

# Sector Keys – European Real Estate

## *Decoupling from fundamentals*

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# UBS coverage and investment thesis

Stock	Rating	Price	Price target	Total return	UBS Investment Thesis
<b>UK</b>					
British Land	Buy	659p	900p	40.9%	UK major; Fits London office and UK rental growth theme with substantial development pipeline and asset management opportunities, good dividend yield
Capco	Neutral	320p	400p	25.5%	Driving value through 'place-making' (repositioning) of two major estates in central London: (1) Earls Court; and (2) Covent Garden
Derwent London	Buy	3,039p	3,750p	24.8%	Largest London focussed REIT, very well positioned with low average rents, strong reversionary potential and more than half its portfolio has development potential
Great Portland	Buy	698p	900p	30.0%	Quality portfolio, ideally positioned to capture London rental growth with strong rent reversion (c.+5% lfl rents to come) and development potential across 50% portfolio
Hammerson	Buy	548p	680p	28.1%	Prime shopping centre portfolio that is in our view unreplicable; €1.85bn acquisition of A+ platform in Dublin offers synergies with UK platform and accelerates refocus
Intu Properties	Buy	288p	350p	26.2%	Leading UK shopping centre landlord (9 of top 20 assets) due to benefit from much improved retailer affordability and no new competition
Land Securities	Buy	1,006p	1,330p	35.5%	Largest UK REIT, looking to end speculative development once its current projects complete by the end of 2016. Major assets: Victoria, New Street Square and Bluewater
Shaftesbury	Neutral	848p	960p	14.8%	Unique, un-replicable portfolio in heart of London's West End which is trading extremely well, but well reflected in share price and low yield
Segro	Neutral	417p	470p	16.4%	Leading industrial play in UK and selected key European cities; although aims to be a 'leading income producing REIT' dividend yield is just marginally higher than average
<b>Netherlands</b>					
Eurocommercial	Sell	€38.4	€35.0	-3.8%	Good quality small and mid-sized shopping centres offering stable performance; but QE has pushed stock ahead and rental growth priced in may not be achievable
Unibail-Rodamco	Neutral	€227.6	€230.0	5.3%	Key liquid proxy for 'European Real Estate', key beneficiary of European 'lower for longer' theme (i.e. QE), with solid operational outlook
Wereldhave	Neutral	€46.5	€50.0	14.0%	Made good progress improving its operational performance and exiting non-core markets (US, UK, Spain); active on acquisition side (€1.6bn over the last 12m)
<b>France</b>					
Gecina	Neutral	€112.7	€119.0	10.2%	Strong-quality portfolio and much improved governance; management's plan to refocus toward office and recent capital allocation both sensible
Icade	Buy	€63.5	€78.0	28.6%	Soft operating performance but new management now fully operational, leasing challenges mostly behind and benefits from large, pre-let pipeline
Klepierre	Neutral	€38.2	€40.0	9.4%	Refocus toward prime schemes is being well-executed, as exemplified by attractive sale to Wereldhave and fair to good pricing on reallocation (e.g. Madrid, Oslo)
<b>Germany</b>					
ADO Properties	Buy	€26.8	€30.0	13.5%	Attractive Berlin residential specialist with good-quality portfolio (55% Altbau) and credible management in supportive market
alstria office	Buy	€11.6	€13.2	17.9%	Quality play on German offices, where QE driven 'desperation for yield' is driving significant interest in property. Acquisition of D.Office grows FFO with value add opportunities
Deutsche Euroshop	Sell	€38.9	€36.0	-4.0%	Good quality shopping centre portfolio, fully occupied with modest rental growth and limited reversionary potential but largely reflected in price
Deutsche Wohnen	Neutral	€24.3	€25.2	6.2%	RESTRICTED
TLG Immobilien	Buy	€17.6	€17.5	3.6%	High-yielding mid market leader in East Germany. Strong earnings growth as acquiring at 7-10% yields while marginal cost of debt is c.2%
<b>Switzerland</b>					
Allreal	Neutral	chf133	chf135	5.8%	Good rental income growth from project completions, but more cyclical general contracting business a risk as Swiss economy slows down
Mobimo Holding	Neutral	chf223	chf216	1.3%	Benefits from high residential share (25%) compared to peers. Positive outlook for 2015, but valuation limits upside
PSP Swiss Property	Neutral	chf86	chf86	4.0%	Downside risk from high office exposure and above average expiries, but prime locations and conservative business model reduces risk
SPS	Neutral	chf83	chf78	-1.4%	Diversified business model pays off in challenging environment. Assisted living offers growth opportunities even in a challenging market environment
Intershop	Sell	chf435	chf340	-17.5%	Dividend play with high valuation and focus on peripheral properties as risk factors
<b>Sweden</b>					
Castellum	Neutral	Skr129	Skr125	0.4%	Positive recent capital allocation refocusing on higher-growth geographies, but leverage remains high and company is planning to remain acquisitive in 2016
Fabege	Neutral	Skr134	Skr130	-0.7%	Strong development and leasing track record in Arenastaden yet pricing reflects upside while balance sheet remains weak (i.e. 60% LTV)
Hufvudstaden	Neutral	Skr125	Skr120	-1.4%	Positive prospects for both high-quality retail and office Stockholm CBD portfolios; increasing tourism (retail) and limited market vacancy (4%, in office) the key drivers
<b>Finland</b>					
Citycon Oyj	Neutral	€2.15	€2.45	21.2%	Owns a mixed-quality retail portfolio including some dominant assets but also weaker centres which drag on performance; acquired recently portfolio in Norway
Sponda	Buy	€3.62	€4.40	26.9%	Owns a mixed-quality, diversified portfolio with upside on portfolio refocus and office occupancy
<b>Other</b>					
Azrieli	Neutral	ILS140.40	ILS165.00	19.6%	Leading real estate company in Israel, offering exposure to good quality retail and office assets
Merlin Properties	Neutral	€9.62	€12.25	29.7%	Tap Spain's recovering property market with a driven, incentivised management team who have bought well (e.g. significant hidden value in Tree portfolio)
Hispania	Buy	€11.67	€15.00	29.4%	Higher returns through complexity, Hispania targets a 15% IRR and management doesn't receive a performance fee until a compounded 10% hurdle is met

Note: Prices and data as at 26-Feb-2016 unless otherwise stated.

Source: UBS

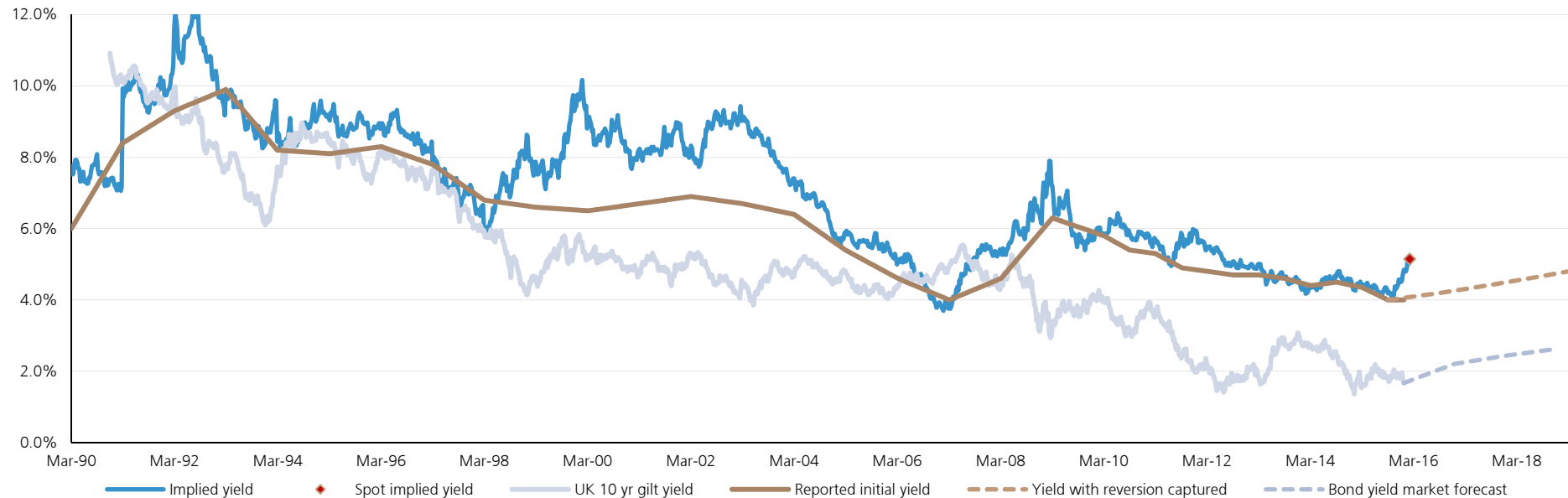
# Summary

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- What's priced in? We estimate 20%+ declines in UK asset values – looks overdone
- UK preference vs. Continent, given recent underperformance / headwinds for retail
  - UK is pricing in a c.20% fall in property values, we estimate – looks overly negative, in our view (decoupling from fundamentals)
  - Continental RoE looks set to outperform UK in 2016, but we think this is more than reflected in share prices (decoupling from fundamentals)
  - Recently downgraded the continental retail sector, as we see both immediate (e.g. weak national retail sales), and more structural issues (online sales)
  - Brexit is a risk factor for the UK, particularly London office (c.32% of UK REIT's asset base)
- Key theme: Low yields still supportive
  - 70 bps average spread between UK yields and 10-year Gilt since Jan-1987; c320 bps currently
  - Further ECB QE potential; Japan moves to negative interest rates
  - Attractive supply/demand dynamics remain in London office
- Stock return closely aligned with RoE (i.e. NAV growth + dividend)
  - We see 10% RoE (3-year forward, p.a.) including 6% NAV growth for the sector
  - Relatively even NAV growth between the UK and continent. UK leverage has declined as the UK cycle matures and yield shift slows, providing less of a 'boost' for NAV

# What's priced in? - Land Securities as bellwether

Implied yield vs. 10 year Gilt since 1990 – Land Securities



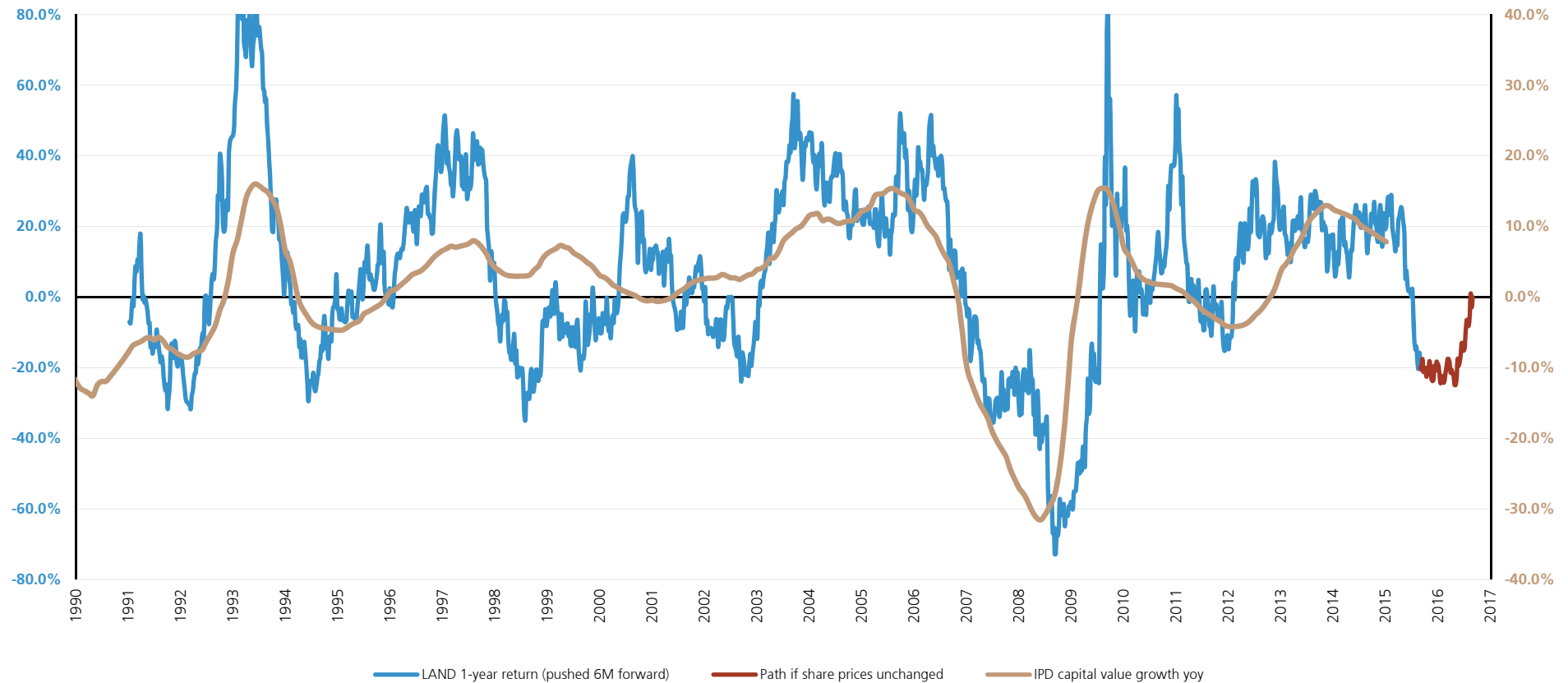
Discount gross assets (GAV) vs. discount to NAV – Land Securities



Source: Company data, UBS estimates, Datastream

# What's priced in?

Annual change in UK property values vs. change in Land Securities share price (pushed 6 months forward)



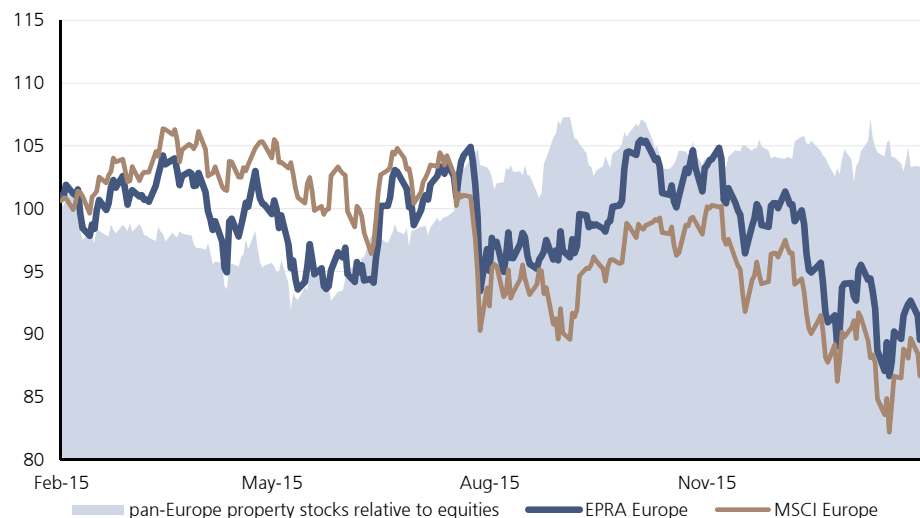
Source: IPD, Datastream, UBS estimates

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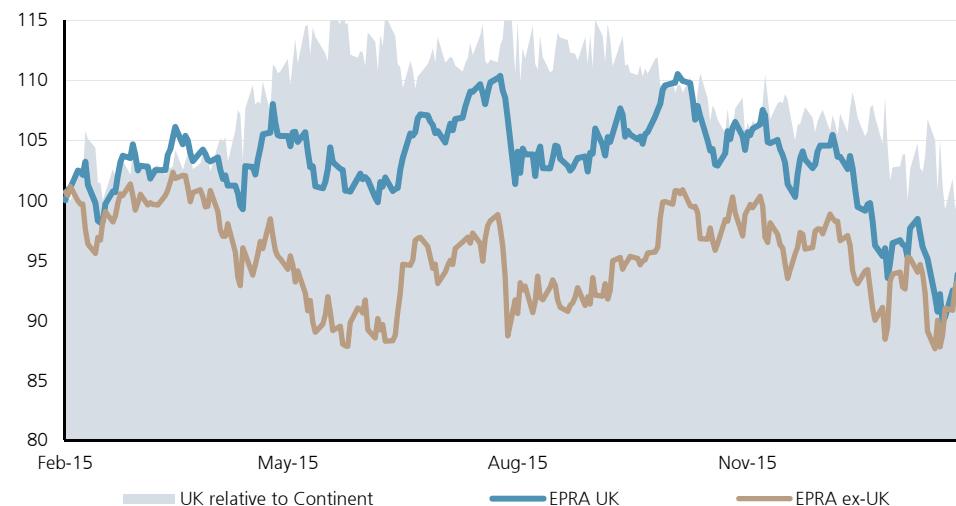
## Performance and valuation

# Performance – total return over past year

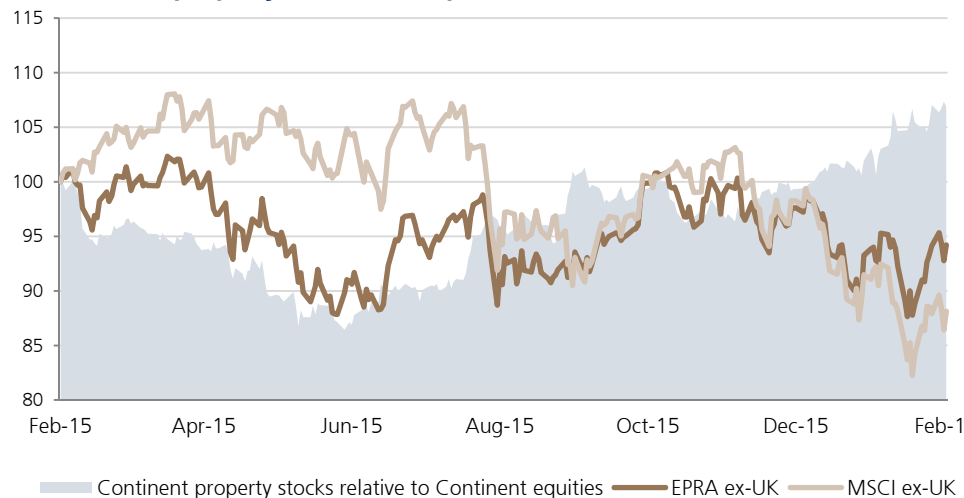
## European property stocks vs. equities



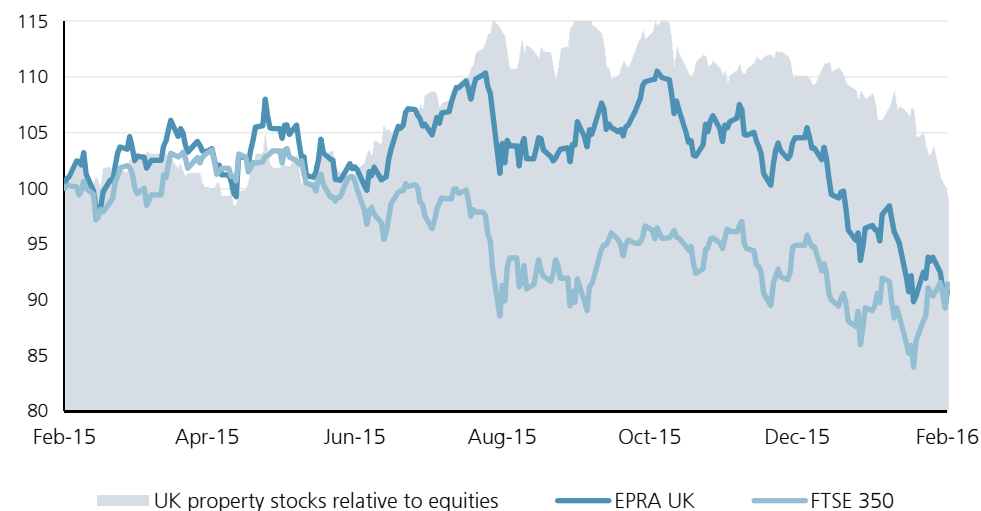
## UK vs. Continent Property stocks



## Continent: property stocks vs. equities



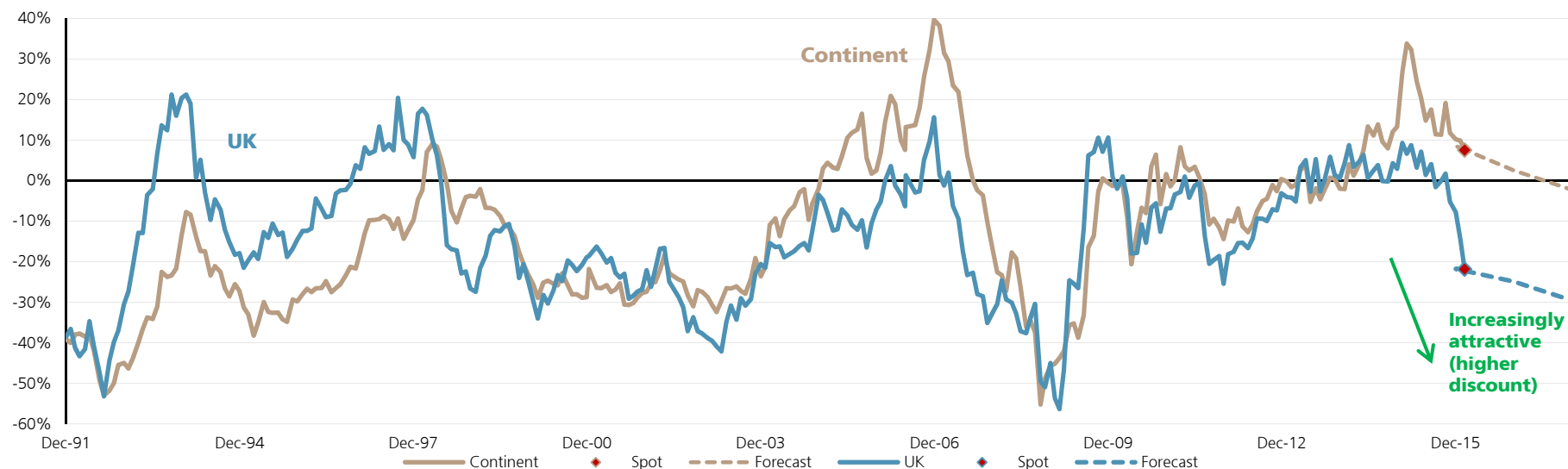
## UK: property stocks vs. equities



Source: Datastream. Total return rebased

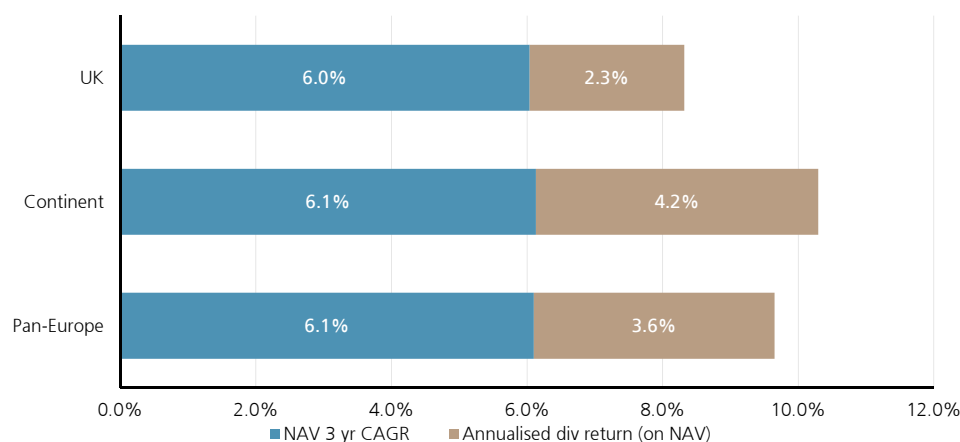
# NAV discount – history, spot and forward (sector) & RoE

Long term prem (disc) to NAV and forecast (based on current share prices)



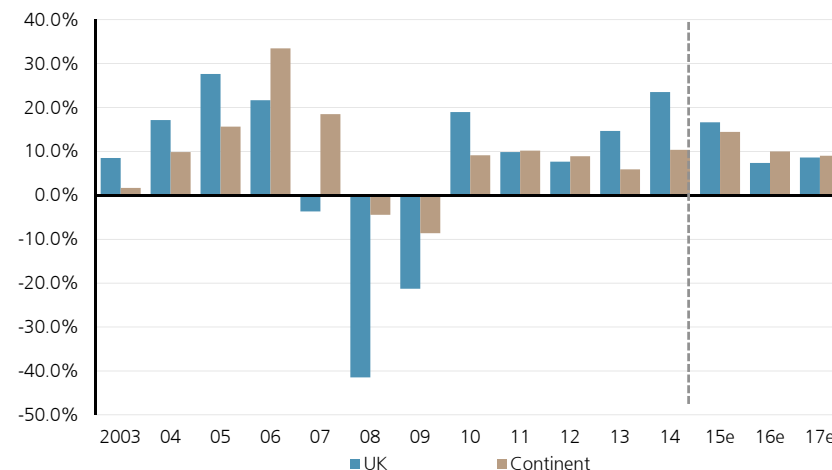
Source: UBS estimates, Datastream

Return on Equity – components (i.e. NAV growth + Dividend) – 3 year CAGR



Source: UBS estimates

Return on Equity – annual historical + forecast

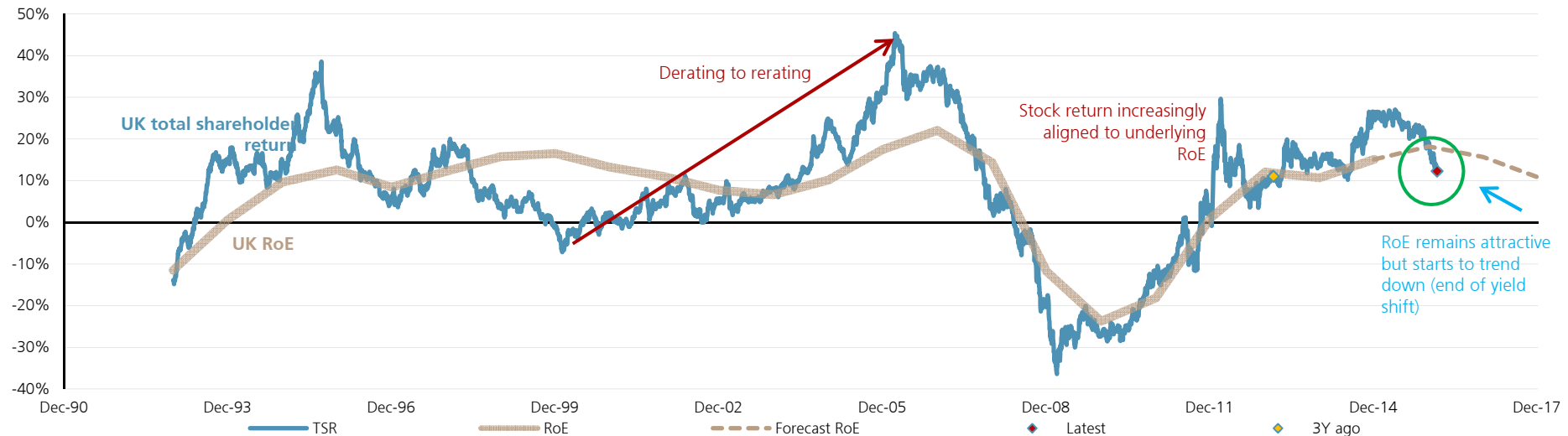


Source: UBS estimates



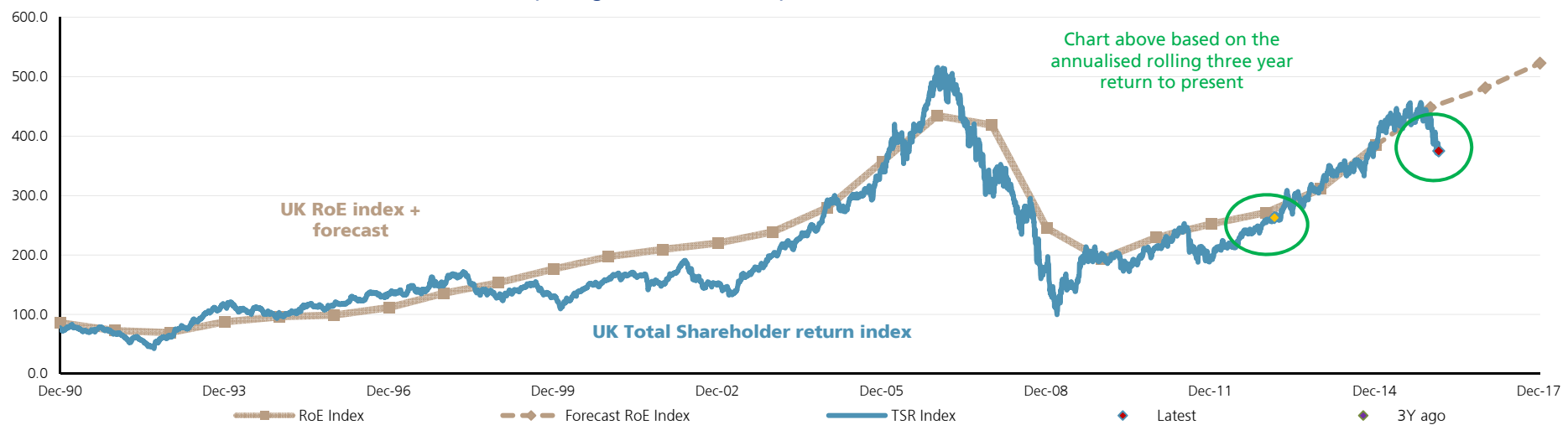
# UK: Stock returns vs. underlying RoE

UK performance more closely tracking RoE (Historical RoE and TSR 3y CAGR; with UBS forecast RoE)



Source: UBS estimates , Datastream

UK Total Shareholder Return index vs. RoE index (NAV growth + dividend)



Source: UBS estimates, Datastream

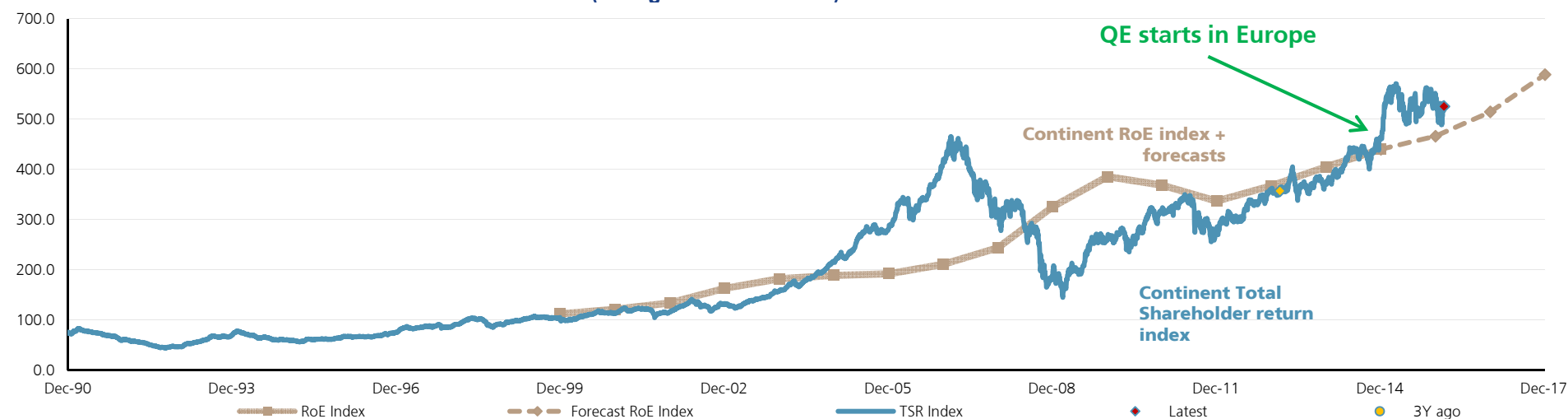
# Continent: Stock returns vs. underlying RoE

Continent sector – total shareholder return (TSR) vs. RoE (with UBS forecast; three-year CAGR)



Source: UBS estimates, Datastream

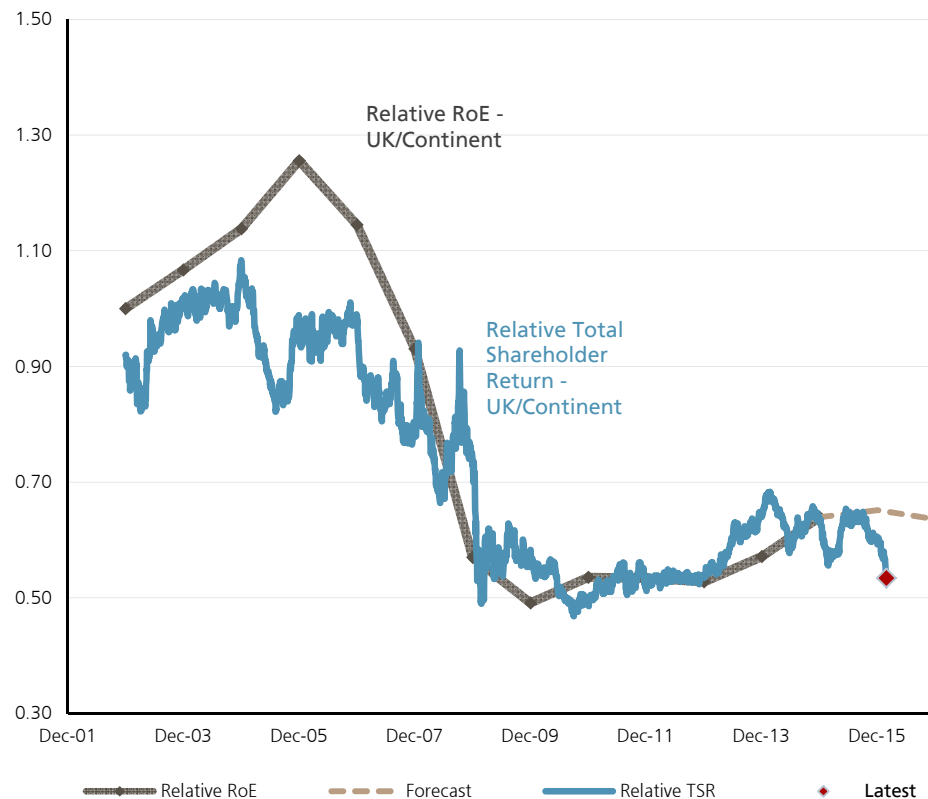
Continent Total Shareholder Return index vs. RoE index (NAV growth + dividend)



Source: UBS estimates, Datastream

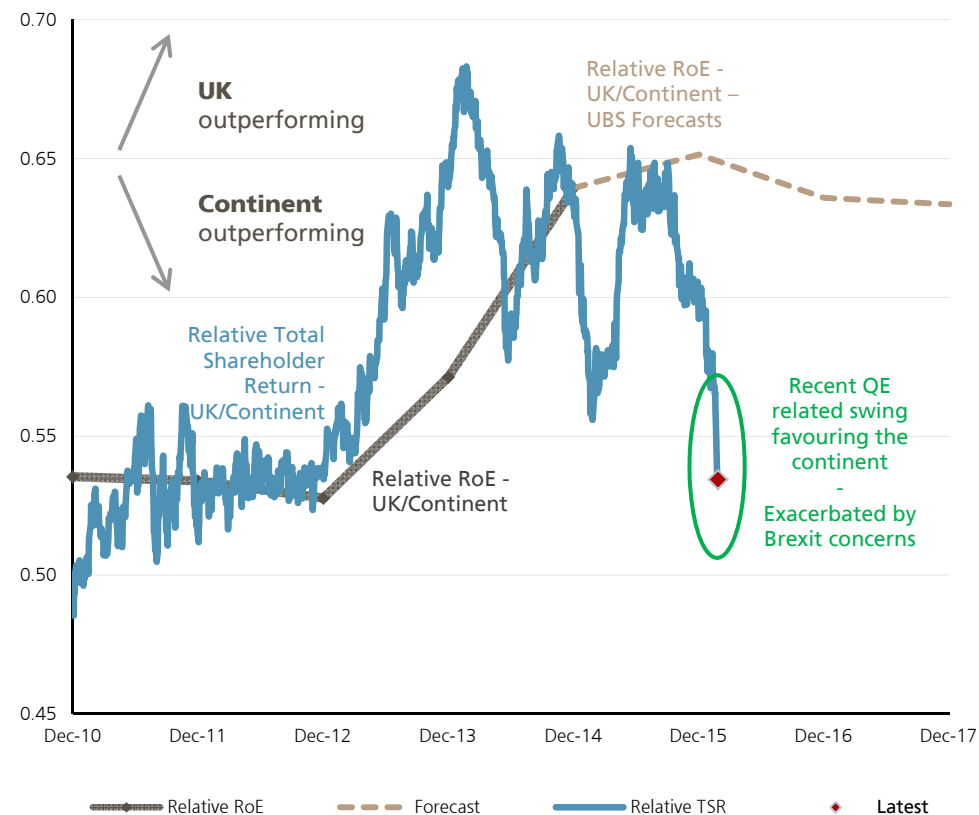
# Putting relative return in perspective: UK vs. Continent

UK vs. Continent: Relative TSR and relative RoE – long term...



