

UK Real Estate Investment Trusts REITA Advisor Roadshows

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Direct property

Pros

- Security of asset backing
- Long term contracts or leases
- Typically upwards only rent reviews
- Supply constraints on land and planning consents in UK
- Attractive return profile: high income yield plus capital growth
- Good collateral for debt finance to give geared returns

Cons

- Indivisibility of assets
- Lack of liquidity – time and cost of selling

Direct property – more ‘pros’ than ‘cons’ ... can you overcome the ‘cons’?





REITs

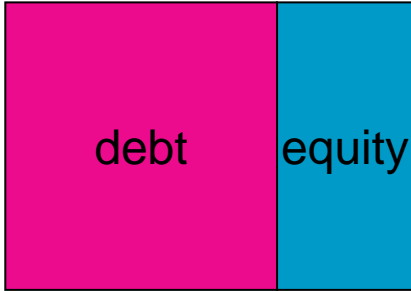
- REITs are a quoted companies that own and manage income-producing property
- At least 90% of taxable income is distributed to shareholders through dividends
- Companies are largely exempt from corporation tax and capital gains tax
- REITs offer investors income and capital appreciation from rented property assets in a tax-efficient way
- Shares in a REIT will be liquid. Direct property holdings and units in an open-ended property fund can be illiquid

Listed property security with tax characteristics of owning property directly





The UK REIT era



Gearing restrictions



Development activity



Alternative business models



(up to 25% threshold)

	No of companies	Market Cap £bn	Market Cap %
Total Real Estate Sector	45	49.3	100
Companies converted to REIT status on Jan 1	9	33.4	68
All companies announcing that they intend to convert to REIT status ⁽¹⁾	14	37.3	76

(1) Includes converted companies which have converted

New legislation in place and REIT sector successfully established



The listed UK REIT companies

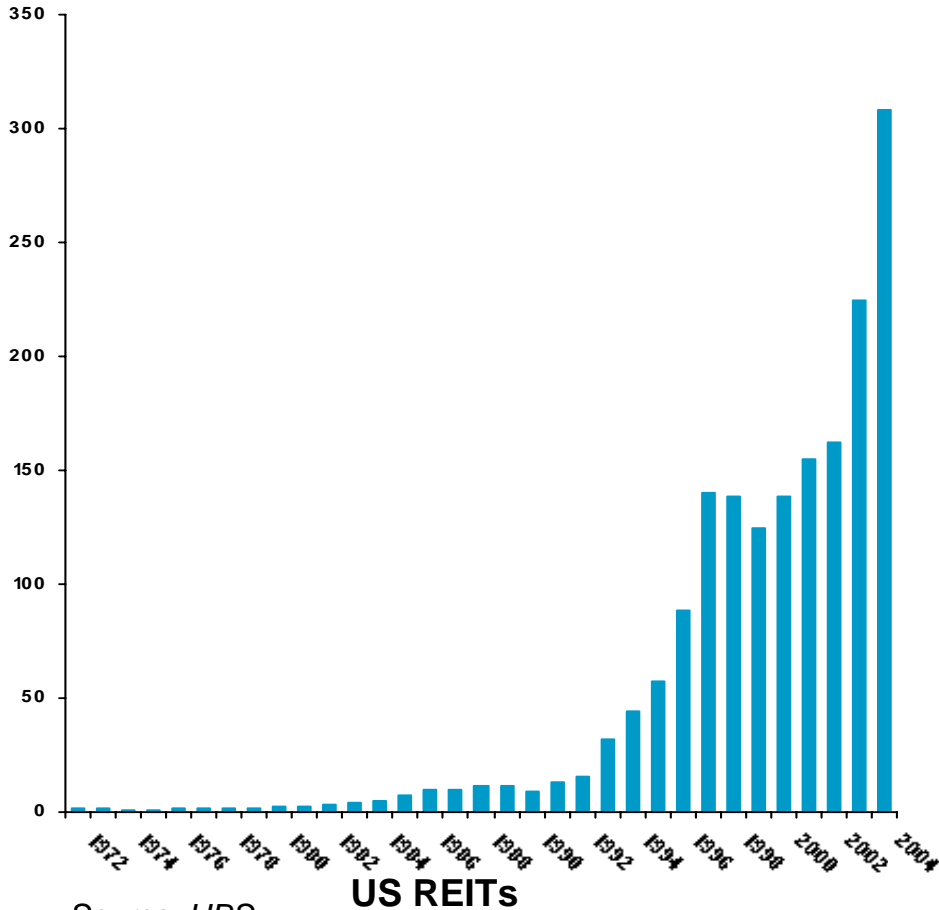
Company name	Market cap £bn	Portfolio size £bn
Land Securities	10.0	15.0
British Land	8.0	15.9
Liberty International	4.6	7.1
Hammerson plc	4.2	6.3
Slough Estates	3.2	5.1
Brixton	1.4	1.9
Great Portland	1.1	1.4
Workspace	0.8	0.9
Primary Health Properties	0.1	0.1

