EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

15 July, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Discussion Paper; Leases – Preliminary Views

Dear Sir/Madam,

We are pleased to submit this comment letter on the International Accounting Standards Board's (IASB) and Financial Accounting Standards Board's (FASB) (collectively "the Boards") joint Discussion Paper; Leases - Preliminary Views (Discussion Paper). We are submitting these comments on behalf of the Real Estate Equity Securitization Alliance (REESA), which includes the following real estate organizations:

Asian Public Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

The purpose and activities of REESA are discussed in Appendix IV.

Members of the organizations identified above would be pleased to meet with the Boards or staff to discuss any questions regarding our comments.

We thank the FASB and IASB for the opportunity to comment on the Boards' preliminary views with respect to this very important project. Please contact Gareth Lewis, EPRA's Director of Finance at gareth.lewis@epra.com or +32 27391014 if you would like to discuss our comments.

Respectfully submitted,

European Public Real Estate Association
Blvd de la Woluwe 62 Woluwelaan
1200 Brussels, Belgium

T: +32 (0) 2739 1010 **F**: +32 (0) 2739 1020 **W**. www.epra.com

Comment Letter Submitted by the

European Public Real Estate Association

On behalf of the Real Estate Equity Securitization Alliance,
which includes the following organizations:

Asian Public Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (U.S.)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

In response to the

Discussion Paper

Leases – Preliminary Views

Issued by the Financial Accounting Standards Board and
International Accounting Standards Board

March 2009

EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Discussion Paper; Leases – Preliminary Views

Dear Sir/Madam:

Executive summary

REESA's strong view is that lessor accounting for leases of real estate held for investment should be excluded from the scope of the new leasing model outlined in the Discussion Paper. This view is based on the following:

- Real estate is fundamentally different from other leased assets. The right to benefit from demand to occupy the space above or below ground on a specified plot is unlimited by time. The requirement for active asset management and its diverse nature distinguishes the real estate investment industry from leased equipment and financial assets.
- A property lessor views the "in-place" lease as comprising only part of the constantly changing, indivisible property asset – the valuation of which is a highly developed practice. It is difficult and generally irrelevant to distinguish between the value of an in-place lease and the "residual" interest.
- Splitting the recognition and measurement of the fair value of an investment property into a financial asset and a non-financial asset, together with the proposal to reflect a component of the income by an interest credit, is far removed from the business fundamentals of an investment property company. In our view, these proposals would result in financial statements from which the industry-wide key performance indicators (KPIs) could not be extracted.
- There are many precedents within IFRS where symmetry is not applied for good reason. The fact that tenants and property owners view leases very

differently, leads to the conclusion that symmetry of accounting for lessees and lessors of investment property may not be appropriate.

- IAS 40 focuses on the economic characteristics of investment property and the presentation of rental income and fair value of the tangible real estate. It provides a useful and widely supported approach for evaluating investment property performance in the light of changing market values for rents and valuation yields and enables meaningful financial analysis to be undertaken.

There is a clear link between rental revenue, "net property income" (NPI[1]) and the fair value of investment property. This link is critical to reporting entities who elect to report the fair value of investment property in the financial statements under International Accounting Standard No. 40 *Investment Property* (IAS 40), and to users of financial statements in assessing the value and performance of investment property companies that account for their investment properties at cost. This important link is widely understood and utilized by industry financial statement preparers and users and is recognized in IAS 40, which requires the disclosure of:

(i) rental income from investment property; and

(ii) direct operating expenses arising from investment property that generate rental income.

The difference between these two amounts represents NPI which is the basis for measuring the fair value of the investment property.

REESA urges the Boards to consider this important linkage in any modifications to the lease accounting or revenue recognition standards. For the reasons provided in this comment letter and in REESA's comment letter on the Discussion Paper – Preliminary Views on Revenue Recognition in Contracts with Customers ("Revenue Recognition Discussion Paper"), REESA recommends that this linkage can best be reflected through an examination of accounting by lessors of investment property in the context of IAS 40.

Note: We refer the staff of this Discussion Paper to the attached Appendices that provide information on the evaluation of property company performance, the fair value of investment property, key supplemental metrics and pricing of investment property company shares currently used by industry stakeholders as well as additional background on the business and economic characteristics of the real estate industry.

Approach to the Discussion Paper

In our response to the Discussion Paper, we have not concentrated on answering the questions listed in Appendix A of the Discussion Paper but have instead conveyed our more general views on the proposals. We have taken this approach

[1] NPI is a supplemental non-GAAP measure that is currently referred to as "net operating income" or "NOI". This is described further in Appendix II.

because the Discussion Paper is aimed primarily at gathering information on significant components of a new accounting model for lessees rather than lessors. Although investment property companies are often themselves lessees of properties which they operate and manage (and would therefore clearly be impacted by the lessee accounting model), our primary concerns with the existing proposals are the impacts that they could have on companies who own and operate investment property in their position as lessors.

Despite our overriding view that leases of investment property should be outside the scope of the proposed Leases standard, in the interests of supporting the Boards' development of an understanding of the specific issues affecting investment property companies, we have analysed the implications for property lessors arising from the application of the proposed new lessor models discussed in Chapter 10.

Real estate - fundamentally different from other leased assets

Real estate or "real property" is fundamentally different from other leased assets such as leased aircraft, cars, plant and machinery, printing presses etc. (in this letter we refer to all these types of assets as leased "equipment"). With the exception of certain countries like China which have no concept of in-perpetuity private ownership of land, the ownership of land and property gives the owner the perpetual right to benefit from the usage of this space (above or below a specific plot of land) and to convey this usage to others who have demand for it. Returns for investors are generated by exploiting the demand for the available space determined by the shape, use and state of any structure on that plot from time to time in the context of legal rules surrounding occupier leases and the availability of competing space.

An investment property company is in the business of:-

- buying existing properties benefiting from leases with customers already in place,
- buying empty buildings, or land with the potential to refurbish or construct new buildings for leasing
- renting out existing buildings after refurbishment/development or
- selling buildings or land that it owns

During ownership it also engages with its customers to change the mix of tenants through new or revised contracts with the aim of maximising cash rental growth.

Owning and operating portfolios of investment property involves risk and requires considerable *active and intensive management*. Investment property companies create value by actively managing, financing and developing property to provide the environment for modern business to operate from. A typical property company

will have a team of asset managers who are responsible for this important function. Each asset manager will be responsible for a portfolio of assets focused on a particular region, sector or sub-sector (e.g. retail warehouses, shopping malls or prime city offices).

The decision making process for an investment property company is driven by the need to generate wealth for shareholders by exploiting the market forces driving cashflow and property values. Typically, these market forces are the demand and supply for the "product" (i.e. access to the space and related services) in that location from occupiers and the demand and supply for investment property itself from other investors.

Asset management in this respect usually involves changing the tenant mix to upgrade the overall quality of an asset and thereby attract customers, moving tenants to larger/smaller units or reconfiguring space to achieve a better trading environment and payment of higher rents. This type of activity is generally ongoing but can depend on the type of asset. The real estate asset is by nature changing as it undergoes renovations, refurbishments, lease renewals and extensions etc. These changes clearly have an impact on the leases in place as they can lead to decisions to terminate contracts early or to postpone entry of tenants. Each time a tenant is moved or terms are renegotiated, a lease is generally terminated and a new lease contract created.

This highly specific requirement for active asset management distinguishes the investment property business from other, more passive investment and finance leasing businesses. Furthermore, the perpetual and irreplaceable nature of land, coupled with its immobility, is a key feature that distinguishes real estate from leased equipment.

The real estate lease - only part of an indivisible asset

The investment property company sees the property it owns (and the lease contract with its tenants) in a very different light from that of a traditional operating lease provider on a depreciating piece of equipment. It sees the in-place lease as only part of a constantly changing, indivisible property asset, representing opportunities to create and enhance value for stakeholders.

Each individual lease of space in an investment property provides a variety of interrelated services including:

- the provision of exclusive access to a component of the investment property
- the provision of non-exclusive access to other components of the investment property (e.g. common areas such as the lobby, elevators, etc.)
- the provision of access to utilities (e.g. power, water); and

- the provision of ancillary services (e.g. security, repairs and maintenance)

A lessor's inability to provide one or any combination of these services may give the right to suspend or terminate payments under the lease.

Therefore, for an investment property company, or an investor in such a company, it is not relevant to distinguish between the value of an in-place lease and the value attributable to the property at the end of that lease (the "residual" interest).

The indivisibility of the real estate asset is reflected in how the industry operates in practice - the sale of an investment property is not apportioned between different elements of the property, and certainly not apportioned between the in-place leases separate from the other tangible and intangible components of the property. In addition, the property owner will generally retain certain rights to manage the asset whilst the lease is in place - but which have a longer lasting impact on the asset value. Examples include the ability to inspect, take action to protect or enhance the value of the asset in certain circumstances and to develop and enhance surrounding real estate and infrastructure.

The value of the residual interest in an investment property will generally represent a much higher percentage of the value of the whole asset compared to that of leased equipment. A survey recently undertaken in the UK[2] showed that 63% of commercial real estate leases granted to businesses were less than 5 years in length, whereas investment property companies who grant these leases, will typically own either the freehold interest in the property, or a head lease equivalent to ownership in perpetuity.

As discussed elsewhere in this letter, the valuation of the *whole asset* is of fundamental importance for the industry and is the significant factor in measuring the "net asset value" (NAV) of companies that own and operate portfolios of investment property and thus for pricing the securities of these companies. The starting point for this process, (the valuation of the real estate asset), is driven primarily by expected cash flows from the property and cannot be reliably estimated based solely on either the leases in place or the cost of building components.

Over a number of years, market forces and industry cooperation has resulted in the emergence of key performance indicators (KPIs) and supplemental metrics which faithfully report the economics of real estate investment and which are consistent with the concept of the valuation of property as a whole, indivisible asset and the recognition of contractual rental income. These KPIs and their fundamental importance in assessing NAV and pricing securities are described in more detail in Appendix I and II.

---

[2] BPF/IPD Annual Lease Review 2007/08. [http://www.bpf.org.uk/topics/document/23256/bpf-ipd-annual-lease-review-2007]

Investment activity – not financing

The returns from owning and managing investment property are market driven returns - they have nothing whatsoever to do with the provision of finance to a lessee. The pricing of the rental contract is driven by both market demand and specific circumstances (such as the creditworthiness or attractive public profile of a particular tenant), rather than the cost of funds at the date the original owner signed the lease (which may or may not be the real estate company owning the property today).

A particular example which highlights the point above is where a shopping mall owner accepts a lower rent from a major retail name. It will often do this if it expects that the presence of that retailer as a tenant will enhance foot traffic and increase the centre’s attractiveness to consumers and thereby other retailers - increasing market rents as a result. The rental values are determined by the location, the competition, the traffic in the shopping mall and the activity/status of the tenant - not by an arbitrary historical financing rate.

The same can be said for contract negotiations with potential tenants in any commercial real estate development where the property owner will look to achieve a certain mix of businesses operating within the available space to enhance overall rental prospects (to achieve the right balance for example, of retailers, leisure operators, food outlets etc.).

We firmly believe that it is not appropriate for investment property companies to report business performance as a financing activity. Splitting the recognition and measurement of the fair value of an investment property into a financial asset and a non-financial asset, together with the proposal to reflect a component of the income by an interest credit, is far removed from the business fundamentals of an investment property company.

The consequences would be both dramatic and misleading for users of the financial statements and the accounting would become completely different from the present focus of management and investors.

Lessee and lessor have different motivations – symmetry not appropriate

What is also very clear is that the tenant’s and the owner’s evaluation of the contract are different, reflecting their different motivations. They are not mirror images. The tenant has a right to enjoy the benefits of all of the services attaching to the lease for a specified period and that decision is made at the outset of the lease with the owner at that time. The owner today of that lease enjoys the running income on the property acquired plus the market rental growth he expects to generate by renegotiating the lease, planning a redevelopment, re-letting to a different tenant at the end of the term, or maybe selling the property to another investor to capture a market pricing advantage.

The property owner may also benefit from the value enhancement opportunities and future rents from any adjoining space it owns from having a strong tenant at that location (using the retail example above).

In contrast to leased equipment, most of the time the tenant cannot directly buy the premises that the owner is renting. Therefore, a real estate lease contract rarely results in the transfer of ownership. In shopping centres there are no individual units available to sell, and the owner has created an exclusivity and attractiveness which is specific to the shopping centre and which drives its rental market values. Similarly, in offices, usually the premises are part of large business areas or buildings, where the tenant has no choice other than to lease.

As far as we are aware, there is no clear principle under IFRS that indicates that symmetry between two sides of a transaction should be an objective of the Boards. In fact, there are few situations where the economics of transactions are similar from the perspectives of parties on both sides of a transaction and, therefore the accounting for the transaction by the parties is not mirrored. For example:

- provisions – the recognition and valuation criteria for provisions are different than the potential impacts on the financial statements of the counterparty
- value of share capital - share capital is at nominal value in the accounts even though the company owning the shares has a number of options for valuation
- recognition of financial assets – intention at time of buying (hold to maturity or held for trading loans vs the underlying loan arrangement)
- distressed debt – a distressed company that has liabilities will not discount these liabilities to the amount likely to be repaid, even though the bank that owns the receivable will likely take the recovery risk into account in valuing the receivable.

The fact that the customer (tenant) and the owner (property lessor) have a very different perspective of the lease agreement is a fundamentally important consideration and leads us to the conclusion that applying symmetry between the lessee accounting and lessor accounting should not necessarily be an objective of the Boards.

IAS 40 – widely supported by the industry

Accounting standard setters have long recognized the unique business and economic characteristics of property investment; the IASB in IAS 40 and the FASB in its Statement of Financial Accounting Standards No. 41 *Financial Reporting and Changing Prices: Specialized Assets – Income Producing Real Estate* (now superseded).

Both management of investment property companies, industry investors and analysts are strongly supportive of IAS 40, because it provides an opportunity for reporting investment property at fair value which enables investors to understand property performance based on the value enhancement/diminution caused by management actions and changing market values for rents and valuation yields. The IAS 40 requirement to disclose rental income and direct operating expenses and the value of the investment property as a whole single asset on the balance sheet of the lessor or in notes to financial statements is vital for investors and management in giving a relevant view of the real estate investment business.

We fully support the conclusion reached by the IASB in 2000 that there is a need for a separate accounting standard on investment property and that the "information about the fair value of investment property, and about changes in its fair value, is highly relevant to users of financial statements"[3]. The current IAS 40 standard recognises the fundamentally tangible nature of real estate and the presentation of rental income and fair value of that real estate enables meaningful financial analysis to be undertaken.

Revenue Recognition and IAS 40

REESA has carefully considered the concepts outlined in the IASB/FASB Revenue Recognition Discussion Paper and responded in our letter dated June 19, 2009. Our strong view is that the proposed revenue recognition model would only result in decision-useful information when applied to leases of investment property if it is clear that lessors should account for the lease as a service contract and thus apply the service income concepts outlined in the Revenue Recognition Discussion Paper. In particular, this would mean that for leases of investment property, the lease agreement should be accounted for as a contract for services under the general revenue recognition concepts but specifically outlined within the framework of IAS 40. In addition, the performance obligation under the lease would be measured by reference to the contracted lease payments.

Chapter 10 proposals for lessor accounting

Despite REESA's overriding view that investment property should be excluded from the scope of the proposed model, we have analysed below, the implications for property lessors arising from the discussion in Chapter 10. In this respect Appendix I includes a summary of the impacts of the two proposed approaches on the income statement.

Approach A - *"lease contract transfers a portion of the leased item (to lease receivable)":*

This approach would imply the sale of a portion of an investment property when in most cases, a sale of a portion of the property to a tenant is not available. This

[3] IAS 40 Basis for Conclusions on IAS 40 (2000) *Investment Property*

would result in a significant recognition of revenue at the commencement of the lease. In addition, the remaining rental revenue over the lease term would be re-characterized as interest income in a real estate company's financial statements. This would eliminate useful financial information from the financial statements that is required to link operating revenue, income from operations and the fair value of investment property – see previous discussion of these important relationships. This method of presenting results would be contrary to the economic substance of owning and operating investment property and significantly diminishes the usefulness of the financial statements.

The interplay between the reductions of the lease receivable and changes in the unrealized value of the property would complicate the accounting for investment property and create complexities for users of financial statements. If the value of the property remains constant, reductions in the receivable would create revaluation gains related to the property. Again, this complexity would not enhance the usefulness of financial statements.

Approach B *"lease contract creates a new receivable and a new obligation":*

It appears that the affect of this approach is that the asset value and the liabilities are "grossed up" resulting in an inflated balance sheet. Although this approach would be preferable to Approach A (as it would appear it is at least possible to retain the property as investment property on the balance sheet), the "new right" model with the recognition of a receivable and performance obligation of equal value does not provide the user of the financial statements any more useful additional information and will not help investors analyse the balance sheet structure. In addition, this approach appears contrary to the net contract principles outlined in the Revenue Recognition Discussion Paper. From a business perspective, this approach could have a severe impact on property investors and funds by triggering inappropriate measures of metrics/relationships under financial and debt covenants.

As highlighted above, REESA is supportive of the concept that when a lessor enters into a lease contract, the lessor is providing a service to the lessee, being the provision of space and related services which the lessee consumes immediately, on a continuous basis, over the term of the lease. We can further support the view that revenue is recognized as the lessor satisfies its performance obligation to the lessee (by providing the lessee continued access to the leased property and related services) and revenue is therefore recognized over the term of the lease.

However, paragraph 10.25 states that interest income would be recognized on the receivable, representing the right to receive payments from the lessee, over the lease term. REESA strongly disagrees with this view for two reasons. Firstly, in a lease contract, there is no implicit interest rate. The timing between the lessor's provision of services and payment by the lessee is nominal and as such, there is no

financing aspect to the lease payments[4]. Secondly, for investment properties carried at fair value, the impact of any variability in payments under the lease agreement is reflected in the fair value of the investment property as a component of the fair value is determined by the remaining cash flows under the leases attaching to the property.

The recognition of interest income would understate the amount of rental revenue recognized by the lessor and undermine all of the fundamental operating metrics used by the real estate industry to measure operating performance, to value investment property, to calculate distributions/dividends and to price securities.

Summary

We conclude that the two approaches suggested for accounting for lessors would distort the balance sheet position, obscure the reporting of NPI and would represent a diminution of useful information for the investors and other users of the industry's financial statements. In fact, it is our opinion that the transparency and relevance of financial reporting for investment properties would be significantly reduced if such proposed changes were to take effect. For these reasons REESA cannot support either proposed approach to lessor accounting outlined in the Discussion Paper.

From a practical perspective, the additional compliance burden that would arise for investment property companies in complying with either of the new models described above would be significant. As an illustration, a typical REESA member company, involved in the operation and management of retail shopping malls, could be responsible for more than 5,000 different lease contracts at any one point in time – and over 200 lease contracts in any one investment property. Although these in-place lease contracts may typically have terms of 5 – 15 years, in reality, the terms of these leases are being actively managed, constantly reviewed and regularly renegotiated with tenants. Managing these constant changes in the status of in-place leases and the residual value would result in huge practical difficulties - without any discernible benefits.

Conclusion

The agreement of a lease between a property owner and a lessee is a market driven negotiation which is closely related to demand and supply for physical property. This relationship is evidenced by the fact that there is an active market for the transfer of real estate ownership and its valuation is a highly developed practice. It is not a financing arrangement and the terms of leases of investment property are not related to the cost of money – which designation as a financial asset would imply. The concept that the most appropriate way to report income generated by

[4] See Chapter 10, Question 6

leasing investment property is to include a component as an interest credit in the income statement is far removed from the reality of the business activities of an investment property company. Indeed we believe this would be thoroughly misleading.

