FINAL TRANSCRIPT

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**ACC - Your International Real Estate Portfolio: Managing Risk - Unlocking Potential Presented by: ACC International Legal Affairs Committee and Eversheds LLP

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PRESENTATION

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Hi. Welcome to this month's webcast. I'm sorry we had few minutes of delay there. If you have any trouble hearing me or anything please click on my link and let me know. This month's webcast is presented by the Association of Corporate Counsel International Legal Affairs Committee and sponsored by Eversheds LLP.

My name is Kathleen Metzger and I will serve as moderator for today's presentation entitled, "Your Global Real Estate Portfolio: Managing Risk - Unlocking Potential."

Welcome to everyone in the listening audience. Before we get into the subject matter of the program, I have few announcements on behalf of the International Legal Affairs Committee.

This webcast today is one of a series of webcasts provided by our 2004-2005 committee sponsor Eversheds. Eversheds is one of the largest law firms in the world. Together with nine offices in the UK Eversheds has offices in Belgium, Bulgaria, China, Denmark, Italy, France, Hong Kong, Malaysia and Singapore.

Eversheds is full service law firm with more than 2,000 lawyers operating in all disciplines and they have a great deal of experience at helping U.S. businesses in the UK and Europe and are well placed to add real value to businesses with European activities.

We are very grateful and happy to have Eversheds provide a membership with these fine educational programs. These webcasts which are scheduled for this time which is noon Eastern Standard Time the third Thursday of each month.

Upcoming webcasts include a program for December 16th, entitled, "Protecting Sensitive Advice for International Businesses, Limiting Risks of Disclosure in the Corporate Governance and Dispute Deals."

We won't be having a webcast for the month of January but for the month of February specifically February 17th we are planning a webcast which will address issues of attorney/client privilege and the ability of in-house counsel to practice in Europe. So please mark your calendars for December 16th and February 17th.

Many of you attended the Annual Meeting of ACC just last month in Chicago. While the Annual Meeting offers a wide variety of programming, I'm sure there were topics of interest in the International Legal Affairs area that we're not addressed in the meeting.

Now is the time to submit your ideas and programs suggestions for next year's Annual Meeting. The call for ideas for next year's programming is due January 10th and we would like to hear from any of you who have a topic you'd like to have addressed in the international legal area.

You can send your suggestions for programming directly to the Association of Corporate Counsel or you can go to the Executive Committee for the International Legal Affairs Group which is through my link on the screen that you can see or you can connect to my email which is: kamjrb@aol.com.

And the last item of business is our Executive Committee for the International Legal Affairs holds its monthly telephone conference the first Thursday of the month at 11:00 Eastern Standard Time and all committee members are welcome to call in and join us.

Beginning with the February conference call on February 3rd we'll also be presenting a short education program in the legal quickie format that some of you may be familiar with. We will have a speaker presenting on a sustentative relevant topic for approximately 10 minutes followed by a short Q&A. So watch for the announcement in the committee conference call email.

Now turning to the program. I hope you've located the link on the website for the written materials for the program so that you can follow along. You'll also notice that there's a link to my emails that you can post questions to me for the speaker at anytime during the webcast. We will have a question and answer period at the end of the prepared talk but if you have a question that relates to material currently being discussed our speaker has graciously agreed to address them during his presentation. In any case, please send me your questions at any time so we can address them by using the link.

Today's program on real estate will be focused on European real estate matters. Real estate may not be your core business but without it most businesses cannot function. With it come not only enormous costs and significant potential liabilities but also many opportunities to make the real estate work in contributing more effectively to the overall success of the business and the bottom line. Many corporate law departments merely react to risk and opportunity situations. Implementation of a proactive inquiry program however invariably bears fruit.

Our speaker today is Nigel Sharpe from the firm Eversheds where he heads the division of Eversheds Real Estate Practice Group which focuses on services for occupiers of commercial land and buildings. The approach Eversheds has developed in this group brings together all related disciplines from strategic tax planning, construction, environmental, conveyancing and landlord and tenant and to facilitate a joined up approach in both transactional and non-transactional context.

Qualified in 1988 and with a primary office space in Cambridge, Nigel regularly heads cross-disciplined teams advising major corporate occupier organization in relation to both formulation of broad premises strategy and transactional implementation.

I now turn the program over to Nigel.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Hi. Good afternoon. Thank you very much. As you've said this is essentially a session about the increasing trend for real estate counsels across Europe and especially about the strategic groups to managing costs and releasing value to the counsels and models. It's an immensely detailed area and the next half an hour or so can necessarily only give an overview.

