EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

EPRA Magazine

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Forging ahead

Navigating the path to a brave new world

Highlights

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As of July 2024

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Swiss Prime Site
University of Geneva
Züblin Immobilien Holding

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Aldar
Peninsula REH
Tecom Investments

UKRAINE
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UNITED KINGDOM
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AEW Europe
Alternative Income REIT
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Balanced Commercial Property Trust
Bank of America Merryl Lynch
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Harworth Group
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ICAMAP
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Picton Property Income
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Regional REIT
ReSi
Safestore
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SEGRO
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Supermarket Income REIT
Target Healthcare REIT
Town Centre Securities
Triple Point Social Housing REIT
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Unite Group
University of Cambridge Dept. of Land Economy
University of Reading. Centre for Real Estate Research. School of Business
University of Ulster
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Warehouse REIT
Wellington
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Bloomberg
CenterSquare Investment Management
Cohen & Steers Capital Management Inc
Co-star
Duff & Phelps Investment Management Co.
EV Williams Centre for real estate
Fidelity Management and Research Company
Green Street
Iron Mountain
Neuberger Berman Group LLC
Prologis
Realty Income
Virginia Tech University
Welltower
WP Carey
Zell/Lurie Real Estate Center at Wharton

Working with and for our members

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax.

They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

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

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

A Brave New World for Real Estate

Dominique Moerenhout, EPRA CEO

We are excited to bring you the 2024 edition of the EPRA Magazine. This year's conference theme, "*A brave new world*," marks our 25th anniversary and reflects the evolution within our industry.

The past year has been a further proof of resilience and adaptability of the listed real estate sector in Europe amidst different challenges, including an unprecedented year of elections around the world, geopolitical uncertainties, inflationary and interest rates fluctuations, and some sector consolidation. Despite these adversities, we demonstrated robust operational performance and we continue to navigate the complexities of the capital markets with agility.

In 2024, EPRA has achieved significant milestones. To name but a few, we triggered an ambitious outreach plan targeting generalist investors across Europe. We successfully advocated to implement more attractive conditions for insurers who invest in equities, within the Solvency II framework. The fourth edition of our sBPR Guidelines was launched, which help companies manage the reporting complexities mandated by the European Sustainability Reporting Standards (ESRS) - this initiative is part of our broader commitment to enhancing transparency and sustainability within the industry. Our partnership with the CRREM initiative led to the release of the Green Governance Report, which outlines feasible Net-Zero Transition Plans for the real estate sector.

We are most proud of extending strategic partnerships and forming new ones to forge opportunities for our members and for the industry: the long-standing partnership with FTSE Russell and Nareit ensures continuity to delivering value to the sector through the FEN Index Series. Additionally, EPRA strengthened its ties on crucial tax files with the OECD on behalf of our members. By adhering to Business at OECD (BIAC) we are contributing our expertise on the policy work to a global network.

We continue our tradition of recognizing excellence within the industry: congratulations to the winners of this year's BPR and sBPR awards, especially those receiving their first awards. The increased participation underscores the growing importance of these metrics and the transparency they bring.

Looking ahead, we are excited to announce two initiatives for the remainder of 2024: the ongoing edition of our joint education programme with Bayes Business School and our Sustainability Summit in London. These both are designed to foster knowledge sharing and collaboration within our community.

Lastly, we extend a warm welcome to our latest members. Please turn to page 58 to learn more about them. We wish you a fruitful EPRA Conference 2024 and encourage you to save the date for our next year edition, scheduled to be in Stockholm from 16 to 18 September 2025.•

IN THIS ISSUE

AI Shapes Growth Ambitions for MERLIN Properties and SEGRO

Through Data Centre Developments

As the lead for the data centre strategy at SEGRO, owner of Europe's largest hub for these assets, Andrew Pilsworth is at pains to avoid being swept up by the excitement surrounding artificial intelligence (AI), which has propelled the sector to the top of many real estate investors' wish lists.

SEGRO issued 907 million pounds of new equity in an oversubscribed capital raise in February, with part of the proceeds earmarked for developing 1.2 gigawatts of data centres on 24 sites. SEGRO established its first data centre on its Slough Trading Estate in 2005, since when, to date, it has added another 29 and four others in London, 37 kilometres away to the east.

The pandemic raised awareness of data centres' importance as infrastructure for digitalised economies. Increased cloud-based storage and highly publicised launches of AI applications, promising to transform the world of work and much more, have fuelled speculation on the enormous computing capacity that will need to be housed in data centres. This has thrust attention on a niche sector of real estate characterised by supply constraints, low vacancy and long leases at high and rapidly growing rents.

"*You can see why there's all the excitement, given it's going to be high growth, high demand,*" says Pilsworth, SEGRO's Chief of Staff. "*But they're going to be a relatively small proportion of our portfolio, even going forward. We think data centres are a fantastic asset class and the sector is where we have got a real strength, but the capital we raised was about much more than just data centres. We've always thought that the key strength of the Slough Trading Estate was having a mix and a balance.*"

Data centres generated 51 million pounds, or 7% of headline rental income, for SEGRO last year, dwarfed by revenue from its Big Box and urban warehouses. It estimates the additional data centre capacity, to be built over the next decade at Slough as well as sites in continental Europe, will add more than 200 million pounds to headline rental income and generate an 8-12% yield on development costs.

A HIGH GROWTH, HIGH DEMAND SECTOR

Those projections tally with global trends predicted by the research and advisory firm Green Street, which estimates the sector globally will generate the highest revenue per available metre (RevPAM) of any real estate asset class during the next five years. It forecasts RevPAM growth of around 10% a year and unlevered internal rates of return (IRRs) of 8-9%.

Blackstone President and COO Jon Gray described the strength of demand for data centres last year as a "*once-in-a-generation*" phenomenon, making digital infrastructure "*one of our highest conviction investment themes as a firm.*"

Such a commentary from an influential figure in real estate and coming from the U.S., a market that has typically led in developing and adopting new technologies, have proved contagious. Data centres were the most favoured real estate sector after new energy infrastructure, in PwC's 2024 Emerging Trends in Real Estate, Europe, survey.

Sales of data centres in Europe bucked the overall trend of slumping transaction activity last year, according to data compiled by MSCI. The value of deals rose 51% from 2022 to 3.09 billion euros, in contrast with the 50% fall in overall commercial real estate sales volumes. The figures underscore, however, the niche nature of a sector which accounted for less than 2% of Europe's subdued investment activity last year.

BARRIERS TO ENTRY IN COSTS AND SPECIALIST KNOWLEDGE

While data centres consistently feature among the top sectors favoured by respondents in its annual surveys, investors face numerous barriers to entry to the market through direct investment, led by the "*eye-watering upfront capital expenditure and specialist technical knowledge required*," PwC said.

Green Street estimates that the construction and maintenance cost of a data centre in Europe at $11,302 per square metre. Obsolescence is not something preoccupying the industry in its current growth phase, given the strength of demand and the shortage of capacity.

"*They're hugely capital intensive*," said SEGRO's Pilsworth, adding that data centres are much higher density than standard industrials buildings, which require a 55-metre yard around them for vehicular access. A multi-level data centre can generate "*easily 10 times*" the rent per square foot than you can for single storey industrial use on the same plot. "*Obviously they are nowhere near 10 times as profitable because you've got to build a multi-level facility and they are definitely not cheap to build*," he said.

SEGRO delivers "*shell*" data centres, which are facilities purpose-built to an agreed specification with access to large amounts of power, the essential piece in any data centre development. Customers arrange the supply of power with the provider themselves, with the company's assistance. Slough has a power station adjacent to the Estate.

CRITICAL POWER SUPPLY QUESTIONS

Access to a guaranteed and plentiful power supply is critical for the location of data centres, as are back-up generators in the event of power outages. Indeed, such are the levels of energy use by data centres power capacity and efficiency, instead of space, are among the sector's key performance metrics. While computers are smaller and more powerful in processing data, their energy use has not fallen to the same extent.

McKinsey & Co. estimates the U.S. data centre market, by far the world's largest, had 17 gigawatts of capacity in 2022 and will rise to 35 GW by 2030 as a result of the current construction boom. Data centres currently consume 3% of U.S. power use and this will rise to 8% by the end of the decade, according to Goldman Sachs projections assuming growth to 47 GW of data centre capacity. To generate this level of additional power, along with the ongoing growing needs of the economy, requires $50 billion of investment, the investment bank estimates.

Data centre investors need to consider the type of occupier they are serving. First are the "*hyperscalers*," the single tenant global technology companies or other single occupier enterprises, which typically lease for at least 10 years. Then there are the "*colocation*" data centres, which have shorter leases and serve multiple tenants under one roof.

Latency, or the speed at which a data transfer occurs following an instruction, is another consideration for data centre occupiers. For example, hedge funds using computers for automated trading typically locate themselves closest to the principal telecommunication hubs because of the fractions of a second in competitive advantage gained from faster data transmission. Online gaming and the internet of things are other use cases where latency matters.

EUROPE'S MATURING DATA CENTRE MARKET

While the overall outlook for the data centre sector is being led by trends across the Atlantic, Europe's market differs from the U.S. in terms of the size of facilities permitted, the rules surrounding data usage and the environmental regulations for the buildings.

Europe's leading hubs for data centres cluster in or around Frankfurt, London, Amsterdam and Paris – the largest and wealthiest conurbations,- as well as tax-friendly Dublin. Collectively they are known by the industry as FLAP-D.