Total market capitalisation of £33.4bn



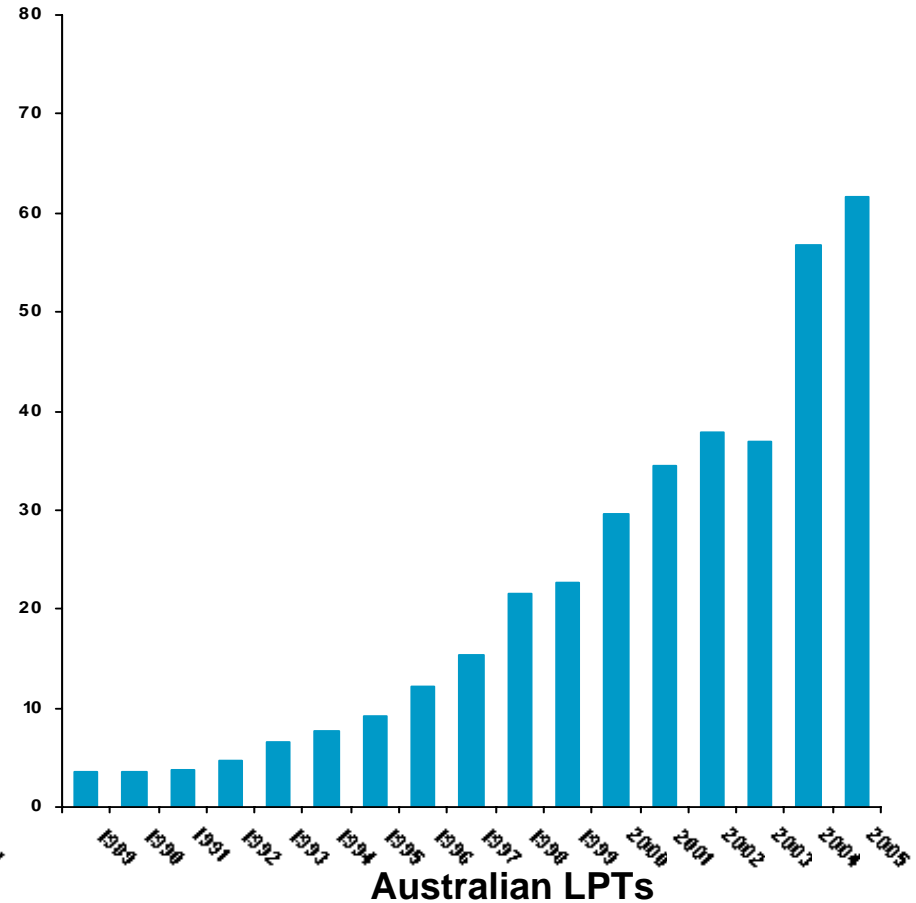
Growth of REITs: USA and Australia

Market Capitalisation US\$



Source: UBS

Market Capitalisation US\$



Attractive income yield, capital growth and liquidity



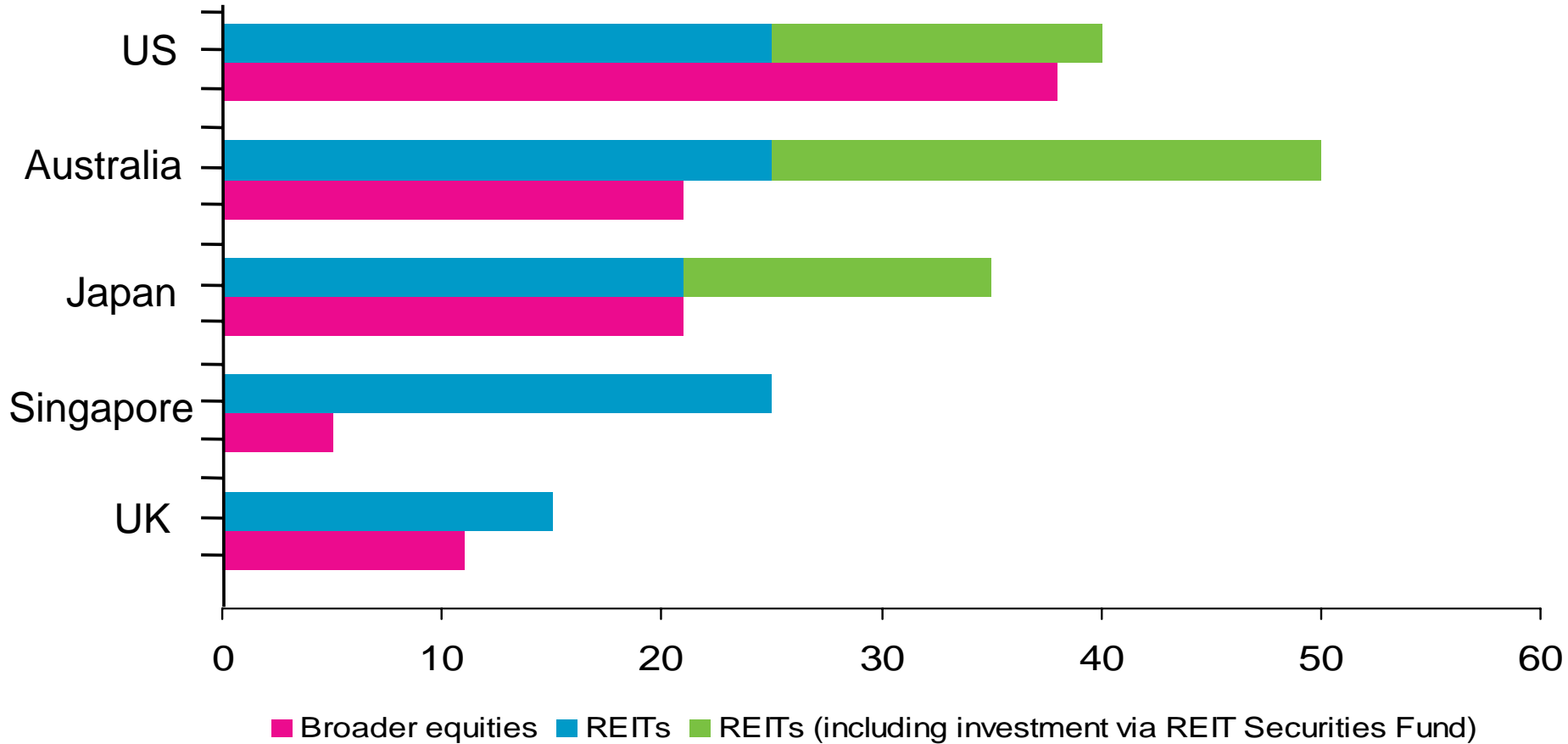
The Global Real Estate Universe

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

Potential for listed companies to grow as proportion of UK property universe

New shareholder base I – UK private shareholders

% of share register (by value) represented by retail investors

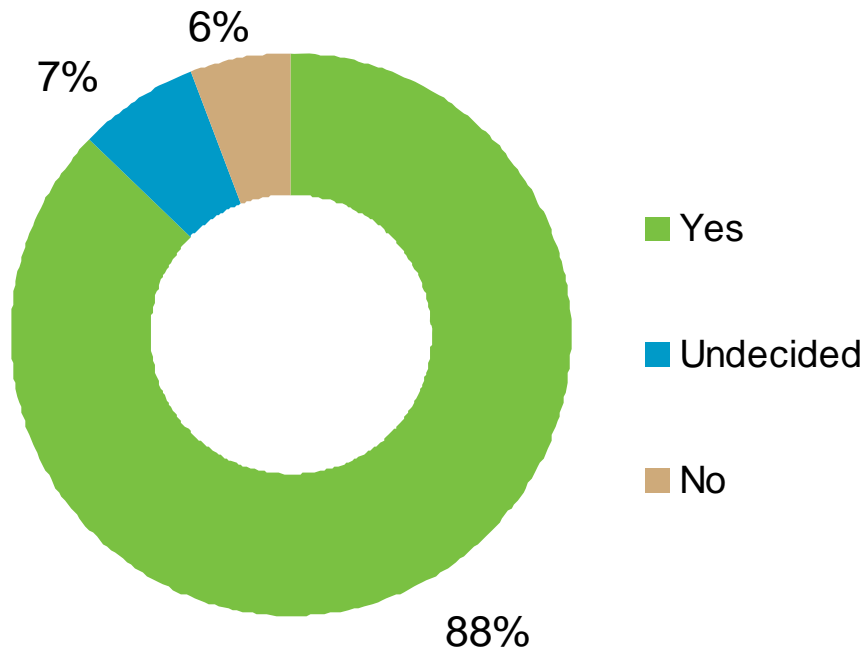


Source : Thomson Financial DataStream and UBS estimates (November 2006)

REITs delivering the 'democratisation' of property

New shareholder base II – overseas funds

Will global real estate investment funds experience a significant increase in allocations over the next 2 years?



“50/50 split expected between listed vehicles and direct property for overseas investment”

