Article Title: ARCHIVE | Criteria | Corporates | Industrials: Country-Specific Ratings Considerations for European Real Estate Data: The diversity of legal, fiscal, and cultural systems in Europe presents its own challenge when rating real estate companies, as table 1 clearly shows. That said, it is necessary to look beyond common criteria to achieve rating consistency across the various countries that make up the EU. This article highlights the key factors that influence Standard & Poor's ratings in the different European real estate markets. It also incorporates a comprehensive analysis of the leading companies, rated and not rated, to provide the complete picture of business and financial performance in this sector (see tables 2, 3, and 4.) Commercial Property Characteristics Across Europe Country Portugal Belgium Finland France Germany Netherlands Ireland Italy U.K. Spain Sweden Valuation of investment properties Historical cost less depreciation/independent valuation Market value Historical cost and ad-hoc independent/ internal revaluation Historical cost and independent valuation Historical cost less depreciation Independent valuation Independent valuation Historical cost less depreciation Independent valuation Historical cost and independent valuation Historical cost and ad-hoc independent/ internal revaluation Basis of valuation Gross N.A. N.A. Gross Gross Net Net, open market value Gross Net, open market value Gross, open market value Discounted rental flows Revaluation of investment properties Ad-hoc Yes Ad-hoc Annual Downward adjustments only Annual Minimum every three years No Annual/half-yearly No. Ad-hoc. Annual depreciation of investment properties Yes (2%) No Yes (1%) Yes (2.5%-4.0%) Yes No No Yes (1.5%) No. Yes (2%) Yes (2% for offices) Tax efficient vehicle for property investment N.A. Sicafi No No Closed-ended funds Tax-exempt funds Yes No Limited partnership. Real estate unit trust No Lease structure Min. 5 yrs, tenant's notice 90 days, landlord's notice of one year Three, six or nine yrs with mutual option to extend every three years N.A. Three, six, nine or 12 years. Tenants have option to terminate or extend every three years Up to 10 years Five years, tenants option to extend for another five years 15-25 years Six years. Tenants have option to extend for another six years 15-25 years Three, five or 10 years Three-to-five years Rent revision Rent linked to inflation under pre-1995 law Indexation N.A. Annual adjustments for indexation, minimum rent clauses, or as agreed By contract, turnover rent, and indexation Annual adjustment to the consumer price index (CPI) Every five years, upward-only Annual adjustment of 75% of the consumer price index (CPI) Every five years, upward-only Indexation Indexation or turnover rents Terms of leases N.A. Structural repair only for the landlord N.A. Structural maintenance only for the landlord N.A. Maintenance and insurance for the landlord Fully repairing and insuring Ordinary maintenance only for the tenant Fully repairing and insuring. Some turnover rents for shopping centers Taxes, insurance and fees for communal areas for the landlord Maintenance for the landlord Position of landlord vs. tenant Difficult to evict tenant under Pre-95 law N.A. N.A. Difficult to evict retail tenants Strong N.A. Very strong Very weak, difficult to evict tenant Very strong Relatively weak Strong, although rent regulation for residential property Position of secured creditor N.A. N.A. N.A. Weak, long delays in realising collateral possible Very strong, with land charge N.A. N.A. N.A. Very strong, when creditor holds fixed and floating charge N.A. N.A. Transfer taxation (%) 15-20 N/A 4 4.8 N/A N/A 9 8 4 N/A 1 N/A--Not applicable. N.A.--Not available. Table 2 Key Business and Financial Indicators for European Real Estate Companies in Belgium, Finland, France, and Germany BELGIUM FINLAND FRANCE GERMANY Company Cofinimmo Sponda Compagnie Fonciere Klepierre Societe Fonciere Lyonnaise S.A. Sophia Unibail SA Deutsche Real Estate IVG Holding AG RSE Group* DEC. 31, 1999 BUSINESS INDICATORS Geographical diversity Assets in capital city centre (%) 2 50 30 98 61 79 N.A. N.A. N.A. Assets in capital (%) 77 94 52 98 88 88 N.A. 7 N.A. Assets in home market (%) 100 100 97 100 100 100 100 43 58 SECTOR DIVERSITY Office (%) 91 65 60 40 61 46 55 43 0 Retail (%) 5 26 36 15 8 45 40 2 14 Industrial (%) 3 4 4 0 25 0 0 40 0 Residential (%) 0 0 0 40 0 0 5 3 50 Hotel, leisure, exhibition, and convention centers (%) 0 5 0 0 10 9 0 0 0 Other (including parking