First on the accompanying slides as you've heard I'll indicate when I'm moving forward. Just to move on some data throughout the presentation I'll be referring to some pretty significant data and numbers and values and I it worth mentioning to the answer where I refer to a "billion" that's a British billion and it's a U.S. trillion which I understand is 10 to the power of 12. Where I refer to a trillion again it's a British trillion and the U.S. jargon I gather is quintillion which is 10 to the power 18. So there's some pretty big numbers.

By way of introductory comments corporates and public sector bodies across Europe have released some 20 billion pounds worth of real estate assets into the investment market over the last five years.

Real estate outsourcing now accounts for around 15% investment transaction activity. There are a large number of organizations that are "asset rich" and are looking to unlock the value of having real estate.

For instance in the United Kingdom alone local governments retained approximately 110 billion pounds Sterling of real estate a significant part of which is of exceed able rate and could be transferred into the investment market.

Corporates and public sector bodies have shown an increasing willingness to divest non-core property assets for a variety of operation on financial reasons. This has been coupled with the emergence of increasing sophisticated range of investment vehicles and a growing number of investors willing to consider the outsourcing route in order to source quality investment grade product.

It's likely that outsourcing transactions will continue to account for a significant share of the total real estate investment volume across Europe and the growth in these transactions will be dependent on not only market fundamentals but also settle structural issues. As I just said an accounting rule proposal could lead to changes in the type of investment vehicles used to transfer the value of property assets.

The potential introduction of real estate investment trusts into the United Kingdom as well as changes to international accounting standards across Europe could as widely believed significantly alter the attractiveness of outsourcing.

Could you please turn to slide two. There are different sets of drivers that exist for investors and occupiers. The three most important drivers for investors are typically summarized as lack of suitable investment product available in the general investment market, a desire for quick or quicker market entry opportunities but large scale transactions present and covenant security.

If a similar question is asked of corporate and local authorities you receive a different answer. According to research by the real estate firm BT Zed the advantages and disadvantages of outsourcing are perceived by corporates as follows:

They identify the benefits as being essentially twofold.

One. Reducing corporate costs and debt; and secondly releasing capital from real estate assets with which to focus on what identifies core business areas.

Key disadvantages are similar to the barriers deterring firms for engaging in outsourcing activity. Essentially uncertain benefits, corporate resistance, complexity and some structural issues. So to the authorities and utilities the most important benefit of outsourcing is typically releasing capital enabling improved service delivery. This particular driver has been of higher importance recently as new legislation throughout Europe as allowed local authorities to reinvest capital receipts.

Other key advantages include focus on core activity, reducing real estate costs, and key disadvantages again are uncertain benefits, resistance from within the local authority, complexity and reduced flexibility in the longer term.

Count of course the number of other drivers for outsourcing decisions typically they're a combination of economic pressure and poor share performance.

Could you please turn to slide three.

The size of the commercial real estate stock in Europe has to be the starting point for gauging the potential for real estate outsourcing. It is currently estimated that the value of commercial real estate stock across the 20 major counties in Europe is in Pounds Sterling 3.9 trillion.

Of this, approximately 1.2 trillion is held by investors or already invested as opposed to estimative value of 2.5 trillion Pounds Sterling which is of investment grade or investable. The difference of course between investable and invested represents the potential for the release of owner occupied property into the investment market and that in a word is outsourcing.

In terms of the volume of owner occupied stock with a high variance across Europe, Central and Eastern European countries have a higher ratio of owner occupied stock over 90% while Switzerland, the United Kingdom and the Netherlands have the lowest ratios around Europe at around 50%. The overall trend though is for declining owner occupy ratios similar to the U.S. ratio which I think is around 30% at present.

Taking the United Kingdom as one of the smallest owner occupied markets it is perhaps surprising that in Central London more than a quarter of the owner occupied stock has been built in the last five years and more than half of that has been built since the 1990s. It's partly explained I think by the tendency of businesses to want to own their headquarters in prestigious locations as almost "trophy buildings" despite the fact that the reminder of the corporate real estate portfolio may be in lease holds.

Turn please to slide four.

The holding events offering transactions has grown significantly in Europe over the last six or seven years. In 1987 it was estimated at in Pounds Sterling 1.5 billion. By the final core for 2003 it was nudging 10 billion again Pounds Sterling.

