



The REIT Business Model

Which way will property companies go?

Stephen Hester, Chief Executive

We are real estate investors and create value by actively managing, financing and developing prime commercial property to provide the environment in which modern business can thrive.



Introduction

- **What are UK REITs (& what are they not)**
- **Effects of the REIT regime**
- **Income – Will strategies change**
- **Investor Base Impacts**
- **Lessons from Abroad**
- **Making Money – Let different models flourish**

What are UK REITs (& what are they not)

- **UK Quoted Property Companies**

- Tax free (income & capital), post ‘entry charge’
- ‘Light touch’ regulation on gearing & business focus
- Minimum dividend payout

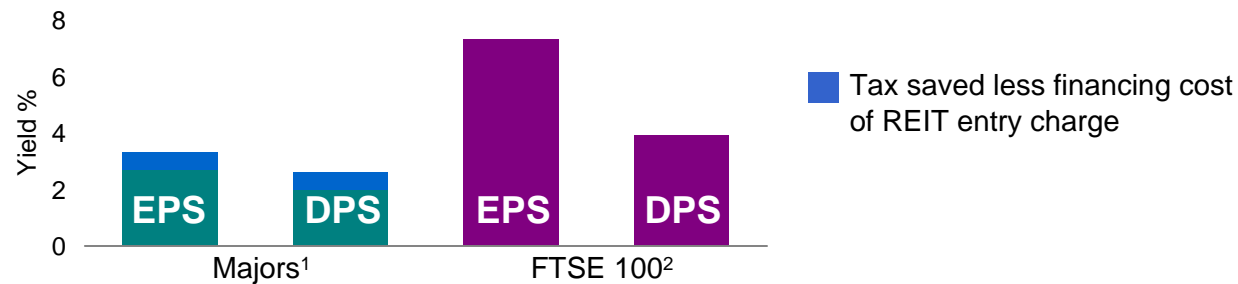
Full stop

- **The UK REIT regime does not**

- Discriminate between types of real estate
- Place limits on development
- Substantially change the way investors will make money
- Remove responsibility from management and investors to design and pursue ‘real estate based’ value creation

Direct Effects of the REIT Regime

- **Earnings & Dividend yield** (property majors¹) increases c.0.6% respectively



- **Total Return & its composition** (property majors¹)

	2007E ³		
	As Is %	REITs %	Change %
Total Return	10.1	10.7	6
% from Dividends	18	22	22
% from NAV	82	78	(5)

Few direct regulatory effects expected as the regulatory constraints do not in practice restrict existing business models

Second Order Effects of REITs

- **Gearing & Loss of Tax Shield on Interest**

Cost of Equity: 8-9%¹

Cost of Debt: 5-5.5%¹ (up from c.4% as tax shield lost)

PMA predicted asset returns: 7%² (less average 1.3%³ expenses)

Still efficient to use leverage and indeed “necessary” to achieve adequate equity market returns – but “closer to cross-over point” so business risk more important to assess

- **Asset Turnover**

- Some asset sales will be more tax efficient so turnover encouraged, offset by ‘stamp duty’ effect to an extent
- Resultant impact may be individually important, but cumulatively unlikely to exceed, say, 0.25% improvement in overall IRRs