For investment property companies, the changes to lessor accounting suggested in the Discussion Paper would:

- result in financial reporting which is completely inconsistent with the economics of the business
- result in a loss of useful information to investors and users of financial statements and be potentially misleading
- from a practical perspective, be unworkable for investment property companies with no added value to financial statement users

In conclusion, there is strong opposition from within the real estate industry to any changes to the standards relating to lessors which would cause rental payments to be reported as anything other than rental income, or for investment property to be reported as anything other than a single/indivisible asset.

REESA would therefore urge the Boards to exclude lessor accounting of leases of real estate held for investment from the scope of the proposed new model and to support a separate requirement within the IAS 40 framework which enables reporting full rental income in the income statement and the fair value of investment property either in the balance sheet or notes to the financial statements. We believe such standard for leases of investment property can be achieved by applying the proposed concepts of the Revenue Recognition Discussion Paper and where lessors account for the lease as a service contract.

Finally, we are concerned about the due process with respect to the Boards' consideration of lessor accounting. In July 2008, the Boards decided to defer lessor accounting and to focus on lessee accounting only, thus revising the initial project objective of reconsidering all aspects of lease accounting. Due to the need to achieve a new standard by the June 2011 deadline for convergence projects, the IASB deemed the postponing of lessor accounting to be unavoidable. Nevertheless, as a result of the Boards' discussions held in early 2009 the leases discussion paper published on 19 March does contain a chapter on lessor accounting. This chapter contains a "high level discussion" of certain lessor issues and identifies possible approaches to lessor accounting.

We believe that it is essential that lessor accounting be fully analysed and deliberated by the Boards, that their constituents are appropriately consulted and that the same due process steps that have been followed for lessee accounting be taken for lessor accounting.

Asian Public Real Estate Association
Singapore

British Property Federation
United Kingdom

European Public Real Estate Association
Belgium

National Association of
Real Estate Investment Trusts
United States

Property Council of Australia
Australia

Real Property Association of Canada
Canada

Results of Various Approaches to Accounting for Leases of Investment Property, NOTE 1

The measurement of operating performance, the fair value of investment property and the pricing of shares are linked in simple and direct relationships. Rental income less direct property operating costs provides "net property income" (NPI). Projected NPI discounted at current investor yield requirements or the capitalization of a given year's NPI provides the property's fair value -- a factor in determining net asset value (NAV). Multiples applied to Income from Operations (IFO) provide indications of the price of the company shares.

Results of Various Approaches to Lessor Accounting

	Current Actg.	NOTE 2 PVD Approach A	PVD Approach B
Income Statement Caption:			
Lease/rental revenue	$ 12,370	none	$ 9,378
Total lease income	$ 12,370	none	$ 9,378
Direct operating costs	(4,000)	$ (4,000)	(4,000)
Net Property Income	$ 8,370		
Meaningless subtotal		$ (4,000)	$ 5,378
Administrative costs	$ (2,000)	$ (2,000)	$ (2,000)
Interest on lease receivables	none	3,370	2,992
Interest expense	(4,370)	(4,370)	(4,370)
Income From Operations	$ 2,000		$ 2,000
Meaningless subtotal		$ (7,000)	
Property Fair Value:			
Net property income	$ 8,370	Data not available	Data not available
Capitalization rate	9%		
Property fair value	$ 93,000		
Debt outstanding	(65,000)		
Net Asset Value	$ 28,000		
Share Price:			
Income From Operations	$ 2,000	Data not available	$ 2,000
Earnings multiple	13		13
Implied Share Price	$ 26,000		$ 26,000
Share Price Discount to NAV	7.14%		Data not available

NOTES:

1 - Where similar information is used in this illustration, amounts are taken from IASB Agenda Paper 11A presented at the May, 2009 IASB meeting and also presented at the May 18, 2009 FASB meeting as FASB Memorandum No. 30.

2 - The illustration of Approach A excludes the recognition of revenue or gain that may be recognized at the inception of the lease.

Evaluating the Performance and Fair Value of Investment Property Companies

The Development and Use of Supplemental Metrics in the Investment Property Industry

Financial statement preparers, investors and financial analysts have long recognized the unique business and economic characteristics of owning and operating investment property. Over a number of years, market forces and industry cooperation has resulted in the development and adoption of supplemental metrics which measure operating results and financial position that more faithfully reflect these characteristics and thus provide more useful information to investors. This Appendix provides more information on the developments of these supplemental metrics, their importance to and their use by, the global property investment community.

As illustrated above and in the attached reports published by industry analysts (see Exhibits 1, 2 and 3), there is a fundamental and important link between rental income and "net property income" (NPI)[5]. Rental income less direct operating expenses yields NPI which is widely used to determine the fair value of investment property - by either capitalizing a given year's NPI or discounting projected NPI at current investor yield requirements. The fair value of investment property is a significant factor in measuring the "net asset value" (NAV) of companies that own and operate portfolios of investment property. In turn, NAV is a significant factor used to price securities of these companies.

In addition, a measure of "income from operations" (IFO)[6] is widely used by industry analysts as a basis for valuing equity securities. Analysts apply multiples to this measure to develop an indication of the price of equity shares. IFO and other performance measures have been developed and recommended by EPRA, BPF, REALpac and NAREIT and the majority of companies that are members of REESA organisations report these supplemental metrics.

These metrics are viewed by users of the financial statements as being reflective of the operating results of a real estate entity, outside of unrealized valuation changes and depreciation.

Examples of supplementary measures adopted for REITs and property investment companies around the world include:

---

[5] NPI is a supplemental non-GAAP measure that is currently referred to as "net operating income" or "NOI".

[6] IFO is a supplemental non-GAAP measure that is currently referred to as "funds from operations" (FFO) or "EPRA Earnings".

US and Canada – funds from operations (FFO)

US REITs calculate funds from operations (FFO), as recommended by NAREIT, by adding real estate related depreciation and amortization expenses back to earnings, giving a measure of the a REIT's performance that more closely reflects economic profitability. This is considered to be a better measure of the REIT's performance than reported net earnings.

Exhibit 1 contains an extract of the most relevant sections of a report of the REIT industry published by Barclays Capital:

1. Part Four – Stock Analysis and Valuation – evaluates the different metrics used to assess REIT performance and financial position
2. Part Five – Indices and Exchange Traded Funds – closely related to the above industry metrics which form the criteria for assessing company suitability for the index

Exhibit 2 contains a sample piece of research from RBC Capital Markets and their research on RioCan REIT (a Canadian REIT). It discusses FFO and NOI and clearly indicates how these measures are linked to Net Asset Value (NAV) and REIT share/unit value.

Europe – EPRA Earnings and NAV less fair value adjustments

Every year, EPRA publishes its Best Practices Recommendations (BPRs) which provide a framework for encouraging consistent and relevant financial information for real estate companies that own and operate investment property. EPRA recommends two key measures as described below:

EPRA Earnings (equivalent to FFO)
For real estate companies, EPRA Earnings is a key measure of a company's profitability and of its ability to make sustainable dividend payments to shareholders. This metric represents the level of recurring income generated from core operational activities and provides an indicator of the underlying performance of the property portfolio. Therefore, it excludes all income and expense elements, including any revaluation results and results from sales of investment properties that are not relevant to the on-going operating performance of the property portfolio.

EPRA NAV
The majority of European companies account for real estate at fair value and it has become common for industry analysts to calculate and publish a 'triple net' NAV per share. This is a key performance metric used in the European real estate

industry and the majority of European REITs choose to voluntarily disclose this figure based on the balance sheet. The objective of the EPRA NAV measure is to highlight the fair value of equity on a long term basis.

Exhibit 3 contains a regular report published by Morgan Stanley which includes performance statistics and key stock valuation metrics for a range of pan-European property companies and REITs. This report includes the two key EPRA measures referred to above – EPRA Earnings and "triple net" NAV (see for example Exhibits 10 – 12 of the report). JP Morgan, Nomura, Kempen & Co, BNP Exane, and UBS are also examples of leading providers of real estate equity analysis whose recommendations and forecasts are based on EPRA Earnings, NAV and FFO - which if not specifically published by property companies are then calculated by analysts.

APPENDIX II

Examples of Analyst/Investor reports

Exhibit I	Report of the REIT industry published by Barclays Capital
Exhibit II	Research from RBC Capital Markets
Exhibit III	Regular report published by Morgan Stanley

Exhibit I

Extract from a Report of the REIT industry published by Barclays Capital

REITs

REAL ESTATE
REITs

SECTOR VIEW

Rating: 1 - POSITIVE

Ross L. Smotrich
1.212.526.2306
ross.smotrich@barcap.com
BCI, New York

Jeffrey S. Langbaum
1.212.526.0971
jeffrey.langbaum@barcap.com
BCI, New York

Matthew Rand
1.212.526.0248
matthew.rand@barcap.com
BCI, New York

Ryan H. Bennett
1.212.526.5309
ryan.bennett@barcap.com
BCI, New York

REITs 101: An Introduction

REITs have existed for more than 45 years, but the modern REIT era can be traced to the early 1990s. In the subsequent 20 years, the real estate industry has undergone significant and, we think, irrevocable structural change driven by the shift from privately to publicly owned real estate and the resulting migration of assets and talent into the public markets. During that period, the REIT sector has grown and evolved into a viable and credible investment alternative. Notwithstanding the current credit market and macroeconomic challenges impacting REITs valuations, we believe these trends are sustainable.

- With this report, we present an overview of the REIT industry, including its history and performance, fundamental and sector drivers, and, finally, a stock valuation framework. We are hopeful that experienced investors will use the information contained herein as a reference, while those new to REITs may find it helpful in familiarizing themselves with the industry.
- Outlook for the Group. After outperforming the broader market for seven years through 2006, REITs have underperformed the broader market since early 2007. Investor sentiment turned materially negative in 2007, driven by the perceptual connection to weak housing markets, but the group rolled over in 4Q08 on the heels of the Lehman Brothers bankruptcy and the subsequent credit market shutdown. REITs do face a series of issues—including macroeconomic concerns, weak housing markets, and constrained debt markets—with no directional consensus. Our investment thesis that REITs will likely outperform the broader equity markets in 2009 is predicated on directional improvement in the debt markets, driven in turn by government intervention. Should credit markets loosen, we believe that stocks could rebound considerably, driven by valuation, dividend income, and better-than-expected long-term business prospects. Overall, we believe that the better run, better capitalized equity REITs should be the primary beneficiaries of the current dislocation, and that when we look back one year from now, those stocks should be materially higher.

Analyst Certification
We, Ross L. Smotrich and Jeffrey S. Langbaum, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Barclays Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Customers of Barclays Capital in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.lehmanlive.com or can call 1-800-253-4626 to request a copy of this research.

Investors should consider this report as only a single factor in making their investment decision.

April 01, 2009

PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 89

Table of Contents

Executive Summary 5
What Is the Focus of this Primer? 6
A REIT Defined 8
Real Estate Investment Trusts 8
Part One: A REIT Defined 14
Internal versus External Management 15
UPREITs and DownREITs 16
REIT Advantages 17
Total Return Vehicle 17
Funding Growth 18
Dividends/Current Income 22
Commercial Real Estate Performance 23
Low Correlation with Other Indices 23
Long-Term Performance 23
Part Two: History 28
Part Three: Fundamental Overview 36
Part Four: Stock Analysis and Valuation 62
Part Five: Indices and Exchange-Traded Funds 74
Part Six: Current and Future Trends 80
Part Seven: Glossary of REIT Terms 86

Part Four: Stock Analysis and Valuation

Part Four: Stock Analysis and Valuation

We evaluate REIT stocks just as we would other equities: we utilize earnings multiples, asset values, dividend yields, and earnings growth rates. However, some GAAP accounting concepts are less relevant for REITs. Therefore, the industry has developed different metrics more consistent with real estate's characteristics as a long-term, total-return asset class. In this section, we first define the metrics that we use to assess REIT performance, and then we explore the real estate–specific factors and fundamentals that determine portfolio-level performance, and, in turn, stock performance. Furthermore, we note that management plays a key role, just as it does in any other type of company, as management is responsible for executing the proper strategies to drive earnings growth.

Our valuation analysis, which is laid out in more detail further, is supported by an analysis of management's ability to facilitate stability and growth, and prudently manage the balance sheet. We track a number of ratios and statistics, with the goal of ensuring that our earnings projections are achievable based on the company's capital structure. In that vein, we view analyzing REITs as quite similar to analyzing other types of companies, the difference being in the metrics used.

Valuation Metrics

Investors initially viewed REITs primarily as an income vehicle and, as such, the dividend yield played a primary role in relative valuation. However, as perception of REITs has shifted toward that of a total-return vehicle—and not simply an income vehicle—multiples and growth rates have taken on greater importance. We use several valuation metrics to value REITs on both a stand-alone and relative basis, including: price to FFO (funds from operations), price to CAD (cash available for distribution), price to NAV (net asset value), and dividend yield. FFO and CAD should reflect the performance of the underlying portfolio of properties measured, in turn, by same-store net operating income (SSNOI), a key measure of property-level performance. As with all multiple analyses, it is important to factor earnings growth into the equation.

Price to FFO and price to CAD are earnings and cash-flow-driven multiples, respectively. These metrics approximately parallel price-to-EPS and price-to-cash-flow (EBITDA) multiples used to analyze other types of companies. The most widely recognized earnings metric for REITs, however, is FFO. FFO is reported by the vast majority of REITs—and accounts for the bulk of our estimates, and those tracked in First Call. We also provide annual CAD estimates, which are more akin to free cash flow and which we utilize as the basis for our price targets. However, many companies do not report CAD, and First Call does not track CAD estimates. Net asset value estimates the private market break-up value of a REIT's portfolio, and is not widely reported or tracked. FFO, CAD, and NAV are specific to the REIT sector and are described in more detail below.

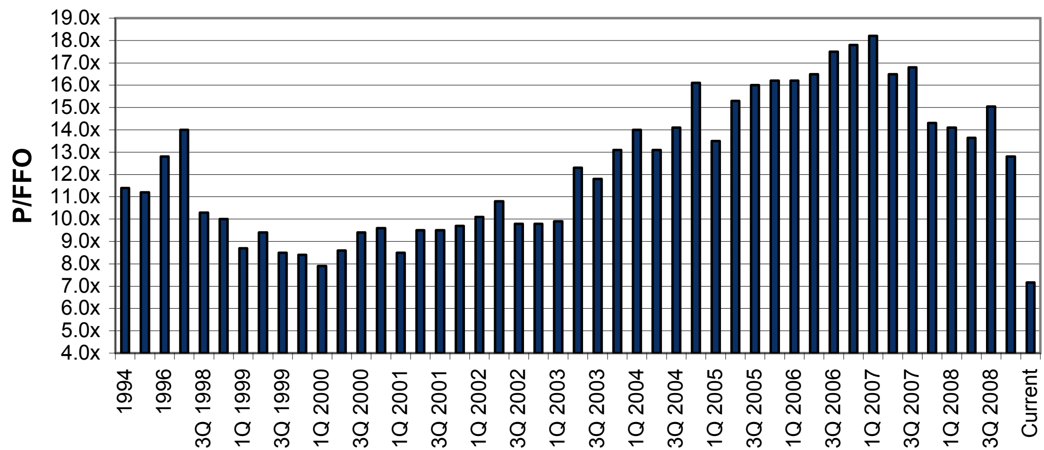
1) Funds from Operations (FFO)

FFO is the most common metric used to assess REIT performance. It is defined as:

GAAP net income, excluding gains (or losses) from debt restructuring and sales of properties, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures.

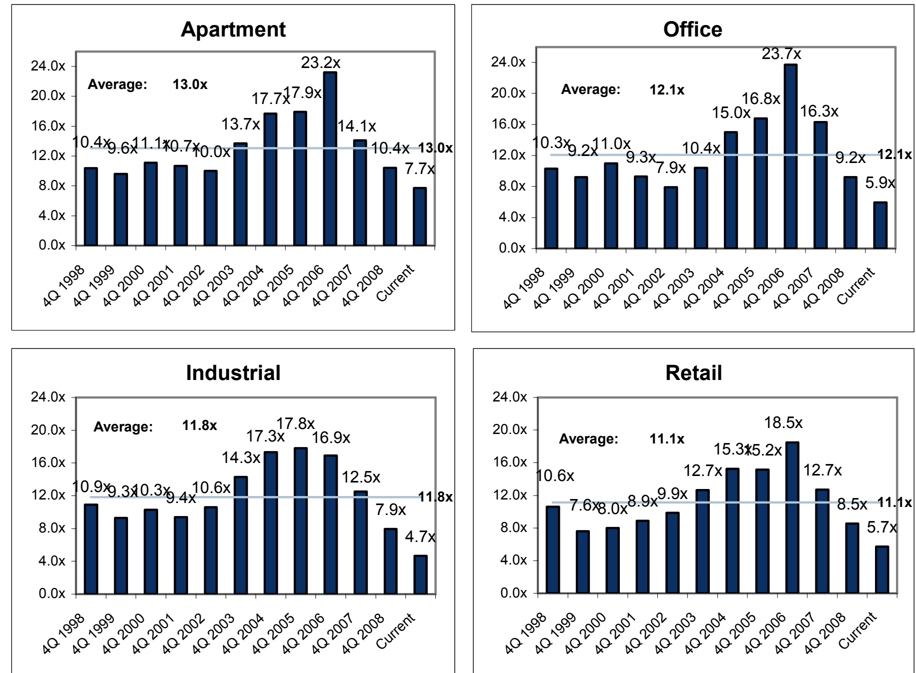
FFO is essentially an operating EPS figure eliminating the impact of real estate depreciation, which is a major noncash charge and should therefore be added back. Historically, FFO multiples have ranged from the high single digits to the high teens. Multiples reached all-time highs in early 2007 due to several factors, including investors pricing in the recovery in real estate fundamentals, a surge in REIT mergers and acquisitions, and an overall greater interest in REITs, which drove increased demand of this relatively small and illiquid sector. As of February 2009, multiples had contracted 61% from those highs. Figure 42 illustrates FFO multiples over time for the overall REIT sector and then for the four main property types.

Figure 42: REIT Historical Forward Multiples — Overall Average, 1996–2009 Year-to-Date



Source: Barclays Capital

Figure 43: REIT Historical Sector P/FFO Forward Multiples, 1998–2009



Source: Barclays Capital

2) Cash Available for Distribution (CAD)

We define CAD as follows: FFO – recurring, nonrevenue-generating capital expenditures and adjustments for straight-lining rents.

CAD is a more accurate indicator of a REIT's profitability than simple FFO, because FFO ignores maintenance capital expenditures and is skewed by the GAAP straight-lining of rents, in our view. As such, CAD multiples are arguably a better valuation parameter to use when comparing companies. Our concern, from a methodological perspective, is how to calculate CAD consistently across different property sectors. We believe that to calculate CAD deductions properly (namely, on a normalized long-term basis), it is necessary to have a detailed understanding of the company and the sector. We provide CAD estimates for the companies in our coverage universe on an annual basis, as quarterly fluctuations are harder to predict. Further, many companies do not report CAD and it is not tracked by First Call. That said, we view CAD as the most appropriate valuation tool, if applied consistently within a sector.

3) Net Asset Value (NAV)

We view NAV as a proxy for book value statistics used in conventional securities analysis. In essence, our NAV calculation estimates the private market breakup value of a company's assets, under the somewhat artificial assumption that it is an orderly liquidation. We are quick to acknowledge that calculating a company's NAV is more art than science. In addition, we acknowledge that this exercise may not be appropriate for what is, in

essence, an infinite-life entity. Nevertheless, we believe that it provides a good indication of relative value, particularly in a bearish equity market, assuming that the methodology is applied consistently across REITs within a given property sector.

