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## PRESS RELEASE

### European real estate stocks could attract EUR 75 billion in capital inflows after elevation to a stand-alone GICS equity sector

**Paris, September 7, 2016:** Listed real estate's debut on September 1 as a stand-alone sector in benchmark global equity indices could attract an estimated additional EUR 75 billion of investment inflows into European property stocks alone in coming years, research from the European Public Real Estate Association (EPRA) concludes.

At the start of this month real estate became the 11<sup>th</sup> industry sector in the Global Industry Classification Standard (GICS) for equity indices, which is the reference for stock indices compiled by MSCI and S&P (*Table 1*). This is the first new sector introduced since the creation of GICS in 1999 and results from real estate being extracted from its previous position within financial stocks, which should result in much lower levels of volatility, or risk, for investors and also highlight the positive dividend income yields that REIT structures provide (*Table 2*).

**Philip Charls, EPRA CEO, said:** "Global listed real estate has come of age. The attractive investment credentials of these companies should be clear to all equities investors, now that they are no longer included in the large financial services sector with its higher overall volatility. A stand-alone real estate sector is recognition that listed property companies are an important investment sector in their own right, standing shoulder to shoulder with telecommunication services, healthcare and other mainstream industries. It underpins what EPRA research has highlighted for years: the inclusion of real estate stocks in a portfolio means that over the medium term investors can access the returns of the direct property market with the added advantages of much greater liquidity and lower costs."

Philip Charls was speaking at EPRA's Annual Conference in Paris on Wednesday, at which Consilia Capital Managing Director Alex Moss, who is the Chairman of EPRA's Research Committee, presented a research paper exploring this topic.

Elevation to a stand-alone sector in GICS for equity indices follows a tripling in real estate's share of the global equities market to 3.5% currently, from 1.1% at the trough of the market cycle in 2009. A combination of equity fund raising and strong investment performance has powered a surge in the free float market capitalisation of the FTSE EPRA/NAREIT Global Developed Index to USD 1.48 trillion from USD 508 billion during the same period.

The growth in the global listed real estate market is due largely to the expansion of tax-efficient real estate investment trust (REIT) regimes, which now make up 70% of the Global Developed Market Index. REITs distribute most of their rental income cash flows as dividends, so gaining favour with investors seeking income and capital value growth in the prevailing low interest rate environment.

The current average dividend yield of the FTSE EPRA/NAREIT Global REITs Index is 3.67% compared with 3.43% for the MSCI World/Financials Index.

One of the reasons for removing real estate from the GICS Financials sector (the largest of the 10 industry sectors with a 20.25% weighting under the former treatment) was the low correlation in the performance of property stocks relative to other equities classified as

Financials, such as banks. This is supported by the relative volatility of listed real estate and financial stock indices. The 10-year volatility of the FTSE EPRA/NAREIT Developed Europe Index is 19.4%, whereas for MSCI Europe/Financials it is 29.52% for the same period. Changing the listed property sector's status should therefore reduce volatility to levels that are closer to that of the underlying direct property.

The volatility of listed securities has been the main reason referred to by European institutional investors for why they do not allocate to listed property. The decoupling from Financials is expected to improve the risk-profile of REITs and start attracting new allocations.

The potential for these additional investment capital flows is enormous, even though attracting the money would be a gradual process. Roughly half of European institutional real estate investors, with EUR 3.0 trillion in total assets under management, do not currently invest in listed securities. If their allocation was to match that of their European peers who do invest in property stocks, at roughly 2.5% of AUM, then the listed sector would gain EUR 75 billion worth of additional investment going forward.

**Alex Moss, Chairman of the EPRA Research Committee**, concluded: "The GICS move is likely to be replicated by other major equity indices providers, given the momentum of growth in the global listed real estate sector. We are witnessing the increasing maturity of real estate as an asset class with the listed property sector becoming a credible and sizeable complement to fixed income and general equity investments."

### 1) MSCI ACWI Index - Sectors

	Pre Sep 1	Post Sep 1
Consumer Discretionary	12.29%	12.29%
Consumer Staples	10.45%	10.45%
Energy	6.75%	6.75%
Financials	20.25%	16.85%
Health Care	11.87%	11.87%
Industrials	10.49%	10.49%
Information Technology	15.67%	15.67%
Materials	5.11%	5.11%
Real Estate	-	3.40%
Telecommunication Services	3.81%	3.81%
Utilities	3.32%	3.32%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

### 2) MSCI ACWI Financials Index - Industry Groups

	Pre Sep 1	Post Sep 1
Banks	9.29%	9.29%
Diversified Financials	3.74%	3.79%
Insurance	3.78%	3.78%
Real Estate	3.44%	-
<b>Total</b>	<b>20.25%</b>	<b>16.85%</b>

## **About EPRA**

The European Public Real Estate Association is the voice of the publicly traded European real estate sector. With more than 220 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 365 billion of real estate assets and 93% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index. Through the provision of better information to investors, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe.