PATRIZIA EUROPEAN CITY RANKING

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Successful investment strategies in today's world are not about countries. In a globalising and urbanising world they are about regions or cities. 56% of the world's population currently lives in cities, and these numbers are expected to increase by the mid-21st century to seven out of ten people worldwide. Despite the growing importance of cities and the fact that cities generate 80% of global growth and wealth, cities face major challenges from social division, economic inequality, general demographics and environmental issues. Understanding the forces behind what makes a city competitive and attractive is therefore key in developing an investment strategy, as it determines a city's ability to attract businesses and people over the long term.

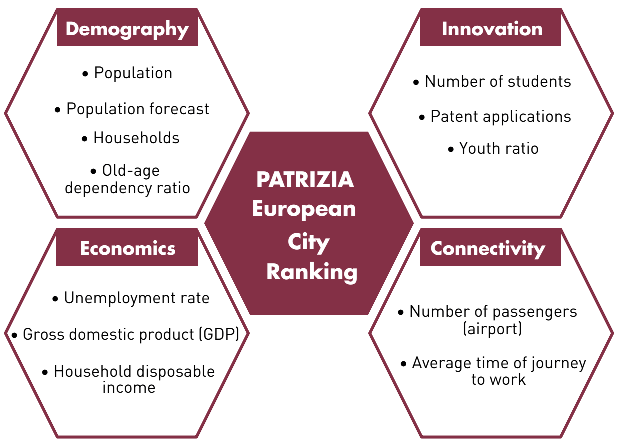
PATRIZIA is aware that understanding these forces is key for long-term investors, which is why we have developed a European-wide city ranking based on the demographic and economic aspects of each city, taking into account their innovative capacity and connectivity. We identified a number of quantitative and qualitative indicators for each of the four above-mentioned categories in order to reflect their complex relationship and then identified the cities in which all these indicators are present via various sources. PATRIZIA then selected 119 cities across Europe and weighted the data, enabling us to rank the four above-mentioned subcategories. The next step was to again weigh the outcome of these four subrankings, giving us our final PATRIZIA European City Ranking.

Ranking the attractiveness of a city, however, is only the first step in developing an investment strategy in line with the risk-return requirements specific to institutional investors. Investors also need to gauge the liquidity of specific investment markets to determine how fast capital can be deployed and how effectively active portfolio management activities can be executed as the fund matures or investment requirements change. We therefore decided to augment our PATRIZIA European City Ranking by including a liquidity indicator based on recorded transaction activity, reflecting how active the institutional residential market in each city has been over the past four years. We excluded the private for-sale market from this analysis due to the fact that this market segment is generally not relevant for institutional investors. As such, there is no reason to reflect this market segment in the liquidity score calculated for each city, even though it may be of interest in selected exit strategies such as privatisation. Combining these two dimensions – ranking and liquidity – for the 119 cities analysed gave us a 25-field matrix, enabling investors to segment the cities according to their long-term attractiveness and liquidity in order to identify target cities that would work with specific strategy/risk-return requirements.

Taking some cities as an example clearly shows the benefit of working with the matrix in developing a residential real estate strategy. The top right-hand field shows cities like Stockholm, which offers a very competitive, dynamic and innovative economic environment and a very liquid institutional residential investment market. Consequently, the city enables institutional investors to deploy capital swiftly and execute active portfolio management strategies. Pure buy-and-hold investors, however, generally pay for these advantages with a low return environment. Looking at the opposite end of the spectrum in the lower left-hand field, not only do cities like Charleroi not have any institutional residential investment market to speak of, they are also considerably below average in terms of attractiveness. These cities will not be investor focal points and investors will only choose to invest in them if a specific deal appears exceptionally attractive, as these cities will generally not be included in residential investment portfolios, especially those with long-term investment horizons.

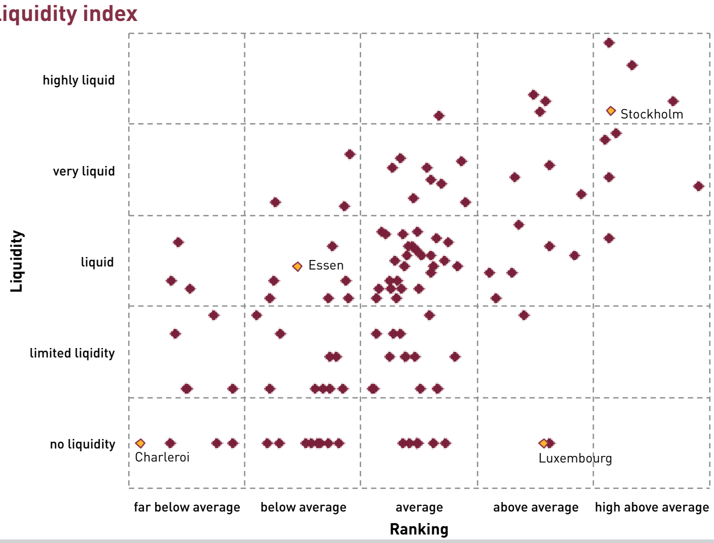
Not surprisingly, the most interesting cities can be found in the fields in-between. Take the city of Luxembourg, for example. Luxembourg is very attractive in a European-wide city comparison but distinctively lacks liquidity when it comes to institutional residential transaction activity. Nevertheless, such a city can offer long-term investors the opportunity to benefit from the development of an institutional residential investment market, as the city will continue to attract businesses and people. This will result in increased housing demand, which will support the development of an institutional multi-family housing market to deal with the housing shortage. Consequently, significant capital growth will compensate early movers for the risks they are taking by investing in such an immature institutional multi-family market. On the other hand, cities like Essen offer a liquid institutional investment market, enabling active portfolio management strategies for optimising the IRR of a given investment, as such cities are generally not suitable for a long-term hold investment.

Indicators used in the PATRIZIA European City Ranking



Indicators used in the PATRIZIA European City Ranking

PATRIZIA European city ranking combined with residential market liquidity index



Source: PATRIZIA, RCA