

EUROPEAN REAL ESTATE: A NEW ASSET CLASS COMES OF AGE

Drawing on the expertise of leading players in the sector, this comprehensive report gives you a clear picture of the key issues shaping the European real estate market.

This state-of-the-industry analysis provides in-depth evaluation of the importance of real estate solutions in the financial markets, so you know:

- How capital markets products help the real estate sector
- What the macro drivers and prospects are for real estate in each country
- Where the market is heading across the continent
- The latest developments in commercial and residential MBS
- How the UK, German and European-wide REIT markets are likely to develop
- Which emerging markets and products offer the best prospects.



Ensure you are best-placed to take advantage of financing and investment opportunities in European real estate.

Major players contributing to this report: ABN AMRO Rothschild • Barclays Capital • Citigroup Property Investors • DTZ • Eurohypo AG • Linklaters • Deutsche Bank • CA-IB International • INVESCO Real Estate • Peninsular House • Securitisation Research • UBS



**INTERNATIONAL
FINANCING
REVIEW**

Editorial

THOMSON FINANCIAL
Aldgate House
33 Aldgate High Street
London EC3N 1DL, UK
Telephone: +44 (0)20 7369 7317
Fax: +44 (0)20 7369 7333
www.ifre.com

Dear Real Estate professional,

Writing in early September 2007, the market's loss of confidence following the US subprime meltdown was looking pretty embedded; talk of a rapid end to the crisis certainly has been replaced with depression among industry professionals, who are talking about an elongated slump.

Frustratingly, in Europe at least, the notion of commercial property as an investment class in its own right had only just started to catch on. As Paul Rivlin, joint chief executive of **European Real Estate Investment Banking**, points out in the introductory chapter of this intelligence report, "this ultimately rests on a track record of consistent long-term performance alongside other mainstream asset classes".

In fact, property has consistently outperformed most mainstream asset classes in recent times. This outperformance – and the uncorrelated or moderately correlated nature of property returns against other investment classes – has acted as a magnet to a range of new investors.

The ability to create targeted geographical exposure to real estate is a major attraction and the options to achieve this are almost limitless. Away from investing directly in single properties or portfolios of bricks and mortar, there is a whole world of indirect opportunity, both leveraged and unleveraged. Quoted property company stocks, listed and unlisted collective investment schemes, REITs, private equity and merchant banking funds, property company debt, commercial and residential mortgage-backed securities, real estate CDOs, distressed situations, and senior and mezzanine bank plays are just a few product options. The rapid development of derivatives (in the UK in particular) on the back of a robust property index and the opportunity to create synthetic and tranching exposure to the sector, is only adding to the allure of property for a new class of institutional players and hedge funds.

Notwithstanding the current crisis, real estate is firmly on the radar screen. This intelligence report is an indispensable guide to the landscape and to the opportunities available in this sector. We have assembled an impressive panel of real estate specialists from the financial, legal and property industries, who in aggregate lay out the case for real estate in a compelling and convincing manner.

Yours faithfully

Jonathan Price
Managing Editor
Thomson Intelligence Reports
jonathan.price@thomson.com

CONTENTS

EUROPEAN REAL ESTATE: A NEW ASSET CLASS COMES OF AGE

01 FOREWORD

SECTION 01 MARKET OVERVIEW

CHAPTER 01 WHERE IS REAL ESTATE ON THE PATH TO FULL ASSET CLASS STATUS?

By Paul Rivlin, Joint Chief Executive, Eurohypo Real Estate Investment Banking, London

- Industry overview
 - The effect of REITs
- Market performance
- Asset class requirements
- Liquidity
 - The experience of REIT structures
 - Other developments
- Volatility against stability
 - Tighter returns
- Transparency
- Maturity
- Flexibility
- Debt sophistication
 - Origination issues
- A broad base of understanding
- A broader base of investors

CHAPTER 02 MACRO DRIVERS AND ANTICIPATED ECONOMIC PERFORMANCE ACROSS EUROPE

By Joe Valente, Director of UK Research & Development, DTZ, London

- Introduction
- The global economic context
 - Low government bond yields
- The European position
 - Europe in detail
 - Old Europe
 - Dynamic Periphery Group
 - New Europe
- Economics and real estate investment
 - Strong returns on real estate
 - Direct and indirect investment options
- Real estate investment trends within Europe
 - Growth factors
- Supply-side dynamics
- Outlook
 - Prospects in Europe
 - Economic trends
 - Geographic trends
 - Sector trends

