

Your Foreign Investment: Which Strategy Makes the Most Sense for You?

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- Why go abroad?
- How to invest abroad?
 - Direct investment*
 - Indirect investment: Private funds*
 - Indirect investment: Listed securities*
- What are the tax and legal issues to consider?

Considerations for Investing in Global Real Estate

- **Economic and capital market globalization is accelerating**
Living standards are rising due to expanding global trade and broader economic participation. A global economy requires a global capital market
- **Offers a larger investment universe with greater growth potential**
- **Potentially higher returns**
- **Significant diversification benefits**

Investing in Global Real Estate

U.S. Opportunities

- Mature, relatively liquid market with opportunities across the risk/return spectrum (core, value-added, opportunistic)

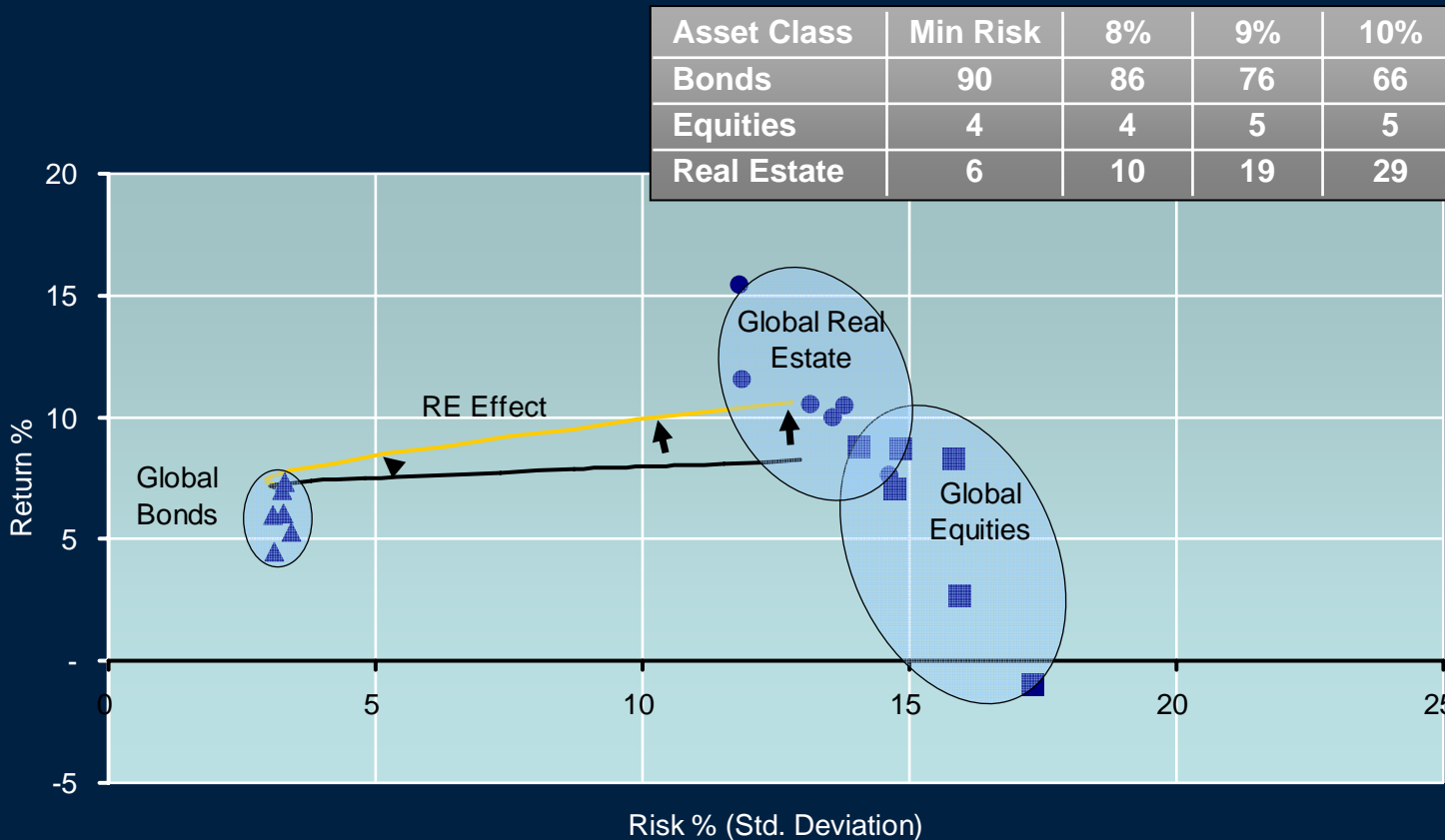
Europe Opportunities

- Shrinking and aging population, with large, though under-managed/invested property stock with significant opportunity for value-added and opportunistic investing

