

Islamic Real Estate Finance: Market Trends, Opportunities, Performance

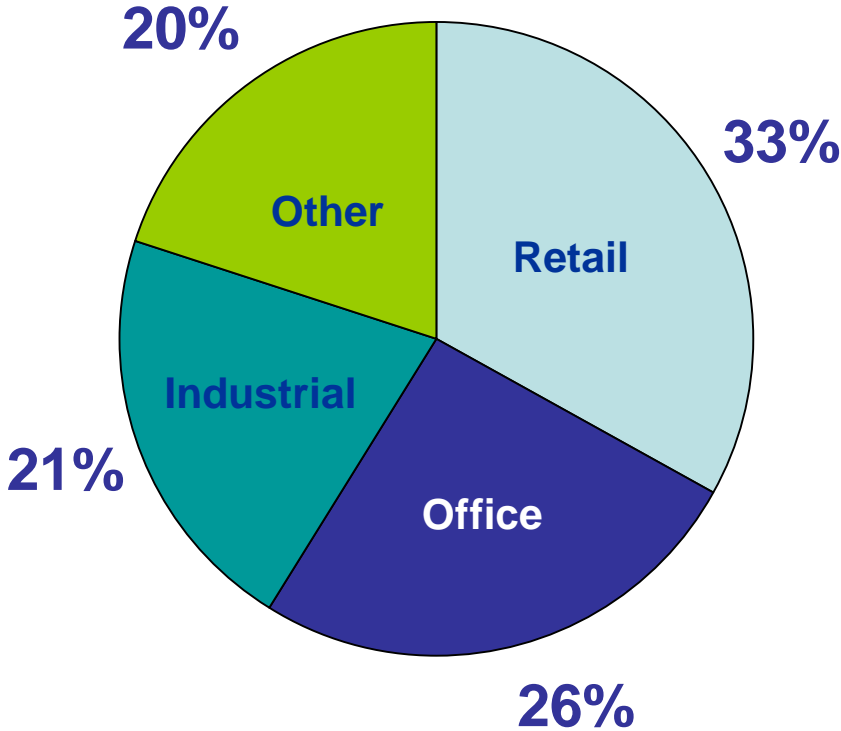
Real Estate Investment Trusts: Infancy, Adolescence and Maturity

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British Property Federation

London, 8 November 2007

Commercial Property - UK



Total: £611 bn

What is it?



