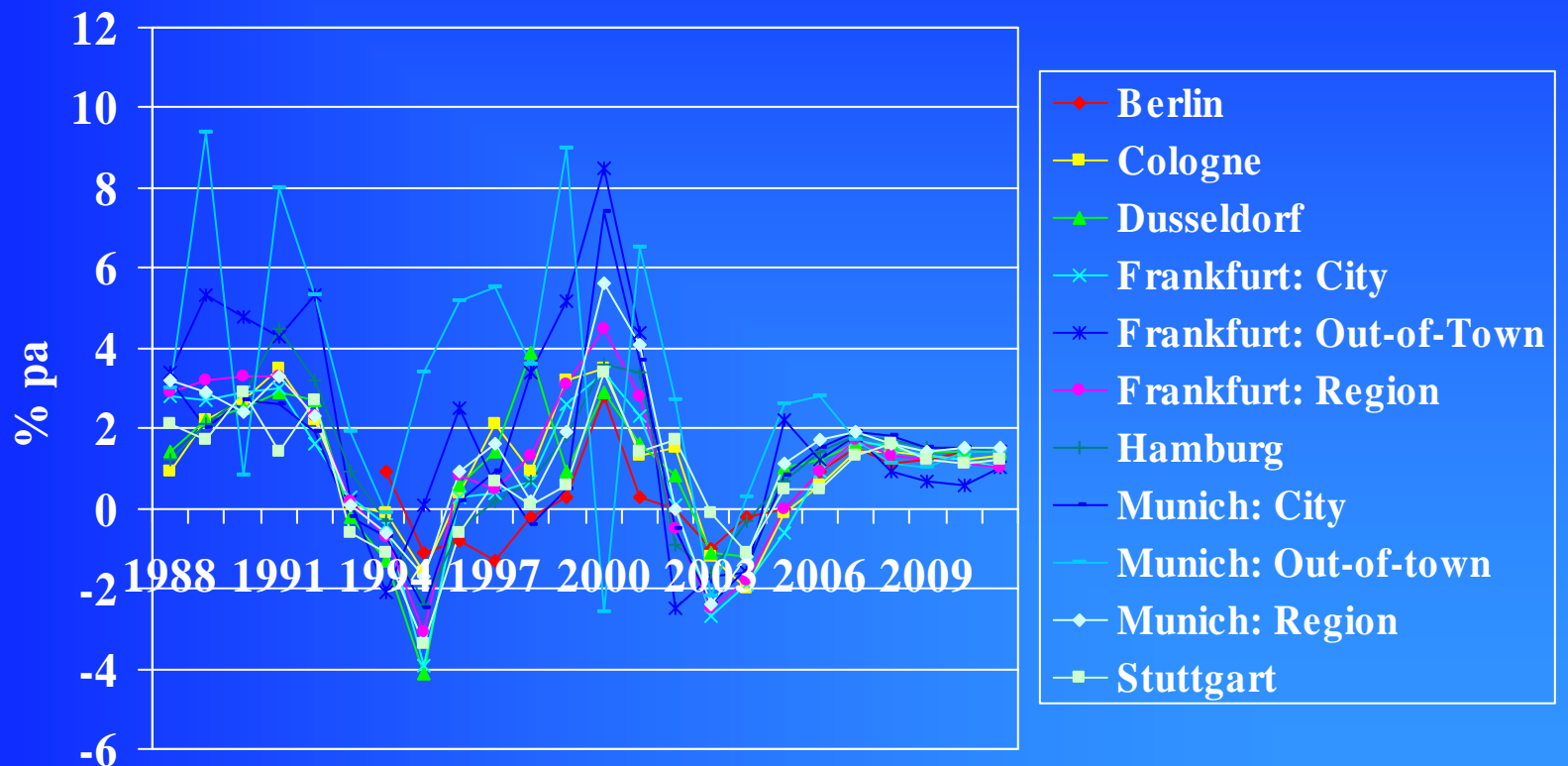
Population Growth by Region 1999-2004



Source: Destatis

