alfi

ASSOCIATION OF THE LUXEMBOURG FUND INDUSTRY
ASSOCIATION LUXEMBOURGEOISE DES FONDS D'INVESTISSEMENT

Luxembourg Real Estate Funds

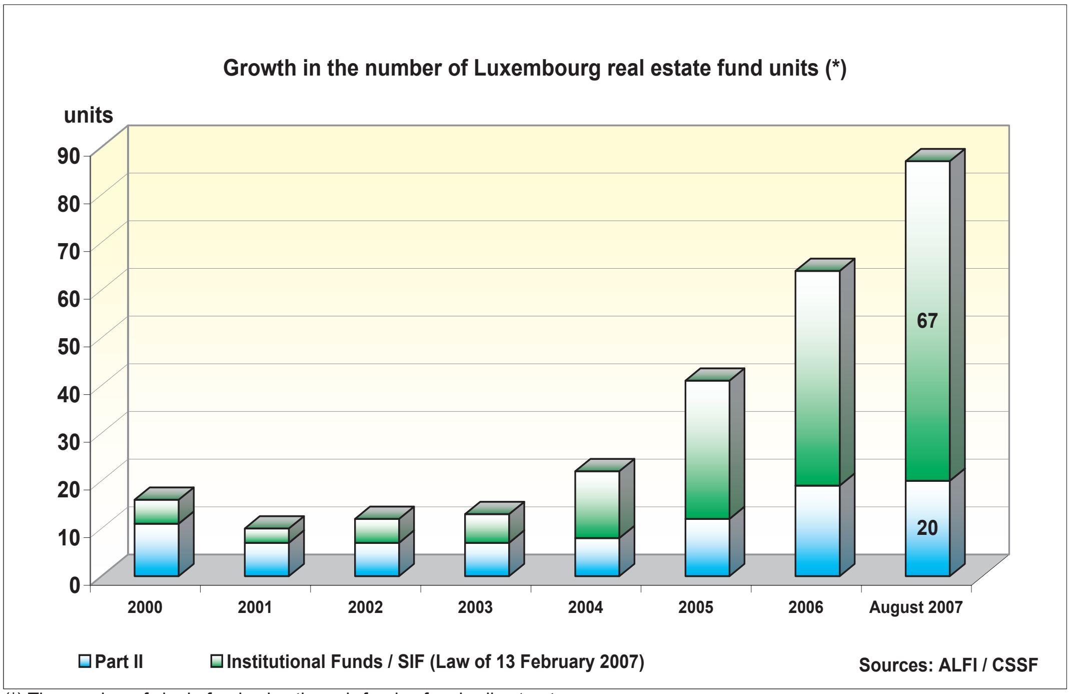
ALFI SURVEY

October 2007

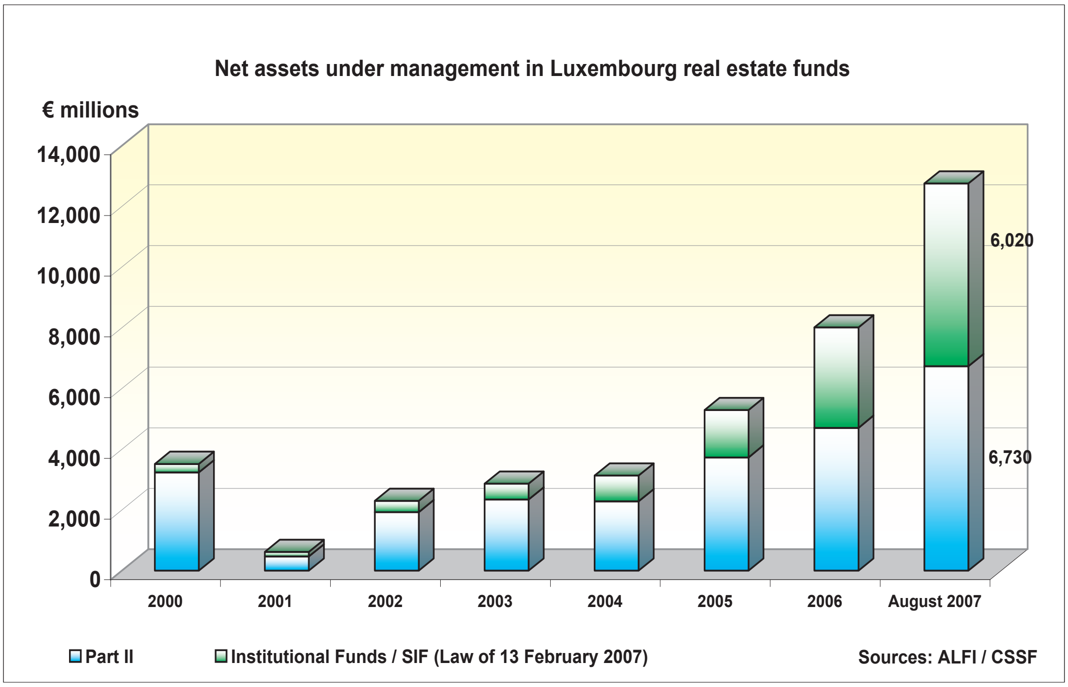
TABLE OF CONTENTS

1. OVERVIEW

The Association of the Luxembourg Fund Industry (ALFI) conducted a survey of Luxembourg regulated real estate funds in July-August 2007. The survey focused in particular on direct real estate funds, but also covered indirect real estate funds and funds of real estate funds. The objective of the survey was to gain an understanding of trends in the market rather than to provide complete and comprehensive data. This report presents the results of the survey and the key conclusions drawn.



(*) The number of single funds plus the sub-funds of umbrella structures



2. CONCEPTS AND DEFINITIONS OF LUXEMBOURG REAL ESTATE FUNDS

Direct vs Indirect Funds

DIRECT FUNDS invest in property assets or structures holding property assets.

INDIRECT FUNDS invest in listed real estate securities or in other real estate funds.

Regulated vs Unregulated Vehicles

Regulated vehicles are authorised and supervised by the Commission for the Supervision of the Financial Sector (the "CSSF"). The regulations applicable to Luxembourg regulated vehicles comprise laws, circulars issued by the CSSF and Grand-Ducal regulations.

The laws applicable to regulated funds are the law of 20 December 2002 on undertakings for collective investments, as amended (the "2002 Law") and the law of 13 February 2007 on specialised investment funds (the "SIF Law").

Funds governed by the 2002 Law may in principle be sold to any type of investor, including institutional, high net worth and retail investors. Funds governed by Part I of the 2002 Law benefit from a European passport, which means that they may be sold to any type of investor in any EU Member State after complying with a minimum of formalities. They are, however, required to comply with detailed investment restrictions. Funds governed by the Part II of the 2002 Law should comply with each country's local distribution rules, and are required to comply with some investment restrictions which are however less detailed than for Part I funds.

Funds governed by the SIF Law may only be sold to "well-informed investors". In addition to the usual market of institutional investors, this potentially opens funds governed by the SIF Law to high net worth investors. Although funds governed by the SIF Law should comply with general investment restrictions to ensure adequate risk diversification, exceptions are subject to case-by-case review by the CSSF. The SIF Law replaced the law of 19 July 1991 concerning undertakings for collective investment the securities of which are not intended to be placed with the public (the "1991 Law"). Funds previously governed by the 1991 Law become automatically subject to the SIF Law.

Another useful Luxembourg regulated vehicle is the investment company in risk capital ("*Société d'Investissement en Capital à Risque*" or SICAR) governed by the law of 15 June 2004. The SICAR is an investment vehicle tailored for "well-informed investors" investing in venture capital and private equity investments. SICARs are not subject to investment restrictions.

Luxembourg unregulated vehicles are typically set up as SOPARFIs ("*Société de Participation Financière*"), which are Luxembourg limited liability companies or partnerships, governed by the law of 10 August 1915 on commercial companies, as amended. While unregulated vehicles operate in a manner similar to regulated vehicles, the investors in unregulated vehicles may opt for greater flexibility, for example in terms of choice of service providers, and lower set up and operating costs. Unregulated vehicles tend to have a small group of investors and a simple capital structure.

For the purpose of this survey, the ALFI Real Estate Funds Working Group participants estimated that unregulated vehicles represent approximately a third to a half of the real estate market.

Legal Structures

Real estate regulated funds governed by the 2002 Law or the SIF Law may be set up either in corporate form (i.e. investment company with variable capital or "*Société d'Investissement à Capital Variable*" or SICAV, investment company with fixed capital or "*Société d'Investissement à Capital Fixe*" or SICAF or other) or in a contractual form (i.e. "*Fonds Commun de Placement*" or FCP). A key determining factor in the selection of a legal form is the tax regime applicable to investors. FCPs are tax transparent whereas SICAVs and SICAFs are taxable, with exceptions.