Asia-Pacific Opportunities

- Compelling demographic and economic factors leading to high demand for institutional-quality office, residential, retail and hotel properties. Opportunities across the risk/return spectrum, particularly in the value-added and opportunistic space.

Portfolio optimization – the efficient frontier



- Seeing real estate as a distinct asset class gives the opportunity to improve risk-return profiles
- “If you want to reduce risk in a traditional balanced strategy, you can add low-correlation assets, like REITs...”

-The Wall Street Journal, 09.20.06

Investment Objectives

- To **generate returns** that meet or exceed benchmark over the investment horizon
- To lower overall portfolio risk by adding new markets and/or asset classes thereby **increasing portfolio diversification**

Approach

- Targeted markets – direct investment
 - Asset level – joint ventures
 - Entity level – take large positions
- Exploratory markets – indirect
 - Investment funds

Strategy

- Current portfolio comprised of primarily office and retail assets in Canada and US
 - Owner, manager and developer in Canada
 - Need to enhance portfolio diversification by:
 - Investing in other asset classes
 - Investing in other geographic regions
 - Investing in a combination of both
- In-house expertise for direct investment
 - Minimize fees and maximize returns
 - Opportunity to share operating and development “best practices”
 - Leasing synergies
- Long-term goal for global operating platforms

How to invest abroad?

Indirect investment: Private funds

Global Property Investment Issues

- Increasing cross-border investment activity
 - Increasing investor interest in “foreign” real estate markets has led to explosive growth of cross-border direct investments and funds
 - The level of cross-border activity has tripled over the past five years to reach \$120 billion or 20% of total activity in 2006¹
- Issues of “investment infrastructure” for property investors investing in “foreign” markets arise in acquisitions, asset management, and in reporting
 - “**Old model**” – investments in a single, domestic, market with familiar standards and service providers – is giving way to a “**new model**” – investments in multiple, “foreign”, markets with disparate standards and services providers
 - Result can be uncoordinated practices, inability to rigorously compare and manage properties and/or funds with similar characteristics (e.g., property type), and investors losing confidence
- Scale of issues needs to be matched by the scale of the investor, and favors large managers and niche players
- “Get big, get small, or get out.”

How to invest abroad?

Indirect investment: Private funds

Reporting Concerns

- Difficulties of comparing public and private market real estate returns
- Lack of robust benchmarks in many markets
- Difficulty in isolating property returns from other effects, such as tax and currency
- U.S. typically not on a “fair value” model
- Requirements for “manual” manipulation of data
- Managers challenged in reporting by:
 - Variety of fund styles (core, value-add, opportunistic)
 - Direct versus fund investing
 - Varying investor sophistication
 - Consultants’ diversity of requirements

How to invest abroad?

Indirect investment: Private funds

Challenges

- What infrastructure and governance is required to support global property investment reporting?
- Industry practice
 - Convergence of reporting standards, such as INREV and NCREIF
 - Rigorous valuation procedures and standards
- Investor / Manager practice
 - Establishment of best practices for the appropriate and rigorous reporting of holdings and performance results
 - Development and implementation of necessary policies, procedures, personnel and systems to deliver these best practices on a consistent and timely basis
 - Education of investors about reporting and return issues
 - Transparency through consistency
- Scale
 - “[T]he level of back-office support has not matched the growth of the firm and is often inconsistent with the billions of dollars of assets under management controlled by...funds. This organizational weakness is becoming increasingly evident through the discovery of incompatible and ineffective processes that could potentially put the business—and investors—at great risk.” (EY/Herrenkohl, PERE)

Response Model

- Integrated regional acquisitions and asset management teams
- Globally integrated Finance team
 - 120+ finance professionals focused on client funds
 - Global capabilities
 - London, Frankfurt, Milan
 - New York, Chicago, San Francisco
 - Tokyo, Seoul, Hong Kong, Sydney
 - “Fund CFO” model provides coordinated management of reporting and operational issues
 - “Controlling” mindset
- Technology
 - Investment scale
 - System convergence
 - Development and integration

How to invest abroad?