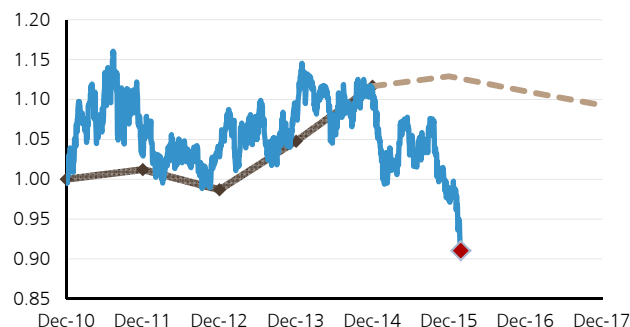
Source: UBS estimates, Datastream

...and short term

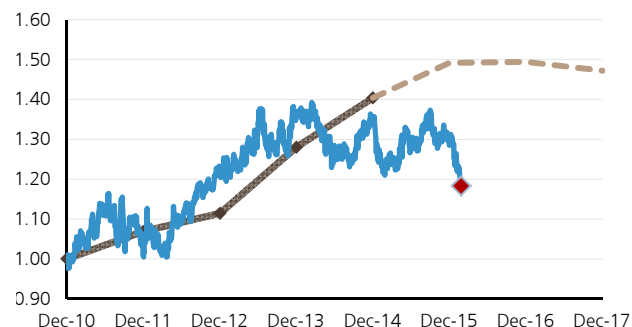


# Putting relative performance in perspective – UK

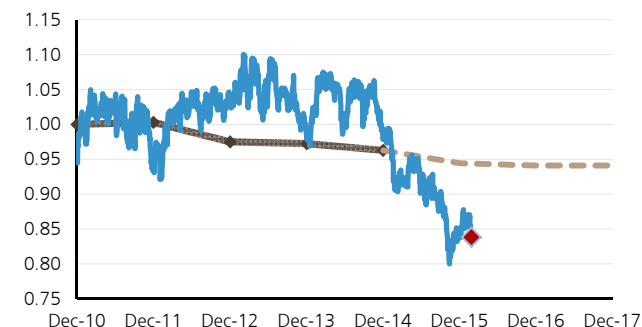
**British Land**



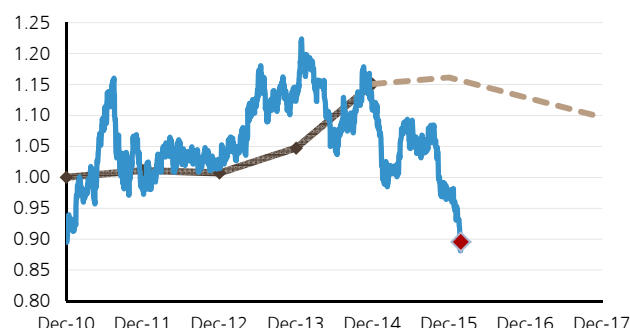
**Great Portland**



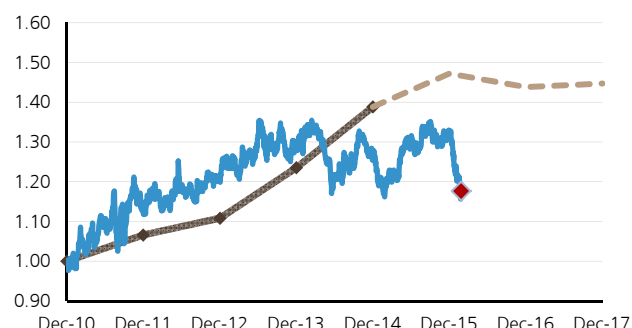
**Hammerson**



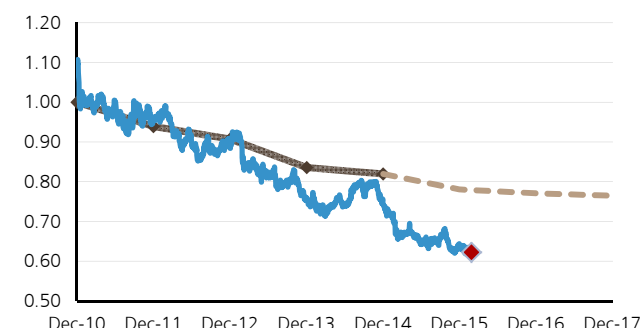
**Land Securities**



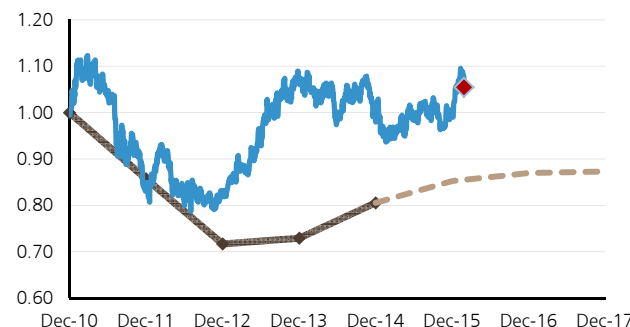
**Derwent London**



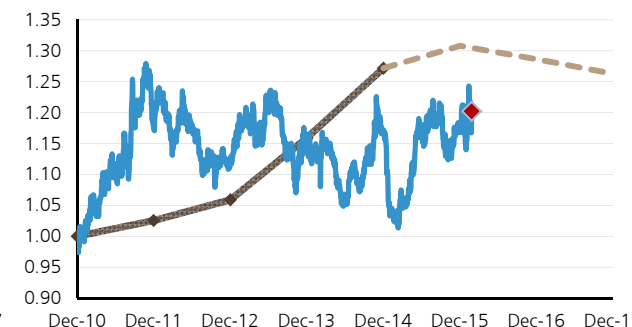
**Intu**



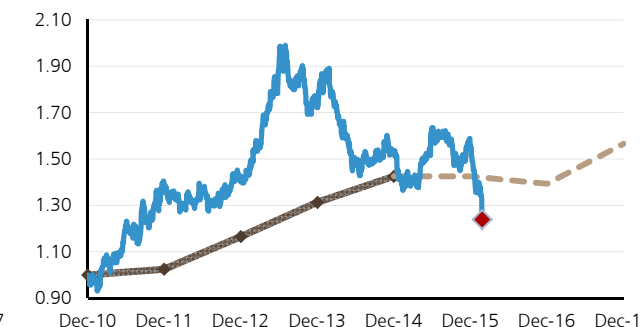
**SEGRO**



**Shaftesbury**

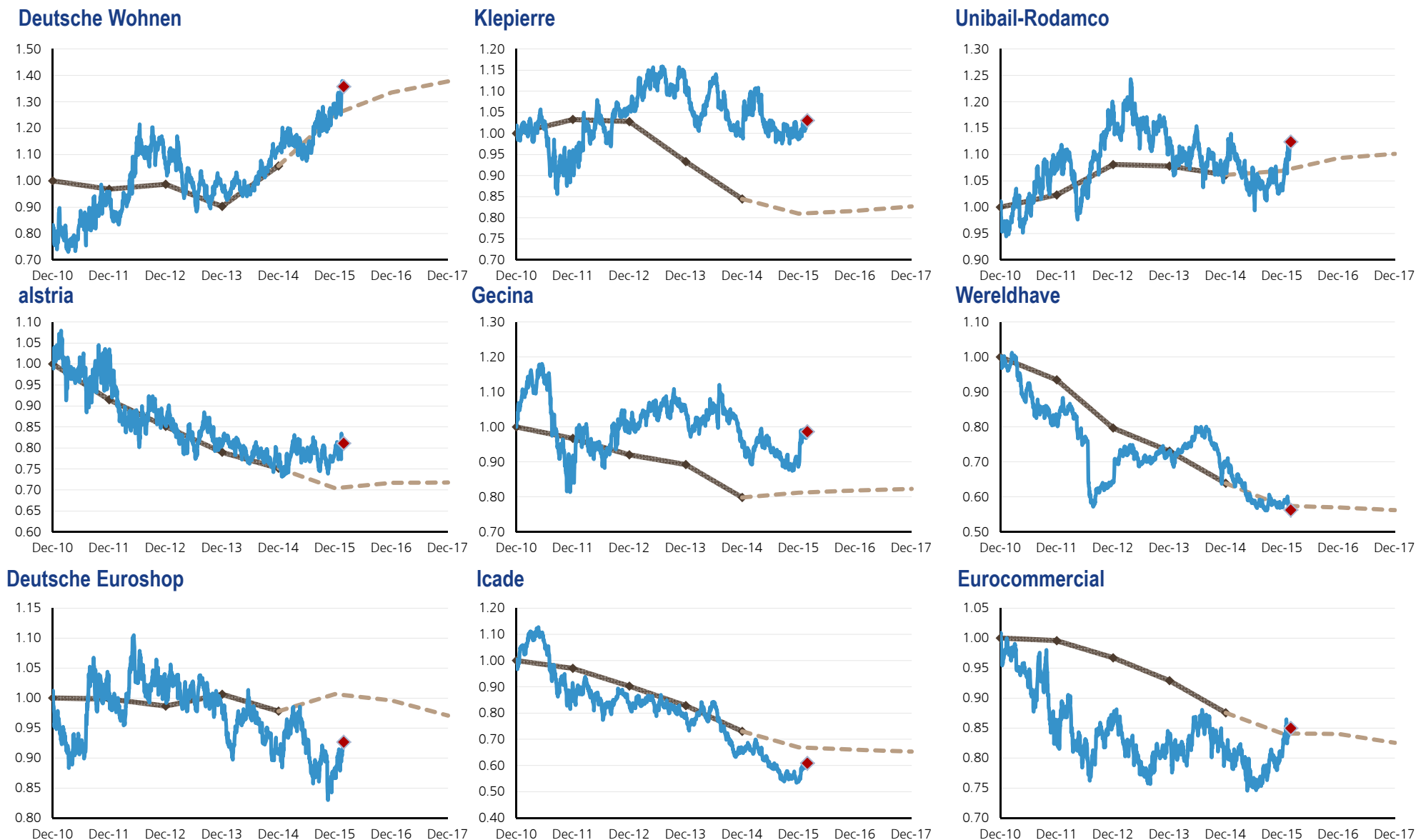


**Capco**



Source: UBS estimates; Datastream. Relative to EPRA Europe Index.

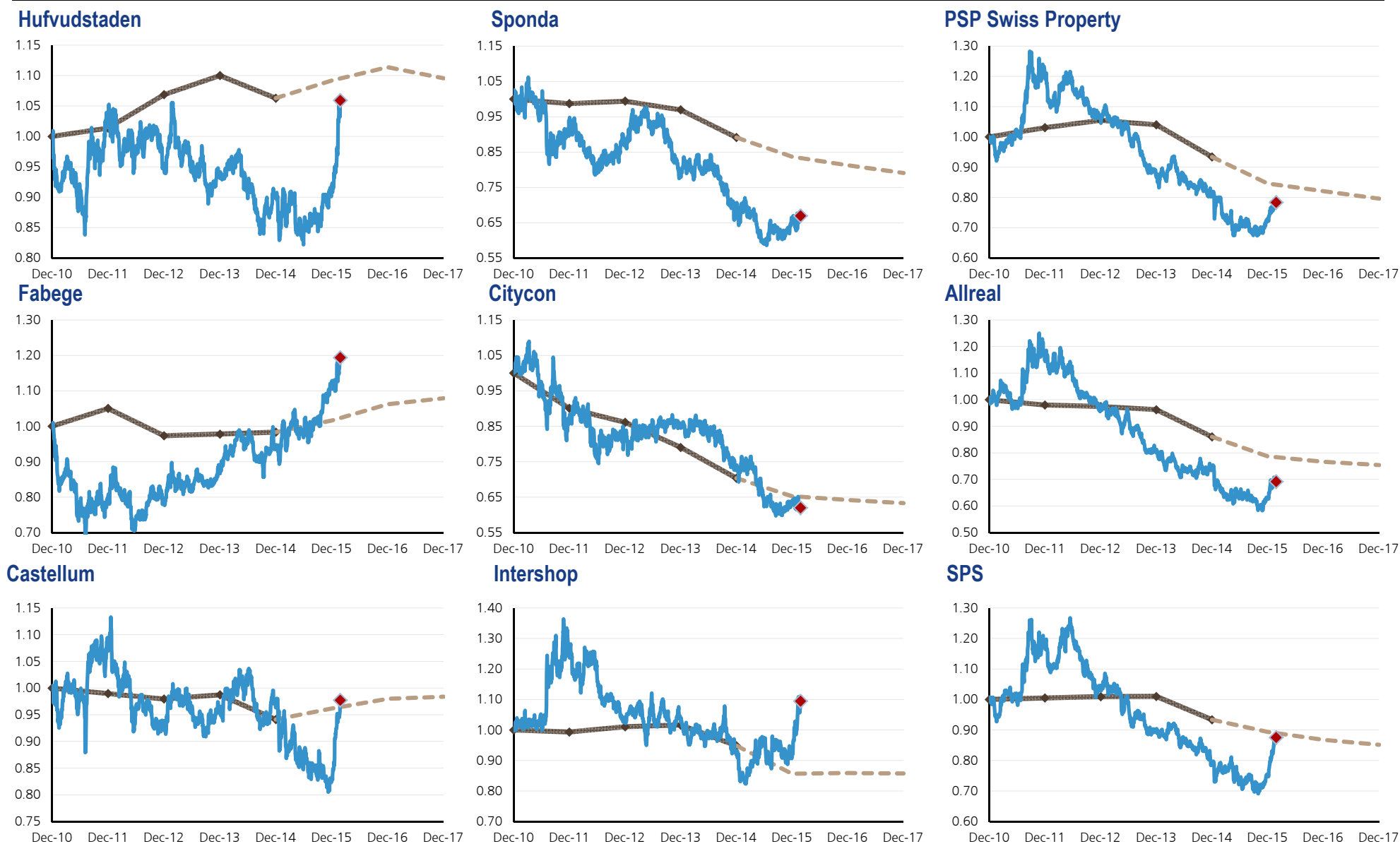
# Putting relative performance in perspective – Continent



Source: UBS estimates; Datastream. Relative to EPRA Europe Index.



# Putting relative performance in perspective – Continent



Source: UBS estimates; Datastream. Relative to EPRA Europe Index.



Relative RoE

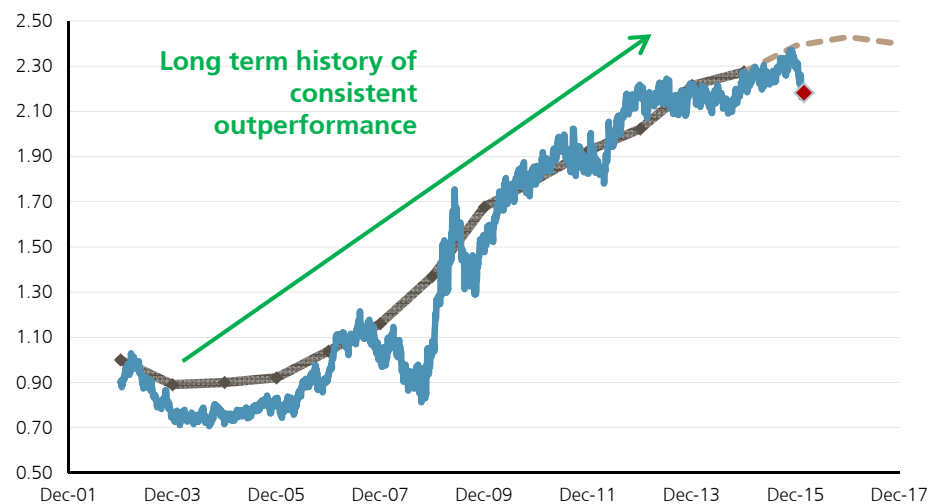
Forecast

Relative TSR

Latest

# Putting relative performance in perspective – longer term

## Great Portland



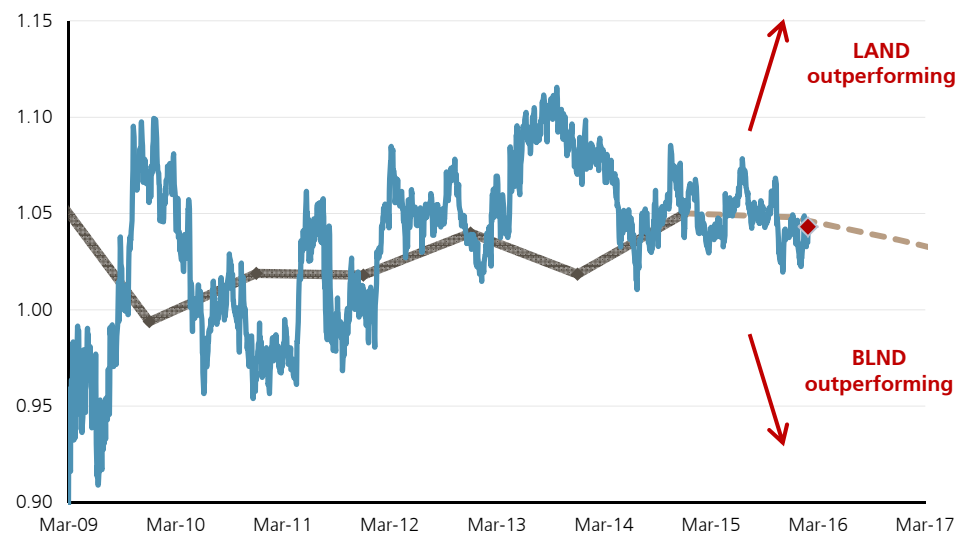
## SEGRO



## Capco



## Land Securities relative to British Land



Source: UBS estimates; Datastream. Relative to EPRA Europe Index.

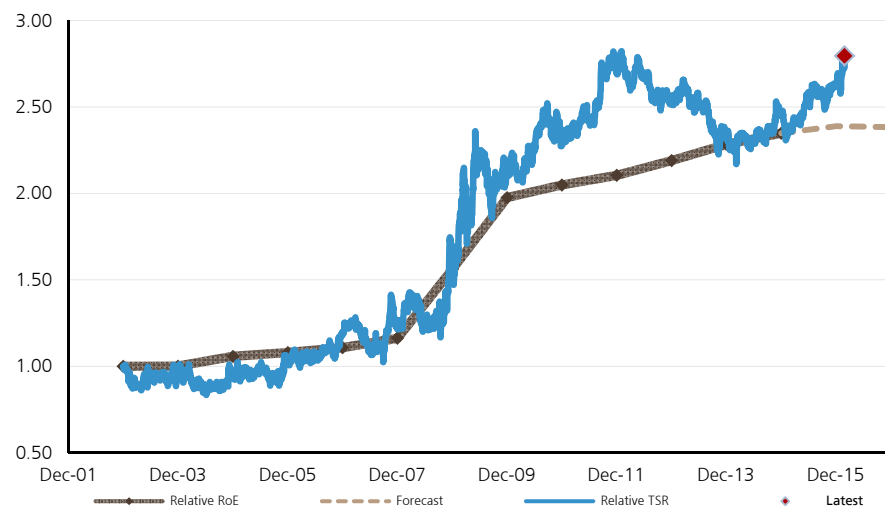


Relative RoE Forecast

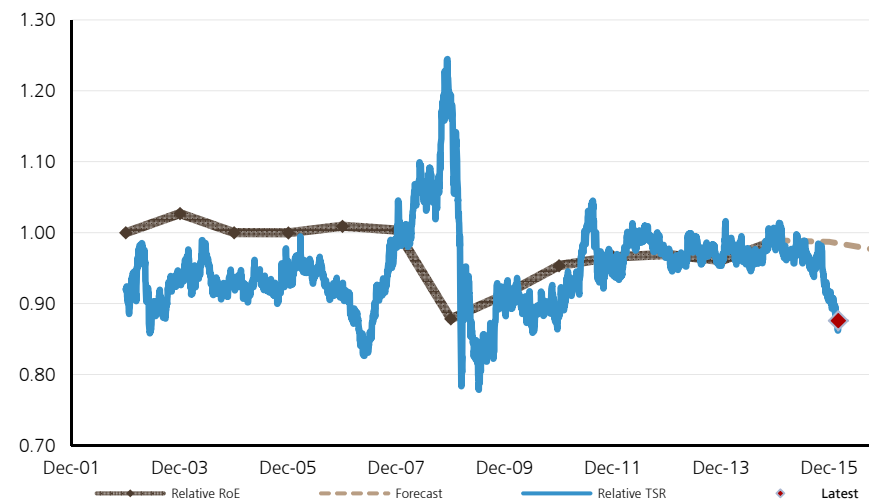
Relative TSR Latest

# Putting relative performance in perspective – longer term

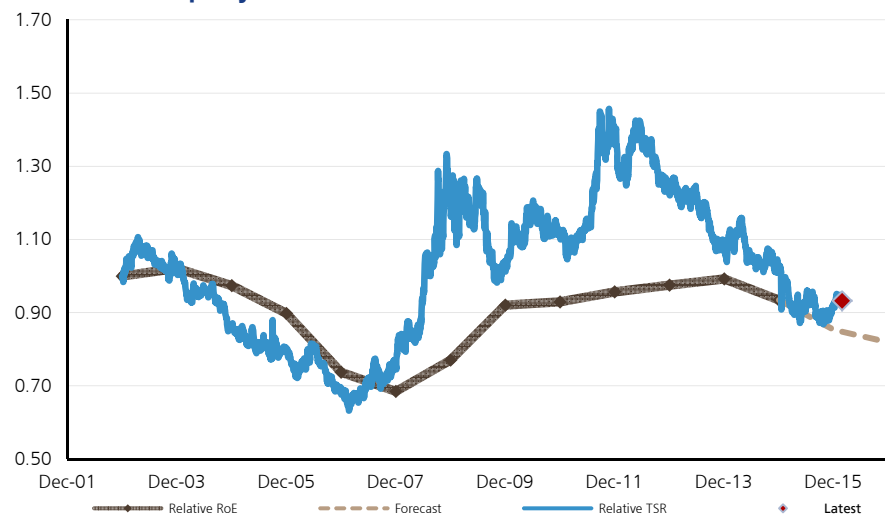
## Shaftesbury relative to UK sector



## Land Securities relative to UK sector



## PSP Swiss Property



Source: UBS estimates; Datastream. Relative to EPRA Europe Index.



Relative RoE Forecast

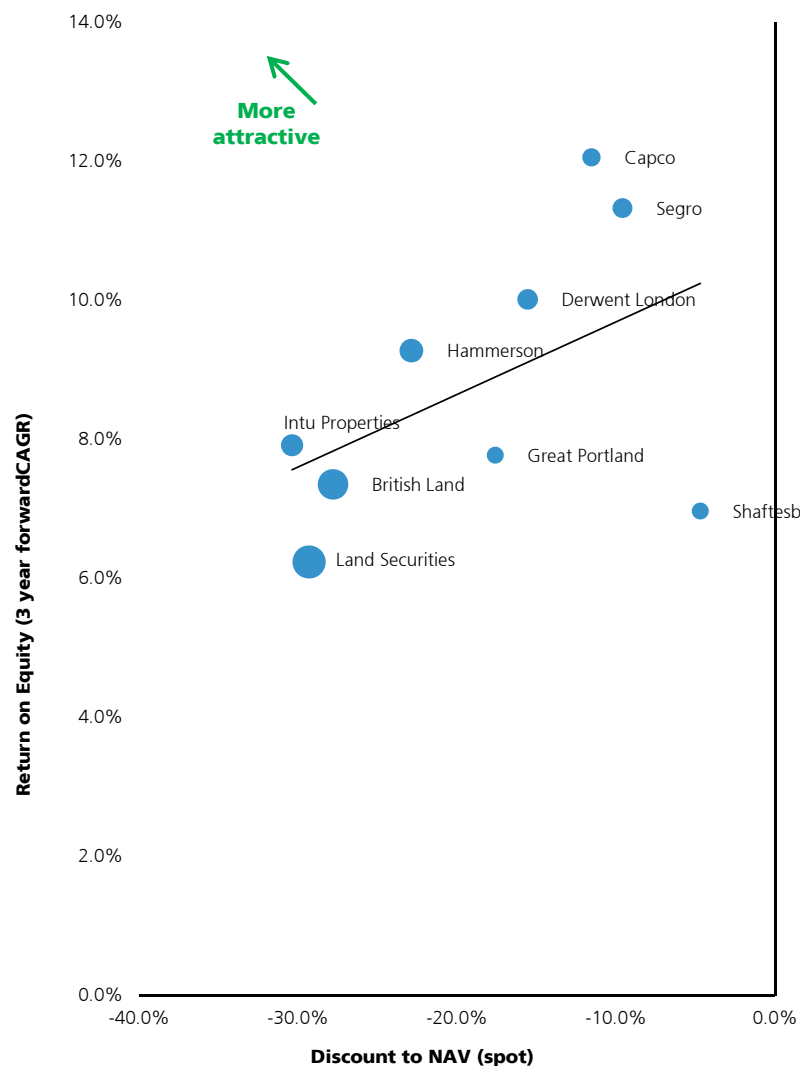
Relative TSR

Latest

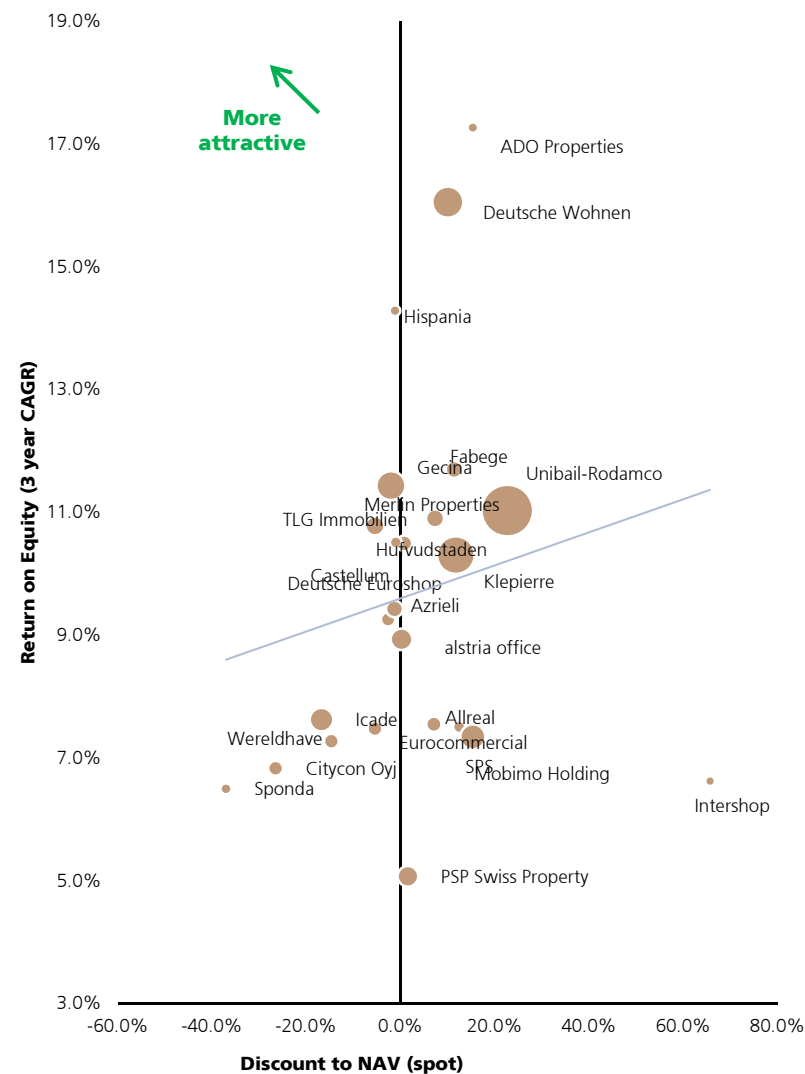


# Return on equity vs discount to NAV

UK – RoE vs. Premium (discount) to NAV



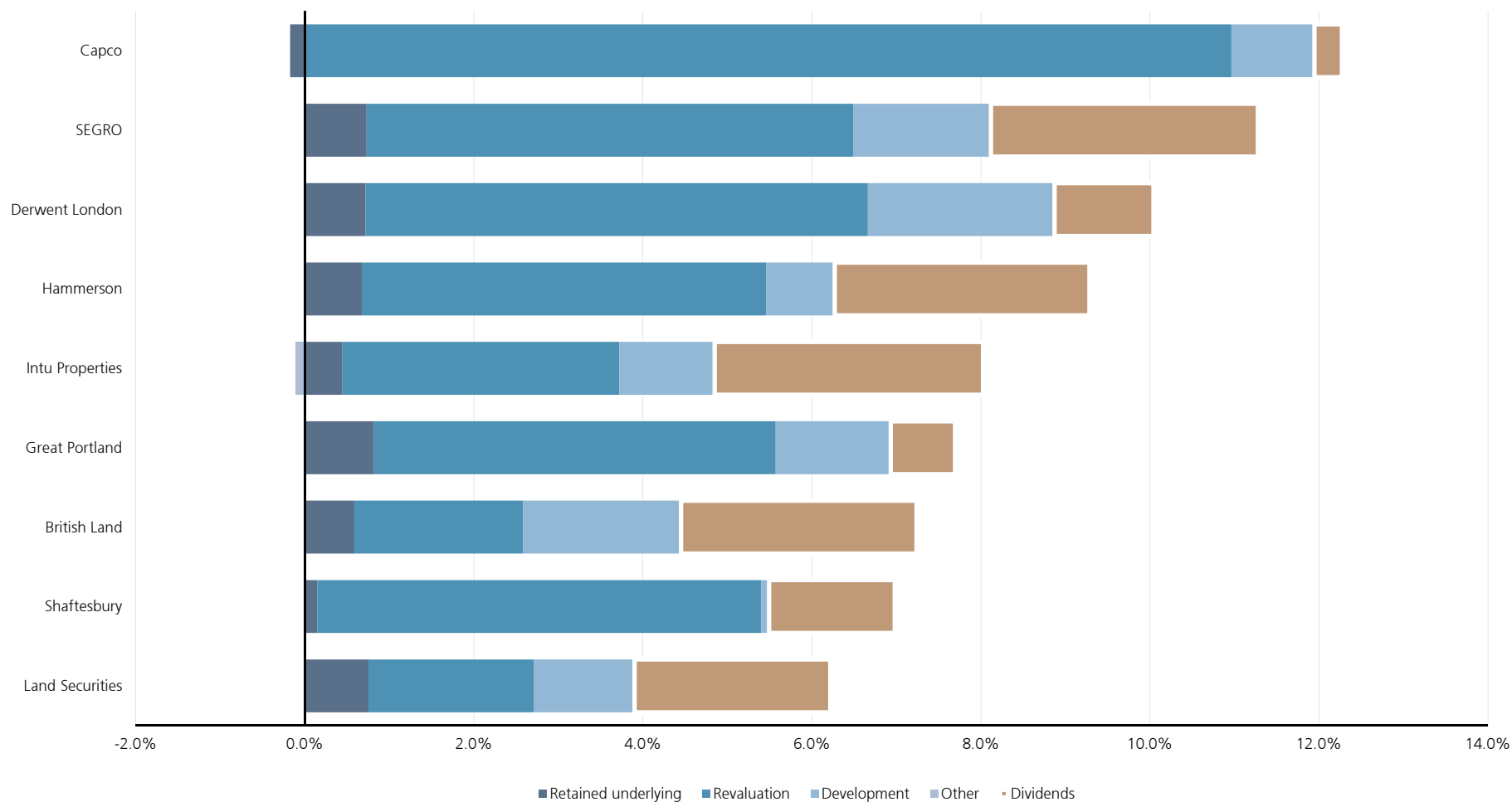
Continent – RoE vs. Premium (discount) to NAV



Source: UBS estimates

# Breakdown of RoE by company (UK)

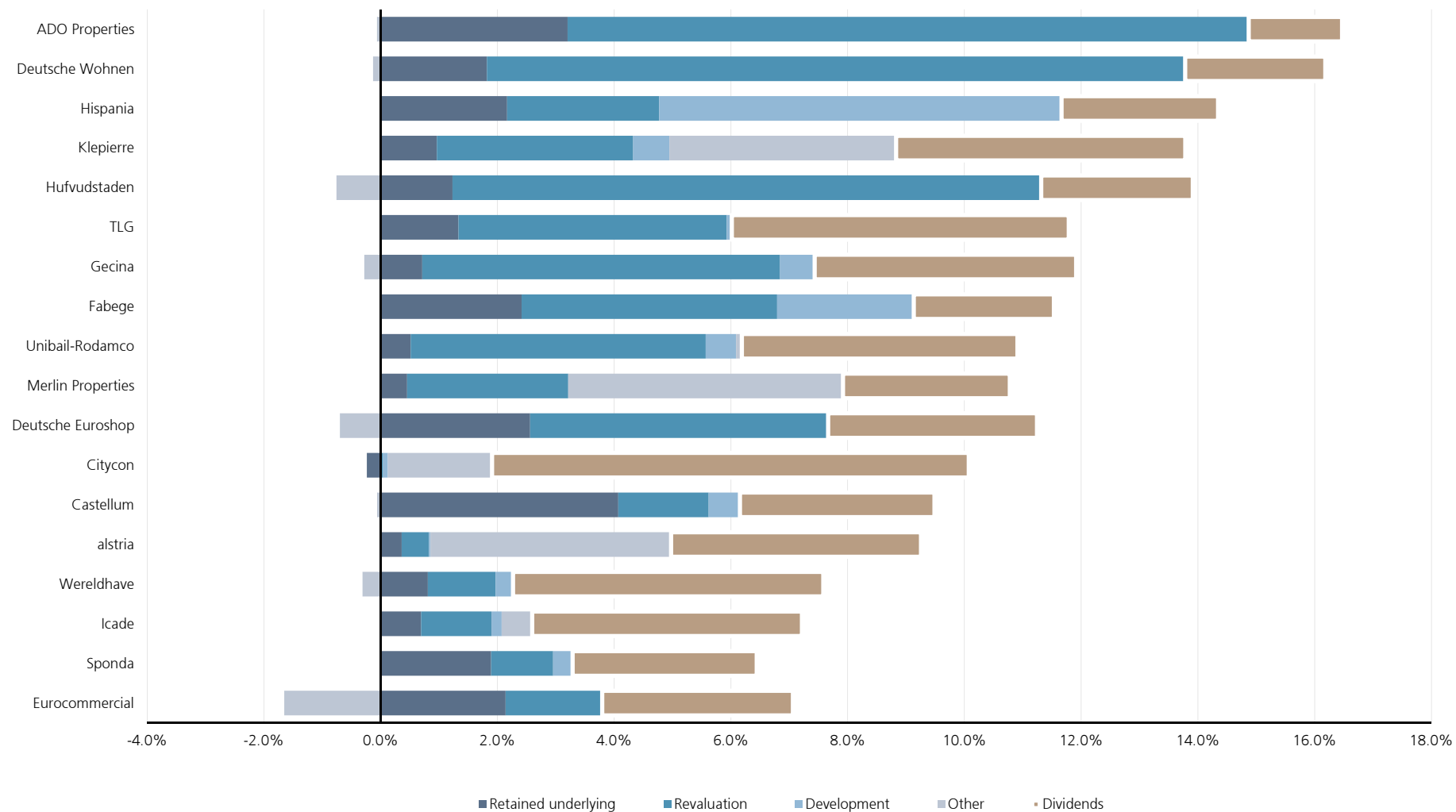
RoE breakdown by company – three-year forward CAGR



