

Research

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As the recovery in the European office rental cycle gets under way, many investors in European real estate are modifying strategy with a view to capitalizing on the expected outperformance of the office sector over the short to medium term. As a result, the share of offices in real estate portfolios is expected to rise over the next few years as investors seek to increase allocations to the sector and as the relative value of offices in existing portfolios grows.

Strong arguments, however, support the idea that as the office rental recovery matures and the potential for outperformance diminishes, a substantial, sustained and long-term increase in the portfolio weightings of retail and other property types will occur in mainland Europe. This report examines the sectoral composition of the European real estate investment market, the factors likely to drive a shift in portfolio composition away from the office sector and toward retail, and how this is likely to occur.

A Breakdown of the European Real Estate Investment Market

Recent data from IPD provides the most authoritative sectoral breakdown of the European investment market yet. The data covers the 13 European countries for which IPD publishes performance indexes.¹ The invested and professionally managed European real estate market,² with an estimated value of about €1.1 trillion, contains about 45% offices and 30% retail, with the rest in residential, industrial and other property types.

It is useful, however, to distinguish between the sectoral composition of the UK market and that of the rest of Europe (see **Exhibit 1**). The rationale for separating out the UK market is that it is the largest investment market in Europe (accounting for about one-third of European real estate assets by value, according to IPD), and it is also one of the most liquid, transparent and mature markets. The difference in structure between the UK and the rest

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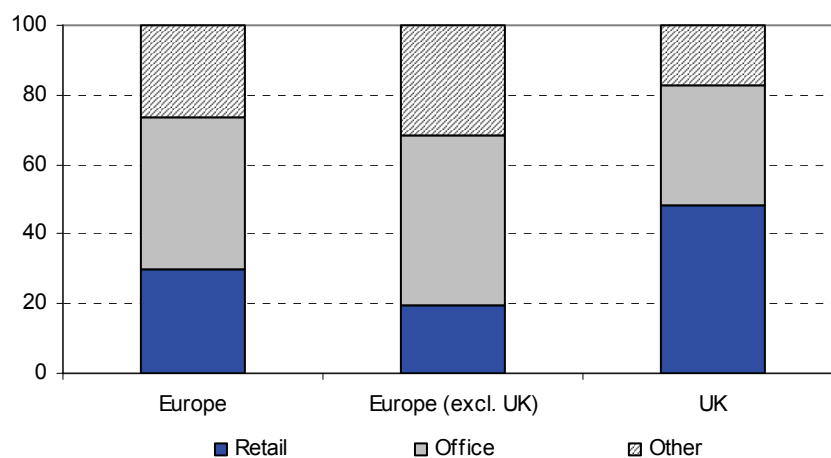
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¹ At the end of 2004, these countries together accounted for more than 85% of the combined GDP of the EU-25, Norway and Switzerland.

² IPD defines the investment market to include life and pension funds, unitized vehicles, pooled and collective investment funds, traditional estates and charities, listed property companies and REITs, unlisted property companies and all foreign investors. Excluded are small private landlords, owner-occupied property, private equity (or Private Finance Initiative) funds where investors own the operating business as well as the property, mortgages and property assets of leasing companies and municipal housing.

of the European market is stark. In the UK, retail is the dominant property type, accounting for about half the UK investment market by value, while offices account for roughly one-third of invested assets. By contrast, offices dominate in the rest of Europe, accounting for about half the investment market by value, while retail accounts for roughly one-fifth of investors' portfolios.

Exhibit 1: Current Composition of the European Investment Market (%)



Source: IPD

The difference in structure is further highlighted by the fact that only in the Netherlands, Switzerland and Portugal do offices account for a lower share of the real estate market than in the UK.³ Also, only Portugal has a higher retail component than the UK.⁴ Even adjusting for different levels of exposure to residential, industrial and other property types in Europe, the portfolio weighting of offices in mainland Europe is much higher than that of the UK.

Such a difference might be expected if retail property accounted for a much higher proportion of total (i.e., not just invested) real estate assets in the UK than elsewhere in Europe, perhaps because the retail industry plays a more important role in its economy. A breakdown of total real estate assets by sector is not available for most European countries, but a quick look at related indicators lends, at best, mixed support for this view (see **Exhibit 2**).