Source: UBS 2006 Global Real Estate Survey

Expect substantial increase in REITs investment by overseas shareholders

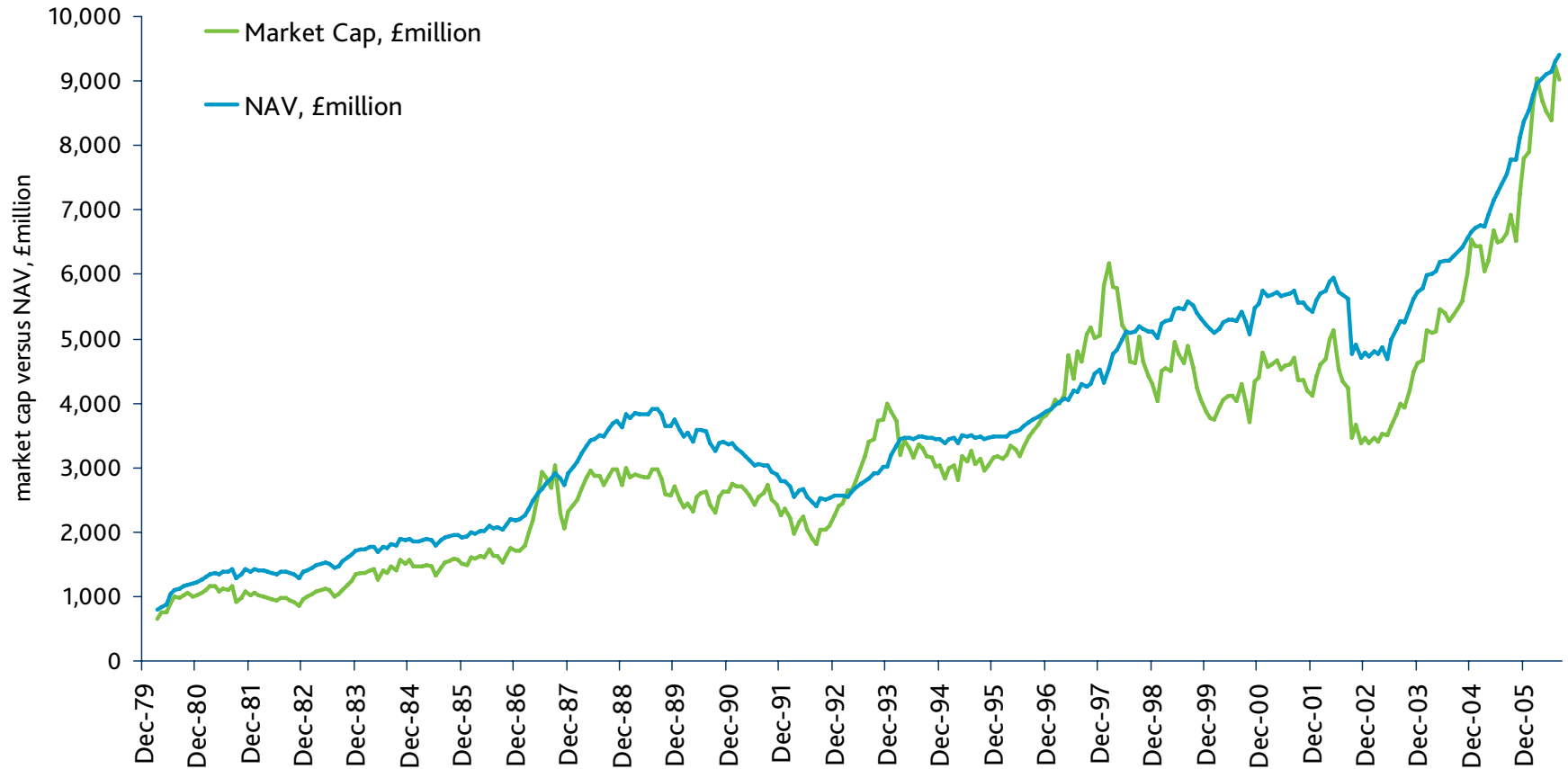


Liquidity vs volatility



Land Securities - valuation

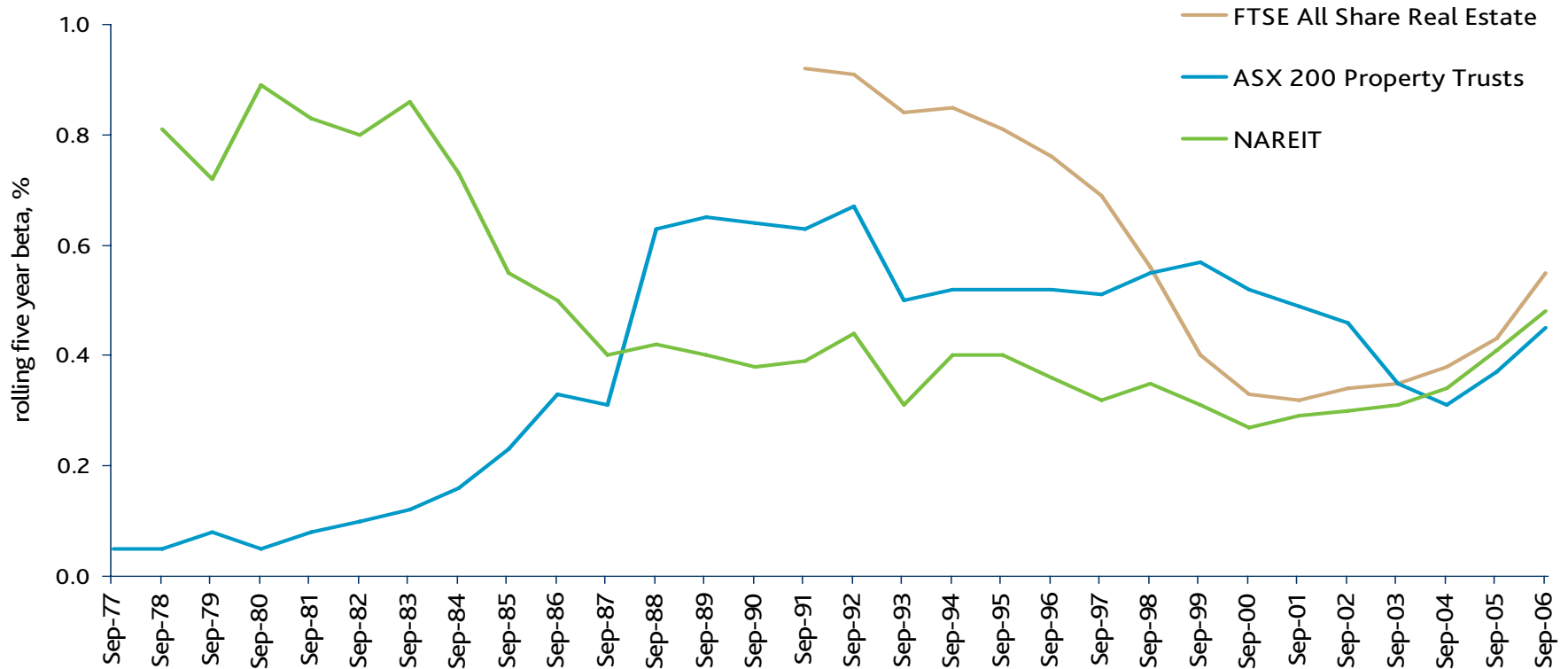
Share price/market capitalisation and NAV



