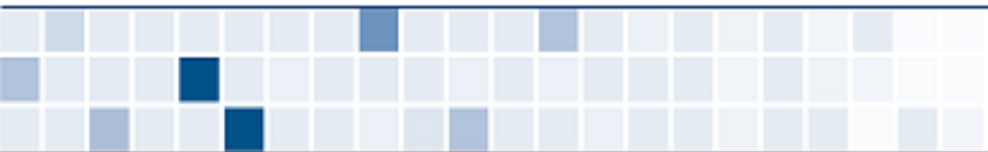


Europe is underweight public real estate

	Europe	Asia	Emerging	North America	Total
Size of market	6,353,676	3,440,101	485,212	5,872,705	16,151,694
Listed market size	658,463	904,665	198,379	746,896	2,508,402
Listed market %	10%	26%	41%	13%	16%

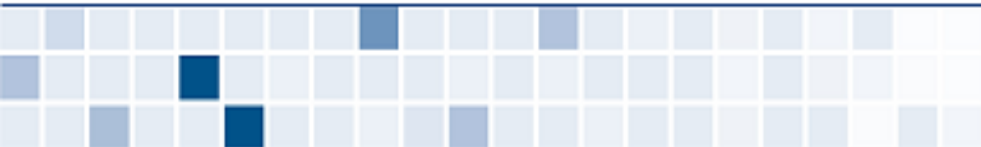
Europe holds a smaller percentage of its investable real estate through listed companies than other regions. Why is this the case?

- Performance (risk and return characteristics)?**
- Regulation differences?**
- Organisational (or 'institutional') issues?**



Exploring organisational issues

- Lots of work already completed on risk and the impact of regulation
- EPRA is now planning significant research designed to capture the **organisational processes** that influence listed real estate holdings
- As a precursor, the EPRA research committee designed a pilot survey to identify potential organisational issues limiting the exposure of European institutions to listed forms of real estate

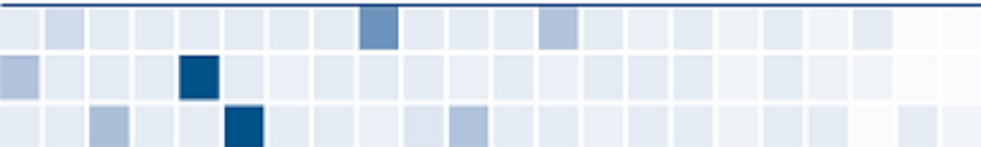


Interviews

- The research was designed and semi-structured interviews were undertaken by Alex Moss, Andrew Baum, Fraser Hughes and Karen Sieracki on behalf of the EPRA research committee
- Discussions held with 20 investors and managers
 - ADIA; Kames Capital; Aviva; CBRE Global Investors; PGGM; SPF Veheer; Scottish Widows Investment Partnership; Fidelity; Towers Watson; Mercer; F&C; Canada Life; BNP; JP Morgan; Legal and General; M&G, Standard Life; Hermes; Townsend; and MN
- We are grateful to these institutions for their time and participation in this survey

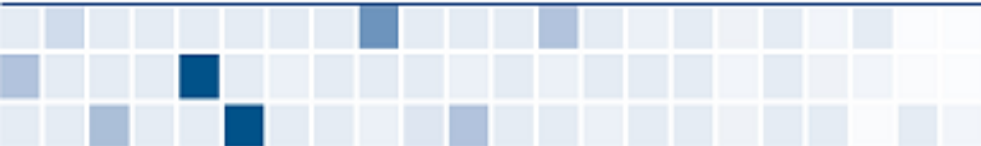
Limitations

- No attempt has been made to structure the sample of interviewees in such a way as to be representative of the market, and hence no quantitative results can be supported by this work. Instead, we hope to develop some 'stories' or hypotheses that can be properly tested later



The main question asked

- *Are listed real estate stocks managed as part of the real estate allocation?*



For those who said no

- *Is this a problem for you? Do you believe listed securities should form part of your real estate allocation?*
- *Are listed real estate securities managed by (i) a dedicated team sitting outside the real estate group? (ii) an external manager? (iii) as part of your general equities allocation?*
- *Why do you think listed real estate securities do not form part of the real estate allocation? To what extent is this a product of history or of a conscious review?*
- *Is this decision driven by investors, the manager or by consultants?*
- *Do you believe that future mandates are more likely to include listed real estate securities, and if so why?*