Although the UK has a higher proportion of its active workforce employed in the retail industry (11% compared with a European average of 9%), UK retail sales as a share of GDP are consistent with the European average (at just under 20%). Moreover, shopping center floorspace data does not indicate that the UK has a disproportionately high volume of retail floorspace relative to its population. Shopping center floorspace provision in the UK amounts to about 0.23 square meters per capita compared with a European average of 0.20.⁵

³ Netherlands and Switzerland are the two countries covered by IPD where residential is the single largest sector.

⁴ According to IPD, the Portuguese invested and professionally managed real estate market is 3% that of the UK.

⁵ The use of shopping center floorspace as a proxy for total retail floorspace is not ideal due to differences in the structure of retail provision across sectors. In markets with tighter constraints on retail development, a higher proportion of total retail stock is accounted for by city-center high-street units than in markets with more relaxed planning environments. Moreover, in some markets, most notably Italy, the shopping center format is still relatively immature. Nevertheless, in the absence of more comprehensive data, this provides a benchmark of sorts.

Exhibit 2: Comparisons in Retail

	Population (millions)	Retail sales (% of GDP)	Retail employment (% of workforce)	Shopping center space (sq. m./capita)	Ratio of retail to office yields
Denmark	5.4	15.9	7.2	0.24	0.95
Finland	5.2	16.3	6.2	0.15	0.98
France	60.4	22.0	7.0	0.21	1.00
Germany	82.5	14.3	8.9	0.14	1.15
Ireland	4.0	15.7	7.5	0.20	0.64
Italy	57.3	17.2	8.9	0.13	1.05
Netherlands	16.2	16.5	8.9	0.32	0.94
Norway	4.6	15.5	n/a	0.78	0.99
Portugal	10.1	23.7	7.4	0.17	1.01
Spain	41.1	21.1	9.2	0.20	1.26
Sweden	8.9	15.4	5.7	0.33	0.98
Switzerland	7.2	19.2	n/a	0.15	0.97
UK	59.8	19.3	10.7	0.23	0.81
Average		18.0	8.7	0.20	0.98

Sources: Experian Business Strategies; Cushman & Wakefield Healy & Baker; OECD; EIU; IPD

Cross-country differences in the importance of retail to the economy and the level of retail provision exist, but these differences are not enough to justify the average portfolio weighting of retail in the UK market being almost 30 percentage points higher than in mainland Europe.

In terms of pricing, the ratio of UK retail to office yields is about 0.8. This implies that on average it is more expensive to buy retail property than offices on a year's purchase basis.⁶ Some significant differences exist across mainland European countries, but the average ratio of retail to office yields is 0.98, implying that office and retail property are almost equally priced using this metric. This difference is substantial and implies that even if the sectoral structure of the UK and mainland European investment markets were identical in volume (i.e., square meter) terms, UK retail's weighting in value terms would be much higher than that of mainland Europe.

Variations in ownership structure also play a role in explaining the difference. Mainland Europe's lower average portfolio weighting for retail (by definition) implies that the share of all owner-occupied property accounted for by retail is higher than in the UK. Experienced investors in European real estate are well aware of the fact that a relatively high share of retail, particularly shop units and retail warehouses outside the UK, are owned by occupiers.

Differences in the ownership structure of the investment markets across countries may contribute to different degrees of measurement error. More precisely, variations in investor composition may provide a partial explanation for the higher *measured* weighting of retail in the UK. As a result of fragmented ownership structures (mostly in Italy and Greece) and a greater tendency for little-known or smaller private landlords to own retail, less transparency of ownership of invested retail assets exists in several mainland European markets relative to the UK.⁷ These assets are less likely to be included in the ownership databases of investment market analysts. As a result

⁶ The number of years of rental income from an asset necessary to recoup the purchase price.