By business sector the dominance has been in the utilities public sector, banks and financial institutions and by reference to purchase a nationality the major players have been in the United Kingdom, France, Germany and Sweden. Again, over that same period 1997-2003.

On slide five now I've given some examples of some of the major transactions in relation to corporate.

Looking at them we have the United Kingdom as seeing the outsourcing by British Telecommunications. Similarly in France, France Telecom. Swisscom in Switzerland. Abbey Life Outsource in the United Kingdom. Deutsche Bank in Germany and Telecom Italia in Italy.

Slide six is the major public sector outsourcing transactions in recent years. Again in the United Kingdom we've seen DHSS. Inland Revenue. In Italy the Ministry of Economy and Finance. Deutsche Post in Germany and the Belgium State in Belgium.

Slide seven moves on to consider outsourcing models. There are three legal outsourcing models. Total outsourcing, save and lease back and pure disposal. Of those save and lease back have driven the market in recent years accounting for just under 50% of all outsourcing transactions between 2000-2003. Pure disposals however are becoming increasingly evident as total outsourcing activity diminishes.

Slide eight talked briefly about the advantages and disadvantages of pure disposal.

Pure disposal as a model is akin essentially to a straightforward investment deal allowing an investor to expand its potential investment universe and access the flexibility that is associated with having to relet or develop the asset. Occupiers from that perspective traditionally the disposal as a means of raising capital and focusing their resource what are perceived to be called business areas.

Slide nine lists briefly the equivalent investors sale and leaseback. This model has traditionally offered significant upfront capital payments to an occupier while providing an investment with a tenant on a loan that typically relatively inflexible lease. The investor also faces covenants exposure.

Total outsourcing is highlighted on slide ten. The long term approach is opted in total outsourcing transactions has offered a number of specific advantages both between investors and occupiers. Occupiers have increased certainly with regard to future real estate costs and investors through a perspective of longer partnership have relative stability of income.

On the larger portfolios such as those referred to earlier as being the major examples to date investors have the potential to yield significant returns through selective assets disposals. Active and creative asset management and by utilizing leasehold space that if agreed can be returned by the occupier.

From the occupier perspective total outsourcing deals can offer the potential for profit sharing above agreed levels and by transferring relevant staff to the outsourcing vehicle to control costs further.

Essentially of course, total outsourcing deals are really about the pricing of risk. This risk in many cases refers principally to single tenant exposure and the covenant strength of a business that's in a position where it needs to outsource it's real estate assets to raise capital may possibly be distressed to start with. On the occupied down side the total outsourcing of a real estate portfolio will inevitably reduce the number of options that are available as the business moves forward.

Please turn to slide eleven. Purchase vehicles used to date. In terms of transaction vehicles traditional investments and acquisition structures are widely and are very familiar to the market. There are three essentially.

Joint ventures, limited partnerships and consortium.

The main legal characteristics of each are as follows:

A joint venture displays formal management structure. It facilities an ability whereby the contributors can contribute different specialists knowledges and they each then access to the different specialist contributions. It also acts as a useful buffer and a visible intermediary between vendor and investor.

The limited partnership again widely understood and used in the market offers tax transparency for the contributors. It affords limited liability saving respect to what's know as the general partner for those contributing as partners widely used these days. Flexible in its management structure and comparatively easy to create and administer.

Consortium arrangements again offer flexible partnership arrangements typically facilitate access to a much wider range of capital sources that individual contributors would be able to source themselves and is regularly the most used vehicle in total outsourcing transactions.

Just a word here on different asset class. Offices to date accounted for the most significant real estate outsourcing activity. Since 1997-98 nearly 40% of all outsourcing activities involved offices and they continue to be the most important asset class particularly considering that mixed portfolios of course will always have a strong share of offices. After offices it's retail and industrial in that order.

Slide twelve offers some comments on outsourcing potential. Vast levels of market research have indicated the disparity between investor and occupier expectations in terms of the future prominence of outsourcing models.

Investors give the lowest waiting to pure disposal yet it's this area of corporate and local authorities identify having the highest growth potential over the next three to five years through to 2008, 2009. Local authorities also have a far more positive view of the likely growth in outsourcing activity from that perspective.

The potential for outsourcing is estimated presently to be just 24 billion Pounds Sterling through to 2007. Again the 20 top named countries in Europe. Germany offers the largest outsourcing potential with more than a fifth of that volume followed by France and Italy and the UK comes in at fourth offering about 10% of the assumed total outsourcing potential.

In terms of business sector, retailing leads out representing the highest opportunities across all the top European corporates and almost 25% of the total potential. Following that is financial services and general government.