Source: UBS estimates

# Breakdown of RoE by company (Continent)

RoE breakdown by company – three-year forward CAGR



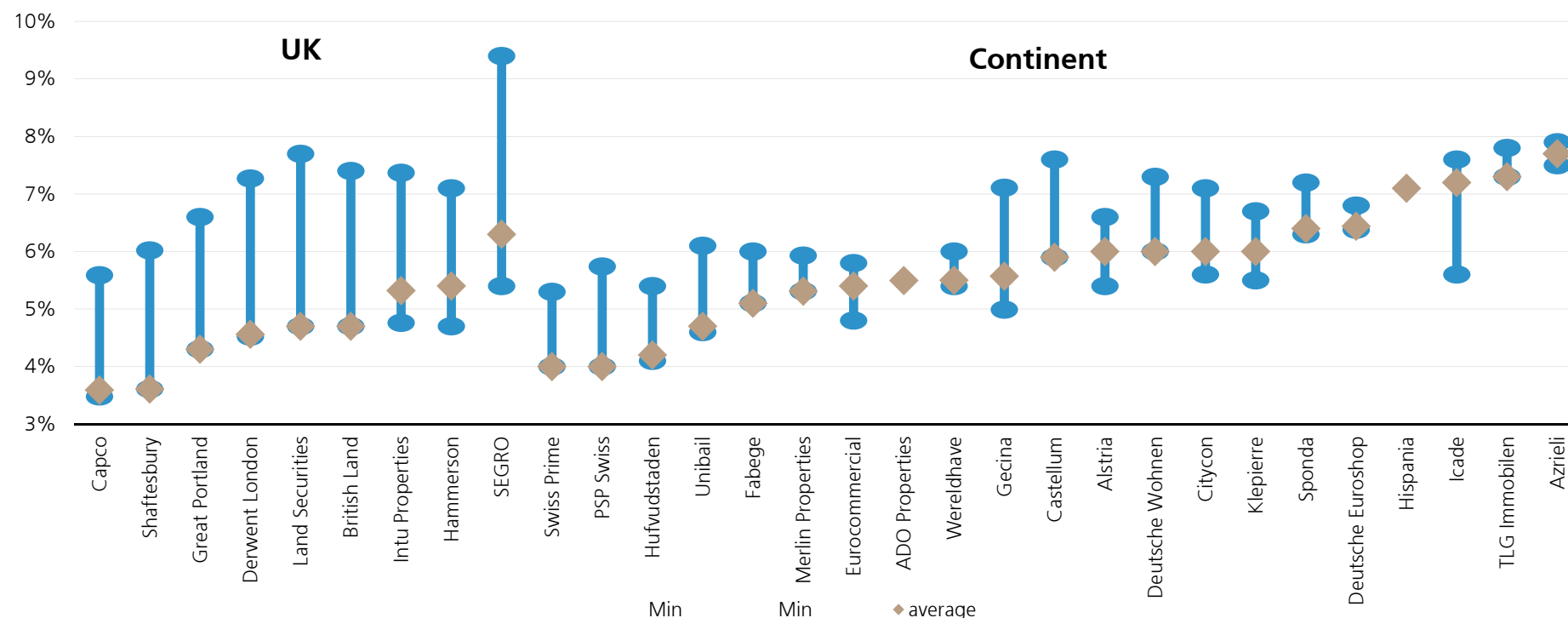
Source: UBS estimates

# EVA model output – setting our Price Targets

Priced at close 26-Feb-16	Share price	Operating ROIC	Capital ROIC	Total ROIC	WACC	Value creation	UBSe NAV spot t+1	Fair value	Price target	Upside to PT	Dividend yield	Total return
British Land	658p	3.8%	2.7%	6.5%	6.8%	-0.4%	937p	918p	900p	36.9%	4.3%	41.2%
Capco	318p	0.9%	7.9%	8.8%	7.5%	1.3%	382p	400p	400p	25.6%	0.5%	26.1%
Derwent London	2,992p	2.7%	4.0%	6.7%	6.6%	0.1%	3728p	3743p	3750p	25.3%	1.4%	26.8%
Great Portland	691p	2.5%	3.7%	6.2%	6.3%	0.0%	893p	891p	900p	30.2%	1.0%	31.3%
Hammerson	545p	3.5%	3.4%	7.0%	6.3%	0.6%	721p	720p	680p	24.9%	4.0%	28.9%
Intu Properties	282p	4.2%	2.3%	6.5%	7.3%	-0.8%	385p	350p	350p	24.2%	4.9%	29.1%
Land Securities	997p	3.6%	2.0%	5.6%	7.1%	-1.5%	1443p	1329p	1330p	33.5%	3.3%	36.8%
Shaftesbury	847p	2.6%	4.0%	6.5%	5.9%	0.7%	934p	964p	960p	13.4%	1.6%	15.0%
SEGRO	415p	3.8%	2.6%	6.4%	6.8%	-0.4%	480p	471p	470p	13.3%	3.7%	17.0%
<b>UK (£)</b>												
Eurocommercial	€38.2	4.7%	-0.5%	4.1%	6.1%	-2.0%	€39.7	€34.5	€35.0	-8.4%	5.1%	-3.2%
Unibail-Rodamco	€228.6	5.0%	3.6%	8.5%	5.7%	2.9%	€197	€232	€230.0	0.6%	4.2%	4.8%
Wereldhave	€45.8	5.3%	0.6%	5.9%	7.0%	-1.0%	€54.2	€50.8	€50.0	9.1%	6.6%	15.7%
<b>Netherlands (€)</b>												
Gecina	€112.6	4.7%	2.7%	7.3%	5.5%	1.9%	€119.0	€130.6	€119.0	5.7%	4.6%	10.4%
Icade	€63.3	5.9%	1.1%	7.0%	6.5%	0.4%	€78.4	€81.1	€78.0	23.3%	5.9%	29.2%
Klepierre	€38.2	4.3%	2.2%	6.5%	5.3%	1.2%	€35.2	€39.3	€40.0	4.6%	4.7%	9.3%
<b>France (€)</b>												
ADO Properties	€26.5	4.3%	5.6%	9.8%	7.0%	2.8%	€22.6	€29.3	€30.0	13.1%	1.4%	14.5%
alstria office	€11.4	5.0%	1.5%	6.4%	5.5%	0.9%	€12.5	€13.2	€13.2	15.6%	4.4%	20.0%
Deutsche Euroshop	€38.6	6.2%	0.4%	6.6%	6.7%	-0.1%	€37.1	€36.6	€36.0	-6.8%	3.5%	-3.3%
Deutsche Wohnen	€24.2											
TLG Immobilien	€17.6	5.4%	0.8%	6.2%	5.5%	0.7%	€16.7	€17.5	€17.5	-0.7%	4.4%	3.7%
<b>Germany (€)</b>												
Allreal	chf133	4.3%	0.8%	5.1%	4.8%	0.3%	chf132	chf135	chf135	1.7%	4.3%	6.0%
Mobimo Holding	chf219	3.5%	1.4%	4.9%	4.5%	0.4%	chf209	chf217	chf216	-1.5%	4.3%	2.8%
PSP Swiss Property	chf86	3.2%	0.9%	4.1%	4.7%	-0.7%	chf90	chf86	chf86	0.2%	3.8%	4.0%
SPS	chf83	4.0%	1.1%	5.1%	4.7%	0.3%	chf79	chf81	chf78	-5.7%	4.5%	-1.2%
Intershop	chf435	5.0%	0.9%	4.6%	4.7%	1.2%	chf310	chf335	chf340	-21.9%	4.4%	-17.5%
<b>Switzerland (CHF)</b>												
Castellum	Skr129	5.1%	1.2%	6.2%	6.2%	5.1%	Skr0	Skr133	kr125	-3.0%	3.6%	0.6%
Fabege	Skr135	4.1%	1.7%	5.7%	5.3%	0.4%	Skr130	Skr133	kr130	-3.5%	2.5%	-1.0%
Hufvudstaden	Skr126	3.0%	3.5%	6.5%	5.0%	1.5%	Skr124	Skr128	kr120	-4.5%	2.4%	-2.0%
<b>Sweden (SKr)</b>												
Citycon Oyj	€2.1	5.4%	0.5%	6.0%	6.7%	-0.7%	€2.9	€2.7	€2.5	16.1%	7.1%	23.2%
Sponda	€3.6	4.3%	0.5%	4.7%	6.7%	-1.9%	€5.2	€4.4	€4.4	22.0%	5.3%	27.2%
<b>Finland (€)</b>												
Azrieli	ILS 141	5.9%	2.2%	8.1%	7.0%	1.1%	ILS 149	ILS 155	ILS 165	17.1%	2.1%	19.2%
Hispania	€11.8	3.7%	4.0%	7.8%	5.9%	1.8%	€13.1	€14.6	€15.0	27.0%	0.9%	27.9%
Merlin Properties	€9.5	3.8%	3.5%	7.2%	5.4%	1.8%	€12.1	€12.3	€12.3	29.4%	2.4%	31.7%
<b>Other</b>												

Source: UBS estimates, Datastream

# Property yields by company – historical range and current

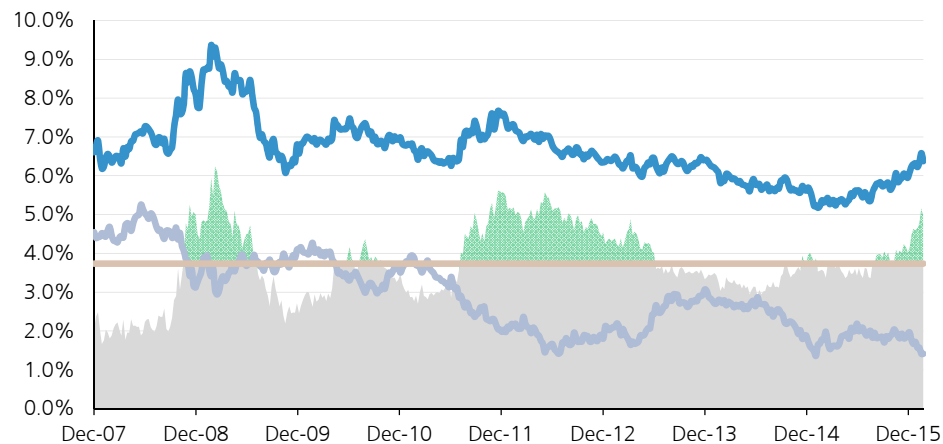


## Yield definitions

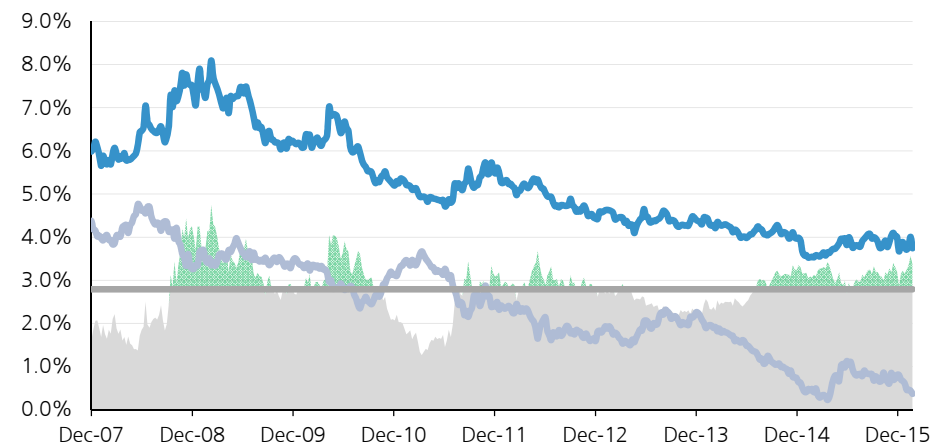
Company	Yield or yield proxy	Company	Yield or yield proxy	Company	Yield or yield proxy
ADO Properties	1/ rent multiplier	Eurocommercial	Net yield including purchase costs, portfolio	Land Securities	Portfolio equivalent yield
Alstria	Valuation yield, portfolio	Fabège	Required yield, portfolio	Merlin Properties	EPRA Topped-up Initial Yield
Azrieli	Portfolio weighted average cap rate	Gecina	Net yields, office	PSP Swiss	Weighted discount rate, portfolio
British Land	Portfolio equivalent yield	Great Portland	Portfolio equivalent yield	SEGRO	UK portfolio equivalent yield
Capco	Covent Garden equivalent yield	Hammerson	Portfolio equivalent yield	Shaftesbury	Wholly-owned property equivalent yield
Castellum	Average valuation yield, portfolio	Hispania	Initial net reversion yield (UBSe)	Swiss Prime	Net yield, portfolio
Citycon	Net yield requirement, portfolio	Hufvudstaden	Yield requirement, portfolio	Sponda	Yield requirement, portfolio
Derwent London	Portfolio equivalent yield	Icade	Yield excluding transfer duties, France offices	TLG Immobilien	In-place rental yield
Deutsche Euroshop	Discount rate, portfolio	Intu Properties	UK shopping centres equivalent yield	Unibail	Shopping centres net initial yield
Deutsche Wohnen	1/ rent multiplier	Klepierre	Shopping centres "yield rate"	Wereldhave	Net initial yield

# Implied yields vs. benchmark bonds

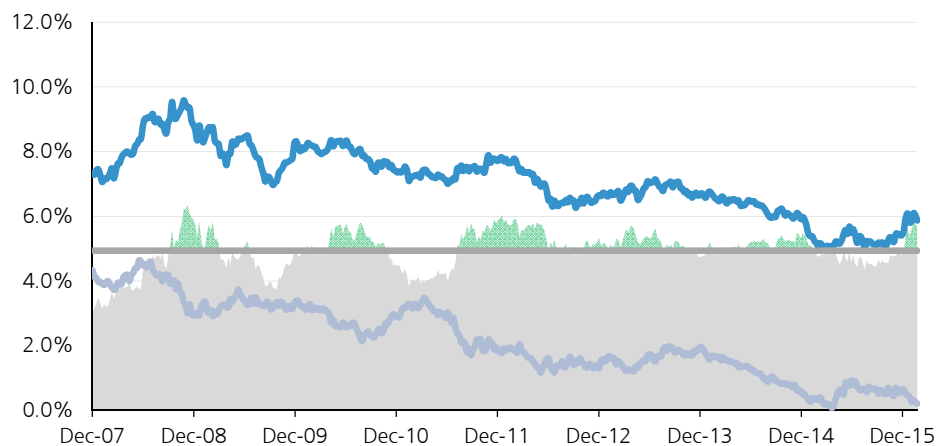
Hammerson



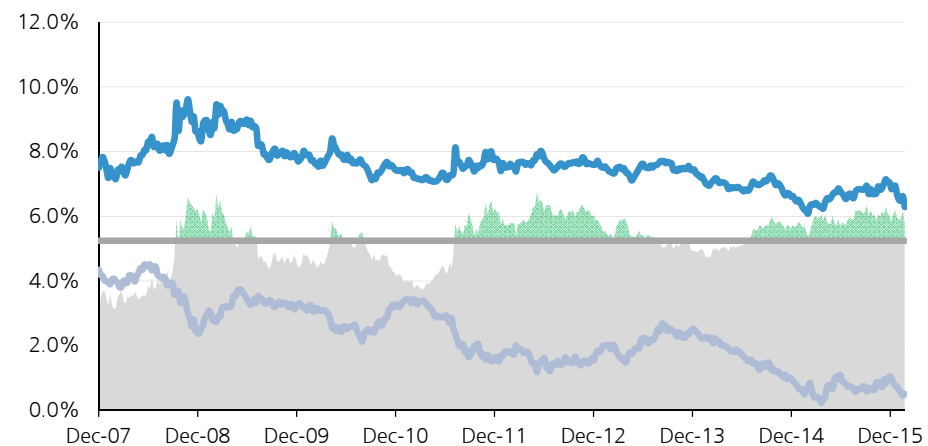
Unibail-Rodamco



Deutsche Wohnen



Castellum

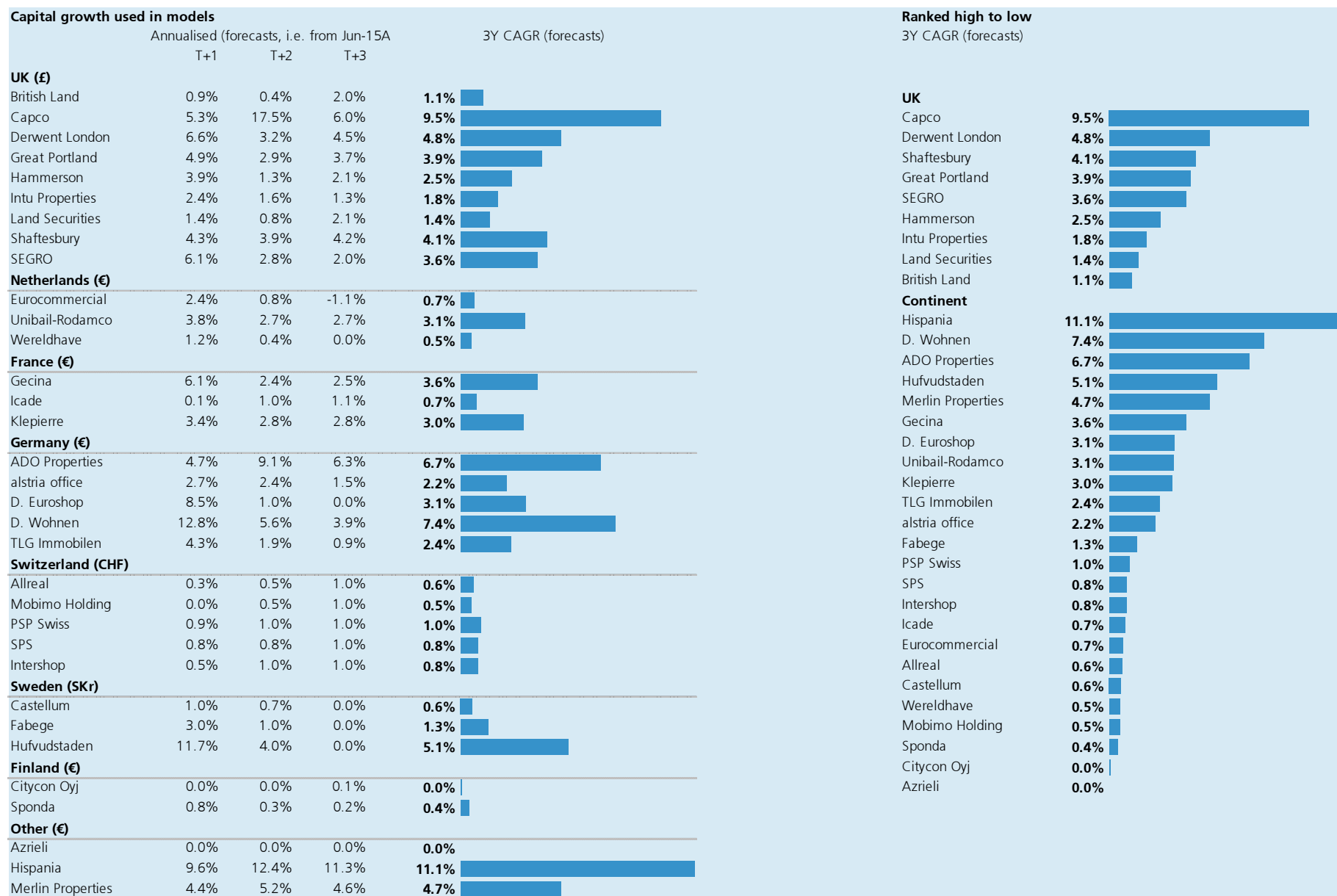


— Implied yield — GOV10YR — Average spread ■ Spread above average ■ Spread below average

Source: company data, UBS estimates



# Capital growth expectations used in models



Source: UBS estimates









































































# UBS sector valuation

Priced at close:			Forecast				Premium (Discount) to NAV						Dividend yield			EPS (adj) yield			Yields		RoE		Mkt cap
26-Feb-16	Rating	Chart 3m	Price	PT	Upside	Total return	Spot estimate	FY14	FY15e	FY16e	FY17e	FY14	FY15e	FY16e	FY14	FY15e	FY16e	Implied initial	CAGR (3y)		26-Feb-16		
British Land	Buy		659p	900p	36.6%	40.9%		-27.7%	-20.5%	-28.5%	-29.8%	-32.9%	4.2%	4.3%	4.5%	4.6%	4.9%	5.0%	5.5%	7.4%		£6,783m	
Capco	Neutral		320p	400p	25.0%	25.5%		-11.1%	3.0%	-10.3%	-15.5%	-30.7%	0.5%	0.5%	0.5%	0.5%	0.0%	0.1%	2.3%	12.1%		£2,694m	
Derwent London	Buy		3,039p	3,750p	23.4%	24.8%		-14.3%	4.5%	-13.6%	-17.9%	-24.1%	1.3%	1.4%	1.5%	1.9%	2.1%	2.3%	3.4%	10.0%		£3,379m	
Great Portland	Buy		698p	900p	28.9%	30.0%		-16.8%	-1.6%	-18.4%	-22.1%	-27.1%	1.0%	1.0%	1.1%	1.9%	1.8%	1.6%	4.1%	7.8%		£2,401m	
Hammerson	Buy		548p	680p	24.1%	28.1%		-22.4%	-13.9%	-21.8%	-25.8%	-29.8%	3.7%	4.0%	4.3%	4.4%	4.8%	5.0%	5.5%	9.3%		£4,299m	
Intu Properties	Buy		288p	350p	21.4%	26.2%		-28.8%	-23.9%	-28.3%	-31.2%	-34.3%	4.8%	4.8%	4.8%	4.6%	4.8%	5.0%	5.0%	7.9%		£3,877m	
Land Securities	Buy		1,006p	1,330p	32.2%	35.5%		-28.7%	-22.2%	-29.4%	-30.5%	-33.1%	3.2%	3.3%	3.5%	4.1%	4.3%	4.4%	4.7%	6.2%		£7,954m	
Shaftesbury	Neutral		848p	960p	13.2%	14.8%		-4.6%	18.5%	-2.4%	-7.6%	-12.2%	1.5%	1.6%	1.7%	1.4%	1.5%	1.7%	3.0%	7.0%		£2,362m	
Segro	Neutral		417p	470p	12.7%	16.4%		-9.1%	8.6%	-8.1%	-14.7%	-19.6%	3.6%	3.7%	3.8%	4.1%	4.3%	4.4%	5.1%	11.3%		£3,117m	
UK					26.5%	29.6%		-21.2%	-10.2%	-21.1%	-24.3%	-28.9%	3.0%	3.1%	3.2%	3.5%	3.7%	3.8%	4.5%	8.3%		£36,865m	
Eurocommercial	Sell		€38.4	€35.0	-8.9%	-3.8%		-4.9%	5.6%	-2.0%	-6.4%	-9.3%	5.0%	5.1%	5.2%	5.1%	5.3%	5.5%	5.1%	7.5%		£1,854m	
Unibail-Rodamco	Neutral		€227.6	€230.0	1.1%	5.3%		22.1%	36.1%	23.2%	16.1%	10.9%	4.2%	4.2%	4.3%	4.8%	4.6%	4.7%	4.1%	11.0%		€22,458m	
Wereldhave	Neutral		€46.5	€50.0	7.5%	14.0%		-13.4%	-14.4%	-13.1%	-15.1%	-16.5%	6.2%	6.5%	6.7%	6.4%	6.9%	7.6%	6.0%	7.3%		€1,873m	
Netherlands					0.8%	5.3%		17.6%	30.3%	18.8%	12.2%	7.5%	4.4%	4.5%	4.6%	4.9%	4.8%	4.9%	4.3%	10.5%		€26,186m	
Gecina	Neutral		€112.7	€119.0	5.6%	10.2%		-1.9%	11.4%	-1.2%	-6.1%	-10.5%	4.1%	4.6%	4.8%	4.6%	5.1%	5.4%	5.4%	11.4%		€7,129m	
Icade	Buy		€63.5	€78.0	22.8%	28.6%		-16.4%	-15.5%	-16.1%	-18.2%	-20.5%	5.9%	5.9%	5.8%	6.8%	6.3%	6.7%	7.8%	7.6%		€4,709m	
Klepierre	Neutral		€38.2	€40.0	4.7%	9.4%		11.6%	18.7%	12.4%	7.6%	2.8%	4.2%	4.7%	5.2%	5.2%	5.6%	5.8%	5.4%	10.3%		€12,015m	
France					8.5%	13.4%		2.0%	9.8%	2.7%	-1.6%	-5.8%	4.5%	4.9%	5.2%	5.3%	5.6%	5.9%	5.9%	10.1%		€23,853m	
ADO Properties	Buy		€27.0	€30.0	11.3%	12.7%		17.1%	165.7%	20.7%	0.8%	-12.9%	-	1.4%	1.6%	2.7%	3.7%	4.6%	4.6%	17.3%		€943m	
alstria office	Buy		€11.5	€13.2	14.5%	18.8%		-1.7%	2.8%	-0.7%	-6.9%	-10.9%	4.3%	4.3%	4.8%	5.2%	5.2%	6.1%	3.3%	9.3%		€1,755m	
Deutsche Euroshop	Sell		€38.9	€36.0	-7.4%	-3.9%		1.4%	17.2%	2.1%	-2.1%	-4.5%	3.3%	3.5%	3.6%	5.7%	5.9%	5.9%	5.4%	10.5%		€2,096m	
Deutsche Wohnen	Neutral		€24.2					10.2%	50.8%	12.5%	-0.9%	-9.8%	1.8%	2.3%	2.4%	3.7%	4.6%	4.4%	5.1%	16.1%		€8,178m	
TLG Immobilien	Buy		€17.8	€17.5	-1.9%	2.5%		0.1%	19.6%	1.1%	-5.1%	-8.8%	-	4.3%	4.8%	5.5%	5.8%	6.4%	6.5%	10.5%		€1,202m	
Germany					1.3%	2.8%		7.0%	44.9%	8.9%	-2.1%	-9.3%	2.4%	2.8%	3.0%	4.3%	4.9%	5.0%	5.0%	14.0%		€14,175m	
Allreal	Neutral		chf133	chf135	1.5%	5.8%		7.2%	8.5%	7.4%	5.9%	3.5%	4.1%	4.3%	4.5%	5.1%	5.7%	5.7%	4.3%	7.5%		€1,943m	
Mobimo Holding	Neutral		chf223	chf216	-2.9%	1.3%		14.0%	13.6%	14.2%	12.9%	9.5%	4.3%	4.3%	4.3%	3.9%	4.2%	4.1%	4.3%	7.5%		€1,268m	
PSP Swiss Property	Neutral		chf86	chf86	0.2%	4.0%		1.6%	2.5%	1.9%	0.1%	-1.6%	3.8%	3.8%	3.8%	4.7%	4.2%	4.4%	4.0%	5.1%		€3,609m	
SPS	Neutral		chf83	chf78	-5.9%	-1.4%		15.6%	21.5%	15.7%	15.0%	13.1%	4.4%	4.5%	4.5%	4.6%	5.0%	4.3%	3.7%	7.3%		€5,292m	
Intershop	Sell		chf435	chf340	-21.8%	-17.5%		65.6%	60.1%	66.1%	62.8%	60.4%	4.8%	4.4%	4.4%	7.3%	5.1%	4.6%	4.5%	6.6%		€797m	
Switzerland					-3.8%	0.4%		13.4%	15.8%	13.6%	12.2%	10.1%	4.2%	4.2%	4.3%	4.8%	4.8%	4.5%	4.0%	6.7%		€12,910m	
Castellum	Neutral		Skr129	Skr125	-3.3%	0.4%		-1.1%	13.8%	0.0%	-6.8%	-11.8%	3.6%	3.6%	3.9%	6.8%	7.2%	7.6%	6.6%	9.4%		€2,379m	
Fabege	Neutral		Skr134	Skr130	-3.3%	-0.7%		11.1%	31.0%	13.0%	1.8%	-5.7%	2.4%	2.5%	2.6%	3.1%	3.1%	4.5%	4.9%	11.7%		€2,380m	
Hufvudstaden	Neutral		Skr125	Skr120	-3.8%	-1.4%		6.6%	24.8%	8.0%	-0.5%	-4.8%	2.3%	2.4%	2.6%	3.5%	3.4%	3.4%	3.8%	10.9%		€2,712m	
Sweden					-3.5%	-0.6%		5.6%	23.3%	7.0%	-1.8%	-7.3%	2.7%	2.9%	3.0%	4.4%	4.5%	5.1%	5.0%	10.7%		€7,471m	
Citycon Oyj	Neutral		€2.15	€2.45	14.2%	21.2%		-25.3%	-23.6%	-25.1%	-26.5%	-27.9%	6.5%	7.0%	7.2%	8.3%	8.5%	8.2%	5.8%	6.8%		€1,910m	
Sponda	Buy		€3.62	€4.40	21.7%	26.9%		-36.9%	-33.7%	-36.7%	-38.2%	-39.8%	5.3%	5.3%	5.3%	9.3%	9.1%	8.5%	6.6%	6.5%		€1,024m	
Finland					16.8%	23.2%		-29.4%	-27.1%	-29.1%	-30.6%	-32.1%	6.1%	6.4%	6.5%	8.6%	8.7%	8.3%	6.1%	6.7%		€2,934m	
Azrieli	Neutral		ILS 141	ILS 165	17.4%	19.6%		-0.1%	6.5%	0.9%	-5.4%	-12.4%	1.9%	2.1%	2.3%	4.9%	5.1%	6.0%	7.3%	8.9%		€3,988m	
Hispania	Buy		€11.7	€15.0	28.5%	29.4%		-2.4%	15.8%	-0.5%	-12.0%	-20.2%	-	0.9%	4.2%	-0.1%	1.1%	5.3%	6.7%	14.3%		€964m	
Merlin Properties	Neutral		€9.6	€12.3	27.3%	29.7%		-4.0%	7.4%	-3.0%	-9.0%	-15.9%	-	2.3%	3.7%	1.3%	3.1%	4.6%	4.7%	10.8%		€3,108m	
Other					22.6%	24.6%		-1.9%	7.9%	-0.8%	-7.6%	-14.7%	1.9%	2.1%	3.1%	2.9%	3.9%	5.4%	6.2%	10.3%		€8,060m	
UK					26.5%	29.6%		-21.2%	-10.2%	-21.1%	-24.3%	-28.9%	3.0%	3.1%	3.2%	3.5%	3.7%	3.8%	4.5%	8.3%		£36,865m	
Europe ex UK					4.2%	8.0%		7.6%	21.2%	8.6%	2.6%	-2.2%	3.8%	4.0%	4.3%	4.8%	5.0%	5.3%	5.0%	10.3%		€95,588m	
Europe					11.5%	15.1%		-1.9%	10.9%	-1.2%	-6.2%	-11.0%	3.6%	3.7%	3.9%	4.4%	4.6%	4.8%	4.9%	9.6%		€142,359m	