Real estate regulated funds governed by the 2002 Law or the SIF Law may adopt a multiple sub-fund structure (i.e. umbrella fund) where sub-funds may have a different investment policy or may be restricted to certain investors. The umbrella fund is legally treated as a single entity; however, in principle, each sub-fund is responsible for its own assets and liabilities.

Consequently, for the purpose of this survey, reference to the number of fund units ("Units") means the number of single funds plus the number of sub-funds.

3. SCOPE AND METHODOLOGY

Scope

The survey covers direct and indirect real estate funds governed by the 2002 Law and the SIF Law and SICARs administered by ALFI members. It does not cover unregulated vehicles; nor does it cover the intermediary Luxembourg financing vehicles set up for the acquisition of property by non-Luxembourg parent companies.

Methodology

The survey is based on a comprehensive questionnaire which was sent to over 20 Luxembourg custodians. The custodians selected were those considered to represent the highest concentration of direct real estate funds by the ALFI Real Estate Funds Working Group. The questionnaire, which focused on the status as at the end of December 2006, included questions relating to:

- Geographical Investment Region
- Target segment of investment
- Net Asset Value (NAV) and Gross Asset Value (GAV)
- Effective gearing
- Investment style
- Legal regime and structure
- Investor Types
- Accounting standard (GAAP)
- Fees
- Property Valuation
- Stock exchange listing
- Promoter

Answers were received and data was returned by 5 custodians out of 20+, these 5 representing 62.5% of direct real estate fund custodians and 80 % of the Units.

Since insufficient data was returned on indirect real estate funds and real estate SICARs, no conclusion or detailed data are presented on these segments. The ALFI Real Estate Funds Working Group hopes to be able to gather this data in the future to provide a more complete picture of the real estate investment funds industry in Luxembourg. To provide some high-level contextual information, analysis of data by Brown Brothers Harriman (BBH) and Ernst & Young's records have been summarised in Section 6.

The difference in approach taken by the ALFI Real Estate Funds Working Group to survey direct and indirect real estate funds may be understood both in terms of means and results. Direct real estate funds tend to be concentrated with a limited number of custodians which have the specialised competencies to serve this market, which is more complex and diverse than the indirect real estate fund market. By approaching the custodians of direct real estate funds with a comprehensive questionnaire, much more specific information relevant to direct real estate funds was obtained.

Where possible, survey results are, compared with those published in *Luxembourg Real Estate Funds: A comprehensive survey by Ernst & Young*, published in January 2006.

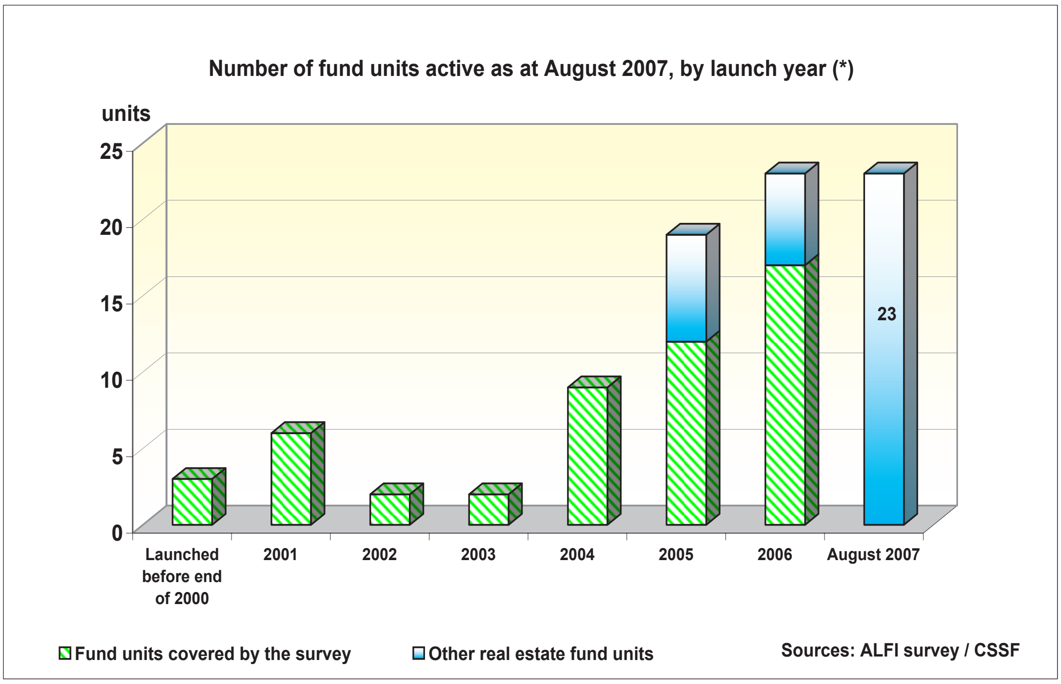
4. DIRECT REAL ESTATE FUNDS

Fund Launches

More Luxembourg direct real estate funds were launched in 2006 than ever before, bringing the total to 64 fund units, compared with 41 in 2005, a net increase of 23 fund units, according to the CSSF .

This survey covers 51 out of the 64 fund units, based on the responses received from custodians included in the survey; out of the 51 fund units covered (80 %), 17 new funds were launched in 2006, compared with 12 in 2005 and 9 in 2004.

In addition, based on inquiries with the CSSF and the ALFI Real Estate Funds Working Group, it is estimated that a further 23 direct real estate funds/units were launched, or were in the process of being launched, at the end of August 2007.



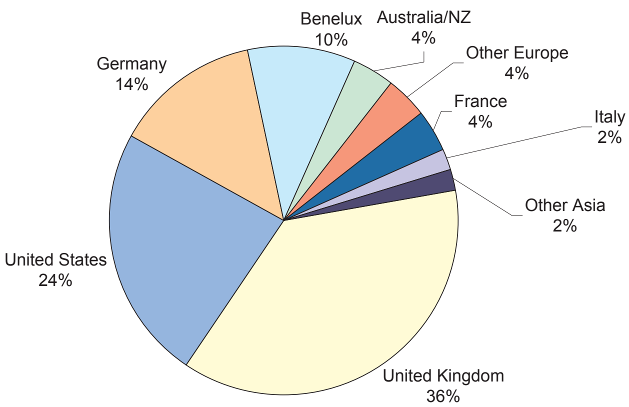
(*) This chart is not cumulative and does not show a time series.
This is the total number of fund units active as at August 2007 broken down by the year of launch of each fund units.

Promoter Origins

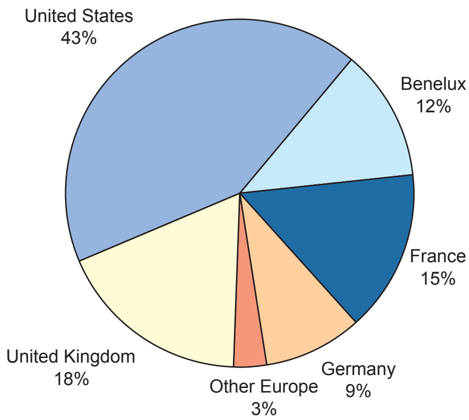
UK promoters have launched one third of Luxembourg direct funds overall; this trend continued in 2006 with UK promoters launching 7 out of 23 funds/units. Promoters from other European countries are behind another third of funds surveyed, led by German promoters who entered the Luxembourg market in 2004 and launched 4 funds/units in 2006. The last three years have seen increasing diversity of promoter origin, particularly in 2006. US promoters have launched one or two funds every year since 2000, with the exception of 2005 where there was a peak of 4 fund/unit launches.