Outsourcing potential of course does vary between business sector depending on the quality of stock held from time to time by business sector. In terms of investors preferred routes of entry and means of finance 70% or so of investors continue to target the direct acquisition of outsourced real estate. Financing - traditional debt financing, asset securitization account for over half of the responses.

Slide thirteen the next slide identifies some of the structural considerations and I would like to talk briefly about those broad structural issues. There are a number of vehicles relevant to outsourcing transactions and the most prominent of these are real estate investment trusts or REITs, joint ventures and pooled investment vehicles.

Although REIT vehicles are present in a number of European Union markets for example, France, Belgium, and the Netherlands they do not yet exist in the United Kingdom. The launch of REIT in the United Kingdom is currently under debate but they're unlikely to be introduced before 2005 at the earliest.

The aim of REITs is to free funding for commercial and residential property by unlocking barriers for smaller investors and institutions, to boost housing by creating a vehicle that save as better management of commercial and residential property and to increase flexibility in the property market with (inaudible) liquidity in returns.

It is currently quite a liquid market. It's widely believed that REIT could easily be tradable providing investment vehicles which are attractive unless building a much bigger market in which to share. Greater investor interest could bring an easier flow of terms leading to more competitive finance for development and investments. REITs offer opportunities for floating a variety of assets beyond mainstream investment rate profiteers.

It might just be worth in passing mentioning that the U.S. REITs the breakdown of asset class in these structures is broadly as follows:

Industrial office is the major asset class, just under 30% followed closely behind with retail moving down to residential with about 16% of REIT asset class and then some of the smaller contributors being self-storage and healthcare. Whether we'll see that similar breakdown in the UK I don't know.

Considering briefly joint ventures one way for an occupier to benefit from the value of its property is through the establishment of a joint venture with an investor. The occupier invests its value as tenants of course. The value illustrated while changing the valuation yield on a re-letting. As the change in the valuation of the building represents effectively the occupied equity stage on the multius level of non-core free debt is taken it's possible to retain a majority interest in the underlying property.

The tenant's liability would also be reduced as once the income distribution is taken into account the net payable range by the occupier would invariably significantly below at that it would be in a simple leasehold transaction. The occupier would of course also to the joint venture structuring benefit from future capital growth in the property.

The third most common structure is the pool investment vehicle. The creation of a pooled investment vehicle allows investors to access the performance of a wider range of investment grade assets.

I'd like to talk briefly about something that's going to have major significance in 2005 across Europe by reference to international accounting standards. They are being produced as of 2005 for all listed companies in Europe and it will have an implication in terms of how leasehold and freehold property is reported on corporate balance sheets.

One major distinction in this respect relates to finance and operational leases. A finance lease is a lease that transfers substantially all the risks and rewards (inaudible) ownership and asset to the lessee. Title may or may not eventually be transferred. Under the finance lease the rental over the lease term covers virtually all the costs of the assets and that will typically value of the rental is equal to or greater than 90 or 95% of the cost of the assets.

An operating lease by distinction is any other lease other than a finance lease. The lease will not run for the full life of the asset and the lessee will not be liable for its full value. The lessor or the original manufacturer or supplier will assume and take that residual risk. This type of lease though will normally only be used when the asset has probably resale value of quality. Typically aircraft or vehicles.

Accounting leases under international accounting standards will mean that finance leases will be recorded on the balance sheet and assets the value of which will be determined by the market value of the lease at the current time and as a liability based of course on the liability of the lease is contracted. Therefore the potential for the leases to be shorter than particularly in those markets where longer leases are the trend. For instance, the United Kingdom (inaudible) so as to ensure that they are considering operating leases but not finance leases. As a result of this strategies to move property off balance sheet to save the leaseback may fail to achieve the strategy to improve the company financials but will still achieve business goals such as releasing capital which may be directed to other business areas.

The market it is noticing will then readjust the relative attractiveness of sale and leaseback. Investors may adjust prices in order to affect the increased risk that they will need to assume if tenants unwilling to accept longer lease terms.

I'd like to close by moving to slide fourteen and just offer a few concluding comments pulling together what we've discussed.

From the occupier perspective firstly real estate is a major source of costs for occupiers as well as an important source of potential value. So far most outsourcing activity has followed poor corporate performance of certain (inaudible) utilities that I referred to earlier as being the major transactions across Europe or other pressures such as high debt and most of the corporate examples as I indicated earlier as being the major transactions were the problem with high debt pre-outsourcing.

