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## **Global REIT markets continue to cope with the financial storm**

### ***Asia and Europe's public markets continue to outperform the North American REIT market***

NEW YORK, 30 OCTOBER 2008 – Europe and Asia saw slight gains in market capitalization amid a global market constrained by the credit crunch, according to *Riding out the storm: Global Real Estate Investment Trust Report 2008*, Ernst & Young's third annual Global Real Estate Investment Trust (REIT) report released today. The total market capitalization of publicly-listed REITs around the world reached nearly US\$605 billion, as of 30 June 2008, down from US\$764 billion a year earlier.

"Like every other sector of the real estate market, publicly-listed companies have been hit very hard by the global credit freeze. It remains to be seen when REIT markets will stabilize," says Michael Frankel, Global Director of REIT Services for Ernst & Young. "REITs in Asia have been the best performers for the 12-month period ending June 2008 in terms of one- and three-year returns. With China planning to launch a pilot REIT program next year, there is likely to be renewed interest in the public REIT sector in Asia," Frankel adds.

The report also looks at leverage (gearing) levels. "While gearing is at historically high levels, investors will keep taking money out of the sector. So we expect the much-anticipated asset sell downs, aimed at reducing gearing levels, to begin before the end of the year, assuming the disconnect between buy-side and sell-side reduces," says the report's author, Ed Psaltis of Ernst & Young Australia's Transaction Advisory Services group. "This hopefully will help begin to restore overall investor confidence in the sector."

### **Country specific findings**

Of the 16 countries analyzed, only South Korea – with its REIT market of just half a dozen companies – posted a positive total rate of return (5.17%) in the 12 months to 30 June 2008.

The number of US REITS dropped by 21 to a total of 148 REITs and total market capitalization dropped below US\$300 billion to US\$294.6 billion, as of 30 June 2008. According to the report, this was largely due to the failure of several mortgage REITs as a result of the subprime mortgage crisis. While the US remains the largest single REIT market in the world ahead of Europe and Asia in terms of total market capitalization, the gap is narrowing. With China's pilot REIT project beginning in 2009, Asia is poised to overtake Europe as the second largest REIT market in the world by market capitalization and possibly challenge North America's position in the next five years.

Australia, the second most populous REIT regime in the world, saw a net increase of six REITs last year for a total of 64 with a total market capitalization of just over US\$78 billion. However, Australia was the worst performing REIT jurisdiction in total return terms, posting a 48.71% negative return for the year. Interestingly, Australia was one of three poorly performing REIT markets - the others were the Netherlands and Singapore - with major exposure to overseas investments.

France was third in the global rankings with 48 REITs, a net increase of six from the prior year, with a total market capitalization of US\$72.8 billion. Meanwhile, several European countries such as Spain, Lithuania, Italy and Finland have all recently embraced REIT legislation or are expected to next year; this will lead to the formation of more REITs within the Eurozone in the next two years.

“With REITs still riding out the market uncertainty, much of the future remains unclear. That said, we firmly believe REITs will survive the hurricane sweeping over them now,” says Psaltis.

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### **About Riding out the storm: Global Real Estate Investment Trust Report 2008**

Ernst & Young's third annual REIT Report, which was researched and produced by the Ernst & Young member firm in Australia, analyses REIT markets in 16 major countries where REITs are publicly traded including Australia, Belgium, Canada, France, Hong Kong, Japan, Malaysia, Netherlands, New Zealand, Singapore, South Africa, South Korea, Turkey, and the US, as well as the relatively new markets in the United Kingdom and Germany. The report does not include Italy, Taiwan or Bulgaria, where REIT legislation is in place but where equivalent data to that used in the report is not currently readily available.

The report also compares and contrasts the performance of these REIT jurisdictions using criteria such as market size and depth, total return on capital and income, volatility, balance sheet measures (debt and premium/discount to net assets) and income measures (yield/price-earnings ratio).

South Korea achieved first place in this year's Ernst & Young rankings as the best performing REIT market with a total rate of return (TROR) of 5.17% for the year ending 30 June 2008. South Korea also led other markets TROR over three years with 13.46%. The country with the largest REIT market total capitalization is the United States at US\$294 billion, while South Korea has the smallest REIT market of any of the 16 countries analyzed with US\$410 million. South African REITs offered the highest dividend yield last year at 8.05%. US REITs yielded 5.27% last year.

To download a copy of the report visit: [www.ey.com/realestate](http://www.ey.com/realestate).

### ***About the Global Real Estate Center***

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