CHAPTER 03 EUROPEAN REAL ESTATE IN A GLOBAL CONTEXT

By Dr Paul Kennedy, INVESCO Real Estate and the University of Reading, Luke Powell and Hubertus Bäumer, DTZ Research

- Introduction
- Market size and composition
 - Market differences
 - Trends and variations
- Ownership structures
- European legislation
- Data provision
 - Differences in data measurement
 - The prospects for standardisation
 - Moves in the European market
- Summary and conclusions

CHAPTER 04 PRICED FOR PERFECTION – EQUITY INFLOWS INTO REAL ESTATE IN EUROPE

By Stephen M. Coyle, Managing Director, Citigroup Property Investors; Portfolio Manager & Founder, Citigroup Real Estate Partners, New York

- Introduction
- Global capital flows
 - Focus on investors
- Europe: a market in transition?
 - The drivers of capital flows
 - Aging demographic profiles
 - Declining costs of debt
 - Strengthening fundamentals
 - Increasing market transparency
- Future prospects
 - Regional markets
 - Economic factors
 - The risk of recession
- Conclusion

SECTION 02 INNOVATIONS IN INVESTMENT PRODUCTS AND EMERGING STRUCTURED PROPERTY SOLUTIONS

CHAPTER 05 EUROPEAN CMBS ISSUANCE

By Hans Vrensen and Mark Nichol, Securitisation Research, Barclays Capital, London

- 2007 outlook: another record issuance year
- Expectations for investor demand, issuance supply and spreads
- Structural innovations
- Outlook on fundamental drivers

- The CMBS market in 2006
- Issuance growth and breakdowns
- Collateral trends
 - Granularity
 - Multi-jurisdictional issuance
- Performance – delinquencies and losses
 - Spread trends

CHAPTER 06 EUROPEAN RMBS ISSUANCE

By Jean-Marc Poilpre

- The continuing growth of RMBS
- The UK market
- The rest of Europe
- The subprime market
 - Non-conforming sector prospects
- RMBS in 2007
 - Positive forecasts
 - Downside indicators
 - Concerns for non-conforming and buy-to-let sectors
 - European interest rate impact
- RMBS performance rating
 - National variations
- Conclusion

CHAPTER 07 PROPERTY DERIVATIVES

By Rawle Parris, Executive Director, and Philip Ljubic, Assistant Director, ABN AMRO, London

- Overview
- Property derivatives – an introduction
 - How a derivative differs from a physical transaction
- The current UK derivatives market
 - Market indicators
- The IPD index
 - Derivatives markets outside the UK
- Strategies and applications
 - Hedging
 - Portfolio rebalancing
 - Diversification
 - Property fund exit strategies
 - Adjusting risk/gearing
 - International strategies
 - Asset allocation and retaining alpha
 - Corporate applications – monetising real estate holdings
- Property index certificates (PICs) and property linked notes (PLNs)
- Pricing
- REITs and property derivatives
 - Applications for real estate security fund managers
- Conclusion

CHAPTER 08 GERMAN DISTRESSED PROPERTY: RECOVERY IN SIGHT

By John F. Tsui, President, Peninsula House, LLC, New York

- Overview
 - The German NPL

- Root causes of German distressed property
- Trends in German distressed property
 - Berlin – the epicentre of distress
 - Indications of price stability
- First mover advantage on German NPLs – to buyer or seller?
- German housing – looking for the upside
- Real estate open and closed-end funds
 - Small NPL deals produce super returns
 - Distressed loans and assets for sale
- Insolvency and foreclosure
- The G-REIT initiative
 - Real estate – a source of liquidity in corporate buyouts, restructuring and insolvency
- Conclusion

CHAPTER 09 CAPITAL FLOWS AND IPOS – THE CONVERGENCE STORY IN EMERGING EUROPE

By Mark Robinson, Head of Research, CA IB International

- Background
 - Present concerns
- The situation in emerging Europe
 - Prospects for yields
- An evolving sector in a dynamic environment