We begin by applying the appropriate property-specific capitalization rate to the company's projected 12-month forward (earnings potential) net operating income (NOI) by sector. To arrive at our cap rate for a REIT, we take into account the geographic concentration of its portfolio and the age and overall quality of its assets. We start with a nominal cap rate (most private market participants buy and sell properties on those terms) and translate it into an economic cap rate. An economic cap rate is typically lower than its nominal equivalent because it is applied to NOI, after recurring capital expenditures. Most buyers actually account for required capital expenditures when determining their offers. However, we believe it is the best proxy to use in valuing a real estate portfolio. Historically, REIT stocks have traded at price-to-NAV ranges from approximately 80% to 120% of NAV. We do not view a historical time series NAV analysis as relevant, due to changing real estate fundamentals; however, we view P/NAV levels as a good measure of relative value within a sector at a given point in time. In Figure 44, we show the detailed NAV calculation for Mack-Cali Realty as an example.

Figure 44: Example of a REIT NAV Calculation (Mack-Cali Realty)
($ in thousands, except per share data)

Current Mack-Cali Realty Net Asset Value (1)

($ Thousands)

	Assumed Nominal Cap Rate	Assumed Economic Cap Rate (2)	NOI Before Interest Expense	Current Value
NOI Contribution from (3):				
Office Properties	7.73%	6.27%	$284,070	$4,528,368
Off/Flex Properties	7.50%	7.50%	$38,310	$510,804
Industrial Properties	8.00%	8.00%	$2,346	$29,319
Third Party Mng't		8.33%	$17,020	$204,240
Total NOI				**$5,272,731**
Balance Sheet Items:		% of Carrying Value (4)	B/S Value	
Cash and Cash Equivalents			34,340	34,340
Investment in Securities and Unconsolidated JVs		115%	138,495	159,269
Construction in Progress		110%	0	0
Land Held For Future Development			0	0
Other Assets			135,663	135,663
Total Assets				**$329,272**
Gross Market Value of Assets				**$5,602,003**
Total Liabilities Outstanding				
Mortgage Debt and Tax exempt debt				531,126
Line of Credit				161,000
Unsec Debt				1,533,349
Other Liabilities				259,084
Preferred				25,000
Total Liabilities				**$2,509,560**
Minority Interest				786
Net Market Value of Assets				**$3,091,657**
Common Shares & Units Outstanding				80,857
Current Value Per Share				**$38.24**
Valuation Measures:				
Price Per Share			CLI	$19.56
Price/Current Value				**51.2%**
Total Firm Value/Gross Market Value of Assets (5)				73.0%
Implied nominal cap rate				11.0%

(1) CLI's current value is based on 12/31/08 balance sheet, and 4Q08 NOI annualized.
(2) Economic cap rate is used, as NOI includes a deduction for recurring capital expenditures.
(3) Deducts $66.2 million in recurring capital expenditures from CLI's next 12 months estimated NOI.
(4) Unless otherwise specified, amount is 100% of carrying value.
(5) Total enterprise value = market value of common equity plus total liabilities.

Barclays Capital estimates.

Source: Barclays Capital

4) Dividend Yield

In addition to the metrics described in Figure 44, we use dividend yield as an analytical tool. Dividends remain an important component of REIT total returns (historically accounting for approximately two-thirds of the total), although in the past few years dividends have represented a much smaller portion of overall returns. We look at dividend yields relative to other REITs, in addition to other income alternatives such as the 10-year Treasury bond.

Since 1995, REIT dividend yields have averaged about 6.19%, versus 4.90% for the 10-year Treasury bond and 1.78% for the S&P 500. In addition, there is normally an inverse relationship between yield and earnings growth rates.

Figure 45: REIT Dividends versus S&P Dividends versus 10-Year Treasury Yield

Date	NAREIT Equity Yield	S&P 500 Dividend Yield	Ten-Year Treasury Yield	Differential NAREIT - S&P	Differential NAREIT - Treasury
Dec-95	7.37%	2.30%	5.57%	5.07%	1.80%
Mar-96	7.35%	2.14%	6.32%	5.21%	1.03%
Jun-96	7.28%	2.25%	6.71%	5.03%	0.57%
Sep-96	7.03%	2.27%	6.70%	4.76%	0.33%
Dec-96	6.05%	2.04%	6.46%	4.01%	(0.41)%
Mar-97	6.12%	1.91%	6.91%	4.21%	(0.79)%
Jun-97	6.06%	1.75%	6.50%	4.31%	(0.44)%
Sep-97	5.45%	1.71%	5.97%	3.74%	(0.52)%
Dec-97	5.48%	1.63%	5.68%	3.85%	(0.20)%
Mar-98	5.55%	1.36%	5.66%	4.18%	(0.12)%
Jun-98	6.13%	1.48%	5.43%	4.65%	0.70%
Sep-98	6.88%	1.67%	4.46%	5.21%	2.42%
Dec-98	7.47%	1.34%	4.64%	6.13%	2.83%
Mar-99	7.96%	1.29%	5.51%	6.67%	2.44%
Jun-99	7.34%	1.22%	5.81%	6.12%	1.53%
Sep-99	8.27%	1.30%	5.89%	6.97%	2.39%
Dec-99	8.70%	1.14%	6.44%	7.56%	2.26%
Mar-00	8.30%	1.13%	6.01%	7.18%	2.29%
Jun-00	7.61%	1.14%	6.02%	6.47%	1.59%
Sep-00	7.45%	1.15%	5.80%	6.30%	1.65%
Dec-00	7.52%	1.19%	5.11%	6.33%	2.41%
Mar-01	7.48%	1.36%	4.91%	6.11%	2.57%
Jun-01	6.84%	1.27%	5.41%	5.57%	1.43%
Sep-01	7.43%	1.49%	4.58%	5.94%	2.85%
Dec-01	7.14%	1.36%	5.05%	5.79%	2.09%
Mar-02	6.44%	1.37%	5.40%	5.07%	1.04%
Jun-02	6.21%	1.60%	4.81%	4.61%	1.40%
Sep-02	7.01%	1.86%	3.61%	5.15%	3.40%
Dec-02	7.05%	1.80%	3.82%	5.25%	3.23%
Mar-03	7.21%	1.87%	3.82%	5.34%	3.39%
Jun-03	6.42%	1.68%	3.53%	4.74%	2.89%
Sep-03	5.99%	1.65%	3.94%	4.34%	2.05%
Dec-03	5.52%	1.55%	4.26%	3.97%	1.26%
Mar-04	5.01%	1.58%	3.84%	3.43%	1.17%
Jun-04	5.43%	1.65%	4.62%	3.78%	0.82%
Sep-04	5.12%	1.70%	4.12%	3.42%	1.00%
Dec-04	4.66%	1.91%	4.22%	2.75%	0.44%
Mar-05	5.17%	2.03%	4.48%	3.14%	0.69%
Jun-05	4.60%	2.06%	3.92%	2.54%	0.69%
Sep-05	4.56%	2.03%	4.33%	2.53%	0.23%
Dec-05	4.57%	1.79%	4.39%	2.78%	0.18%
Mar-06	4.06%	1.77%	4.85%	2.29%	(0.79)%
Jun-06	4.21%	1.85%	5.14%	2.36%	(0.93)%
Sep-06	3.93%	1.81%	4.63%	2.12%	(0.70)%
Dec-06	3.69%	1.79%	4.70%	1.90%	(1.01)%
Mar-07	3.73%	1.82%	4.65%	1.91%	(0.92)%
Jun-07	4.19%	1.78%	5.03%	2.41%	(0.84)%
Sep-07	4.12%	1.82%	4.59%	2.30%	(0.47)%
Dec-07	4.91%	2.01%	4.03%	2.90%	0.89%
Mar-08	4.99%	2.35%	3.41%	2.64%	1.58%
Jun-08	5.30%	2.38%	3.97%	2.92%	1.33%
Sep-08	5.09%	2.45%	3.83%	2.64%	1.26%
Dec-08	7.56%	3.16%	2.25%	4.40%	5.31%
Current	9.92%	3.82%	2.99%	6.10%	6.93%

Source: Bloomberg, NAREIT

Due to the importance of the dividend as a portion of total return, the security of that dividend is tracked closely. A common way of monitoring the sustainability of the dividend is via the payout ratio (dividend/FFO per share or dividend/CAD per share). FFO and CAD payout ratios have declined over time as management focus has shifted from paying as high a dividend as possible to retaining as much income as possible to fuel growth, while still being able to maintain dividend growth. This is consistent with the shift from REITs as income vehicles to total-return vehicles. We view a CAD payout ratio of approximately 60%–85% as appropriate. A payout ratio above 90% may put the sustainability of the dividend into question. That said, a payout ratio over 100% may just represent a temporary shortfall due to nonrecurring events and, as such, may not be an accurate indicator of future coverage.

Dividend as Source of Capital

More recently, in late 2008, the Internal Revenue Service provided relief for many capital starved REITs and issued temporary guidance that permitted REITs to distribute stock instead of cash to satisfy the 90% payout rule for all REITs. The dividend distribution does not allow the stock portion to be greater than 90% of the total payout. Previously, a REIT had the choice to pay out up to 80% of its dividend in stock with a private letter ruling from the IRS

and had to permit its shareholders the choice of receiving either cash or stock up to the maximum allocation. The newly issued guidance extends only to distributions declared with respect to taxable years ending on or before December 31, 2009.

Beginning in late 2008, a number of REITs began to take advantage of the ruling and declared stock as a portion of its 2009 dividends in order to preserve cash. In addition, some larger companies which were perceived to be in relatively better health with respects to its balance sheet (VNO and SPG) also included stock as a part of its 2009 projected dividends.

Qualitative Considerations

Underlying Portfolio Performance Drives Earnings

Equity REIT revenues are derived primarily from rental income. Revenue growth is driven internally primarily via occupancy growth, rent increases upon lease rollover, percentage rent participation (retail), scheduled rent bumps, property refurbishments, and sale and reinvestment (capital recycling). The structure of leases is critical, as much of a company's revenue growth may be dictated by the rent bumps stipulated in its leases (especially true for net lease companies), or by the percentage rent agreements for retail companies. External growth is driven by acquisitions, development, and expansion.

Location

Location is obviously a key factor in determining rental rates and rental rate increases. Central Business District (CBD) office properties generally command a higher rent than suburban office; proximity to public transportation or other amenities can increase pricing power for a landlord. Retail properties that are well-positioned with respect to major traffic arteries or population centers or other synergistic retailers will generally command higher rents. Rental rates for other property types are also heavily influenced by similar factors. Furthermore, a REIT's overall portfolio may benefit from either its geographic concentration or diversification, depending on market conditions. For example, over the past several years, those REITs with high concentrations of office properties in New York or Washington D.C. have benefited disproportionately compared to geographically diversified office REITs, as those two markets have experienced greater occupancy and rental growth than the average market in the United States.

Portfolio Quality

Portfolio quality (both buildings and tenants) also matters. When analyzing a REIT's earnings growth opportunities, it is important to assess the quality and condition of its real estate assets to assess the magnitude of rents the properties will be able to garner, and what types of capital expenditures (upkeep and remodeling) will be required in the future. Moreover, higher-quality tenants provide a more reliable income stream; a common metric observed is percentage of average base rent represented by investment-grade tenants.

Characteristics of Local Markets (Demographics)

Characteristics of local markets (demographics) are important. Property-level performance will also be influenced by the demographics of the local market, including age levels,

household formations, wage levels, etc. Changing demographics can point to opportunities or challenges for a REIT and aid in evaluating earnings potential.

Lease Terms

Lease terms also play a role in determining earnings growth. Many leases have stipulated rent increases that play a large part in rental growth. In addition, the length of leases and the timing of the expiration (rollover) of those leases are critical, as leases may expire during times of low rental rates or high rental rates, based on the stage of the real estate cycle. The amount of leasing volume will determine overall occupancies and, as such, is paramount to a REIT's success.

All of these factors combined determine the level and growth of property-level revenues, which, combined with property operating expenses, determine SSNOI, the key metric for property-level performance. Property-level expenses include real estate taxes, utilities, insurance, property management expenses, and recurring capital expenditures (carpeting, blinds, etc.). Expenses for a REIT include general and administrative costs (similar to that of other companies) and interest expense, which can be quite large as properties are financed with debt (overall REIT leverage currently averages about 65%, but historically has ranged between 40% and 50% debt to total market cap). Controlling these varied expenses is paramount as a REIT's existing income stream is largely fixed (dictated by its leases).

Earnings growth is a critical element in valuing a REIT. Rent growth, coupled with moderate expense increases, should lead to positive earnings growth. Management savvy will have an impact on the level and acceleration of this growth, which should be reflected in valuation multiples (P/CAD, P/FFO). The dividend yield often has an inverse relationship with the level of earnings growth (for example, net lease companies typically have higher dividend yields and lower growth than other REITs, reflective of their long-term leases and limited ability to grow earnings at a rapid rate). An increasingly important component of a REIT's earnings is gains on development, especially in the industrial sector. This may provide a REIT with considerable gains; however, the realization of this income is inherently lumpy.

External Growth — Acquisition and Development

In addition to growing rents and occupancy, REITs grow revenues via acquiring and/or developing additional properties. In simple terms, acquisition is accretive if the going-in cap rate (unlevered cash yield) is above the cost of debt. Development, which is inherently more risky, should generate yields several hundred basis points above acquisitions. A company's development pipeline can be an important source of growth and should be monitored closely. A large development pipeline can be quite beneficial when properties are selling for above replacement cost. That said, if real estate prices or rents fall while the properties are being developed, a company may fall short of its initial return projections.

All of these factors (existing portfolio growth and expansion via acquisition and development) contribute to the growth of earnings and dividends. The rate and success of that growth is largely influenced by management.

Management — The Critical Element

Just as in any other type of company, management is critical. We believe that investing in REITs is essentially investing in management. Now that REITs are actively managed companies, as opposed to passive pools of real estate assets, the quality of management plays a meaningful role in determining the growth of the company. Therefore, we evaluate REIT management teams based on track record, experience, strategy, relationships in the industry (access to deals), and balance sheet management skills. In addition, the level of insider ownership is important, as it aligns the interests of management and shareholders. Of note, real estate historically has largely been a family business; however, that is changing, with more family-run companies being acquired and run by professional managers.

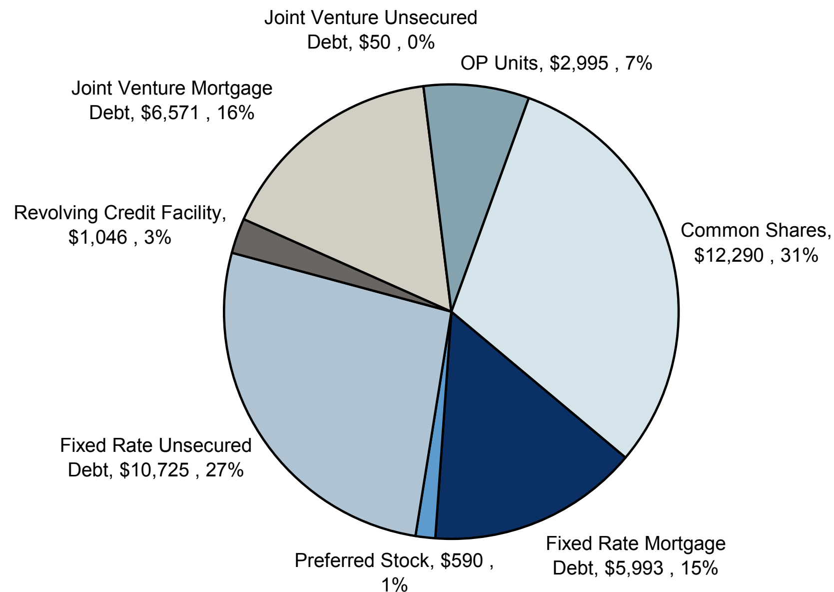
Capital Structure

Real estate is a capital-intensive industry; therefore, it is important for a company to have access to a variety of capital sources in order to fund investment. However, the level of debt that REITs maintain has declined over the years and now generally hovers at 30%–50% (of total market cap). With today's declining prices, REITs trade at a debt-to-total market capitalization of 60%. Many REITs also seek projects where returns are only justified by employing higher levels of debt; therefore, some REITs pursue these investments in off-balance-sheet joint ventures where higher leverage can be used. Generally, REITs have restrictions (covenants) placed on them, which restrict debt levels. Standard REIT debt covenants include a maximum of 60% leverage, no more than 40% of total assets comprised of secured debt, a minimum of 1.5x fixed charge coverage, and unencumbered assets of at least 150% of unsecured debt. As a result, REITs, in general, maintain relatively conservative capital structures.

Because REITs must pay out at least 90% of taxable income, they generally retain approximately 35%–40% of cash flow—primarily a result of the depreciation tax shield. In the current environment, cash flow retention has become more paramount. As such some companies such as Simon Property Group have decided to pay out their dividend in stock, allowing the company to further retain more capital.

The main components of a REIT's capital structure are debt (credit facilities, unsecured debt, secured debt, property-level debt, and joint venture debt), common stock, operating units, and preferred stock (Figure 46). Although capital structures and debt levels vary from REIT to REIT, Figure 46 illustrates the capital structure of Simon Property Group as an example.

Figure 46: Simon Property Group — Capital Structure, as of 12/31/2008 ($ in millions)



Source: Company documents

Credit Facility

Many REITs initially fund property investment via short-term credit facilities, which typically have maturities of one to two years, with extension options for an additional one to three years. Interest on these facilities is usually floating-rate, based on a spread over a short-term index rate (usually 30-day LIBOR). Once a company accumulates a meaningful balance on its credit facilities, it will usually roll that short-term debt into something more permanent, such as long-term, fixed-rate debt or equity.

Secured Debt

REITs may utilize property-specific mortgage debt or debt secured by a pool of properties, usually up to a loan-to-value (LTV) level of approximately 80%, but more commonly between 40% and 70%. Property-specific debt financing is more common among net lease companies as the long-term nature of the leases makes them more easily match financed via property-specific mortgages. The amount of secured debt that a REIT may issue will often be influenced by the ratings agencies, due to certain requirements dictating the acceptable levels of secured debt that a company may maintain in order to qualify for a specific credit rating. Moreover, the cost of debt may influence the amount of secured versus unsecured debt.

Unsecured Debt

REITs may also issue unsecured debt, which by definition is not backed by any property interest or any other specific collateral, but is senior to all equity and other subordinate

debt. Maturities usually range from five to 10 years. In the current environment however, unsecured debt has been almost completely shut off to companies due to historically wide spreads.

Preferred Stock/Convertible Preferred Stock

Many REITs issue preferred stock; however, it is usually a much smaller portion of the capital structure.

Trust Preferreds

These securities are becoming more common as of late, and are different from regular preferred securities. The securities have a 30-year term, a fixed rate for 10 years that subsequently floats based on a spread to LIBOR, and are callable after five years. The securities are issued by a trust that has been created for the sole purpose of issuing these securities.

Operating Partnership Units

REITs formed via an UPREIT or DownREIT structure may issue Operating Partnership (OP) units in exchange for properties. OP units are exchangeable into common stock on a one-for-one basis, receive dividends, and have voting rights just like common stock. OP units provide a currency to the REIT to make property acquisitions without the seller incurring an immediate tax liability. The seller may defer the tax liability until the OP units are converted to common stock.

Common Stock

The principal component of a REIT's capital structure is common stock. Due to the fact that REITs must pay out 90% of taxable income as dividends, a REIT generally periodically taps the equity markets to grow. As such, REIT follow-on equity issuances are common.