Promoter Origins

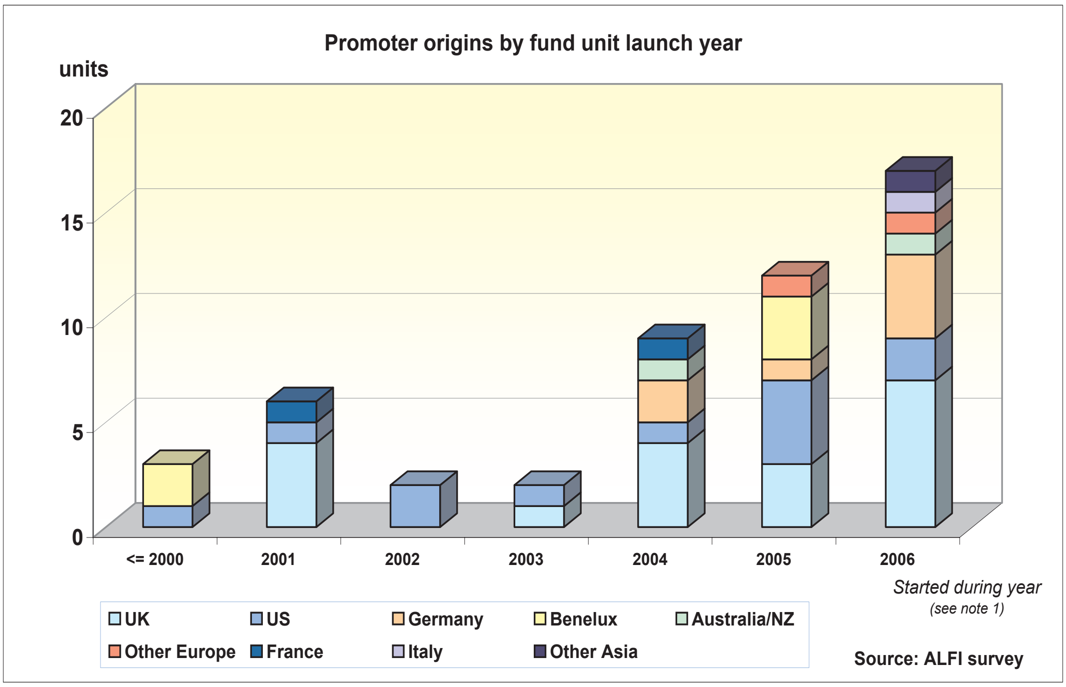
ALFI 2007 Survey



Ernst & Young 2006 Survey



Sources: ALFI, Ernst & Young: January 2006



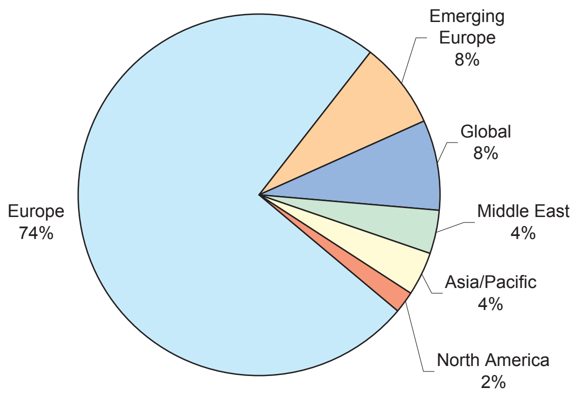
Note 1: This graph contains all funds active at end of 2006. The breakdown by year represents the year in which funds were launched, not the total number of funds active at the end of each year.

Geographical Investment Region

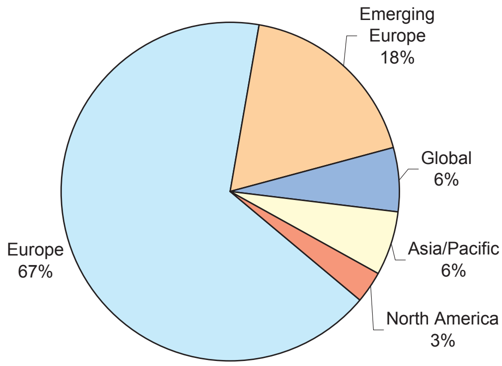
Nearly three quarters of Luxembourg direct real estate funds surveyed invest in non-emerging European countries. Next are funds investing in emerging Europe and globally, each representing approximately one-twelfth of the market. The last three years have seen increasing diversity of investment region.

Geographical Investment Region

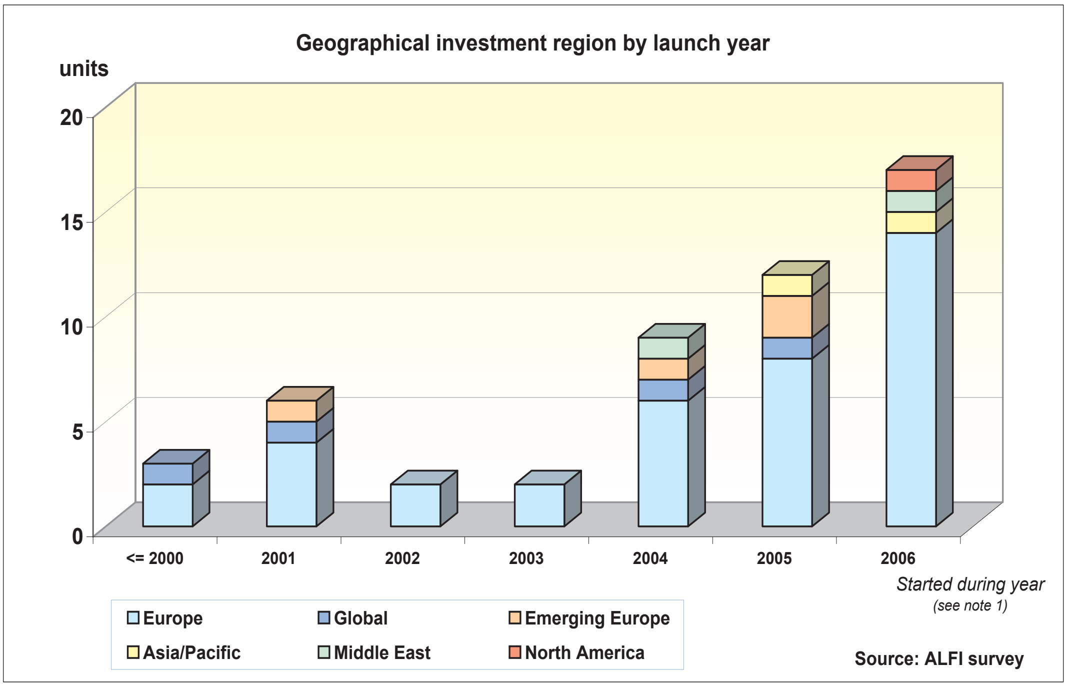
ALFI 2007 Survey



Ernst & Young 2006 Survey



Sources: ALFI, Ernst & Young: January 2006



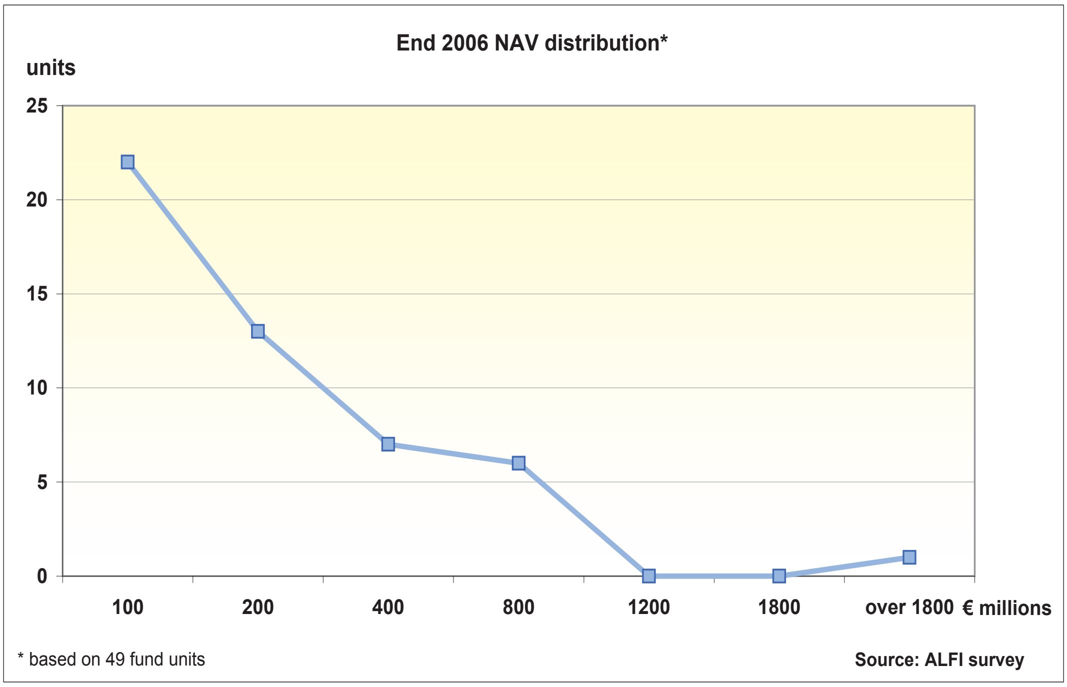
Net Asset Value (NAV) and Gross Asset Value (GAV)