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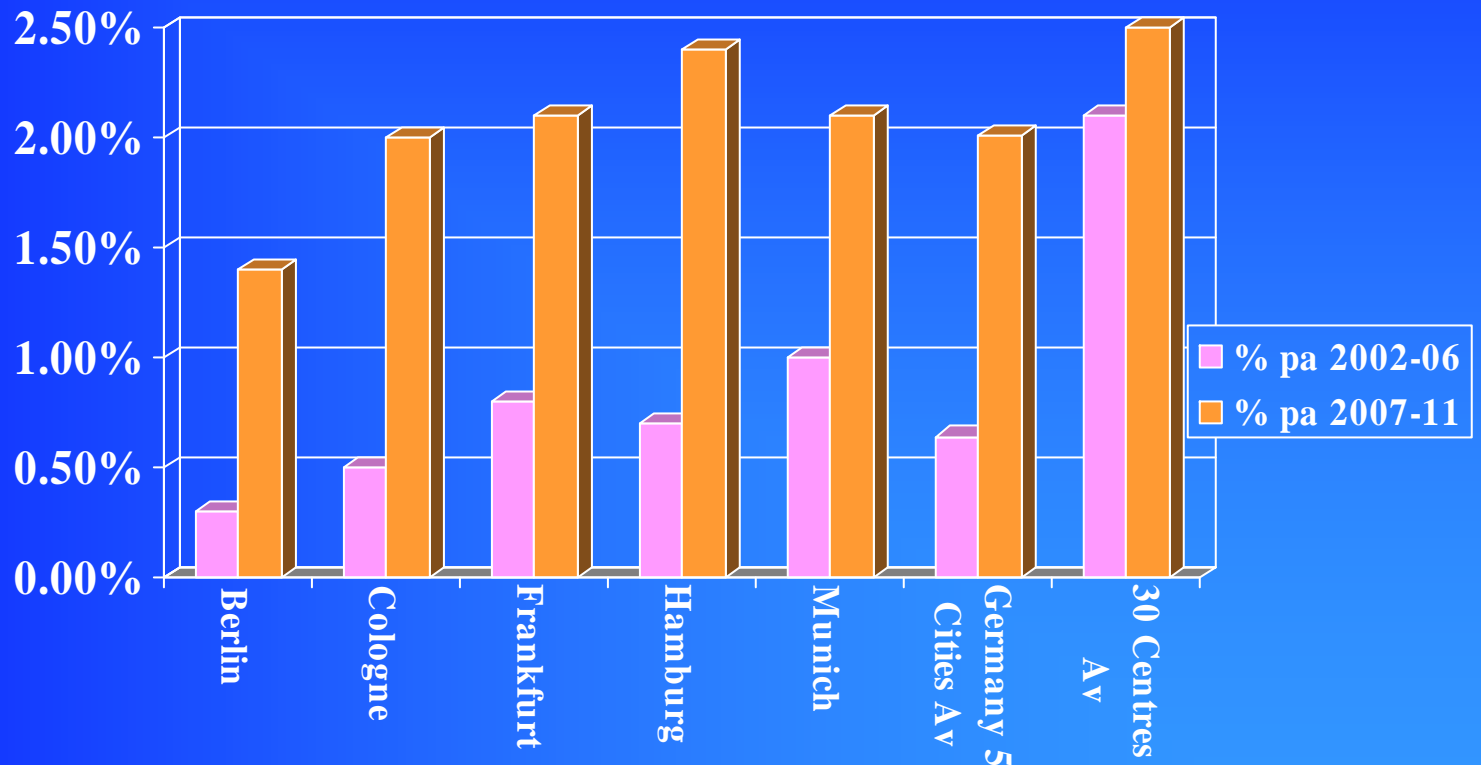
German Employment Growth