Part Five: Indices and Exchange-Traded Funds

Part Five: Indices and Exchange-Traded Funds

Real Estate Indices

A number of indices are available to investors to monitor REIT stock performance, including the NAREIT Composite and Equity Indices, Wilshire Real Estate Securities Index, Global Property Research 250 Index, Cohen and Steers Realty Majors Index, and S&P REIT Composite Index. Historically, the Morgan Stanley REIT Index (RMS), now called the MSCI US REIT Index, was the index of choice for several reasons. However, the NAREIT Equity and Composite Indices have also become more widely accepted, in our opinion.

RMS versus NAREIT

In March 2006, FTSE, the global index provider, took over the calculations of the NAREIT Domestic Real Estate Index Series, which were renamed the FTSE NAREIT US Real Estate Index Series. We focus primarily on the FTSE NAREIT Equity Index and the FTSE NAREIT Composite Index. We also track the performance of the RMS. The reason for focusing on the NAREIT Equity and Composite Indices is their comprehensive nature (the Equity Index includes all publicly traded equity REITS, while the composite contains all publicly traded equity and mortgage REITs), in addition to the availability of data. The RMS had been the index of choice, as it has dominated the industry since its coming of age in the early 1990s. However, MSCI, a subsidiary of Morgan Stanley, overtook administration of the index in summer 2005, introducing a real-time, price-only index (RMZ) while maintaining the RMS total-return index priced only at the end of each trading day. Subsequently, the availability of index data became more challenging. Meanwhile, data on the NAREIT Equity and Composite Indices are more readily available.

The NAREIT Composite Index is comprised of all 135 publicly traded REITs on the NYSE, the Nasdaq National Market System, and the American Stock Exchange. The Composite Index includes 10 residential mortgage REITs and 10 commercial mortgage REITs. In addition, NAREIT maintains an Equity REIT index that excludes these 29 mortgage REITs; both indices are market-cap-weighted (float adjusted), calculated on a total-return basis, and include a number of smaller companies. The NAREIT Equity Total Return Index can be found on Bloomberg under the symbol "FNERTR" (Index); the NAREIT Composite Index can be found on Bloomberg using the symbol "FNCOTR" (Index). Price-only versions of these indices are maintained as well.

The RMS is relatively comprehensive, although it excludes mortgage REITs. The index represents approximately 85% of the US REIT universe. We believe that many money managers will continue to use the RMS; however, we think that use will diminish due to the difficulty in obtaining index data.

The following is a list of other REIT indices that are widely followed:

GPR 250 Global Index

The Global Property Research 250 Index is a free-float weighted index that tracks the performance of 250 of the most liquid property companies worldwide. The index includes only companies with a free-float market capitalization greater than $50 million. The index and its constituent data can be found on Bloomberg under the symbol "G250GLOB"

(Index). We think that this index will become more relevant as investment managers become more active in real estate investment overseas, and as more and more countries adopt REIT or REIT-like corporate structures.

S&P REIT Composite

The S&P REIT Composite was established in 1997. The index includes 100 companies that were chosen for their liquidity and together represent a diversified portfolio. The composite contains about 80% of the U.S. REIT capitalization. Although the index is spread across diversified property types and key regions throughout the country, Mortgage REITs are not included. To qualify for inclusion in this index, companies must possess a minimum of $100 million in unadjusted market capitalization. The index can be found on Bloomberg under the symbol "SPREIT" (Index).

C&S Realty Majors Index

The Cohen & Steers Realty Majors Index, formed in 1998, has the fewest constituents of its peers. The Index, which is rebalanced quarterly, seeks large and liquid REITs of all property types and geographic locations that address the most significant issues facing the industry today. In addition, there is an 8% maximum index weight for any company in the index. As with most of its peers, only equity REITs are included in the C&S Realty Majors Index. The index can be found on Bloomberg under the symbol "RMP" (Index).

Wilshire REIT Index

The Dow Jones Wilshire REIT Index was established by Wilshire Associates in September 1991. It is a subset of the Dow Jones Wilshire Real Estate Securities Index (RESI). The main difference between the REIT Index and the RESI Index is that the REIT Index does not include real estate operating companies (REOCs), whereas the RESI Index does. In addition, the index is a subset of the DJ Wilshire 5000 Composite Index. The index can be found on Bloomberg under the symbol "DWRTF" (Index).

The companies included in the index must own equity and operate commercial and/or residential real estate. Mortgage REITS, health care REITs, and other nonREIT real estate companies, as well as companies that have more than 25% of their assets in direct mortgage investments, are not included in the index. In addition, companies must have a total market capitalization of at least $200 million at inclusion. Furthermore, the index is float-adjusted as it restricts corporate holding, as well as government, employees, and family holdings.

Dow Jones REIT Composite Index

The Dow Jones REIT Composite Index was established in late December 1991 and includes all publicly traded U.S. REITs. Unlike most of its peers, the index includes mortgage and hybrid REITs. The only requirement to be a member of the index is that the company must maintain its REIT tax election status. The index and its constituent data can be found on Bloomberg under the symbol "RCIT" (Index).

Figure 47: REIT Indices Comparison

Indice	Ticker	Maximum # of Constituents	Exclusions	Float Adjustments
FTSE NAREIT Equity	FNERTR	None	REOC, OTC, Mortgage REITs	cross holdings, govenrment,employee, family
FTSE NAREIT Composite	FNCOTR	None	REOC, OTC	cross holdings, govenrment,employee, family
RMS	RMS	None	Not part of MSCI 2500, Companies	corporate holdings, govenrment,employee, family
S&P REIT	SPREIT	100	REOC, Mortgage, Hybrid, market cap. under $100 million	None
C&S Realty Majors	RMP	30	REOC, Mortgage, Hybrid, market cap. under $500 million, 600 thousand average monthly volume	No more than 8% of total weighted index
D.J. REIT	RCIT	None	Must be a REIT	5% or more held, govenrment,employee, family, restricted
Wilshire REIT	DWRTF	None	Mortgage, Hybrid, market cap. under $100 million	corporate holdings, govenrment,employee, family
GPR 250	G250GLOB	250	Must rank higher than 250 in terms of monthly trading volume	cross holdings,government holdings in excess of 10% of share outstanding

Source: Bloomberg, S&P, Dow Jones, NAREIT, Wilshire

Real Estate Exchange Traded Funds (ETFs)

Exchange Traded Funds (ETFs) offer public investors an undivided interest in a pool of securities and other assets and thus are similar in many ways to traditional mutual funds, except that shares in an ETF can be bought and sold throughout the day like stocks. The ability to purchase and redeem ETFs on a live basis has provided many investors arbitrage alternatives when investing in various subsectors such as real estate. We estimate that there are currently 16 ETFs related to the real estate sector. Each concentrates on some type of geography, subsector and/or company size. One even provides a leveraged return, either long or short.

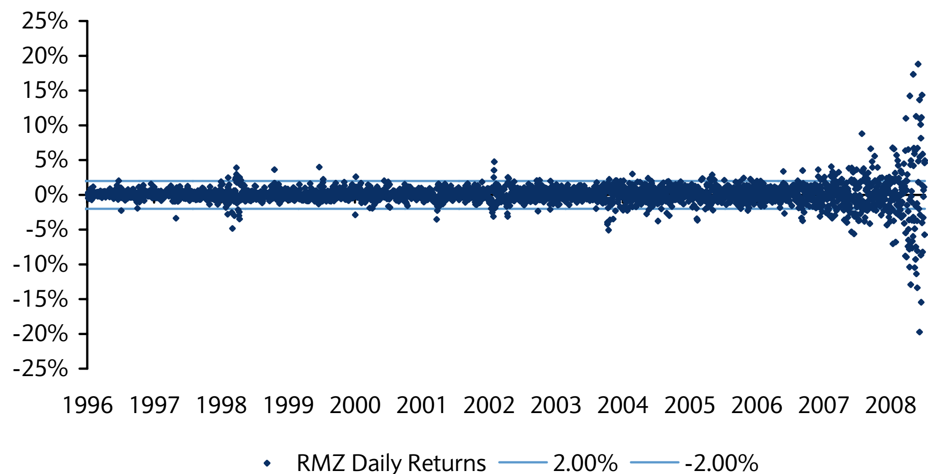
Figure 48: Real Estate ETFs

ETF Name	Ticker
iShares FTSE EPRA/NAREIT Global Real Estate ex-US Index Fund	ICGL
iShares FTSE EPRA/NAREIT Asia Index Fund	IFAS
iShares FTSE EPRA/NAREIT Europe Index Fund	IFEU
iShares FTSE EPRA/NAREIT North America Index Fund	IFNA
iShares FTSE NAREIT Industrial/Office Capped Index Fund	FIO
iShares FTSE NAREIT Mortgage Plus Capped Index Fund	REM
iShares FTSE NAREIT Real Estate 50 Index Fund	FTY
iShares FTSE NAREIT Residential Plus Capped Index Fund	REZ
iShares FTSE NAREIT Retail Capped Index Fund	RTL
iShares Cohen & Steers Realty Majors Index Fund	ICF
iShares Dow Jones U.S. Real Estate Index Fund	IYR
streetTRACKS Wilshire REIT Index Fund	RWR
Vanguard REIT VIPERS	VNQ
S&P Developed ex-U.S. Property Index Fund	WPS
Cohen & Steers Global Realty Majors ETF	GRI
UltraShort Real Estate ProShares	SRS

Source: Barclays Capital

The growth in real estate–related ETFs has allowed more fast money investors enter the real estate space thereby increasing the volatility of the sector. Without doubt, 2008 was the most volatile year REITs have had. Figure 49 displays the daily returns of the RMZ Index since 1995, which tended to remain between −2% and 2% up until late 2007; since then, the returns spread far beyond those levels. There were several reasons for the significant volatility in 2008, including lower liquidity than other sectors, but the two factors that stood at the fore during 2008, and which we believe will continue to affect REITs for at least the next few months, are 1) hedge fund redemptions and other forced sellers; and 2) leveraged ETFs. The forced selling, largely caused by redemptions and margin calls, exacerbated the steep selloff last fall. In addition to funds focused on REITs that saw redemptions and were forced to sell, some real estate funds that invested more broadly saw REITs as their most liquid investment and thus sold them to meet redemptions. The leveraged ETF factor stems from requirements that leveraged long and short ETFs keep a steady margin ratio at the close of each day's trading; if REITs gained or lost materially during the course of the day, a leveraged ETF whose margin levels were affected (long ETFs on down days, short ETFs on up days) would be forced to trade in the same direction as the market in order to fix its leverage ratio for the close of trading. Often during 2008, when REITs had already made a significant move in one direction, the last half hour of trading saw another leg in the same direction, which significantly aggravated existing volatility. Leveraged ETF volume may subside, and fund redemptions and forced selling may slow, but in the near term we expect continued volatility.

Figure 49: Unprecedented U.S. REIT Volatility – 13 Years of Daily RMZ Returns

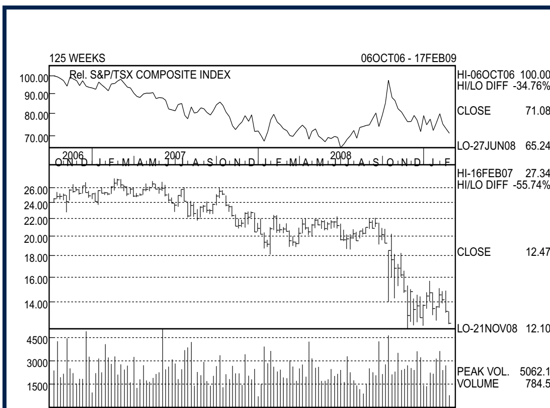


Source: FactSet, Barclays Capital

In summary, although there are many indexes available to REIT investors, we focus on the NAREIT Equity and Composite Indices, while we also track the RMS and the IYR.

<u>Exhibit II</u>

Research from RBC Capital Markets



RBC Dominion Securities Inc.

Neil Downey, CA, CFA (Analyst)
(416) 842.7835; neil.downey@rbccm.com

Tyler Bos (Associate)
(416) 842-4123; tyler.bos@rbccm.com

Michael Markidis, CFA (Associate)
(416) 842-7897; michael.markidis@rbccm.com

FY Dec	2007A	2008A	2009E	2010E
EPU (Op) - FD	0.16	0.67	0.74	0.75
Prev.		0.79	0.78	0.78
P/EPU	77.9x	18.6x	16.9x	16.6x
FFO (Op) - FD	1.51	1.48	1.51	1.54
Prev.		1.51	1.53	1.55
P/FFO	8.3x	8.4x	8.3x	8.1x
AFFO - FD	1.32	1.31	1.31	1.33
Prev.		1.38	1.36	1.38
P/AFFO	9.4x	9.5x	9.5x	9.4x

EPU (Op) - FD	Q1	Q2	Q3	Q4
2007	0.02A	(0.51)A	0.17A	0.31A
2008	0.14A	0.21A	0.19A	0.14A
Prev.				0.25E
FFO (Op) - FD				
2007	0.35A	0.38A	0.36A	0.42A
2008	0.32A	0.40A	0.37A	0.39A
Prev.				0.42E
2009	0.35E	0.39E	0.38E	0.39E

All values in CAD unless otherwise noted.

PRICE TARGET REVISION | COMMENT

FEBRUARY 18, 2009

RioCan REIT (TSX: REI.UN)

Q4/08 Re-cap; Pro-Actively Approaching 2011 To Expand Asset Management Op's

Sector Perform
Average Risk

Price:	12.47	**Price Target:**	16.00 ↓ 18.00
		Implied All-In Return:	39%
Units O/S (MM):	222.0	**Market Cap (MM):**	2,768
Distribution:	1.38	**Yield:**	11.1%
NAVPS:	15.50	**P/NAVPS:**	0.8x
BVPS:	7.89	**P/BVPS:**	1.6x
Float (MM):	222.0		
Debt to Cap:	55%		

NAV/Unit derived via 7.75% cap.

Event

RioCan has released Q4/08 and full-year results.

Investment Opinion

- **Q4/08 FFO/Unit Misses Expectations –** Q4/08 FFO/unit of $0.39 was -7% behind Q4/07's $0.42 and our $0.42E. Disposition gains and fee income were the primary sources of the shortfall.
- **Holding Up Well Operationally –** Q4/08 same-property NOI growth was a strong +3.6% (2008 was +2.6%). Occupancy shed -70bps through 2008, to 96.9%, with the outlook being 96% at Q4/09. Interestingly, retail industry tenant "fall-out" seems less than we had expected through early '09 (maybe the inevitable has simply been delayed?). RioCan's own stats seem to corroborate with only 81,000 sf of unbudgeted vacancy (ex-Linens 'N Things) through Feb-13 (versus 48,000 sf during the same time frame in '08). Factoring in modest contractual steps, intensification capital and positive re-leasing spreads, RioCan sees 2009 same-property NOI growth of +2%-2.5%.
- **Solid Balance Sheet & Liquidity –** Q4/08 liquidity temporarily declined to $157MM from $275MM at Q3/08. Pro-forma $103MM of mortgage financing (5-yr term @ 4.87%) and a new $90MM bank facility, liquidity will exceed $300MM. We see reasonable investment capacity as being ~$450MM based on a 58% D/GBV ratio.
- **Game Plan For The REIT Rules –** RioCan appears to be leaning towards moving to a stapled structure to ensure compliance with the REIT Exemption by 2011. Current estimates suggest this will result in modest cash-tax leakage in 2011+ (~$0.05/unit, probably less with some tax planning). Importantly, we note: **i)** that RioCan now has a credible "game plan" upon which to execute this restructuring (it is probably ahead of many); and, **ii)** RioCan's human and financial capital, and institutional relationships leave it best positioned to "grow" its way through the cash tax drag by expanding its asset management operations.
- **Estimates Trimmed; Sector Perform Rating Reiterated –** We have trimmed our 2009E/2010E FFO/unit -$0.02 each to $1.50/$1.54, respectively. We have also fine-tuned our AFFO calculations and cut -$0.05 from our 2009E/2010E which now stand at $1.31/$1.33. Our new $16 price target is derived via a 12x multiple (13x prior) to our 2010E AFFO/unit. We continue to view RioCan's units as a core holding for income and long-term value appreciation. Relative total return considerations lead us to reiterate our "Sector Perform" rating.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 9.

Details

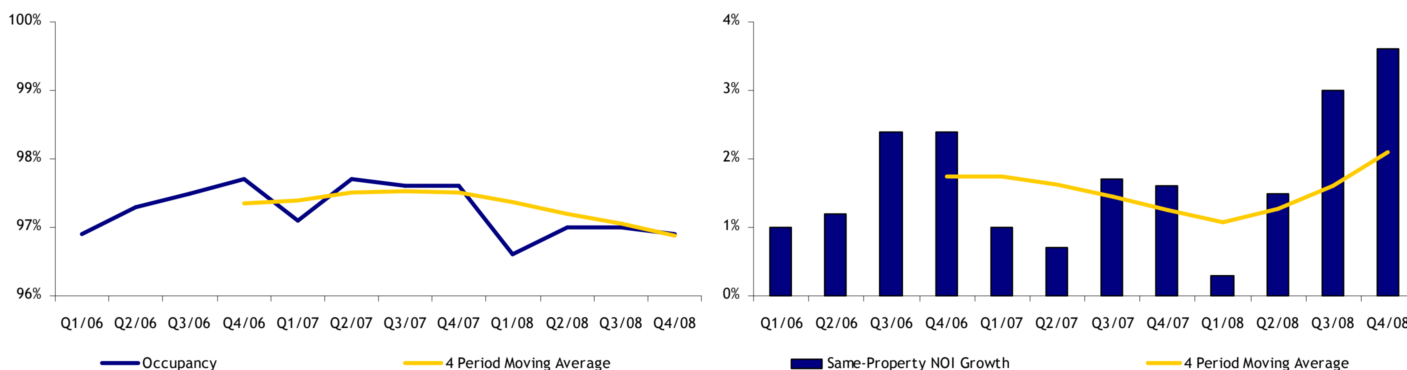
Q4/08 FFO/Unit Misses Expectations – Q4/08 FFO/unit (diluted) of $0.39 was -7% behind Q4/07's $0.42 and our $0.42 estimate. Net Operating Income was a tad short of expectations (approximately $0.5 million light), but this was offset by interest expense which was lower than forecast by nearly the same amount. Elsewhere through the operating cash flow statement there were three notable variances versus our forecast, each of which compounded to create the -$0.03 shortfall versus our Q4/08 estimate:

- General & Administrative expense was +$850,000 higher than expected (<$0.01/unit);
- Fee Income was -$3.4 million lower than expected (~$0.015/unit). The shortfall was mostly related to disposition dependent fees, where we had expected $3 million, but RioCan only generated $0.3 million in Q4/08; and,
- Disposition gains were -$2 million lower than our estimates (~$0.01/unit).

Same-Property NOI Growth Accelerates In Q4/08 – Q4/08 same-property NOI growth was a strong +3.6%, bringing the annual figure to +2.6%. Same-property growth was the product of rent uplifts on lease renewals, step rents in existing leases and income from intensification and redevelopment projects. These factors were offset by a -70 basis point decline in occupancy. Management has guided toward +2%-2.5% same-property NOI growth for 2009, with assumed year end occupancy of 96%, which would represent a decline of nearly -100 basis points from the 96.9% registered at Q4/08.

Exhibit 1 graphically depicts RioCan's historical occupancy and same-property NOI statistics.

Exhibit 1: Historical Portfolio Occupancy And Same-Property NOI Statistics (Q1/06 to Q4/08)



Source: RBC Capital Markets and Company reports

Leasing Activity – In Q4/08, RioCan leased 874,000 sf, including 632,000 sf of renewals and 242,000 sf new leases. The REIT retained 92.5% of the expiring leases at an average uplift of $1.75 per sf (+12%). For 2008, the REIT completed 4.1 million sf of leasing, comprised of 2.9 million sf of renewals and 1.2 million sf of new leases. For the full year, RioCan retained approximately 85.8% of the expiring leases, with an average uplift of $1.56 per sf (+12%). The 2008 renewal percentage was on-par with the previous year.