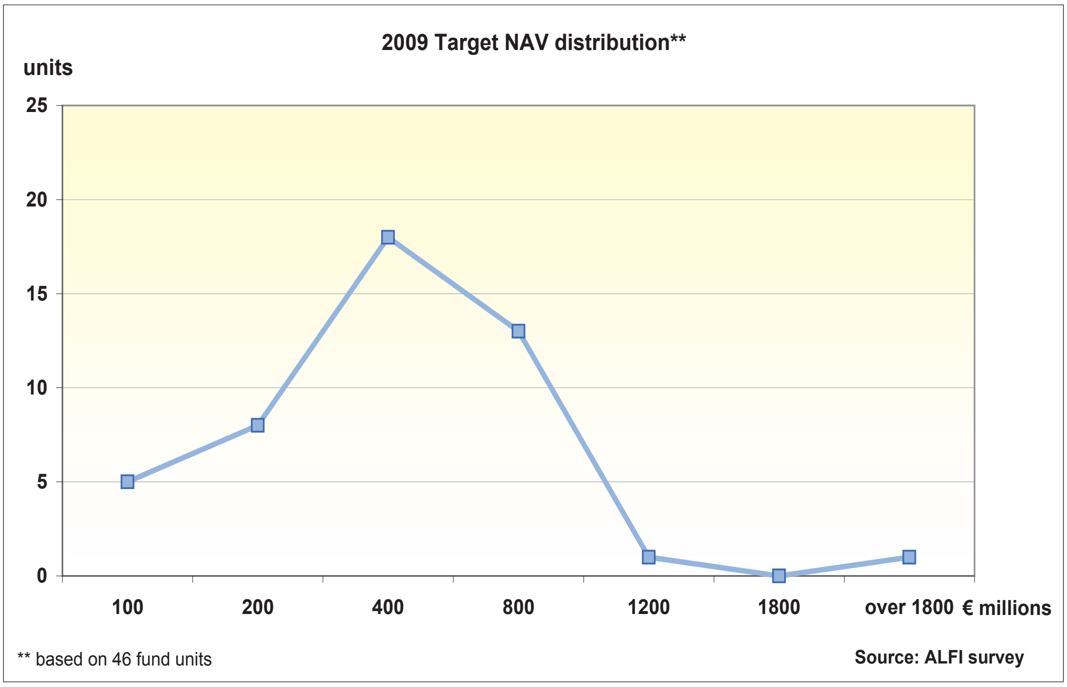
NAV: published NAV for funds.
GAV: Gross value of property portfolios and other assets (including external borrowings).

Luxembourg's 64 direct real estate fund units existing at the end of 2006 represented a NAV of €8bn, according to the CSSF. The 41 fund units existing in 2005 represented a NAV of €5.3bn. Data for 2006 NAV and GAV was provided for 49 fund units and the target 2009 NAV and GAV for 46 fund units.

The average NAV at 31 December 2006 was around €200 million, ranging from less than €100m to over €2bn. Average NAV by end December in 2009 is expected to reach around €380 million.

NAV DISTRIBUTION

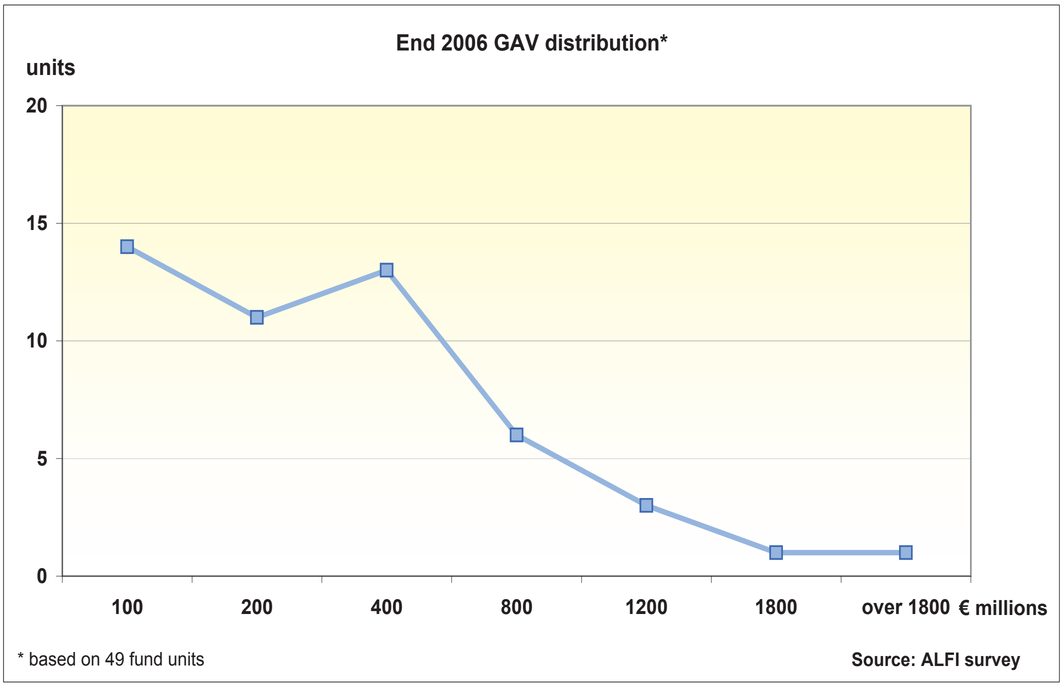


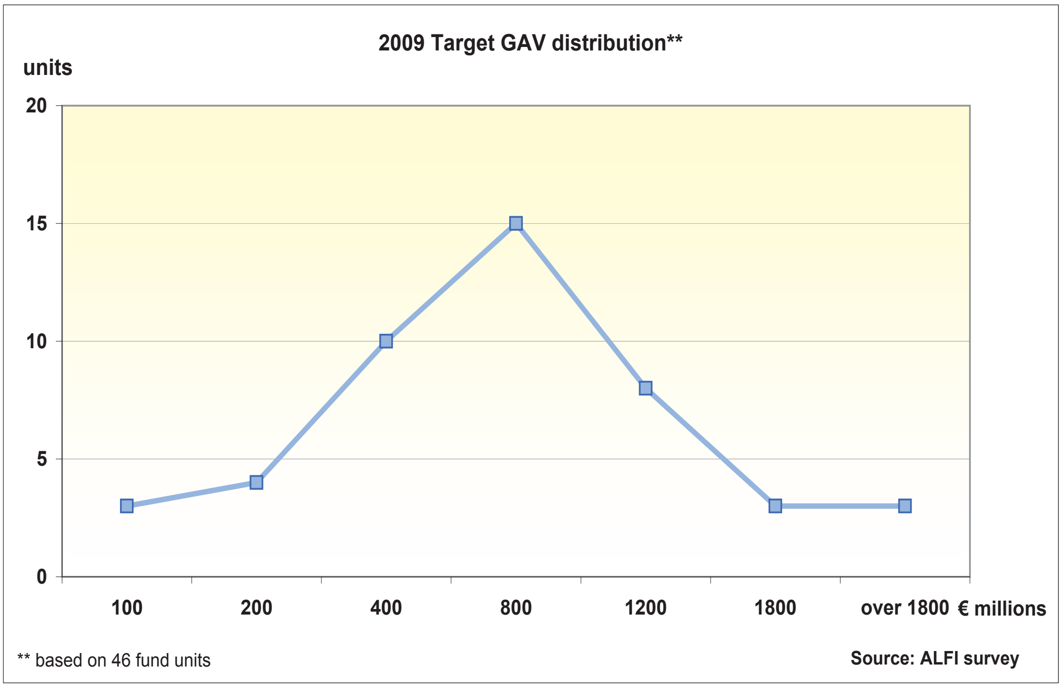


The average GAV at 31 December 2006 was around €380 million, ranging from less than €100m to over €4bn. End 2009 GAV was expected to average around €790 million.

Projecting the results of the 51 fund units surveyed into the total population of funds per CSSF data, we estimate that the total GAV at the end of 2009 for funds launched up to 2006 year end, will be approximately €32bn.