Shops



Offices



Industrial



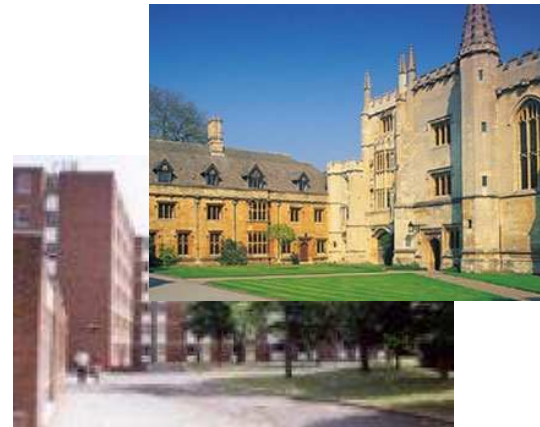
warehouses



Leisure



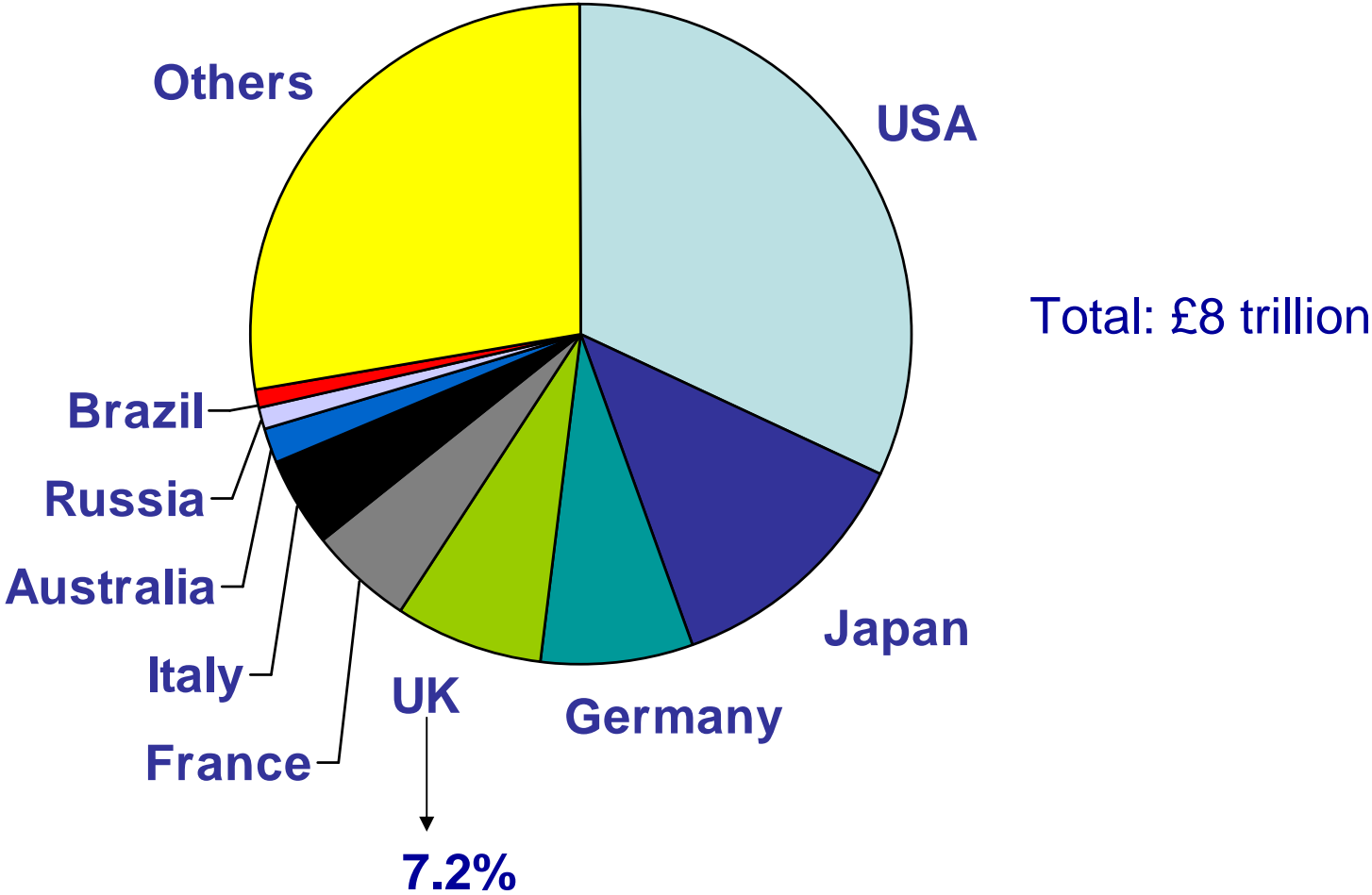
Hospitals/
Nursinghomes



Student Accommodation

Diversity!

In the World Context!



The Global Real Estate Universe



Countries	Real Estate (\$bn)	Total Listed (\$bn)	Listed as % of Total RE	Stock Market (\$bn)	Listed RE as % of Stock Mkt
United States	5,290	525	9.93%	16,075	3.27%
Japan	1,999	116	5.81%	4,787	2.43%
Germany	1,187	8	0.64%	1,502	0.51%
United Kingdom	1,147	63	5.51%	3,477	1.82%
France	883	24	2.69%	2,221	1.07%
Italy	742	6	0.82%	951	0.64%
Spain	454	18	3.92%	781	2.28%
Canada	449	30	6.65%	1,440	2.07%
Hong Kong/China	411	74	18.06%	2,026	3.66%
South Korea	282	1	0.33%	739	0.12%
Australia	280	83	29.70%	804	10.32%
Netherlands	263	16	6.02%	422	3.75%
Mexico	221	0	0.03%	293	0.02%
Brazil	163	1	0.36%	567	0.10%
Russia	161	0	0.28%	937	0.05%
Others	2,086	91	4.35%	5,884	1.54%
Total	16,016	1,055	6.59%	42,907	2.46%

Source: EPRA

Note: Investible real estate value estimate & total listed end 2005; stock market values end August 2006

Why Real Estate?