Source: PMA

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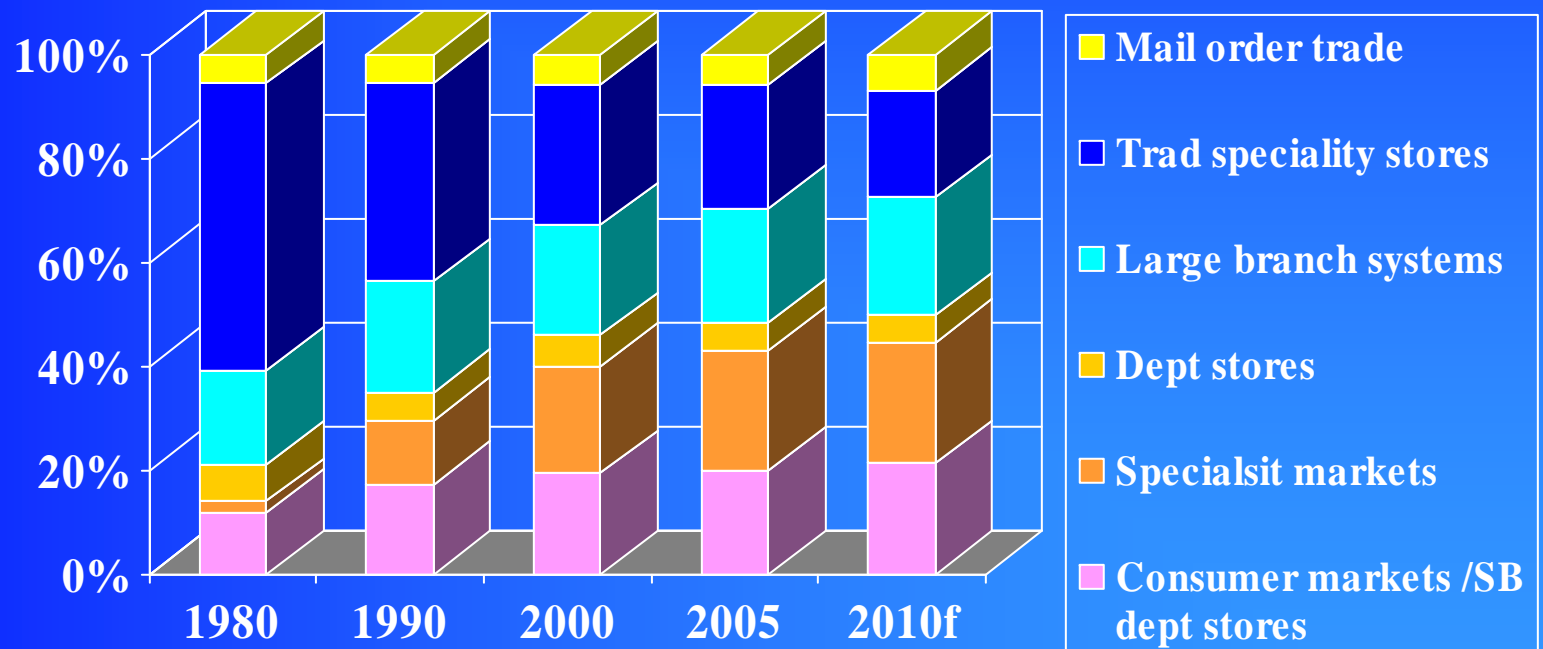
Germany – Change in Real Consumer Expenditure