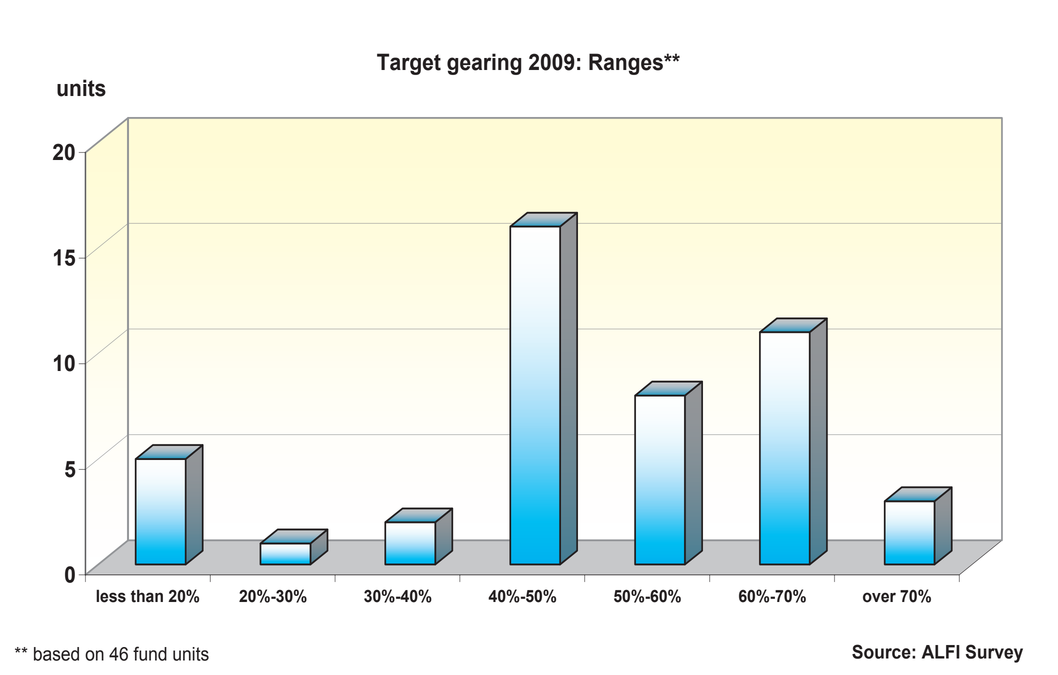
GAV DISTRIBUTION





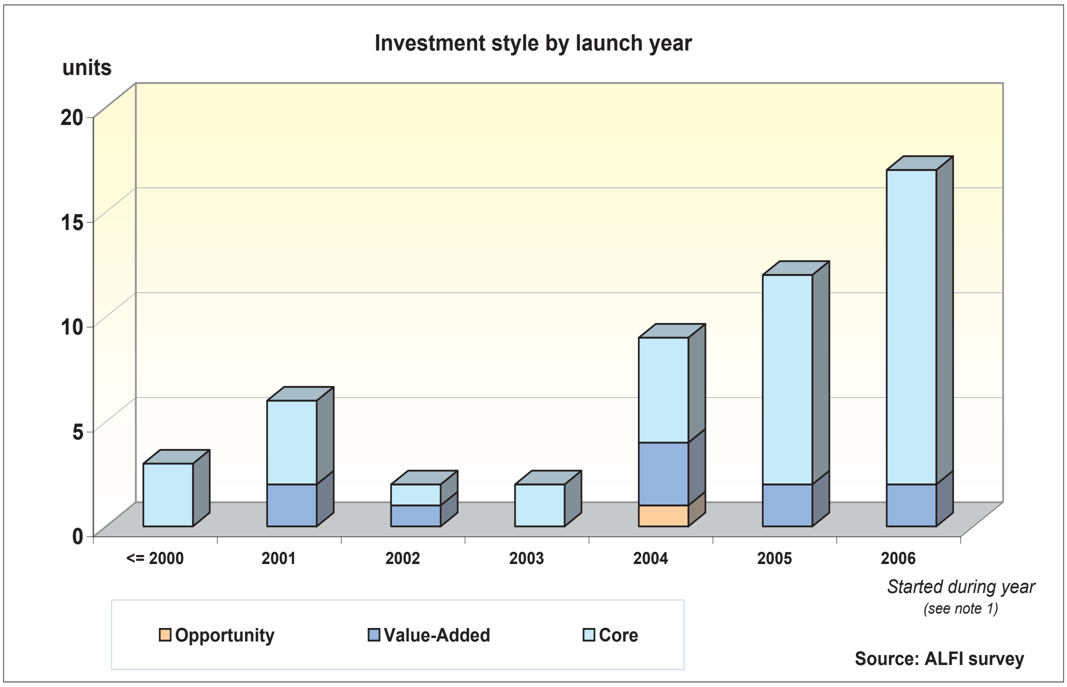
Effective Gearing (External)

Data on the 2009 gearing was provided for 46 fund units and is presented below.



Investment Style

Data on fund style by launch year is presented below.
There is still some confusion in the real estate fund industry over this "style" classifications. It is likely that some funds classified as "core" here should really fall into "value added" segment.



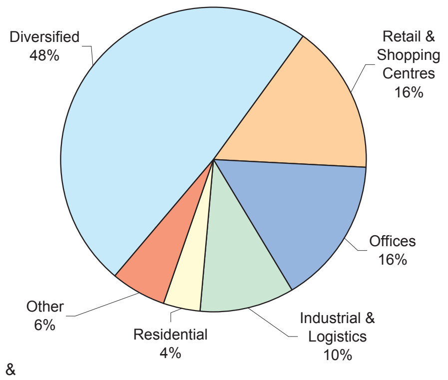
Target Sector

Pure retail and pure office funds represent 16% of the market, each. Sector diversification was seen in 2006, for example with the launch of pure residential funds. Nearly half of the direct funds are diversified funds.

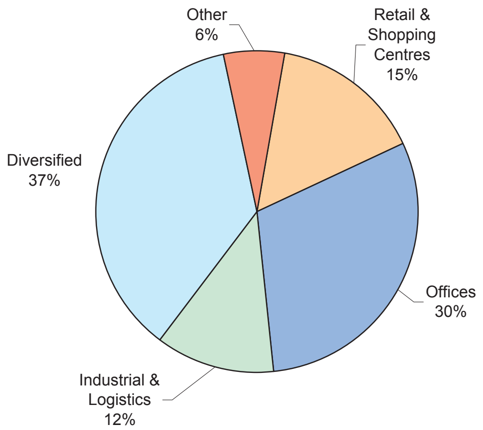
In a survey carried out in 2005, Ernst & Young found on average, diversified funds invested two thirds in retail, a quarter in offices and the remainder in logistics. If these findings were still valid, retail would represent a total of nearly half of the total target investment sector and offices over a quarter.

Target Sector

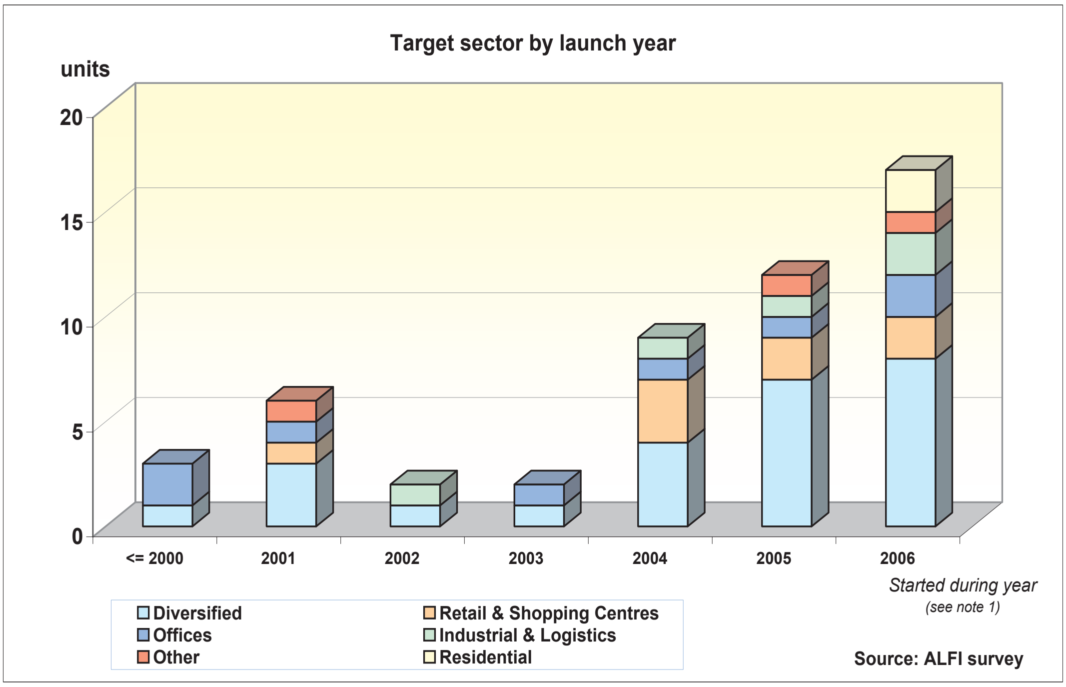
ALFI 2007 Survey



Ernst & Young 2006 Survey



Sources: ALFI, Ernst & Young: January 2006



Legal Structure

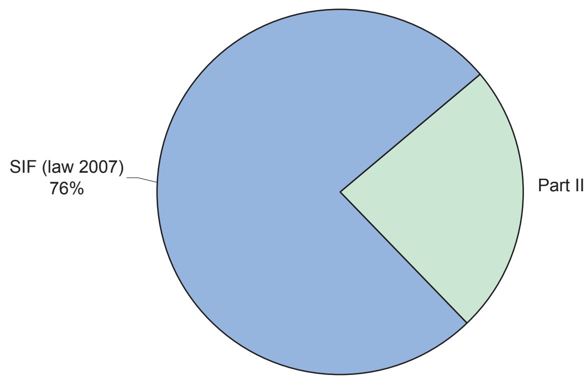
Three quarters of funds overall, and most funds launched in 2006, came under the 1991 Law - i.e. funds limited to institutional investors. However, this picture is likely to change during the course of 2007. Under the 2007 SIF Law, which replaced the 1991 Law and to which all 1991 Law funds are now subject, funds may be sold to "well-informed investors".This opens the possibility of selling SIFs to high net worth and other investors. A similar situation regarding investor qualification exists for SICARs (See Section 5).