In 2009, RioCan has 2.2 million sf subject to contractual expiry (less than 7% of its portfolio). Lease expirations accelerate in 2010 and 2011, with 3.2 million (10%) and 3.8 million (11.5%), respectively. Through February 13th, 27 leases totaling 145,194 sf were signed at an average rate of $16.49/sf. This compares to 121,562 sf at $15.75/sf in the same period of 2008.

Fewer Tenant Failures Than Expected, So Far – With the passage of time though this deteriorating economic climate, we anticipate all landlords (retail in particular) to be subject to an increasing volume of tenant failures. Through 2008, RioCan noted that there were 17 small tenant bankruptcies (where space actually went dark), representing approximately $4.8 million of annualized NOI. This compared to 10 tenancies representing some $2.1 million in the prior year. As a point of reference, these figures compare to RioCan's annualized gross rental revenue of approximately $700 million and annualized NOI of approximately $450 million. In addition to this, there were a handful of situations with more prominent national retailers including:

- **Linens 'N Things:** As we've previously discussed, Linens 'N Things ("Linens") filed for bankruptcy in October 2008. Linens occupied 149,600 sf (RioCan's interest) at 10 locations. This constituted less than 0.5% of the REIT's portfolio (by GLA) and represented approximately $3.3 million of annual revenues (~$22/sf gross). On January 16th, leases were disclaimed at 9 of the 10 locations, with the tenth lease assigned to Forzani Group Limited to operate a Sport Chek. RioCan received rental revenue for January. Two leases have already been signed with Home Outfitters and Value Village. The REIT has entered into agreements with Bed, Bath & Beyond to occupy 2 properties. Three of the Linens' stores are being subdivided, with letters of intent for five of six units, with tenants including Style Sense and Sport Chek. Management is in discussions with several tenants regarding the last 2 stores. Management is "confident that by the end of the third quarter, all will not only be leased, but will be generating income".

Management took an approach to fill the space quickly, rather than "hold out for the last dollar," resulting in rents ~$0.25/sf below Linens' rents. Management estimated that tenant inducements will amount to ~$20/sf – hence the actual return on capital employed will decline by a greater percentage than the expected fractional decline in net rent.

- **Other Tenants On Watch:** *The Source By Circuit City* – While the U.S. parent has gone into liquidation, "The Source" remains open in Canada and a search for a purchaser is underway. "The Source" occupies 77,000 sf (RioCan's interest) at 44 locations and represents approximately $2.5 million of annual revenues. *Cotton Ginny* – At the end of December 2008, Cotton Ginny emerged from creditor protection. Cotton Ginny occupies 32,500 sf (RioCan's interest) at 13 locations and contributes approximately $1.1 million of annual rental revenues.

Interestingly, the tenant "fall-out" that we expected to occur throughout the retail industry has been less than expected. Perhaps we are simply delaying the inevitable? Nevertheless, RioCan's own statistics seem to corroborate this as the REIT has noted that through February 13th, thus far in 2009 the REIT has had 81,000 sf (0.25% of annual revenues) of "unbudgeted vacancies" (excluding Linens 'N Things). This compares to 48,000 sf (0.2% of annual revenues) in the same period of 2008.

Urban Intensification & Mixed-Use Potential Continues To Grow; Economic Cycle Is An Unavoidable Set-Back – RioCan is tireless in its drive to create value throughout its portfolio. In this regard, there is a growing focus upon added retail density, including mixed-use commercial and residential space, particularly within the more urban properties. Specifically 8 properties have been identified and plans have/are being developed for intensification programs. We have summarized these in Exhibit 2 below. Management estimates that the REIT will invest $20 million to $25 million in its expansion and redevelopment projects in 2009. Yields on these projects are expected in the range of 10% to 11%, somewhat higher than the average greenfield development, as the Riocan already owns the land/density rights.

Exhibit 2: Urban Intensification & Mixed-Use Redevelopment Projects

Property	Location	Existing	Redevelopment Plans
Avenue Road	Toronto, Ontario	A 1.5 acre site at Avenue Road and Fairlawn Avenue. A former 17,373 sf retail facility was demolished.	A mixed-use development featuring a 5.5 storey residential component and 21,000 sf of street-front retail. 65 of 80 residential units have been sold. RioCan has a 50% profit participation right.
Brentwood Village Shopping Centre	Calgary, Alberta	A 321,366 sf shopping centre, on 22.9 acres in Northwest Calgary.	RioCan has sold air rights and residential density on 2.6 acres at north end of the centre. 50,000 sf of existing retail will be replaced with 568,000 sf of residential and 40,000 sf of new retail.
Coulter's Mill Marketplace	Thornhill, Ontario	A 73,667 sf unenclosed, single-storey shopping centre anchored by Staples and Dollarama.	Potential mixed-use facility comprising 675,000 sf of residential space and 10,000 sf of retail.
Lawrence Square	Toronto, Ontario	A 678,246 sf enclosed shopping centre. The main building contains 385,042 sf of retail on 2 levels and 189,478 sf of office. A second building adds 103,725 sf of office.	RioCan is contemplating the addition of 650,000 sf of residential space, in addition to the existing shopping centre.
Markington Square	Scarborough, Ontario	An 114,997 sf strip community shopping centre on 14.89 acres. The centre is anchored by a 51,000 sf Metro.	RioCan negotiated a lease buyout to replace 60,000 sf of retail with a 1.15MM sf residential tower, with 50,000 sf of ground floor retail. Zoning for 1,000 residential units expected by Q3/08.
Queen and Portland	Toronto, Ontario	A one-acre development site in downtown Toronto.	A mixed-use development comprising 4-storeys of residential and 91,000 sf of retail. 55 of 90 residential units have been sold. RioCan has a 40% profit participation right.
Tillicum Centre	Victoria, B.C.	A 472,530 sf enclosed shopping centre, anchored by Zellers, Safeway and Famous Players.	The centre has excess density on which RioCan plans to develop a 300,000 sf mixed-use facility.
Yonge Eglinton Centre	Toronto, Ontario	A 1MM sf mixed-use facility occupying a 4-acre site in mid-town Toronto. YEC is comprised of 750,000 sf of office space in 2 towers and 4 levels of retail totaling 275,000 sf.	RioCan plans to submit a rezoning request in February 2009, to add 46,000 sf of new retail space and 12-storey, 210,000 sf expansion of the office towers.

Source: RBC Capital Markets and Company reports.

Urban intensification projects have become somewhat reliant upon residential condo units in recent years, and this segment of the market appears to be weakening - dramatically. Hence, the economic cycle is becoming an unavoidable setback. RioCan seems undeterred and will remain creative. For instance, the REIT is now contemplating the idea of adding residential rental suites at its Markington Square property (instead of condos). This approach might see the REIT forgo realization gains, in return for a recurring, long-term rental stream. As with all projects of this nature, a partner bringing industry expertise is the key. Lastly, we note that the economic picture and likely project delays really represent only an "opportunity cost," as opposed to a "ticking time bomb" of any sort, because in most cases, the underlying properties are currently generating durable, recurring rental income while awaiting future intensification.

No Acquisitions Completed In Q4/08 – RioCan did not complete any acquisitions in Q4/08. In 2008, the REIT acquired interests in 26 properties totaling 856,822 sf for $162.8 million.

Subsequent to year end, the REIT acquired:

- An additional 2 properties in Cambridge, Ontario and Edmonton, Alberta to complete the Cara portfolio acquired in Q3/08. The 2 properties were acquired for $7.5 million at an 8.5% cap rate.
- A six-property retail portfolio from ING Real Estate Canada LP for a total investment of $67.5 million. However, concurrent with the closing of this transaction in Q1/09, the REIT has agreed to sell a 50% in 4 of the 6 properties to a private investor for approximately $20 million. Thus, RioCan's investment will be reduced to $47.5 million. For more details on this portfolio, we refer readers to our January 22nd note entitled *Announces 6-Property "Tuck-In" Acquisition Totaling $67.5MM*.

Management is of the view that now is a better time to be a buyer, and is eager to continue to grow its portfolio. The goal for 2009 is to continue to grow the REIT's balance sheet through continued growth in its asset management platform.

Impairment Charges Taken Against Two Tertiary-Market Properties; Indefinite Timeframe For Redevelopment – In Q4/08, RioCan recorded a $24.3 million non-cash impairment charge against RioCan Renfrew Mall, in Renfrew, Ontario and Chaleur Centre, in Bathurst, New Brunswick. These properties are smaller, enclosed malls in tertiary markets. According to the portfolio listings on RioCan's website, Renfrew Mall is 44.2% leased and Chaleur Centre was 12.6% leased. The carrying value of these properties was written down to approximately $3.4 million, or just under $100,000/sf. Impairment charges included $4 million of estimated demolition costs and other expenses required to position the properties for redevelopment as unenclosed centres. In light of the current weakened economy and the state of the tertiary markets where these properties are located, the REIT has not set a fixed timeframe for redevelopment.

Industry-Leading Liquidity Position Maintained – At Q4/08, immediate liquidity of $157 million consisted of $11 million of cash and $145 million of availability on the REIT's undrawn lines. Note, liquidity declined from $275 million at Q3/08, as a $110 million bank line used to manage unsecured debenture maturities last year expired in 2008. At year end, the REIT's leverage ratio (Debt/GBV) was 54.9%. Overall, RioCan continues to enjoy low leverage and exceptional liquidity, which is a function of the fact that Management has very proactively managed its liquidity position.

2009 maturities include $231 million of mortgages and $84 million of its Series D unsecured debentures. $20 million matures in Q1/09, with a further $34 million in Q2/09.

Subsequent to year end, Management has secured:

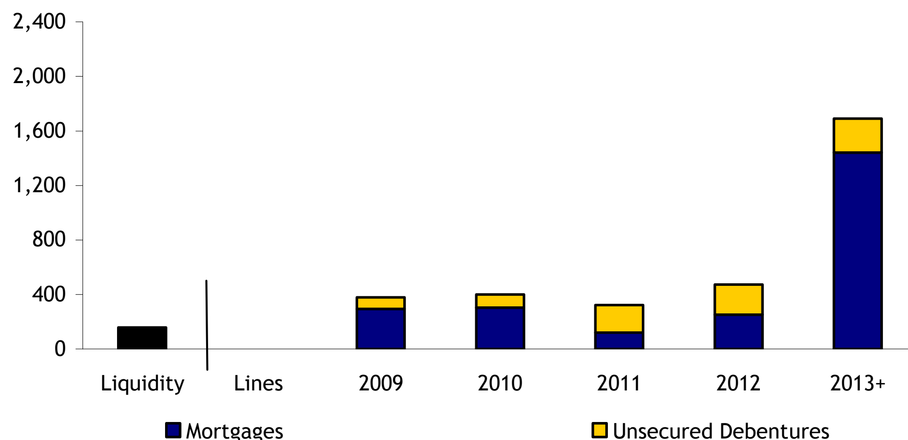
- A $102.5 million 5-year mortgage financing on a floating rate basis. The mortgage is secured by 7 properties, 6 unencumbered. The floating rate has been swapped for a fixed rate of 4.87% for the full term. This financing will provide the REIT with approximately $95 million of incremental cash.
- RioCan is finalizing a new $90 million secured bank facility.

Pro forma these items, RioCan would have immediate liquidity exceeding $300 million.

Exhibit 3: Liquidity And Debt Maturity Profile ($MM, As At Q4/08)

Cash	11
Undrawn Lines	145
Liquidity	157
Lines	0
Unsecured Debentures	849
Mortgages	2,412
Total Debt	3,261

Liquidity as a % of Total Debt	5%
% Unsecured	26%
% Secured	74%



Source: RBC Capital Markets and Company reports

Within the confines of its 60% D/GBV limit, theoretical acquisition capacity exceeds $750 million. From a more practical perspective, we believe that reasonable acquisition/investment capacity is still a formidable $450 million or so within a 58% D/GBV ratio. Management believes that access to this quantum of debt is available at reasonable rates, but could take some time to fully achieve. This is in part, due to the fact that RioCan has a significant pool of unencumbered assets (approximately 15% of all properties based on area). We continue to note that RioCan's strong capital position could result in mild earnings dilution (versus potential) in the short-term. However, in an environment where capital is *clearly* more constrained, RioCan may prove to be one of the few listed real estate companies truly positioned to react decisively on larger-scale investment opportunities.

Exploring A Stapled-Structure To Isolate "Tainted" Income Prior To 2011 – With its year-end results and MD&A, RioCan has provided an important update relating to its "REIT Exemption qualification plan" (the "Plan"). The Plan involves:

1. Assessing the impact of the SIFT legislation on the REIT's current structure, assets and activities.
2. Financial modeling to understand the impact of restructuring on business arrangements and accounting.
3. Identify regulatory and compliance requirements.
4. Determine reallocation of internal functions within restructured entity.
5. Develop internal and external communication plans.

   Step # 1: Done – Thus far Thus far, RioCan has completed the first step of the Plan. At present, the REIT continues to carry out activities not permitted under the REIT exemption. For 2008, Management estimates that non-compliant activities accounted for $34.8 million of FFO, or approximately $0.16 per unit. We understand that this is a "net" amount, which includes all sources of non-qualifying income, net of an allocated overhead amount and other directly related expenses such as interest.

   Split Into Two Entities To Isolate Non-Qualifying ("Tainted") Income – Under the Plan, Management appears to be leaning towards a structure whereby it will see the REIT continue to own all permitted assets and carry out all permitted activity, while a second entity (presumably a taxable corporation) would be established for disallowed assets and activities. The Plan would see RioCan unitholders hold securities in both the REIT and the new entity, which would trade together as a single stapled unit. In the event that RioCan is not able to restructure, either via stapled units or otherwise, to meet the REIT exemption, the REIT would discontinue all disallowed activities and dispose of non-compliant assets.

   Timeline And Process: On Track (And Probably More Advanced Than Many) – Management and its advisors are confident that a staple-structure is "technically" possible. The currently anticipated timeline involves further internal legal and structuring work through 2009. It is then likely that the proposal, which would be in the form of a Plan of Arrangement, would be put to unitholders for a vote at the annual meeting in Q2/10. Final execution and implementation of the Plan would then occur during the fourth quarter of 2010. Management feels that it is sufficiently "ahead of the curve" on planning and structuring issues and that there is ample time to fine tune, improve and adapt prior to 2011.

   Financial Impact: A Cash Tax Drag of $0.04-$0.05/Unit By 2011; Possibly Less With Structuring – Based on the 2008 non-qualifying FFO of $34.8 million, we estimate the pro-forma cash-tax impact (based upon a 28% tax rate) would be almost $10 million, or $0.04 to $0.05 per unit. Management indicated that the REIT is reviewing tax planning opportunities to make the separate entity as tax efficient as possible, hence possibly reducing the impact.

The Game Plan: "Growth Through" The Potential Cash Tax Drag – RioCan Will Probably Not Let-Up In Its Goal To Create Value and Grow Its Asset Management Operations – RioCan has a lot of highly talented human capital. And, as previously discussed, the REIT also has lots of financial capital. This is a powerful combination for value creation and we have already seen the evidence of substantial fee growth during the last five years. We believe the current environment will allow the REIT to deploy capital over the next several years at *higher rates* of capital than has been possible in recent past. Some of these opportunities may also involve partners, hence generating *increased* non-compliant income (Management commented that it is working toward potentially launching several new funds through 2009). Thus, to the extent that RioCan is already advanced in its understanding of what its future structure will look like, we view this as a positive event, as the REIT can now simultaneously focus upon growing its fee-based and value-add businesses in order attempt to "grow through" any cash-tax drag which materializes in 2011. The bottom line is that this so-called "bad income", should be viewed as "good income" by investors, particularly to the extent that RioCan can employ its platform and strategic relationships with major institutions and pension funds in order to grow income.

No Activity On Its Normal Course Issuer Bid – On October 28th, RioCan announced its intention to file with the TSX for a normal course issuer bid. This NCIB allows the REIT to repurchase up to 11 million of its units (approximately 5% of its outstanding units) during a twelve-month period beginning November 7, 2008. RioCan has not yet repurchased any units under the NCIB.

Estimates Trimmed – We have trimmed our 2009 and 2010 FFO/unit estimates -$0.02 each, to $1.50 and $1.54, respectively. We have also fine-tuned our AFFO calculations. Our 2009 and 2010 AFFO/unit estimates have each been reduced by -$0.05 to $1.31 and $1.33, respectively.

Price Target Trimmed; "Sector Perform" Rating Reiterated – Our new $16 price target (formerly $18) is derived via the application of a 12x multiple (formerly 13x) to our 2010 AFFO/unit estimate. The modest contraction in our target multiple is reflective of declining multiples in retail-oriented REITs specifically, REITs more broadly, and equity markets in general. Our target multiple represents a modest premium to the average that is applied to RioCan's Canadian peers. We believe this premium is warranted in light of RioCan's above average market cap, its strategic focus on Canada's six largest cities and its overall franchise value. We continue to view RioCan's units as a core holding for income and long-term value appreciation. Based upon expected relative total return prospects, we reiterate our Sector Perform, Average Risk Rating.