Indirect investment: Listed securities

Managing asset allocation and determining how much money to invest

Key benefits derived from investing in real estate securities

- Diversification + Low correlation with other asset classes
 - Significant income + Dividend yield of 3% to 4% globally
 - Inflation hedge + Rent adjustments and valuations reflect CPI
 - Liquidity Market capitalization of \$1.5 trillion globally
 - Transparency Reporting requirements, tax
 - Long-term performance Except for 2007, has consistently exceeded S&P500 returns over the past 7 years
- *Real estate is now considered a distinct asset class*
 - *Securitization of real estate has brought tremendous liquidity to the market place*
 - *Real estate cycles are not synchronized between :*
 - *Regions*
 - *Sectors*
 - *Physical and capital markets*

How to invest abroad?

Indirect investment: Listed securities

Real Estate Market vs. Listed Real Estate (in B\$ USD)

Country	Real Estate (\$ billion)	Total Listed (\$ billion)	Listed RE/ Total RE (%)	Stock Market (\$ billion)	Listed RE/ Stock Market (%)
Japan	2,024	193.5	9.56	4,824	4.01
Hong Kong/China	493	201.0	40.78	6,731	2.99
Australia	311	163.9	52.76	1,342	12.22
Singapore	107	51	47.53	538	9.47
New Zealand	49	2.8	5.71	45	6.19
Thailand	41	3.5	8.57	211	1.66
Malaysia	39	0.7	1.80	299	0.23
Germany	1,254	15.4	1.23	2,210	0.70
United Kingdom	1,251	94.0	7.51	4,219	2.23
Italy	793	6.9	0.87	1,175	0.59
Spain	505	35.0	6.93	1,159	3.02
Netherlands	283	13.5	4.78	642	2.11
United States	5,616	446.6	7.95	18,804	2.38
Other	4,563	213.2	4.67	17,839	1.20
World	17,329	1,441.0	8.32	60,038	2.40

How to invest abroad?

Indirect investment: Listed securities

25 countries with REIT-type legislation, including:

	United States	1960		Japan	2000
	Netherlands	1969		South Korea	2001
	Australia	1971		France	2003
	Malaysia	Late 1980s		Hong Kong	2003
	Canada	1994		Taiwan	2003
	Belgium	1995		Thailand	2003
	Turkey	1998		United Kingdom	2007
	Singapore	1999		Germany	2007

Who's next?

