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Cohen & Steers Calls for Waivers of Pre-emptive Rights in the U.K. and Continental Europe

NEW YORK, March 8, 2011— A new Cohen & Steers whitepaper makes the case for shareholders in the U.K and Continental Europe to vote for waivers of pre-emptive rights, in order to promote broader access to equity capital for real estate companies.

Why Europe Must Open Access to Equity Markets: Executive Summary

In the midst of the financial crisis, Cohen & Steers first made the case that pre-emptive rights in the U.K. and Continental Europe were disadvantageous to shareholders of listed real estate companies (*Financial Times*, August 10, 2009). As one of the largest global investors in real estate securities, the Firm continues to advocate this position, two years into market recovery.

According to Joseph Harvey, President and CIO of Cohen & Steers, pre-emptive rights restrict the ability of a company to act quickly on investment opportunities and issue equity when share prices are attractive—two avenues for management to add value. These limitations, over the long term, can lead to poor capital allocation decisions and ultimately impair shareholder returns. By contrast, U.S. companies can raise equity from an authorized share base without pre-emptive rights, enabling managements to pursue acquisitions, mitigate financing risk and issue shares when valuations are more opportunistic.

In the new March 2011 whitepaper, *Why Europe Must Open Access to Equity Markets*, Mr. Harvey frames the benefits that could be realized through less restrictive pre-emptive rights policies. First, the ability to issue equity capital, free from pre-emptive rights, could lead to higher equity valuations for listed property companies in the U.K. and Continental Europe. More liberal policies could also engender a larger and healthier universe of these companies, while facilitating growth through the securitization of private real estate. According to Mr. Harvey, free access to equity markets could actually lower the cost of equity capital, the price tag of which has long been obscured by pre-emptive rights practices.

After outlining the new issuance practices of various regional markets, Mr. Harvey makes the case that shareholders vote in favor of equity issuance without pre-emptive rights. Supporting this position is Cohen & Steers research on long-term returns, which points to

the significant outperformance of U.S. securities relative to European listed property companies and private market real estate indexes. In summary:

- Over the past 20 years, direct property indexes in the U.K. and U.S. achieved similar total-return performance. Yet listed U.S. REITS significantly outperformed the comparable direct property index, while UK listed property companies underperformed.
- Over the recent bear market and recovery, U.S. REITS significantly outperformed U.K. listed real estate companies.
- U.K. listed real estate companies with pre-emptive rights consistently trade at lower valuations than U.S. companies with more liberal access to equity markets.

The agenda of the Cohen & Steers whitepaper was made clear in an action plan to raise awareness of this issue. Excerpts include the following:

- Shareholders and industry analysts should lobby proxy voting firms and shareholder advocacy groups to change their voting policies on pre-emptive rights.
- Recognizing that pre-emptive rights can be waived through a shareholder vote, shareholders should:
 - 1) begin voting in favor of waiver proposals that allow meaningful share issuances free from pre-emptive rights
 - 2) begin asking managements to propose issuances without pre-emptive rights at their annual general meetings, and
 - 3) propose for annual general meetings, as large individual shareholders or as groups, resolutions to permit issuances without pre-emptive rights.
- Companies should educate their shareholders, advocacy groups and proxy voting firms that the real estate business is a special case and that issuing equity without pre-emptive rights can benefit shareholder value.
- Companies should prepare organizationally to implement these modifications.
- Regulators should consider liberalizing the prospectus registration process to be more like that of the U.S. shelf-registration system, which allows real-time share issuance.

For each of these stakeholders, it is important to understand that the sophistication and efficiency of today's public markets do more to protect shareholders than do the outdated practice of pre-emptive rights. With respect to real estate, public markets can offer a solution to help de-lever the private property sector, as is currently taking place in the U.S. in a significant way. But in order for it to take place in Europe, real estate companies must gain better access to the public market, at a cheaper cost, without pre-emptive rights.

The whitepaper, *Why Europe Must Open Access to Equity Markets* is available at www.cohenandsteers.com. Mr. Harvey's views on pre-emptive rights practices are also discussed in a March 7, 2011 article published in the *Financial Times*.

Risks of investing in real estate securities: Investing in real estate securities are similar to those associated with direct investments in real estate, including falling property values due to increasing vacancies, declining rents resulting from economic, legal, tax, political or technical developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions. No representation or warranty is made as to the efficacy of any particular strategy or fund or the actual returns that may be achieved.

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