Source: PMA

German Retail Market Formats

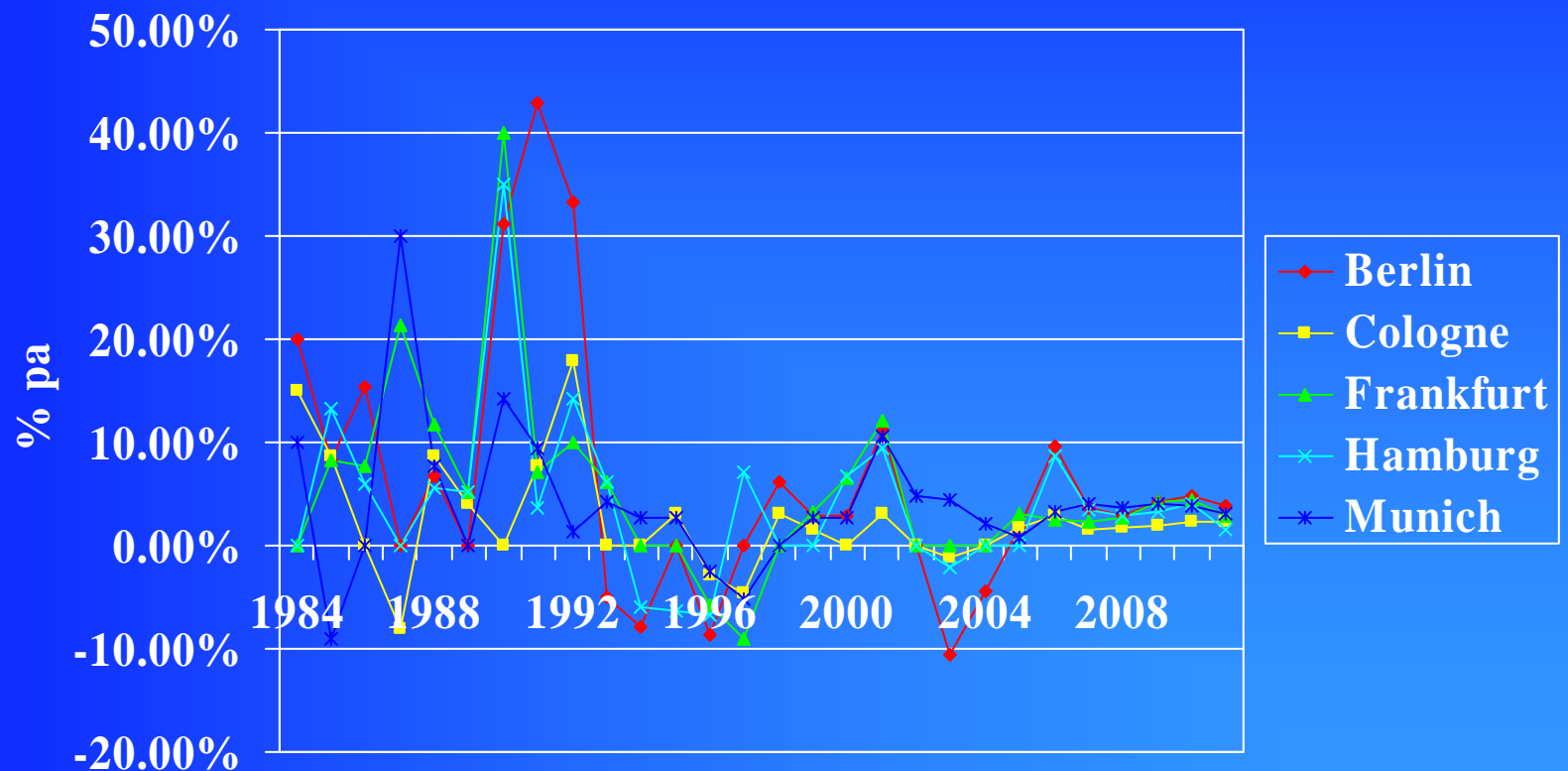
Change in German Retail Market Share



Source: DEGI

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German Retail Rental Growth

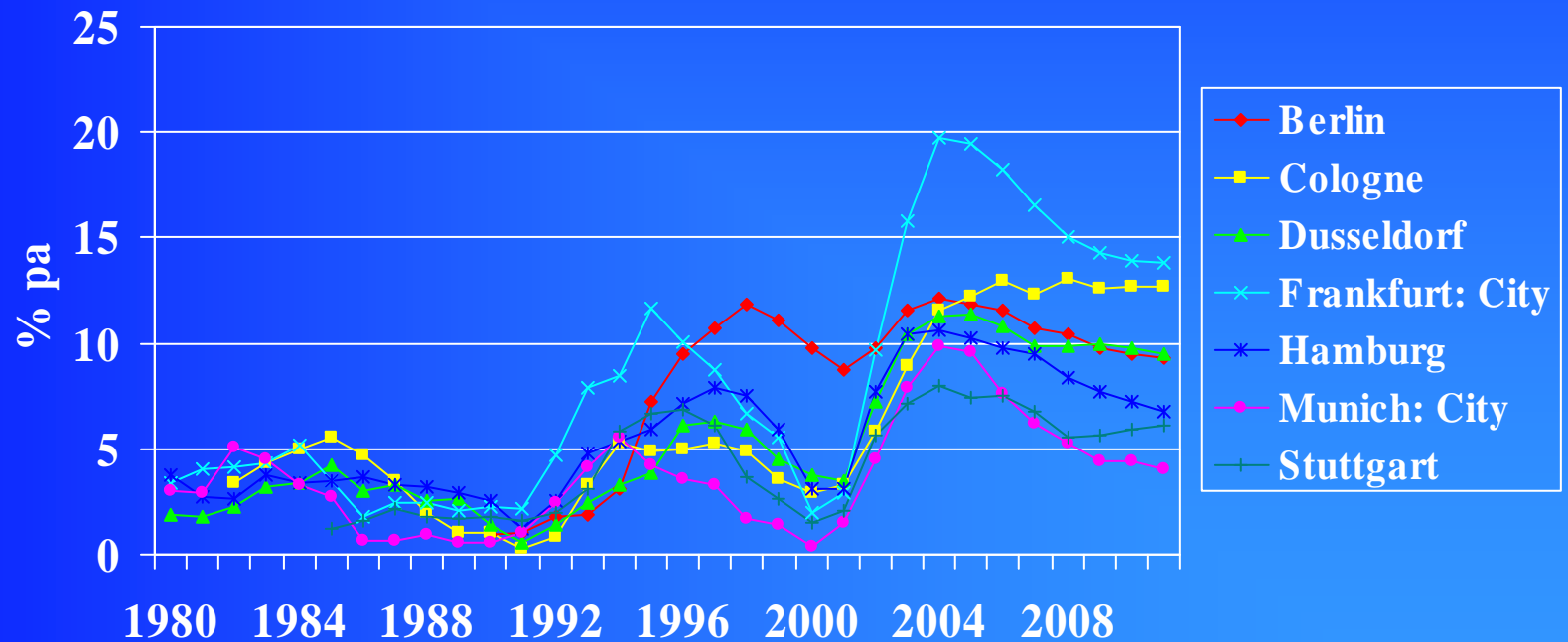


Source: PMA

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German Office Market