Source: UBS estimates, company data, Reuters



# Performance – Stock returns

Priced at close: 26-Feb-16	Price		Total shareholder return					Relative Chart (3m)	Relative total return to EPRA Europe					Total shareholder return (annualised)				Relative TSR to EPRA Europe (ann)			
	26-Feb-16	Chart (3m)	1 wk	4 wk	3 mth	YTD	12 mth		1 wk	4 wk	3 mth	YTD	12 mth	1Y	2Y	3Y	5Y	1Y	2Y	3Y	5Y
British Land	659p		-4.8%	-10.1%	-19.9%	-15.4%	-17.4%		-3.7%	-7.2%	-8.2%	-6.5%	-7.8%	-17%	1%	10%	8%	-8%	-11%	-6%	-4%
Capco	320p		-8.9%	-11.2%	-27.2%	-27.4%	-19.9%		-7.8%	-8.3%	-15.5%	-18.5%	-10.4%	-20%	-8%	8%	17%	-10%	-20%	-7%	6%
Derwent London	3039p		-1.6%	-5.9%	-18.5%	-17.2%	-7.9%		-0.5%	-3.0%	-6.8%	-8.3%	1.7%	-8%	6%	14%	15%	2%	-6%	-2%	3%
Great Portland	698p		-2.2%	-6.4%	-18.8%	-15.7%	-11.1%		-1.1%	-3.5%	-7.1%	-6.8%	-1.5%	-11%	6%	14%	15%	-2%	-6%	-1%	3%
Hammerson	548p		-2.8%	-4.1%	-9.6%	-8.7%	-15.9%		-1.7%	-1.2%	2.1%	0.3%	-6.3%	-16%	1%	7%	8%	-6%	-11%	-8%	-4%
Intu Properties	288p		-0.4%	-0.4%	-10.4%	-9.1%	-19.6%		0.8%	2.5%	1.3%	-0.2%	-10.0%	-20%	3%	2%	0%	-10%	-9%	-14%	-11%
Land Securities	1006p		-2.9%	-7.5%	-17.3%	-14.5%	-16.9%		-1.8%	-4.7%	-5.6%	-5.6%	-7.3%	-17%	-1%	10%	10%	-7%	-13%	-5%	-2%
Shaftesbury	848p		-1.2%	1.3%	-7.6%	-6.5%	5.9%		-0.1%	4.1%	4.1%	2.4%	15.4%	6%	15%	16%	15%	15%	3%	1%	3%
Segro	417p		-4.0%	-2.2%	-3.8%	-2.9%	0.4%		-2.9%	0.7%	7.9%	6.0%	10.0%	0%	13%	24%	11%	10%	1%	8%	-1%
<b>UK</b>																					
Eurocommercial	€38.4		-0.1%	-3.2%	-3.7%	-3.4%	-2.7%		1.0%	-0.3%	8.0%	5.5%	6.8%	-3%	15%	16%	9%	7%	3%	1%	-3%
Unibail-Rodamco	€227.6		-1.0%	-0.6%	-5.6%	-2.3%	-9.0%		0.1%	2.3%	6.1%	6.7%	0.6%	-9%	14%	15%	15%	1%	2%	-1%	3%
Wereldhave	€46.5		1.4%	-6.1%	-12.3%	-10.0%	-19.8%		2.5%	-3.2%	-0.6%	-1.1%	-10.2%	-20%	-1%	7%	0%	-10%	-14%	-9%	-11%
<b>Netherlands</b>																					
Gecina	€112.7		0.0%	-2.6%	-1.4%	0.5%	-0.6%		1.1%	0.3%	10.3%	9.5%	9.0%	-1%	12%	15%	9%	9%	-1%	0%	-2%
Icade	€63.5		0.7%	-1.5%	-4.4%	2.7%	-16.9%		1.8%	1.4%	7.3%	11.6%	-7.3%	-17%	0%	3%	0%	-7%	-12%	-13%	-11%
Klepierre	€38.2		-1.4%	-2.6%	-8.7%	-6.8%	-13.3%		-0.3%	0.3%	3.0%	2.2%	-3.7%	-13%	12%	13%	12%	-4%	0%	-3%	0%
<b>France</b>																					
ADO Properties	€27.0		4.8%	1.0%	8.2%	-	-		5.9%	3.8%	19.9%	-	-	-	-	-	-	-	-	-	-
alstria office	€11.5		0.2%	1.0%	-6.3%	-6.5%	-3.4%		1.3%	3.9%	5.4%	2.4%	6.2%	-3%	13%	14%	6%	6%	1%	-1%	-6%
Deutsche Euroshop	€38.9		0.3%	-1.4%	-4.4%	-4.3%	-11.5%		1.4%	1.5%	7.3%	4.6%	-1.9%	-11%	13%	12%	11%	-2%	1%	-4%	0%
Deutsche Wohnen	€24.2		0.1%	0.2%	-6.4%	-5.3%	1.5%		1.2%	3.0%	5.3%	3.7%	11.0%	1%	29%	23%	21%	11%	17%	7%	10%
TLG Immobilien	€17.8		2.8%	3.1%	7.7%	1.4%	21.3%		3.9%	6.0%	19.4%	10.3%	-	21%	-	-	-	31%	-	-	-
<b>Germany</b>																					
Allreal	chf133		-0.2%	-0.5%	3.7%	-0.5%	-4.9%		1.0%	2.4%	15.4%	8.5%	4.7%	-5%	8%	4%	4%	5%	-4%	-12%	-8%
Mobimo Holding	chf223		2.3%	4.8%	1.7%	-0.1%	3.9%		3.4%	7.7%	13.4%	8.8%	13.5%	4%	12%	7%	7%	13%	0%	-9%	-4%
PSP Swiss Property	chf86		-0.3%	0.4%	0.7%	-2.4%	-10.4%		0.8%	3.3%	12.4%	6.5%	-0.8%	-10%	6%	4%	7%	-1%	-6%	-11%	-4%
SPS	chf83		0.1%	4.6%	7.8%	5.6%	0.9%		1.2%	7.5%	19.5%	14.5%	10.5%	1%	11%	9%	10%	10%	-1%	-6%	-2%
Intershop	chf435		1.9%	7.4%	7.5%	8.1%	19.3%		3.0%	10.3%	19.2%	17.0%	28.9%	19%	20%	16%	13%	29%	8%	1%	1%
<b>Switzerland</b>																					
Castellum	Skr129		1.9%	3.4%	4.5%	7.0%	-6.3%		3.0%	6.3%	16.2%	16.0%	3.3%	-6%	11%	15%	12%	3%	-1%	-1%	1%
Fabege	Skr134		0.5%	3.8%	-3.2%	-4.1%	9.0%		1.6%	6.7%	8.4%	4.9%	18.6%	9%	27%	28%	20%	19%	15%	13%	8%
Hufvudstaden	Skr125		-1.0%	7.6%	3.4%	4.1%	5.9%		0.2%	10.5%	15.1%	13.0%	15.5%	6%	18%	15%	15%	15%	5%	0%	3%
<b>Sweden</b>																					
Citycon Oyj	€2.15		0.7%	-3.8%	-10.5%	-10.6%	-22.5%		1.8%	-0.9%	1.2%	-1.7%	-12.9%	-22%	-4%	5%	2%	-13%	-16%	-11%	-10%
Sponda	€3.62		0.8%	0.5%	-6.0%	-7.9%	-14.5%		1.9%	3.4%	5.7%	1.1%	-4.9%	-15%	1%	3%	3%	-5%	-11%	-12%	-9%
<b>Finland</b>																					
Azrieli	ILS 141		1.0%	-1.1%	-4.1%	-3.1%	-4.9%		2.1%	1.7%	7.6%	5.8%	4.7%	-5%	13%	15%	9%	5%	1%	-1%	-3%
Hispania	€11.7		0.7%	4.2%	-14.4%	-10.9%	0.2%		1.8%	7.1%	-2.7%	-2.0%	9.7%	0%	-	-	-	10%	-	-	-
Merlin Properties	€9.6		0.7%	-9.5%	-18.5%	-16.7%	1.6%		1.8%	-6.6%	-6.8%	-7.8%	11.1%	2%	-	-	-	11%	-	-	-
<b>Other</b>																					
<b>UK</b>																					
Europe ex UK			-2.7%	-5.2%	-13.4%	-11.9%	-9.5%							-9%	4%	13%	11%				
Europe			0.3%	0.4%	-4.8%	-3.9%	-6.2%							-6%	15%	14%	10%				
Europe			-1.1%	-2.9%	-11.7%	-8.9%	-9.6%							-10%	12%	16%	12%				

Source: UBS estimates, company data, Reuters

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## Recent themes

# European Real Estate – **Playing the extending cycle**, 9 Oct 2015

- Where are we in the cycle?
  - Direct market analysis
  - Company positioning
- Expect an extended cycle; our new Evidence Lab study suggests at least two more years of London office rental growth
- UK positioning points to late cycle, but companies are much more conservatively positioned than in the previous cycles
- Our 'health check' highlights Madrid and London offices as most attractive; Paris office and secondary continental as least

For the full note, click here:

<https://neo.ubs.com/shared/d1DLNOfoZqVFq>



Global Research

9 October 2015

Powered by  
UBS Evidence Lab

## Evidence Lab: European Real Estate **Playing the extending cycle**

### Expect an extended cycle; London office view supported by Evidence Lab

We remain constructive on the European real estate sector. As a bond proxy with growth, real estate benefits from current central bank stimulus, while it can also gain through rental growth in an inflationary environment, should the stimulus prove successful. We view current valuations aren't stretched, and in the UK seem to be pricing in an impending end to the cycle. However, our new Evidence Lab study suggests at least two more years of London office rental growth, while our new 'health check' shows other markets are improving. Hence we see 11% forward RoE and further upside to stocks.

### UK positioning for late cycle, won't repeat past mistakes

Where are we in the cycle? We tackle in two ways: (1) what company positioning is telling us; and (2) Our own analysis on underlying property markets, including UBS Evidence Lab proprietary work. UK REIT positioning undoubtedly points to late cycle, but companies are much more conservatively positioned than in previous cycles. LTVs are already lower (average c.30%) and trending down (despite more conservative valuations today) and committed development exposure is less than one-third that of the 2006-07 bull era, in some cases. Thus: don't expect 2008 NAV discounts to repeat.

### Don't expect to "buy cheaper, later"

We have flexed assumptions for NAVs, and in a bull case (bond yields rise but property yields revert back to 2x average spread), values could rise a further 35%, and peak NAVs could be 65% higher than current. Even if stocks price in a 40% discount to peak NAV (we think they won't, see above), that is in line with current share prices. A 20% discount would imply c.35% upside on today's share prices.

### Valuation

We see 12% total return potential on average across our coverage, and more for our top picks Land Securities (22%), Hammerson (25%), Hispania (16%) and ADO Properties (13%). For Spain, we upgrade Hispania to Buy and downgrade Merlin to Neutral. The UK trades at an un-stretched 1% discount to NAV, having recently de-rated from a 10% premium. The continent trades at a modest 12% premium, reflecting its earlier stage in the cycle.

## Equities

Europe including UK  
Real Estate

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# Wrap-up from UBS **Global RE Conference** – *Dec-15, in London*

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- Attendance:

c.50 companies and over 360 attendees (in line with last year, which was a record year); particularly strong investor interest for Deutsche Wohnen (deal making), Icade (fresh from its strategic review), and Spanish REITs (market outlook)

- Overall mood:

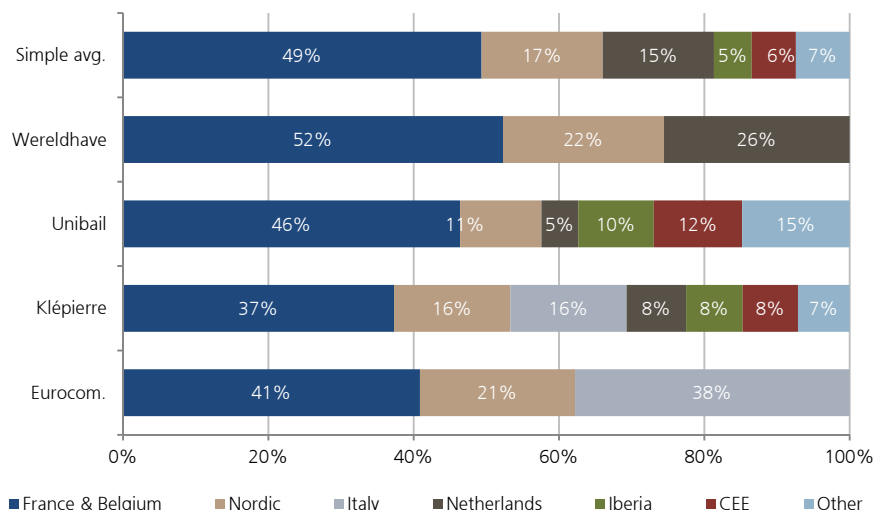
Generally more cautious than last year, but still 'cautiously optimistic'

- Sector and company messages (Pan-Europe focus):

- London office – depth of demand looks set to remain and supply outlook remains relatively limited across a number of the REITs' sub-markets, meanwhile investment demand still significant albeit more selectively
- Capco – we came away incrementally slightly more positive given the differentiation of the Earls Court estate vs. Nine Elms
- Merlin – we came away incrementally slightly more positive because of potential for a stronger leasing market post the elections and the reiteration that the 'asset gathering' stage is over
- For more details, see our note: <https://neo.ubs.com/shared/d1dY3gNQp2C1993>

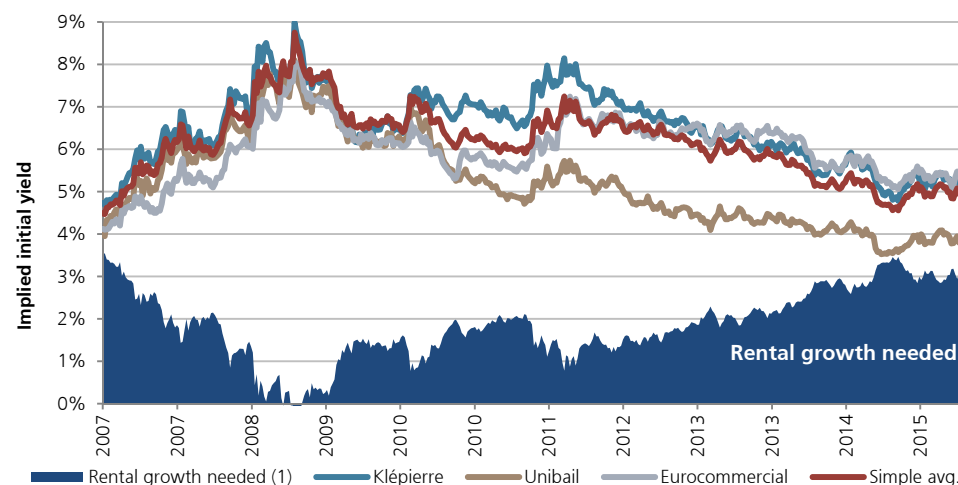
# Continental Retail: Downgrading the sector

## Weak French retail remains about half of the group's portfolio



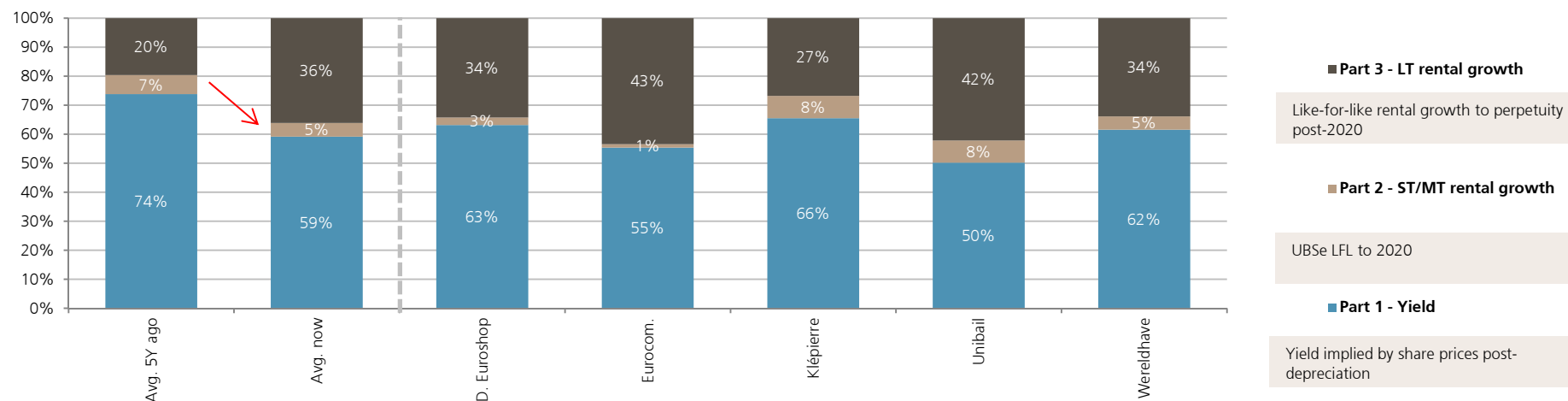
Source: Company disclosures // Deutsche Euroshop 92% Germany

## The market is pricing in too much (3%) structural rental growth



Source: UBSe

## Total return almost twice as much dependent on long-term rental growth as 5y ago



Source: UBSe

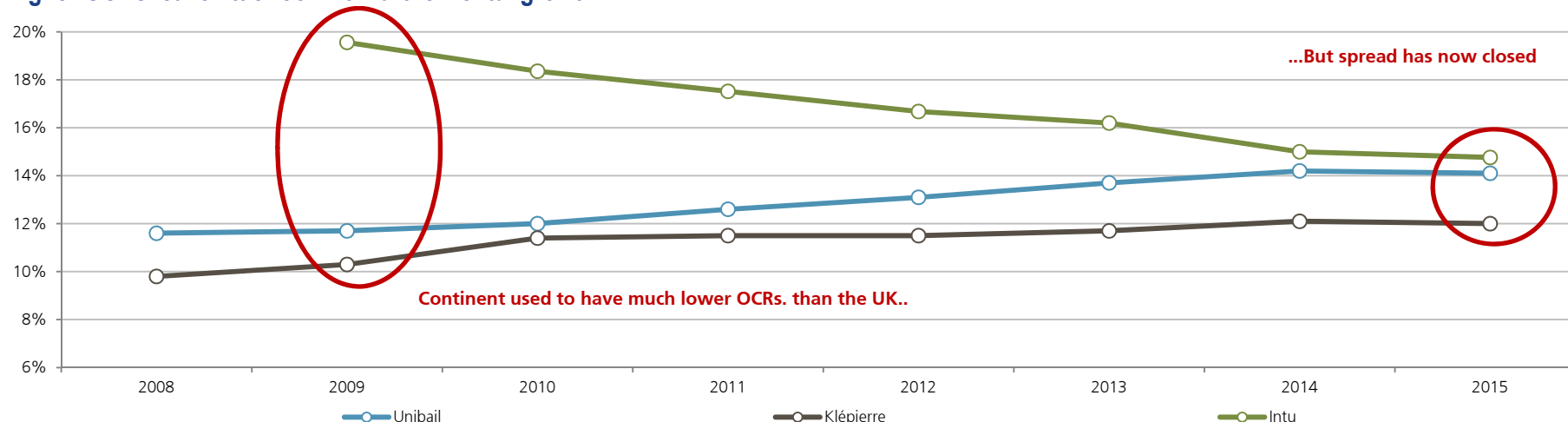


For the full note, click here:

<https://neo.ubs.com/shared/d1JCvNeKYgvAX>

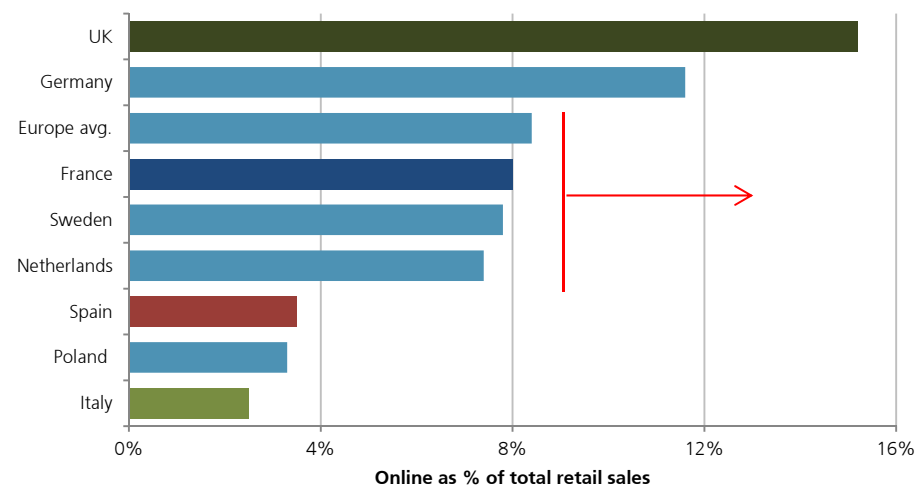
# Continental Retail: Downgrading the sector

## Higher OCRs leave little room for further rental growth



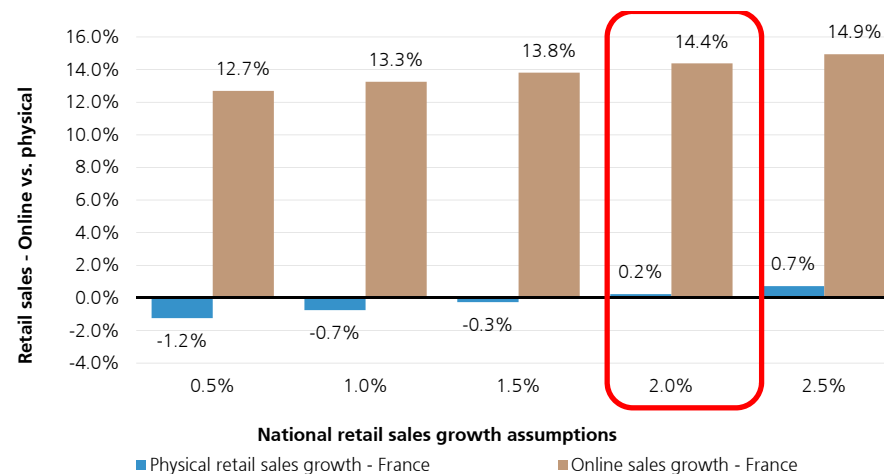
Source: Company disclosures // For Intu, we add an estimated 20% to the reported figures because the company's rent-to-sales ratio does not include service charges, while peers' definition does

## Online is becoming more relevant now...



Source: Centre for Retail Research

## ...and will capture bulk of sales growth going forward – France



Source: UBSe // assuming online reaches 20% market share in 2023

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## Macro indicators

# Macro economy – GDP, Interest Rates, FX

## UBS GDP forecasts

	2011	2012	2013	2014	2015e	2016e	2017e
Belgium	1.6%	0.1%	0.3%	1.1%	1.3%	1.5%	1.5%
Germany	3.7%	0.6%	0.4%	1.6%	1.5%	1.6%	1.6%
Finland	2.6%	-1.4%	-1.1%	-0.4%	0.4%	0.9%	1.2%
France	2.1%	0.2%	0.7%	0.2%	1.1%	1.4%	1.7%
Italy	0.7%	-2.9%	-1.8%	-0.4%	0.8%	1.5%	1.6%
Netherlands	1.7%	-1.1%	-0.4%	1.0%	2.1%	1.9%	1.9%
Norway	1.9%	3.5%	2.3%	2.3%	1.1%	1.7%	2.4%
Spain	-1.0%	-2.6%	-1.7%	1.4%	3.2%	2.7%	2.3%
Sweden	2.7%	0.0%	1.2%	2.4%	3.3%	3.0%	2.6%
Switzerland	1.9%	1.1%	1.8%	1.9%	1.0%	1.4%	1.8%
UK	2.0%	1.2%	2.2%	2.9%	2.2%	2.0%	2.3%
US	1.6%	2.2%	1.5%	2.4%	2.4%	1.5%	2.5%
Eurozone	1.6%	-0.8%	-0.3%	0.9%	1.5%	1.6%	1.7%

## UBS FX forecast

	Current	End 2016e	End 2017e
EUR/USD	1.10	1.16	1.20
EUR/JPY	124	151	162
EUR/GBP	0.79	0.72	0.74
EUR/SEK	9.39	9.65	9.50
EUR/NOK	9.56	9.00	8.75
EUR/CHF	1.09	1.10	1.12
USD/LS	3.91	4.00	3.90

Source: UBS Economics, as of 26-Feb-16

## UBS European and US rate forecasts

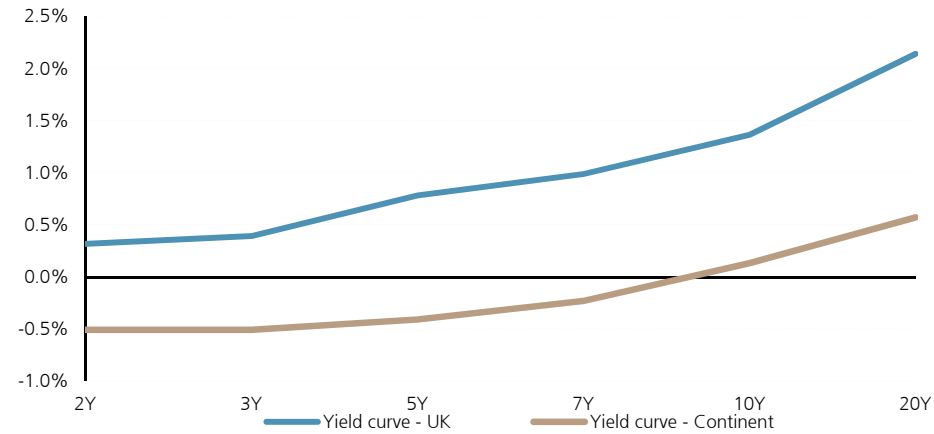
Source: UBS Economics, as of 26-Feb-16

		Current	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Euro Area	ECB Rate (MRO)	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
UK	Repo Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%
Sweden	Repo Rate	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.35%	-0.35%	-0.15%
Norway	Deposit Rate	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
Switzerland	3 month Interest Rate	-0.76%	-0.80%	-0.80%	-0.80%	-0.80%	-0.80%	-0.80%	-0.50%	-0.50%
US	Fed Funds Rate	0.38%	0.38%	0.38%	0.63%	0.88%	1.13%	1.38%	1.63%	1.88%
UK	10 years	1.55%	2.00%	2.00%	2.00%	2.00%	2.05%	2.10%	2.20%	2.25%
Sweden	10 years	0.50%	0.90%	1.20%	1.60%	2.00%	2.10%	2.20%	2.30%	2.50%
Norway	10 years	1.31%	2.00%	2.30%	2.60%	2.90%	3.13%	3.25%	3.38%	3.50%
Switzerland	10 years	-0.33%	-0.05%	0.10%	0.30%	0.50%	0.60%	0.70%	0.80%	0.90%
US	10 years	1.75%	1.89%	1.92%	1.96%	2.00%	2.08%	2.15%	2.23%	2.30%

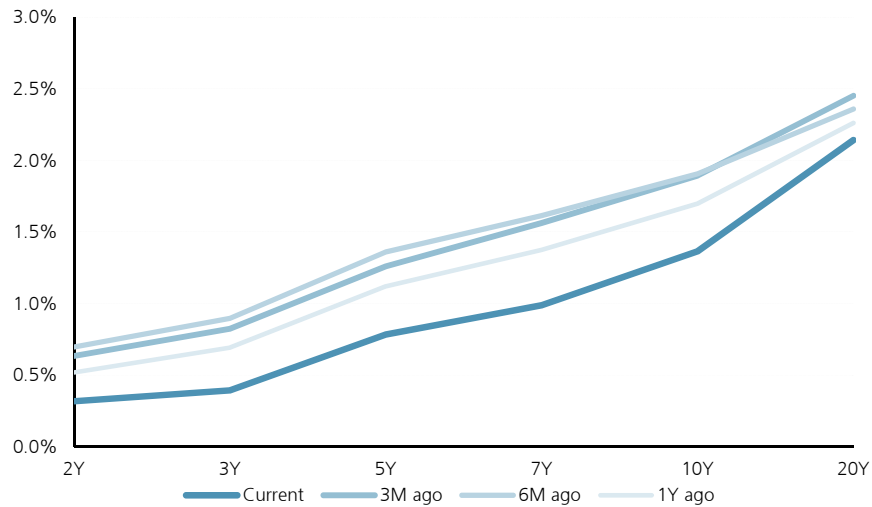


# Yield curves

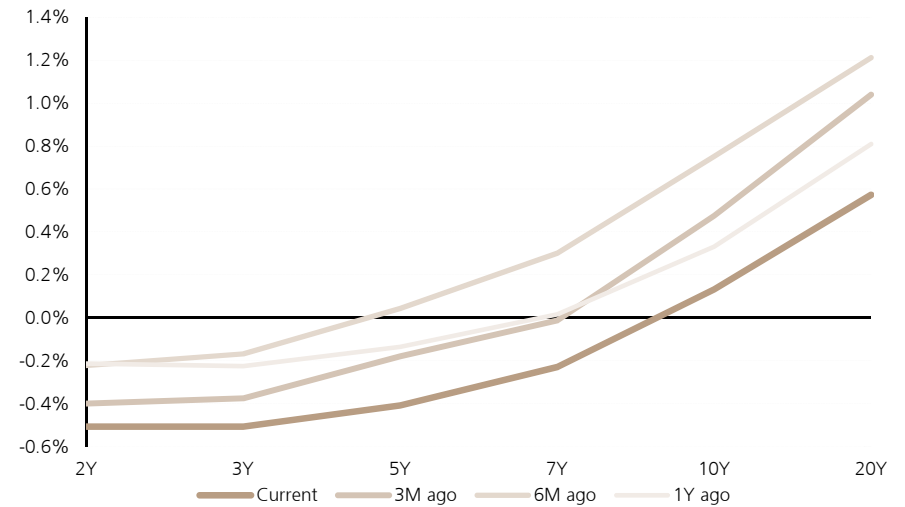
Yield curve: UK vs. Euro Area



Yield curve: UK + history



Yield curve: Continent (Euro area Benchmark) + history



Source: UBS

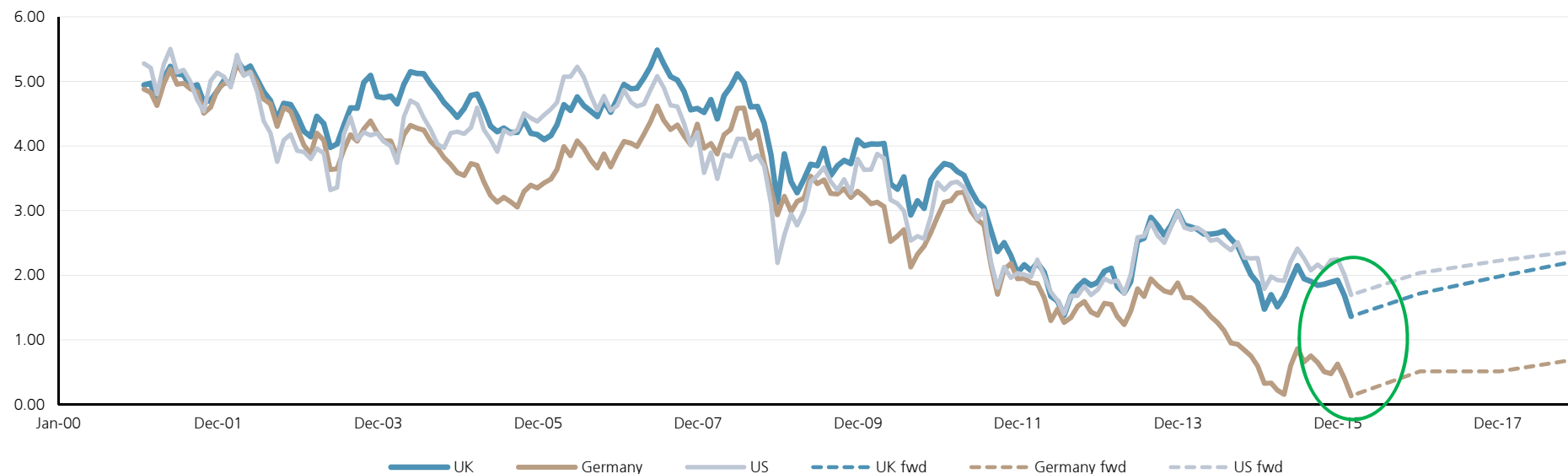


# Property yields and bond yields

## Key findings:

- A key perceived risk remains the negative effect that rising bond yields could have on property values
- We are not overly concerned by this risk for European property. We believe:
  - there remains a significant buffer between property yields and bond yields;
  - economic growth expectations look solid enough to flow through into rental growth, offsetting increasing yields;
  - the historical correlation is inconclusive (although recent stimulus means the correlation has been stronger and negative);
  - market concerns over QE caused volatility and created (temporary) opportunities in 2013 and 2014.

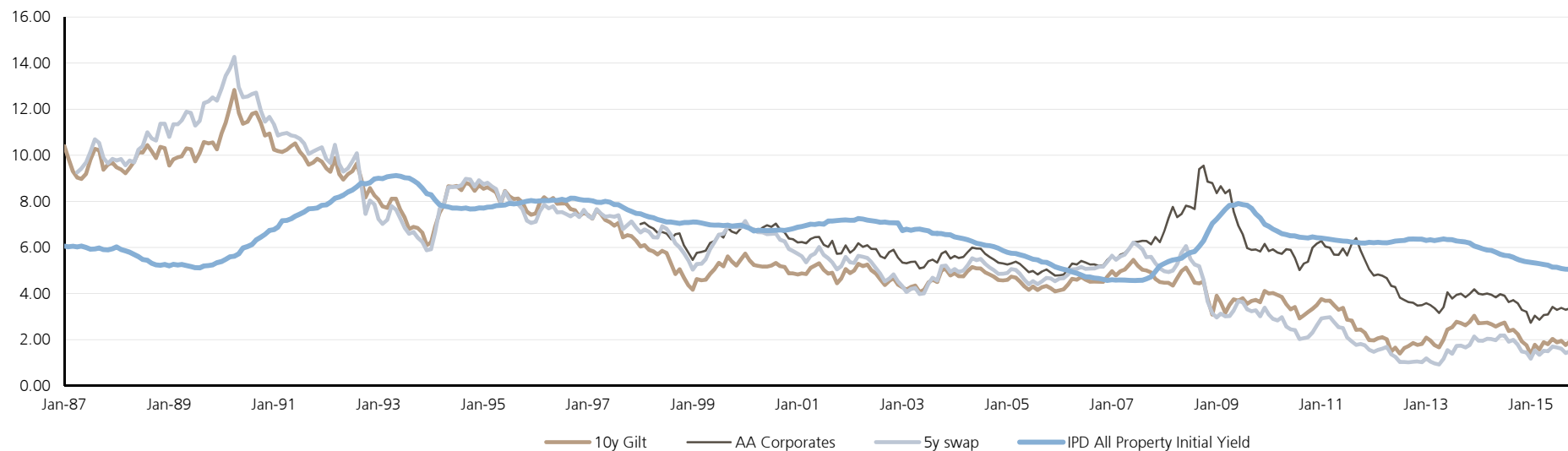
## Bond yields + market forecasts



Source: UBS estimates

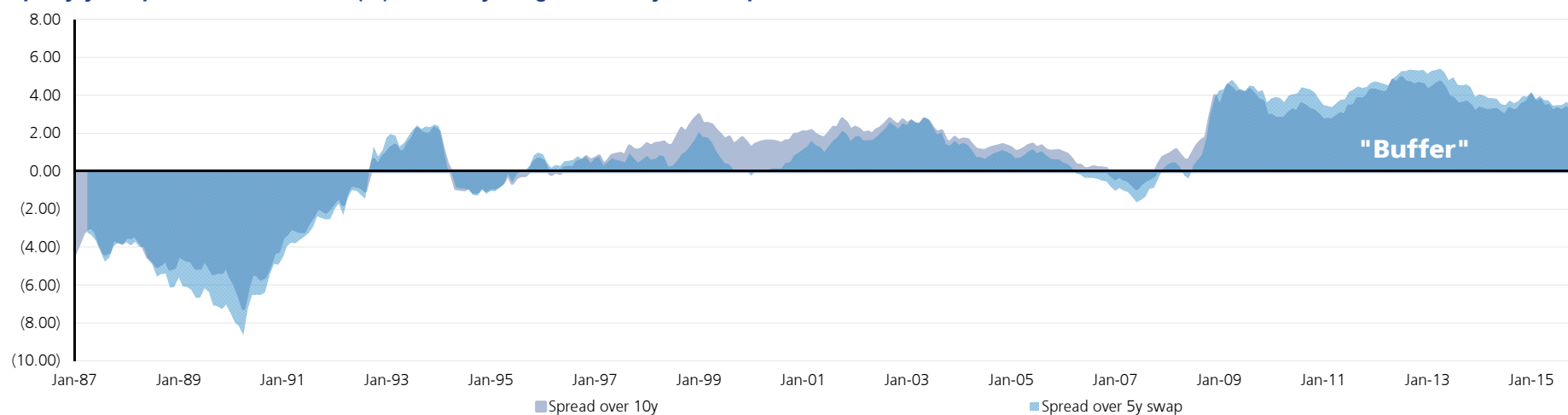
# UK yields and property yield spread

**Yields – All Property, 10y Gilt, 5 year swap, AA Corporates (%)**



Source: UBS estimates, Datastream, IPD

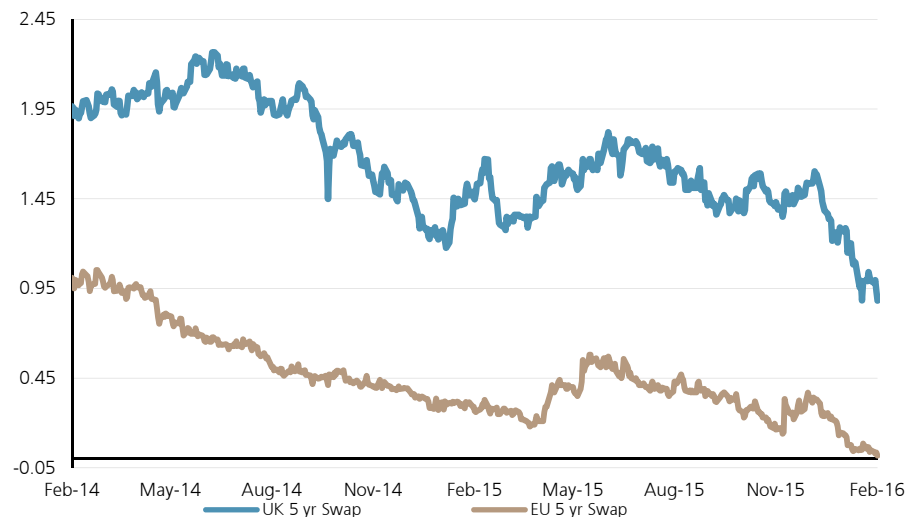
**Property yield premium / discount (%) over 10 year gilts and 5 year swap**