2002 Part II funds could in principle be sold to any type of investor, including retail. Based on the data collected, more than half of 2002 Part II funds were open for sale to any type of investor, and over 90% were open to high net worth investors.

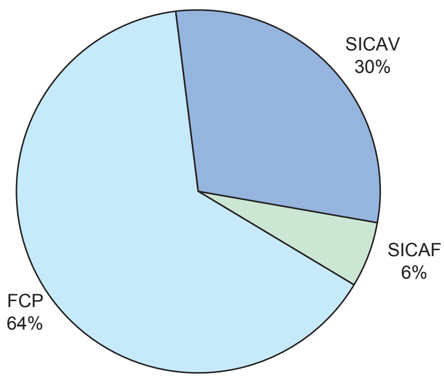
The tax transparent FCP is the dominant structure overall with nearly two thirds of funds. However, 2006 saw the launch of more investment company structures, over 60% of which were SICAVs. 2006 also saw the launch of one SICAF.

Since the 2007 SIF Law now allows for partly paid-in shares/units irrespective of the legal structure adopted by the fund, the advantage of establishing a SICAF has become fairly redundant and therefore SICAF is expected to become less used in the future.

Legal Regimes

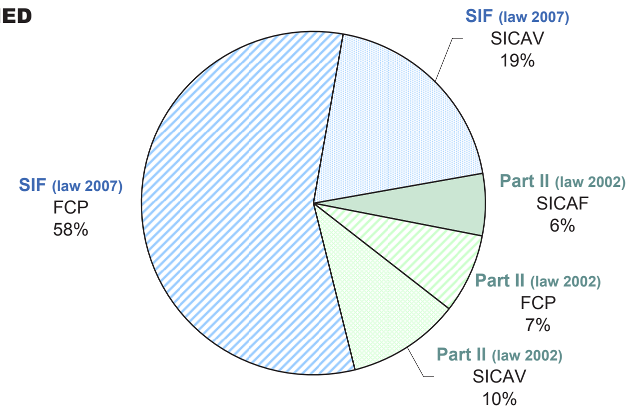


Basic Structures

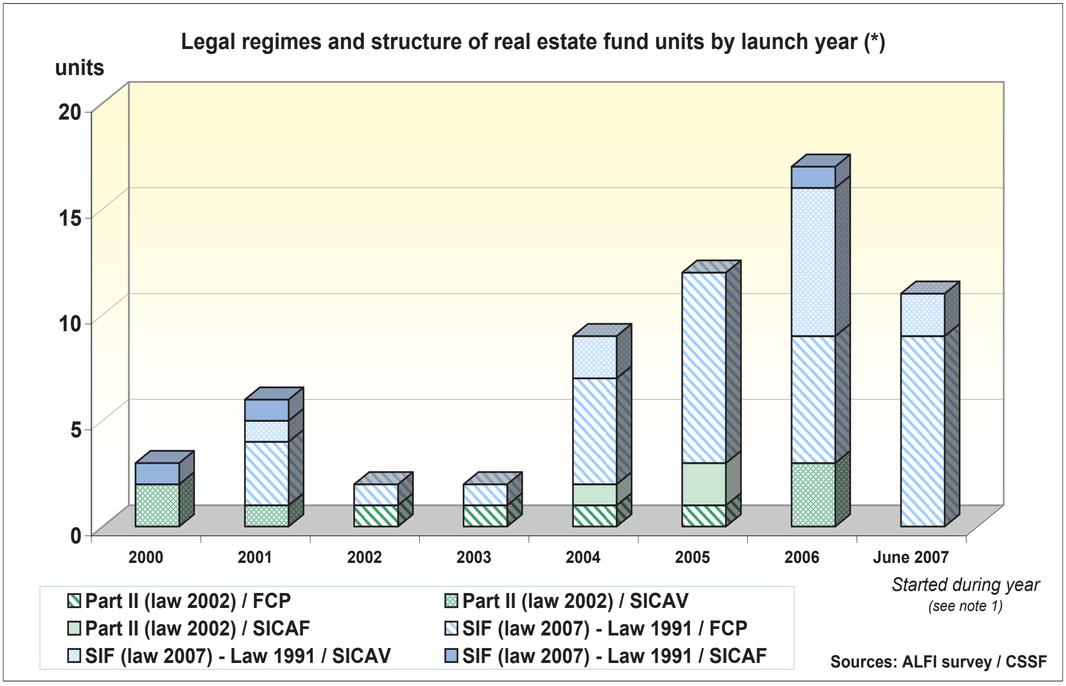


Sources: ALFI / CSSF
Data as of 30 June 2007

Legal Structures and Regimes combined



Sources: ALFI / CSSF
Data as of 30 June 2007

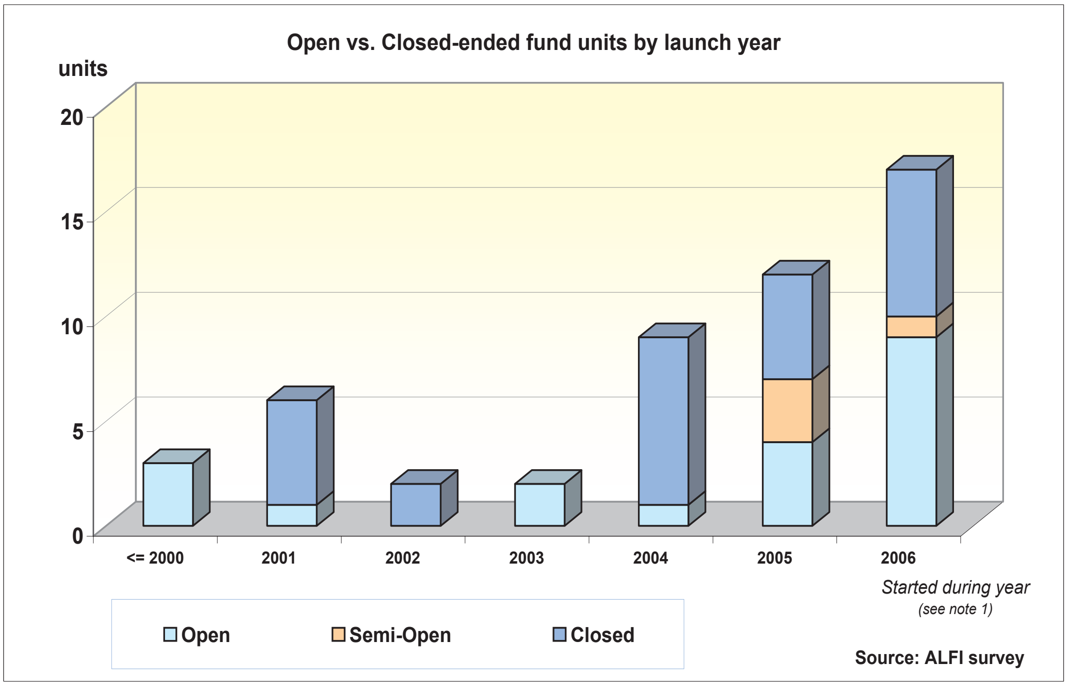


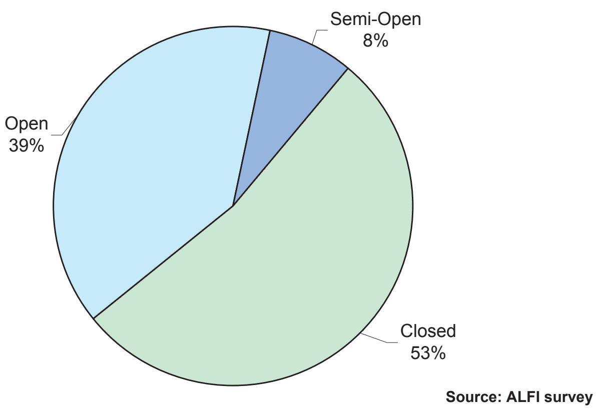
* based on 51 fund units

Open or Closed-ended

Overall, over 53% of funds are closed-ended. However, since 2003, the overall trend has been towards launching more open-ended funds. According to the survey results, semi-open funds appeared in 2005 and continued to be launched in 2006.