⁷ While the digestible nature of the smaller lot sizes associated with shop units are attractive to smaller private investors in the UK and mainland Europe, in several countries in mainland Europe, not least Germany, a relatively high share of larger retail assets, such as shopping centers, have been long-term holds for wealthy families or individuals.

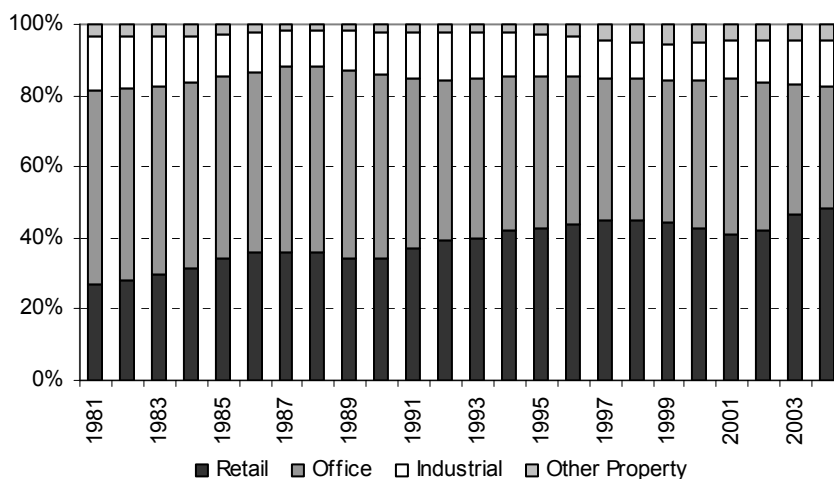
of this measurement error, the true weighting of retail in the mainland European investment market may be underestimated and that of offices may be overestimated.

In summary, the average portfolio weighting of retail is materially higher in the UK than in mainland Europe, and the difference cannot wholly be explained by measurement error or by variations in the importance of retail within the respective economies. The differences in average portfolio weightings may be unsustainable, and a secular shift in the composition of professionally managed mainland European real estate portfolios toward retail assets is likely.

The UK Experience

The current average portfolio weighting of offices in investors' mainland European portfolios is similar to that in the UK during the mid-1980s. Over the past two decades, there has been a major shift in the sectoral breakdown of the professionally managed UK real estate investment market (see Exhibit 3). In the mid-1980s, about half of the UK market by value was in office property. Since then the share has fallen to about one-third, while retail's share of total invested assets has grown from about one-third to almost one-half. The factors underlying this change provide a useful starting point for assessing future dynamics in the mainland European market.

Exhibit 3: Historic Composition of the UK Investment Market



Sources: IPD; Pramerica Real Estate Investors

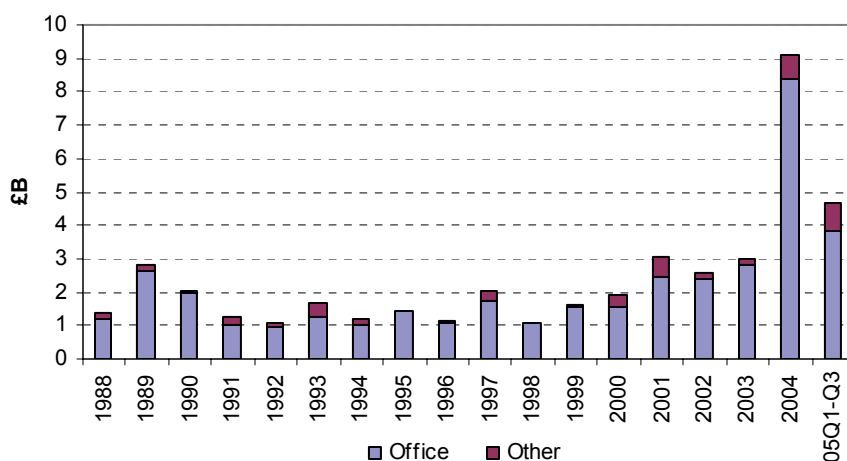
The main feature of the 1980s was a rise in the portfolio weighting of retail property in the first half of the decade, to a large degree at the expense of industrial property. This was a function of retail's superior capital growth over the period, which raised the relative value of existing portfolios, and increased allocations to the sector. Retail's weighting also benefited from a fundamental shift in portfolio management styles. The 1980s saw UK real estate portfolio management evolve from being an exercise in property accumulation to one of portfolio optimization. The office sector's share of the market remained fairly constant over the period.