New data centre supply is constrained in Amsterdam and Dublin by a moratoria on new construction, in response to concerns over power grid pressures and voter objections. During the U.K. general election campaign,

the Labour Party, the favourite to form the next government, indicated it was considering easing planning controls in the green belt to allow the construction of new data centres, overriding potential objections by classifying them as "*nationally significant infrastructure projects.*"For Ismael Clemente, CEO of Madrid-based MERLIN Properties, Europe's maturing data centre market will end the dominance of the FLAP-D markets as well as involve smaller "*edge*" data centres located closer to end-users.

Hyperscalers and co-location providers are looking to expand in Spain and Portugal to take advantage of the connectivity to North and South America, Africa and Asia through the submarine cable systems that land on the shores of the two countries. Another attraction is the low energy costs of 36 euros/MW on average last year, which is cheaper than most other European countries. This is the result of the surplus energy generated by its solar parks and wind farms. Aside from its existing nuclear power capabilities, Clemente says Spain is also investing in its network of dams to manage its water needs better, with the potential to develop hydro power.

The diversified property group he leads has placed data centres at the heart of a growth strategy, predicting its investment in the sector will be "*transformational.*" It has formed a joint venture with Edged Energy, a subsidiary of Endeavour Energy, to construct data centres in Barcelona, Madrid, Bilbao-Arasur and Lisbon.

MERLIN PROPERTIES' PLAN TO BECOME A DATA CENTRE OPERATOR

The first phase of the development programme will be completed mid-2025 at a cost of 565 million euros, delivering a total of 60 MW of capacity in Barcelona, Madrid and in Bilbao. The second phase involves adding 200 MW of capacity, concentrated in Bilbao (94 MW) and at a new hub in Lisbon (100 MW). At the time of writing, MERLIN was in discussions to finance the 2 billion-euro cost of this second phase through a mix of debt and new equity.

"*It will be transformational because of the speed to income that data centres offer compared with other traditional asset classes,*" said Clemente. It took a decade for MERLIN to assemble a logistics portfolio generating around 120 million euros of rental income. With data centres it will take a little over half that time to generate an equivalent income, he said.

Unlike SEGRO, MERLIN's partnership with Edged Energy allows it to operate the data centres it designs and constructs. Edged Spain is a 50:50 joint venture focused on the Iberian Peninsula. MERLIN has assembled sites with scope for expansion in the four locations and has opened sales offices in the U.K. and the Netherlands with an eye on potential growth opportunities led by AI.

"*We provide powered racks and pods into which customers can slot their servers. Our services cover their operation and maintenance. At MERLIN we are steel and concrete people with expertise in land and leasing, while Edged are second to none as engineers. They give us a technological advantage, with a wealth of experience in designing, building and operating the technology and equipment that is critical to our data centres,*" Clemente said.

Among the Edged technologies deployed by the joint venture under an exclusive licence are a waterless cooling system. MERLIN estimates that 100 MW of their new data centre capacity will save 1.45 billion litres of water a year. Another improvement from the cooling system is to lower the power usage effectiveness (PUE) measuring energy used relative to IT equipment energy usage. MERLIN's centres will have a PUE ratio of 1.15 compared with a European average of 1.46, equating to a 200 GW energy saving a year.

ADDRESSING SUSTAINABILITY

Sustainability is a key issue for data centre owners and operators. At SEGRO, the company obliges occupiers to sign green leases requiring the energy supply to be renewable, in line with engagements of the Climate Neutral Data Centre Pact to which many of tenants are already committed. It is also exploring how to capture and recycle the excess heat emitted by computer servers housed in its properties. MERLIN's Madrid and Barcelona data centres are clad with Photovoltaic panels, for example, and all the back-up generators will use biofuel instead of industry standard diesel.

As a relatively young listed real estate company with a 5 billion-euro market capitalisation and eager to retain its BBB+ credit rating Clemente says MERLIN has been "*too prudent*" by under-estimating the opportunities presented by data centres, which has left the company six to 12 months behind where it should have been.

"*We didn't know what the speed of penetration of colocation and the Cloud in Spain would be, but AI has been the game-changer*," he said, adding that the Bilbao and Lisbon sites will be developed primarily to serve the needs of AI providers.•

Written by Simon Packard, Headlion Consulting

ANDREW PILSWORTH

CHIEF OF STAFF, SEGRO PLC

As Chief of Staff at SEGRO Andrew works closely with the CEO and other Executive Committee members in developing and implementing strategic initiatives and leading a variety of cross-border business propositions, including data centres. Andrew joined SEGRO in 2009, since worked in Finance roles, including its Director of Finance, and gone on to lead its National Logistics Business Unit.

ISMAEL CLEMENTE

CEO, MERLIN PROPERTIES

As CEO of MERLIN Properties Ismael is one of the company's founding partners, who established and listed its shares in an IPO in 2014. His career in real estate dates back to 1998, spanning roles at RREEF, DB Real Estate, Bankers Trust REIB and Garrigues. He holds superior degrees in Law and in Economics & Business Administration, with a specialisation in Finance, from ICADE (E-3).

How to Prevail as a Listed Company Throughout the Property Cycle in Operational Real Estate

By Andrew Coombs, CEO of Sirius Real Estate

Herd mentality is one of real estate's most prevalent traits. Lots of people in the industry have followed very similar paths, accepting the norm and thereby replicating the outcome of numerous cycles.

The fact that the listed sector is predominantly valued on its net asset value is an example of this, implying that the price tag attached to a property is more important than the revenue generated from the operation of the buildings.

With an exceptionally diverse team hailing from a range of backgrounds and geographies, Sirius Real Estate has always eschewed the orthodoxy of the sector.

The most successful strategies we have put in place have been those which plan for unforeseen events, drawing from the varied experiences of the whole leadership team. Diligence and attention to detail, as well as scenario planning, are fundamental components of any mission's success – factors which I hope never to shake from our approach to running a business.

An NAV-focused strategy might drive you towards the shiniest, best located properties of an in-vogue sector, whatever the leverage, where no bets are hedged. But we don't see this as serving your shareholders' best interests. Their support ought to be rewarded through sustainable dividend growth which is attainable over the long term (fully-covered, at least).

Surely maximising cash flow should be the modus operandi of a listed property company looking for a sustainable and progressive dividend strategy?

At Sirius, we've managed to overturn some paradigms and in doing so have flipped many an accepted industry norm on its head. Take our portfolio, for a start – it was assembled through the acquisition of under-valued high yielding, largely industrial stock on the edge of towns and cities that, with a bit of elbow grease, could be repositioned as multi tenanted assets offering real diversity and security of income.

We saw the day one asset as secondary, believing that the right real estate approach would enable us to operate our way to achieving our priority of sustainable income growth.

This is why operations are key, so much so that we have wholly internalised the entire property management and marketing function. 20% of our 450 strong workforce contribute to our integrated data-led operating platform, dealing with enquiries, viewings and lettings directly, while our on-site operational property managers have clear visibility of the needs and sentiment of customers, enabling speed of response to evolving market conditions.

Ninety percent of Sirius's new tenant leads in Germany are generated without any involvement of commercial agents, with ambitious internal targets achieved through search engine optimisation, pay-per-click advertising, a proprietary marketing database and other methods; this wouldn't be unusual in most industries, but in property it is.

Tighter control provides a competitive advantage. In the past four years alone we have been tested by COVID, the war in Ukraine, the gas crisis, spiralling interest rates and economic turmoil – in such disruptive environments, you really need to know who your customers are, how they are faring and what they need. Through being in a position to act nimbly and flex and pivot uses according to demand, we have repurposed basements into storage centres, and cold storage units into factories.

It is also important to have an attitude that whatever the economic or market conditions, you can succeed in real estate; the property cycle is predictable and real estate leaders have a responsibility to develop business models that deliver positive return throughout the whole of the cycle.

Once operations have been properly developed, operational leverage can be applied to make a real difference to returns. We have proven this through exporting our efficient platform, built up in Germany, to the UK market. The same fundamentals apply across

the real estate sphere and rigorous management and smart use of data can be a powerful advantage if you have the operational capability to act out local strategies with efficiency and effectiveness.

Sitting on long-duration dry assets and not doing all in your power to manage your way to better cash flow is a risky strategy. Operating differently might require fresh thinking and a bit of creativity to focus people on the importance of building key revenue streams, looking at each asset in a portfolio on a standalone basis and interrogating its income potential, but the rewards of doing so throughout cycles can be transformative to the cash flow.

One small example from Sirius' portfolio is car parking; in 2010 it was free, today we raise over €5 million from it, so this is a revenue stream that at one time didn't exist and today contributes more than 3% to our funds from operations. Although this seems small, it is one of many small single digit incremental revenue streams where a high percentage drops straight to the bottom line.

Having confidence in your team's ability to actively manage and operate a portfolio gives you stronger conviction to recycle capital from mature assets into acquiring unloved, lowly valued properties knowing that you will be able to work them harder, drive the cash flow and consequently achieve valuation uplifts. NAV ought to be exclusively viewed as a by-product of income growth, rather than the typical herd mentality of considering it as a starting point.

A hands-on approach doesn't just benefit cash flow – a keen awareness of your tenant universe enables the construction of a clear long-term business plan, which in turn supports a company's ability to raise both debt and equity at typically better than market terms and thereby helping accelerate growth.