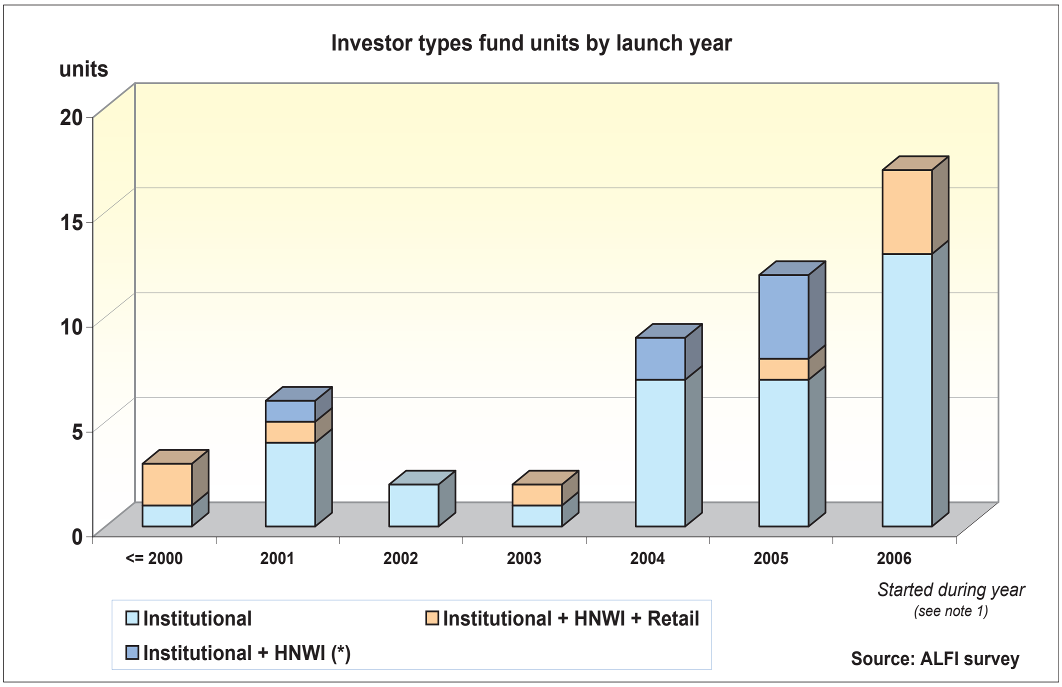
The definition of "semi-open" generally refers to the ability of the investors to redeem capital at certain times during the fund life subject to certain conditions. It can also refer to the capital formation process where the fund plans a series of distinct equity offerings after the initial launch, but not on a continuous basis and these is "semi-open" to new investors. The Real Estate Funds Working Group notes that many "open" funds have these types of features and the classification between "open" and "semi-open" is difficult to make. The actual features of a particular fund may not be consistent with how the fund describes itself in the fund documentation and as a result there are significant numbers of open funds which should arguably be classified as "semi-open" funds.



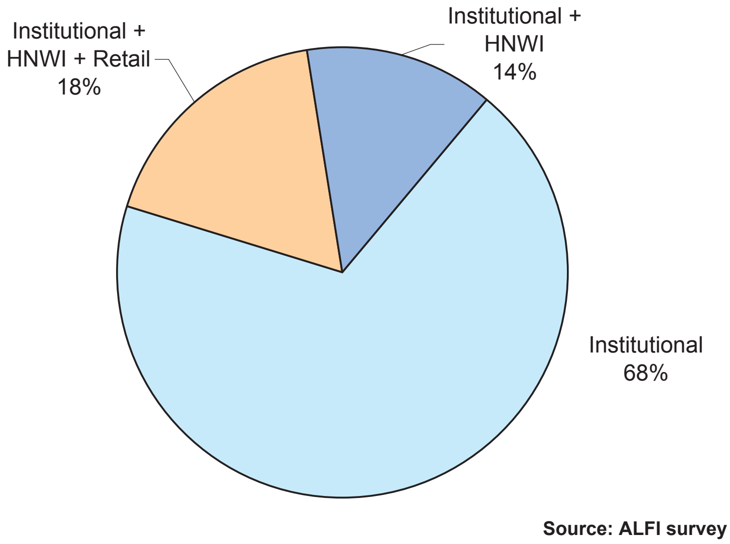


Investor Types

Over two thirds of funds are limited to institutional investors; although three quarters of the funds launched in 2006 were limited to institutional investors, however 2006 also saw the launch of a new range of large retail funds.

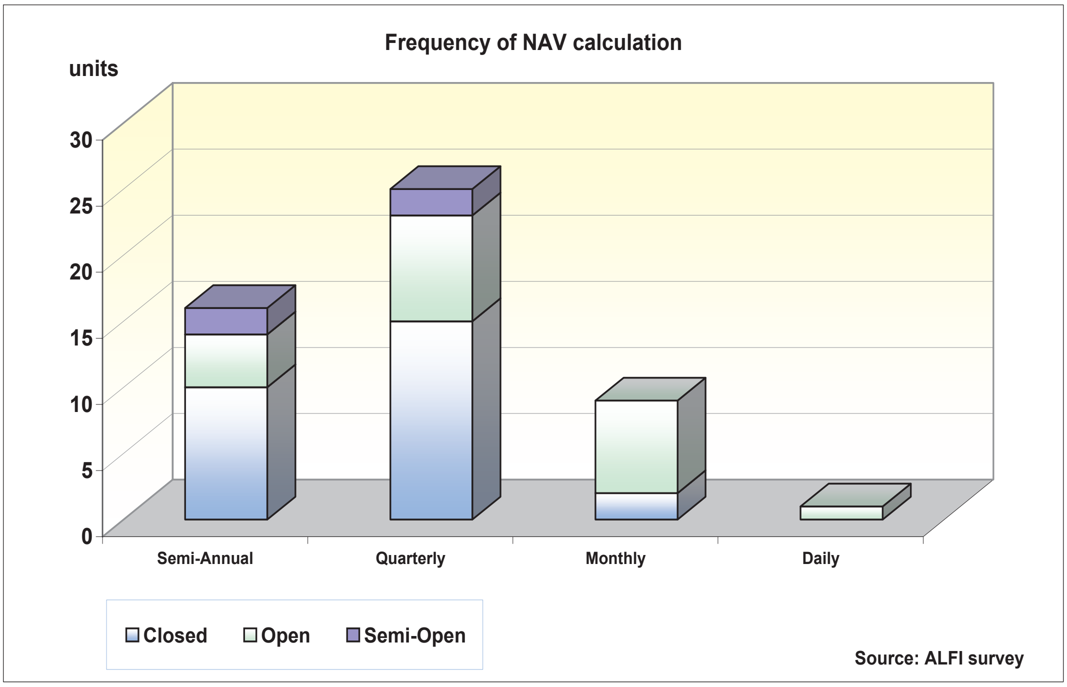


(*) High Net Worth Individual <=> "Well-informed investors" under the SIF regime



Frequency of NAV Calculation

Luxembourg real estate funds predominantly adopt quarterly or semi-annual NAV calculations. However, monthly and even daily frequencies emerged in 2006.



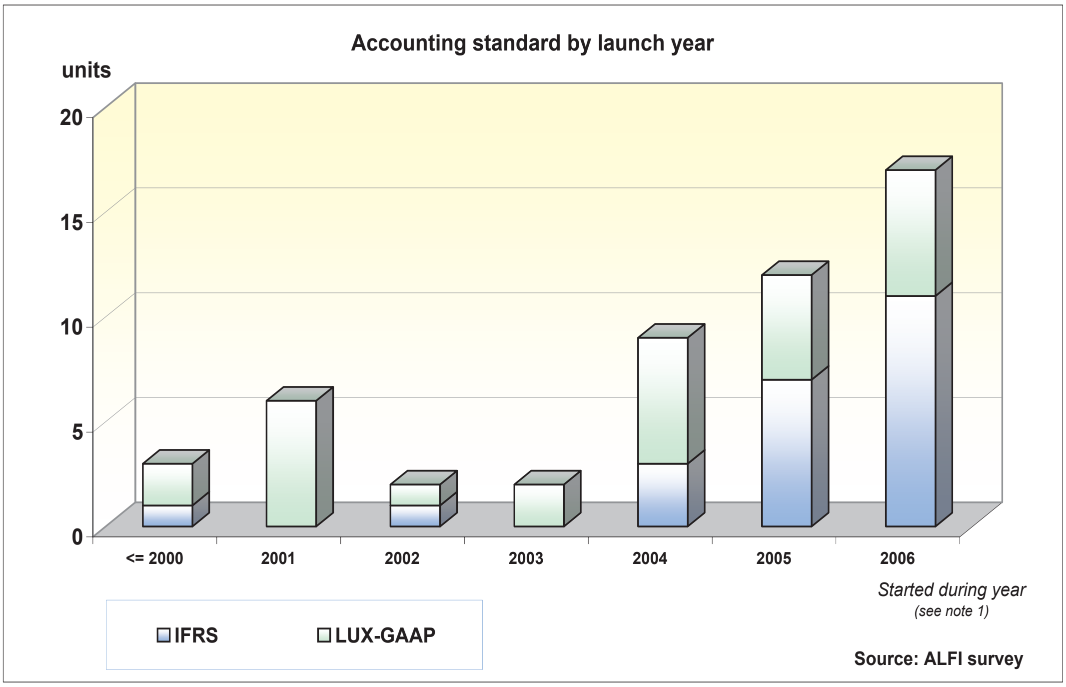
Accounting Standards and Adjustments

Overall, more than 50% of funds report under Luxembourg GAAP (Generally Accepted Accounting Principles). For funds launched in 2006, almost two thirds report under IFRS (International Financial Reporting Standards). More detailed information on the financial framework was provided for two thirds of funds in the survey; based on this data, it was noted that:

- Adjustments relating to formation cost, transactions and deferred tax are almost never made under Luxembourg GAAP but are made about half of the time under IFRS. This is because, under Luxembourg GAAP, such adjustments are generally not necessary as they are implicit in the accounting policy used to derive the financial statements whereas, under IFRS, such adjustments cannot be made in the financial statements and are made separately in calculating the NAV.