In a way you might say that implies that occupiers have been reactive rather than proactive in choosing outsource methods. As a result of this most occupiers have been under pressure to act quickly rather than necessarily moving toward the strategic role. In terms of the potential for outsourcing there are also a number of structural changes in the pipeline which will have implications for occupiers in terms of outsourcing.

Amongst those the new international accounting standards that I mentioned are likely to decrease relative attractiveness to save the leasebacks at least in the short to medium term. This is due to the fact of course that finance leases will be recorded on balance sheets and assets and as such getting property off balance sheet will require shorter term leases.

Real estate investment trusts likely to be introduced in the UK in the relatively short term in contrast or it seems to have a positive impact on financials and activity by increasing the ability of occupiers to outsource their portfolios not purely based on the quality of stock but on their covenance grants and risk profile.

From the investor perspective the limited availability with investment grade product has been the main area of interest driving outsource activity. The level of owner occupation of commercial real estate across Europe compared to the United States is still high although it has been coming down.

Looking at the scale of real estate portfolios held by corporates in the public sector across Europe there is enormous potential for investors to source their investment product to outsourcing as part of the trend for decreasing owner occupation ratios.

I'll summarize but a few words on outsourcing potential. It is estimated that approximately 24 billion Pounds Sterling through to 2007, Germany, France, Italy and the United Kingdom account for just under two-thirds of that amount. Countries including Denmark, Netherlands, Austria, Belgium and Switzerland are also attractive given the general environment they offer for real estate investors.

That brings me to the end of the material I wanted to present this afternoon although something inevitably (inaudible) stop at all. I hope you found it broadly informative. It's an area that promises high levels of activity and high stakes in the coming years and fertile ground for not only real estate laws but tax laws and those involved in FM and (inaudible) resources.

I'm happy to answer for you any questions.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Well thank you Nigel. You presented us a lot of material in a very short space of time here and I'm standing by here and some questions here from the audience but meanwhile could I draw your attention back to our slide five and six Nigel?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Yes.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

And where you were talking about some examples of some major transactions here do you think you could give us some idea on the scale and the values of some of those transactions?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Yes surely. If you whiz back to slide five I can mix by data sheets. The British Telecommunications outsourcing in the UK was 2.3 billion Pounds Sterling. France Telecom was just under 1.5 billion. Swisscom was 520 million. Abbey Life in the UK 481. Deutsche Bank just over 700 million and Telecom Italia 1.2 billion.

The public sector transactions the DHSS in the UK over 250 million. Inland Revenue over 200 million. Italy, the Ministry of Economy and Finance approaching 200 million. Deutsche Post in Germany 100 million and the Belgian State 44 million. So these really are areas where you playing for the highest levels of value.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Great. I'm looking for some more questions from our audience here who are standing by but meanwhile I'd like if you could comment some more. You had talked a lot of talk about introduction of REIT into the UK of these real estate investment trusts and you mentioned it today. Can you comment further on the current position in the UK on introducing these types of vehicles?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Yes willingly. Earlier this year following literally years of lobbying from the property industry the government launched a consultation on introducing the UK version of the REIT. There have been wide spread resistance in the early years about lobbying from the UK treasury fearing that however introduced they would suffer enormous loss of tax revenues and really it was the fear of that loss of tax revenue and the strength of the position taken by the treasury that operated the blocker for many years.

The treasury here has now changed its stance and really the housing divisions within the treasury have recommended that there is merits in the government considering a vehicle to encourage increased institutional investment into the UK housing market. That has been the trigger for the treasury attitude.

I think more broadly that the UK is being somehow left behind. There are some exceptions but the REIT type vehicle seems to have worked well elsewhere and I say I do think this fear element driving this and although the more tax efficient vehicle appears initially to reduce the governments tax state the main fact resulting in an increase in tax over time. If what it does is present vast tracks of UK property being moved and end offshore. The latest guesstimate here is that we will have some legislation governing the introduction of REIT type vehicle towards the middle or backend of 2005.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Okay. I noticed here in your slide that your talking that its present in France, Belgium, and Netherlands. Can you give me an idea on how long that vehicle has been present in those particular countries?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

The reasonably infant vehicles several years. They're all in the last five years.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Okay. Has it been successful there or did they run up to the same kinds of roadblocks or just seen in the UK?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

I don't know enough about the background for the introduction in those jurisdictions. They're widely used though in investment activity and the increased usage increases the flexibility so I'm unaware of any market problems with the use of the REIT vehicle in those jurisdictions. The background in terms of the initial lobbying and introduction might have been I don't know I'm afraid.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Okay. I thought I would ask about that. In looking for some questions from the audience there's a link on your screen if you click on that it will go directly into my email or my email address is kamjrb@aol.com.