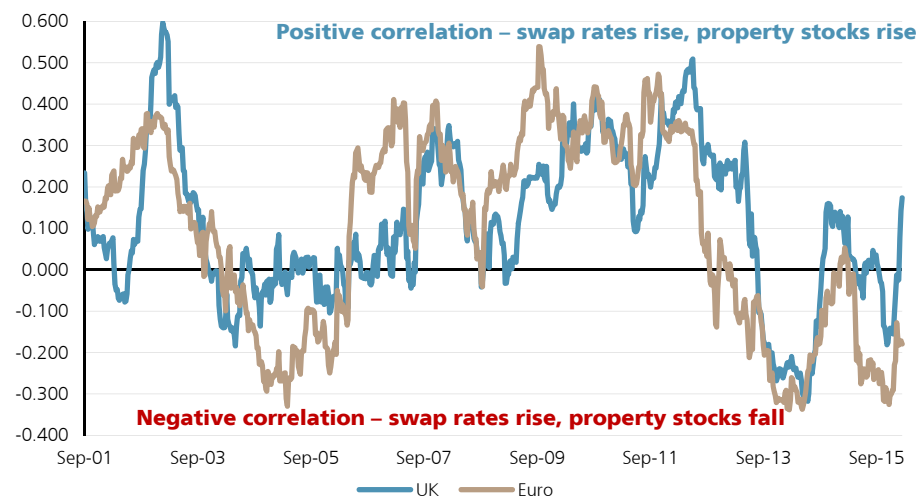
Source: UBS estimates, Datastream, IPD

# Bond yield/swap rates and correlation

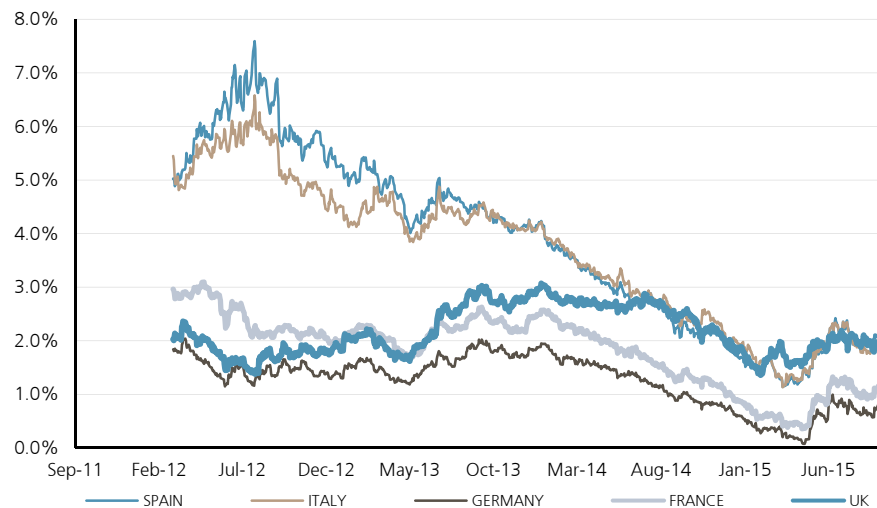
UK/Europe 5 year swap rate



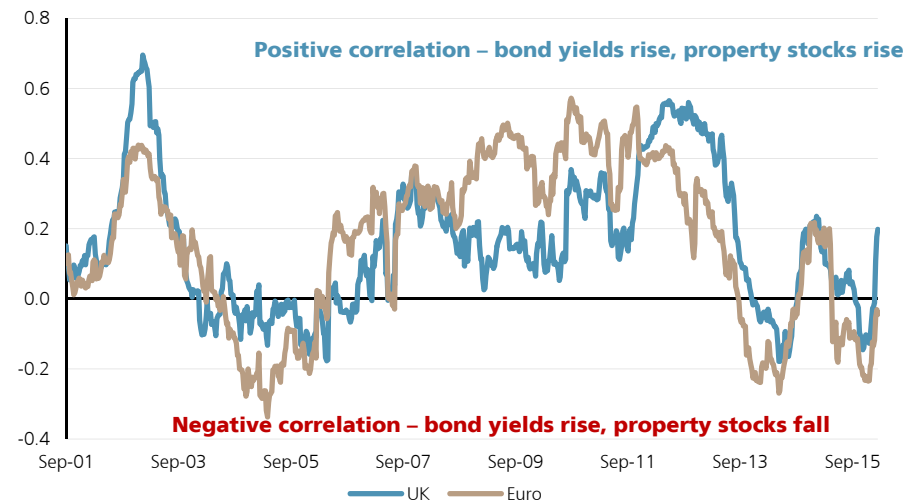
Property stock correlation to 5 year swap rate – rolling 1 year correlation



10Y bond yield by country



Property stock correlation to 10Y govt bond yield – rolling 1 year correlation

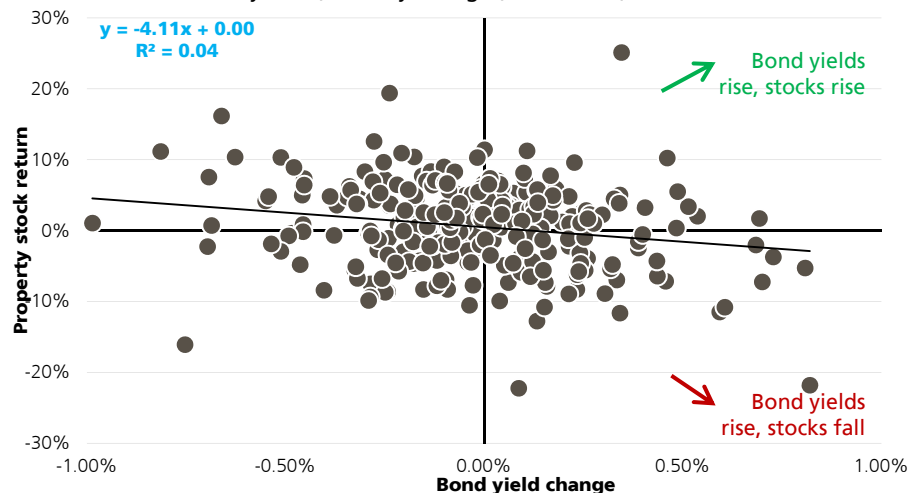


Source: UBS. Correlation one-year rolling based on weekly changes

# UK: Bond yields rising doesn't matter when rents are rising

## Weak negative: very little long-term correlation

Stock returns vs. Bond yields (monthly changes, from 1986)

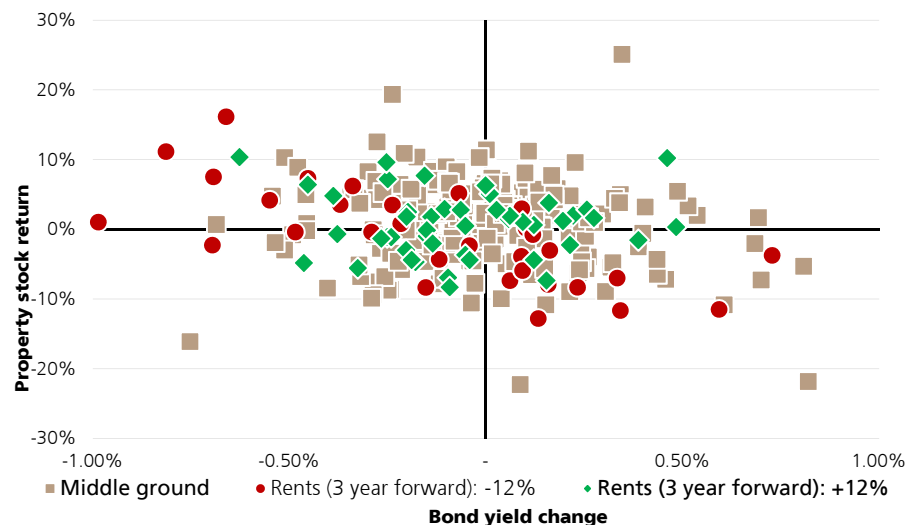


A hotly debated topic. Most analysis has simply looked at the broad correlation and concluded there is a weak inverse relationship

- We dig a little deeper and find that rising bond yields do matter, but only when rents are falling
- We believe we are in a rental growth market in the UK – particularly in the London office market
- Correlation of 4% rises to 49% in falling rental market
- For more, please see our full note here:

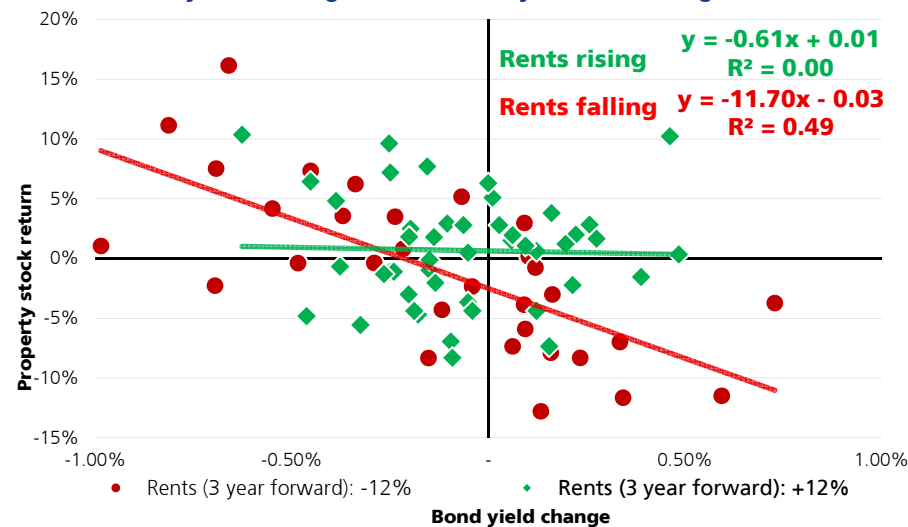
<https://neo.ubs.com/shared/d1qkqY0NqINReG1>

## ...but separating the data into rising and falling rents markets...



Source: UBS

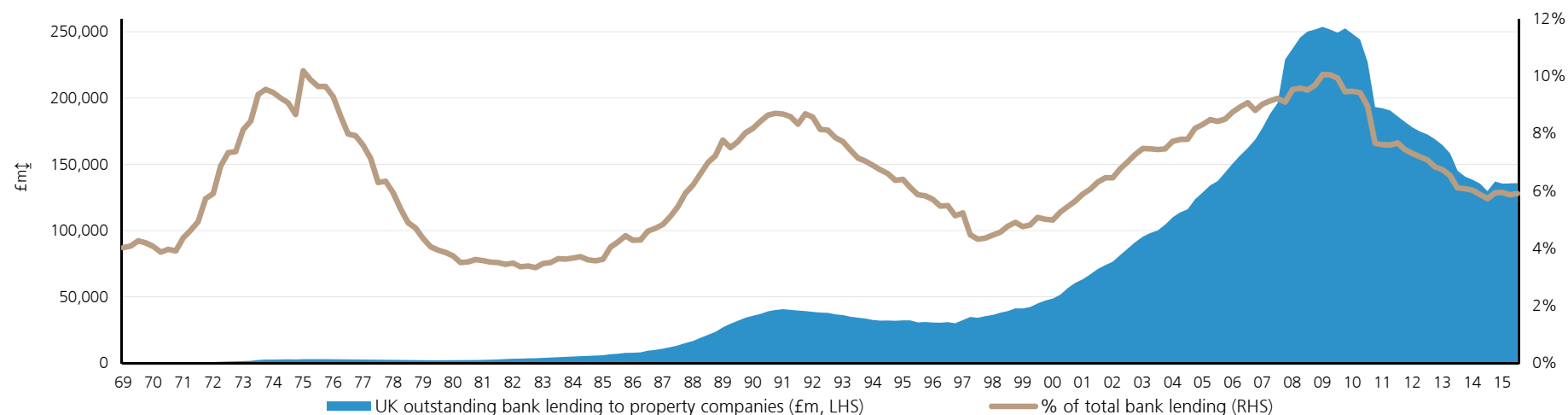
## ...shows Bond yields rising a concern only if rents falling



For more, please see our full note here: <https://neo.ubs.com/shared/d1qkqY0NqINReG1>

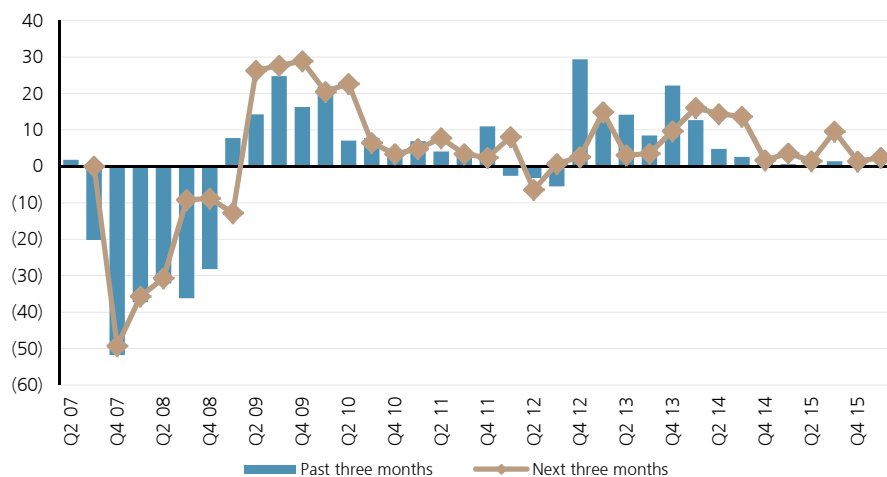
# UK bank lending to property – continued easing

UK bank net lending (sterling and foreign currency) to UK property companies



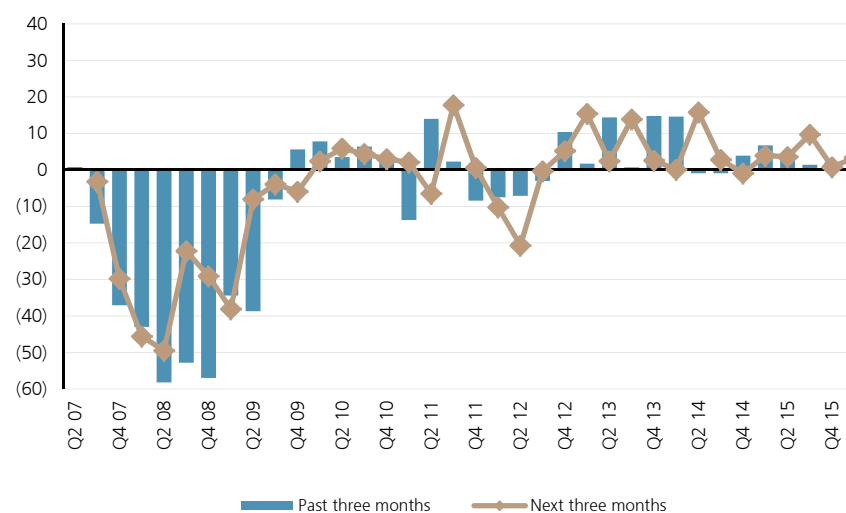
Source: Bank of England, UBS Jan-2016

Change in UK credit availability to commercial real estate



Source: Bank of England Jan-2016 (credit conditions survey)

Change in UK credit availability to the corporate sector



# Historic returns: EPRA vs. other asset classes

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 YTD
IPD UK	IPD UK	Bund 10Y	E300 Germany	EPRA	IPD UK	EPRA	E300 Germany	Bund 10Y	EPRA	Gold	Gold	E300 Germany	S&P500	IPD UK	IPD UK	Gold
10.5%	7.1%	30.4%	63.0%	52.7%	18.8%	67.0%	36.4%	10.6%	40.4%	29.3%	11.1%	31.7%	32.4%	19.3%	13.8%	5.2%
EPRA	HICP	Gold	EPRA	E300 ex-UK	Gold	E300 Germany	Gold	Gold	E100	S&P500	Bund 10Y	EPRA	E300 Germany	S&P500	EPRA	Bund 10Y
9.9%	1.8%	24.0%	44.7%	21.5%	17.0%	36.9%	31.8%	3.1%	34.9%	15.1%	10.3%	30.7%	31.6%	13.7%	6.7%	3.0%
Bund 10Y	Gold	EPRA	E300 ex-UK	MSCI EAFE	MSCI EAFE	E300 ex-UK	E100	HICP	MSCI EAFE	IPD UK	IPD UK	E300 ex-UK	E300 ex-UK	EPRA	S&P500	IPD UK
1.9%	1.4%	20.7%	43.0%	20.7%	14.0%	35.8%	18.5%	1.8%	32.5%	14.5%	8.1%	22.5%	28.2%	10.4%	1.4%	0.7%
HICP	Bund 10Y	IPD UK	MSCI EAFE	IPD UK	E300 ex-UK	E100	E300 ex-UK	IPD UK	E300 ex-UK	EPRA	S&P500	MSCI EAFE	E100	Bund 10Y	HICP	HICP
1.0%	-0.8%	10.4%	39.2%	18.9%	11.1%	30.1%	18.2%	-22.5%	32.4%	9.3%	2.1%	17.9%	25.0%	2.4%	0.8%	-1.7%
E300 ex-UK	EPRA	HICP	E100	Bund 10Y	E300 Germany	MSCI EAFE	Bund 10Y	S&P500	Gold	E300 Germany	HICP	E100	MSCI EAFE	HICP	E300 ex-UK	S&P500
-5.3%	-5.3%	2.4%	36.1%	18.6%	9.7%	26.9%	12.7%	-37.0%	27.1%	8.3%	1.4%	17.7%	23.3%	0.8%	-0.3%	-5.0%
Gold	S&P500	MSCI EAFE	S&P500	E100	EPRA	Gold	MSCI EAFE	MSCI EAFE	E300 Germany	MSCI EAFE	E100	S&P500	EPRA	Gold	MSCI EAFE	EPRA
-6.2%	-11.9%	-15.7%	28.7%	17.8%	9.4%	23.8%	11.6%	-43.1%	26.8%	8.2%	-9.4%	16.0%	16.2%	-1.8%	-0.4%	-5.6%
E300 Germany	E100	E100	Bund 10Y	E300 Germany	E100	IPD UK	S&P500	E300 Germany	S&P500	E300 ex-UK	MSCI EAFE	Bund 10Y	IPD UK	MSCI EAFE	E300 Germany	E100
-6.9%	-19.8%	-18.0%	24.8%	14.9%	7.8%	18.1%	5.5%	-43.9%	26.5%	1.5%	-11.7%	9.2%	10.9%	-4.5%	-1.9%	-6.2%
E100	MSCI EAFE	E300 ex-UK	Gold	S&P500	S&P500	S&P500	HICP	E300 ex-UK	Bund 10Y	HICP	EPRA	Gold	Bund 10Y	E300 ex-UK	E100	E300 ex-UK
-7.0%	-21.2%	-20.1%	21.6%	10.9%	4.9%	15.8%	1.9%	-44.2%	3.7%	1.0%	-12.3%	5.6%	1.8%	-5.5%	-5.9%	-6.6%
S&P500	E300 Germany	S&P500	IPD UK	Gold	HICP	Bund 10Y	IPD UK	E100	IPD UK	Bund 10Y	E300 ex-UK	IPD UK	HICP	E100	Bund 10Y	MSCI EAFE
-9.1%	-21.5%	-22.1%	11.2%	5.0%	1.4%	10.0%	-5.5%	-45.2%	2.2%	0.6%	-14.1%	2.4%	1.1%	-7.4%	-10.0%	-7.2%
MSCI EAFE	E300 ex-UK	E300 Germany	HICP	HICP	Bund 10Y	HICP	EPRA	EPRA	HICP	E100	E300 Germany	HICP	Gold	E300 Germany	Gold	E300 Germany
-14.0%	-22.7%	-32.6%	1.8%	1.8%	-7.0%	1.4%	-24.5%	-51.1%	1.4%	-1.1%	-17.8%	1.5%	-27.3%	-9.7%	-10.4%	-9.0%

Note: For stock indices we use total returns in USD, EPRA is EPRA Europe (total return in USD), IPD UK is IPD UK All Property Total Return

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## Direct market analysis



# Property Health Check

Best.....Worst											1	2	3	4	5
Major Sectors Covered		OFFICES					RETAIL				RESIDENTIAL				
MACRO		West End Office	City Office	Paris Office	Madrid Office	German Office (1)	Continental Prime	Continental Secondary	London High St	UK Regional Malls	German Residential	London Residential			
	Main Listed Player In Sector	Great Port, Derwent	Land Sec, British Land	Gecina Icade	Merlin, Hispania	Alstria TLG	Unibail, Klépierre	Eurocom., Wereldhave	Capco Shaftesbury	Hammerson, Intu	Wohnen, ADO	Capco, Shaftesbury			
	Local Economy (UBSe 2015 & 2016 GDP)	1 (+2.7%/2.5%)	1 (+2.7%/2.5%)	3 (+1.1%/1.5%)	1 (+3.2%/2.6%)	2 (+1.5%/2.1%)	2 (+1.4%/1.9%)	2 (+1.4%/1.9%)	1 (+2.7%/2.5%)	1 (+2.7%/2.5%)	2 (+1.5%/2.1%)	1 (+2.7%/2.5%)			
FUNDAMENTALS	Market Rental Growth (UBSe 2015 & 2016)	1 (+12%, +4%)	1 (+10%/+8%)	3 (+1.6%/2.1%)	2 Moderate	2 Moderate	2 (c.+2% p.a.)	4 (Mild decline)	1 (>5% p.a.)	2 (c.+3% p.a.)	2 (c.+5% p.a.)	2 (c.2-3% p.a.)			
	Vacancy Spot, YOY Change	1 (2.3%, -70 bps)	1 (3.1%, -190 bps)	4 (7.2%, +13 bps)	5 (17.3%, -10 bps)	3 (7.5%, -80 bps)	2 (2.7%, -20 bps)	4 (0-10%, rising)	1 n/a but very low	3 n/a	2 (<4%, unch)	3 n/a			
	New Supply (2016 + 2017 as % of stock)	2 (4%)	3 (8%)	2 (2%)	1 (0.4%)	2 (2%)	2 (Limited)	4 (Online threat)	2 (Limited)	2 (Limited)	1 n/a (2)	1 n/a (4)			
	Rents vs. Peak Current vs. Q4 2007	3 (-2%)	3 (+3%)	2 (-3%)	1 (-36%)	3 (+3.5%)	4 (+15-20%)	3 (+5-10%)	5 (up to +85%)	1 (-15%)	3 n/a	4 4% YoY			
VALUES	Investment Appetite YOY Change in Volume	1 (+66%)	1 (+165%)	3 (-c.20%)	1 (>+100%)	1 (+71%)	1 (Scarcity value)	2 n/a (3)	1 (>+100%)	1 (Scarcity value)	1 (+125%)	4 (-c.20%)			
	Yields vs. Peak Current vs. Q4 2007	4 (-125 bps)	4 (-125 bps)	4 (-35 bps)	1 (+25 bps)	4 (-75 bps)	3 (flat)	3 (flat)	5 (-175 bps)	3 (0 to -25 bps)	5 c.-150 bps	4 c.4% currently			
Overall Average Score		1.9	2.0	3.0	1.7	2.4	2.3	3.1	2.3	1.9	2.3	2.7			
Other Sectors		RETAIL (MAIN COUNTRY BREAKDOWN)					SCANDINAVIA				INDUSTRIAL				
MACRO		French Prime SC	Spanish Prime SC	German Prime SC	Dutch Prime SC	Italian Prime SC	Swedish Prime SC	Stockholm High St	Stockholm Office	Finland Real Estate	UK Industrial	German Industrial			
	Main Listed Player In Sector	Unibail, Klépierre	Unibail, Klépierre	Unibail, Klépierre	Unibail, Klépierre	Eurocom., Klépierre	Unibail, Klépierre	Hufvudstaden	Fabege, Hufvudstaden	Citycon, Sponda	Segro	Segro			
	Local Economy (UBSe 2015 & 2016 GDP)	3 (+1.1%/1.5%)	1 (+3.2%/2.6%)	2 (+1.5%/2.1%)	2 (+2.1%/2.1%)	3 (+0.6%/1.4%)	1 (+2.9%/3.2%)	1 (+2.9%/3.2%)	1 (+2.9%/3.2%)	5 (+0.3%/1.0%)	1 (+2.7%/2.5%)	2 (+1.5%/2.1%)			
FUNDAMENTALS	Market Rental Growth (UBSe 2015 & 2016)	2 (c.2.0% p.a.)	2 (c.3.0% p.a.)	2 (c.2.0% p.a.)	2 (c.2.0% p.a.)	2 (c.2.5% p.a.)	2 (c.2.0% p.a.)	1 (+5% p.a.)	2 (+3% p.a.)	5 (Still declining)	2 (1-2% p.a.)	4 (0-1% p.a.)			
	Vacancy Spot, YOY Change	1 (2.3%, +20 bps)	1 (2.9%, -190bps)	2 (c.4%, n/a)	2 (3.8%, -80 bps)	2 (3.0%, +60 bps)	2 (3.5%, -30 bps)	2 (3-5%, unch)	2 (3-5%, unch)	5 (13.4%, 150bps)	3 Stable	3 (>10%, -100bps)			
	New Supply (2016 + 2017 as % of stock)	5 (Largest pipeline)	1 (Very low)	3 (Moderate)	3 (Moderate)	4 (Large pipeline)	3 (Moderate)	1 (Very low)	2 (2%)	3 Avg. (ret, off.)	2 (Limited)	2 (Limited)			
	Rents vs. Peak Current vs. Q4 2007	5 (+28%)	1 (-10%)	5 (+33%)	1 (-12%)	4 (+13%)	4 (+13%)	4 (+22%)	4 (+10%)	3 (-5%)	3 (+4%)	3 (+3%)			
VALUES	Investment Appetite YOY Change in Volume	1 (Scarcity value)	1 (Scarcity value)	1 (Scarcity value)	1 (Scarcity value)	1 (Scarcity value)	1 (Scarcity value)	1 (Scarcity value)	4 (declining)	1 (c.+100%)	1 c.+40%	3 c.-20%			
	Yields vs. Peak Current vs. Q4 2007	3 (flat)	1 (+25 bps)	4 (-45 bps)	1 (+125 bps)	1 (+90 bps)	1 (+60 bps)	4 (-40 bps)	4 (-40 bps)	3 (flat)	4 (-40 bps)	4 (-100 bps)			
Overall Average Score		2.9	1.1	2.7	1.7	2.4	2.0	2.0	2.7	3.6	2.3	3.0			

Source: UBS, Property agents



# UBS Evidence Lab: London Office Rent Prediction Model

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## Key findings

- A positive outlook for the next two years is generally baked in to expectations due to favourable supply/demand dynamics, and is evident in both recent leasing transactions and the low yields being paid for London offices
- Our forecasts point to decent growth of 8% in the City in 2016 followed by 6% in 2017
- In the West End, our Data Science findings suggest that rental growth here should tail off more quickly, i.e. 4% growth in 2016 and 1% in 2017

## Model

- The prediction model has four measurable variables that explain rental growth in these markets: vacancy rates, UK finance and business employment growth, UK 10-year benchmark yield and GDP growth
- Local vacancy is estimated to slightly improve from current levels in both markets before deteriorating slightly
- ✓ In the City we assume vacancy continues to improve toward 4% and then starts to increase in 2017 as new projects have been added to the pipeline set for delivery by 2017
- ✓ In the West End we assume vacancy falls below 4% for a few quarters before beginning to return to 4% by Q4 2017. The West End remains a tight market with relatively limited supply compared to existing stock, a more stringent planning regime (e.g. limited high-rise construction), and continued loss of office stock through residential conversion

Source: Property agents, UBS Evidence Lab

# London Office – UBS direct market expectations: *sweet spot*

## Rental growth forecasts – City

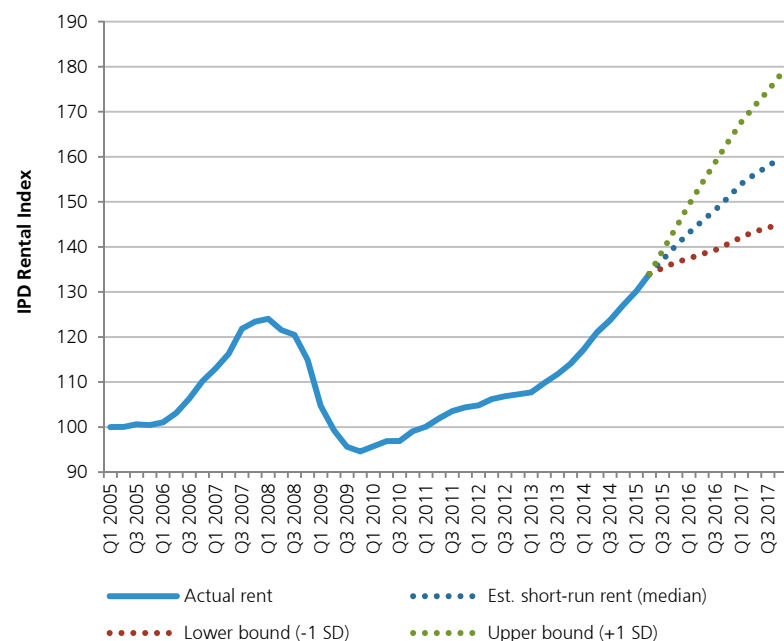
YoY	Est. short-run rent	Lower bound (-1 SD)	Upper bound (+1 SD)
2015e	10%	7%	14%
2016e	8%	3%	13%
2017e	6%	3%	9%

Source: Property agents, UBS estimates

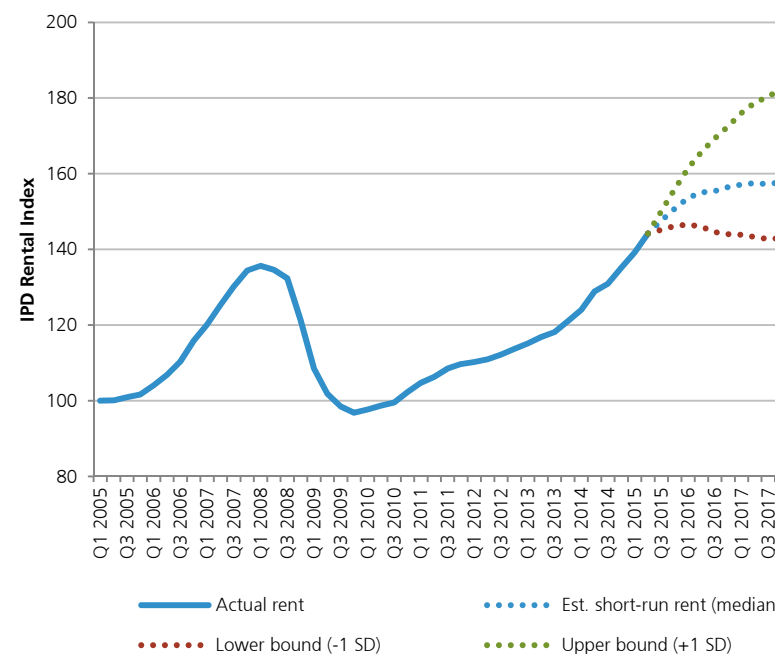
## Rental growth forecasts – West End

YoY	Est. short-run rent	Lower bound (-1 SD)	Upper bound (+1 SD)
2015e	12%	8%	15%
2016e	4%	-1%	11%
2017e	1%	-1%	6%

## Rental growth index – City



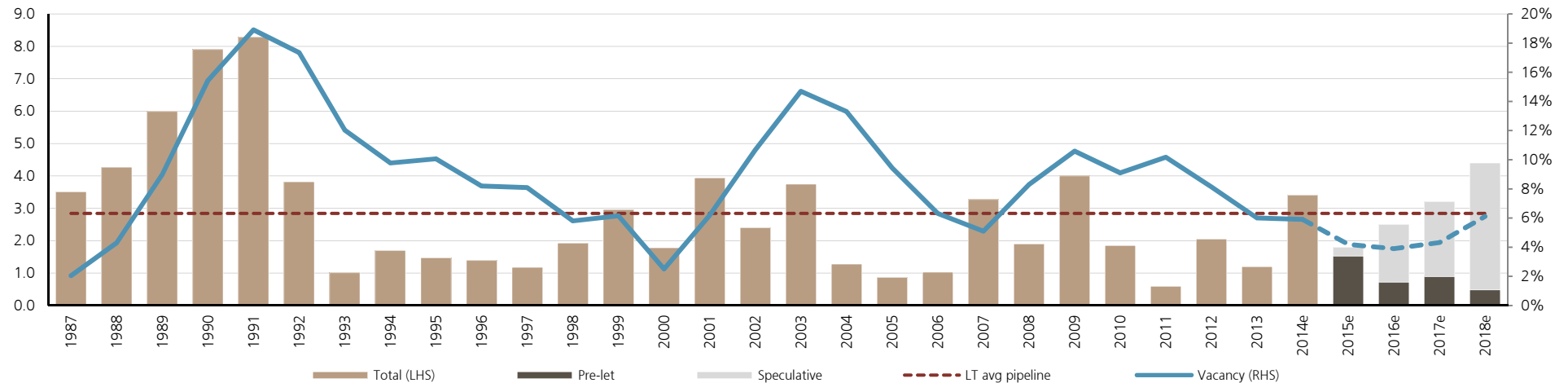
## Rental growth index – West End



Source: Property agents, UBS Evidence Lab

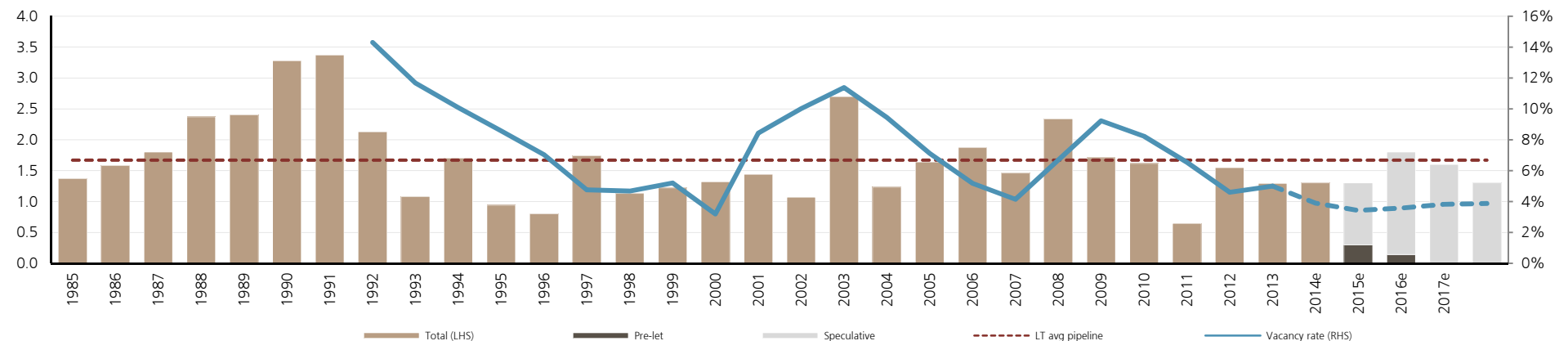
# UBSe: Development pipelines and vacancy rates – London