The secular rise in retail's weighting continued during the 1990s but, in contrast to the 1980s, the increase in weighting was matched by a decline in the weighting of offices. Again, this was a

combination of the capital growth impact on existing portfolios and positive allocation decisions. Capital growth in the retail sector exceeded that in the office sector every year during the 1990s. At the same time, the growth in indirect investment vehicles during the 1990s allowed investors to gain access to the performance of very large or management-intensive (or specialist) real estate assets. The majority of funds established in the UK during the 1990s were specialist retail vehicles (shopping centers, retail warehouses and factory outlets), which provided many investors with a more efficient means of investing in retail assets.

Another feature of the 1990s was the aggressive acquisition of offices, especially in Central London, by non-domestic investors (see Exhibit 4). To the extent that the activities of these investors are less well monitored by IPD, the apparent decline in office weightings over this period may be exaggerated. However, while not insignificant, the impact of this transfer of ownership should not be overstated. Even if London is removed from the analysis, office weightings fell by more than 10 percentage points between 1990 and 2004. Moreover, Jones Lang LaSalle data indicates that the last two years have seen negative net investment by this class of investor, and yet the weighting of offices in investors' portfolios continues to decline.

Exhibit 4: Acquisition of Central London Real Estate by Non-UK Investors



Source: DTZ Research

Underlying the positive allocations to retail over the course of the 1980s and 1990s was an increasing awareness among investors of the consistent outperformance of retail assets. According to IPD, retail property generated an average total return of 12.1% per year between 1981 and 2004 (see Exhibit 5). The comparative return for offices was 9.6%. Moreover, during this 24-year period, retail outperformed offices in 16 years, the exceptions being in the late-1980s office market boom and in the early 2000s, when performance was negatively affected by uncertainty as to the impact of online shopping on retailers.⁸

⁸ If the 1970s are included, retail outperformance is even more marked and occurs in 23 out of 34 years.

Exhibit 5: Relative Performance of UK Retail and Offices, 1981-2004

	Avg. return (% per year)	Std. dev. (% points)	Return per unit of risk
Retail	12.1	7.2	1.7
Office	9.6	10.2	0.9
All Property	11.0	8.4	1.3

Source: IPD

Not only has retail outperformed offices in absolute terms, but the sector's performance cycle has been considerably less volatile than that of the office sector, largely due to the greater propensity to overbuild in the latter.⁹ As a result, return per unit of risk historically has been almost twice as high in the retail sector as in offices.

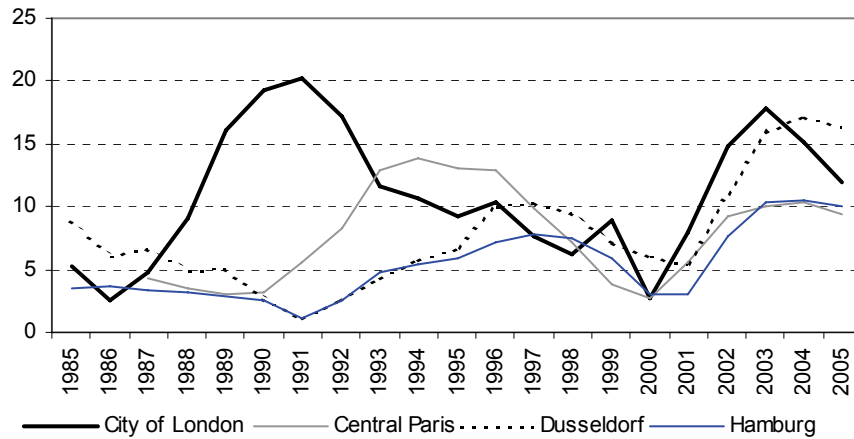
Toward Retail in Mainland European Real Estate

As the ongoing office market recovery in mainland Europe matures, a shift in the composition of investors' portfolios similar to that seen in the UK will likely occur. The portfolio weighting of offices will begin to decline, and the portfolio weighting of other sectors, particularly retail, will start to rise. Indeed, analysis of transaction activity over the last few years suggests that this process may already be under way. The office share of total investment in mainland Europe has fallen from about 65% in 2000 to around 53% in the first half of 2005, while retail's share of total investment has grown from 7% to 21%, according to Jones Lang LaSalle.