Appendix I – NAV Sensitivity Analysis ($MM, except per unit amounts)

FTM NOI ("Cash Basis")	462
Cap Rate Applied By RBC CM	7.75%
Gross Property Value	5,959
+ PUD	415
+ Fee Income	190
+ Value Of Other Assets	182
= Total Assets	6,746
- Debt	(3,249)
= NAV	3,497
Diluted Units	224
NAV/unit	$15.50
Unit Price	$12.47
Premium (Discount) To NAV	-20%
LTV	48%

Cap Rate	Change In Forward 12-Months' Net Operating Income									
	1%	0%	-1%	-2%	-3%	-4%	-5%	-6%	-7%	-8%
7.25%	$17.73	$17.45	$17.16	$16.88	$16.59	$16.31	$16.03	$15.74	$15.46	$15.17
7.50%	$16.77	$16.50	$16.22	$15.95	$15.67	$15.40	$15.12	$14.85	$14.57	$14.30
7.75%	$15.88	$15.50	$15.35	$15.08	$14.81	$14.55	$14.28	$14.02	$13.75	$13.48
8.00%	$15.04	$14.78	$14.52	$14.27	$14.01	$13.75	$13.49	$13.23	$12.98	$12.72
8.25%	$14.25	$14.00	$13.75	$13.50	$13.25	$13.00	$12.75	$12.50	$12.25	$12.00
8.50%	$13.51	$13.26	$13.02	$12.78	$12.54	$12.29	$12.05	$11.81	$11.57	$11.32
8.75%	$12.81	$12.57	$12.34	$12.10	$11.86	$11.63	$11.39	$11.16	$10.92	$10.69
9.00%	$12.15	$11.92	$11.69	$11.46	$11.23	$11.00	$10.77	$10.54	$10.31	$10.08
9.25%	$11.52	$11.30	$11.07	$10.85	$10.63	$10.41	$10.18	$9.96	$9.74	$9.51
9.50%	$10.93	$10.71	$10.49	$10.28	$10.06	$9.84	$9.63	$9.41	$9.19	$8.97

Cap Rate	Change In Forward 12-Months' Net Operating Income									
	1%	0%	-1%	-2%	-3%	-4%	-5%	-6%	-7%	-8%
7.25%	-30%	-29%	-27%	-26%	-25%	-24%	-22%	-21%	-19%	-18%
7.50%	-26%	-24%	-23%	-22%	-20%	-19%	-18%	-16%	-14%	-13%
7.75%	-21%	-20%	-19%	-17%	-16%	-14%	-13%	-11%	-9%	-8%
8.00%	-17%	-16%	-14%	-13%	-11%	-9%	-8%	-6%	-4%	-2%
8.25%	-12%	-11%	-9%	-8%	-6%	-4%	-2%	0%	2%	4%
8.50%	-8%	-6%	-4%	-2%	-1%	1%	3%	6%	8%	10%
8.75%	-3%	-1%	1%	3%	5%	7%	9%	12%	14%	17%
9.00%	3%	5%	7%	9%	11%	13%	16%	18%	21%	24%
9.25%	8%	10%	13%	15%	17%	20%	22%	25%	28%	31%
9.50%	14%	16%	19%	21%	24%	27%	30%	33%	36%	39%

Source: RBC Capital Markets

Appendix II – North American Shopping Centre Companies – Summarized Comparative Valuation Table

Company	Price	Market Cap ($MM)	Div Yield	P/ FFO Multiple 2008E	2009E	2010E	P/ AFFO Multiple 2008E	2009E	2010E	09E Payout Ratios FFO	AFFO	NAV Prem/(Disc)
RioCan REIT	$12.47	$2,769	11.1%	8.4x	8.3x	8.2x	9.6x	9.5x	9.4x	91%	105%	-20%
Acadia Realty Trust	$9.68	$319	8.7%	8.1x	8.1x	8.0x	8.6x	9.4x	9.8x	71%	82%	-44%
Cedar Shopping Centers, Inc.	$5.73	$266	7.9%	4.7x	4.7x	4.6x	6.8x	6.9x	6.0x	37%	54%	-40%
Calloway REIT	$10.30	$977	15.0%	5.8x	5.8x	6.1x	6.1x	6.2x	6.5x	88%	93%	-31%
Developers Diversified Realty Corp.	$2.85	$368	0.0%	0.9x	1.0x	1.0x	1.0x	1.1x	1.0x	0%	0%	-75%
Equity One, Inc.	$12.21	$948	9.8%	13.4x	10.3x	9.7x	14.0x	12.2x	11.4x	102%	120%	-34%
Federal Realty Investment Trust	$43.48	$2,581	6.0%	11.2x	11.0x	10.7x	13.3x	12.8x	12.4x	66%	77%	-26%
Inland Real Estate Corporation	$8.05	$535	12.2%	5.6x	6.1x	6.0x	6.1x	6.5x	6.3x	74%	80%	-37%
Kimco Realty Corporation	$9.49	$2,585	18.5%	4.3x	5.2x	5.3x	5.2x	6.0x	6.1x	97%	112%	-55%
Kite Realty Group Trust	$3.50	$148	23.4%	2.9x	3.6x	3.5x	3.6x	5.0x	4.6x	85%	117%	-59%
Primaris Retail REIT	$9.33	$581	13.1%	6.7x	7.2x	7.2x	8.2x	8.8x	8.9x	94%	115%	-35%
Ramco-Gershenson Properties Trust	$4.72	$101	19.6%	1.9x	2.0x	1.9x	2.1x	2.2x	N/A	39%	44%	-76%
Regency Centers Corporation	$27.46	$1,936	10.6%	6.9x	8.0x	8.1x	8.1x	9.2x	9.6x	85%	97%	-34%
Saul Centers, Inc.	$28.70	$668	5.4%	10.7x	10.8x	10.5x	13.2x	12.6x	N/A	59%	69%	-37%
Urstadt Biddle Properties Inc.	$12.83	$234	7.5%	10.2x	10.3x	10.2x	12.8x	13.1x	12.7x	77%	98%	-24%
Weingarten Realty Investors	$12.57	$1,124	16.7%	4.2x	4.3x	4.2x	5.7x	5.6x	5.7x	71%	94%	-51%
Shopping Center Sector Average			**11.6%**	**7x**	**7x**	**7x**	**8x**	**8x**	**8x**	**71%**	**85%**	**-42%**

Source: RBC Capital Markets, SNL and Company reports

Valuation

Our $16.00 price target is derived via the application of a 12x multiple to our 2010 AFFO/unit estimate. Our target multiple represents a modest premium to that which we apply to RioCan's Canadian peers, which we believe is warranted in light of RioCan's above average market cap, its strategic focus on Canada's six largest cities and its overall franchise value. We continue to view RioCan's units as a core holding and, based upon expected total return prospects, we reiterate our Sector Perform, Average Risk rating.

Price Target Impediment

Impediments to the achievement of our price objectives primarily relate to the risks associated with the ownership of real property, which include but are not limited to general economic conditions, local real estate markets, credit risk of tenants, supply and demand for leased premises, competition from other leased premises and factors that could impact consumer spending, including interest rates and job growth.

Company Description

RioCan REIT is Canada's largest REIT. RioCan owns interests in a portfolio of over 59 million sf in 241 income producing retail centres across Canada (RioCan's share ~36 million sf). Approximately 50% of the REITs portfolio (by area) is represented by "new format" retail centres. The REIT also has an active development pipeline including more than 20 projects encompassing almost 10 million sf of total GLA (RioCan's share ~3.5 million sf). RioCan's stated goal is "the long-term maximization of cash flow and capital appreciation in its portfolio," which it seeks to achieve by proactively managing its assets. RioCan derives over 85% of its annualized gross revenue from national and anchor tenants, with no single tenant accounting for more than 6% of gross revenue.

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

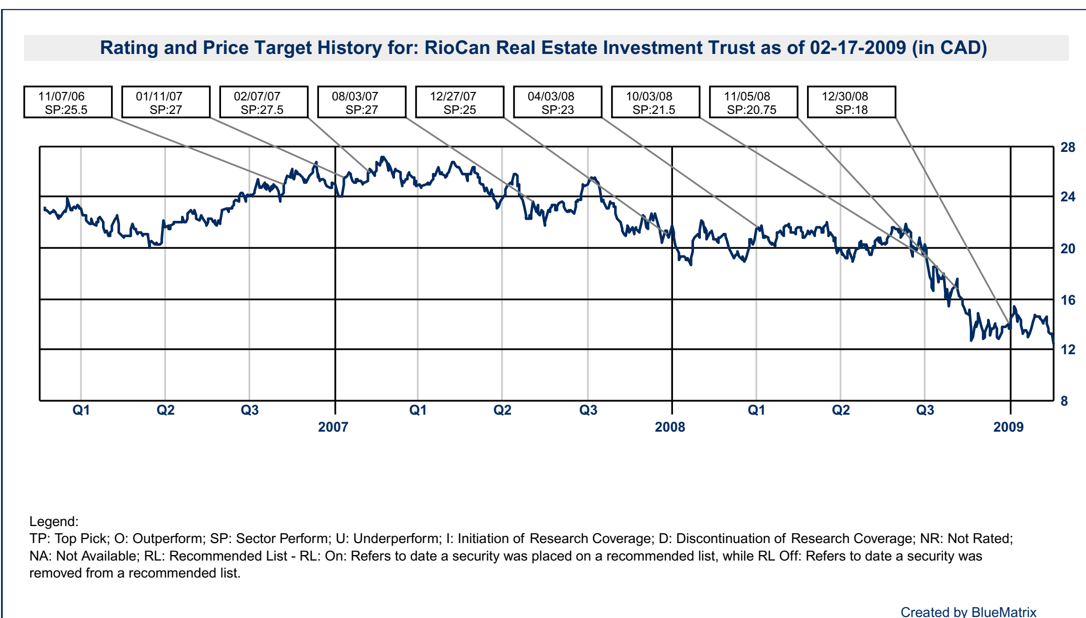
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Distribution of Ratings
RBC Capital Markets, Equity Research

Rating	Count	Percent	Investment Banking Serv./Past 12 Mos. Count	Investment Banking Serv./Past 12 Mos. Percent
BUY[TP/O]	492	44.40	110	22.36
HOLD[SP]	511	46.10	84	16.44
SELL[U]	105	9.50	12	11.43



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), the Private Client Prime Portfolio (RL 4), the Prime Income List (RL

6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.
RBC Capital Markets also provides eligible clients with access to a database which may contain Short-Term trading calls on certain of the subject companies for which it currently provides equity research coverage. The database may be accessed via the following hyperlink https://www2.rbccm.com/cmonline/index.html. The information regarding Short-Term trading calls accessible through the database does not constitute a research report. These Short-Term trading calls are not formal ratings and reflect the research analyst's views with respect to market and trading events in the coming days or weeks and, as such, may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a Short-Term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a Short-Term downward price correction.

Conflicts Disclosures

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to
http://www.rbccm.com/cm/file/0,,63022,00.pdf
or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for RioCan Real Estate Investment Trust in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from RioCan Real Estate Investment Trust in the past 12 months.

RBC Dominion Securities Inc. makes a market in the securities of RioCan Real Estate Investment Trust and may act as principal with regard to sales or purchases of this security.

Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of common equity securities of RioCan Real Estate Investment Trust.

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from RioCan Real Estate Investment Trust during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to RioCan Real Estate Investment Trust.

RBC Capital Markets is currently providing RioCan Real Estate Investment Trust with non-securities services.

RBC Capital Markets has provided RioCan Real Estate Investment Trust with investment banking services in the past 12 months.

RBC Capital Markets has provided RioCan Real Estate Investment Trust with non-securities services in the past 12 months.

A member of the Board of Directors of the Royal Bank of Canada is a member of the Board of Directors or is an officer of RioCan Real Estate Investment Trust.

Additional Disclosures

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:
This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

To Canadian Residents:
This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:
This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial ServicesAuthority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:
This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

To Hong Kong Residents:
This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

To Singapore Residents:
This publication is distributed in Singapore by RBC (Singapore Branch), a registered entity granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

®Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.
Copyright © RBC Capital Markets Corporation 2009 - Member SIPC
Copyright © RBC Dominion Securities Inc. 2009 - Member CIPF
Copyright © Royal Bank of Canada Europe Limited 2009
Copyright © Royal Bank of Canada 2009
All rights reserved

Exhibit III

Regular report published by Morgan Stanley

Morgan Stanley

MORGAN STANLEY RESEARCH
EUROPE

Morgan Stanley & Co. International plc+

Bart Gysens, CFA
Bart.Gysens@morganstanley.com
+44 (0)20 7425 5862

Bianca Riemer
Bianca.Riemer@morganstanley.com
+44 (0)20 7425 2646

Christopher Fremantle, CFA
Christopher.Fremantle@morganstanley.com
+44 (0)20 7425 5761

June 15, 2009

Industry View
Cautious

Property

Weekly Pan-European Statistical Supplement

Weekly Pan-European Statistical Supplement
We publish the European statistical supplement on a weekly basis. The main items included are as follows:

Performance statistics. Our statistical supplement provides regional and stock-specific, absolute and relative performance statistics.

Stock valuation metrics. The statistical supplement also comprises key valuation metrics such as discount to NAV, dividend yield and EBITDA/EV yield.

Companies Featured

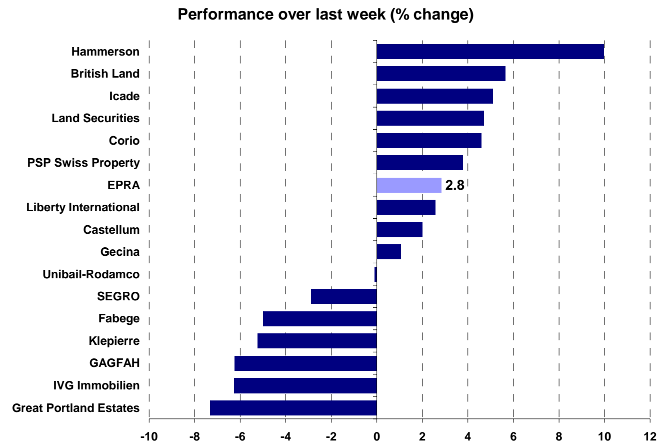
Company	Stock rating
British Land	Equal-Weight
Castellum	Underweight
Corio	Overweight
Fabege	Underweight
GAGFAH	Equal-Weight
Gecina	Equal-Weight
Great Portland Estates	Overweight
Hammerson	Equal-Weight
Icade	Overweight
IVG Immobilien	Underweight
Klepierre	Equal-Weight
Land Securities	Equal-Weight
Liberty International	Underweight
PSP Swiss Property	Equal-weight
SEGRO	Overweight
Unibail-Rodamco	Overweight

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

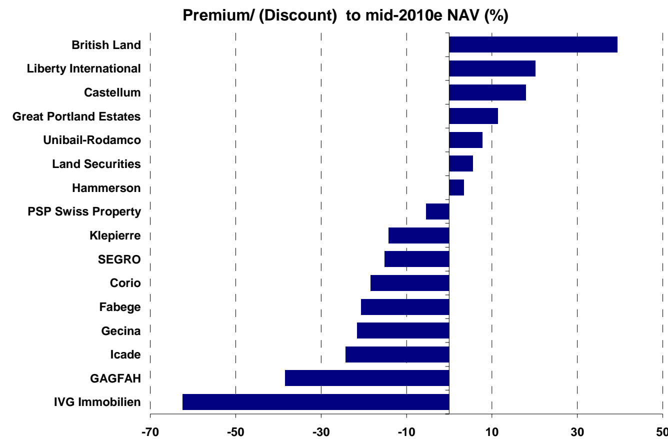
+= Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Exhibit 1
Performance over last week (% change)



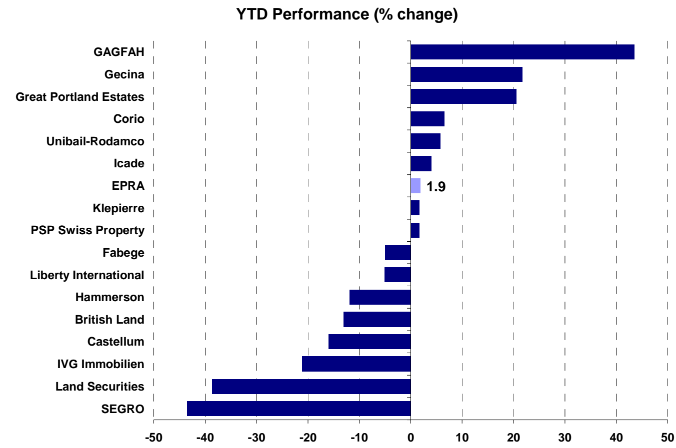
Source: Datastream, Morgan Stanley Research

Exhibit 2
Premium/(discount) to trough NAV (%)



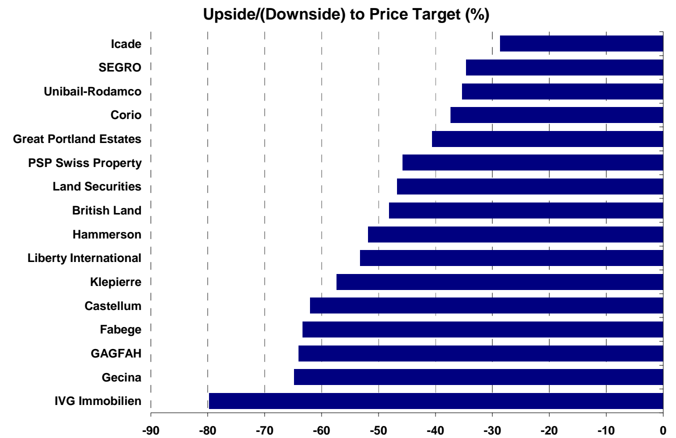
Source: Datastream, Morgan Stanley Research

Exhibit 3
Performance year to date (% change)



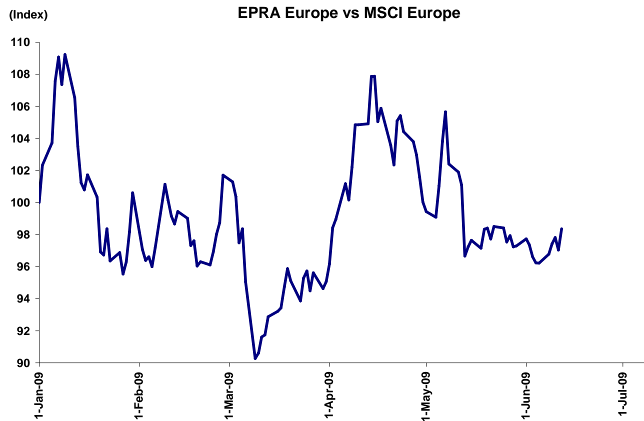
Source: Datastream, Morgan Stanley Research, Note: Based on adjusted share price

Exhibit 4
Upside/(downside) to price target (%) – Core Europe



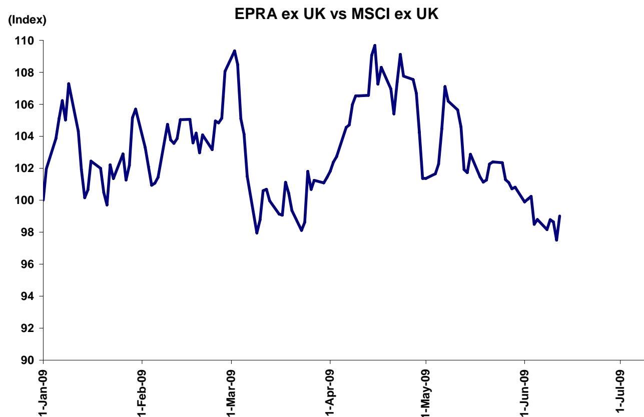
Source: Datastream, Morgan Stanley Research

Exhibit 5
Pan-European performance relative to broader equity market



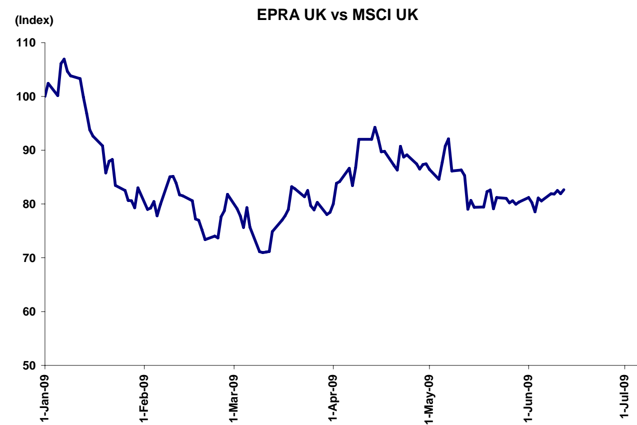
Source: Datastream, Morgan Stanley Research

Exhibit 6
Continental European performance relative to broader equity market



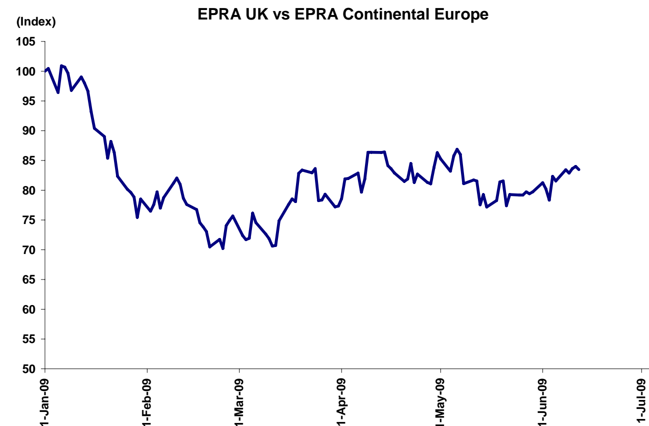
Source: Datastream, Morgan Stanley Research