and landbank) (%) 1 0 0 5 0 0 0 12 36 Proportion of assets under development (%) 12 Low 10 0 0 13 N.A. 20 N.A. Pre-letting/selling of development properties (%) N.A. N.A. More than 60 N.A. N.A. More than 50 N.A. 50 N.A. Vacancy rate for investment properties (%) 3 1.8 1.6 3 7.8 1.7 N.A. 3 N.A. Average lot size (mil. Eur) 8.8 22.6 23.2 12.1 6 34.4 9.1 N.A. N.A. FINANCIAL INDICATORS Portfolio market valuation (mil. Eur) 876 1,060 1,828 1,700 1,129 4,200 410¶ 3,061 2,320 Secured debt as a proportion of total assets (%) N.A. 12 Low 0 0 10 Less than 35 N.A. 42 Net yield on investment portfolio (%) 7.6 7.4 7.4 4.1 7.0 4.8 N.A. N.A. N.A. Weighted average cost of debt service (%) About 4.5 4.6 5.3 5.3 3.8 5.2 N.A. N.A. N.A. Proportion of debt fixed/capped (%) N.A. N.A. 85 93 76 90 N.A. 40 N.A. Length of fixed/capped period (years) N.A. N.A. 4.8 5.0-6.0 N.A. 4-10 5.0 N.A. N.A. Weighted average debt maturity (years) N.A. 3 About 3.5 8.5 8 More than 3 More than 4 More than 3.5 More than 4 Weighted average lease maturity (years) N.A. More than 3 Less than 3 Less than 3 Less than 3 3.7 N.A. N.A. N.A. Net rental income/gross interest 10.2 6.8 5.5 3.1 5.2 2.9 na 3 N.A. EBITDA/net interest (x) 8.3 3.4 7.1 12.9 4.2 2.6 1.8 2.7 4.1 FFO/net debt (%) 36.6 3.3 14 3.2 11.6 4.7 1.0 4.3 4.3 Net debt/capitalisation (%) 15 53 37 47 68 65 67 71 82 Net debt/portfolio market value (%) 14 48 30 43 39 49 33 52 50 Standard & Poor's long-term corporate credit rating Not rated Not rated Not rated BBB+ BBB+ A- Not rated Not rated Not rated Outlook N/A N/A N/A Negative Stable Stable N/A N/A N/A Business profile Average Average Average Above average Average Above average Average Average Average Financial profile Above average Average Above average Average Average Above average Average Average Average *68% acquired by WCM Beteiligungs und Grundbesitz AG in 2000. ¶Book value. N/A--Not applicable N.A.--Not available. Table 3 Key Business and Financial Indicators for European Real Estate Companies in The Netherlands, Ireland, and the U.K. COUNTRY NETHERLANDS IRELAND U.K. Company Rodamco Continental Europe N.V. Wereldhave N.V. Green Property PLC British Land Co. PLC Capital Shopping Centres PLC Hammerson PLC Land Securities PLC MEPC Ltd. Slough Estates PLC Date of financials Feb. 29, 2000 Dec. 31, 1999 Dec. 31, 1999 March 31, 2000 Dec. 31, 1999 Dec. 31, 1999 March 31, 2000 March 31, 2000 Dec. 31, 1999 BUSINESS INDICATORS GEOGRAPHICAL DIVERSITY Assets in capital city centre (%) 0 N.A. N.A. 45 0 High 50 30 3 Assets in capital (%) 0 1 N.A. 50 0 High 65 30 14 Assets in home market (%) 10 19 49 98 100 73 100 100 81 SECTOR DIVERSITY Office (%) 12 53 27 43 0 41 41 33 20 Retail (%) 86 32 35 46 100 59 48 28 21 Industrial (%) 3 15 38 1 0 0 7 33 54 Residential (%) 0 0 0 0 0 0 0 0 0 Hotel, leisure, exhibition, and convention centers (%) 0 0 0 4 0 0 4 5 0 Other (including parking and landbank) (%) 0 0 0 5 0 0 0 1 7 Proportion of assets under development (%) 7 17 14 5 4 14 5 16 7 Pre-letting/selling of development properties (%) N.A. N.A. Low N.A. 65 High High 74 65 Vacancy rate for investment properties (%) 2.6 6.4 3.5 N.A. 0.4 3.8 1 3 6.5 Average lot size (mil. Eur) 9.8 N.A. 10 N.A. 508 107.6 31.9 49.4 N.A. FINANCIAL INDICATORS Portfolio market valuation (mil. Eur) 3,095 1,595 1,553 11,905 4,810 4,304 12,075 6,740 4,755 Secured debt as a proportion of total assets (%) 17 N.A. 8 6 6 1 12 3 6 Net yield on investment portfolio (%) 5.7 6.6 5.6 6.1 4.2 5.1 6.4 5.9 6.5 Weighted average cost of debt service (%) 4.8 5.5 7.5 7.1 6.4 6.7 9 8.3 7.7 Proportion of debt fixed/capped (%) 83 50 35 89 72 75 N.A. 60 80 Length of fixed/capped period (years) About 2.6 5.9 N.A. N.A. 10 12 18.8 N.A. N.A. Weighted average debt maturity (years) About 3 More than 4 6 18.4 9.9 11 N.A. 7 9.6 Weighted average lease maturity (years) N.A. N.A. About 13.6 10 15 10 12 12.3 About 10 Net rental income/gross interest 6.4 4 2.3 1.4 2.4 2 3.2 1.6 1.7 EBITDA/net interest (x) 8.2 4.2 2.1 1.5 2.5 2 3.5 1.7 1.6 FFO/net debt (%) 9.4 24.5 3.9 2.7 8.5 N.M. 17.1 4.2 5.8 Net debt/capitalisation (%) 47 30 56 71 44 34 39 49 57 Net debt/portfolio market value (%) 41 24 40 56 24 33 19 38 37 Standard & Poor's long-term corporate credit rating Not rated Not rated Not rated Not rated BBB+ Not rated Not rated BBB+ Not rated Outlook N/A N/A N/A N/A Negative N/A N/A Watch Neg N/A Business profile Above average Above average Average Above average Above average Above average Well above average Above average Above average Financial profile Above average Above average Average Average Above average Average Well above average Average Average N.M.