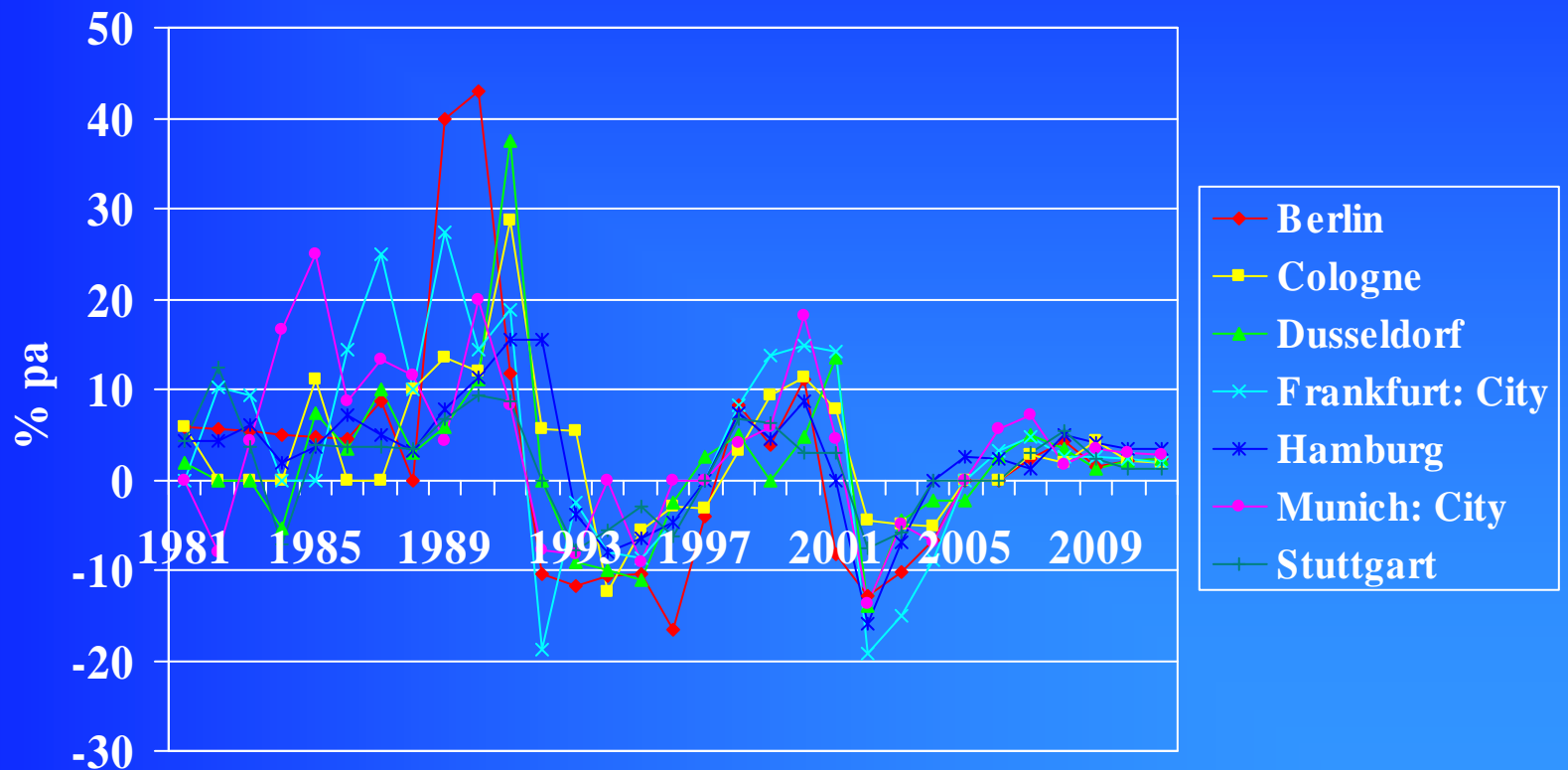
Vacancy Rate



Source: PMA

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German Office Rental Growth



G-REIT

- Bundesrat passed G-REIT on 30 March 07 and to be retrospective from 1 Jan 07
- Min cap of €15m
- 75% income from real estate investments
- Max shareholding 9.99%
- Distribution of 90% profits
- LTV 55%
- Exit route for opportunity funds and traditional fund managers – DCM €1bn June

German Real Estate Market

- Hot spot for investment
- Stock selection is important
- Concentrate on relative figures, not absolute
- Largest property stock in Europe
- Rents indexed to cost of living
- G-REIT market could be worth as much as €250 bn
- Transactions long and tedious