Source: UBS, Land Securities

Share price tracks underlying asset value in the medium term

Volatility – REITS & listed property companies



Source: UBS, Land Securities

REITs less volatile than the general equity universe

Liquidity risk

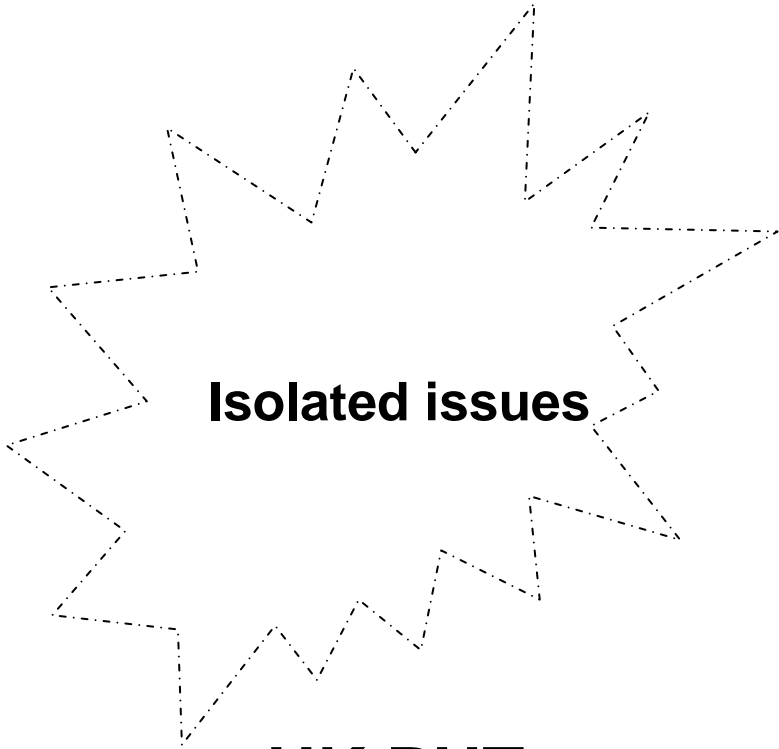
Direct property vs open-ended property funds



