EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

PRESS RELEASE

Madrid, 11 September 2019

Suboptimal asset allocation leaves European investors exposed to subpar returns – Oxford Economics

- **Oxford Economics study finds "reassessment of strategic allocations to listed real estate justified"**

Asset allocation and portfolio construction amongst generalist investors in Europe has been found to be suboptimal, with underweight positions in listed real estate meaning investors are failing to maximise returns on their savings, according to a new Oxford Economics study.

The *Listed Real Estate in a Multi-Asset Portfolio: A European Perspective* report, which was conducted in partnership with the European Public Real Estate Association (EPRA), examines the risk-adjusted returns of model portfolios with differing levels of listed real estate exposure. It found that, on average, no portfolio was optimally constructed without exposure to this typically underrepresented asset class.

The proportion of listed real estate in an optimally constructed portfolio varies depending on risk appetite and time horizon. Analysing portfolio performance over the recent past, the allocation to listed real estate can be as much as 10% even for a cautious investor,, while an adventurous investor's allocation to the asset class could be as high as 25%, on average (pg. 17). In Europe, investor exposure to real estate is typically no more than 3%-5% (with the majority of holdings being direct).

One of the reasons for low exposure to listed real estate in Europe is that the asset class has traditionally been considered a subgroup of general equities, because shares are publicly listed and traded, leading people to believe that its performance is closely correlated with general equities. As a result, investors tend to favour direct investment in real estate to diversify their portfolios. However, this report finds that the correlation of listed real estate to equities is only "moderate", albeit dynamic and dependent on levels of stress in financial markets. This is consistent with the findings of other empirical studies that the performance of listed real estate is comparable to direct real estate holdings over the mid- to long-term (pgs. 10-11).

Dominique Moerenhout, CEO of EPRA, said: "One of the greatest puzzles for all investors is maximising returns while mitigating risk, and this has never been more important. Europe is about to face a pensions crisis due to an ageing population, while markets such as the UK are seeing often unsustainably small contributions to pensions through defined benefit schemes as well as limited use of insurance and investment products. Something has to change.

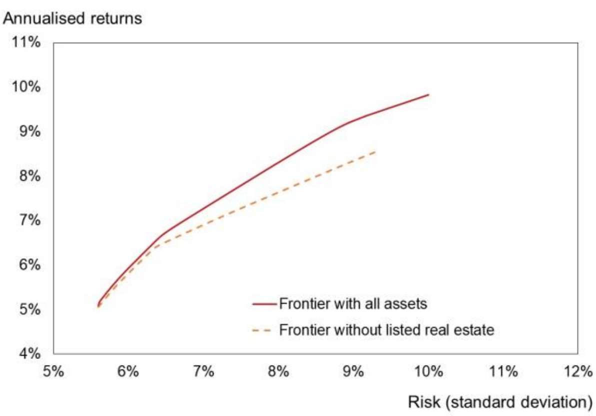
"There are significant pension funding gaps, and it is clear now that a sensible amount of exposure to listed real estate in any circumstance is beneficial to returns while diversifying portfolios and mitigating risk in the long-term. These findings provide further evidence for our outreach towards the European investment and pensions industries."

Lloyd Barton, Associate Director, Oxford Economics, said: "The European listed real estate market has expanded rapidly in terms of size and diversity in recent years, but this study shows that investors in the region are failing to keep pace with the opportunities on offer. Our findings demonstrate that listed real estate should be viewed as a valuable component of an investment portfolio, helping individuals to generate the best returns from their savings so they can achieve their long-term financial goals."

Model portfolios

In order to provide a rigorous test of whether listed real estate deserves a consistent place in investor portfolios, an 'efficient frontier' was created that maximises returns at varying risk levels through different combinations of asset classes. The figure below (pg. 14) illustrates the results of this analysis. As the efficient frontier for a portfolio including listed real estate lies above the portfolio without listed real estate at all available levels of risk, it can be concluded that an allocation to listed real estate would have consistently enhanced the performance of the portfolio.

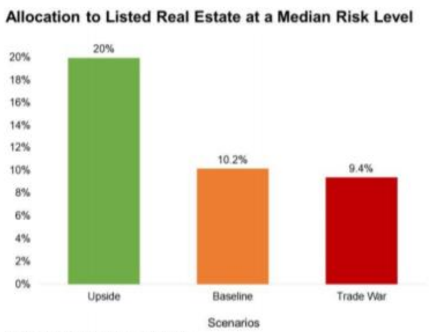
Efficient Frontier (Jan 2010 - May 2019)



Source: Oxford Economics calculations

As a further test of the validity of the findings, portfolio performance was also modelled under a range of scenarios for the future path of the global economy. Testing concluded that, even in uncertain times, such as a US-China trade war, optimal allocations to listed real estate remain near 10% (pg. 18). This pessimistic scenario assumes a further escalation of trade policy tensions, including tariff impositions affecting Europe, Mexico and China, slowing global growth and causing a fall in equity values worldwide and a slump in commodity prices.

Table: Optimal allocations in alternative scenarios for the next decade



Source : Oxford Economics calculations

- ENDS -

About EPRA

The European Public Real Estate Association is the voice of the publicly traded European real estate sector. With more than 275 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 450 billion of real estate assets* and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index. EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

**European companies only*

For more information please contact:
Henry Adams : +44 (0)208-618-2975 / +44-(0)7725-192-067, henry.adams@fhflondon.co.uk

Kate Durrans: +44-(0)203-451-9139 / +44 (0) 7860-607-730, kate.durrans@fhflondon.co.uk