SECTION 03 PAN-EUROPEAN REITs

CHAPTER 10 REIT REVOLUTION – A GLOBAL OVERVIEW

By Scott Crowe and Katie Kolchin, Analysts, UBS

- REITs defined
 - Global REIT structures
- The growth of global REIT markets
- New REIT market development
 - Japan
 - Singapore
 - Hong Kong
 - Singapore, Hong Kong and China
 - Europe
 - UK REITs
 - Germany
- The case for global real estate
 - The global trend in allocations
- Conclusion

CHAPTER 11 THE FRENCH REIT LANDSCAPE – THE FRENCH 'REIT-VOLUTION'

By Sophie Javary, Managing Director, ABN AMRO Rothschild, Paris



**ELECTRONIC
VERSION
AVAILABLE**

European Real Estate: A new asset class comes of age is also available in PDF format, enabling you to share key information with colleagues across your company.

To discuss this option and pricing please email john.woodward@thomson.com

- Introduction
 - Market background
- The REIT sector after the SIIC reforms
 - Market developments
 - Extensions to SIIC
 - SIIC 2 activity
 - SIIC 3 activity
 - Future prospects
 - Attractions for non-French players
 - Desperately seeking liquidity
- Performance measures for French REITs
 - Rental yield
 - Yield compression
 - Attractive growth and pipelines
 - REITs market valuation
- Investor activity
 - German and UK REITs: threat or opportunity?
 - Specialisation: a major future challenge
- Key conclusions

CHAPTER 12

PROSPECTS FOR UK REITs

By Simon Clark, Real Estate Tax Partner and Tom Road, Real Estate Associate, Linklaters, London

- Introduction
 - The legislation in context
- The form of the UK REIT
 - Company conditions for REIT status
 - Tax-exempt business conditions
 - Balance of business conditions
 - Entry charge
 - The 10% rule
 - Gearing restriction (interest cover test)
- Development
 - Ring-fenced business
 - Taxation of REITs
 - Group REITs
- Key challenges to the REIT regime
 - Tax-neutral vehicle
 - REIT objectives and liquidity
 - Encouraging investor appetite
 - AIM listed companies
 - Start-up REITs
 - Tax
 - Residential REITs
- Doing business with UK REITs
 - Acquisitions and disposals
 - REIT status considerations
- The future
 - Specialisation/diversification
 - Other developments

CHAPTER 13

STRONG PROSPECTS FOR THE GERMAN REIT MARKET

By Dr Tobias Just, Senior Economist, Deutsche Bank Research, Frankfurt am Main

- Introduction
 - History of the German REIT (G-REIT) process

- Improving the financial environment
 - Current legislative outline
 - Next steps
- The potential for the G-REIT market
 - Economic benefits
 - Is the G-REIT already behind the curve?
- Conclusion

LIST OF TABLES

- 3.1: Estimated prime office performance 2004–07f (% local currency)
- 5.1: Relative country sector rankings
- 5.2: Top 10 European CMBS conduit programs by issuance, 2006 (€bn)
- 7.1: Physical property transaction
- 7.2: IPD country indices
- 7.3: Tracking error
- 7.4: Costs of levels of diversification (€m, %)
- 7.5: Adjusting asset allocation (€bn, %)
- 7.6: Potential saving through derivative use
- 10.1: Global REIT structures
- 10.2: Estimated sourcing of G-REIT assets to 2010, (€bn)
- 10.3: Population over 65 years old, by country, 2000, 2010, 2020
- 11.1: Overview of the REIT sector, 2003, 2006 (€ bn)
- 11.2: Main French property companies, 1 Jan 2003 (€m, %)
- 11.3: Foreign property companies with Euronext Paris dual listing, Dec 2006
- 11.4: Top five REITs, France, the Netherlands, UK, Dec 2006 (€)
- 11.5: 2010 investment pipeline of major French REITs (€m, %)
- 11.6: Valuations of main French REITs, 2006, 2007e (€m, %)
- 11.7: EV/EBITDA multiples, by sector, 2006
- 11.8: Volatility of SBF 120 companies, by sector, Dec 2006 (%)
- 11.9: Main investors in French SIIC companies, December 2006 (€m, %)
- 11.10: Performance of EPRA indices from 2005 and 2006 (%)
- 11.11: Investor attitudes to European REIT markets, 2006 (%)
- 13.1: Development of the global REIT market, 1960–2007
- 13.2: REITs and existing property vehicles in Germany
- 13.3: Market potential of G-REITs (€bn)