--Not meaningful. N/A--Not applicable. N.A.--Not available. Table 4 Key Business and Financial Indicators for European Real Estate Companies in Italy, Spain, and Sweden ITALY SPAIN SWEDEN Company UNIM SpA.* Beni Stabili SpA Inmobilaria Colonial S.A. Metrovacesa S.A. Vallehermoso S.A. AP Fastigheter¶ Drott AB§ Huvudstaden AB Humlegården Fastigheter HB Vasakronan AB DEC. 31, 1999 BUSINESS INDICATORS GEOGRAPHICAL DIVERSITY Assets in capital city centre (%) N.A. N.A. 13 N.A. N.A. 33 42 86 67 32 Assets in capital (%) 67 19 21 N.A. 80 64 57 88 93 57 Assets in home market (%) 100 100 100 100 100 100 96 100 97 100 SECTOR DIVERSITY Office (%) 48 83 48 33 41 76 47 58 61 76 Retail (%) Included in office Included in office 16 40 27 Included in office 9 27 10 7 Industrial (%) 0 3 10 0 2 Included in office 9 0 15 0 Residential (%) 41 8 5 7 19 24 29 0 2 2 Hotel, leisure, exhibition, and convention centers (%) 0 0 0 14 1 0 1 0 0 0 Other (including parking and landbank) (%) 11 6 20 7 10 0 6 15 13 15 Proportion of assets under development (%) N.A. 9 30 24 44 Low Low 1 14 5 Pre-letting/selling of development properties (%) 12 N.A. About 67 80 80 High High N.A. Very high High Vacancy rate for investment properties (%) 12 6.4 4 4 4 4 6 4 0 6 Average lot size (mil. Eur) 10.5 3.9

Small Small Small 9.1 5.6 N.A. 14.7 10.4 FINANCIAL INDICATORS Portfolio market valuation (mil. Eur) 2,636 714 1,518 1,914 2,230 3,460 4,140 847** 530 3,090 Secured debt as a proportion of total assets (%) N.A. 8 N.A. 3 4 18 46 30 34 0 Net yield on investment portfolio (%) 3.1 3 5.9¶¶ 5.5¶¶ 3.6 5.4 6 N.A. 3.7 5.4 Weighted average cost of debt service (%) N.A. N.A. 3.6 4.0 5.4 5.8 5.1 5.1 4.55 6.3 Proportion of debt fixed/capped (%) N.A. N.A. 100 30 46 High High High High High Length of fixed/capped period (years) N.A. N.A. 3.6 Less than 2 N.A. 3 2.1*** 2.8 1.7 2 Weighted average debt maturity (years) N.A. N.A. About 2.8 About 2 2.5-3.0 3 5.2*** 2.5 N.A. 2.5 Weighted average lease maturity (years) 0.5 0.5 3-4 N.A. N.A. 3 About 3 About 4 N.A. 4.0 Net rental income/gross interest 3.6 N.M. 7.9§§ 5§§ 1.9 1.3 1.9 2.6 2.1 2.3 EBITDA/net interest (x) N.M. N.M. 13.5 5.8 5.6 1.2 1.8 2.6 2.1 2.2 FFO/net debt (%) N.M. N.M. 33.3 14.7 11.1 N.A. 3.9 10.6 2.2 6.2 Net debt/capitalisation (%) Net cash Net cash 17 46 43 87 78 52 71 57 Net debt/portfolio market value (%) Net cash Net cash 8 22 20 71 62 N.A. 64 37 Standard & Poor's long-term corporate credit rating Not rated Not rated Not rated Not rated Not rated BBB+ Not rated Not rated A- BBB+ Outlook N/A N/A N/A N/A N/A Stable N/A N/A Stable Negative Business profile Above average Average Below average Below average Below average Average Average Average N.M. Average Financial profile Above average Above average Above average Average Average Moderate Average Average N.M. Average *Acquired by Milano Centrale SpA in 2000. ¶Includes figures for Anders Diös AB. §Includes figures for Fastighets AB Balder. **Book value. ¶¶Gross yield. §§Gross interest. ***Figures from interim report 2000. N.M.--Not meaningful. N/A--Not applicable. N.A.--Not available. Examining the issues surrounding credit quality across individual real estate markets in Europe reveals the following: France The salient factors of this market are: A lengthy approval process slows new developments. A Paris office property market that is relatively liquid. French laws that can make it difficult to evict a residential tenant. French commercial property leases are traditionally of three, six, nine, or 12 years' maturity, with open market review and a tenant's option to terminate the contract without penalty every three years. However, recent leases for prime commercial Parisian property offer no break option before six or nine years. The landlord is liable for large maintenance costs such as exterior renovations, while the tenant is generally liable for internal repairs. The construction of new commercial property in France is strictly regulated and permission to construct a new building can take a relatively long time (up to several years in the case of large retail or office projects). In 1996, the minimum surface threshold for new retail developments above which a special permit is required was lowered to 300 square meters (328 square yards), slowing the process of midsize retail property construction. Residential lease rentals are linked to the French cost of construction index. A residential tenant has the right to terminate a lease contract on short