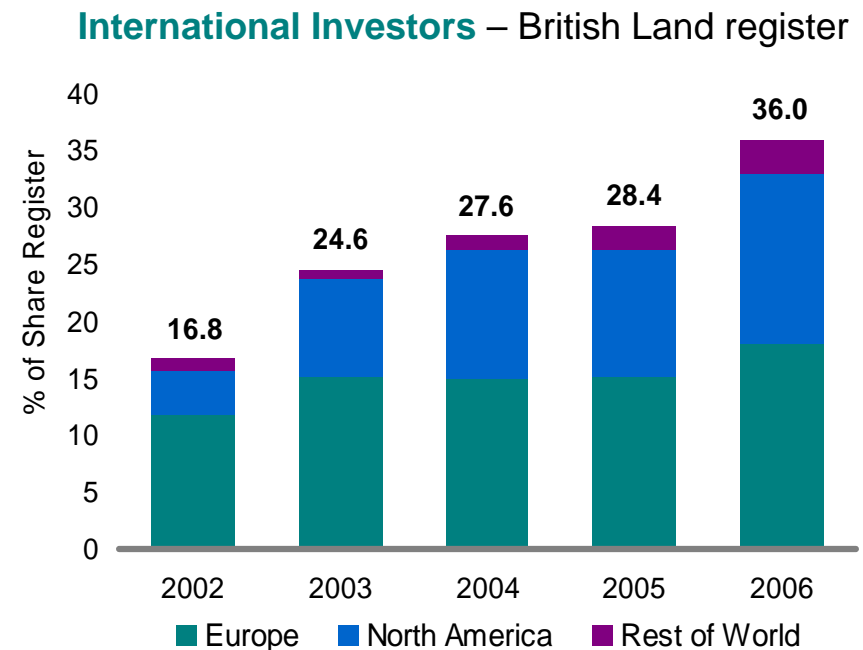
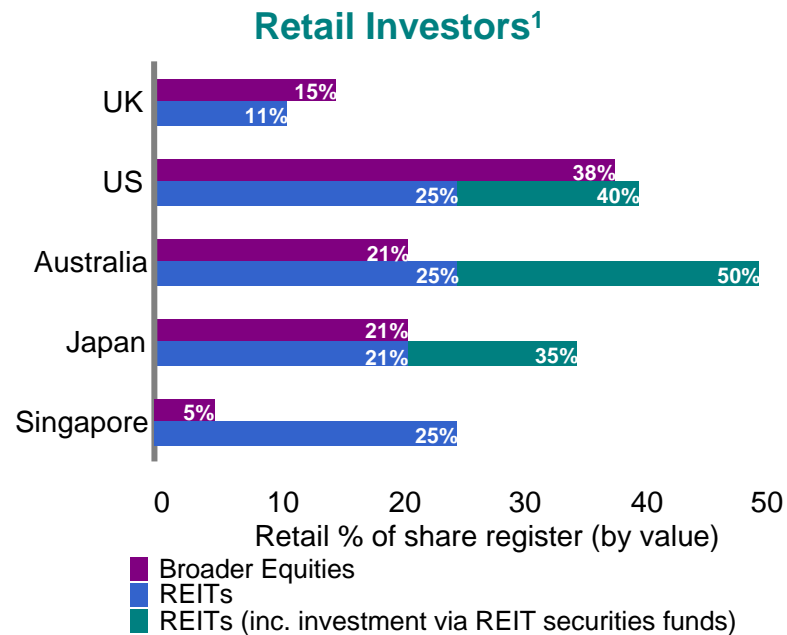
Income – Will Strategies Change?

- **REITs lose tax shield on expenses, but also lose tax on capital gains** – so incentives to move from a ‘total return’ to an ‘income’ strategy are muted

- **Will activities that depress current income be reduced** – e.g. development, asset management initiatives, lease extensions, holding lower yielding prime assets, use of gearing
 - Yes if these relied on the tax shield for justification, but virtually none do.....
 - In a minority of specialised cases, very high yield, secondary property strategies have an investor niche
 - In the majority of cases, total return is enhanced by these activities and total return will remain the yardstick

However, irrespective of REITs, in a lower growth environment income may get more focus, albeit seldom at the expense of total return

Investor Base Impacts – Will REITs Change the Investor Base?