This brings us back to the overriding purpose of a listed real estate company, namely to have the ambition to grow, thereby creating the need to use the public markets to access fresh equity, something you can only do if you can enhance your returns on a per share basis and increase value to your shareholders. Sirius has recently delivered its tenth consecutive year of like-for-like rent roll growth exceeding 5% at group level and, having broken through the €100 million FFO barrier last March we are now focused on the next phase of our journey to €150 million FFO, with our operating platform being key to achieving this goal, so watch this space.•

ANDREW COOMBS
CEO, SIRIUS REAL ESTATE

Andrew Coombs is Chief Executive Officer of Sirius Real Estate. He joined the Group in 2010 and led the successful listing of Sirius Real Estate on the main markets of the Johannesburg and London Stock Exchanges in 2017 followed by the Company's entry into the FTSE 250 in 2019, since which it has continued to enjoy immense growth.

EPRA SUSTAINABILITY SUMMIT 2024

7 NOV 2024

Storey Club, Paddington Central, London

Register here

Stakeholders and Listed Real Estate: Innovating Together for a Sustainable Future

EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

ADVERTORIAL CONTENT

How Vistra Saves One Week Per Quarter on Reporting with Yardi's Investment and Asset Management Property Software

Yardi recently spoke with Vistra to see how Yardi's innovative cloud software enabled the company to standardise, automate and streamline processes across multiple jurisdictions and currencies as well as save one week per quarter on investor reporting.

Ranked within the Top 3 of the industry, Vistra is a leading global fund and corporate service provider. The company has more than 9,000 professionals in 100+ offices, supporting clients in over 50 markets across the globe. Vistra represents nearly half of the Fortune Global 500 and works with two thirds of the PEI 300, including every one of the Top 10.

"Yardi's investment and asset management software allows us to continue to facilitate trust and foster great confidence in our client base. Our goal at Vistra is to offer a best-in-class service to our clients and with Yardi we've achieved this."

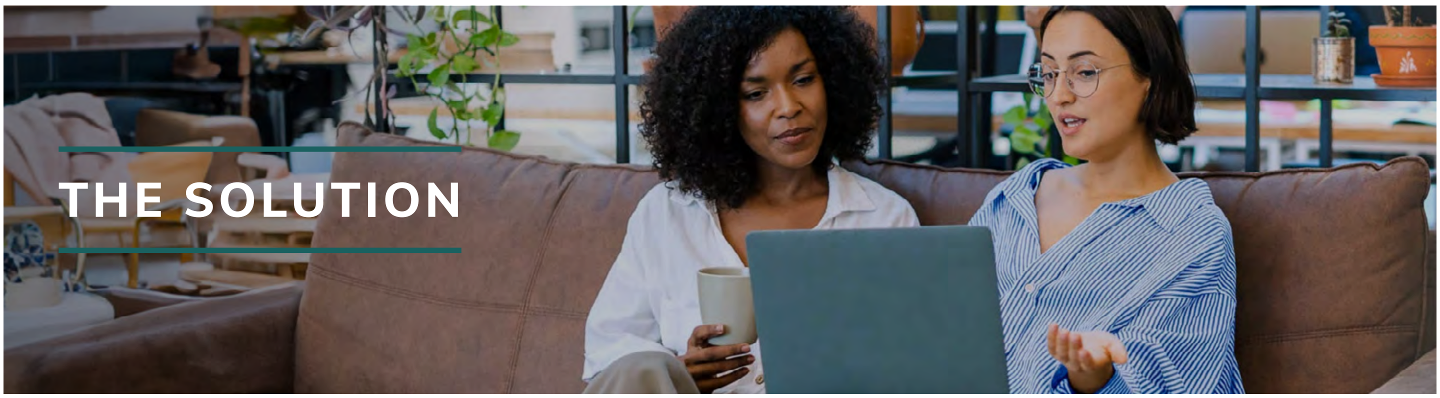
Tania Green
Global Real Estate Platform Director, Technology & Operations

YARDI | VISTRA

THE CHALLENGE

Vistra had acquired multiple systems which were being used across various jurisdictions. Due to the disparate platforms, it made it difficult for Vistra to work with different languages and standards in each region.

The company needed a single solution that could consolidate its data, onboard new customers quickly and standardise processes.



THE SOLUTION

Vistra implemented Yardi's investment and asset management software to utilise a single platform. This included the Yardi Investment Suite, Yardi Construction Manager and Yardi Procure to Pay.

Since implementing Yardi's software, Vistra has benefitted from one platform to optimise operations, consolidate data and enhance ways of working. In addition, Vistra wished to have everything in one place so they could access "clean" data, collaborate easily and report quickly. Thanks to Yardi's single, integrated platform, Vistra has one source of truth, can create custom reports and access real-time insights.

Time spent on PM ETL upload reduced by 100%

Save one week per quarter with automated reporting

Enhanced regulation compliance including CSSF and CSF

One platform to manage multiple jurisdictions & currencies

See how Vistra saved one week per quarter on reporting and can now complete bookkeeping on a live basis instead of monthly in our latest case study by scanning the QR code.

YARDI | VISTRA

JLL | Carbon – Cost or Opportunity

With more governments and organisations committing to net zero targets, they now face the challenging task of taking action to decarbonise the built environment. In the UK specifically, the Carbon Trust indicates that carbon emissions from commercial property alone must decrease by at least 80% if the country is to meet its 2050 net zero targets.[1] Consequently, carbon reduction strategies are becoming increasingly widespread across the industry. This is impacting both owner and occupier decision-making, placing increasing importance on the question '*what is the cost of carbon, and how does it impact asset value?*'.

RETURN ON EFFICIENCY

As the urgency to decarbonise intensifies, transitioning to low or zero-carbon buildings offers numerous benefits to real estate stakeholders, despite initial costs. Immediate impacts can be made by investing in on-site renewable energy generation, electrification of building systems and broader efficiency measures. These enable organisations to reduce carbon-intensive energy consumption and overall energy costs, while aligning with net zero targets.

PUTTING A PRICE ON CARBON

To incentivise energy efficiency investments, owners and investors may explore Internal Carbon Pricing (ICP) as a method to put a quantifiable cost on emissions, introducing financial risk and opportunities to their operations by viewing real estate performance through a carbon lens.[2] This forward-looking approach acts as a driver to action on decarbonisation by providing both financial resource and incentive to reduce emissions while helping organisations to comply with their net zero target commitments.

OCCUPIER DEMANDS

Today's low carbon buildings have a competitive edge in the leasing market. JLL research shows 2024 is the '*green tipping point*' – and the impacts of carbon commitments will increase in occupational markets over the next 12-24 months.[3] '*Flight to quality*' is increasingly driving leasing decisions indicating that tenants are demanding more out of their spaces - and as more corporates look to advance on ESG goals, this is expanding to include a building's sustainability credentials. Corporate occupiers must therefore ensure their next lease allows them to show material progress on climate-related targets, prioritising energy-efficient and fossil fuel free buildings.[4] However, while demand for low-carbon, sustainable spaces is rising, supply is not keeping pace. JLL research indicates that 30% of the projected demand for low-carbon offices will not be met by 2025, increasing to 70% by 2030 due to the quality of existing stock and the development pipeline.[5] This means that building owners and investors who actively decarbonise portfolios through extensive retrofits and refurbishments to improve sustainability credentials, closing the demand gap, can leverage '*green premiums*' on their assets.

In the Central London office market, for example, hedonic regression analysis showed BREEAM certification boosted capital values by 20.6% and rental prices by 11.6%. Each step improvement in EPC ratings also led to a 3.7% capital value increase and 4.2% rental price growth.[6] Such financial trends are set to increase as the focus of sustainably minded investors and occupiers continues to narrow. Building owners failing to capitalise on implementing measurable improvements to carbon-related performance will likely see a stark reduction in market competitiveness and asset liquidity.

COST OF INACTION

Amid the move towards legally binding net zero targets, the regulatory landscape will undergo significant shifts. Take the EU's recent '*Fit for 55*' package, which is introducing revised legislation to align with the Union's greenhouse gas reduction target of 55% by 2030. From a real estate perspective, these updates include a requirement for all new buildings to be zero-emission by 2030, the phased introduction of minimum energy performance standards, and a 20-22% decrease in average primary energy use of residential buildings by 2035.[7] Such legislation is set to affect the bottom line of real estate assets, with the most carbon-intensive buildings facing regulatory fines, legal liabilities, and reputational damage.[8] Moreover, the notion of '*brown discounts*' is set to become ever more prominent for assets which do not meet minimum legislative requirements as they continue to '*raise the floor*' of what are acceptable standards for real estate in the market.

These brown discounts represent significant financial risk. There is potential for assets to be considered as '*stranding*' if their economic viability is eroded due to increased costs to meet legislative standards, reduced ability to attract investors and occupiers, and diminishing liquidity. In line with increased regulatory pressure, failure to decarbonise could risk losses of up to 20% in company profit by 2030, with asset stranding remaining a key contributor.[9]

IMPACTS ON VALUATION

Despite the aforementioned risks and opportunities that will impact the future value of real estate, incorporating such factors within regulated valuations remains challenging. Asset valuations require the assessment of current and historic data and market evidence to inform assumptions. However, across many markets there remains a lack of sufficient data or market evidence to accurately quantify sustainability-related real estate risks or opportunities. This has hindered their inclusion in most market valuations.

Excluding these features risks the formation of a '*carbon bubble*', where property valuations fail to reflect the costs, benefits, and transitional risks of decarbonisation measures. The buoyancy of this bubble could lead to sudden pricing shifts and market shock if such factors suddenly become a quantifiable market figure.[10] In a positive step forward, efforts are being made to address this, such as the Urban Land Institute's (ULI) Transition Risk Assessment Guidelines, the RICS ESG Data List,[11] the recent update to the International Valuation Standards (IVSC),[12] which includes an entirely new section on ESG, and the forthcoming updated to

the RICS Red Book to incorporate the IVSC update. Nevertheless, changes to the valuation process will take time, leading to a period of price discovery as the industry refines its financial understanding of sustainability.