notice (one to six months). The landlord is liable for large maintenance costs such a renovation to the façade every 14 years and roofing repairs. Residential tenants are well protected by law, and a nonpaying tenant is difficult to evict. Consequently, operators of residential property perform rigorous reference-tests before accepting a new tenant. The commercial property market in France is concentrated in the Paris region, which boasts the largest European office property market by surface (more than 30 million square meters). Property transfer taxes in France were reduced to 4.8% from 18.6% in 1998, which has had a positive impact on the market's liquidity. Commercial property rents have been rising since 1997, and are likely to rise further. There is a shortage of office buildings with large floor plans (more than 5,000 square meters), and the long approval process means that the pipeline for new buildings up to the year 2003 is limited. The office vacancy rate in the Paris region is about 4%, and even lower in hot spots such as the central business district and La Défense, just west of Paris. Germany Germany is characterized by the following attributes: A legal charge on commercial property provides good protection and a speedy realization of collateral. A listed property sector that is still in its infancy. The duration of a standard German commercial lease is up to 10 years, with somewhat longer leases on property such as hotels and cinemas. Rates are fixed, turnover- or index-linked. A creditor with security on commercial property is well protected and has the means to quickly realize the debt's security and repayment. Residential leases normally are made at fixed rates, with a tenant's option to terminate within three to six months. Owner occupation is the norm in the commercial sector, although tax laws soon to be introduced should allow the disposal (or sale and lease-back) of properties without triggering excessive capital-gains-tax liabilities. Listed companies concerned with the efficient use of capital are expected to take advantage of the change in the law. Home ownership is relatively low in Germany, owing to historic restrictions on residential rents and a sufficient supply of cheap rental property. The German property investment industry is dominated by open-ended and closed-ended funds and by institutional investors. The existence of listed property investment companies is a fairly new phenomenon in Germany. Ireland Characteristics include: Long leases, with upward-only rent reviews. An overheated property market that could hamper liquidity. Irish commercial property leases feature maturities of 15-35 years, and upward-only rent reviews are carried out every five years. The onus for maintenance and insurance is on the tenant. The Irish economy has grown rapidly over the past decade. Coupled with strict control of planning permission for new construction, this has led to a short supply of buildings, particularly in the Dublin area. Property transfer taxes were recently increased to 9% in an effort to stem fast-rising house prices. This change has had little effect in a rising market, but could well reduce liquidity in a falling market. Italy The property industry has traditionally been heavily regulated, and landlord-tenant law strongly favors the tenant--illustrated by the slow, difficult eviction process in the case of a nonpaying tenant. Furthermore, real estate transfer taxes in Italy are among the highest in Europe. The laws regulating lease contracts have been amended or replaced in recent years. As a result existing leases are regulated by different laws, depending on when the leases were drawn up. Under the new law, parties to both residential and commercial leases are free to establish the initial rental level. Commercial lease rentals are adjusted annually by 75% of the change in the consumer price index (CPI). The duration of commercial leases is six years, with automatic renewal for another six-year period unless either party gives notice of termination. Commercial tenants are entitled to early termination upon payment of a small fee or notice within an agreed period. A tenant involved in the sale of goods or services to the general public (a retailer, hotel, or industrial company, for example) is entitled to an indemnity for the loss of goodwill upon the expiration of a lease, if the landlord refuses to renew it. The duration of a residential lease is three or four years, with automatic renewal for the same period unless either