- total returns
- low volatility
- low correlation with other assets

....and, therefore, should be a component in any balanced portfolio

Commercial property cycle



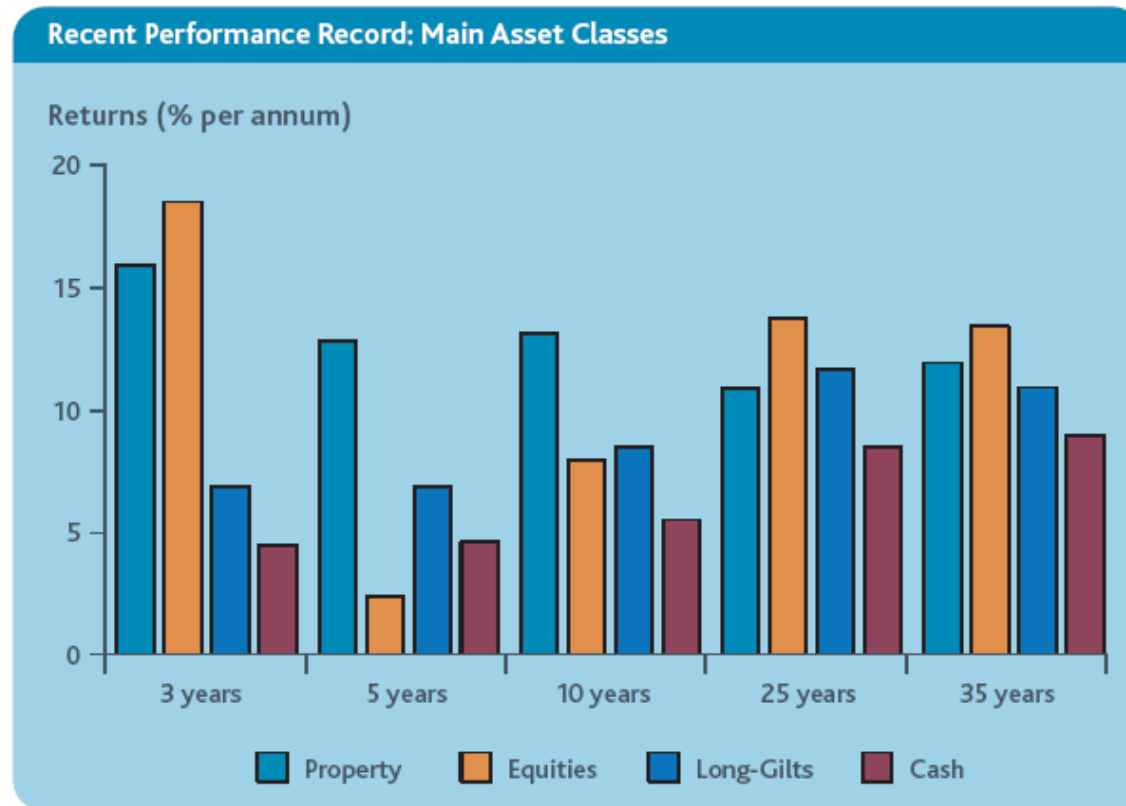
IPD Monthly Index – September 2007

	Property IPD	Equities FTSE All Share	Gilts FTSE 5-15 year
Total return % over the last			
12 months	7.2	12.2	1.2
6 months	1.1	2.7	2.1
3 months	(-1.0)	(-1.8)	4.7
1 month	(-1.2)	1.9	0.5
Year to date:	3.4	5.7	1.6

Source: IPD

Why is it a good investment?