Those who said no – it's a matter of philosophy

- *"(Listed) is currently not within the mandate or IMA (investment management agreement). The client deals with real estate equities within the equity allocation. Real estate equities are not part of the real estate allocation. The client's view is that they are more 'equities' than 'real estate'."*
- *"Real estate securities and private real estate should be separate because (a) they are essentially different animals, with different correlations and different volatilities and (b) the skills sets for investing are different."*

Those who said no – it's about execution

- *"Most real estate investment management houses would struggle to fulfil such a mixed mandate and would probably need to build relationships with specialist listed managers and sub-contract the listed part".*
- *"We are a specialist real estate company investing in direct property, so (listed) would sit uneasily within the framework of our business. Our philosophy is to drive performance through superior asset selection and managementceding control to another company would be inconsistent with this approach".*
- *"The existing real estate team does not have the skills or expertise to manage real estate".*

For those who said yes

- *Are they managed by (i) an integrated team/person sitting within the real estate group who also deal with other real estate assets? (ii) a separate team/person sitting within the real estate group? (iii) a dedicated team sitting outside the real estate group? (iv) an external manager? (v) as part of your general equities allocation?*
- *What process led to the inclusion of listed securities?*
- *Do you believe listed securities should continue to form part of your real estate allocation? Is this likely to grow or shrink?*
- *What difficulties does the inclusion of listed securities create?*
- *Do you use domestic, European or global securities? Do you use ETF trackers, or REIT fund, or an active desk?*

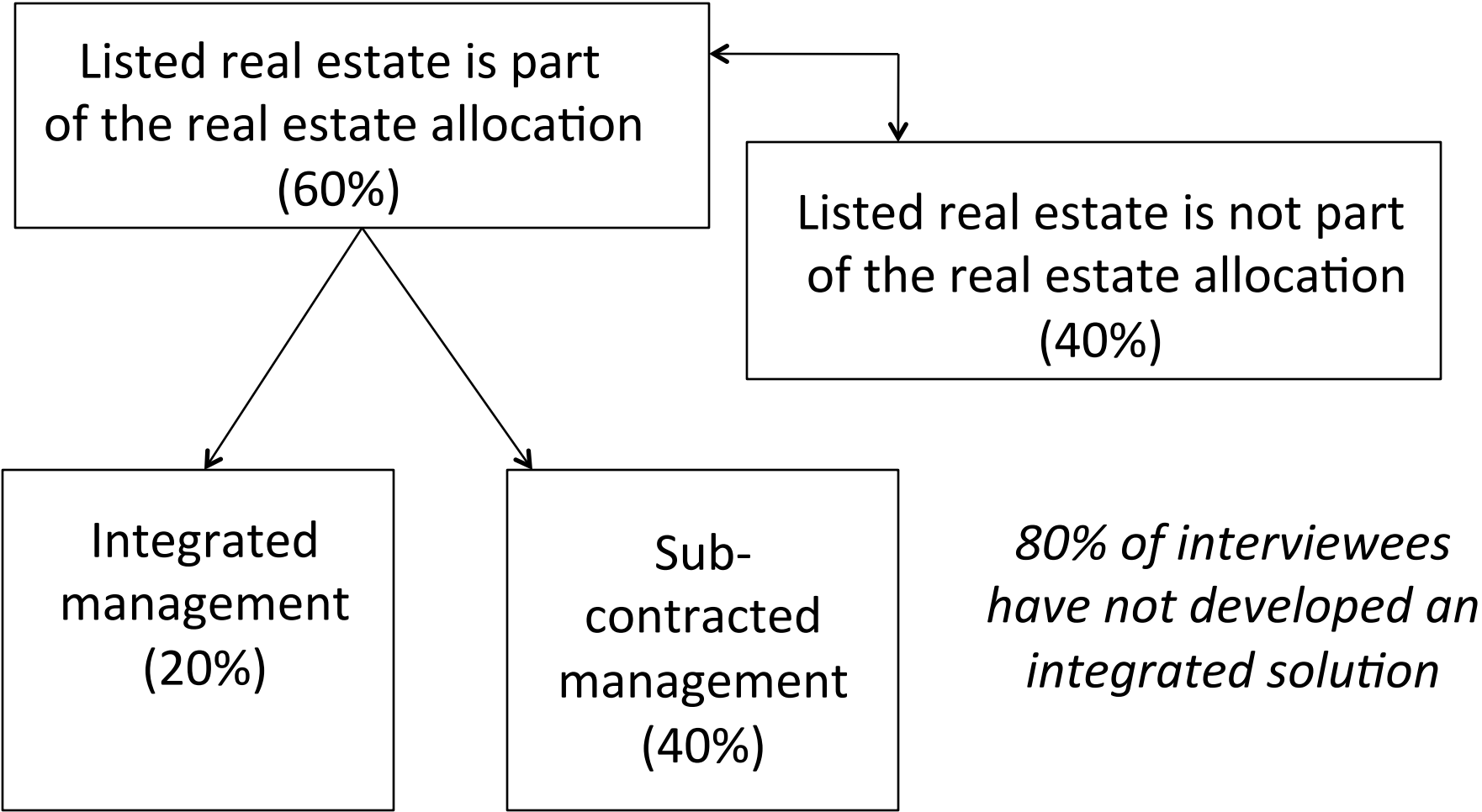
Those who said yes – it's still about execution