party gives notice of termination. Residential tenants are entitled to terminate the contract for specific reasons on six months' notice. Spain and Portugal Spanish property investment companies tend to be more involved in property development than their European peers. For example, leading companies Vallehermoso S.A., Inmobiliaria Colonial S.A., and Metrovascesa S.A. (all not rated) are also involved to a high degree in home building. The parties to commercial and residential property leases are free to determine most of the terms and conditions. The lease maturity is in general up to five years, with annual index-linked rental adjustments. A commercial lessee may be entitled to compensation upon the expiration of a lease, if the lessor does not renew it. The legal structure in the neighboring Portuguese property market is less rigorous: Portuguese commercial lease law allows the tenant to cancel lease contracts on short notice. Sweden The market is known for the following: Rent regulation for residential property entails low income volatility. Commercial lease contracts are relatively short. It is difficult to raise new share capital. The typical commercial lease is three to five years, with rent linked to the consumer price index. Newly developed buildings and specialized premises can, however, be leased over 10 years. The tenant has few ways of ending a contract early without penalty. The landlord is responsible for external maintenance and other investments. A standard residential lease lasts one year but allows the tenant to terminate the lease with three months' notice. The rent is implicitly regulated; it must not substantially exceed what is charged by the Swedish public housing associations, which dominate the residential market. The landlord pays for external maintenance and other investments--which are in general passed on to the tenant in the form of rent. From a liquidity standpoint, the Swedish property market is small by European standards, yet property transfer-taxes are among the lowest in Europe. The major Swedish property investment companies tend to focus exclusively on the Swedish market and allocate only a small portion of their capital to speculative (that is, not preleased or presold) developments. In the future, leverage may be higher and credit quality weaker owing to the difficulty of issuing share capital (which is expensive because shares are trading at discount-to-net asset value), the attractiveness of share buy-backs, and companies' wish to diversify and increase their asset portfolios in order to gain critical mass. United Kingdom The main traits evident in the U.K. are: Leases that are traditionally drawn up for 15 to 25 years, with upward-only reviews; Laws that are very landlord-friendly; Strongly regulated new developments; and A market that makes it practically impossible to raise new share capital. The U.K. legal framework and lease structure are known for favoring landlords. Lease maturities are generally made for 15 to 25 years, with upward rent reviews every five years. Some property companies are offering shorter and more adaptable leases, however, responding to the need of specific tenants such as IT companies that need flexibility. Because shorter leases inherently carry more risk, they shift the focus of the analysis away from the tenants' credit quality toward the quality of the asset itself. The responsibility for maintenance and insurance lies with the tenant, although this can be varied by contract if the parties agree. A creditor with security on property (fixed and floating charge) has the means to quickly realize the debt's security and repayment. Strict regulation of new construction on greenfield sites and the development of new suburban shopping centers effectively protects the status of existing developments. The U.K. property market is one of the most liquid in Europe, although the transfer tax for transactions above £500,000 was increased to 4% (from ?%) in 2000. The level of home ownership traditionally is high in the U.K., assisted by favorable government policies. Mortgage tax relief, however, was abolished in 2000. Listed U.K. property investment companies are currently trading at a deep discount to net asset value, which makes the issuance of new capital and the search for attractive asset acquisitions difficult. This has led many companies to consider share buy-backs and asset disposals, and to look for investors willing to take the company private--entailing higher leverage and a weaker credit standing.