Several factors will drive this shift. First, economic convergence in Europe, the increasing globalization of real estate markets and the consequent erosion of barriers to the free movement of capital have reduced investors' ability to diversify within an office portfolio. Convergence in the timing and amplitude of economic cycles across European countries has contributed to more synchronized rental cycles across the major office markets. The higher covariance of leasing market conditions can be highlighted with reference to the vacancy cycle (see Exhibit 6). In the early- to mid-1990s downturn, the City of London was the first of the major European office markets to see its vacancy rate peak. Dusseldorf and Hamburg were the last to turn some six years later. In the most recent downturn, by contrast, the dispersion of peaks in office vacancy rates has been much tighter. Based on data on 26 mature European office markets, the standard deviation of turning points in the early to mid-1990s was 1.8 years, compared with 0.7 years in the early 2000s.

⁹ The greater volatility of the office market cycle was itself a major contributing factor to the shift toward retail during the 1990s. Rapidly declining rents and capital values in 1991-92 served to remind investors of the dangers of being overweight in offices.

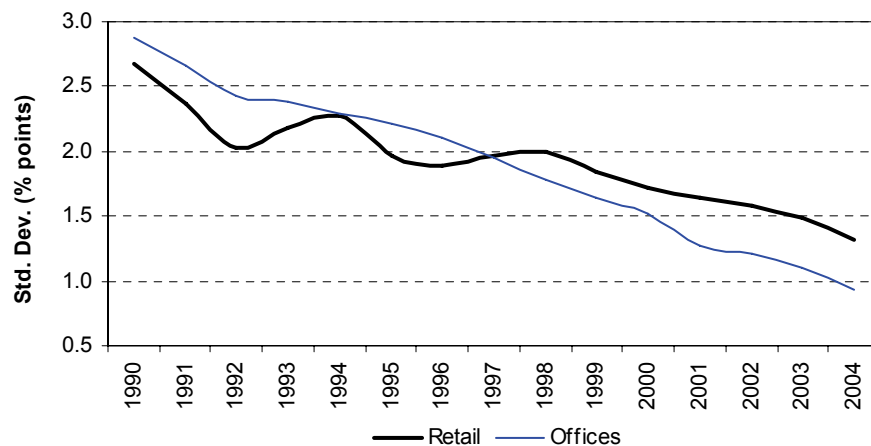
Exhibit 6: Selected Office Market Vacancy Rates (%)



Sources: PMA; DTZ Research; Pramerica Real Estate Investors

At the same time, the pricing of offices in Europe has converged greatly since the early 1990s. Exhibit 7 shows a large fall in the standard deviation of prime yields in 33 European office markets (from about 3 percentage points in 1990 to 1 percentage point now). More highly correlated rental cycles provide only part of the story. Also important are several factors that have allowed real estate investors to identify and exploit cross-border pricing anomalies more readily. Greater currency stability (from the European exchange-rate mechanism and the introduction of the euro) has increased the transparency of pricing and reduced transaction costs. A common monetary policy framework in the euro zone resulted in government bond yield convergence in the 1990s. To the extent that government bond yields are a measure of the risk-free rate of return, differences in yields across office markets in the euro zone are now largely explained by the risk premium investors place on those markets.

Exhibit 7: Dispersion of Prime European Office and Retail Yields



Sources: PMA; C&W; DTZ Research; Pramerica Real Estate Investors

In addition to the factors that have promoted capital mobility and have led to convergence in the risk-free rate, several factors have contributed to a convergence in the risk premium investors

place on different markets. For example, the very significant rise in the volume of capital targeting real estate over the last few years has reduced the liquidity or exit-risk premium investors attached to smaller, less mature markets relative to deeper and more transparent ones.