Exhibit 7
UK performance relative to broader equity market



Source: Datastream, Morgan Stanley Research

Exhibit 8
UK performance relative to continental Europe



Source: Datastream, Morgan Stanley Research

Exhibit 9

Pan-European Property: Stock ratings and other statistics

Company	Latest year end	Stock rating		Share price	Price target	Upside to price target (%)	52-week high	52-week low	Avg Daily Trade volume (€mn)		Market capitalisation1 (mn)	Market capitalisation1 (€mn)
British Land	31-Mar-08	Equal-Weight	p	397	195	-51	683	301	32.2	£	3,378	3,973
Castellum	31-Dec-08	Underweight	SKr	51.0	19.0	-63	69	43	4.1	SKr	8,364	661
Corio	31-Dec-08	Overweight	€	35.0	21.0	-40	56.5	24.4	12.0	€	2,227	2,227
Fabege	31-Dec-08	Underweight	SKr	28.5	11.0	-61	52.3	19.3	3.1	SKr	4,714	373
GAGFAH	31-Dec-08	Equal-Weight	€	6.0	2.3	-62	11.0	2.1	1.6	€	1,346	1,346
Gecina	31-Dec-08	Equal-Weight	€	60.4	21.0	-65	89	27	5.0	€	3,656	3,656
Great Portland Estates	31-Mar-08	Overweight	p	234	150	-36	295	129	2.6	£	601	707
Hammerson	31-Dec-08	Equal-Weight	p	320	140	-56	692	211	17.9	£	1,375	1,617
Icade	31-Dec-08	Overweight	€	61.9	42.0	-32	89	38	4.1	€	3,021	3,021
IVG Immobilien	31-Dec-08	Underweight	€	4.6	1.0	-78	15.6	3.3	2.0	€	578	578
Klepierre	31-Dec-08	Equal-Weight	€	17.8	8.0	-55	35.0	10.0	10.3	€	2,507	2,507
Land Securities	31-Mar-08	Equal-Weight	p	511	260	-49	1,286	341	34.1	£	2,621	3,082
Liberty International	31-Dec-08	Underweight	p	428	195	-54	952	265	10.2	£	1,704	2,004
PSP Swiss Property	31-Dec-08	Equal-Weight	SFr	53.6	28.0	-48	70.5	41.5	4.3	SFr	2,243	1,484
SEGRO	31-Dec-08	Overweight	p	25.3	17.0	-33	81	15	10.3	£	1,405	1,652
Unibail-Rodamco	31-Dec-08	Overweight	€	112.7	73.0	-35	161	87	47.3	€	10,511	10,511

Share prices as at close of June 12th, 2009
Source: Datastream, Factset, Morgan Stanley Research
Note 1: Market cap is a Modelware calculation based on latest share price and diluted number of shares
Note 2: The 2008 figures for the following companies with March 09 year ends are still estimates: British Land, Great Portland Estates, Land Securities

Exhibit 10

Pan-European Property: NAVs, 2008-11e

Company		Headline NAV				NAV net of 'mark-to-market' on debt				'Triple net' NAV			
		2008	2009e	2010e	2011e	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e
British Land	p	398	279	291	344	512	392	404	458	509	389	401	455
Castellum	SKr	78.3	52.0	34.5	43.4	76.8	50.5	33.0	42.0	73.6	49.4	35.2	42.0
Corio	€	58.0	47.3	38.5	39.1	58.0	47.3	38.5	39.1	58.0	47.3	38.5	39.1
Fabege	SKr	67.0	44.6	27.2	22.8	67.0	44.6	27.2	22.8	60.0	44.4	27.2	22.8
GAGFAH	€	12.9	10.7	8.8	9.9	14.6	11.7	9.6	10.6	12.5	9.6	7.5	8.5
Gecina	€	124	90	64	57	128	95	69	62	128	95	69	62
Great Portland Estates	p	317	210	211	230	307	200	201	221	307	200	201	221
Hammerson	p	683	350	269	283	786	413	333	347	761	398	317	331
Icade	€	102	87	76	78	102	87	76	78	102	87	76	78
IVG Immobilien	€	20.8	13.3	11.4	11.0	20.8	13.3	11.4	11.0	20.8	13.3	11.4	11.0
Klepierre	€	34.4	24.7	16.8	18.3	35.9	26.3	18.3	19.9	34.3	24.7	16.7	18.3
Land Securities	p	635	449	520	581	630	444	515	576	564	380	452	515
Liberty International	p	700	373	340	367	714	383	350	377	714	383	350	377
PSP Swiss Property	SFr	72.0	60.6	52.7	57.3	72.0	60.6	52.7	57.3	61.8	52.5	45.9	49.6
SEGRO	p	87	32	28	27	86	31	27	26	98	36	32	31
Unibail-Rodamco	€	144	117	92	94	146	119	93	96	151	124	99	101

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 11

Pan-European Property: Discounts to NAV, 2008-11e

Company	Discount to headline NAV (%)				Discount to NAV net of 'mark-to-market' on debt (%)				Discount to 'triple net' NAV (%)			
	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e
British Land	-9	42	37	15	-30	1	-2	-13	-29	2	-1	-13
Castellum	-23	-2	48	18	-22	1	54	22	-18	3	45	22
Corio	-40	-26	-9	-10	-40	-26	-9	-10	-40	-26	-9	-10
Fabege	-56	-36	5	25	-56	-36	5	25	-51	-36	5	25
GAGFAH	-70	-44	-32	-39	-74	-49	-38	-43	-69	-37	-20	-29
Gecina	-60	-33	-5	5	-62	-36	-12	-3	-62	-36	-12	-3
Great Portland Estates	-23	12	11	2	-21	17	16	6	-21	17	16	6
Hammerson	-47	-8	19	13	-54	-23	-4	-8	-52	-20	1	-3
Icade	-41	-29	-19	-21	-41	-29	-19	-21	-41	-29	-19	-21
IVG Immobilien	-74	-65	-59	-58	-74	-65	-59	-58	-74	-65	-59	-58
Klepierre	-48	-28	6	-3	-51	-32	-3	-10	-48	-28	7	-3
Land Securities	-31	14	-2	-12	-31	15	-1	-11	-23	35	13	-1
Liberty International	-32	15	26	17	-34	12	22	14	-34	12	22	14
PSP Swiss Property	-29	-12	2	-6	-29	-12	2	-6	-17	2	17	8
SEGRO	-49	-21	-9	-6	-48	-19	-7	-3	-54	-30	-22	-19
Unibail-Rodamco	-27	-4	23	19	-28	-5	21	18	-31	-9	14	12
Continental Europe	**-40**	**-19**	**4**	**2**	**-41**	**-21**	**2**	**-1**	**-41**	**-20**	**2**	**-1**
United Kingdom	**-28**	**15**	**17**	**5**	**-35**	**2**	**2**	**-6**	**-34**	**5**	**4**	**-4**
Pan-Europe	**-36**	**-8**	**8**	**3**	**-39**	**-13**	**2**	**-2**	**-38**	**-12**	**2**	**-2**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 12

Pan-European Property: Growth in NAVs, 2008-11e

	Growth in headline NAV (%)				Growth in NAV net of 'mark-to-market' on debt (%)				Growth in 'triple net' NAV (%)			
Company	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**
British Land	-71	-30	4	18	-63	-23	3	13	-63	-24	3	13
Castellum	-12	-34	-34	26	-12	-34	-35	27	-8	-33	-29	19
Corio	-6	-18	-19	1	-6	-18	-19	1	-6	-18	-19	1
Fabege	-12	-33	-39	-16	-12	-33	-39	-16	-10	-26	-39	-16
GAGFAH	-10	-17	-18	12	-11	-20	-18	10	-13	-23	-22	13
Gecina	-13	-27	-29	-10	-10	-26	-28	-9	-10	-26	-28	-9
Great Portland Estates	-46	-34	0	9	-46	-35	1	10	-46	-35	1	10
Hammerson	-34	-49	-23	5	-23	-47	-19	4	-24	-48	-20	4
Icade	-7	-15	-12	2	-7	-15	-12	2	-6	-14	-12	2
IVG Immobilien	-28	-36	-14	-4	-28	-36	-14	-4	-28	-36	-14	-4
Klepierre	-14	-28	-32	9	-11	-27	-30	9	-9	-28	-32	9
Land Securities	-64	-29	16	12	-65	-30	16	12	-67	-33	19	14
Liberty International	-41	-47	-9	8	-42	-46	-9	8	-43	-46	-9	8
PSP Swiss Property	5	-16	-13	9	5	-16	-13	9	4	-15	-12	8
SEGRO	-30	-64	-13	-3	-31	-64	-13	-4	-21	-63	-11	-3
Unibail-Rodamco	-11	-19	-22	3	-11	-19	-21	3	-11	-18	-20	2
Continental Europe	**-10**	**-21**	**-22**	**2**	**-9**	**-21**	**-22**	**2**	**-9**	**-21**	**-21**	**2**
United Kingdom	**-54**	**-39**	**-1**	**10**	**-50**	**-37**	**-1**	**9**	**-50**	**-38**	**0**	**9**
Pan-Europe	**-25**	**-27**	**-15**	**5**	**-23**	**-26**	**-15**	**4**	**-23**	**-26**	**-14**	**5**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 13

Income-based parameters, 2008-11e

Company		Net Rent				EBITDA				Dividend Payout (millions)			
		2008	2009e	2010e	2011e	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e
British Land	£mn	598	522	566	587	560	468	512	533	188	221	221	221
Castellum	SKr mn	2,480	2,564	2,532	2,608	1,599	1,644	1,587	1,624	517	517	517	517
Corio	€mn	346	363	369	383	314	340	345	358	175	181	181	185
Fabege	SKr mn	2,182	2,120	1,928	1,822	1,351	1,281	1,077	954	333	333	333	333
GAGFAH	€mn	501	534	554	572	443	478	500	519	187	194	210	226
Gecina	€mn	574	570	552	551	479	475	456	453	344	344	344	344
Great Portland Estates	£mn	62	57	52	52	53	48	43	43	22	22	23	23
Hammerson	£mn	300	306	287	277	258	263	243	233	81	92	104	110
Icade	€mn	290	302	303	303	336	290	288	317	158	158	158	166
IVG Immobilien	€mn	298	319	322	331	260	247	240	240	81	81	81	81
Klepierre	€mn	693	873	858	852	634	773	757	748	175	203	203	211
Land Securities	£mn	675	721	736	752	677	662	674	686	326	211	219	234
Liberty International	£mn	384	371	363	359	315	325	316	311	60	62	68	68
PSP Swiss Property	SFr mn	226	233	234	241	206	210	210	222	105	144	145	153
SEGRO	£mn	245	242	236	226	244	216	209	199	56	162	118	110
Unibail-Rodamco	€mn	1,216	1,268	1,394	1,518	1,176	1,227	1,349	1,472	683	701	724	766

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 14

Pan-European Property: Per-share income-based valuation parameters, 2008-11e

		Modelware EPS [1]					Adjusted EPRA EPS					Net dividends per share			
Company		2008	2009e	2010e	2011e		2008	2009e	2010e	2011e		2008	2009e	2010e	2011e
British Land	p	41.0	26.1	26.6	28.6	p	35.0	25.0	26.4	28.6	p	29.8	26.0	26.0	26.0
Castellum	SKr	5.87	5.63	5.10	5.16	SKr	5.87	5.63	5.10	5.16	SKr	3.15	3.15	3.15	3.15
Corio	€	2.85	3.06	3.05	3.18	€	2.70	2.98	2.95	3.05	€	2.64	2.64	2.64	2.70
Fabege	SKr	3.30	3.84	2.93	1.63	SKr	3.06	3.59	2.69	1.39	SKr	2.00	2.00	2.00	2.00
GAGFAH	€	0.62	0.81	0.90	0.99	€	0.62	0.81	0.90	0.99	€	0.83	0.86	0.93	1.00
Gecina	€	4.68	4.27	3.78	3.40	€	4.73	4.32	3.83	3.45	€	5.70	5.70	5.70	5.70
Great Portland Estates	p	15.0	12.7	12.6	12.5	p	12.7	12.7	12.6	12.5	p	12.1	12.1	12.5	13.0
Hammerson	p	26.8	19.4	18.6	18.1	p	18.4	18.0	17.0	17.2	p	18.9	15.0	15.0	15.8
Icade	€	1.82	0.49	0.37	0.62	€	4.35	2.92	2.92	3.28	€	3.25	3.25	3.25	3.40
IVG Immobilien	€	0.53	0.06	0.39	0.37	€	0.53	0.06	0.39	0.37	€	0.70	0.70	0.70	0.70
Klepierre	€	1.03	0.55	0.59	0.73	€	2.60	2.47	2.48	2.56	€	1.25	1.25	1.25	1.30
Land Securities	p	75.6	49.5	47.7	48.8	p	68.1	45.0	46.3	48.5	p	56.5	28.0	29.0	30.0
Liberty International	p	28.7	29.0	24.2	23.5	p	23.6	27.1	23.4	22.7	p	15.6	12.0	12.0	12.0
PSP Swiss Property	SFr	3.06	3.06	3.07	3.31	SFr	3.04	3.10	3.11	3.34	SFr	2.50	3.45	3.46	3.65
SEGRO	p	5.30	2.19	1.86	1.73	p	27.03	4.39	3.20	2.98	p	2.35	2.85	2.08	1.93
Unibail-Rodamco	€	8.52	8.25	8.61	9.08	€	8.32	8.19	8.53	9.11	€	7.50	7.50	7.75	8.20

1. Depreciation nil or negligible except for DIC Asset, Klepierre
e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 15

Pan-European Property: Income-based valuation, 2008-11e

	EBITDA/EV Yield (%)				Adjusted EPRA EPS yield (%)				Dividend yield (%)			
Company	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e
British Land	5.9	5.8	5.9	5.8	9.7	6.3	6.6	7.2	8.3	6.5	6.5	6.5
Castellum	6.6	6.8	6.7	6.6	9.2	11.0	10.0	10.1	4.9	6.2	6.2	6.2
Corio	6.3	7.6	7.3	7.2	5.4	8.5	8.4	8.7	5.3	7.5	7.5	7.7
Fabege	5.1	5.3	4.5	4.0	6.5	12.6	9.4	4.9	4.3	7.0	7.0	7.0
GAGFAH	5.2	6.0	6.1	6.4	6.9	13.5	15.0	16.5	9.2	14.3	15.5	16.7
Gecina	5.3	6.2	5.8	5.7	6.1	7.2	6.3	5.7	7.3	9.4	9.4	9.4
Great Portland Estates	4.3	5.0	4.4	4.4	3.4	5.4	5.4	5.3	3.2	5.2	5.3	5.5
Hammerson	5.0	5.6	5.6	5.6	5.1	5.6	5.3	5.4	5.2	4.7	4.7	4.9
Icade	5.6	5.3	5.2	5.7	5.9	4.7	4.7	5.3	4.4	5.2	5.2	5.5
IVG Immobilien	4.4	5.0	5.0	5.0	4.1	1.3	8.4	8.0	5.4	15.1	15.1	15.1
Klepierre	6.1	7.1	7.1	7.2	8.9	13.9	13.9	14.4	4.3	7.0	7.0	7.3
Land Securities	6.5	8.4	8.6	8.8	5.7	8.8	9.1	9.5	4.7	5.5	5.7	5.9
Liberty International	4.6	5.7	5.8	5.7	2.7	6.3	5.5	5.3	1.8	2.8	2.8	2.8
PSP Swiss Property	4.7	4.8	4.6	4.8	5.1	5.8	5.8	6.2	4.2	6.4	6.5	6.8
SEGRO	6.8	6.5	6.6	6.2	60.4	17.4	12.7	11.8	5.3	11.3	8.2	7.7
Unibail-Rodamco	5.6	6.1	6.2	6.4	5.8	7.3	7.6	8.1	5.2	6.7	6.9	7.3
Continental Europe	5.6	6.2	6.1	6.2	6.2	8.0	8.1	8.4	5.5	7.5	7.7	8.0
United Kingdom	5.7	6.4	6.5	6.4	13.2	8.2	7.6	7.7	5.4	6.0	5.7	5.7
Pan-Europe	5.6	6.3	6.2	6.3	8.5	8.0	7.9	8.2	5.4	7.0	7.0	7.2

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 16

Pan-European Property: Growth in income-based parameters, 2008-11e

	Growth in EBITDA (%)				Growth in Adjusted EPRA EPS (%)				Growth in DPS (%)			
Company	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**
British Land	18	-16	9	4	-5	-28	6	9	3	-13	0	0
Castellum	13	3	-3	2	7	-4	-9	1	5	0	0	0
Corio	7	8	2	4	-2	10	-1	4	2	0	0	2
Fabege	2	-5	-16	-11	-20	18	-25	-48	-50	0	0	0
GAGFAH	22	8	5	4	131	30	11	10	8	4	8	8
Gecina	-4	-1	-4	-1	-3	-9	-11	-10	14	0	0	0
Great Portland Estates	-5	-10	-11	0	19	0	-1	-1	2	0	3	4
Hammerson	10	2	-7	-4	25	-2	-5	1	2	-21	0	5
Icade	15	-14	-1	10	62	-33	0	12	0	0	0	5
IVG Immobilien	13	-5	-3	0	2	-89	544	-5	0	0	0	0
Klepierre	17	22	-2	-1	7	-5	0	3	3	0	0	4
Land Securities	-1	-2	2	2	-2	-34	3	5	-2	-50	4	3
Liberty International	-5	3	-3	-2	-26	15	-14	-3	-51	-23	0	0
PSP Swiss Property	8	2	0	6	2	2	0	8	4	38	0	5
SEGRO	12	-12	-3	-5	-4	-84	-27	-7	-42	21	-27	-7
Unibail-Rodamco	56	4	10	9	20	-2	4	7	7	0	3	6
Continental Europe	**28**	**3**	**3**	**5**	**22**	**-5**	**12**	**3**	**5**	**2**	**2**	**4**
United Kingdom	**7**	**-7**	**1**	**0**	**-2**	**-25**	**-4**	**2**	**-13**	**-19**	**-2**	**1**
Pan-Europe	**21**	**0**	**2**	**4**	**14**	**-12**	**7**	**3**	**-1**	**-5**	**0**	**3**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 17

Pan-European Property: Balance sheet-based ratios, 2008-11e

	Net Debt/ EBITDA (x)				Net debt to gross assets (less cash) (%)				Net debt to net assets (%)			
Company	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**	**2008**	**2009e**	**2010e**	**2011e**
British Land	8.7	10.3	11.5	11.0	54	61	64	61	144	204	238	201
Castellum	9.1	9.2	10.0	10.1	45	58	71	67	114	178	281	230
Corio NV	7.8	7.4	7.9	8.4	37	42	49	51	64	77	104	113
Fabege	14.0	14.5	17.2	19.5	60	67	75	77	171	253	413	496
GAGFAH	15.1	13.9	13.3	12.5	62	65	67	65	230	276	333	292
Gecina	10.0	10.0	10.4	11.2	37	44	50	54	65	89	126	150
Great Portland Estates	9.8	8.7	9.7	9.8	45	49	48	47	91	110	110	101
Hammerson	12.9	10.0	9.5	9.9	48	46	48	47	114	108	124	117
Icade	7.4	8.8	9.1	8.3	28	31	34	33	50	60	71	69
IVG Immobilien	20.4	20.8	21.6	21.8	59	64	66	67	221	335	392	410
Klepierre	11.3	9.0	8.8	8.6	48	52	57	55	128	173	245	217
Land Securities	6.7	7.0	6.8	6.6	44	51	48	46	94	136	117	103
Liberty International	13.4	10.6	10.8	10.8	51	50	52	50	156	164	178	163
PSP Swiss Property	10.0	10.5	11.1	10.8	40	45	49	48	68	87	106	100
SEGRO	10.2	9.9	10.2	10.8	50	49	51	52	119	119	135	142
Unibail-Rodamco	7.1	6.9	8.0	7.3	33	37	47	46	62	77	126	121
Continental Europe	**9.0**	**8.8**	**9.5**	**9.2**	**38**	**42**	**49**	**49**	**83**	**107**	**152**	**149**
United Kingdom	**9.7**	**9.4**	**9.8**	**9.7**	**49**	**53**	**54**	**52**	**124**	**154**	**166**	**148**
Pan-Europe	**9.2**	**9.0**	**9.6**	**9.4**	**42**	**46**	**51**	**50**	**96**	**123**	**157**	**149**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 18