Taking a small risk daily ... or a substantial risk once a decade

Illiquidity of property

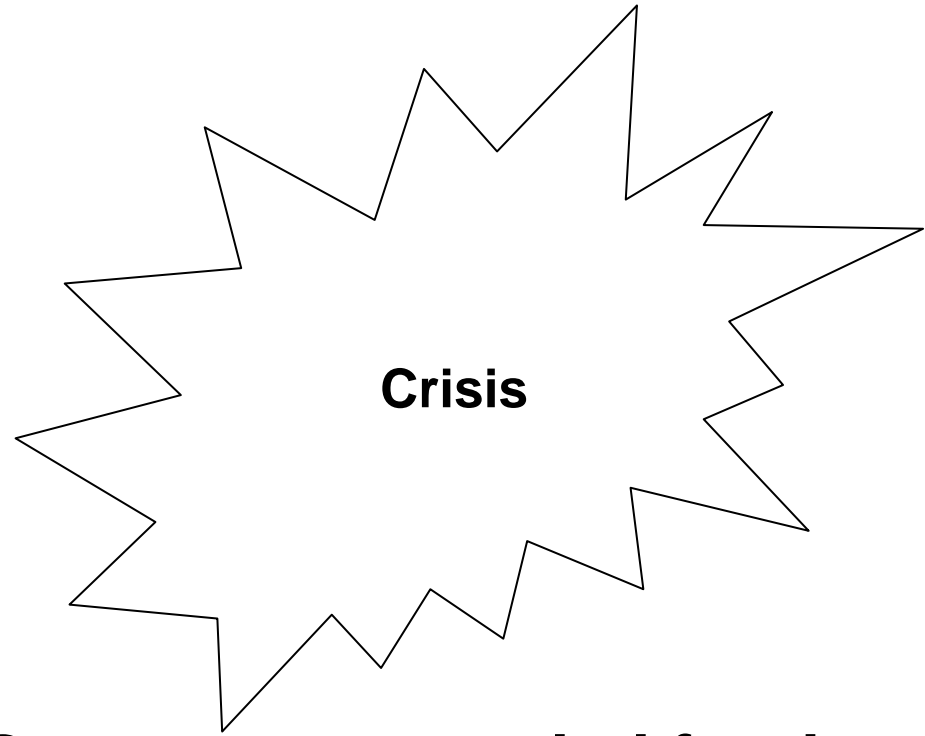
1990



Isolated issues

UK PUTs

2005

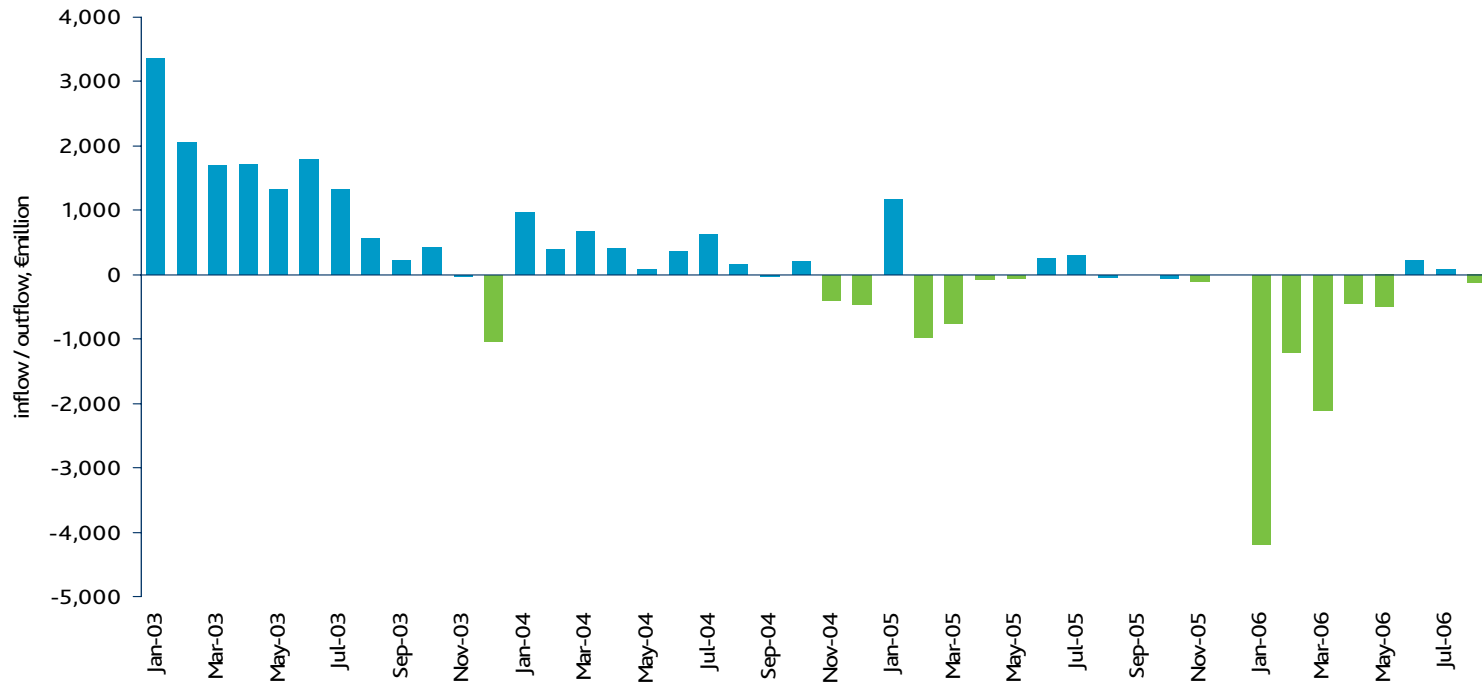


Crisis

German open-ended funds

The perils of offering investors more liquidity than there is in the underlying asset

