



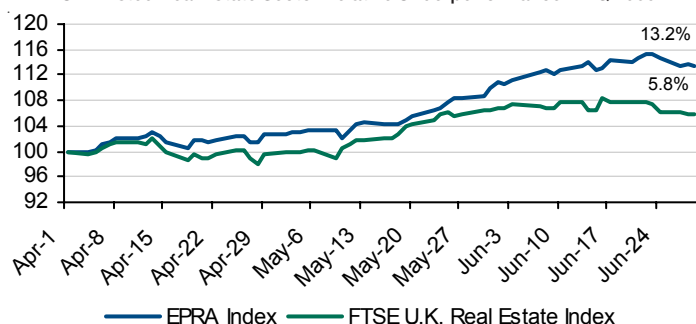
# Macquarie Capital Partners

## Activity Increases in the Real Estate Sector

### EPRA INDEX OUTPERFORMS AS SWAP RATES FALL

The EPRA index (+13.2%) outperformed the FTSE U.K. Real Estate index<sup>1</sup> (+5.8%) in 2Q 2005. Both indices recovered nicely from 1Q 2005, a quarter dominated by concerns over rising interest rates. These doubts disappeared as Euro 5-year swap rates decreased by 51 bps to 2.63%<sup>2</sup> reflecting the negative economic outlook for the Eurozone; Sterling 5-year swap rates followed a similar course with a 64 bp fall to 4.40%<sup>2</sup>. The current spread over the financing rate offered by real estate is attractive for investors in a low interest rate environment while the subsequent competition for product is intense.

U.K. Listed Real Estate Sector Relative Underperformance in 2Q 2005



<sup>1</sup> FTSE All Share U.K. Real Estate Index.

<sup>2</sup> As of June 30, 2005.

Sources: Bloomberg, MCP, Merrill Lynch.

### FOREIGN CAPITAL THRUSTS IN CENTRAL/EASTERN EUROPE

After experiencing record investment volume of €3.2 billion in 2004, approximately €0.6 billion was invested by foreign investors into Central and Eastern Europe real estate markets in 2Q 2005<sup>1</sup>. Investing alongside local partners is often critical in these markets where underwriting and cultural barriers persist.

In 2Q 2005, investment in the retail sector continued to be a significant component of total investment volume (40% of total transactions value). Retail real estate is attractive to investors due to underlying positive trends in income, spending patterns, and demographics.

Investors	Transaction	Country/Region	Main Sectors	Transaction Value
Catella, Evli Bank	Fund	Baltic	Commercial, industrial/logistics	€ 100 – 150MM*
Baltic Property Trust	Fund	Baltic	n.a.	€ 150 – 200MM
Fadesa, Prokom Investments	JV	Poland	Residential	n.a.
Immoeast Immobilien Anlagen, Grainger Trust, NPC (Ober-Haus group)	JV	Estonia, Latvia, Lithuania	Residential	€ 31MM**
Immoeast Immobilien Anlagen	Direct	Hungary	Retail	€ 210MM
GE Commercial RE	Direct	Bohemia	Retail	€ 45MM
<b>Total closed transactions value</b>				<b>€ 286MM</b>
<b>Potential transactions value (closed and announced deals)</b>				<b>€ 636MM</b>

\*The value refers to target equity; \*\*The value refers to the first project announced by the J.V.

<sup>1</sup>Refers to closed and announced transactions.

Sources: EuroProperty, Jones Lang LaSalle.

### STRATEGIC TAKEOVERS SPUR M&A ACTIVITY

During 2Q 2005, there was a surge in M&A activity in the European real estate sector. M&A activity has focused on “public-to-private” transactions, however, recent transactions can be considered as largely strategic takeovers.

Reasons supporting this increase in industry consolidation include:

- (i) The listed property sectors look more affordable than the direct property market for real estate companies seeking to increase the size of their portfolios; and
- (ii) On occasion, large fund management platforms can be acquired cheaply because they are not fully understood/valued by the stock market. Fund management activity provides a stable income and diversifies the more traditional business of investing and trading real estate portfolios.

With a persisting “hot” direct investment market, corporate deals are likely to continue to occur in the coming quarters. Corporate inertia in the U.K. is likely to prevail as the listed real estate sector awaits the outcome of U.K. REIT discussions.

Source: Estates Gazette.

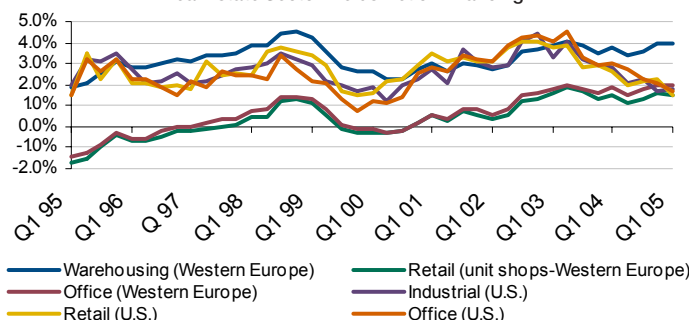
### YIELDS CONVERGE IN U.S. AND WESTERN EUROPE<sup>1</sup>

Historically, with the exception of the industrial sector, there has been a relatively wide yield spread between U.S. and Western Europe real estate. Industrial assets are highly sought after in Europe driven in part by restrictive planning systems which constrain new development.

However, a combination of intense competition to buy real estate in the U.S. and rising interest rates has narrowed the historic “yield spread” between the U.S. and Western Europe. Increased competition from “retail” investors has caused some managers to begin to pursue international acquisition strategies.

With 10-year swap rates approximately 124 bps higher in the U.S. relative to the Eurozone<sup>2</sup>, a financing arbitrage situation has emerged which may further increase the attractiveness of Eurozone real estate product.

Real Estate Sector Yields Net of Financing



<sup>1</sup> Real Estate yields net of respective Eurozone and U.S. 10-year swap rates.

<sup>2</sup> Current 10-year swap rates are 4.52% for the U.S. and 3.28% in Western Europe as of July 8, 2005. Sources: Bloomberg, Jones Lang LaSalle, NCREIF.

**Macquarie Capital Partners is a global investment banking and advisory firm specializing in raising private equity for real estate operating companies and funds, and delivering strategic financial advisory services to its clients.**

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