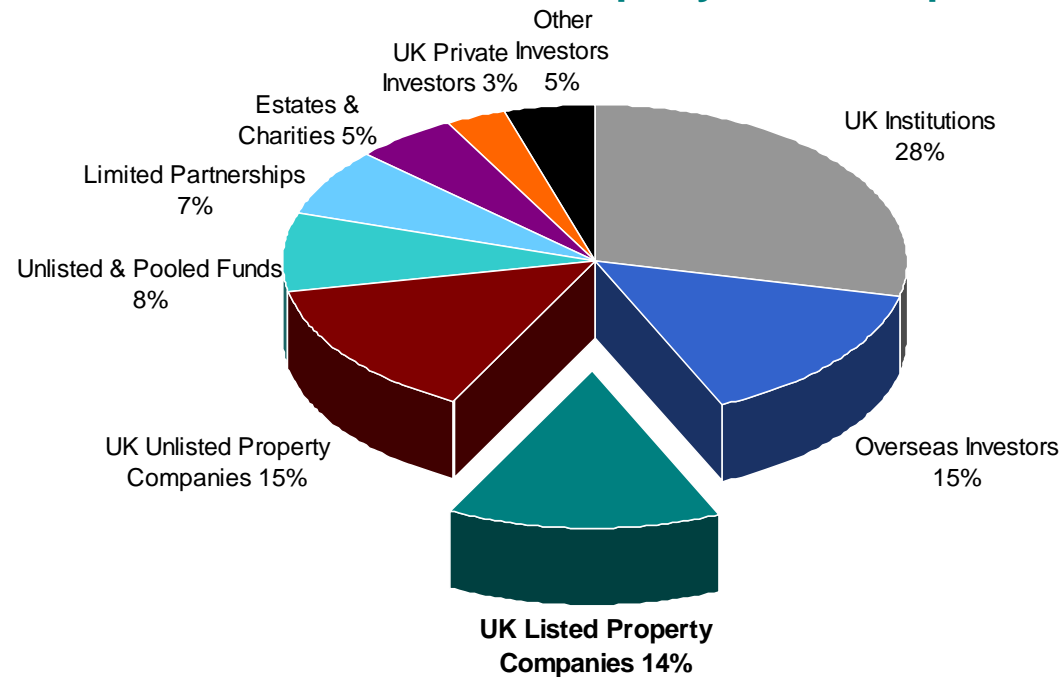


Real Estate investment has joined the globalisation trend and this will continue, REITs or not.

There is little evidence that a new wave of retail investment is in prospect however – though specialist REIT funds may take share in institutional sales.

Industry Power of Quoted Property Companies – An Opportunity?

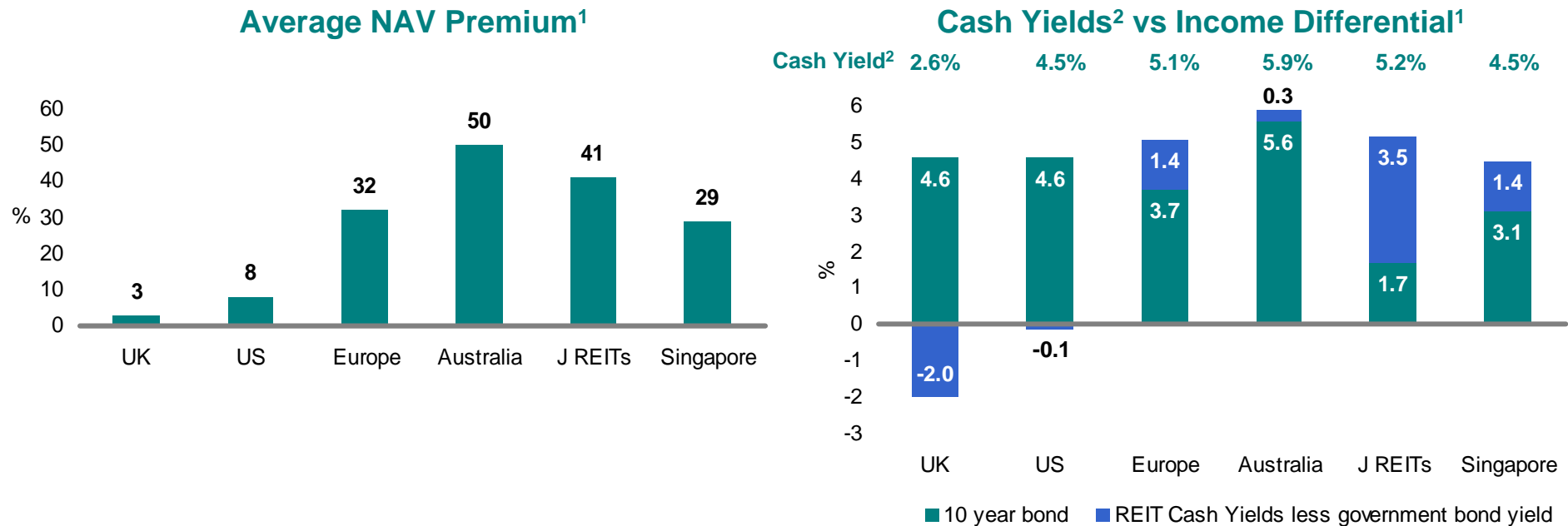
UK Commercial Property Ownership¹



A more competitive quoted sector can influence industry trends and behaviour, but the scale of influence is tempered by equivalent tax status elsewhere and the quoted sector's limited 'market share'