LIST OF FIGURES

- 1.1: French SIICs – market capitalisation vs free float, 2003–06 (€bn)
- 1.2: Global real estate vs equities and bonds, 2003–06
- 1.3: Real estate vs other asset classes, total returns, 2005 (%)
- 1.4: Annualised asset turnover, by sector, 2003–06 (%)
- 1.5: Performance of French SIIC, non-SIIC and UK real estate sectors, 2003–06
- 1.6: Yields – Paris CBD vs French gilts (%)
- 1.7: International benchmarks, 2003–06
- 1.8: German open-ended funds – gross assets, 1995–2006 (€m)
- 1.9: UK pension fund allocation to property, 1964–2004 (%)
- 1.10: European direct real estate investment, 2000–05 (€bn)
- 2.1: Total investment purchases, 2000–06 (€bn)
- 2.2: Global price inflation rates, 1980–2007f (%)
- 2.3: Real interest rates, 1980–2006 (%)
- 2.4: Global GDP growth, 1999–2007f (%)
- 2.5: Gross national saving, 1995 and 2005
- 2.6: Global money supply to GDP ratio, 1980–2005

- 2.7: Growth in GDP and GDP per capita, 1999–2005 (%)
- 2.8: Average annual GDP growth, 1999–2005 (%), and GDP per capita, 2005 (€)
- 2.9: Total returns on UK assets, Dec 1986–Oct 2006
- 2.10: Average annual total returns on UK and European assets, to end-2005 (%)
- 2.11: Direct and indirect real estate investment holdings in Europe, 1999–2005 (€bn)
- 2.12: Average annual GDP growth and growth in invested stock, 1999–2005 (%)
- 2.13: Value of cross-border transactions, 1999–2006 (€m)
- 2.14: Prime office yields, 1999, 2005 (%)
- 2.15: Average annual GDP growth, 2006–2010f (%)
- 2.16: Externalisation potential, 2006–10 (€bn, %)
- 3.1: Global real estate stock by region and category, 2006 (US\$bn)
- 3.2: Invested, investible and total real estate stock by country, 2006 (US\$bn)
- 3.3: Office, retail and industrial property split by country, 2006 (%)
- 3.4: Market maturity by region, 2006 (US\$trn)
- 3.5: European office total return volatility and city-level output volatility, 2006 (%)
- 3.6: 'New' European offices as a proportion of total stock by market, 2006 (%)
- 3.7: Rental growth correlations by sector and region, 2006 (%)
- 3.8: European real estate investment by country and capital type, Q4 2005–Q2 2006 (%)
- 3.9: Regional investment volumes, Q4 2005–Q2 2006 (% US\$bn)
- 3.10: Listed real estate securities markets by region, 2006 (€m)
- 3.11: REIT markets by region, 2006 (€m)
- 3.12: Unlisted real estate investment funds by region, 2006 (€m)
- 3.13: Investible European real estate stock by ownership group, 2006 (€), (%)
- 3.14: Investible Asia Pacific real estate stock by ownership group, 2006 (€), (%)
- 3.15: IPD global total returns, 2001–05 (% US\$)

- 5.1: BEC-Prop Index and sub-indices, 1999–2010, 2005–10
- 5.2: European CMBS issuance, 1995–2006 (€bn)
- 5.3: European CMBS issuance, by issuer type, 2006 (%)
- 5.4: European CMBS issuance, by transaction type, 2006 (%)
- 5.5: European CMBS issuance, by collateral country, 2006 (%)
- 5.6: European CMBS issuance, by property type, 2006
- 5.7: European CMBS – loan and property granularity, 1998–2006
- 5.8: European CMBS issuance – multi-jurisdictional issuers, 1999–2006 (%)
- 5.9: European CMBS delinquencies – estimated loss rates as percentage of outstanding, Q1 2004–Q1 2006 (%)
- 5.10: UK commercial mortgages – estimated loss rates as percentage of outstanding, 2000–06 (%)
- 5.11: UK commercial mortgage lending, by category, 2000–06 (%)
- 5.12: Commercial mortgage loan covenant breaches and defaults, 2000–H1 2006 (€m)
- 5.13: European CMBS – primary spreads, 2002–06
- 5.14: European CMBS – average spreads, 2002–06
- 5.15: European CMBS – primary spreads, 2006
- 7.1: Total annual returns by category (%)
- 7.2: Annual property yields, by sector,

- 7.3: Simple total return swap
- 7.4: UK derivative trading, Q1/2005–Q1/2007 (€m)
- 7.5: Composition of the UK IPD index, end-Dec 2006 (%)
- 7.6: Composition of IPD indices for the Netherlands and France, 2006 (%)
- 7.7: Using a derivative to protect against a perceived market downturn (%)
- 7.8: Using derivatives for portfolio balancing
- 7.9: Predicted value of fund terminations, 2006–16 (€bn)
- 7.10: Property returns vs interest returns, effect of derivatives, 1995–2004 (%)
- 7.11: All property curve, 2007–16
- 7.12: Risk/return profile, US direct property vs US REITs, 1978–2007 (%)
- 9.1: Prime office yields in Madrid, 1981–2005 (%)
- 9.2: Yields convergence in Central Europe
- 9.3: Capital inflows and IPOs in the EME real estate sector, 1998–2006e (€bn)
- 9.4: Prime office yields, 2005 (%)
- 9.5: Speed of convergence in CE-3, 2003–09e (%)
- 9.6: Emerging Europe – credit to GDP ratios (%)
- 9.7: Emerging Europe – mortgages to GDP ratios (%)
- 9.8: Emerging Europe – private consumption growth, 2003–07e (%)
- 9.9: Activities breakdown by MCAP (US\$, %)
- 9.10: Activities breakdown by MCAP after rebalancing (US\$, %)
- 10.1: Growth of global REIT markets, 1990–2006 (US\$bn)
- 10.2: Singapore REIT market capitalisation, 2002–06 (S\$trn)
- 10.3: Institutional pension allocations to real estate, 1988–2006 (% US\$trn)
- 10.4: Listed real estate allocations, by market source, 2006
- 10.5: Efficient frontier with and without real estate (%)
- 10.6: Global risk and return, 1990–2006 (%)
- 10.7: Interregional correlation within each asset class, 1995–2005
- 10.8: Rolling two-year global correlation, global real estate versus equities & bonds, 1996–2006
- 11.1: Main elements of SIIC 1 reform, 2003
- 11.2: French real estate ECM volumes, 2003–06 (€m)
- 11.3: French real estate M&A volumes, 2003–06 (€bn)
- 11.4: Listed real estate vs total real estate assets, by country, Sept 2006 (%)
- 11.5: French SIIC market, Dec 2006 (€m, %)
- 11.6: Income returns on property, by category, 2000–05 (%)
- 11.7: Growth in unleveraged capital return on property, by category, 2000–05 (%)
- 11.8: Growth in gross rental yield on property, by category, 2000–05 (%)
- 11.9: Cash flow growth estimates 2003, 2006 (%)
- 11.10: EPRA indices' performance, Jan 2003–July 2006
- 11.11: Average discount/premium to NAV, 2003, 2006 (%)
- 11.12: Investor rating of European REIT valuation methodologies (%)
- 11.13: Premium to NAV vs yield regression, 2006e (%)
- 11.14: Premium to NAV vs cash flow CAGR, 2006–08e (%)
- 11.15: Volatility of select French REITs, Jan 2003–July 2006 (%)
- 11.16: Investment in French SIIC companies, by country, 2006 (%)
- 13.1: European market share of national real estate stock companies, 31 Oct 2006 (%)

OTHER KEY REPORTS AVAILABLE:

THE FUTURE OF THE GLOBAL COVERED BOND MARKET

BY MICHAEL MARRAY



The last five years have seen resounding success for covered bonds, with new jurisdictions coming into play, a steadily broadening investor base, and a relentless tightening of spreads for issuers.

But during the second half of 2007, after a long period of high liquidity the global credit markets hit turbulence, scaring some investors away from any product related to mortgages.

The Future of the Global Covered Bond Market offers a highly insightful analysis of the market, its main participants, and its likely future direction.

Drawing on interviews with some of the market's most experienced covered bonds executives, including senior officials at the ECBC and vdp, this report is a must read for issuers, arrangers and investors alike.