Pan-European Property: Income-based ratios, 2008-2011e

	Interest Cover (x)				Cover of net dividend by Adjusted EPRA EPS (x)				Dividend Payout Ratio (%)			
Company	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e	2008	2009e	2010e	2011e
British Land	1.9	2.0	1.8	1.9	1.2	1.0	1.0	1.1	85	104	99	91
Castellum	2.6	2.3	2.2	2.1	1.9	1.8	1.6	1.6	54	56	62	61
Corio NV	2.5	2.7	2.6	2.6	0.0	1.1	1.1	1.1	NA	89	90	88
Fabege	1.7	2.0	1.8	1.4	1.0	1.8	1.3	0.7	100	56	74	144
GAGFAH	1.6	1.8	1.9	2.0	0.0	0.9	1.0	1.0	NA	106	103	101
Gecina	2.5	2.2	2.0	1.9	0.8	0.8	0.7	0.6	121	132	149	165
Great Portland Estates	2.0	1.9	2.1	2.1	1.0	1.0	1.0	1.0	95	96	99	104
Hammerson	1.8	1.8	2.1	2.2	1.0	1.2	1.1	1.1	103	84	88	92
Icade	3.4	2.6	2.6	2.8	1.3	0.9	0.9	1.0	75	111	111	104
IVG Immobilien	1.4	1.0	1.3	1.2	0.8	0.1	0.6	0.5	133	1,164	181	189
Klepierre	2.9	2.4	2.5	2.5	2.1	2.0	2.0	2.0	48	51	50	51
Land Securities	2.5	2.4	2.3	2.3	1.2	1.6	1.6	1.6	83	62	63	62
Liberty International	1.4	1.8	1.8	1.7	1.5	2.3	1.9	1.9	66	44	51	53
PSP Swiss Property	3.8	4.1	4.1	4.4	1.2	0.9	0.9	0.9	82	111	111	109
SEGRO	2.1	1.9	1.7	1.7	11.5	1.5	1.5	1.5	9	65	65	65
Unibail-Rodamco	4.3	3.6	3.2	3.1	1.1	1.1	1.1	1.1	90	92	91	90
Continental Europe	**3.3**	**2.9**	**2.7**	**2.7**	**1.1**	**1.1**	**1.1**	**1.1**	**76**	**119**	**100**	**102**
United Kingdom	**2.0**	**2.0**	**2.0**	**2.0**	**2.5**	**1.4**	**1.4**	**1.4**	**75**	**77**	**77**	**76**
Pan-Europe	**2.9**	**2.6**	**2.5**	**2.5**	**1.5**	**1.2**	**1.2**	**1.2**	**76**	**105**	**93**	**93**

e = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Exhibit 19

Pan European Property: Valuation metrics implied by our price targets

Company	EBITDA/ EV yield (%)		Margin over 5 year swap rate		Adjusted EPRA EPS yield (%)		Dividend Yield (%)		Discount to headline NAV		Discount to 'Triple Net' NAV	
	2010e	2011e	2010e	2011e	2010e	2011e	2010e	2011e	2010e	2011e	2010e	2011e
British Land	6.8	7.1	304	332	13.5	14.7	13.3	13.3	-33	-43	-51	-57
Castellum	8.4	8.3	531	530	26.8	27.1	16.6	16.6	-45	-56	-46	-55
Corio	8.3	8.1	521	500	14.0	14.5	12.6	12.9	-45	-46	-45	-46
Fabege	5.3	4.7	226	164	24.4	12.6	18.2	18.2	-60	-52	-60	-52
GAGFAH	7.0	7.4	393	432	39.2	43.1	40.4	43.5	-74	-77	-69	-73
Gecina	7.6	7.2	453	409	18.2	16.4	27.1	27.1	-67	-63	-69	-66
Great Portland Estates	6.2	6.2	249	247	8.4	8.3	8.3	8.6	-29	-35	-25	-32
Hammerson	7.4	7.1	364	334	12.1	12.3	10.7	11.3	-48	-51	-56	-58
Icade	6.1	6.8	308	371	6.9	7.8	7.7	8.1	-45	-46	-45	-46
IVG Immobilien	4.5	4.5	147	143	38.7	37.0	70.0	70.0	-91	-91	-91	-91
Klepierre	9.5	9.6	644	658	31.0	32.0	15.6	16.3	-52	-56	-52	-56
Land Securities	10.3	10.6	653	687	17.8	18.6	11.2	11.5	-50	-55	-43	-50
Liberty International	7.0	7.0	324	321	12.0	11.6	6.2	6.2	-43	-47	-44	-48
PSP Swiss Property	6.0	6.2	294	317	11.1	11.9	12.4	13.0	-47	-51	-39	-44
SEGRO	6.8	6.4	302	262	18.8	17.5	12.2	11.4	-39	-37	-47	-46
Unibail-Rodamco	7.7	8.4	459	534	11.7	12.5	10.6	11.2	-21	-23	-26	-28
Continental Europe	**7.5**	**7.8**	**443**	**476**	**16.6**	**17.0**	**16.4**	**17.0**	**-42**	**-43**	**-44**	**-45**
United Kingdom	**7.7**	**7.8**	**394**	**401**	**14.5**	**14.9**	**11.0**	**11.0**	**-41**	**-46**	**-47**	**-51**
Pan-Europe	**7.6**	**7.8**	**427**	**451**	**15.9**	**16.3**	**14.6**	**15.0**	**-42**	**-44**	**-45**	**-47**

Source: Morgan Stanley Research estimates

Exhibit 20

Pan-European Property: Historical sectoral breakdown of investment portfolio by value

Company	CBD offices	Other offices	Unit shops	Shopping centres	Other retail	Industrial /Logistics	Hotels	Other Commercial	Total Commercial	Resi-dential	Overall Total	Overall Total (€mn)
British Land	36	2	2	14	43	0	0	3	100	0	100	12,228
Castellum	0	60	0	0	0	40	0	0	100	0	100	1,839
Corio	5	0	0	94	0	1	0	0	100	0	100	4,890
Fabege	56	27	0	0	0	9	0	5	97	3	100	1,690
GAGFAH	0	0	0	0	0	0	0	0	0	100	100	8,960
Gecina	40	10	0	4	0	0	0	0	54	46	100	7,810
Great Portland Estates	78	0	0	0	22	0	0	0	100	0	100	696
Hammerson	22	0	0	64	14	0	0	0	100	0	100	3,730
Icade	7	46	0	1	0	0	0	5	59	41	100	5,320
IVG Immobilien	79	0	0	4	0	13	0	4	100	0	100	4,644
Klepierre	10	4	0	86	0	0	0	0	100	0	100	10,845
Land Securities	40	1	10	29	17	0	0	4	100	0	100	7,616
Liberty International	6	1	13	79	0	0	0	0	100	0	100	4,674
PSP Swiss Property	66	0	14	0	0	0	0	17	97	3	100	3,847
SEGRO	0	16	0	0	16	61	0	7	100	0	100	2,917
Unibail-Rodamco	21	0	0	73	0	0	0	6	100	0	100	20,598
Continental Europe	**22**	**9**	**1**	**46**	**0**	**2**	**0**	**4**	**84**	**16**	**100**	**70,443**
United Kingdom	**28**	**3**	**5**	**31**	**22**	**8**	**0**	**3**	**100**	**0**	**100**	**31,860**
Pan-Europe	**24**	**7**	**2**	**41**	**7**	**4**	**0**	**4**	**89**	**11**	**100**	**102,304**

Source: Company data, Morgan Stanley Research

Exhibit 21

Pan-European Property: Historical geographical breakdown of investment portfolio by value

Company	Capital city- centre	Capital city-periph ery	Capital city-Total	Provinces	Home Country	Other Europe (incl. UK)	Total Europe	North America	Asia	Other	Overall Total	Overall Total (€mn)
British Land	35	0	35	65	100	0	100	0	0	0	100	12,228
Castellum	0	0	0	100	100	0	100	0	0	0	100	1,839
Corio	N/AV	N/AV	N/AV	N/AV	31	69	100	0	0	0	100	4,890
Fabege	56	34	90	10	100	0	100	0	0	0	100	1,690
GAGFAH	0	4	4	97	100	0	100	0	0	0	100	8,960
Gecina	65	31	97	3	100	0	100	0	0	0	100	7,810
Great Portland Estates	100	0	100	0	100	0	100	0	0	0	100	696
Hammerson	14	0	14	56	69	31	100	0	0	0	100	3,730
Icade	20	69	90	4	94	6	100	0	0	0	100	5,320
IVG Immobilien	5	0	5	55	60	40	100	0	0	0	100	4,644
Klepierre	14	0	14	44	58	42	100	0	0	0	100	10,845
Land Securities	50	4	54	46	100	0	100	0	0	0	100	7,616
Liberty International	4	0	4	92	96	0	96	5	0	0	100	4,674
PSP Swiss Property	60	0	60	40	0	0	100	0	0	0	100	3,847
SEGRO	0	0	0	76	76	25	100	0	0	0	100	2,917
Unibail-Rodamco	0	0	0	0	60	40	100	0	0	0	100	20,598
Continental Europe	**17**	**13**	**30**	**16**	**67**	**27**	**100**	**0**	**0**	**0**	**100**	**70,443**
United Kingdom	**30**	**1**	**31**	**61**	**92**	**7**	**99**	**1**	**0**	**0**	**100**	**31,860**
Pan-Europe	**21**	**9**	**30**	**31**	**75**	**21**	**100**	**0**	**0**	**0**	**100**	**102,304**

Source: Company data, Morgan Stanley Research

Exhibit 22

Pan-European Property: Historical regional breakdown of investment portfolio by value

Company	Bene-lux	UK & Eire	Ger-many	France	Italy	Scandi-navia	Spain	Austria & Switz	Other Europe	Total Europe	Other	Overall Total	Overal Total (€mn)
British Land	0	100	0	0	0	0	0	0	0	100	0	100	12,228
Castellum	0	0	0	0	0	100	0	0	0	100	0	100	1,839
Corio	31	0	0	35	19	0	10	0	5	100	0	100	4,890
Fabege	0	0	0	0	0	100	0	0	0	100	0	100	1,690
GAGFAH	0	0	100	0	0	0	0	0	0	100	0	100	8,960
Gecina	0	0	0	100	0	0	0	0	0	100	0	100	7,810
Great Portland Estates	0	100	0	0	0	0	0	0	0	100	0	100	696
Hammerson	0	69	0	31	0	0	0	0	0	100	0	100	3,730
Icade	0	0	6	94	0	0	0	0	0	100	0	100	5,320
IVG Immobilien	15	5	60	10	0	5	0	0	5	100	0	100	4,644
Klepierre	1	0	0	41	11	12	8	0	27	100	0	100	10,845
Land Securities	0	100	0	0	0	0	0	0	0	100	0	100	7,616
Liberty International	0	96	0	0	0	0	0	0	0	96	5	100	4,674
PSP Swiss Property	0	0	0	0	0	0	0	100	0	100	0	100	3,847
SEGRO	5	76	0	3	0	0	0	0	17	100	0	100	2,917
Unibail-Rodamco	12	0	0	61	0	8	9	0	10	100	0	100	20,598
Continental Europe	**8**	**0**	**7**	**56**	**3**	**8**	**5**	**6**	**7**	**100**	**0**	**100**	**70,443**
United Kingdom	**1**	**92**	**0**	**4**	**0**	**0**	**0**	**0**	**2**	**99**	**1**	**100**	**31,860**
Pan-Europe	**5**	**31**	**5**	**39**	**2**	**6**	**3**	**4**	**5**	**100**	**0**	**100**	**102,304**

Source: Company data, Morgan Stanley Research

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. As used in this disclosure section, Morgan Stanley includes RMB Morgan Stanley (Proprietary) Limited, Morgan Stanley & Co International plc and its affiliates.
For important disclosures, stock price charts and rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Bart Gysens.
Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

As of May 29, 2009, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: British Land, Castellum, Corio NV, Great Portland Estates, Hammerson, Icade, Land Securities, Liberty International, PSP Swiss Property, SEGRO, Unibail-Rodamco.
As of May 29, 2009, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): British Land, Gecina, Hammerson, IVG Immobilien, Klepierre, Land Securities, Unibail-Rodamco.
Within the last 12 months, Morgan Stanley managed or co-managed a public offering of securities of British Land, Unibail-Rodamco.
Within the last 12 months, Morgan Stanley has received compensation for investment banking services from British Land, Gecina, Unibail-Rodamco.
In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from British Land, Corio NV, GAGFAH, Gecina, Hammerson, Icade, Immoeast, IVG Immobilien, Klepierre, Land Securities, Liberty International, PSP Swiss Property, SEGRO, Unibail-Rodamco.
Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Liberty International.
Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: British Land, Corio NV, GAGFAH, Gecina, Hammerson, Icade, Immoeast, IVG Immobilien, Klepierre, Land Securities, Liberty International, PSP Swiss Property, SEGRO, Unibail-Rodamco.
Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: British Land, Land Securities, Liberty International, Unibail-Rodamco.
The research analysts, strategists, or research associates principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.
Morgan Stanley & Co. International plc is a corporate broker to British Land.
Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of May 31, 2009)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**690**	**31%**	**214**	**35%**	**31%**
Equal-weight/Hold	**1022**	**45%**	**288**	**47%**	**28%**
Not-Rated/Hold	**32**	**1%**	**7**	**1%**	**22%**
Underweight/Sell	**510**	**23%**	**99**	**16%**	**19%**
Total	**2,254**		**608**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies that are the subject of this Morgan Stanley research report. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports. In addition to the disclosures on this research report and on the Morgan Stanley disclosure website (www.morganstanley.com/researchdisclosures), important disclosures regarding the relationship between the companies that are the subject of this report and Morgan Stanley Smith Barney LLC, Citigroup Global Markets Inc. or any of its affiliates, are available at https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This Morgan Stanley research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley produces a research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/instruments discussed in Morgan Stanley Research may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities or derivatives of securities of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons

Morgan Stanley and its affiliate companies do business that relates to companies/instruments covered in Morgan Stanley Research, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis.

With the exception of information regarding Morgan Stanley, research prepared by Morgan Stanley Research personnel are based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities/instruments.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange

of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to “wholesale clients” and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

Morgan Stanley

The Americas	Europe	Japan	Asia/Pacific
1585 Broadway	20 Bank Street, Canary Wharf	4-20-3 Ebisu, Shibuya-ku	Three Exchange Square
New York, NY 10036-8293	London E14 4AD	Tokyo 150-6008	Central
United States	**United Kingdom**	**Japan**	**Hong Kong**
Tel: +1 (1) 212 761 4000	Tel: +44 (0) 20 7 425 8000	Tel: +81 (0) 3 5424 5000	Tel: +852 2848 5200

Industry Coverage:Property

Company (Ticker)	Rating (as of)	Price (06/12/2009)
Bart Gysens, CFA		
British Land (BLND.L)	E (02/17/2009)	397p
Castellum (CAST.ST)	U (07/21/2008)	SKr51
Corio NV (COR.AS)	O (04/15/2009)	€35.04
Fabege (FABG.ST)	U (04/16/2008)	SKr28.5
GAGFAH (GFJG.DE)	E (04/15/2009)	€5.97
Gecina (GFCP.PA)	E (04/15/2009)	€60.4
Great Portland Estates (GPOR.L)	O (04/15/2009)	234p
Hammerson (HMSO.L)	E (04/15/2009)	320p
IVG Immobilien (IVGG.DE)	U (04/24/2008)	€4.64
Icade (ICAD.PA)	O (04/15/2009)	€61.91
Immoeast (IMEA.VI)	++	€1.85
Klepierre (LOIM.PA)	E (04/15/2009)	€17.8
Land Securities (LAND.L)	E (04/15/2009)	511p
Liberty International (LII.L)	U (04/15/2009)	428p
SEGRO (SGRO.L)	O (01/16/2008)	25p
Unibail-Rodamco (UNBP.PA)	O (04/22/2009)	€112.68
Bianca Riemer		
PSP Swiss Property (PSPN.S)	E (04/15/2009)	SFr53.6

Stock Ratings are subject to change. Please see latest research for each company.

© 2009 Morgan Stanley

Overview of the Commercial Real Estate Industry

Developments over recent years have confirmed real estate's emergence as a mainstream global asset class. Estimated real estate transactions worldwide were over $523 billion in 2008 ($1.2 trillion in 2007)[7], with an estimated further $66 billion of funds with real estate assets under management. In 2008 real estate transactions in Europe were $215 billion (2007: $401 billion), In Asia Pacific region $151 billion (2007: $270 billion) and in the Americas $156 billion (2007: $554 billion).

Recent estimates identified $759 billion of worldwide commercial property transactions in 2007, a significant increase over 20068. The United States has by far the largest real estate market, followed by Japan and the four major European economies. Almost 30 percent of the world's high quality commercial real estate is located in the United States. The Europe, Middle East and Africa (EMEA) region together represents more than 20%9.

In recent years, there has been an emergence of the growth and number of international global real estate funds totalling 303 in 2008 (2007: 281)[10]. Due to the diverse opportunities in the private and public capital markets for domestic investors to participate in foreign real estate markets. Several factors are attributed to the increase in global real estate investment, including:

- The emergence of real estate as an asset class that is increasingly seen as an important solution to the ever growing retirement/savings needs of an aging global population.
- Real estate companies are themselves increasingly going global.
- More of the major industrialized countries are launching Real Estate Investment Trust (REIT) structures which are facilitating the transfer of ownership of real estate from the private to the public markets (China and India have recently announced the introduction of REITs in 2009). The top 10 real estate companies worldwide had a total market capitalisation of €166 billion as at October 2007, with 55% of the value being represented by REITs.
- Investors in general are increasing their investment in global funds — attracted by what they perceive to be underdeveloped REIT markets

---

[7] Real Capital Analytics [www.rcanalytics.com].Based on independent reports of properties and portfolios $10 million and greater.
[8] Reuters – 31 Jan 2008
[9] Global listed real estate- EPRA
[10] Macquarie Global Property Securities Analytics Funds database (previously the AME Capital Funds database).

overseas, with opportunities of achieving greater diversification and returns than that of domestic markets.

REESA – The Real Estate Equity Securitization Alliance

The real estate industry has responded positively to the challenges presented by the developments in the global economy and, in particular, the global real estate markets. Collectively the organizations in REESA are responsible for representing a large proportion of the global real estate market. The benefits of collaboration on a global scale are increasingly valuable on major industry issues such as the sustainability of the built environment, tax treaties, corporate governance and research.

The formation of REESA was, in part, a direct response to the challenge and opportunity presented by the harmonization of accounting and financial reporting standards around the world. Given the size and importance of the real estate industry, our view is that there are considerable benefits to be gained by both accounting standard setters and the industry in developing consensus views on accounting and financial reporting matters, as well as on the application of accounting standards. Associations represented thus far in the alliance include:

- Asian Public Real Estate Association, APREA
- Association for Real Estate Securitization (Japan), ARES
- British Property Federation, BPF
- European Public Real Estate Association, EPRA
- National Association of Real Estate Investment Trusts, NAREIT®
- Property Council of Australia, PCA
- Real Property Association of Canada, REALpac

Since its formation REESA members have exchanged views on a number of tax and accounting related projects and shared these views with regulators and standards setters. These projects include:

- Financial Statement Presentation
- Reporting Discontinued Operations
- Real Estate Sales – IFRIC D21
- Capitalization of Borrowing Costs - IAS 23
- Accounting for Joint Arrangements – ED 9
- Consolidated Financial Statements – ED 10
- IASB 2007/2008 Annual Improvements to IFRSFASB/IASB Leasing project

- OECD developments on cross border real estate flows and international tax treaties