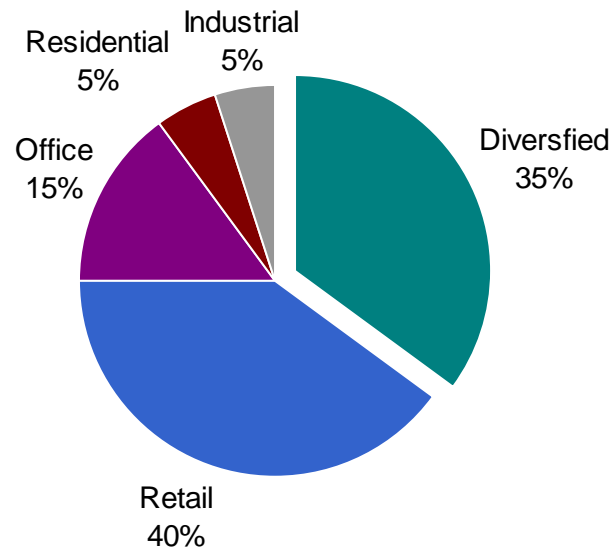
Lessons from Abroad – How Might Valuations Change?

- Logical change will be NPV of tax benefits (1st & 2nd order effects)
- Could there be a ‘publicity’ effect, leading to further reassessment of valuation?
- What do international comparisons tells us?

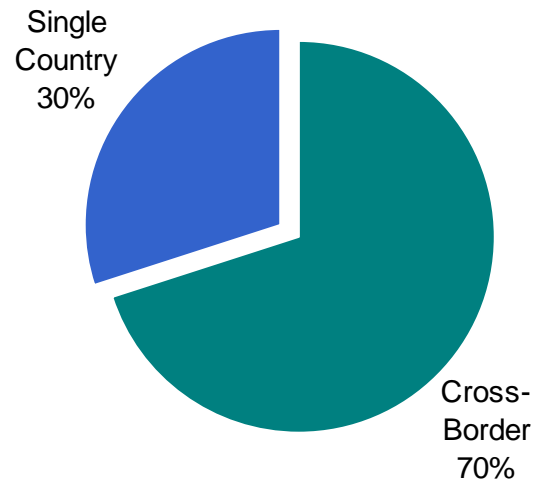


Lessons from Abroad

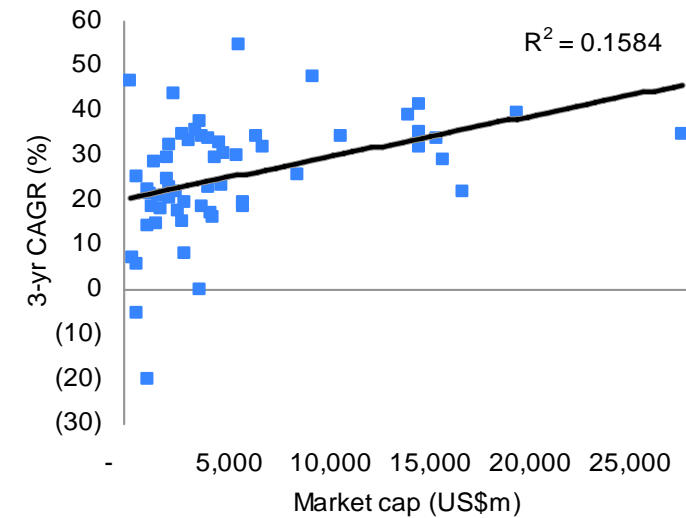
**REIT Business Focus:
Global Top 20 REITs¹**



**Geographic Focus:
Global Top 20 REITs¹**



**Size vs Performance:
Total Shareholder Return vs
Market Cap - US¹**



There is no “right” business model. The market supports a range of size and business models successfully