WHAT IS THE COST OF CARBON?

As the industry moves towards a net zero carbon future, comprehensive decarbonisation strategies bring significant financial opportunities that can balance, if not outweigh shorter-term costs. Investing in renewable energy integration and energy efficiency measures not only reduces carbon emissions and energy costs but also improves market competitiveness and attracts sustainably minded occupiers and investors. In contrast, the costs of inaction, including regulatory fines, legal liabilities, and asset stranding, are rising. For now, incorporating sustainability factors in property valuations remains a challenge, but efforts are being made to standardise the assessment of climate and transition risks. As the industry refines its understanding, proactive portfolio decarbonisation and embracing sustainability will help both protect and promote long-term value in the evolving real estate market.•

DAVID MARSHALL

DIRECTOR, VALUE AND RISK ADVISORY, JLL

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Sources:

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European Companies Show Reducing Emissions is the Best Insurance for Mitigating Climate Risk

Highlights from the 2023 results of the GREEN collaborative engagement platform.

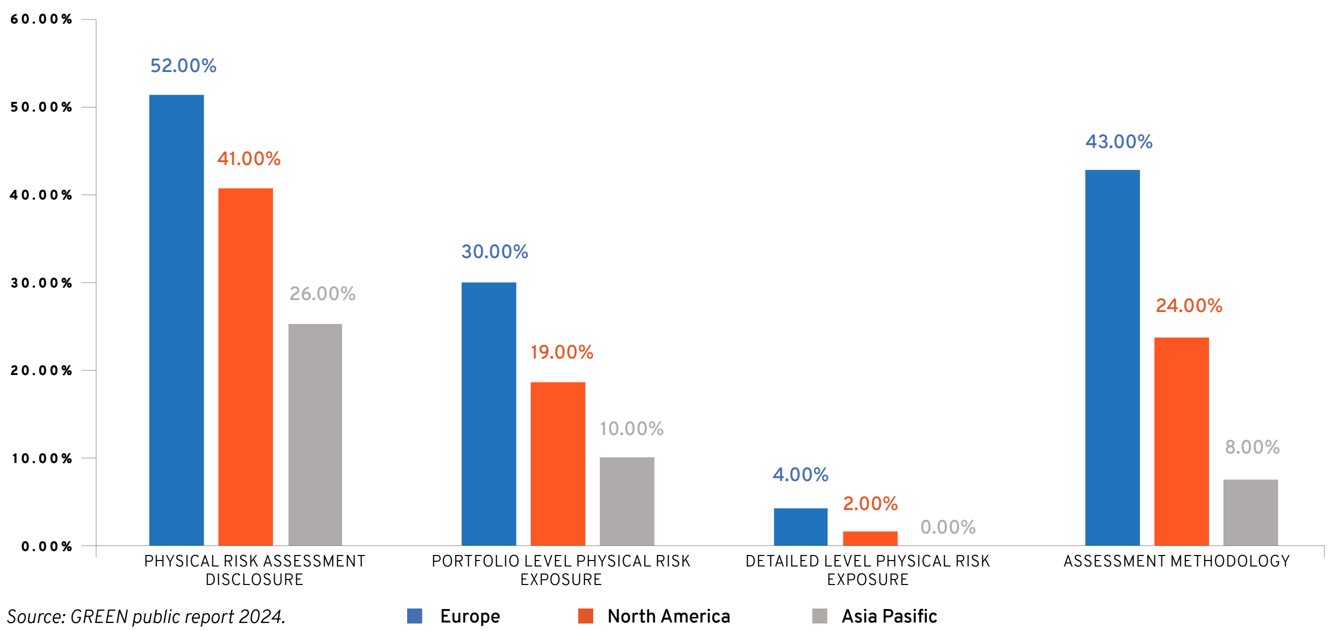
OVERVIEW

The Global Real Estate Engagement Network (GREEN)[1] published the results of its annual engagements with real estate companies about their climate risk management strategies in June. The research showed that European companies are progressing across a range of metrics. However, there is no room for complacency as the real estate industry faces rising property insurance premiums amid a growing awareness of the threats from physical climate risk.

GREEN's investor members collaboratively engage with real estate companies to improve their climate risk management strategies and limit their material physical and financial climate risks. The engagements demonstrated that European companies have taken important steps towards reducing their energy intensity and carbon emissions while assessing their portfolios' physical risks. Nonetheless, many of their peers lag, which is cause for concern for asset owners like GREEN's members.

So, while the 2023 engagement programme revealed that the European real estate sector is broadly improving its climate risk management strategies, there's still much to do. The mounting costs of property insurance have heightened the urgent need to address the financial materiality of managing this critical risk factor in the European real estate sector.

Figure 1: Detailed physical risk assessments are not widespread. Physical climate risk assessments by region, in %



Source: GREEN public report 2024.

[1] The Global Real Estate Engagement Network, https://green-engagement.org

RISING PROPERTY INSURANCE PREMIUMS CONFIRM CLIMATE RISK DISCLOSURE'S IMPORTANCE.

The growing threat of physical risk to the built environment underlines the need for detailed data. There is growing awareness of the physical risks of climate change. This is reflected in the insurance costs associated with climate-related property damage[2]. Nonetheless, just over half of European companies (52%) reported physical climate risks to their portfolios. Interestingly, European companies were less inclined to focus on the growing financial risks arising from the broader impacts of climate change, including physical risks, through scenario analysis using tools like CRREM than their Asian counterparts. Despite the assessments carried out by companies, adaptation plans for physical risks were primarily anecdotal.

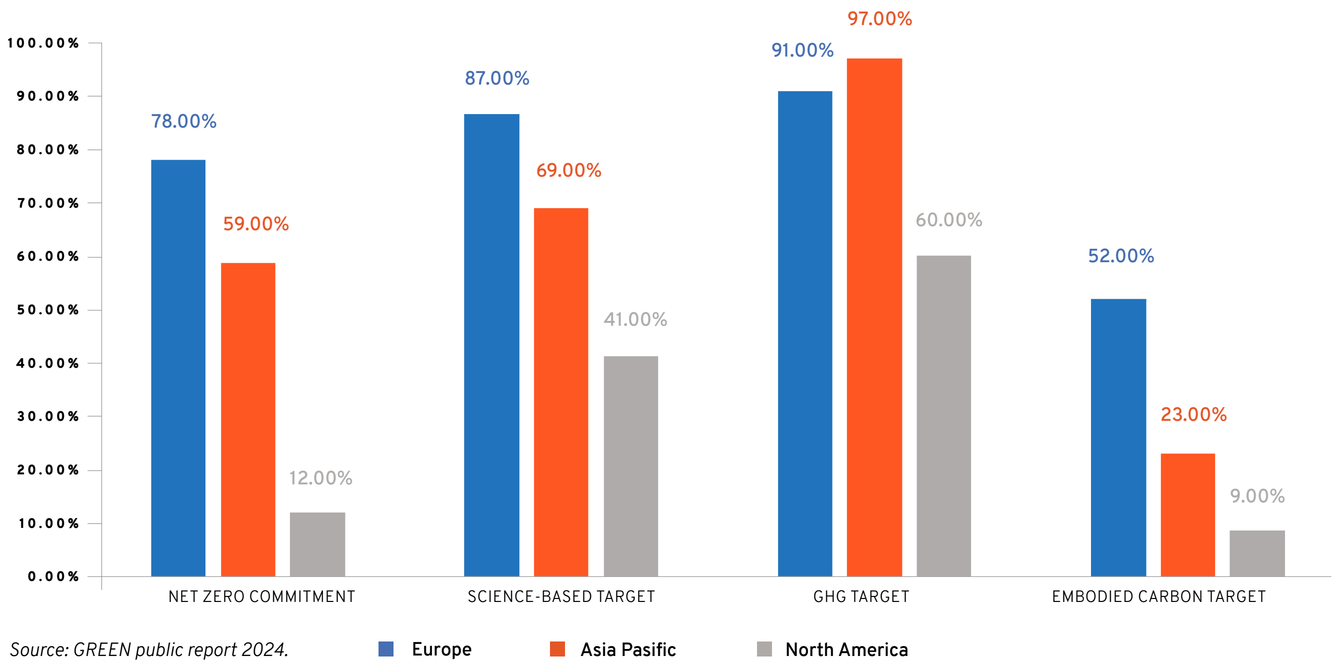
Most of the current focus on physical risk has centred on its impact on property insurability and rising insurance premiums, particularly in the US. Moodys has noted that property insurance expenses in the real estate sector usually increase by roughly two to three per cent annually and have risen by more than 17% in some markets in the US in recent years[3]. MSCI also noted rising insurance costs due to changing weather patterns. Its U.S. Quarterly Property Index shows that insurance costs as a percentage of income receivable more than doubled to 2.3% from 1.0% over the five years to September 2023. These increasing costs have been attributed to the growing number and increased severity of extreme weather events.

Closer to home, European property insurance rates have increased by an average of 7% in Europe since the start of 2023. Rates of increase are down from their peak in 2020/21. Nonetheless, they are still considerably ahead of inflation[4]. The ECB recently flagged the rising cost of property insurance as threatening European financial stability. Global insured losses of USD 124 billion made 2022 one of the costliest years ever regarding natural catastrophes, and 2023 was set to follow suit. The Bank linked higher premiums to the rising frequency of major natural disasters due to climate change, and the growing magnitude of associated losses has also pushed up insurance prices. They raised concerns that residential and commercial property owners face widening insurance protection gaps[5].