City of London – Development pipeline (m sq ft) versus vacancy (%)



Source: Property agents, UBS estimates

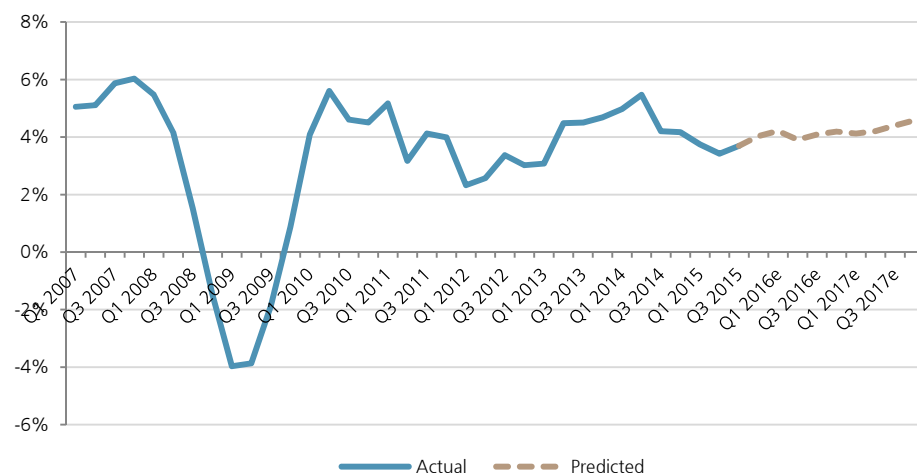
West End – Development pipeline (m sq ft) versus vacancy (%)



Source: Property agents, UBS estimates

# Rental growth drivers

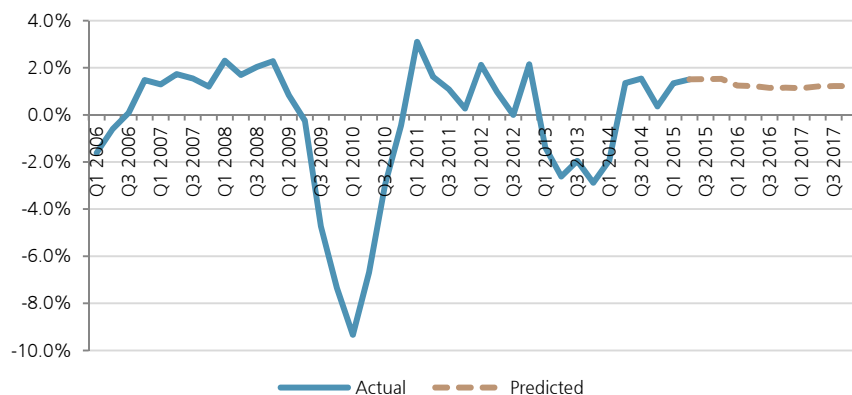
UK GDP growth yoy (%)



UK 10-year benchmark yield




UK employment growth – finance & business (YoY)




Source: Property agents, UBS estimates


# Correlation with rental growth – UK sub-sectors



Independent variable	City office
Vacancy in the City	-77%
Supply growth in the City	-45%
Construction costs (QoQ)	45%
GDP growth (YoY)	40%
Business confidence	31%
5Y gov bond yield in UK	26%
Employment in London (QoQ)	23%
10Y gov bond yield in UK	23%
Bank of England base rate	-22%
GVA London growth (QoQ)	19%
UK interbank 1Y rate	14%
Completions growth (QoQ) in the City	9%



Independent variable	West End office
Vacancy in the West End	-77%
GDP growth (YoY)	56%
Construction costs (YoY)	46%
Supply growth in the west End	-39%
Business confidence	34%
5Y gov bond yield in UK	32%
UK interbank 1Y rate	31%
Employment in London (QoQ)	28%
10Y gov bond yield in UK	28%
GVA London growth (QoQ)	19%
Bank of England base rate	-12%
Completions growth (QoQ) in the West End	7%



Independent variable	UK shopping centres
Bank of England Base rate (1Y lag)	-81%
Halifax House Price Index (1Y lag)	62%
UK GDP (1Y lag)	56%
% of retail sales on internet	-51%
Non food retail sales (1Y lag)	49%
Consumer expenditures (1Y lag)	42%
Unemployment growth	-40%
Total pipeline growth QoQ (1Y lag)	26%
BRC Retail LfL (%yoy)	20%
UK CPI	16%

For our forecasting models, we tested all available variables for the best mix to produce

- ✓ a high correlation (high R-Square); with a
- ✓ valid statistical model (e.g., valid P-value)

Source: UBS estimates

# Paris Office – UBS direct market expectations – *Stay cautious*

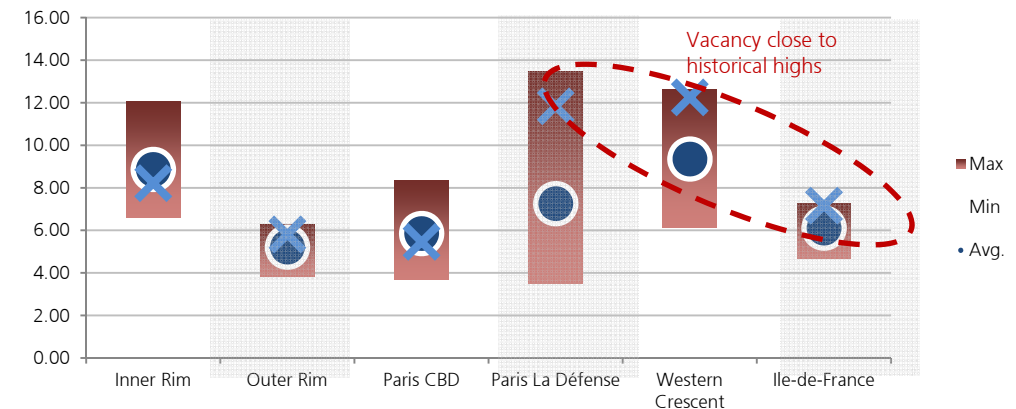
## • Rents:

- Headline rents remain 5 to 15% below their 2007 peak level, but incentives crept up to 7-17 months
- Development projects are limited, but so is employment growth (+0.5% p.a.)...
- ...Hence, vacancy reduction should be modest (20 bps) over next 3 years...
- ...Not enough to improve landlords' bargaining power: +1.3% p.a. average rental growth...
- ...With discrepancies: CBD strongest, Western Crescent weakest

## • Yields:

- Ile-de-France office yields seen strongly correlated with French government bonds
- Moderate increase anticipated

Limited vacancy reduction from historical highs (%)



Source: Agents, UBS estimates

Paris CBD leads on our rental growth scorecard

Outputs	2015	2016	2017
Paris CBD	2.6%	3.3%	3.8%
Paris Other	2.5%	3.2%	3.7%
La Defense	-0.2%	1.1%	2.2%
Western Crescent	-1.1%	-0.8%	-0.7%
Inner Rim	0.5%	0.0%	0.5%
Outer Rim	0.4%	-0.1%	0.4%
Ile de France	1.6%	2.1%	2.5%

Source: UBS estimates

# Madrid Office

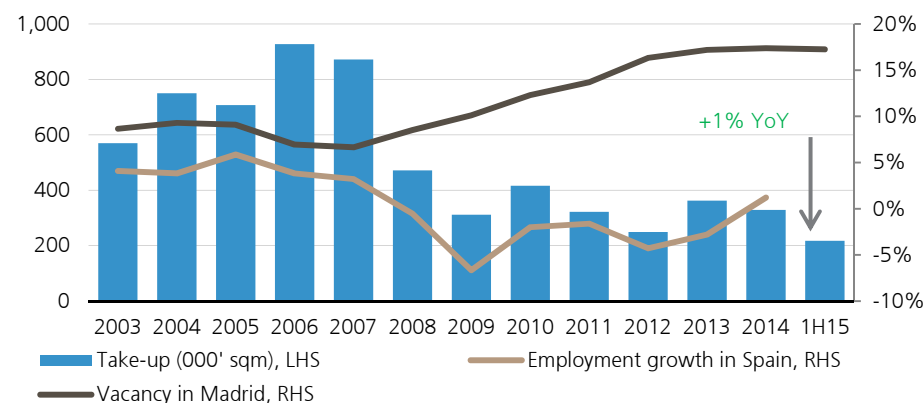
## • Occupier market

- Prime office rents in Madrid have fallen 35%-40% from peak to trough with rents in more secondary locations down as much as 50%
- Prime rents stand at €25.5 and showed only c3% increase from the trough (primarily in prime stock in the CBD)
- Unemployment rate in Spain is 21% but job creation is expected to be strong, at the rate of the expected GDP increase

## • Investment market

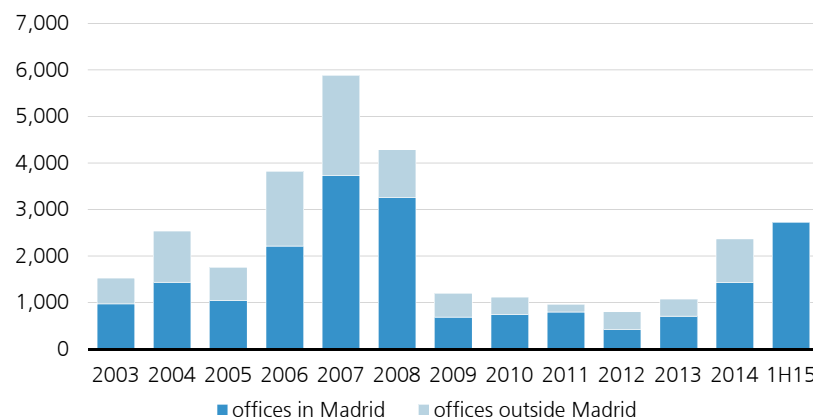
- Per CBRE, over the first 9 months of 2015, €1.8bn was invested in the Madrid office market, an increase of 29% vs. 2014.
- SOCIMIs continue to play a key role in the market, accounting for 1/3 of all Madrid's investment market in 2015.

Office space take-up in Madrid



Source: Agents

Investment market

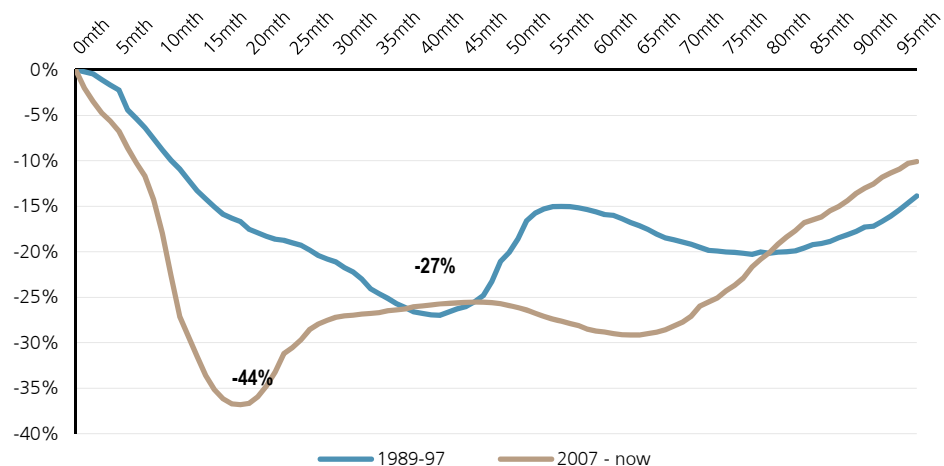


Source: Agents



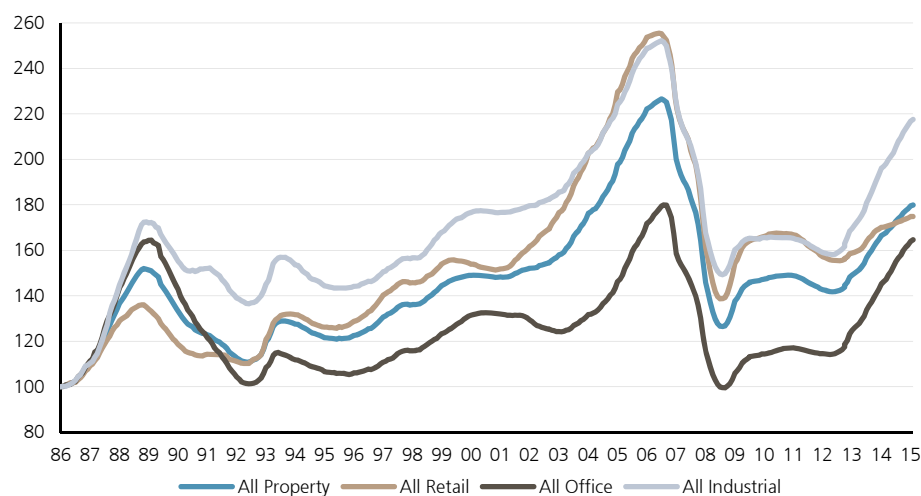
# Property values – IPD and by company

IPD property capital values – 1990s cycle vs. current



Source: IPD, UBS estimates

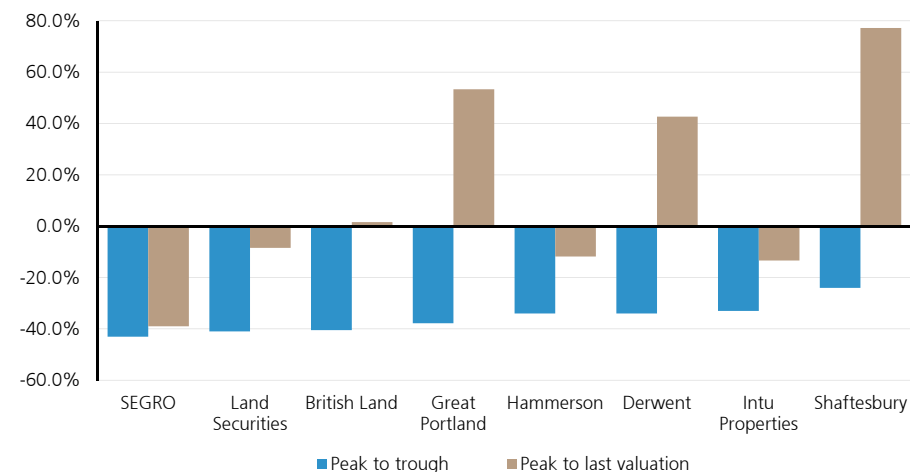
IPD UK property capital values



Source: IPD, UBS estimates

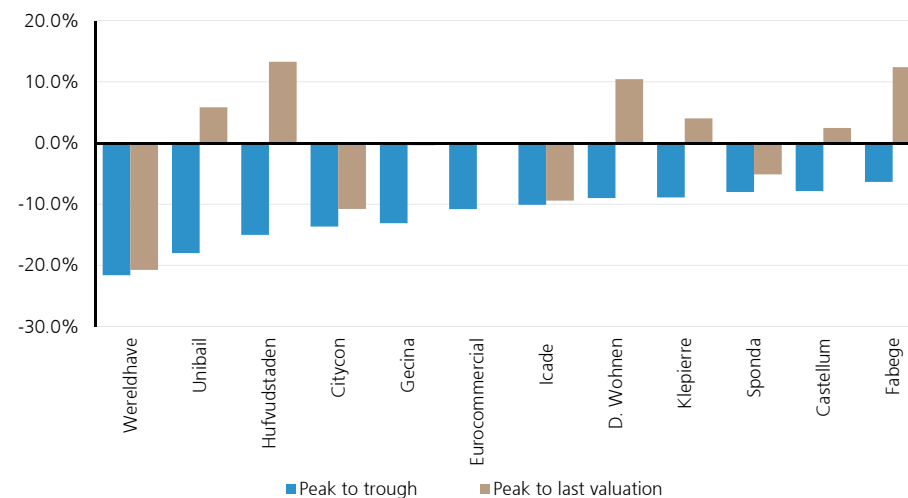


Revaluations from the 2007 peak – UK



Source: Company data

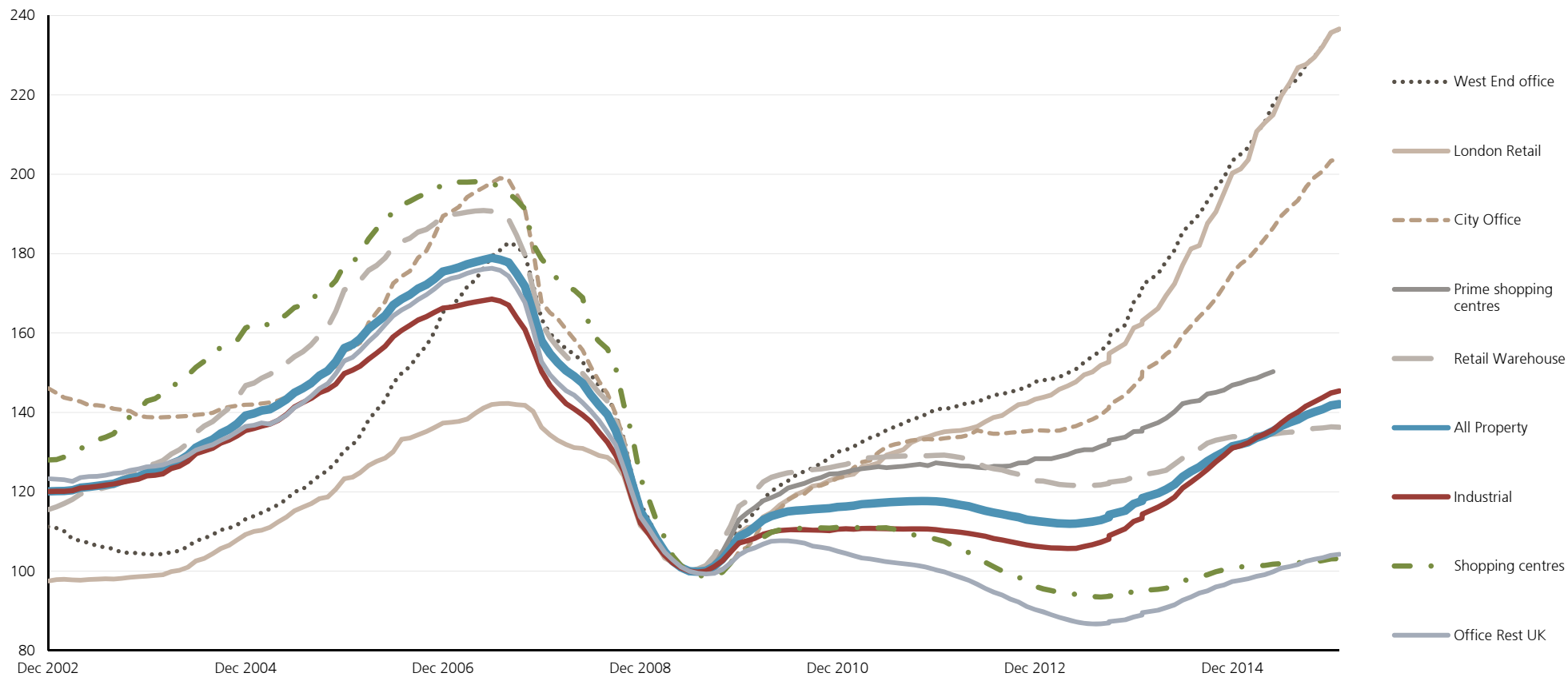
Revaluations from the 2007 peak – Continental Europe



Source: Company data

# UK property capital values

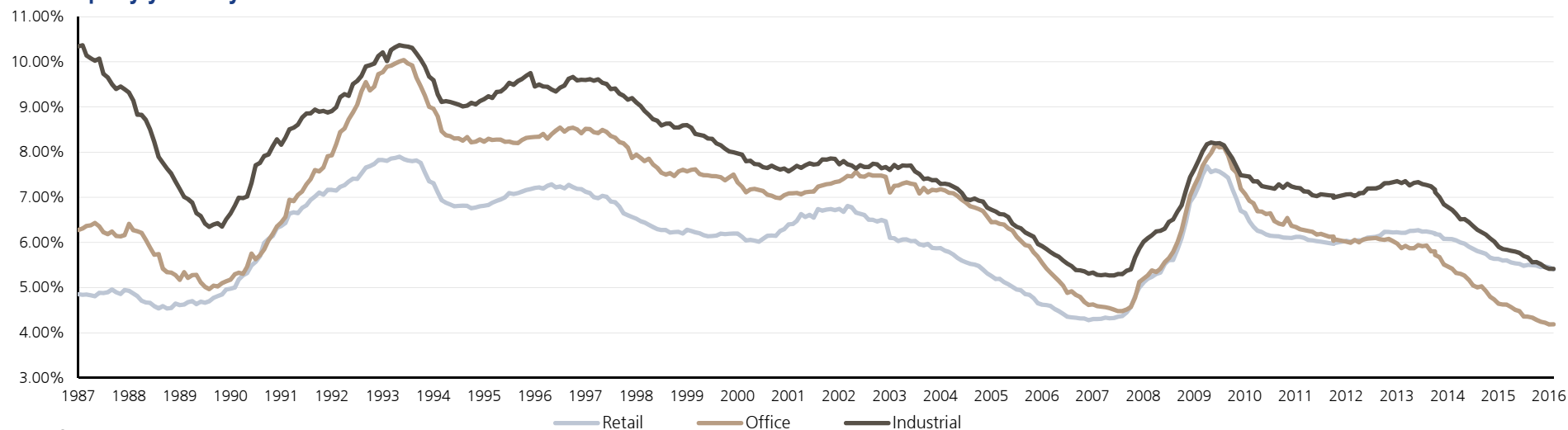
## Capital value indices



Source: IPD. Prime shopping centres based on CBRE, Rebased to 100 as at June 2009.

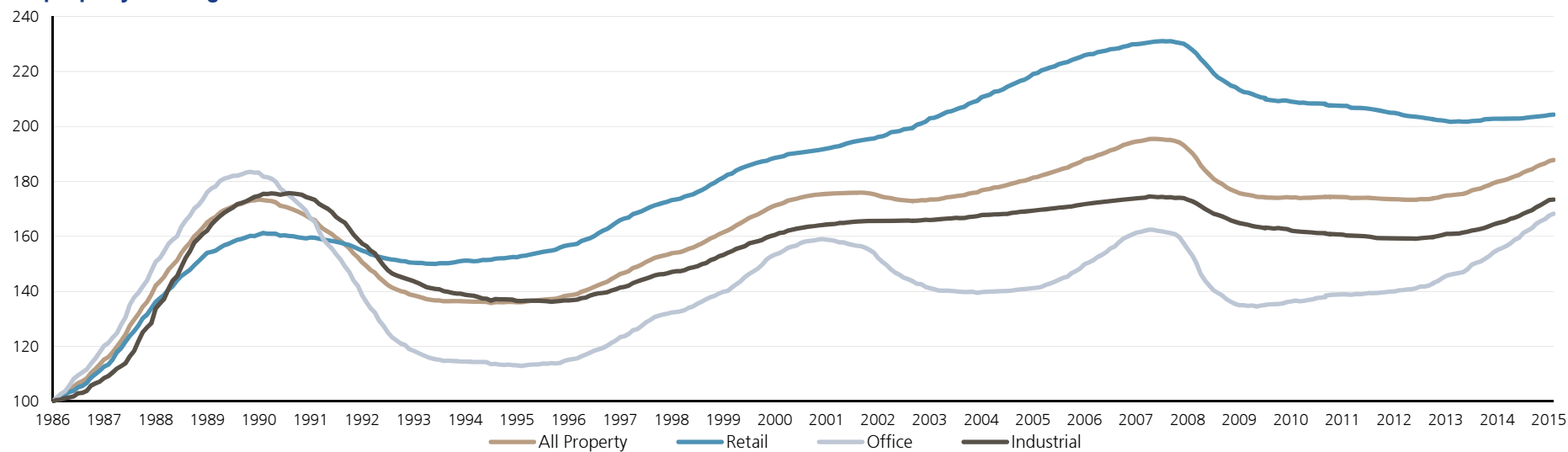
# UK property yields and yields by sector

Property yields by sector



Source: IPD

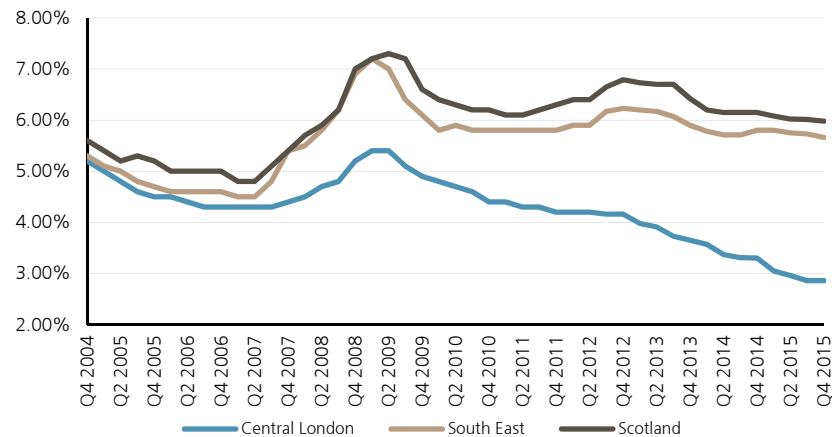
UK property rental growth index



Source: IPD

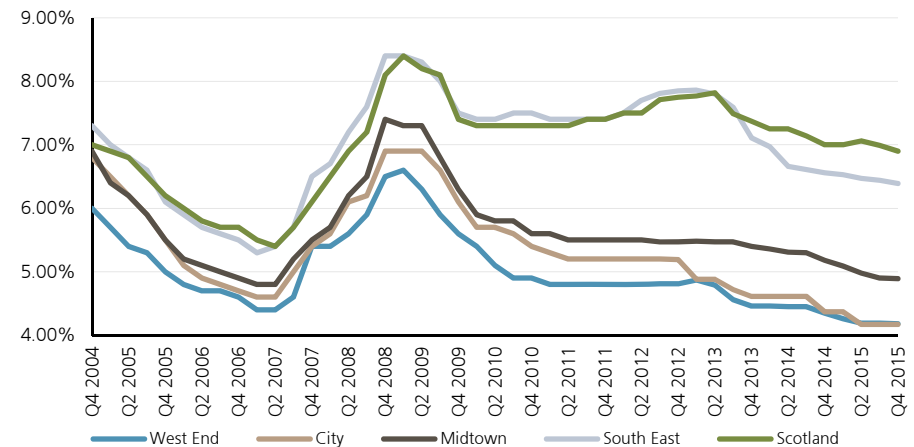
# UK Yields by sector

## Retail Yields



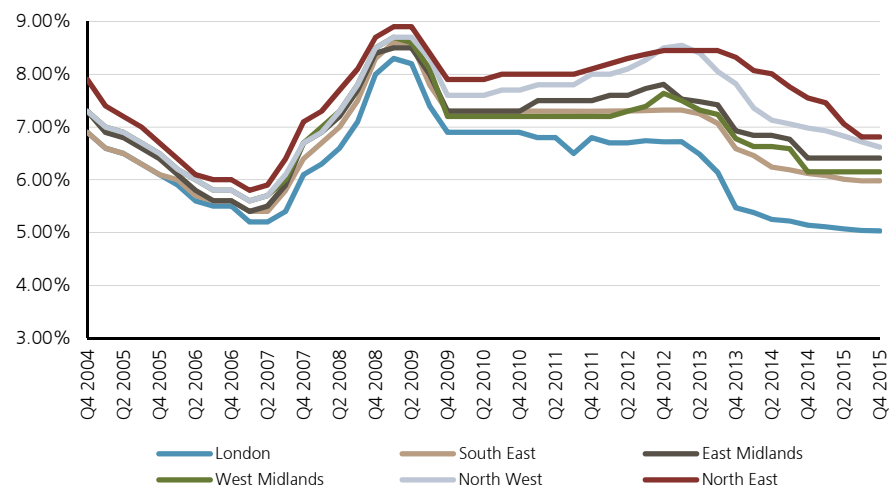
Source: CBRE

## Office Yields



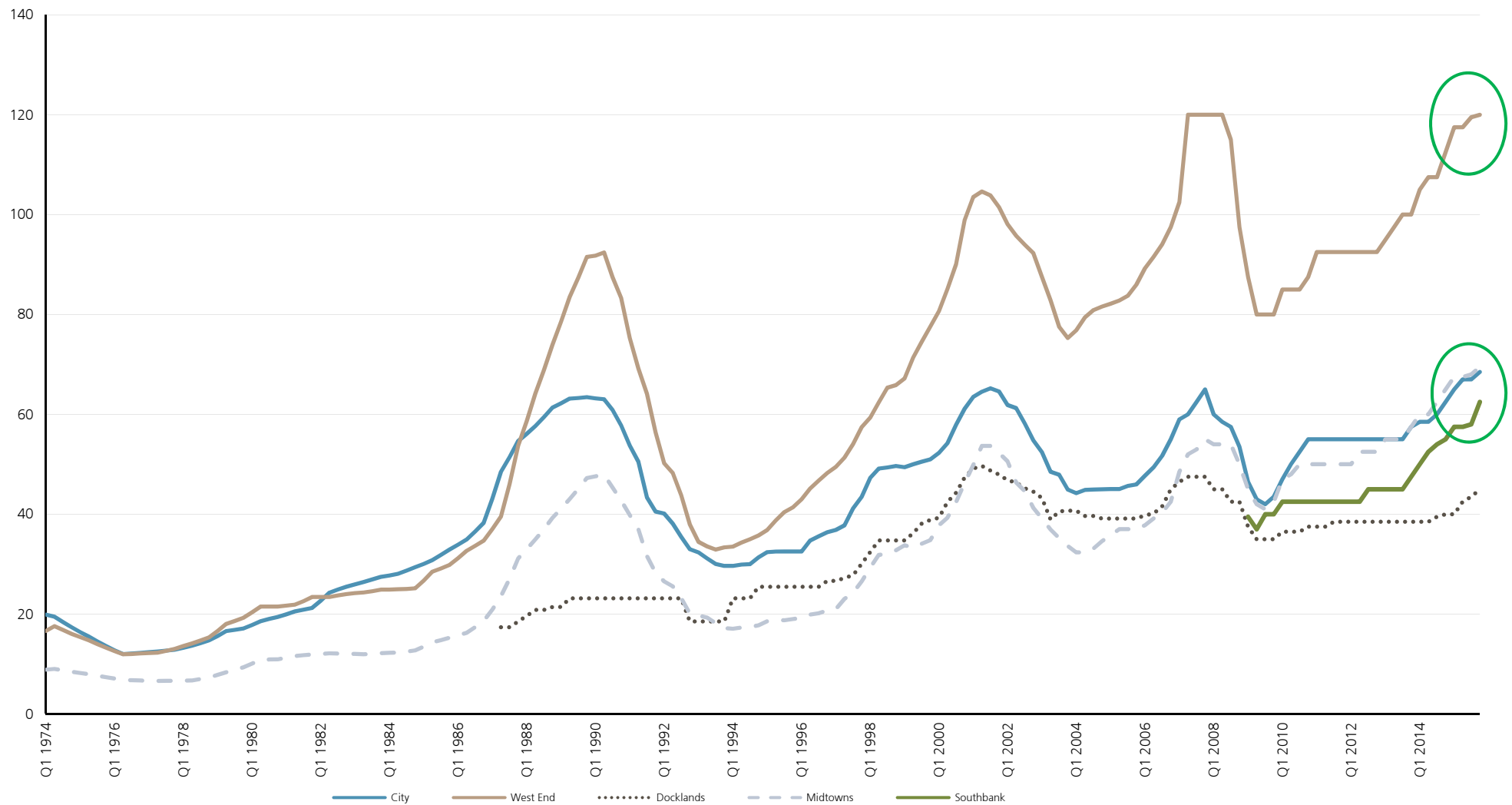
Source: CBRE

## Industrial yields



Source: CBRE

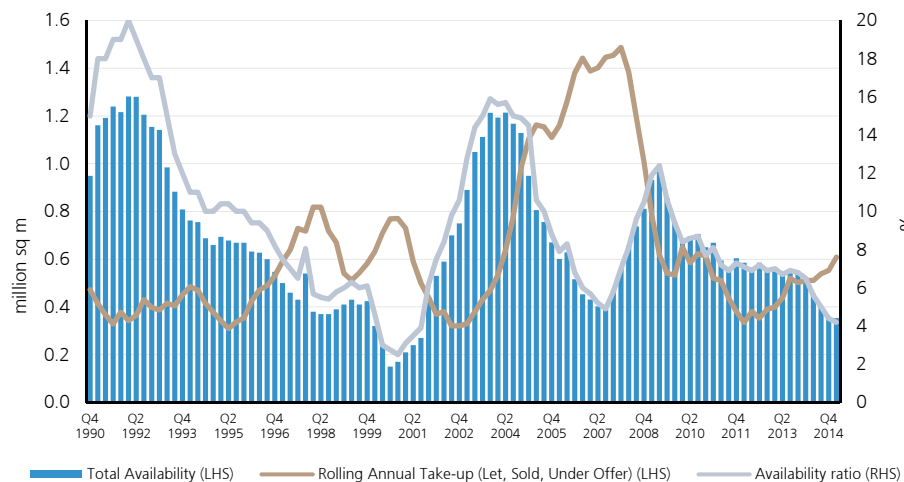
# London office rents



Source: CBRE, UBS estimates

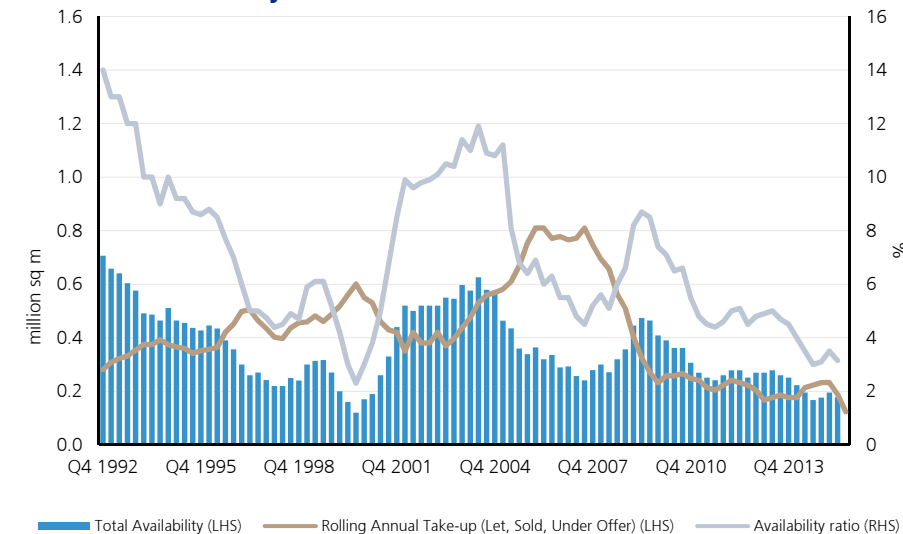
# London office availability and development pipeline