Although many of these trends have also impacted retail property, the more fragmented and heterogeneous nature of the sector and the fact that local considerations tend to drive performance have resulted in more limited erosion of pricing inefficiencies and yield convergence across retail markets (see **Exhibit 7**). The standard deviation of yields across 30 retail markets has fallen from 2.6 percentage points to 1.3 since the start of the 1990s.

Increased synchronization of European office market performance cycles necessitates a more sophisticated investment strategy to achieve a given level of diversification within an office portfolio. This may take the form of investing in more diverse markets or in more diverse investments within existing or similar markets, and may involve increasing the number of assets in the office portfolio. The very high levels of interest in Central and Eastern European office markets in recent years is, to some extent, a result of investor recognition of these trends.

In addition to these factors, which, other things being equal, would be expected to dampen the volume of capital targeting offices, several factors are likely to encourage increased capital to retail going forward. First, the property management infrastructure in mainland Europe is improving. Managing a shopping center, factory outlet or retail warehouse park well is highly intensive and is akin to running a business. Centers tend to be geographically dispersed, require high capital expenditures and typically have many tenants, often on different lease structures that need to be closely managed to maximize income growth. As such, experienced, specialist and local management is essential to optimal performance of most types of retail investments.

Second, an increasing number of third-party fund managers offer investors access to the performance of retail assets through specialist or niche funds. Due to the characteristics described above, it is more difficult for many investors to extract value through the direct ownership of retail assets, particularly if the assets are not in their home country. Specialist fund managers are not just better placed to extract value, but their reputation as specialists will often ensure superior deal flow. Moreover, commingled vehicles provide investors with the ability to diversify away the specific asset risk associated with larger retail assets.

Third, as in the UK, retail in mainland Europe has historically delivered superior risk-adjusted returns. **Exhibit 8** provides the relative historic performance of offices and retail in 26 European markets. In the absence of long runs of national and portfolio-level data for most mainland European countries, such as that in **Exhibit 5** for the UK, this analysis is based on synthetic total returns constructed with prime city-level rents and yield data. This approach assumes assets are fully leased and annually reviewed, so these returns overstate the ungeared return that investors could have achieved from a representative portfolio over this period. They do, however, provide an indicator of the relative performance of retail and office property within a given city.¹⁰

¹⁰ Given the different time periods used in the analysis, it is not appropriate to compare returns across markets.

Exhibit 8: Historic Retail and Office Market Performance

	Start year	Retail				Office			
		Average return (% per year)	Std. Dev. (% points)	Return per unit of risk	Correlation vs. all Europe	Average return (% per year)	Std. Dev. (% points)	Return per unit of risk	Correlation vs. all Europe
Amsterdam	1984	14.2	9.2	1.6	0.49	11.2	9.1	1.2	0.58
Athens	1990	19.0	20.9	0.9	0.59	15.2	15.3	1.0	0.45
Barcelona	1984	22.9	33.8	0.7	0.75	18.9	29.2	0.6	0.85
Berlin	1984	12.0	17.4	0.7	-0.09	9.4	36.2	0.3	0.33
Birmingham	1981	13.1	13.3	1.0	0.15	10.2	14.0	0.7	0.33
Brussels	1981	10.3	11.7	0.9	0.46	10.2	9.1	1.1	0.74
Budapest	1992	7.5	10.3	0.7	0.02	10.2	11.2	0.9	-0.01
Cologne	1984	7.4	6.8	1.1	-0.03	7.4	10.8	0.7	0.26
Copenhagen	1987	7.4	10.8	0.7	-0.10	2.1	7.4	0.3	0.40
Dublin	1986	17.8	13.1	1.4	0.23	12.7	18.4	0.7	0.45
Frankfurt	1981	10.3	10.1	1.0	0.16	6.5	14.8	0.4	0.71
Glasgow	1984	11.4	15.4	0.7	0.38	9.3	10.2	0.9	0.47
Hamburg	1981	9.0	9.2	1.0	0.07	5.2	8.3	0.6	0.49
Lille	1991	12.3	12.2	1.0	0.47	7.7	10.5	0.7	0.28
Lisbon	1985	24.6	22.0	1.1	0.51	22.1	30.1	0.7	0.69
London	1981	12.5	21.5	0.6	0.32	7.6	15.4	0.5	0.63
Madrid	1984	21.0	30.4	0.7	0.81	14.5	25.4	0.6	0.92
Manchester	1981	14.6	16.1	0.9	0.39	12.7	15.4	0.8	0.26
Milan	1988	13.3	18.0	0.7	0.59	7.7	16.6	0.5	0.78
Munich	1981	9.0	9.7	0.9	0.23	6.0	14.0	0.4	0.78
Paris	1984	12.4	13.7	0.9	0.73	10.0	20.0	0.5	0.85
Prague	1992	16.6	11.2	1.5	-0.10	5.2	7.7	0.7	0.33
Rome	1984	17.0	22.0	0.8	0.57	9.6	15.9	0.6	0.60
Stockholm	1986	13.5	18.9	0.7	0.73	10.6	26.3	0.4	0.69
Vienna	1987	14.2	21.1	0.7	0.40	6.4	15.2	0.4	0.62
Warsaw	1992	9.6	7.4	1.3	0.39	9.3	8.1	1.1	-0.24
European centers	1981	14.0	8.5	1.6	-	10.2	11.2	0.9	-