How does performance compare?



Why UK REITs?



Key stated Government objectives:

- encourage a transparent & liquid commercial market.
- democratise property investment.
- protect retail investors through capital market regulations.
- kick start private rented residential market
- allow access to property returns without tax being a factor of choice.

Other objectives?

- global competition for investment
- stop flow of property funds going offshore
- raise revenue through 2% conversion charge.

Conversion Of Existing Property Rental Companies



- January 1st 2007
 - Land Securities Group
 - British Land Co
 - Liberty International
 - Hammerson
 - Slough Estates
 - Brixton
 - Great Portland Estates
 - Workspace Group
 - Primary Health Properties

- 9 REITs – 60 % of market cap

Conversion of existing property rental companies



Post - January

- | | |
|-----------------------------|-------------------------|
| ■ Big Yellow Group | Jan 15th |
| ■ McKay Securities | April 1st |
| ■ Shaftesbury | April 1st |
| ■ Warner Estate Holdings | April 1st |
| ■ Derwent London | July 1st |
| ■ Mucklow (A & J) Group Plc | July 1st |
| ■ Town Centre Securities | October 1 st |
| ■ Local Shopping REIT | IPO in progress |

17 REITs - £33bn

“New” Entrants



- Rugby REIT
- Invista Residential REIT
- Vector Hospitality
- M&A Activity

- Pub REITs
- Others (eg Sainsbury etc.)

Expected conversion to REIT shortly

Not launched

Not launched

* lots of talk

* large discounts to NAV

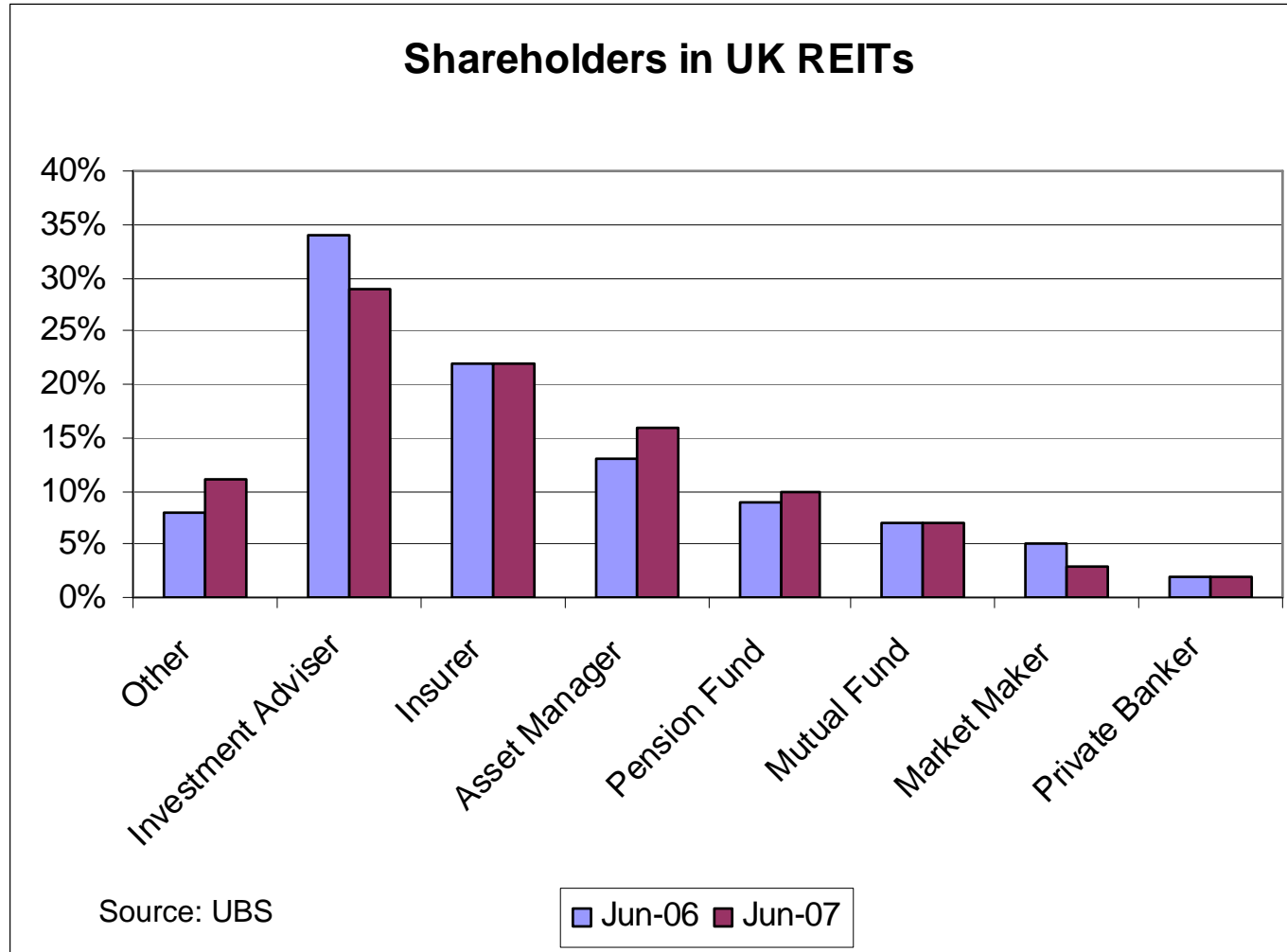
* effect of “credit squeeze”