IMPLEMENTATION STRATEGIES DO NOT ALWAYS MATCH AMBITIOUS TARGET-SETTING

GREEN analyses companies' climate risk management strategies annually, including target setting, implementation, governance, disclosure, and data collection. Every year, GREEN analyses the 120 global real estate companies in market cap and tracks the progress of collaborative engagements performed by GREEN's members. This analysis is complemented by a survey of all the FTSE EPRA Nareit-developed index companies. The engagement process focuses on the approach to physical

Figure 2: European companies have more ambitious climate targets. Targets setting by region, in %



Source: GREEN public report 2024.

[2] See The cost of climate risk in U.S. real estate markets: The role of insurers, Vincent van Bijleveld. https://green-engagement.org/...

[3] Moodys, August 2023.
[4] Europe Insurance Market Rates, Marsh, 2024
[5] Financial Stability Review, ECB, November 2023

and transition climate risks and their disclosure. Companies need to set transparent targets and establish a framework that allows them to achieve the goals of their climate risk management strategy.

Companies' reluctance to set targets is often attributed to concerns about a lack of suitable data, the absence of a business case, or insufficient regulatory and client demand. However, in Europe, companies have made considerable progress. In 2023, 78% of European companies had set a net zero target, while 87% had science-based targets, considerably ahead of companies in other regions. Investors welcome the ambitions of companies and fund managers when setting targets. However, they also recognise the value of clear implementation plans. The assessments established that the leading real estate companies still need to develop detailed plans to support their top-level ambitions.

The engagements also confirmed that the underwriting of Capex requirements to reach net zero was limited, although more are undertaking them than others. GREEN advocates certification standardisation as part of the desire to see managers and companies improve their climate risk management. In 2023, 57% of European companies had energy label coverage; however, just over a third had certification of more than half of the buildings in their portfolios.

SHAUN STEVENS
ADVISOR, GREEN

Shaun Stevens is an investor with more than 30 years of experience in the real assets sector. He has been investing in global public and private markets since 2001 for BNP Paribas, Meyer Bergman, and Aberdeen Asset Management. He works as an advisor for GREEN.

CONCLUSIONS

European companies have taken necessary steps towards target-setting for lowering emissions, improving the quality of governance, and implementing and using certified data. Investor stewardship and the collaborative engagements of GREEN with European companies have undoubtedly influenced the real estate sector's progress. Despite this, it is evident that shareholders should collaboratively engage to encourage the industry to move further and faster, as it improves efficiency, effectiveness, and access to data.

As part of the Net Zero transition, companies should establish meaningful long-term targets, as real estate is a long-term business, and develop meaningful implementation and Capex programmes to allow them to achieve their ambitions. Moreover, long-term asset owner clients increasingly expect it.

Furthermore, rising insurance costs and increasing regulatory scrutiny underline why investors like GREEN's members are pressing real estate companies to manage and disclose their physical climate and transition risks effectively. •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Carbon-Conscious Real Estate: New Announcements from CRREM

BEING AHEAD OF THE CURVE

Since the release of the updated pathways[1], the market uptake of the CRREM (Carbon Risk Real Estate Monitor) decarbonization resources has again significantly grown on a global scale. Major investors, asset managers and increasingly banks with over €6,000 billion AuM (achieved through direct and indirect usage via our licensing partners) already apply CRREM on a regular basis to address transition risk, avoid stranded assts, derive energetic retrofit roadmaps and comply with ambitious decarbonization targets.

CRREM is the leading global decarbonization-target-setting initiative; enabling market participants to manage and reduce their operational carbon emissions and energy consumption. The initiative provides institutional real estate investors, managers and other stakeholders globally with clear Paris-aligned pathways to set and control ambitious 1.5 aligned decarbonization targets in order to stay in the downscaled "*fair share*" of the GHG budget for real estate in the use phase (operational emissions). The early (voluntary) adoption of CRREM resources enables market participants to be well prepared and ahead of the regulation aiming to reduce energy consumption and carbon emissions.

CRREM & EPRA – COLLABORATION REMAINS STRONG

The global listed real estate sector plays a critical role in achieving a Net Zero future, as real state is accounting for 36% of global CO_2 emissions[2]. EPRA and CRREM have joined forces since 2022 to support the EPRA members, and the listed real estate sector more broadly in formulating, setting, and implementing science-based targets to reduce operational carbon emissions of buildings. In addition to EPRA other CRREM partners include also SBTi, PCAF, ULI Greenprint, NZAOA, IIGCC,

[1] The newly updated CRREM & SBTi aligned CO_2-intensity pathways for the 1.5°C target ($KgCO_2/m^2$*yr) were released on the 12th of January 2023. The CRREM initiative also updated the energy-intensity pathways (kWh/m^2*yr) and derived a GHG-intensity pathway including the F-gases ($KgCO_2$"e"/m^2*yr).
[2] INREV, EPRA 2018.

UNEP FI, INREV, GRESB and many more, fostering global alignment and harmonization for the decarbonization agenda.

ALIGNMENT WITH EPRA SBPR GUIDELINES

CRREM and EPRA published a guidance document which is fully aligned with the EPRA sBPR Guidelines, providing a consistent way of measuring sustainability performance in the same way that BPR for financial reporting have made the financial statements of listed real estate companies in Europe[3]. The guidelines are based on the latest GRI (Global Reporting Initiative) standard guidelines and are consistent with requirements resulting from CSRD, covering all environmental, social and corporate governance impact categories.

The scope of carbon accounting has expanded in recent years and is no longer limited to external reporting. In this context, the need for reliable and consistent data on carbon emissions has increased significantly. This has led to ever-increasing demands on market participants and greater complexity in determining "*reliable*" whole-building energy and carbon intensities. To address these challenges, CRREM, in collaboration with PCAF and GRESB, has published technical guidance[4]. This guidance details various aspects such as different use cases, normalizations and scope attribution to provide comprehensive support to market participants.

NEW PUBLICATION – GREEN GOVERNANCE

The CRREM initiative recently released a report on Green Governance[5] and how to implement and develop feasible Net Zero Transition Plans in the real estate industry. The report was authored by the CRREM team and supported by EPRA and many other organizations like RICS, IIGCC and ICG. Net-Zero commitments are becoming increasingly popular in the real estate industry, but implementing the sector-specific changes is still a major challenge for most market participants. Based on interviews with leading ESG experts from around the world, an analysis of many companies' Net-Zero strategies and an extensive literature review of existing frameworks, the authors develop a seven-step framework to support the implementation of Net-Zero commitments and transition plans in real estate companies. The report provides insights into potential pitfalls as well as recommendations for changes in organizational structure or specific operational measures (e.g., financial incentives for employees) that can be introduced to increase Net-Zero alignment. These recommendations are supported by best practice cases from industry leaders and reference to existing guidance (e.g., the EPRA sBPR Guidlines). In addition, an Excel-based self-assessment tool was developed for companies to get a first impression of their current implementation progress.

Green Governance describes both a corporate system and a set of internal and external mechanisms that support a company's processes and organizational structure to achieve ambitious environmental results. The decarbonization process must be owned by top management, to successfully transform the company's operations. Thus, one of the key concepts of Green Governance is the '*tone from the top'*. The main steps of the Green Governance approach are: identifying the status quo, setting targets, deriving strategies, adjusting the organizational structure, introducing operational measures, measuring and monitoring progress as well as creating robust reporting structures. These steps need to be reviewed on an ongoing basis.

The main lessons learned show that despite a challenging economic environment, the momentum for decarbonization and Net-Zero target setting is growing globally, driven by expected future regulation and market demand for decarbonized assets. However, there is often a gap between Net-Zero commitments and actual actions, leaving many companies at significant risk of being accused of greenwashing and litigation risks. While some companies lead with best practices, others lag behind. Including scope 3 emissions, setting granular targets, and integrating internal carbon pricing into CAPEX cycles are just a few examples of measures that are essential for effective decarbonization. Ultimately, a holistic approach requiring fundamental changes in processes and organizational structures is essential to drive progress.

NET-ZERO ON THE RISE: 2 DEGREE VS. 1,5 AMBITION-LEVEL

While Net-Zero commitments are becoming more popular than ever, the last year was another year of overshoot. This failed accomplishment of decarbonization progress has resulted in a set of concerning climate milestones, with 86 days in 2023 surpassing temperatures 1.5°C above pre-industrial levels[6]. As public investment, financing, and planning for climate adaptation remain unsuccessful, the world finds itself increasingly exposed to climate related risks. While this increasing risk is driving the motivation towards Net-Zero and thus the focus on the 1.5-degree target, there have also been several requests to publish an updated set of 2°C CRREM decarbonization pathways. Initially, the initiative had only released the 1.5°C benchmark, but the CRREM initiative has decided to move forward with the release of the updated 2°C pathways.

MAXIMISING OPPORTUNITIES – REGIONAL & SECTOR SPECIFIC FOCUS

The regional and sectoral activities underscore how the initiative has been able to translate and apply local behaviours, aligning at a much more granular level while simultaneously growing globally. In this context the collaboration and alignment with LOTUF is one of many examples of how CRREM supports and drives the acceleration of decarbonization in real estate. As the global alignment progresses, current regional activities include a separate project in North

[3] See the report "How to manage net zero targets with CRREM" (CRREM, EPRA, 2022).
[4] See the technical guidance "Accounting and Reporting of GHG Emissions from Real Estate Operations" (GRESB, CRREM, PCAF, 2023).
[5] See the green governance report "Green Governance – A holistic approach for feasible and successful Net Zero Transition Plans in the real estate industry" (CRREM, 2024).
[6] (UN 2023, EEA 2024).