Source: Pramerica Real Estate Investors

Across European centers as a whole, annually reviewed, fully leased prime retail has delivered an average return of about 14% per annum over the last 24 years. This compares with a return of roughly 10% per year for offices. Also, based on the standard deviation of total returns, performance has been less volatile, with return per unit of risk at about 1.6 compared with 0.9 for offices.¹¹ The historic outperformance of retail is fairly widespread across non-UK markets. In absolute terms, average total returns in the retail sector have exceeded those of offices in 20 out of 22 non-UK markets. Retail has also tended to generate a higher total return per unit of risk.¹²

The diversification benefits associated with retail are also apparent from Exhibit 8. Although the performance of the retail and office sectors are highly correlated at a pan-European level (with a correlation coefficient of 0.8), the performance of different retail markets is less highly correlated than that of office markets. Pairwise correlation coefficients between the performance of a given office market and that of the overall European office market average 0.50. The average for retail markets is 0.35, which highlights the more fragmented and heterogeneous nature of the sector and the fact that local conditions tend to drive performance.

¹¹ Note the similarity with the UK portfolio-level numbers presented in Exhibit 5.

¹² These conclusions are supported by portfolio-level data for countries where time series are long enough to be meaningful. Based on IPD data for Ireland and Sweden back to 1984 (consistent with that in Exhibit 5 for the UK), retail property has outperformed offices by an average of 2.3 and 0.3 percentage points per year, respectively. Based on ROZ/IPD data for the Netherlands back to 1977, retail has outperformed offices by an average of 1.5 percentage points per year. Also, for each of these countries the retail performance cycle appears to be less volatile.

Of course, prospective rather than historic returns should drive investors' allocation decisions. While past performance is no guide to the future, several independent forecasting houses expect retail property to continue to outperform offices over a five-year horizon, despite continued weakness in prospects for consumers' expenditure growth in parts of Europe and improving conditions in office leasing markets. Part of the explanation lies in the fact that mature retail markets in Europe tend to be more supply constrained than office markets.¹³ Other things being equal, supply-constrained markets tend to deliver above-average total returns.¹⁴ Also, more rigorous supply constraints have contributed to retail's more defensive characteristics. These characteristics will continue to enhance the relative risk-adjusted performance of retail property.

Achieving a Higher Retail Weighting

While the above arguments may carry some intuitive appeal, a structural shift from offices to retail in professionally managed portfolios might be difficult to achieve when product, especially retail product, is in short supply. Nevertheless, several mechanisms could help achieve this shift.