Lessons from Abroad – The World’s Top 20 REITs

	Company	Mkt Cap	Domicile	Business Focus
1	Westfield	\$24.8bn	Australia	121 regional shopping centres comprising 110m sq ft in 4 countries
2	Simon Property	\$21.0bn	US	More than 200m sq ft of retail in 39 US states and interests in 52 countries
3	Vornado Realty	\$16.6bn	US	58m sq ft of office and retail located in Washington DC, New York & California
4	Equity Office	\$15.0bn	US	590 office buildings totalling 105m sq ft in approximately 16 US states
5	Equity Residential	\$14.8bn	US	Owns/develops multi-family properties – 160,000 apartments in 27 US states
6	Boston Properties	\$12.4bn	US	Owns/develops 121 office properties in Boston, New York, Washington DC
7	General Growth Properties	\$11.4bn	US	Owns/manages shopping malls across the US, Brazil, and Europe
8	Unibail	\$10.5bn	France	€8.6bn invested in offices, shopping centres & exhibition halls in France
9	Rodamco Europe	\$10.4bn	Netherlands	32m sq ft of retail, office & industrial space in Europe
10	Kimco Realty Corp	\$10.3bn	US	1,118 shopping centres (144m sq ft) in 45 US states, Canada & Mexico
11	AvalonBay Communities	\$9.3bn	US	Owns/develops apartment communities in 10 US states
12	Gecina	\$8.9bn	France	Owns & manages 28m sq ft of office and residential accommodation in France
13	Macquarie Goodman	\$8.4bn	Australia	Owns/develops 98m sq ft of industrial & business space in Europe & Asia
14	Stockland	\$8.0bn	Australia	Owns/develops industrial & office parks and retail in Australia & New Zealand
15	GPT	\$7.6bn	Australia	More than 40 retail, office and industrial/business properties across Australia
16	Klepierre	\$7.2bn	France	€7.9bn of shopping centre and office assets in 10 European countries
17	Developers Diversified Realty	\$6.6bn	US	Owns/manages 500 retail assets (118m sq ft) in 44 US states & Brazil
18	Nippon Building Fund Mgt	\$5.5bn	Japan	Mainly invests in offices located in Tokyo and other major Japanese cities
19	Lend Lease Corp	\$5.3bn	Australia	Owns/manages retail & residential globally and construction management
20	Centro Properties Group	\$5.0bn	Australia	Owns/manages shopping centres in Australia, 18 US states & New Zealand

23 November 2006

Making Money – Let Different Models Flourish

- **UK REITs are an important reform and will boost the valuation and competitive position of the UK Quoted Sector**

- **But, freed of the tax distortion, companies have an unchanged goal – to make money for shareholders out of real estate**
 - There is no singular model that works – either in real estate or other industries
 - Companies will pursue diverse strategies in diverse structures based on their own assets and competencies
 - Capital markets will ultimately reward success, not fashion

This presentation may contain certain “forward-looking” statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements. Any forward-looking statements made by or on behalf of British Land speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. British Land does not undertake to update forward-looking statements to reflect any changes in British Land’s expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

This presentation is made only to investment professionals as defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (‘the FP Order’). The content of this presentation has not been approved by a person authorised under the Financial Services and Markets Act 2000 (“FSMA”). Accordingly, this presentation may only be communicated in the UK with the benefit of an exemption set out in the FP Order. An investment professional includes:

- (i) a person who is authorised or exempt under FSMA; and
- (ii) a person who invests, or can reasonably be expected to invest, on a professional basis for the purposes of a business carried on by him; and
- (iii) a government, local authority (whether in the United Kingdom or elsewhere) or an international organisation; and
- (iv) any director, officer, executive or employee of any such person when acting in that capacity.

This presentation is published solely for information purposes. This presentation does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of the securities referred to in this presentation in any jurisdiction in contravention of applicable law. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein.

The distribution of this presentation in jurisdictions other than the UK may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the UK should inform themselves about, and observe, any applicable requirements. This presentation has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this presentation had been prepared in accordance with the laws of jurisdictions outside the UK.

All opinions expressed in this presentation are subject to change without notice and may differ from opinions expressed elsewhere.