We've got Nigel with us here today and has a background in European real estate area and I'm sure all of you - companies around the phone here certainly have properties in Europe and are considering some new strategies perhaps.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

A point worth making on people is if they have any further questions is that generally speaking the comment I made towards the end of my presentation is that so much of the activity to date has been driven on a reactive basis by pressures from shareholders for improved shareholder return, improved performance delivery rather than using the outsourcing at the outset as a way of identifying a strategic objective to be achieved in terms of releasing value and making the properties wet. There's no need at all for this to be merely a reactive environment.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

I agree with you. I have in my own practice seen many situations where I was suppose to react where they were trying to clean up the fact that we have properties that we could do some more things with and we should maybe thought about that on the way through but I think you're absolutely right and it certainly is in the description of the program as said that people have not thought of it as an active strategy increasing the bottom line is profitability to their company.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

In the examples of transactions we talked about earlier both corporate and public sector slides five and six, I think it possibly goes too far to say that they were all distressed situations but certainly the ones that have taken place in the United Kingdom with which I have great familiarity they were pressured disposals. The pressure for shareholder return. The pressures for service delivery in the public sector transaction were quite immense as drivers in those transactions. The public sector ones were also immensely debt laden.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

I was wondering Nigel if you're comfortable talking a little more about the change in the international accounting standards. I know that that's making definite changes here and reviewing once again for us the differences between the finance and the operating lease?

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Yes surely. It's an extremely technical area but essentially the finance lease transfers all the risk and reward incident to ownership and asset to the tenants and the lessee. All the risk goes across. Typically one the leases and title or title to the asset may or may not ultimately transfer across. Typically it does but the rental structure covers all the costs of the asset. The tenant underwrites - the lessee underwrites the cost of the asset and typically the value of the rental over the lease period is not less than 90% and typically to approaching near 100% of the cost of the assets.

The part valid definition for one moment anything that doesn't have those hallmarked is what we call an operating lease under international accounting standards. Leases that are typically for shorter periods. The asset probably outstrips the life of the lease and the lessee or the structural ingredient is not liable for the full value of the cost of the provision of the asset. The residual risk is taken by the lessor.

Now under international accounting standards which will apply to all listed companies in 2005 a finance lease i.e., the longer lease where the lessee is underwriting the value of the asset will have to be recorded on the balance sheet of the corporate as an asset and as a liability. It will be visible and it will be there and it may well have - provide a coloring to the way in which corporate accounts are understood and accepted and regarded by the viewing public.

So the assumption is that people will want to see more and more of the leasehold arrangements as operating leases because they will be off balance sheet and so the brief discussion that I lead ten minutes or so ago speculates some of the market movements that may happen as we see that shift occurring - if indeed it does occur once the international accounting standards are introduced. Does that help?

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Oh I think so. I think so. Certainly a lot of us are not accountants but I think it's a good things to keep in mind when advising our clients in that area.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

If you wanted to take away anything from this on that point, I think the point to watch is that there is widespread intelligence speculation that would like to see leases of shorter length and that will cause market adjustment in those European markets where we are familiar at the moment with leases of longer areas because they'll want to ensure they considered it operating and not finance.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Well great Nigel. I don't have any further questions myself on your presentation--

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Keep access to my email address because I'm very happy if following this anybody wanted to email me and I'll do my very best to respond directly to any specific queries.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Okay, why don't you go ahead and provide that.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Okay it's nigelsharpe@eversheds.com.

Kathleen Metzger - *Association of Corporate Counsel - Secretary*

Great. Well in conclusion of today's program I want to thank Nigel and the Eversheds law firm for bringing us this program today. I also want to note that later today in approximately an hour or so this webcast will be available for replay and will be on the website - I'm not sure for how long but you can always access the ACC website and listen to the broadcast again as you can for ones that we've done in the past and I want to thank everyone for their participation today and hope this program has been helpful to you and your practice. If you have any immediate feedback or programming ideas for our coming year we're soliciting them right now.

Please feel free to email me by either setting the link that you see on your screen or at kamjrb@aol.com. And I thank everyone and good bye.

Nigel Sharpe - *Eversheds LLP - Head of Division of Real Estate Practice Group*

Good bye.