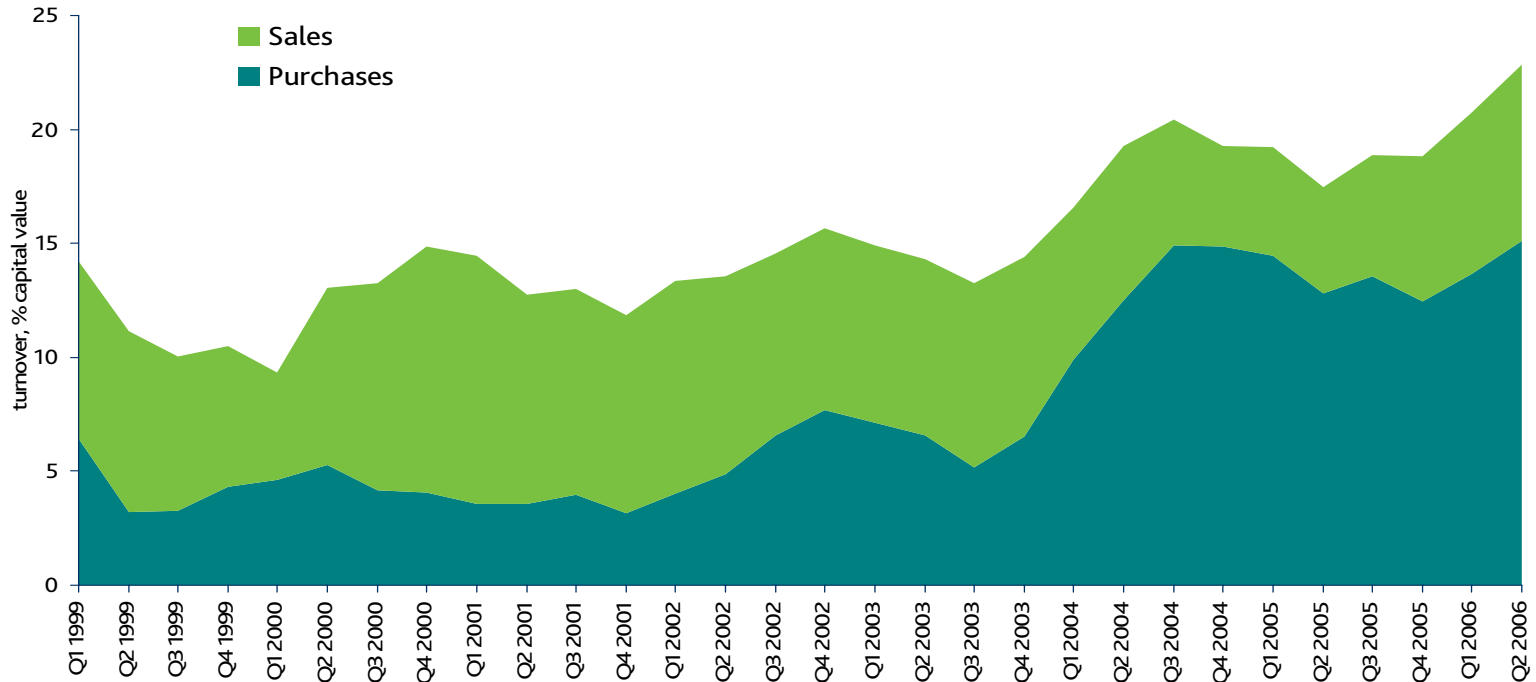
Money into German open-ended funds



Source: BVI, UBS

Real evidence of liquidity risk

AREF – rolling 12 month turnover in units



Source: AREF

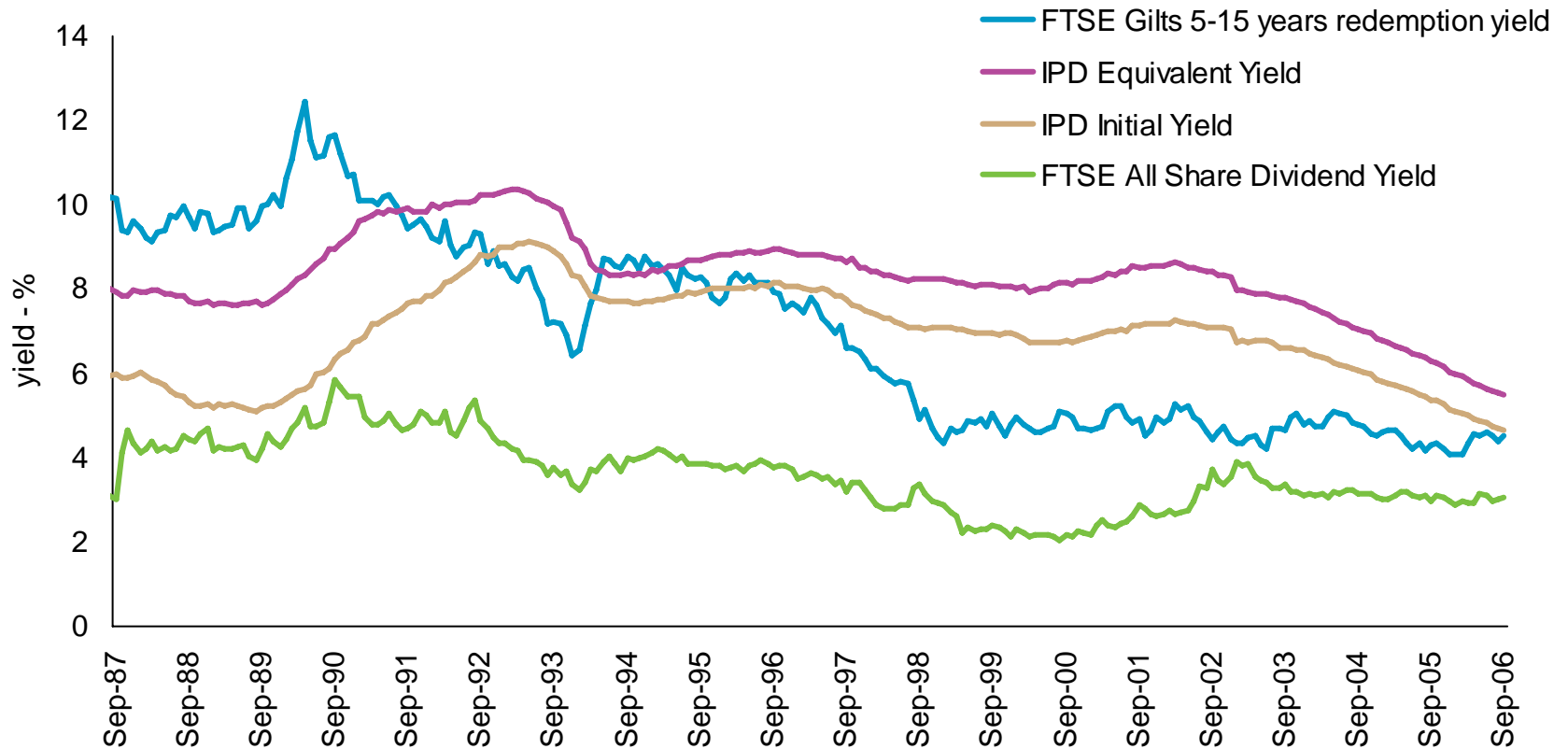
10-20% annual turnover in units vs 100% annual turnover in LAND shares