## City of London availability



Source: DTZ, UBS estimates

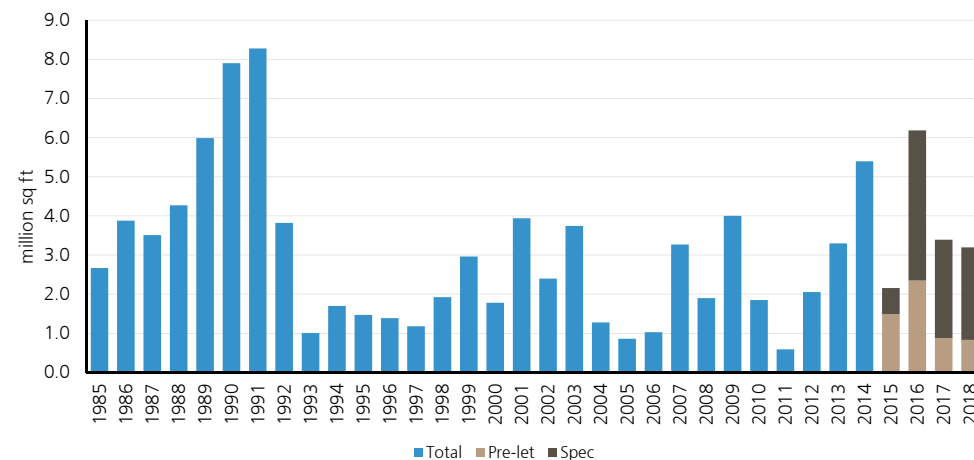
## West End availability



Source: DTZ, UBS estimates

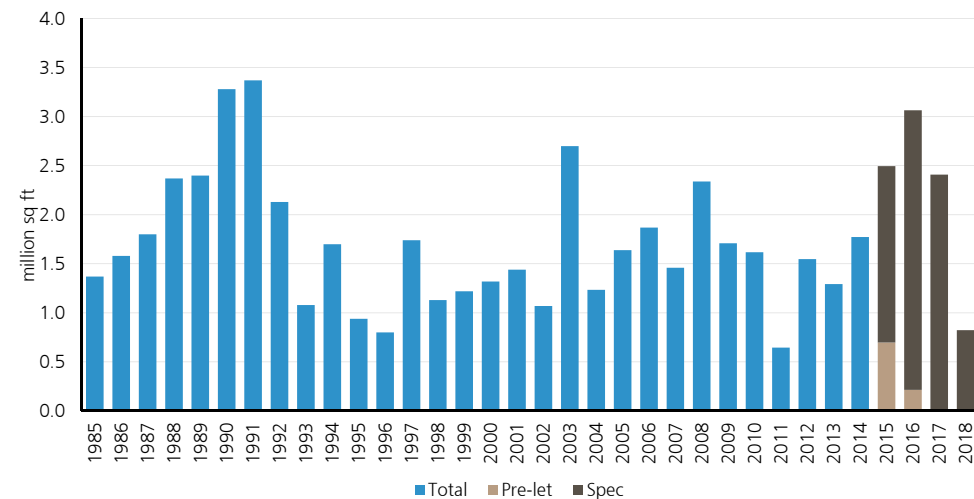


## City of London development completions



Source: Savills, UBS estimates

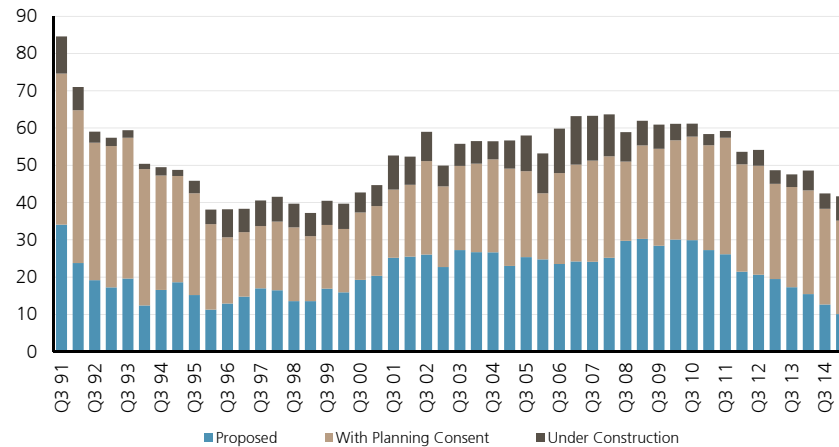
## West End development completions



Source: Savills, UBS estimates

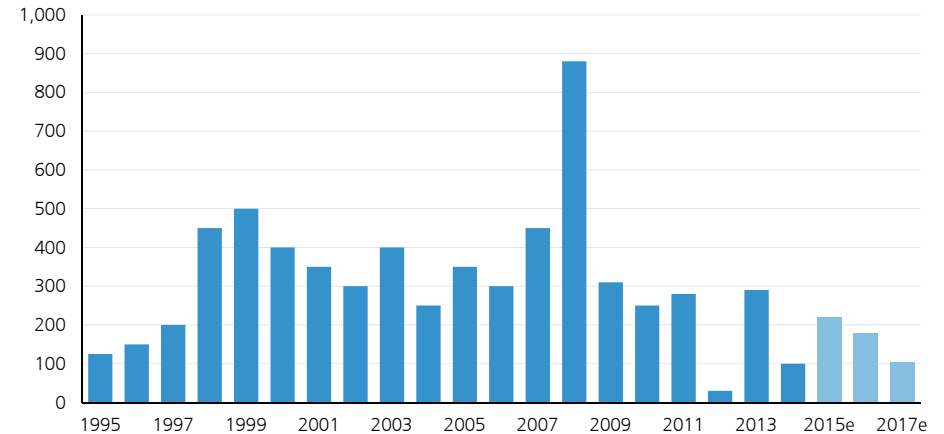
# UK Shopping Centres and Retail Warehouse pipeline

## Shopping Centre development pipeline



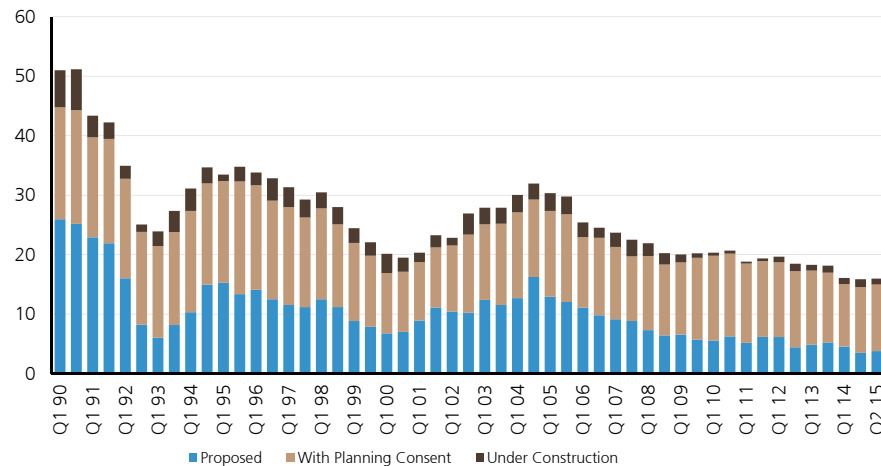
Source: CBRE (million sq ft)

## New shopping centre GLA per annum ('000 sqm)



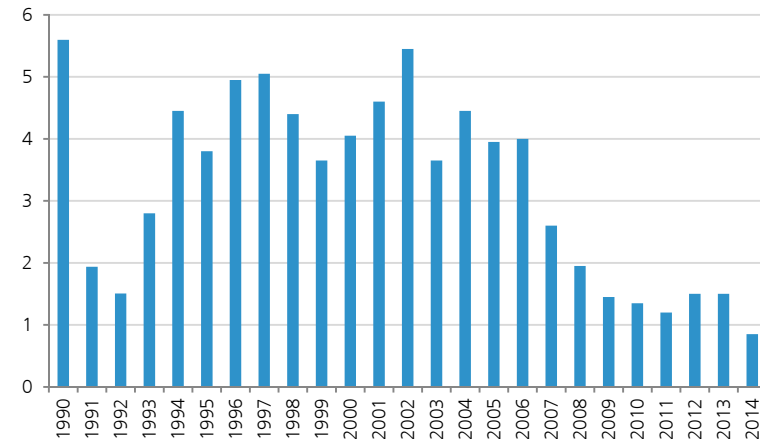
Source: Cushman and Wakefield

## Retail Warehouse development pipeline



Source: CBRE (million sq ft)

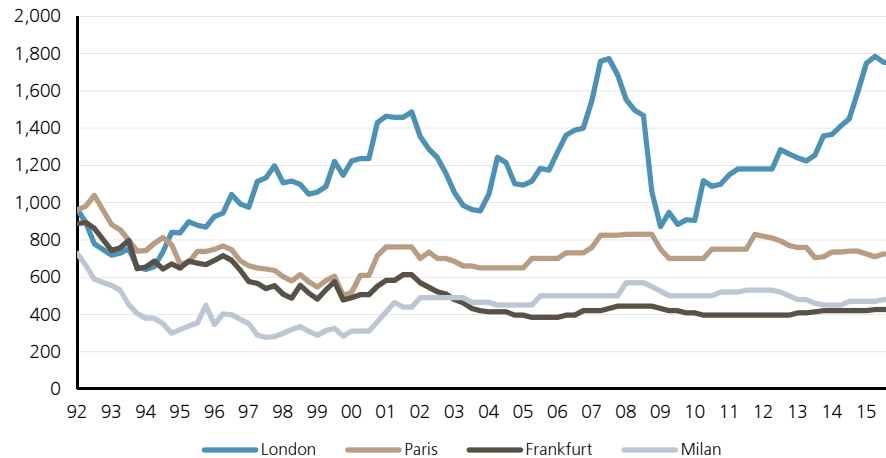
## Retail Warehouse Parks Opened



Source: CBRE (million sq ft)

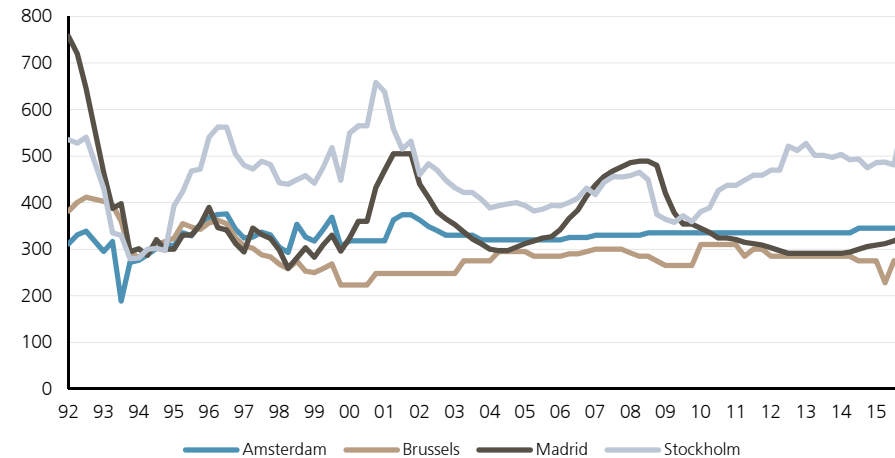
# European rents (office and retail)

Office rents (€ per sq m)



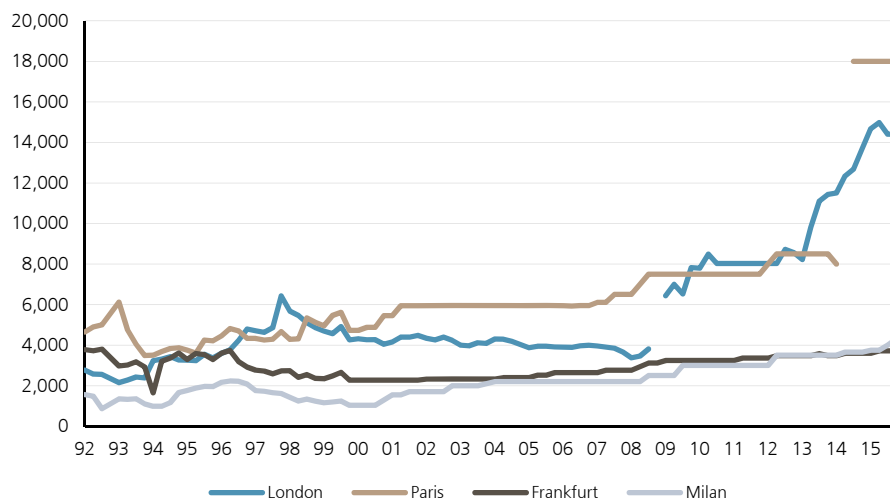
Source: JLL

Office rents (€ per sq m)



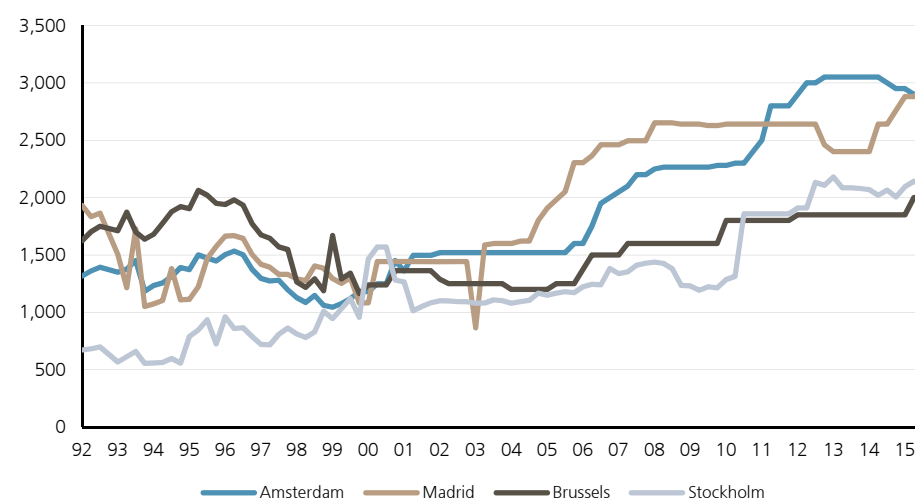
Source: JLL

Retail rents (€ per sq m)



Source: JLL

Retail rents (€ per sq m)

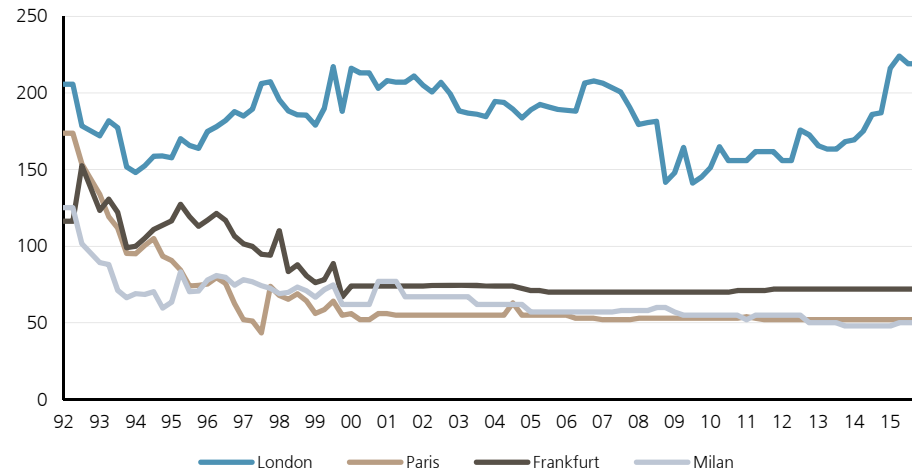


Source: JLL



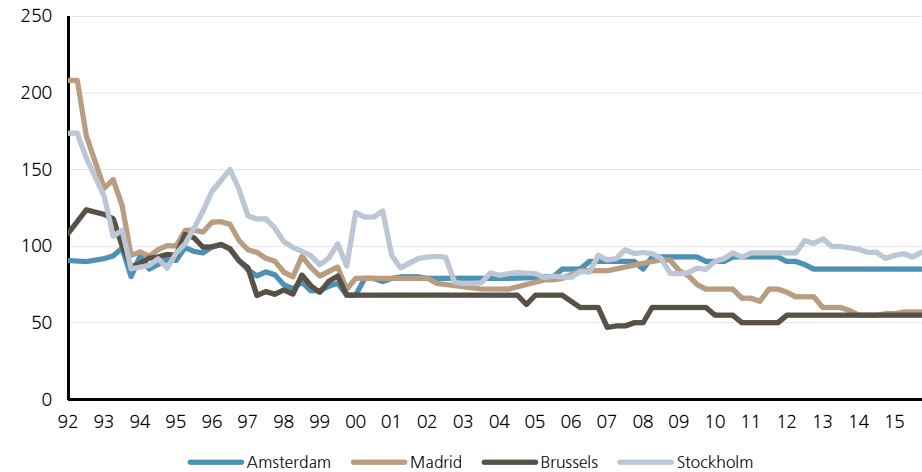
# European rents (industrial)

Industrial rents (€ per sq m)



Source: JLL

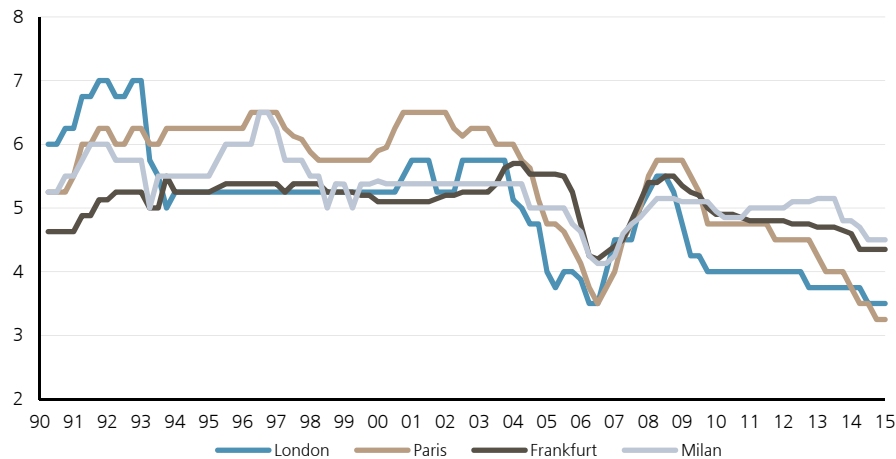
Industrial rents (€ per sq m)



Source: JLL

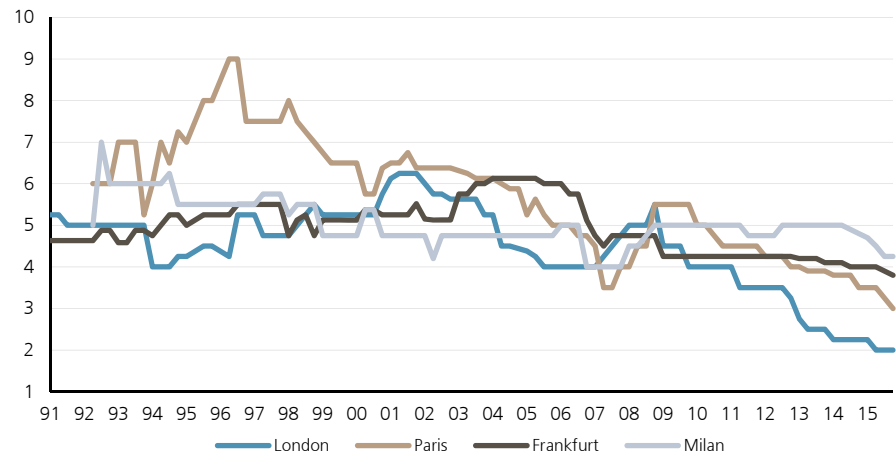
# European yields (office and retail)

Office yields (%)



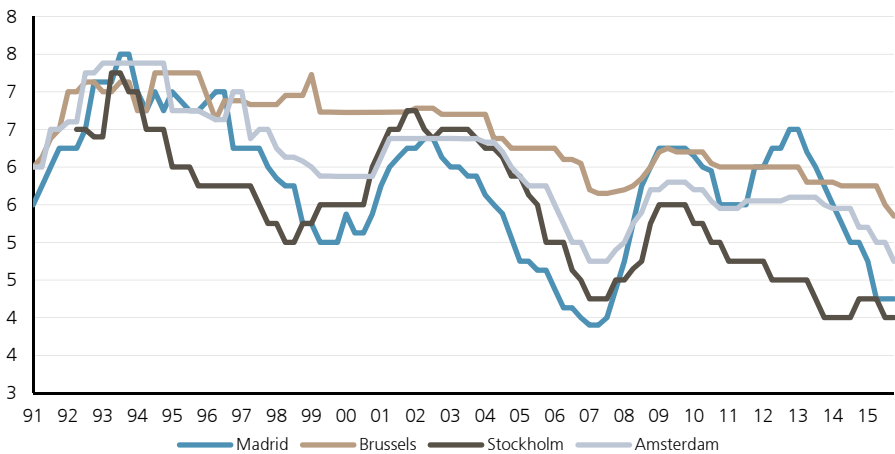
Source: JLL

Retail yields (%)



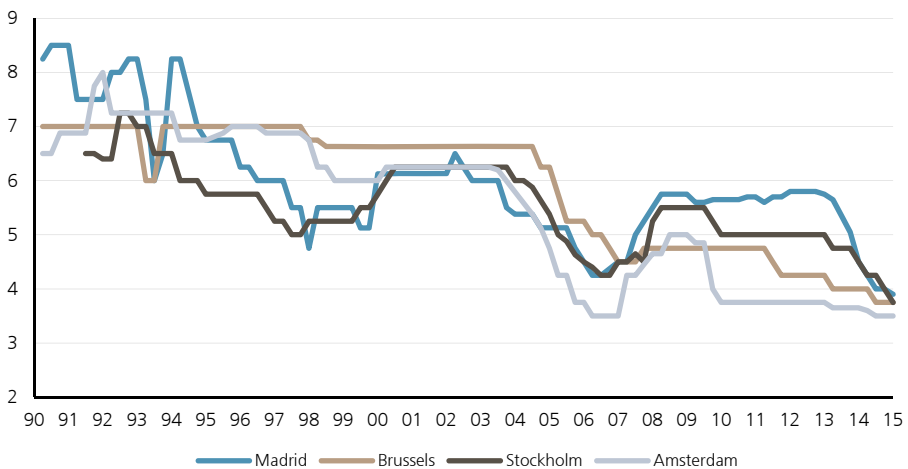
Source: JLL

Office yields (%)



Source: JLL

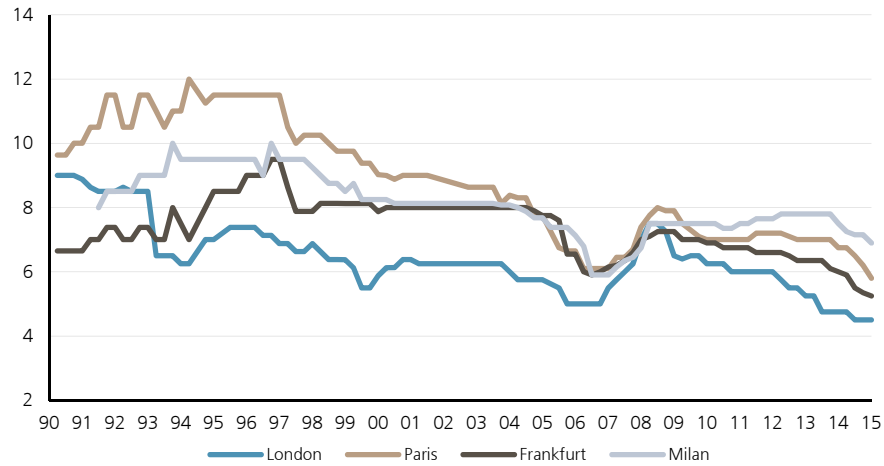
Retail yields (%)



Source: JLL

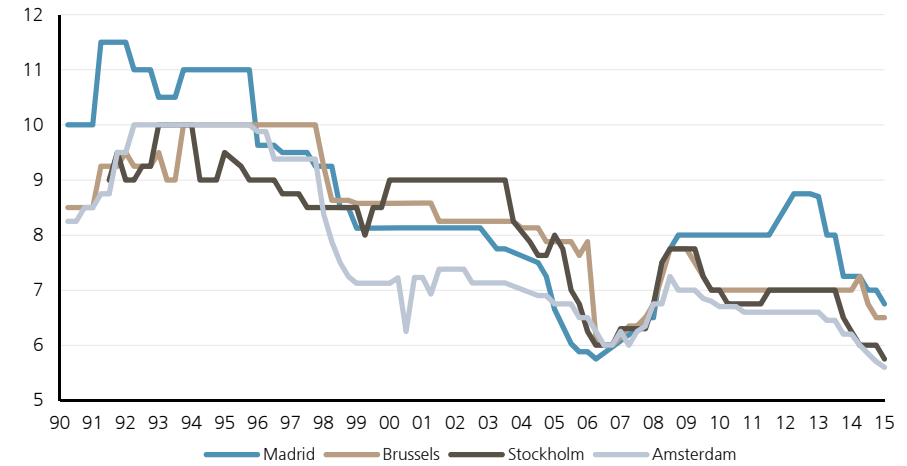
# European yields (industrial)

Industrial yields (%)



Source: JLL

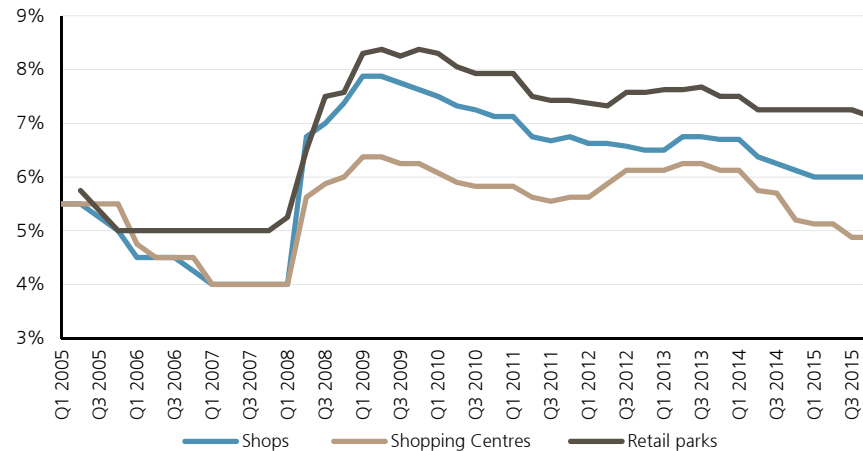
Industrial yields (%)



Source: JLL

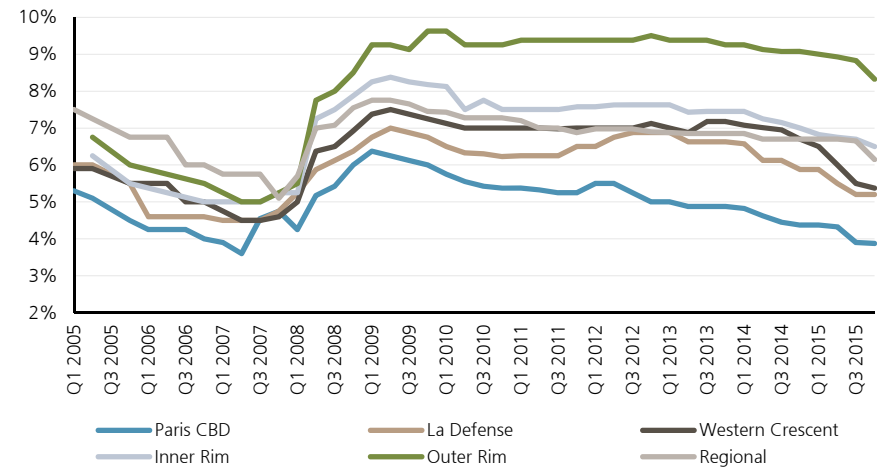
# French Yields by sector

## Retail Yields



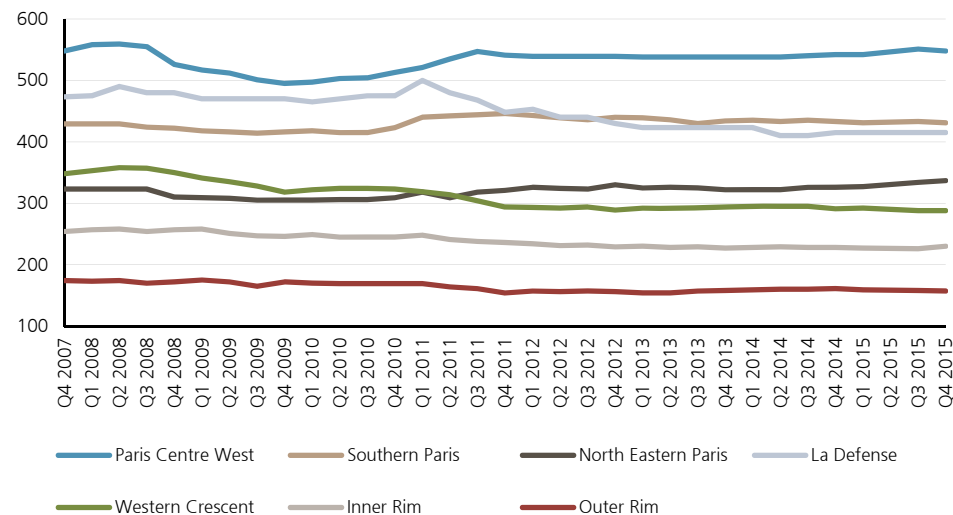
Source: CBRE

## Office Yields



Source: CBRE

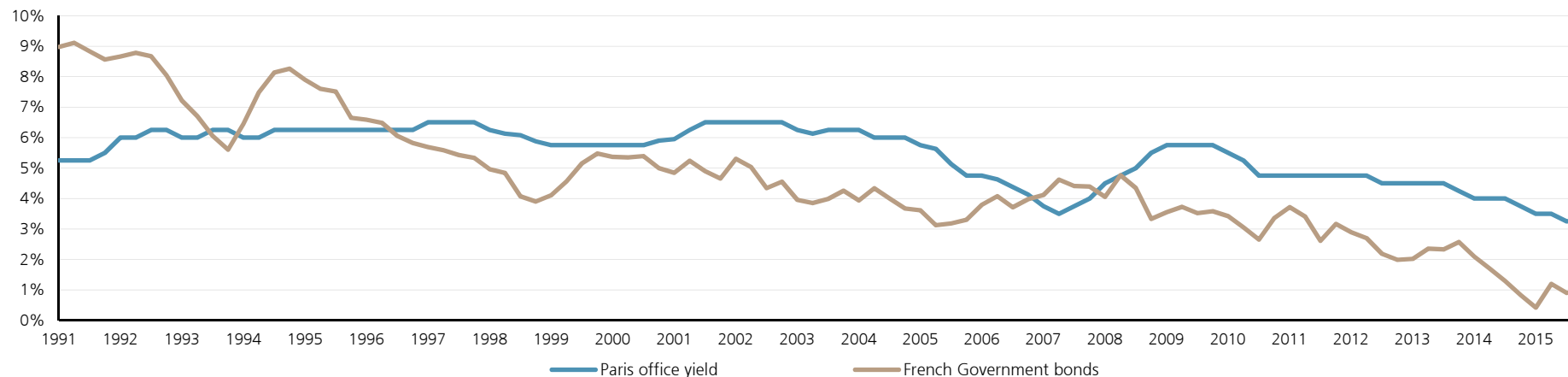
## Average rents (€ psm pa)



Source: CBRE

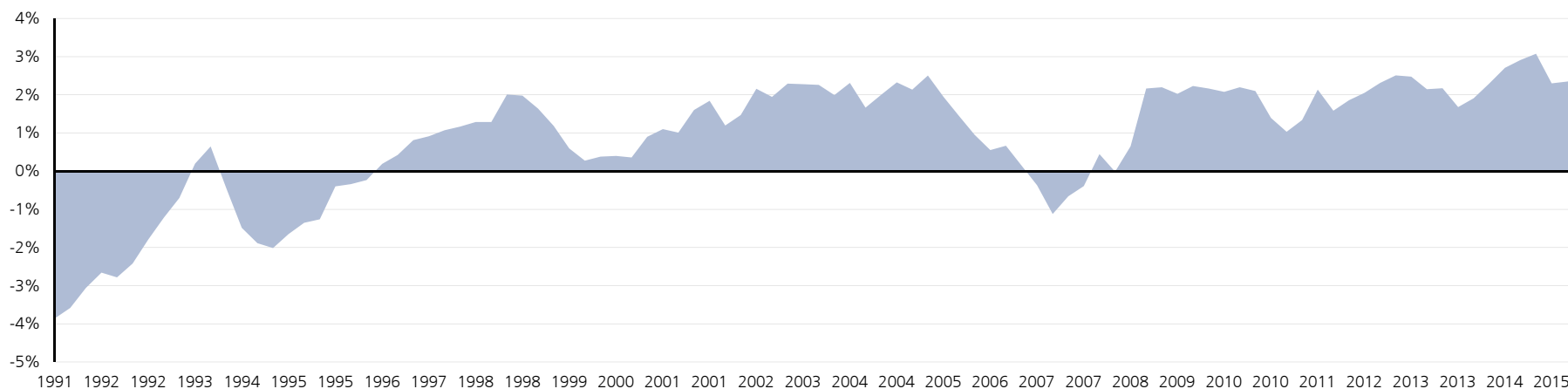
# French office yields

Paris office yields and 10-year government bonds (%)



Source: UBS estimates, Datastream, JLL

Property yield premium / discount (%) over 10-year government bonds



Source: UBS estimates, Datastream, JLL

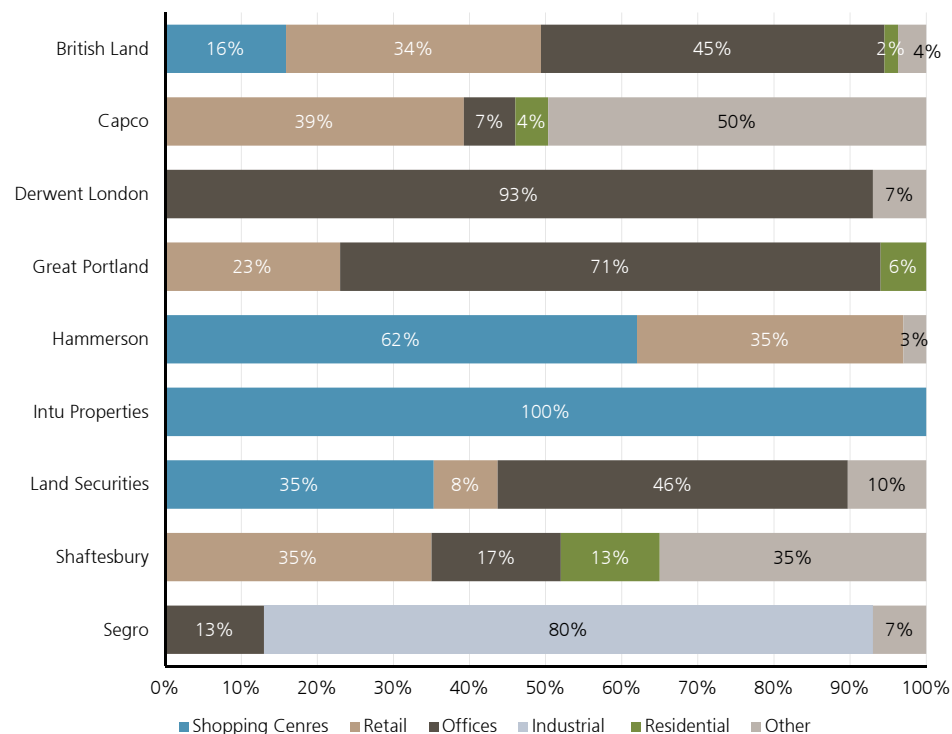
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## Company details