- Adjustments relating to financial instruments are made in most cases under Luxembourg GAAP but about half of the time under IFRS.

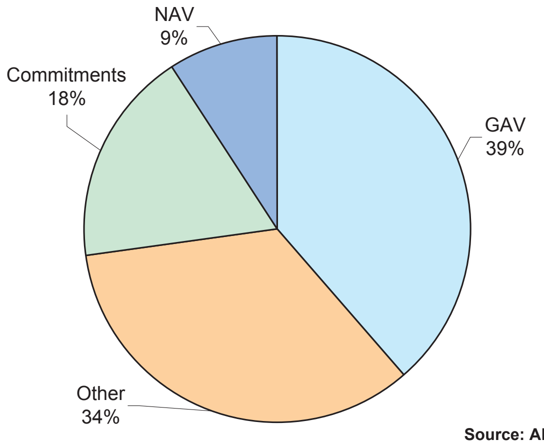
- Very few funds make other adjustments.



Fees

Management fee data was provided for over three quarters of funds in the survey. Based on the data, approximately 9% base the management fee on the NAV; 39% on GAV, 18% on commitments, and 34% on another measure.

Based on the experience of the working group, "other" probably represents a mix of different fee models, such as deal success fees, project management fees etc., combined with more conventional management fees based on GAV etc.



Source: ALFI survey

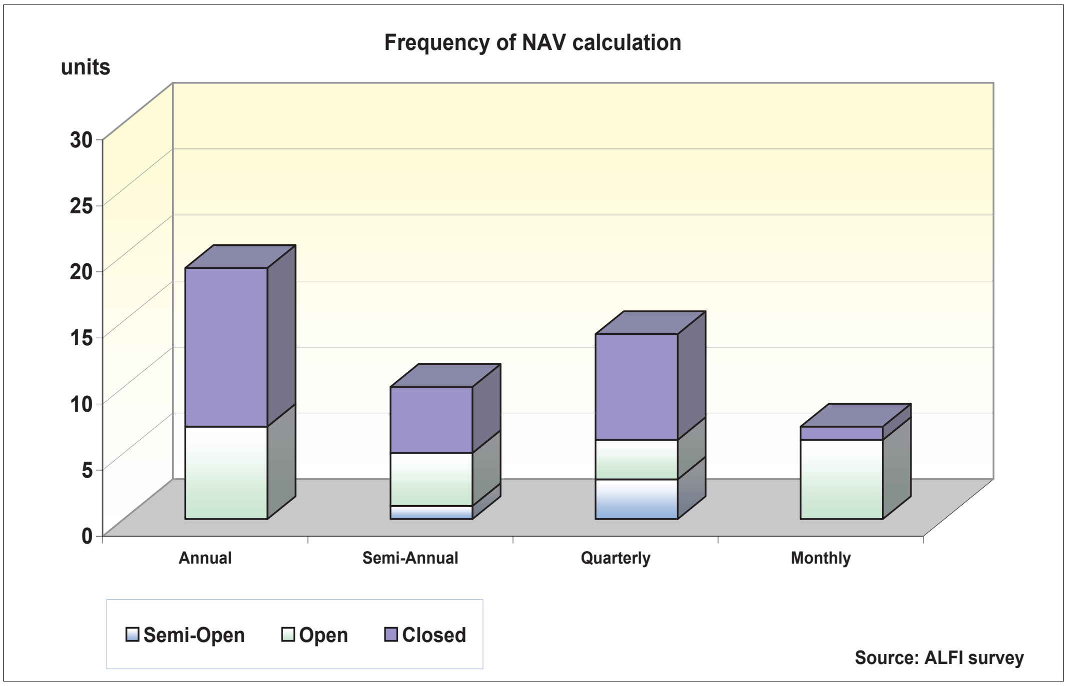
Half of the respondants did not comment on the question regarding performance fees which does not make a reliable overview possible. Based on the responses received, however, more than half said that no performance fee was charged. Of those that reported that a performance fee was charged, they were split almost equally between a cash-based Internal Rate of Return (IRR) model on exit (typically closed ended funds), a rolling average calculation over a three year period with actual cost payments subject to some kind of clawback or high water mark mechanism, and other performance fee mechanisms.

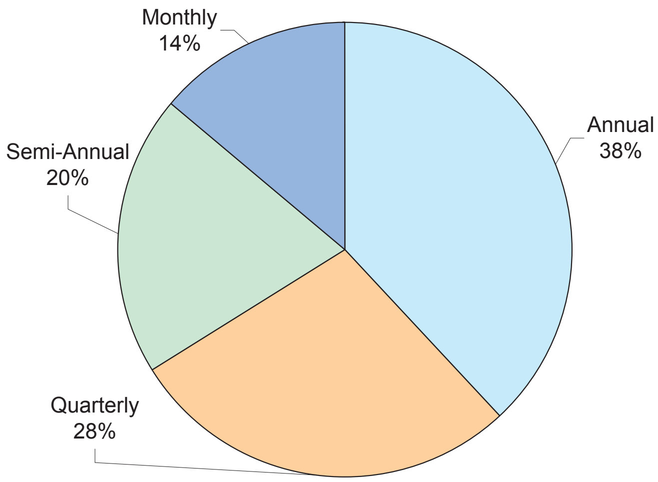
Stock Exchange Listing

Out of the 51 fund units in the survey, 43 responded to this question, confirming that at least eight funds are listed on the Luxembourg Stock Exchange, two during 2006. Two are listed on other exchanges.

Independent Property Valuation

Independent property valuation information was provided for nearly all funds. Overall, approximately 38% value property independently annually, 20% semi-annually, 28% quarterly, and 14% monthly. For closed ended funds, approximately two thirds value property annually.





Source: ALFI survey

5. DIRECT REAL ESTATE SICARS

The SICAR, Luxembourg's dedicated Private Equity fund vehicle, continued its success story in 2007. While at the end of 2006, 115 SICARs were officially registered by the CSSF, this number had already increased to over 150 by the end of August 2007.

2007 now also sees follow-on funds set up by General Partners, succeeding first-time funds set up after the SICAR law was enacted in June 2004.

According to the CSSF, there were 23 Real Estate SICARs at the end of 2006 .

Opportunistic, direct real estate vehicles can be launched as SICARs, providing the investments meet the CSSF's risk capital investment requirements.

6. FUNDS OF LISTED REAL ESTATE SECURITIES

According to an analysis of data by BBH and Ernst & Young, there were approximately 67 Luxembourg funds of listed real estate securities active at the end of 2006, investing in listed real estate securities on global markets.

A wider distribution of promoters was noted, more in line with the overall spread of Luxembourg fund promoters, with less concentration of UK and US groups (45% by number, compared with 60% for direct real estate funds).

As expected, 2002 Part I funds (i.e. UCITS) predominate, making up 75% of the sample.

On the service provider front, more variation was also noted, as this segment is served by the wide variety of groups servicing the broader securities funds industry.

25 different central administrators and 22 custodians were represented (although many banks play both roles).

Furthermore, the distribution of work amongst legal and audit firms also differs significantly from that seen in the direct real estate fund market.

7. FUNDS OF FUNDS

According to information available to the ALFI Real Estate Funds Working Group, there were approximately 9 Luxembourg "funds of real estate funds" operational at the end of 2006 (all launched in the past 2-3 years), with a further 7-10 launched in 2007. These funds typically invest in non-listed direct real estate funds. Given the small sample size, no reliable analysis could be made, but this should be possible in the future.

8. ACKNOWLEDGEMENTS

The ALFI Real Estate Funds Working Group would like to thank ALFI's Regine Rugani for coordinating the data collection and document production, the direct real estate fund custodians for participating in the survey, the members of the ALFI Real Estate Funds Working Group for overseeing the process, Michael Hornsby, Yann Power and Miriam Karg of Ernst & Young and Keith Burman of Brown Brothers Harriman for analysis of results and for preparation of the report.