* uncertainty over REIT rules

Still topical but unlikely in the short term

Unlikely in short term given market conditions and unfavourable REIT legislation

REITs – changing shareholder patterns



REITs - success or failure



How much can most 10 month old babies do?

What's going to drive the future?



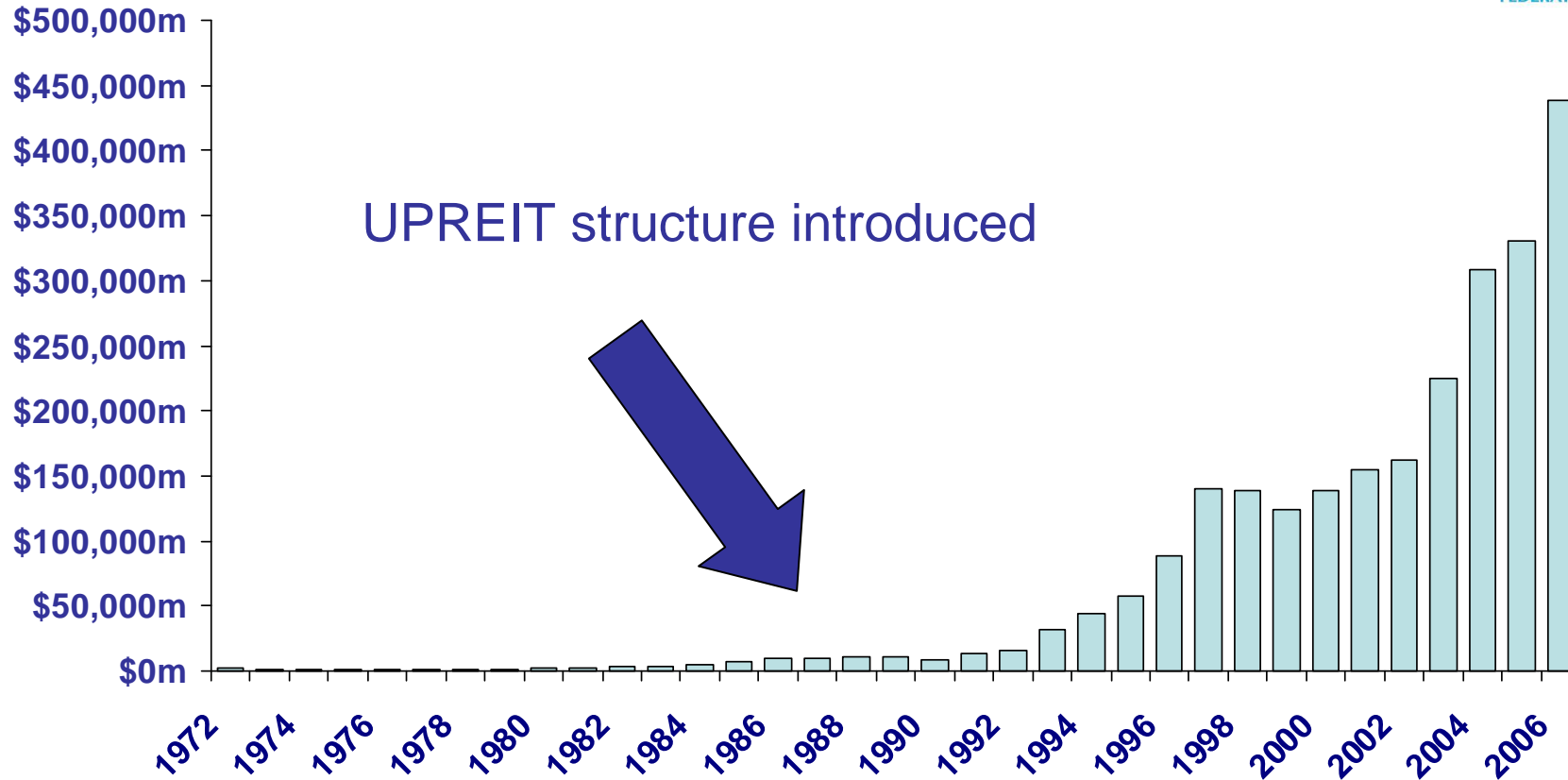
- market forces
- globalisation & strong fundamentals
- government support
- legislation
- specialisation
- pent up demand – from investors & new REITs?