# UK – portfolio breakdown

Company	Portfolio spread
<b>British Land</b>	Diversified: London offices (47%) Shopping Parks (23%) Malls (16%) Superstores (6%) other (8%); Major assets: Broadgate (City), Regents Place (Euston), Paddington, Meadowhall
<b>Capco</b>	Covent Garden (53%), Earls Court (38%) and Venues (9%)
<b>Derwent London</b>	London Office; West End Central (59%), City Borders (30%), West End Borders (10%) and Provincial (1%)
<b>Great Portland</b>	London office led (71%) and retail (23%); North of Oxford Street (54%), Rest of West End (25%), Southwark (9%), Midtown (5%), City (7%)
<b>Hammerson</b>	Large shopping centres; UK (72%), France (28%)
<b>Intu Properties</b>	Large shopping centres: 'super-regional' (67%), City centres (26%), UK(93%), Spain (7%)
<b>Land Securities</b>	Diversified, UK Retail (44%), London offices (46%); London (63%), Other UK (37%). Major assets: Cardinal Pl (Victoria), New St Square, Bluewater
<b>Shaftesbury</b>	Central London retail and leisure-led; Carnaby (35%), Covent Garden (26%), Chinatown (22%), Soho (7%), Charlotte St (3%)
<b>Segro</b>	Greater London (40%), Thames Valley (27%), National Logistics (8%), Germany (8%), France (7%), Poland (6%), Rest of Europe (4%)

Source: Company data



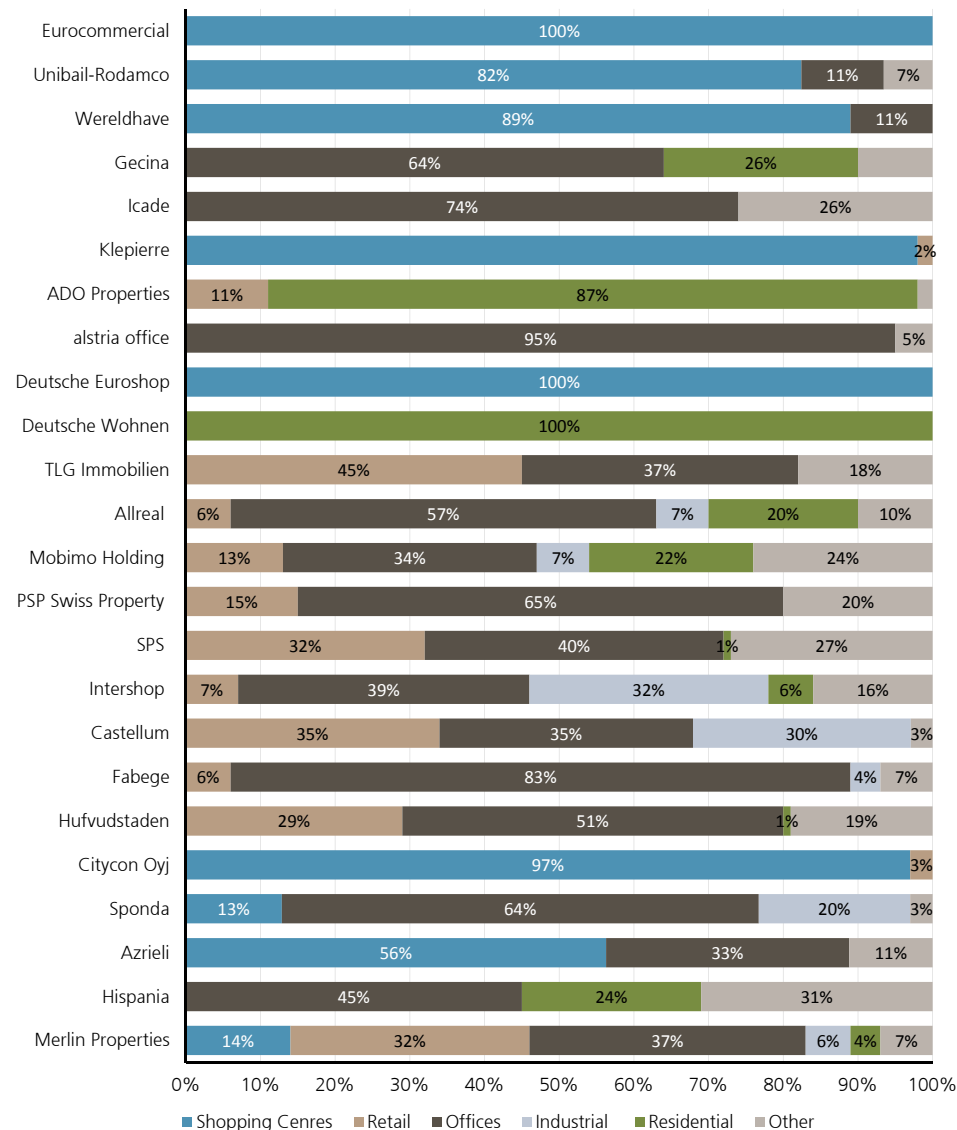
Source: Company data

Note: Shopping centre part for Hammerson includes 29% of French retail

# Continent – portfolio breakdown

Company	Portfolio spread
<b>Eurocommercial</b>	Mid-size shopping centres; France (40%), Italy (38%), Sweden (22%)
<b>Unibail-Rodamco</b>	Large 'Destination' shopping centres; France (57%), Nordic (9%), Spain (8%), CEE including Germany (15%), Austria (7%), Netherlands (4%)
<b>Wereldhave</b>	Shopping centres; France (34%), Belgium (24%), Netherlands (22%) and Finland (20%)
<b>Gecina</b>	Total portfolio: Paris (50%); Paris Region (38%); Other regions (12%)
<b>Icade</b>	Business parks and offices; La Défense (26%), Western Crescent (12%), 1 <sup>st</sup> and 2 <sup>nd</sup> Rings (47%), Paris (14%), Other (1%)
<b>Klepierre</b>	Shopping centres; France/Belgium (38%), Scandinavia (16%), Italy (16%), Iberia (8%), Netherlands (8%), Germany (5%), CEE (8%)
<b>ADO Properties</b>	Residential; Berlin (100%)
<b>alstria office</b>	Total portfolio: Hamburg (42%), Rhine-Rhur (17%), Stuttgart (17%), Other (24%)
<b>Deutsche Euroshop</b>	Shopping centres; Germany (87%), Central Europe (13%)
<b>Deutsche Wohnen</b>	Residential; Greater Berlin (73%), Other regions (27%)
<b>TLG Immobilien</b>	Multi-sector 'mid-market' portfolio, standard offices (35%), food retail (44%), hotels (13%), non-core (8%); Berlin (44%), Dresden and Leipzig (20%), Rostock (9%)
<b>Allreal</b>	Diversified, office (57%), residential (20%), other use (23%); City of Zurich (53%), Canton of Zurich (35%), Other regions (12%)
<b>Intershop</b>	Diversified, office (39%), industrial (32%), education (9%), other use (20%); Greater Zurich (66%), Lake Geneva Region (15%), Other regions (19%)
<b>Mobimo Holding</b>	Diversified, office (34%), residential (22%), retail (13%), other use (31%); Zurich (48%), Western Switzerland (33%), Other Regions (19%)
<b>PSP Swiss Property</b>	Diversified, office (65%), retail (15%), other use (20%); Zurich (63%), Geneva (14%), Other regions (23%)
<b>SPS</b>	Diversified, office (40%), retail (32%), other use (28%); Zurich (42%), Geneva (21%), Other regions (37%)
<b>Castellum</b>	Mixed-use: Greater Gothenburg (34%); Öresund Region (19%), Greater Stockholm (22%), Mälardalen (18%), Eastern Götaland (7%)
<b>Fabege</b>	Office led (83%); Stockholm Inner City (44%), Solna (48%), Hammarby Sjöstad (8%)
<b>Hufvudstaden</b>	Mixed-use, office led (51%); Stockholm City East (39%), Stockholm City West (39%), Gothenburg (22%)
<b>Citycon Oyj</b>	Shopping centres; Finland (39%), Sweden (18%), Baltic countries (9%), Norway (34%)
<b>Sponda</b>	Mixed-use, office led; Finland (97%), Russia (3%)
<b>Azrieli</b>	Mixed-use, shopping centre led; Israel (90%), UK and US (10%)
<b>Hispania</b>	Mixed portfolio, office led (53%); Spain (100%)
<b>Merlin Properties</b>	Mixed portfolio led by bank branches (71%); Spain (100%)

Note: Deutsche Euroshop, Hufvudstaden, Sponda: data as percentage of lease area



Source: Company data

Note: Retail part for Hufvudstaden includes shopping centres



# Debt structures

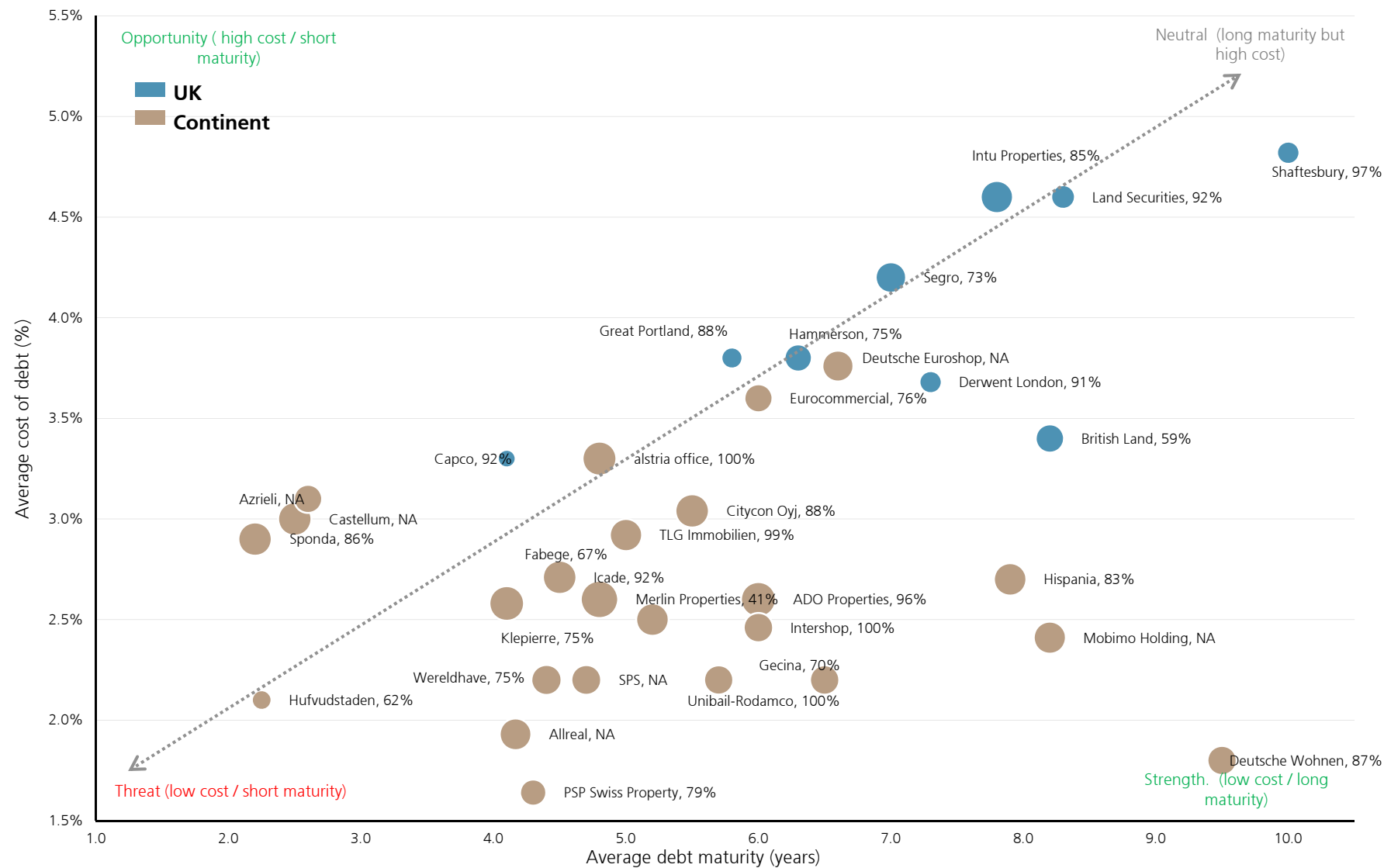
	LTV (Loan-to-value)				NAV Gearing	Interest cover	Interest rates				Debt Maturity (%)						
	FY14	FY15e	FY16e	FY17e			Data as of	Avg interest rate	Fixed	Avg maturity (yrs)	Data as of	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	> 5 yrs
British Land	39%	35%	35%	36%	52%	2.9x	31-Dec-15	3.4%	59.0%	8.2	31-Mar-15	3	2	-----43-----			52
Capco	13%	14%	13%	14%	17%	1.1x	31-Dec-15	3.3%	91.0%	4.1	31-Dec-13	0	0	44	32	25	0
Derwent London	25%	21%	22%	23%	27%	2.9x	31-Dec-15	3.7%	85.0%	7.3	30-Jun-15	0	8	2	13	47	30
Great Portland	26%	19%	22%	22%	19%	4.8x	31-Dec-15	3.8%	100.0%	5.8	30-Sep-15	0	0	40	14	12	34
Hammerson	34%	32%	37%	38%	41%	3.1x	31-Dec-15	3.8%	61.0%	6.3	30-Jun-15	0	13	1	1	15	69
Intu Properties	46%	45%	46%	46%	81%	1.8x	31-Dec-15	4.6%	86.0%	7.8	30-Jun-15	0	3	8	7	14	67
Land Securities	30%	25%	25%	24%	28%	3.0x	30-Sep-15	4.6%	91.8%	8.3	30-Sep-15	8	12	10	2	7	61
Shaftesbury	23%	22%	21%	20%	26%	2.2x	31-Dec-15	4.8%	95.0%	10.0	30-Sep-15	0	-----19-----				81
Segro	47%	40%	37%	33%	49%	2.7x	31-Dec-15	4.2%	75.0%	7.0	30-Jun-15	12	0	12	9	15	52
<b>UK</b>	33%	29%	30%	30%	40%	2.8x											
Eurocommercial	40%	34%	40%	39%	53%	2.9x	31-Dec-15	3.6%	80.0%	6.0	30-Jun-15	22	35	6	5	7	26
Unibail-Rodamco	40%	37%	37%	37%	67%	5.1x	31-Dec-15	2.2%	100.0%	6.5	30-Jun-15	0	0	0	12	34	54
Wereldhave	34%	39%	39%	38%	69%	5.5x	31-Dec-15	2.2%	86.0%	4.4	30-Jun-15	30	2	2	39	0	27
<b>Netherlands</b>	40%	37%	37%	37%	66%	4.9x											
Gecina	38%	37%	34%	33%	61%	4.1x	31-Dec-15	2.2%	73.0%	5.7	30-Jun-15	0	0	0	1	29	70
Icade	47%	49%	50%	53%	70%	4.0x	31-Dec-15	2.7%	96.0%	4.5	30-Jun-15	18	13	7	19	2	41
Klepierre	45%	46%	47%	47%	87%	4.6x	31-Dec-15	2.5%	77.0%	5.2	30-Jun-15	11	13	6	16	21	33
<b>France</b>	43%	44%	44%	44%	76%	4.4x											
ADO Properties	68%	53%	53%	57%	95%	2.9x	30-Jun-15	2.6%	96.0%	6.0	30-Jun-15	0	2	7	15	15	62
alstria office	50%	50%	46%	43%	97%	2.8x	30-Jun-15	3.3%	100.0%	4.8	30-Sep-15	0	8	16	8	55	14
Deutsche Euroshop	45%	42%	40%	39%	69%	3.5x	31-Dec-14	3.8%	NA	6.6	30-Jun-14	7	-----25-----				68
Deutsche Wohnen	53%	37%	35%	33%	59%	4.2x	30-Sep-15	1.8%	87.0%	9.5	30-Jun-15	1	0	2	2	21	75
TLG Immobilien	41%	45%	48%	49%	75%	3.8x	30-Sep-15	2.9%	99.0%	5.0	30-Sep-15	4	6	11	15	28	36
<b>Germany</b>	51%	41%	39%	38%	69%	3.8x											
Allreal	45%	44%	43%	42%	83%	4.8x	31-Dec-14	1.9%	NA	4.2	31-Dec-14	63	--- 10---		---7---		20
Mobimo Holding	43%	45%	48%	50%	95%	3.4x	30-Jun-15	2.4%	NA	8.2	30-Jun-15	2	6	2	20	3	67
SPS Swiss Property	29%	30%	30%	30%	52%	7.7x	30-Jun-15	1.6%	79.0%	4.3	31-Dec-14	16	-----50-----				34
SPS	48%	39%	39%	39%	74%	4.2x	30-Jun-15	2.2%	NA	4.7	30-Jun-15	7	4	4	9	22	53
Intershop	42%	37%	37%	37%	80%	4.8x	31-Dec-14	2.5%	100.0%	6.0	31-Dec-14	5	14	6	4	26	45
<b>Switzerland</b>	41%	37%	38%	38%	72%	5.2x											
Castellum	49%	49%	49%	49%	96%	3.5x	31-Dec-15	3.0%	NA	2.5	30-Sep-15	22	10	13	35	13	6
Fabege	60%	52%	48%	47%	107%	2.0x	31-Dec-15	2.6%	70.0%	4.1	30-Sep-15	52	13	11	1	2	21
Hufvudstaden	19%	17%	15%	15%	22%	9.1x	31-Dec-15	2.1%	61.7%	2.3	30-Sep-15	10	46	30	9	0	5
<b>Sweden</b>	41%	38%	37%	36%	73%	5.1x											
Citycon Oyj	41%	49%	49%	48%	79%	3.8x	31-Dec-15	3.0%	84.8%	5.5	30-Sep-15	5	1	14	0	9	71
Sponda	54%	49%	48%	49%	88%	2.7x	31-Dec-15	2.9%	90.0%	2.2	30-Sep-15	37	21	13	12	17	0
<b>Finland</b>	46%	49%	49%	48%	82%	3.4x											
Azrieli	30%	34%	32%	31%	42%	9.9x	31-Dec-14	3.1%	NA	2.6	31-Dec-14	34	-----42-----				24
Hispania	-	46%	42%	39%	74%	3.1x	31-Dec-15	2.7%	100.0%	7.9	30-Jun-15	4	3	5	5	0	83
Merlin Properties	50%	60%	53%	49%	106%	3.0x	30-Sep-15	2.6%	40.8%	4.8	31-Dec-14	1	1	1	1	1	95
<b>Other</b>	39%	46%	41%	39%	71%	6.43x											
<b>UK</b>	33%	29%	30%	30%	40%	2.8x											
<b>Europe ex UK</b>	43%	41%	40%	39%	71%	4.8x											
<b>Europe</b>	39%	37%	37%	36%	61%	4.1x											

Source: Company data, UBS estimates



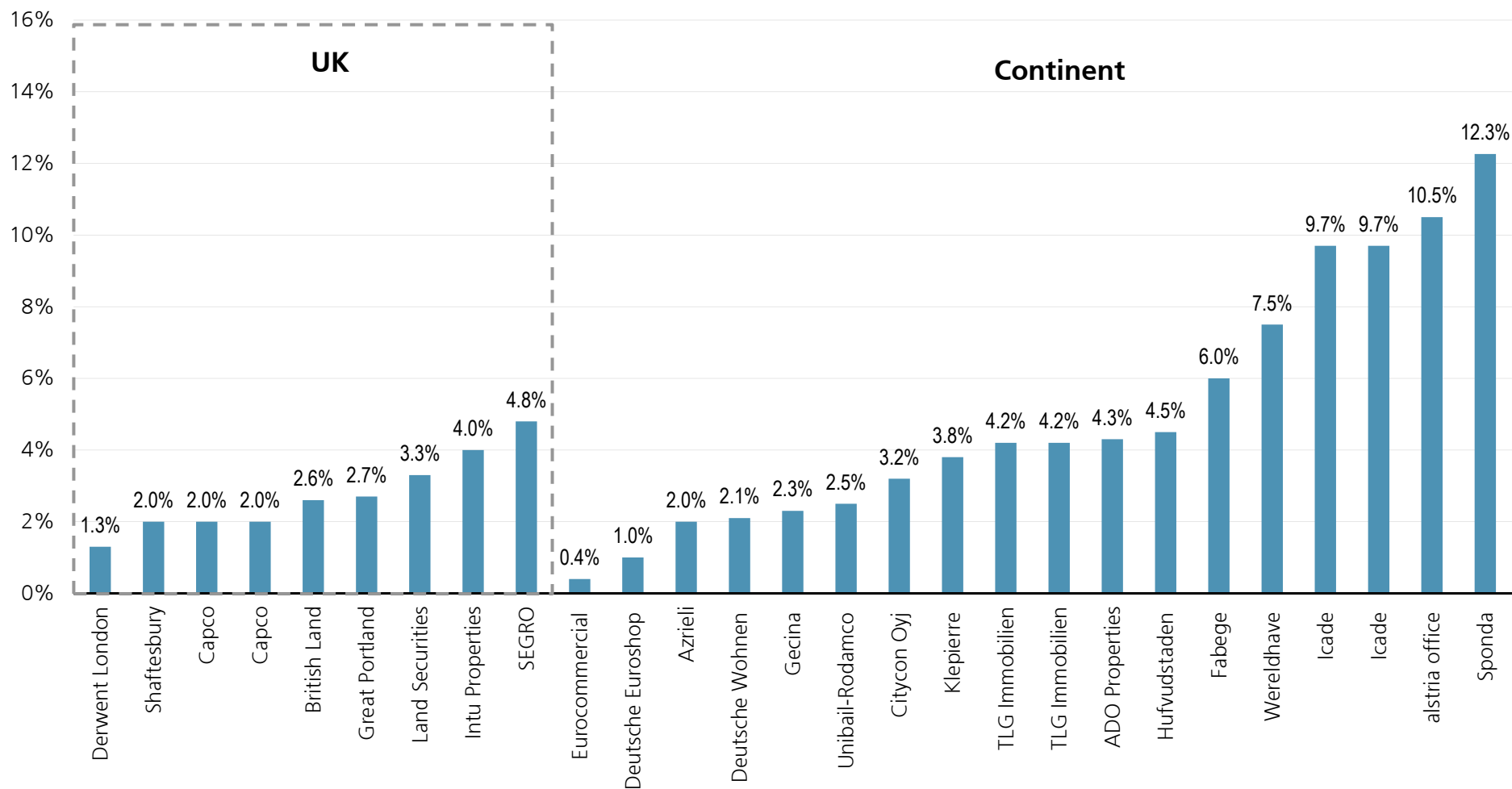
# Debt structures

Debt structures, average debt maturity (x axis), average cost of debt (y axis) and LTV (bubble size)



# Vacancy rates

Last reported vacancy rate



Source: Company reports, UBS estimates

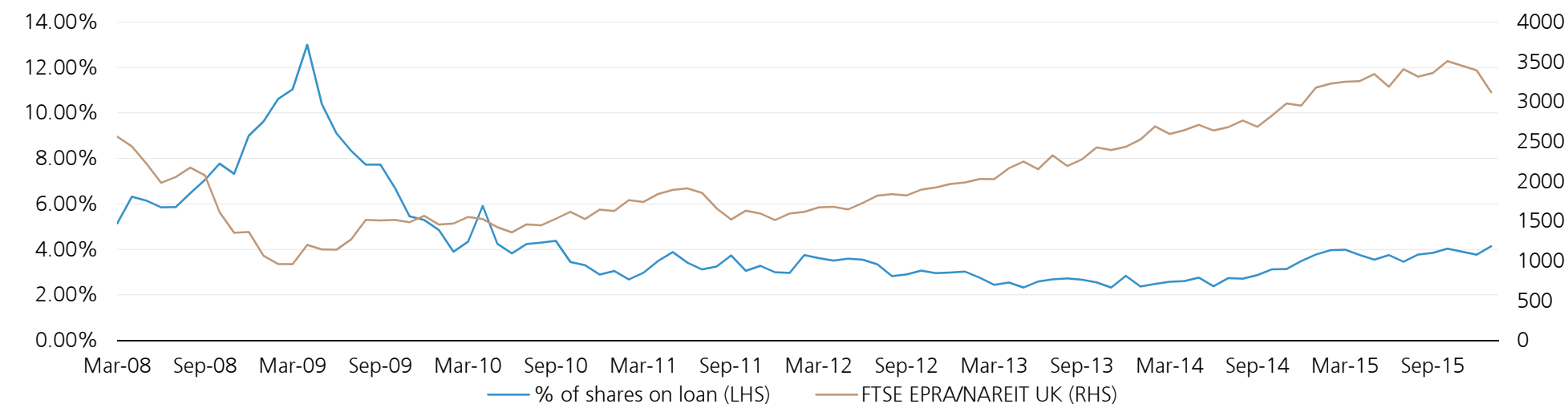
# UK short interest

## UK Real Estate Shares On Loan %

Company	Jul-10	Jan-11	Jul-11	Jan-12	Jul-12	Jan-13	Jul-13	Jan-14	Jul-14	Jan-15	Aug-15	Sep-15	Jan-16	Feb-16
British Land	5.1%	2.1%	3.2%	2.9%	2.9%	1.4%	2.5%	3.3%	2.2%	2.8%	2.7%	2.0%	2.5%	2.9%
Capco	10.7%	8.6%	7.0%	6.3%	3.4%	1.6%	3.2%	2.5%	2.5%	4.2%	2.9%	2.9%	2.9%	4.3%
Intu Properties	11.0%	1.6%	2.7%	5.0%	5.0%	7.0%	5.8%	6.6%	7.1%	9.1%	7.9%	9.0%	9.0%	10.5%
Derwent London plc	5.3%	2.6%	1.8%	3.8%	1.3%	0.9%	1.2%	1.4%	2.4%	5.4%	2.5%	2.8%	2.2%	3.8%
Great Portland	7.2%	5.0%	5.7%	2.4%	3.0%	0.7%	2.1%	1.1%	1.2%	2.2%	1.8%	1.4%	1.6%	2.0%
Hammerson	3.1%	2.4%	4.3%	3.6%	3.4%	3.9%	3.6%	3.1%	3.1%	7.8%	8.9%	10.9%	11.7%	11.9%
Land Secs	5.3%	4.6%	4.8%	3.4%	2.8%	2.2%	1.9%	1.6%	2.4%	1.9%	3.0%	2.5%	3.4%	3.6%
Mucklow	0.1%	0.1%	0.4%	0.4%	1.1%	2.0%	1.5%	1.5%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Shaftesbury	2.8%	1.4%	2.9%	2.5%	2.0%	1.6%	1.9%	1.9%	3.2%	1.5%	1.5%	1.1%	0.7%	1.3%
SEGRO	1.9%	1.9%	2.2%	1.9%	1.6%	1.1%	2.0%	1.1%	1.4%	1.4%	1.4%	1.9%	1.2%	1.0%
UNITE	3.5%	3.0%	2.9%	2.8%	1.5%	1.2%	1.6%	2.6%	2.7%	2.8%	5.1%	4.9%	4.6%	4.3%
<b>WEIGHTED AVERAGE</b>	<b>4.38%</b>	<b>2.97%</b>	<b>3.73%</b>	<b>3.62%</b>	<b>2.90%</b>	<b>2.44%</b>	<b>2.67%</b>	<b>2.58%</b>	<b>2.87%</b>	<b>3.99%</b>	<b>3.77%</b>	<b>3.85%</b>	<b>4.14%</b>	<b>4.70%</b>

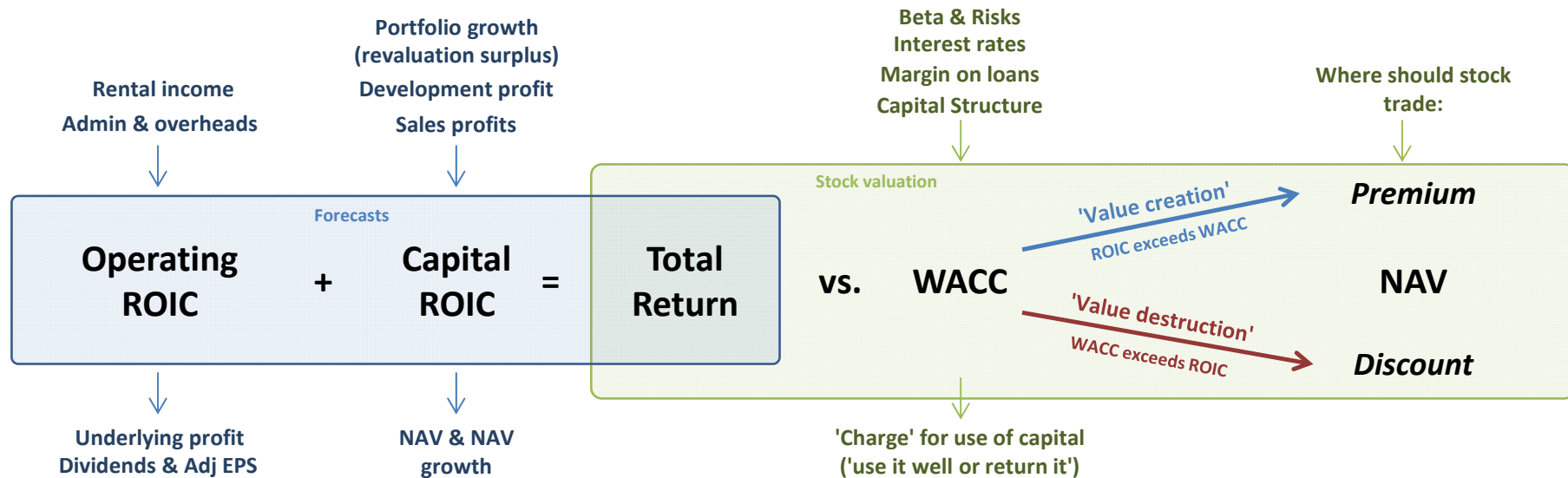
Source: Crest, Thomson Datastream, UBS estimates

## UK REITs



Source: Crest, Thomson Datastream, UBS estimates

# "Economic Profit" stock valuation methodology



Source: UBS.

$$\begin{array}{c}
 \text{Standard definition} \\
 \text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Equity}} \approx \frac{\text{NAV growth}_{(t \text{ to } t+1)} + \text{Dividend}}{\text{NAV}_t} \\
 \text{UBS European Real Estate team definition}
 \end{array}$$

Source: UBS

# Statement of Risk

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The real estate sector can be cyclical and faces risks at a number of levels. The level of the economy, both macro and local, can adversely affect demand and the ability of tenants to pay rent. Excessive levels of supply can also lead to falling rents. Rising interest rates can affect the security of the tenant base, lower development margins significantly, and reduce investment appetite. Interest rates, bond yields and the relative attractions of other assets classes can all have an impact on property values. Property values can also be affected by changes in planning, taxes, technology and lease structures. This risk can be amplified in the real estate sector through development exposure, gearing and the rating.

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## UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	48%	36%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	39%	28%
<b>Sell</b>	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS:** **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES:** **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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**UBS Limited:** Osmaan Malik, CFA; Charles Boissier, CFA. **UBS AG:** Andre Rudolf von Rohr. **UBS AG Hong Kong Branch:** Kim Wright, CFA.

# Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>ADO Properties SA</b> <sup>2, 4, 16</sup>	ADJ.F	Buy	N/A	€26.77	26 Feb 2016
<b>Allreal</b> <sup>2, 4, 5</sup>	ALLN.S	Neutral	N/A	CHF133.00	26 Feb 2016
<b>alstria office REIT</b> <sup>1, 2, 4, 5</sup>	AOXG.DE	Buy	N/A	€11.62	26 Feb 2016
<b>Azrieli Group</b> <sup>5</sup>	AZRG.TA	Neutral	N/A	NIS140.40	28 Feb 2016
<b>British Land</b> <sup>2, 4, 5, 7, 14, 18</sup>	BLND.L	Buy	N/A	659p	26 Feb 2016
<b>Capco</b> <sup>5, 14</sup>	CAPCC.L	Neutral	N/A	320p	26 Feb 2016
<b>Castellum AB</b>	CAST.ST	Neutral	N/A	SKr129.20	26 Feb 2016
<b>Citycon Oyj</b>	CTY1S.HE	Neutral	N/A	€2.15	26 Feb 2016
<b>Derwent London</b> <sup>14</sup>	DLN.L	Buy	N/A	3,039p	26 Feb 2016
<b>Deutsche Euroshop AG</b>	DEQGn.DE	Sell	N/A	€38.92	26 Feb 2016
<b>Deutsche Wohnen</b> <sup>2, 4, 5</sup>	DWNG.DE	Neutral	N/A	€24.25	26 Feb 2016
<b>Eurocommercial Properties N.V.</b>	SIPFc.AS	Sell	N/A	€38.43	26 Feb 2016
<b>Fabege AB</b>	FABG.ST	Neutral	N/A	SKr134.40	26 Feb 2016
<b>Gecina</b>	GFCP.PA	Neutral	N/A	€112.70	26 Feb 2016
<b>Great Portland Estates</b>	GPOR.L	Buy	N/A	698p	26 Feb 2016
<b>Hammerson</b>	HMSO.L	Buy	N/A	548p	26 Feb 2016
<b>Hispania</b> <sup>2, 4, 5</sup>	HIS.MC	Buy	N/A	€11.67	26 Feb 2016
<b>Hufvudstaden AB</b>	HUFVa.ST	Neutral	N/A	SKr124.80	26 Feb 2016
<b>Icade SA</b> <sup>5</sup>	ICAD.PA	Buy	N/A	€63.54	26 Feb 2016
<b>Intershop Holding AG</b> <sup>2, 4, 5, 7</sup>	ISN.S	Sell	N/A	CHF435.00	26 Feb 2016
<b>Intu Properties PLC</b> <sup>4, 5, 6, 14</sup>	INTUP.L	Buy	N/A	288p	26 Feb 2016
<b>Klepierre SA</b> <sup>2, 4, 5, 7</sup>	LOIM.PA	Neutral	N/A	€38.22	26 Feb 2016
<b>Land Securities</b> <sup>5, 7, 14</sup>	LAND.L	Buy	N/A	1,006p	26 Feb 2016
<b>Merlin Properties</b> <sup>2, 4, 13, 24</sup>	MRL.MC	Neutral	N/A	€9.62	26 Feb 2016
<b>Mobimo Holding</b> <sup>5</sup>	MOBN.S	Neutral	N/A	CHF222.50	26 Feb 2016
<b>PSP Swiss Property</b> <sup>2, 4, 5, 12</sup>	PSPN.S	Neutral	N/A	CHF85.85	26 Feb 2016
<b>Savills</b> <sup>4, 5, 7, 14</sup>	SVS.L	Buy	N/A	680p	26 Feb 2016
<b>SEGRO</b> <sup>4, 5, 7, 14</sup>	SGRO.L	Neutral	N/A	417p	26 Feb 2016
<b>Shaftesbury</b>	SHB.L	Neutral	N/A	848p	26 Feb 2016
<b>Sponda Oyj</b> <sup>1, 5</sup>	SDA1V.HE	Buy	N/A	€3.62	26 Feb 2016
<b>Swiss Prime Site</b> <sup>2, 4, 5</sup>	SPSN.S	Neutral	N/A	CHF82.90	26 Feb 2016
<b>TLG Immobilien</b> <sup>2, 4, 5</sup>	TLGG.DE	Buy	N/A	€17.63	26 Feb 2016
<b>Unibail-Rodamco</b> <sup>2, 4, 5, 7</sup>	UNBP.AS	Neutral	N/A	€227.55	26 Feb 2016
<b>Wereldhave NV</b>	WEHA.AS	Neutral	N/A	€46.52	26 Feb 2016

Source: UBS. All prices as of local market close.



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