America, in collaboration with ULI Greenprint and Lawrence Berkeley National Laboratory, to further improve the accuracy and granularity of the U.S. and Canadian pathways. Comparable projects are also planned for Australia (partnering with Western Sidney University, NABERS and the Australian GBC and possibly the Australian Property Council) and China /HK and Singapore (partnering with the OCBC Bank and many more).

Through these projects CRREM seeks to increase the stakeholder engagement in markets where the relevance of CRREM pathways is growing significantly.

In addition, the initiative is working directly with leading market participants to ensure best practices for reporting and benchmarking against CRREM and to provide guidance on sector specific challenges. Examples of sectoral activities include the development of sector-specific guidelines for logistics portfolios, for the hospitality sector and a potential guidance for student housing. The sector guides developed aim to further drive market adoption by increasing confidence, convenience and applicability of CRREM to sectors with special challenges.

CONCLUSION

CRREM demonstrates a proactive approach by attentively responding to market needs, diversifying its regional focus, and collaborating with the industry to provide comprehensive guidance. CRREM's commitment to global alignment, robust governance and ongoing research aims to enhance the sustainability in the sector.

It is always a pleasure to hear from stakeholders about the CRREM pathways, whether in the form of questions, feedback or willingness to participate in regional and sector diversification. Please reach out to crrem@iioe.at. Follow latest news & download the latest reports: www.crrem.eu.•

PROF. DR. SVEN BIENERT MRICS REV

HEAD OF THE CRREM CONSORTIUM, MANAGING DIRECTOR OF THE INSTITUTE FOR REAL ESTATE ECONOMICS GMBH

Prof. Dr. Sven Bienert is an expert in real estate economics and finance, holding a PhD with distinction from the Albert Ludwig University of Freiburg. He is a professor at the IRE|BS Competence Center of Sustainable Real Estate at the University of Regensburg and has extensive industry experience, including managing Probus Real Estate GmbH. He is also an author, editor, and board member of several real estate associations.

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Enhancing Transparency in European Listed Real Estate - ESG Reporting

EPRA sBPR Guidelines 4th Edition.

The European Public Real Estate Association (EPRA) has released the 4th edition of its Sustainability Best Practices Recommendations (sBPR) Guidelines. This new edition provides further clarity and conciseness to the existing Guidelines to support to EPRA Members when disclosing their sustainability performance according to EPRA sBPR. It provides further adherence to the Global Reporting Initiative's (GRI) Standards as a consequence of their latest update. It supports EPRA Members in managing part of the reporting complexities as mandated by the "*sector-agnostic*" ESRS, with the incorporation of '*bridge requirements*' from EPRA KPIs to the related ESRS (when applicable) and with a materiality assessment guide tailored to the LR. However, it's important to highlight that this edition does not include new EPRA sBPR KPIs.

The Evolution of EPRA sBPR Guidelines

Since its inception in 2011, the EPRA sBPR Guidelines have served as a voluntary, market-driven framework aimed at improving the consistency and quality of sustainability reporting within the listed real estate (LRE) sector in Europe. The guidelines have evolved over the years to incorporate various global standards and directives, reflecting the dynamic nature of ESG reporting requirements.

2011 – 1st EDITION

The initial guidelines focused primarily on environmental impact indicators, based largely on the GRI G3 Standard. This version set the foundation for structured ESG reporting in the LRE sector, emphasizing transparency and uniformity in environmental disclosures.

2014 – 2nd EDITION

Updated to align with the GRI G4 Standard, the second edition provided further clarity and support for companies' reporting efforts. It introduced more detailed guidance on sustainability reporting, helping companies to present their ESG data more comprehensively and concisely.

2017 – 3rd EDITION

This version expanded the scope to include social and corporate governance impact indicators, aligning with the latest GRI standards and the EU Non-Financial Reporting Directive (NFRD). It recognized the growing importance of social and governance factors in sustainability reporting and aimed to provide a holistic view of a company's ESG performance.

2024 – 4th EDITION

As mentioned earlier, this update provides Bridge Requirements between EPRA KPIs and the related "*sector-agnostic*" ESRS (when applicable), acquires further adherence to the GRI Standards as a consequence of their latest update and provides further clarity, conciseness, and support to LRE companies wishing to disclose their performance in accordance with EPRA sBPR Guidelines. This edition reflects the latest regulatory developments and industry best practices, providing a robust framework for LRE companies to navigate the evolving ESG reporting landscape.

Key Features of the 4th Edition

The latest edition of the EPRA sBPR Guidelines introduces several critical updates aimed at addressing the evolving regulatory landscape and improving the overall quality of ESG reporting in the LRE sector.

1 Alignment with ESRS:

The guidelines now align the existing EPRA KPIs with the related sector-agnostic ESRS (just when applicable), providing a clear framework for LRE companies to start reporting the sustainability requirements through the reporting of EPRA sBPR KPIs.

2 Enhanced GRI Adherence:

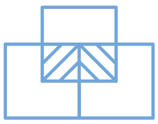
The guidelines ensure better adherence to the updated GRI Standards (2021), facilitating more comprehensive and comparable sustainability reporting. By following these standards, companies can provide stakeholders with a clearer and more accurate picture of their ESG performance.

3 Detailed Supplementary Documents:

The 4th edition includes supplementary documents such as a materiality assessment guide tailored for the LRE sector, a mapping table of EPRA sBPR KPIs versus sector-agnostic ESRS, and an Excel template for reporting metrics. These tools are designed to help companies navigate the complexities of ESG reporting, providing practical guidance and support.

The Importance of ESG Reporting in Listed Real Estate

ESG reporting has become increasingly important for LRE companies due to the sector's significant environmental impact and the growing demand for sustainable and socially responsible investment opportunities. The EPRA sBPR Guidelines play a crucial role in this context by:



ENHANCING TRANSPARENCY:

By providing a standardized framework, the guidelines help ensure that all stakeholders, including investors, regulators, and the public, have access to consistent and comparable ESG data. This transparency is essential for building trust and demonstrating a company's commitment to sustainability.

FOSTERING ACCOUNTABILITY:

The guidelines encourage LRE companies to adopt best practices in sustainability, thereby improving their overall ESG performance and accountability. By setting clear expectations for ESG reporting, the guidelines help companies to track their progress and identify areas for improvement.

SUPPORTING REGULATORY COMPLIANCE:

With the introduction of the CSRD, it is more important than ever for companies to have robust ESG reporting practices in place. The EPRA sBPR Guidelines help LRE companies align with these new regulatory requirements, ensuring that they are prepared to meet the evolving expectations of regulators and stakeholders.

EPRA's Comprehensive Documentation Suite

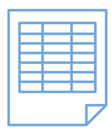
The 4th edition of the EPRA sBPR Guidelines is supported by a suite of comprehensive documents designed to assist companies in implementing the guidelines effectively. These include:

MATERIALITY ASSESSMENT GUIDE:

This guide provides detailed guidance on conducting materiality assessments specific to the LRE sector, incorporating insights from various sustainability frameworks. It helps companies to identify and prioritize the most relevant ESG issues for their business and stakeholders.

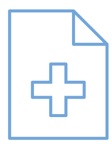
MAPPING TABLE:

This document helps companies map EPRA sBPR KPIs against sector-agnostic ESRS, ensuring that their reporting meets both sets of standards. It provides a clear reference for companies to understand how their existing ESG metrics align with the new ESRS requirements.



EXCEL REPORTING TEMPLATE:

The template offers a standardized format for companies to report their ESG metrics, facilitating easier data collection and reporting. By using this template, companies can ensure that their ESG disclosures are consistent and comparable.



EMERGING TOPICS DOCUMENT:

This document explores key emerging sustainability topics relevant to the LRE sector, such as diversity, equity, and inclusion (DEI), climate-related risks, and the circular economy. By considering these topics, companies can future-proof their reporting frameworks and respond effectively to changes in voluntary and mandatory non-financial reporting.

Continuous Improvement and Engagement

EPRA remains committed to supporting its members through continuous engagement and the provision of resources. EPRA updates its sBPR Guidelines as needed to incorporate the latest regulatory changes and industry best practices. Additionally, updates are made whenever members request further clarification or assistance on specific topics. In addition, EPRA provides ongoing support for member queries, organises educational webinars and develops FAQs documents and other resources to assist companies in their ESG reporting efforts.

CONCLUSION

The 4th edition of the EPRA sBPR Guidelines represents a significant step forward in the standardization and enhancement of ESG reporting within the LRE sector. By providing 'bridge requirements from certain existing EPRA sBPR KPIs to the related sector-agnostic ESRS, and updating the latest GRI standards, the guidelines provide a robust framework for LRE companies to improve their sustainability performance and transparency. This update not only helps companies on their regulatory reporting requirements but also enhances their ability to demonstrate their commitment to sustainability to investors and other stakeholders. Ultimately, the EPRA sBPR Guidelines contribute to a more sustainable, accountable and comparable LRE industry, benefiting companies, investors, and society as a whole.•

LOURDES CALDERÓN RUIZ

ESG MANAGER, EPRA

Lourdes embarked on her professional journey with EPRA in 2019, joining the Indexes & Research team and initiating her path in the listed real estate industry . In 2023, she transitioned to the Sustainability team, furthering her commitment to driving impactful initiatives in the industry within EPRA. Prior to joining EPRA, Lourdes worked at Kartesia (Brussels), monitoring 2 debt portfolios, and at Banco Santander S.A. (Madrid), contributing to key European regulatory projects. She holds a Master's degree in Law alongside a Business Diploma from ICADE – Comillas Pontifical University.