Evolution of US REIT Structure



- 1960 – REITs created by Congress
- 1986 – Tax Reform Act of 1986
- 1992 – Taubman Centers, Inc. concludes the first IPO of an UPREIT
- 1993 – Omnibus Reconciliation Act of 1993
 - “Five or fewer” rule makes it easier for pension plans to invest in REITs
- 1997 – U.S. Treasury Department amends tax treaty to allow most non-US shareholders to pay only 15 percent in taxes on REIT ordinary dividends
- 1999 – REIT Modernization Act of 1999
 - REITs were permitted to form Taxable REIT Subsidiaries (TRS) that can perform services to REIT tenants and others
- 2004 – REIT Improvement Act (FIRPTA & REIT Savings)
- 2007 – REIT Investment Diversification and Empowerment Act (introduced)

Growth of US REIT Market



UK REIT structure works for investors from day 1...

US REITs Invest In All Property Types



Property Sector	Percent
Residential	18
Regional Malls	16
Office Buildings	14
Shopping Centers	14
Diversified	7
Industrial Facilities	7
Mixed (Industrial/Office)	4
Subtotal	80
Lodging/Resorts	7
Health Care	5
Specialty	4
Self Storage	4
Total	100

Unfinished Business in the UK



- AIM listing
- unlisted
- Authorised Investment Funds
- UPREITs
- facilitating new entrants
- facilitating offshore repatriation?
- Residential REITs
- EU REITs

EU REITs – possible or pie-in-the-sky



- 7 existing REIT regimes
- all slightly different
- European Commission interest
- European Property Federation's EU REIT Coalition
- influential report by Maastricht University to be published on 8 November

EU REITs – the drawbacks



- tax, other than VAT, is not a treaty issue
- an EU REIT structure would have to be based on “enhanced co-operation”
- leaves cross-border tax issues unresolved
- no easy answer to equitable tax distribution
- likely outcome, for time being, a Commission expert group

So – don’t hold your breath!

The international dimension



- cross border tax issues across the world
- harmonisation
- investor information and protection
- OECD intervention
- inevitably slow and limited

In conclusion.....



- an unstoppable international phenomenon
- not the only way to hold real estate
- but an important part of any suite of vehicles
- current market uncertainties will end
- international standardisation inevitable

- but it will take a long time!