Current pricing of property



Asset class yields

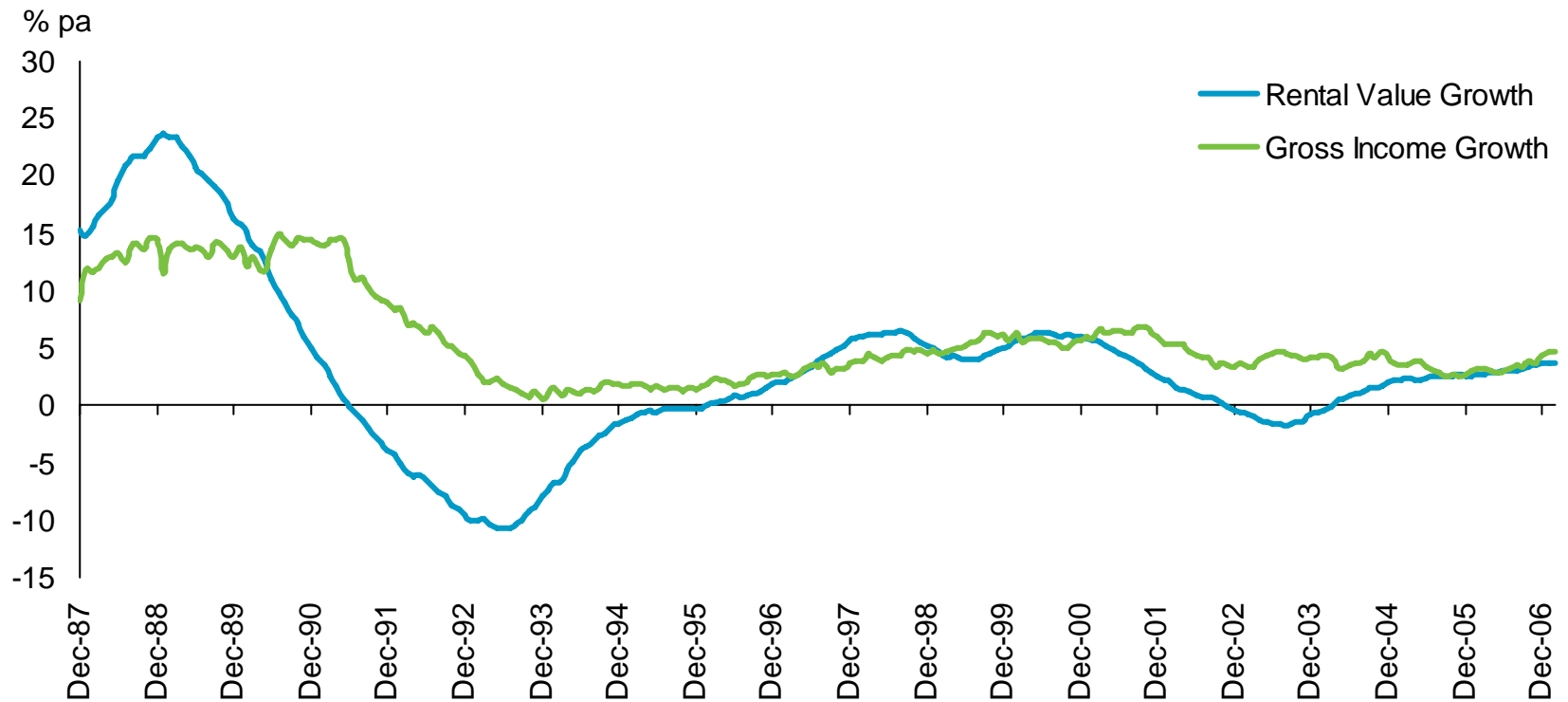


Source: IPD Monthly Index

Early 2000s - arbitrage between property yields and cost of finance

All UK property – rental value vs income growth

Rolling 12 month charge



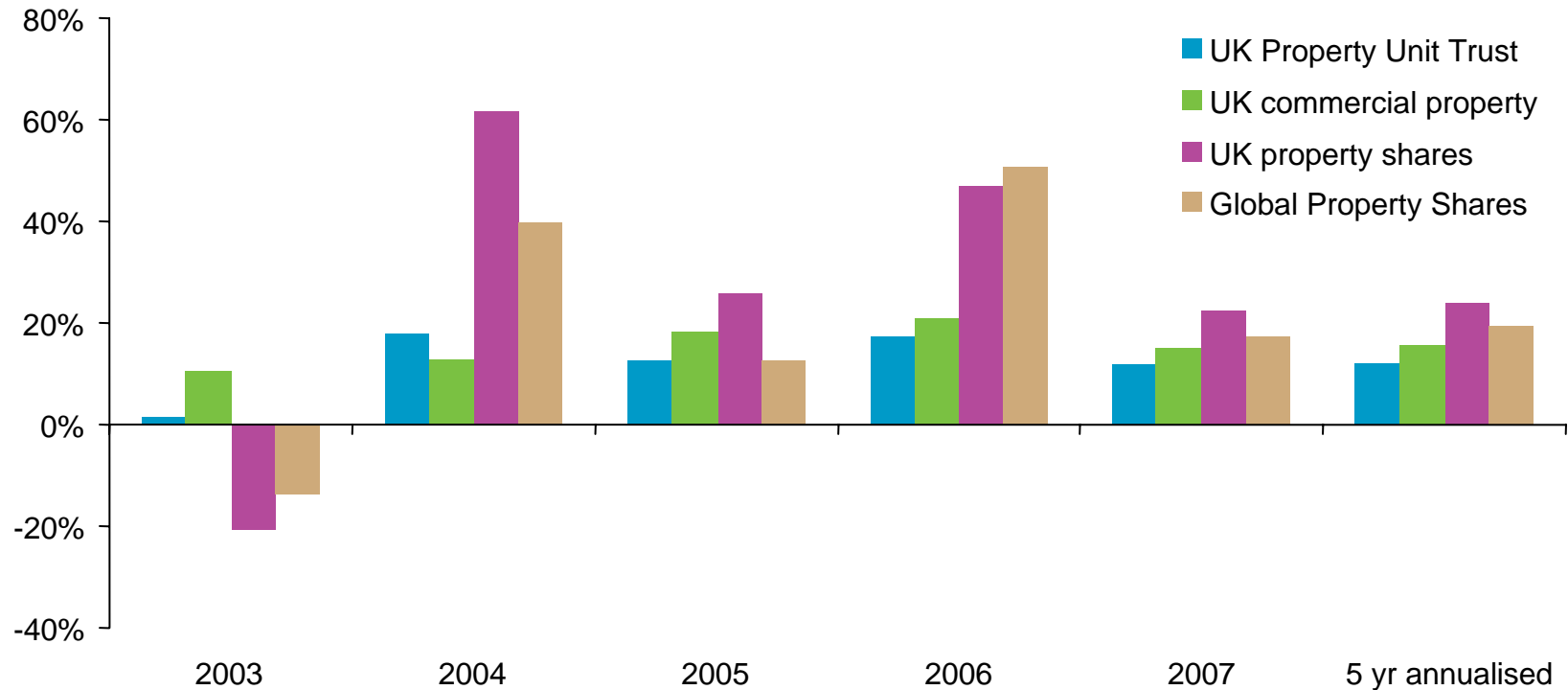
Source: IPD, to 28 February 2007

No rent bubble



Property performance

Years to 31 March, total return



Source: Manager's website (UK PUT), IPD (for UK direct), EPRA (for property shares), Bloomberg, Henderson Global Investors

Universally strong performance of property prompts re-rating as asset class





UK REITs



'Democratisation of property'