	Brazil
	China
	Finland
	India
	Italy
	Philippines
	Spain
	Sweden

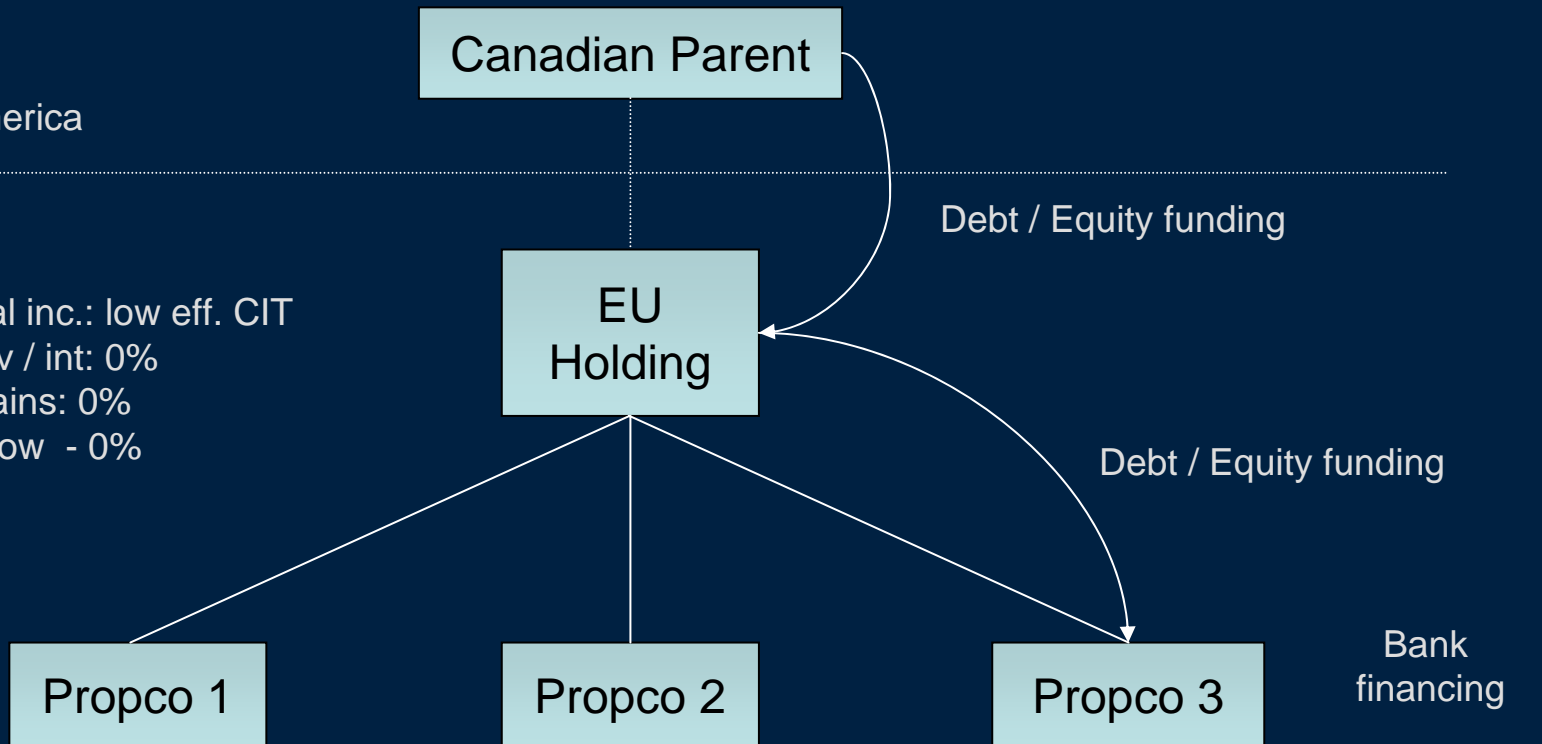
	United States	Europe	Asia-Pacific	Canada	Total
Co. in index #	105	101	81	18	305
% of total capitalization	37.5%	21.0%	38.0%	3.5%	100%
% of co. with more than \$1 B in cap.	69.5%	38.6%	76.5%	50.0%	60.0%
Median free float (M\$)	1,646	851	1,975	1,025	1,323

Example: pan-European structuring (simple)