Reflections with Pere Viñolas Serra on his EPRA Chairmanship

As Pere Viñolas Serra steps down from his role as Chairman of EPRA, he leaves behind a legacy of impactful achievements and a vision for the future. Viñolas, the CEO of Inmobiliaria Colonial, has played a pivotal role in advancing EPRA's mission to enhance transparency, sustainability, and growth within the European public real estate sector. In this interview, he shares his proudest accomplishments, the challenges ahead, and his advice for his successor, Jean-Pierre.

What achievements during your tenure as Chairman of EPRA are you most proud of, and how have they impacted the European public real estate sector?

EPRA is doing a great job on many fronts. EPRA metrics have been revised and improved, and they enjoy today even wider and better recognition in the market. Promoting sustainable investment has remained also at the top of our agenda, for EPRA and for our members, who year after year are delivering better transparency and accountability on this front. Finally, it has been very important to strengthen our collaboration with FTSE Russel for the FTSE EPRA Nareit Index series, enhancing our market reach and influence.

What challenges and opportunities do you foresee for EPRA in the coming years, and how should the organization navigate them?

EPRA is a true European organization. Enhancing our vision of a united market for all real estate players will remain a key issue, particularly regarding the mutual recognition of our REIT regimes. Geopolitics will become more important. On a different front, the case for listed companies will remain our biggest challenge: the better transparency, liquidity, and governance of listed companies are paying the price of higher volatility and risk aversion. This should not be the case. It should remain a key priority to promote our values and reverse the situation.

As you step down, what advice would you give to your successor and the EPRA leadership team to continue advancing the organization's mission and goals?

Jean-Pierre is an exceptional leader, and I have full confidence that he will continue to advance the progress we have made, steering the industry towards greater sustainability and growth. EPRA's mission has a positive impact for all stakeholders and for the society we live in. To remain committed and united on our mission will be the highest priority. •

PERE VIÑOLAS SERRA

CEO, INMOBILIARIA COLONIAL

Pere Viñolas is the CEO of Inmobiliaria Colonial. He is a Graduate and Master in Business Administration (MBA) at ESADE, Barcelona. He's also a graduate in business administration by the University of Barcelona, where he also studied Law.

Continuing the Legacy: The Vision and Leadership of Jean-Pierre Hanin

How do you see this role and what are the main goals for your period as EPRA Chairman?

I'm looking forward to chairing EPRA, succeeding to a long list of distinguished chairwomen and chairmen. What makes it a bit more special of course is the current turbulent times for real estate, not only listed real estate. The transparency naturally offered by the listed sector makes it more palpable, but I'm convinced that such transparency is an asset at the time where investors are and will be ultra-selective in their decisions to increase again their allocation to real estate.

The role of a chair is traditionally to foster communication among EPRA members and other market stakeholders. And we'll continue in this direction, as such dialogue is even more instrumental in the current market environment. Keeping tight communications with the rest of the sector is also key, like the national real estate associations and the non-listed real estate sector through INREV. The current environment and challenges require a coordinated approach by the whole real estate industry. Real estate has always been at the forefront of changes in activity patterns in society. These changes impact real estate players differently, some benefiting immediately and others having to adjust and adapt to capture new opportunities. This can happen through repurposing of certain assets between subsegments, hence making dialogue among real estate players even more meaningful.

I'll also fully support the EPRA staff team who, under the strong leadership of Dominique Moerenhout, has a solid track record in supporting the European listed sector and building bridges with relevant real estate stakeholders.

The European real estate market is facing several challenges, including regulatory changes. As a Chairman, how will you support EPRA and industry peers in navigating them?

The macroeconomic and geopolitical environments have dominated the markets globally since 2022, following the Covid crisis. The long period of stability and very cheap financing conditions that we enjoyed before seem already far away. While we start to see the light at the end of the tunnel, volatility is still there for some time. As market players, we can only focus on what we control or can influence. Being active in nine European markets, we know very well how local legislation can hamper smooth real estate developments. In recent years, the local regulatory environment for many property sub-segments has been very prolific. At the European level, a long train of legislation is coming into force, such as CSRD and taxonomy, to name but a few. While the underlying intentions are legitimate, there is a need to ensure that this legislation properly achieves the ultimate objectives and does not merely provide a short-term framework that only adds to compliance costs.

EPRA has always played a big role in advocating to international bodies the consequences of new regulations, including unintended consequences. And also helping its members in coping with these new regulations, notably by sharing best practices with them. At this stage, when many new regulations have already been designed and approved, the focus is more on how best to comply with and implement these new regulatory frameworks. Among these best practices, data management and AI help to reduce administrative work, allowing us to focus on what the real estate sector is all about: providing sustainable infrastructures adapted to the constantly evolving needs of our society.

Sustainability is a core focus in the real estate sector. How do you envision EPRA advancing its sustainability initiatives under your leadership?

The real estate sector is fully aware of its impact on CO_2 emissions. It is also at the forefront of many actions to address concerns related to climate risks. The importance of tackling reductions of CO_2 emissions and identifying properly climate risk issues, quantifying measures to mitigate them, and developing action plans offering both a real impact and also a sustainable return, is at the core of many debates. At the same time, industry players are being asked to obtain all kinds of certifications from various commercial initiatives. EPCs managed by government agencies are not standardised, which leads to misinterpretation of the real performance when comparing assets in different regions.

Again, a coordinated approach by industry players should lead to pragmatism and efficiency. EPRA is the platform of real estate listed players and should contribute to make climate risks and transition to be a differentiating factor that adds value to European companies. The companies that will succeed in real estate over the next decade will be those that deliver for both investors and society as a whole. •

> *"The companies that will succeed in real estate over the next decade will be those that deliver for both investors and society as a whole."*

JEAN-PIERRE HANIN
MANAGING DIRECTOR - CHIEF EXECUTIVE OFFICER OF COFINIMMO SA/NV

Jean-Pierre Hanin joined Cofinimmo in February 2018, before taking the helm as CEO in May 2018. Prior to this, he had a long international career in industrial companies in the building materials and mining industries in various management positions, including CFO and CEO. He started his career as a lawyer in US law firms.

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Capital Market Perspectives on Listed Real Estate: Earnings Growth, Creating Value, the Relevance of NAV and When to Back M&A

What has Europe's listed real estate sector learned post-COVID and from rapid rise in interest rates? What are the sector's prospects and how can the industry attract more investment?

We sat down with Simon Robson Brown (SRB), Head of European Listed Real Estate at Morgan Stanley Investment Management, and Tim Leckie (TL), Managing Director of Real Estate Research at Panmure Liberum, for their capital markets perspective on these questions and other issues facing Europe's listed real estate sector. Following is a Q&A summary of our free-flowing discussion.

DOES LISTED REAL ESTATE MATTER WHEN IT ACCOUNTS FOR SUCH A SMALL PERCENTAGE OF EUROPEAN STOCK MARKET CAPITALISATIONS?

(SRB): While the sector is still small, that doesn't mean it can't outperform. It can do so when the macro (environment) aligns and that is probably the case now. We've had a perfect storm for the office and retail sectors, with changes in usage and demand. We believe we're now towards the tail end of that, particularly in retail. We've been through a huge change in the interest rate environment since the 2000s.
The stock of companies is broader and better now and there are high barriers to entry – where we have platforms that are very difficult to replicate in their respective sectors. Companies used to be like funds, being used as a store of capital, but a lot of the time now they are operationally focused on creating and driving value.

(TL): I completely agree about operating platforms and barriers to entry. As consolidation in asset management continues and active investment strategies attract less and less in the way of fund flows, it's winner takes all in terms of size. The larger generalist funds aren't going to make or break their outperformance by getting one particular real estate stock pick right. With that in mind, the listed sector needs to work extra hard to speak to public capital markets in their language and in terms they understand, i.e. is the return it offers competitive across their investment universe?

CAN YOU ELABORATE?

(TL): How we communicate returns really matters. Broader capital market participants don't understand Net Asset Value (NAV). A framework based on sustainable cash earnings is how they look at every other sector.
Listed real estate needs to offer something above and beyond the macro cycle. It means you've got to be actively managing assets. An operating platform with the right data and understanding of local markets can bring property risk into a portfolio and actively manage it to grow cash flow. That's how you get a cash based total return that's competitive in public markets.
If you do three things you will never be short of an investor: beat your cost of capital; show you can defend that opportunity with barriers to entry; finally, can you deploy more capital into that opportunity?
You can no longer sit on a prime, long let, low yielding asset in a world where your cost of debt is refinanced at 6% because your debt stack will eat your earnings growth, no matter how good the management team is.

(SRB): Certainly, so why isn't that happening for all companies? It's because they're not meeting their cost of capital and they have a scale issue, in terms of economies of scale and access to capital and debt. That's something that needs to change and is beginning to with M&A.

ARE OTHER FACTORS AT PLAY?

(SRB): Reducing volatility of the listed property sector, which remains elevated. These are more down to debt concerns for some stocks – whether you're going to have a rescue rights issue or a credit downgrade or something. As we move away from these concerns, volatility is likely to reduce.

