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PRESS RELEASE

Europe's financial crisis parallels with US Savings & Loan debt in 1990s suggesting potential for listed real estate involvement on the road to solution – EPRA study

Berlin – September 06: Europe's financial crisis has some striking similarities to the U.S. Saving & Loan (S&L) real estate debt problems of the early 1990s, and a major contribution to its solution may similarly lie in repackaging distressed property assets into attractive listed vehicles for investors**,** a research study carried out for the European Public Real Estate Association (EPRA) concludes.

After the U.S. government acted in the S&L crisis to create the effective conditions to attract a wall of investment into listed real estate investment trusts from institutional and private investors alike, U.S. REITs grew 1,400 percent to reach a market capitalization of $162 billion in just eight years.

Philip Charls, CEO of EPRA said: "The real estate industry as a whole is Europe's single largest economic sector at €5.0 trillion. In a time of crisis, when growth and jobs are a top priority for politicians, no other industry can potentially deliver the scale of investment and innovation required over a relatively short period to kick-start our economies and achieve the EU's sustainability targets at the same time."

He was speaking on Thursday at EPRA's annual conference being held in Berlin.

Philip Charls added: The European listed real estate market is the only sector capable of implementing these growth policies in a uniform way across the EU due to its stock exchange-regulated structures and professional management teams, but as our research shows, these companies are punching far below their weight in terms of size globally, compared with the U.S. and Asian markets. They have been handicapped in expanding by inefficiencies in the EU's single market and a failure of policy makers to recognise the major contribution they make to Europe's economies through investment and job creation and to the general environment of our cities."

The EPRA study: "*Growing the European Listed Real Estate Market*" was carried out by UK-based consultant Consilia Capital.

The research showed that the listed real estate sectors of the UK and eurozone countries combined, now make-up just over 11 percent of the total market capitalization of property stocks globally. In 1989, before it began its turbo-charged growth as part of the solution to the real estate debt Savings & Loans crisis of the early 1990s, the U.S. REIT market was smaller than either the UK or eurozone countries.

The EPRA study examined the main factors behind the U.S. REIT market's dramatic expansion and considered to what extent these might apply in today's European real estate market overshadowed by the eurozone crisis.

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The report identified the following key factors behind the U.S. 1990s REIT boom:

- The use of Real Estate Limited Partnerships (RELPs) in the 1980s to allow real estate investors to write-off passive losses against active income and shorten depreciation periods. This fuelled a $80 to $100 billion construction boom that would later become the asset base for U.S. REITs.
- The subsequent sharp decline in property prices and the real estate debt crisis in the Savings & Loan market, led to the Financial Institutions Recovery Reform and Enforcement Act of 1989 and the establishment of the CMBS market as a highly liquid source of debt capital.
- The Omnibus Budget Reconciliation Act of 1993 and its creation of Umbrella Partnership REITs (UP-REITs), allowed property owners to swap their property assets into a REIT structure in a highly tax efficient manner. As a result both demand for REITs from institutions and the supply of assets increased exponentially.
- A combination of low interest rates and bond yields, high yields on distressed property assets and attractive REIT valuations, led to a continual surge of IPOs between 1993 to 1995. As the sector grew in size it became more relevant to generalist investors and momentum allowed further capital raises.

The report then looked at the parallels with the European market today:

- Many European non-listed real estate funds, that since 2000 have grown dramatically to dwarf the listed market, are struggling to refinance in the wake of the financial crisis and/or are coming to the end of their investment terms. This pool of 336 unlisted funds in the UK with gross assets of €103 billion and 877 in the eurozone with assets of €389 billion, potentially represents a huge reservoir of institutional investible stock for the equity market.
- As traditional bank lending is increasingly hard to come by for European real estate investors, listed companies are successfully turning to the capital markets as an alternative source of financing. Therefore, as with the U.S. market in the 1990s, alternative sources of debt are available to aid refinancing and fuel REIT expansion.
- Whilst the UK and French REIT models are well-known, and in the case of the UK recently improved, it is the Spanish, Italian, and to a lesser extent German, models which need to be fine tuned if the sector is to capitalise on demand for real estate assets in a listed form at a turning point in the cycle.

The EPRA study concluded that the greatest potential for growth in the European listed real estate markets lies in the UK, German, Spanish and Italian markets.

In the UK, the recent abolition of the conversion charge for private real estate holdings being transferred to listed vehicles, offers the opportunity for property holdings and management teams from overleveraged and “redemption heavy” non-listed real estate funds to IPO into public quoted companies.

In Germany, the government’s recent announcement that it is considering phasing out the creation of open-ended property funds and will require that all future vehicles are closed-ended, offers the potential for German listed real estate companies to fill this investment vacuum, due to their ability to offer similar stable long-term income streams from dividends.

In Italy, where there is an extremely small listed real estate sector, EPRA and the Italian property federation are consulting closely with the government to create a listed market structure that will attract urgently needed equity capital into the heavily indebted economy.

Spain, whose economy has arguably has the most to gain by attracting inward investment through the creation of a dynamic listed real estate industry, due to the sector's implosion under a mountain of debt, has recently made the first positive steps towards creating a REIT structure that aligns with the internationally accepted model. Much more needs to be done here in order to create real momentum behind the growth of a fully fledged listed property market in Spain.

Alex Moss, Managing Director of Consilia Capital and author of the EPRA study said: "There are clearly strong parallels between the European real estate investment markets of today and the situation in the U.S. prior to the start of the extraordinary REIT boom of the 1990s. But for Europe to truly begin its own 'REIT Renaissance' some further market conditions have to fall into place and governments and regulators need to smooth the process for the consequent benefit of their economies."

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Note to editors

About EPRA

The European Public Real Estate Association - is the voice of the publicly traded European real estate sector. With more than 200 active members, EPRA represents over EUR 250 billion of real estate assets and 90% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index. Through the provision of better information to investors, improvement of the general operating environment, encouragement of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe.

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