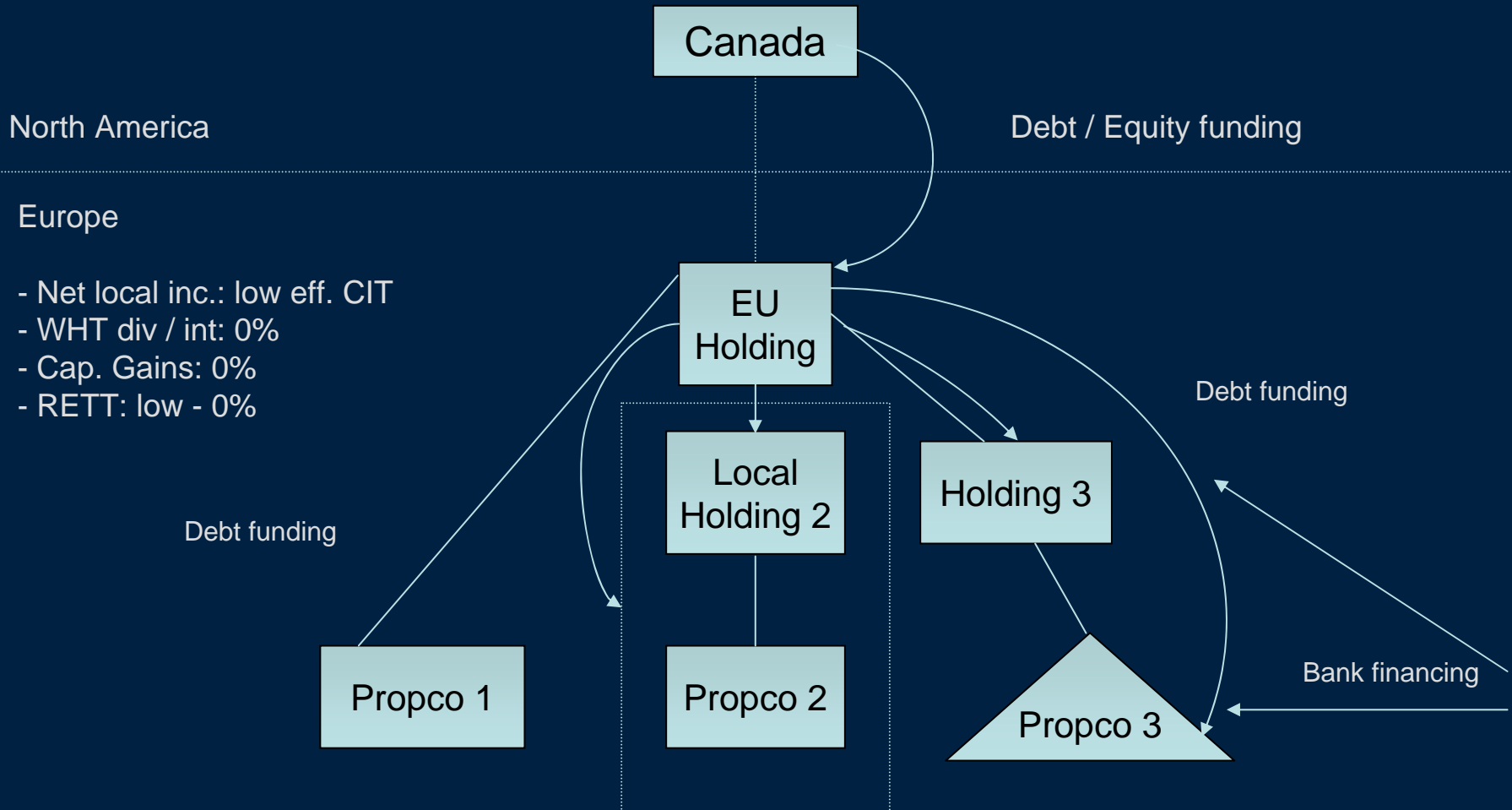
North America

Europe

- Net local inc.: low eff. CIT
- WHT div / int: 0%
- Cap. Gains: 0%
- RETT: low - 0%



Example: pan-European structuring (optimised)



What are the tax and legal issues to consider?

Foreign structuring issues and objectives (1)

- Reduction of taxes at propco level
 - Corporate income tax (CIT), withholding taxes (WHT), value-added tax (VAT), real estate transfer tax (RETT), stamp duties
 - Depreciation
- Optimal leveraging of investments
 - Thin-capitalization, avoidance WHT
 - External loans, internal loans, and/or hybrid loans
- Capital gains / exit planning
 - Sale property vs. sale propco
 - RETT issues
- Tax free profit repatriation to Canada
 - Rental income (if any after debt servicing)
 - Refinancing proceeds
 - Capital gains
 - Non-resident taxation

What are the tax and legal issues to consider?

Foreign structuring issues and objectives (2)

- Creation of foreign hubs
- Example: pan-European structuring
 - One holding company for entire European structure
 - Popular:
 - Luxco financed with CPECs (hybrid loans)/PESCS/Class shares
 - Dutch Coop
 - Malta, Cyprus
 - European Union Directives for tax free circulation of funds in Europe
 - Tax free repatriation of profits
 - Treaty benefits
 - Exemption for capital gains propco
 - Consolidation profits and losses

What are the tax and legal issues to consider?

Foreign structuring issues and objectives (2)

- Trapped cash
 - Accounting profits vs. Available cash
- Managability of structures
 - Local service providers/partners vs. own people
 - Compliance issues
 - Foreign exchange hedging/translation
 - Language/culture issues
- Accounting issues
 - Parent company GAAP vs. local GAAP
 - Consolidation rules