- An anticipated 5% fall in Europe's population over the next 25 years, combined with an aging population, argue for little or no growth in the size of the office stock. In the long run, therefore, new office development is likely to be limited to replacement investment. Continued growth in income, however, and the changing demands of occupiers argue for an increase in the aggregate size of retail stock in the medium to long run.¹⁵
- The outsourcing of certain business services activities, which aims to capitalize on the availability of low-cost, highly educated labor outside of Europe, is likely to have a greater effect on office space demand than on retail space. Over the long term, this trend, along with the demographic issues noted above, is likely to enhance the capital values of retail property in Europe relative to that of offices through its impact on rental growth.
- Strong demand for retail investments has contributed to increased shopping center development activity, especially in Central Europe, which is underserved with modern retail space. Institutions and other professional investors are acquiring a growing share of new stock directly, through pooled vehicles or in joint ventures with specialist shopping center investors.
- Institutions have moved up the risk curve and are now more willing to engage in forward funding commitments or joint ventures with developers. This gives them a distinct advantage over smaller private landlords, who are either less willing or able to provide equity for such projects. It also allows institutions to avoid the highly competitive market for standing investments. At the same time, this investor group is showing greater appetite for secondary-quality retail property.

¹³ This is particularly true of France, Germany and Italy, where planning regimes are tight, and authorities have been resistant to out-of-town retail development.

¹⁴ In the U.S., retail property has marginally outperformed offices, according to NCREIF, despite the fact that planning regimes tend to be more relaxed.

¹⁵ This is not say that there will be no negative impact of an aging population on retail. The important point is that office demand will be affected before retail demand: consumers continue to shop beyond retirement. Also, the negative impact on offices may be tempered by possible future policy changes, such as increases in the retirement age.

- Institutions and other professional investors have also lowered their target rates of return. Thus, they are more competitive in the acquisition of existing and newly developed stock.
- The general strength of investor demand has resulted in a significant repricing of real estate assets over the last few years, which is encouraging smaller private landlords and owner-occupiers to sell long-held assets into the competitive investment environment. This applies across the sectors and is likely to continue to positively impact the turnover of retail assets. Indeed, the last two years have seen several non-European investors acquire large portfolios of retail assets through sale-leaseback transactions.
- Recent REIT legislation in France and likely forthcoming legislation in Germany may encourage the transfer of assets from private to public markets, particularly if the burden of outstanding capital gains tax liability is reduced.
- Of course, stronger demand for retail relative to offices and limited retail supply will lead to a passive increase in the weighting of retail property within professionally managed portfolios through the yield impact on capital values. To put this into perspective, other things being equal, a 10% decrease in retail yields in mainland Europe would increase retail's share of invested real estate by two percentage points.

Summary

Many investors in European real estate have recently been making tactical allocation decisions to benefit from the potential upside offered by offices at this stage in the rental cycle. This rational response to the relative outlooks for the principal sectors will likely raise the office share in professionally managed portfolios over the next two or three years. However, this analysis suggests that at a strategic level, investors in mainland European real estate should diversify away from offices (which now form about half of investors' portfolios) by raising allocations to other sectors.

Retail property is likely to be a major beneficiary of this secular shift in portfolio weightings. The performance of European office markets is becoming increasingly more synchronized, and much of the pricing inefficiencies across markets have been exploited. This necessitates a more sophisticated approach to diversification in an office portfolio. Concurrently, improved asset and fund management infrastructure has made retail assets more accessible to investors. Not only has retail tended to outperform offices over fairly long time horizons, but investors are increasingly aware of the defensive characteristics of the sector, which will likely continue to enhance risk-adjusted returns. These dynamics have implications for the neutral market weighting of the main property sectors: over the medium to long term, the neutral market weighting of offices will fall, while that of retail and others will rise.

It is difficult to know the time frame over which this rebalancing will occur, but the UK experience over the last 15 years provides a useful benchmark. Although the speed of adjustment depends on the supply of stock from smaller private landlords, owner-occupiers and developers, the strength of investor demand and the relative rate of yield compression in the retail and office sectors also play a role. Of course, if current levels of market liquidity are maintained over the long term, high levels of asset turnover may well result in a more rapid adjustment.

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