- There are operational difficulties involved in exploiting the arbitrage opportunities that should exist between public and private real estate. There is a clear failure to separate the active tactical decisions commonly used in managing REITs from the decision to use REITs as part of a strategic real estate allocation.
- *“The REIT allocation is actively managed against an EPRA benchmark, comprising 7.5% of the fund, but it is there to create a real estate linked liquidity buffer, so why trade it? This is a problem to do with the culture of equity managers. In addition, the fund is a UK product, but our REIT team uses European REITs because that gives them more tactical choice and liquidity!”*

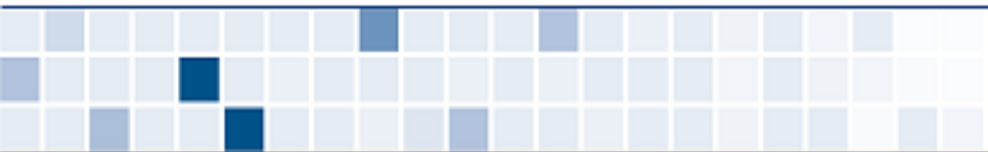
Those who said yes – it's still about execution

- *“There is no way of reducing our unlisted allocation when listed is cheap, so the allocations remain separate; and short term volatility has affected the returns badly. Our REIT manager aims to out-perform his REIT benchmark on a 6-12 month basis but this has little to do with our overall objective.”*
- The vast majority of those questioned use a separate REIT team which employs an active strategy or an in-house REIT fund, despite the fact that a passive policy (ETF trackers, for example) capture long term value. This mismatch between the objective and execution strategy may be a further problem inhibiting the use of listed real estate in the real estate allocation

Is there an integrated process?



80% of interviewees have not developed an integrated solution



Conclusions

- Among those for whom listed real estate forms part of the real estate allocation, the majority do not have integrated approach to public and private real estate
- For others, there is evidence that pension funds and consultants would like to regard listed real estate as part of the real estate allocation but cannot find the solution they seek
- There appears to be some pressure from client investors for new product development leading to some demand to include listed real estate in the property portfolio, for example in defined contribution schemes

Conclusions

- Most asset managers have not developed a satisfactory integrated investment process
- As asset managers adjust and develop their product ranges to meet what might be a gently rising demand, they also need to solve the investment process problems of integrating listed and private real estate within one business and one portfolio
- They need to be able to show that the listed portfolio is being managed with an eye on the strategic objectives of the real estate allocation, and not on a standard solution that suits the objectives of the listed real estate team

Questions

- The mismatch between share price and net asset values is more predominant in Europe than elsewhere. To what extent has the recent crisis eroded or cemented this faith?
- To what extent do investors want to use listed securities? Are they being disappointed by managers? Is there any difference in attitude between those managers with captive capital and independent managers?
- How much money would be allocated to the listed sector if managers had the appropriate investment solutions in place?