In addition to providing profiles of the most important covered bond markets by country and evaluating covered bond law around the world, this report covers all the key subjects:

- Issuers' techniques
- The Widening investor base
- Rating agency methodologies
- Factors driving supply and demand.

CREDIT DERIVATIVES: STRUCTURES, TECHNOLOGY AND PROSPECTS

BY REOCH CREDIT



Despite a decade of poor predictions, the credit derivatives market has overcome major global events and transformed the capital markets. The growth has been phenomenal – with notional principal outstanding volume of CDS standing at \$34.5 trillion, compared to \$2.15 trillion just 4 years ago.

Credit Derivatives: Structures, technology and prospects, a definitive intelligence report from IFR, offers seasoned players and newcomers alike an expert insight into this

dynamic market and its instruments, examining:

- structures of all current credit instruments, from the basic CDS through to more recent developments like CDO2, CDO3, CPPI, CPDO, CDPC and more
- quantitative aspects of the products, from single name to portfolio credit derivative
- the technology required to support existing credit instruments as well as the new technologies that will be key in developing new products

- challenges and obstacles facing both front and back offices as they work together to exploit ever more complex and diverse markets.

Written by a team of some of the most experienced market participants in the world, this report gives a unique, timely and highly informed viewpoint that should make essential reading for anyone with a stake in the credit market.

OPPORTUNITIES IN: HYBRID CAPITAL – DEFINITIVE GUIDE FOR ISSUERS AND INVESTORS

BY STEVE SAHARA, CALYON



Issuers and investors worldwide have embraced hybrid securities as an exciting new debt capital markets opportunity. For issuers, hybrids are a flexible tool for managing the capital structure, and for investors, the hybrid asset class offers incremental investment yield opportunities.

The global hybrid capital market has grown dramatically and has continued to evolve over the past 15 years. Precisely because of the "hybrid" nature of the asset class, it continues to evolve and defy attempts to create a simple universal explanation.

The product developments within the hybrid market are often in response to changes in legal, accounting, tax, regulatory or rating agency frameworks, which impact the form and applicability of hybrid instruments. For a newcomer to the hybrid market, the current tapestry of structuring nuances can seem arcane and even non-sensical without a timeline of the historical layering of regulatory requirements and financial engineering responses.

Opportunities in Hybrid Capital contains the key hybrid capital security developmental

milestones which have occurred over time and puts them in context, so that issuers and investors can form a better appreciation of the rationale for typical contemporary hybrid securities today and glean what the future may bring.

Written by one of the most experienced market practitioners in the world, **Opportunities in Hybrid Capital** is a must read for anyone with an interest in this complex, growing market.

RETHINKING SYNDICATED LENDING: THE EUROPEAN LOAN MARKET 2015

BY NACHUM KAPLAN



In just five years the European syndicated loan market has grown threefold, with a staggering US\$1.5 trillion worth of loans booked in the EMEA region in 2006.

It is ironic that what was once perhaps among the sleepest of capital markets – European syndicated loans – should now be at the forefront of one of the most dramatic capital market changes in history.

Rethinking Syndicated Lending: The European loan market 2015 is a definitive analysis of this fast-evolving and complex market, addressing all its key elements:

- Flaws at the heart of relationship lending
- Challenges in relationship modelling
- Impact of the single European currency

- Strategies in the search for yield
- Rise and rise of leveraged finance
- Emergence of structured lending
- Innovation in subordinated debt instruments
- New risk management strategies
- Profiting from a downward credit cycle
- Proliferation of new players in the market
- Evolution of M&A financing.

Exclusive interviews

IFR's associate editor of Loans and High Yield, Nachum Kaplan, supplemented his own expertise and market knowledge with views from the world's top executives in lending from leading banks: Barclays Capital, BNP Paribas, Citigroup, Commerzbank, Deutsche

Bank, Dresdner Kleinwort, JPMorgan, Mizuho Corporate Bank, Morgan Stanley, Royal Bank of Scotland and SG CIB.

Extensive Data

More than 60 invaluable charts and tables are integrated in the report, providing a wealth of exclusive year-on-year data from the past six years, such as league tables on refinancing and structured loans, loan markets by country and type in Europe, the US and emerging markets.

No senior executive in lending, borrowing or investing can afford to be without this invaluable report.