(TL): When we start second guessing appraisal value and we look for multiples on cash flow, which is what a cap rate is, - that creates volatility. The key to reducing volatility is shifting the narrative to sustainable cash earnings and how much we should pay for that or how much we should expect to pay for that to compete successfully with other securities.

(SRB): I agree. The sector overall is in good shape in terms of debt on the balance sheet. Yes, there are some companies where that's not quite the case, particularly in Sweden, so we've had volatility in those names.
There is a sort of inconvenient truth that banks look at LTVs (loan to value ratios) and therefore investors have to second guess what the LTV is going to be and then what the credit rating agencies are going to do. So we have to keep tabs on what the values are doing.

IS NAV OVEREMPHASISED?

(TL): A discount to NAV doesn't tell me anything about returns, the multiple on sustainable cash earnings from the current business, the earnings growth or what opportunities management might be able to add to their portfolio with that balance sheet. It just tells me I've got protection on my principle. It's a good thing, but it's not all the things that we should be talking about. The one thing you can't fake forever, is dividends. Cash is king. I also disagree with the implication that a real estate valuation is more correct than real-time pricing of equity. NAV's an extremely useful indication of where you might be able to sell an asset today in a normal functioning market. But it's not necessarily correct in times of volatility when you're really looking for price information discovery. It lets you down. In fact, spot NAV has a lot to answer for in terms of the volatility we talked about earlier. We've seen this in 2020-21, when, with historically low rates and low cap rates, companies thought they had an LTV of say 30%, and they had room to gear up to 40% or more. And then we had a correction back to more regular cap rates and there are now those same companies at risk of either disposing of assets in a poor market or issuing equity to fix their balance sheet.

(SRB): You're shooting the messenger by blaming NAV, aren't you? Just because management geared up on a 30% LTV that proved to be semi illusionary, that was the management's decision. The takeaway is: do not gear up into NAV growth. NAV, just like earnings per share, is not perfect, but it has its place. It is regulated. It is comparable in theory. It's a data point that we can use. Earnings Per Share (EPS) has assumptions behind it too. You cannot avoid that being subjective in some way. But it's still useful. I'm not saying it should be used to target prices. The corporate wrapper, the cost base and the outlook for growth all feed into what the NAV should be. But let's not kill NAV because it's being misused.

(TL): Yes, but there are too many cases where NAV is misused and I think it's holding the sector back. You also get investors saying, 'I can't afford a new equity issue at a discount to NAV,' but that's changing. In the equity raises we had last year, companies were tapping markets on an earnings basis, which was incredibly positive.

(SRB): On the subject of equity issues and pricing, there's definitely a move to what is the return on incremental capital. If you can invest new equity to get a better return than that implied by the existing share price, then consider doing it, even at a discount to NAV.
There needs to be a compartmentalisation between the existing company and the new equity. I think the problem we've had is that it all tends to get merged into one and all you see is dilution, when, actually, in two or three years' time it is accretive. Return on equity is the step change that we have to take.

WITH THAT IN MIND, HOW SHOULD SHAREHOLDERS APPROACH M&A ACTIVITY?

(SRB): The current M&A deals we're seeing are share for share deals done on net tangible assets (NTA) parity. It's really about the company on a higher rating managing to impose its rating on the company at a lower rating, therefore giving a premium to the target share price. For the target, it's all about lack of scale in capital markets and in costs. It's about the relative valuation of the companies. Not a read across to the assets themselves. There's a reason why the bidder is trading at a premium relative to the bid target and there needs to be something left on the table for the premium rated company to benefit fully.

(TL): There is a benefit to scale in debt capital markets. Smaller companies really pay a higher price for capital, so that can be addressed through merger activity. Another thing to touch on is diversification, which needs to be rethought as a strategy to protecting cash flow. I know there is a demand for specialist investment. Portfolio management wants to be able to pick and choose – and should be able to do that, because it's the key to outperformance, but there are increasing dangers around companies pursuing that approach. I'm not saying that everyone has to be diversified, but there are risks that need to be dealt with, such as technological change impacting economic use and financing costs punishing smaller companies. M&A activity can help mitigate those risks.

(SRB): One thing about diversified companies is that investors tend to concentrate on the one part of the asset base that isn't performing so well. A cute way of getting around the issue is for two companies trading at a discount to do an NTA-based exchange deal and then sell assets at par. But, of course, they need to actually to be able to sell the assets at par…

(TL): I'd add that investors need to re-examine the attractiveness of a merger and think very carefully over what they're voting for when company liquidation proposals are put forward to them. EPRA guidelines say NTA is not a liquidation value, but we seem to have a sizable enough investor base, treating it as such. For a cash private equity bidder to make a double digit IRR (internal rate of return), they need to buy at a 50% plus discount to NTA, but we get people rejecting proposed mergers on a share basis when they could become a shareholder in a larger vehicle with credit liquidity and hopefully better management options to drive growth. Instead they vote for liquidation, where they're going to get back 15-20% less than NTA and it's going to take two or three years to wind up the company.

DOES PRICING IN THE LISTED SECTOR FULLY REFLECT THE NEW INTEREST RATE ENVIRONMENT?

(SRB): Overall, listed markets are way ahead of the curve, compared with the direct investment markets. There is a lot in the price. On an NAV-weighted basis, the discounts are pretty much as wide as they've ever been and the earnings yields are pretty much as high as they've ever been. If you just take those two sets of distinct numbers, there's a lot of distress in the price. I'm quite constructive about the next 12 months.

(TL): From these levels, I think there are tremendous opportunities. I can look at sustainable cash yields of 7, 8 or 9% with growth of the existing business and balance sheet with future ERV (estimated rental value) growth and management actions to augment it. That builds you to an equity return into the low- to mid-teens, which is very attractive. I think we're largely there but I don't think there's a huge rebound ahead. I think we've probably got further to go and more volatility. Ultimately the cost of capital determines the value of real estate, not vice versa.•

Written by Simon Packard, Headlion Consulting

SIMON ROBSON BROWN

PRINCIPAL MORGAN STANLEY

Simon is Head of European Listed Real Estate at Morgan Stanley Investment Management, joining in 2022 after 16 years at CBRE Clarion, initially as Portfolio Manager and subsequently as a Principal of the firm. His investment career follows six years as an equity analyst at UBS and Citigroup. Simon qualified as a Chartered Accountant (ICAEW) with PricewaterhouseCoopers in 1999, having graduated from St John's College, Cambridge.

TIM LECKIE

MANAGING DIRECTOR, REAL ESTATE EQUITY RESEARCH

Tim joined Panmure Liberum in 2023 as Managing Director of Real Estate Research, following almost 20 years at JP Morgan, latterly as Head of European Listed Property. He left JP Morgan in 2010 and returned two years later after working as a self-employed futures trader and becoming a certified CFA Chartered Financial Analyst.

British Land Doubles Down on London Campuses at Canada Water as Partner AustralianSuper Looks Beyond Returns to Regeneration Impact

Less than three kilometres downstream from London's iconic Tower Bridge on a bend of the eastwards flowing River Thames, the first phase of British Land and AustralianSuper's regeneration of Canada Water is approaching completion.

Next year, businesses and residents will start moving into the Dock Shed, Three Deal Porters and a 35-storey tower called The Founding. The new buildings overlooking Canada Dock provide 28,000 square metres of workspace, 186 apartments and 6,800 sq.m. of leisure and retail space. A striking new 170-metre long, red timber boardwalk will snake across the wetland created from the former dock, improving pedestrian access from the Canada Water station side of the development to the rest of the 21.4-hectare site and beyond.

As part of the former Surrey Docks on the Rotherhithe peninsula, Canada Water is the largest in British Land's pipeline of campus developments and is one of the U.K.'s biggest mixed-use regeneration projects. The project highlights the strategic shift for British Land to sites of scale which present bigger opportunities to leverage the company's asset management and development capabilities.

"*We've doubled down on our campuses as a business,*" said Simon Carter, British Land's Chief Executive Officer. "*The pandemic showed us that the world of work was changing – and we're clearly seeing that with more hybrid working. Businesses want less, but better space. We really wanted to upgrade the quality of our offering and felt campuses were in the sweet spot of what businesses want.*"

DOUBLING DOWN ON LONDON CAMPUSES

"*We've now got a situation in London where we've got a shortage of new and refurbished space because everyone stopped developing. We didn't, though, and are now taking advantage of that.*"

The company has sold standalone properties to raise 3.5 billion pounds during the past three years. In the financial year ended March 31, campuses accounted for 61% of the value of British Land's portfolio, making it one of the U.K.'s largest owner and operators of these assets. The balance of its 8.7 billion-pound portfolio is in retail parks across the UK and London urban logistics.

Capital recycling has coincided with the end of historically low interest rates, which is forcing real estate owners and developers to focus on creating value.

"*We're not the necessarily the best owner of a very prime building on a 15-year lease if there's not much active asset management to do – that's probably best suited to owners with lower costs of capital,*" Carter observed. "*We tend to recycle capital and put it to work in our developments on each of our campuses, including the regeneration of Canada Water.*"

The 12-year project is an important addition to British Land's campus portfolio in London, alongside Broadgate, Paddington Central and Regent's Place. Canada Water's flexible planning consent will deliver a mixed-use campus of around 3,000 homes, 220,000 sq.m. of new workspace, a new park and town square, and 61,600 sq.m. of new leisure and retail space. The development will cost 4 billion pounds, at the latest estimate, which British Land will share with its 50% investment partner AustralianSuper, the largest superannuation fund in Australia, with A$335 billion of assets under management.

4 BILLION-POUND REGENERATION PROJECT

Successful campuses are close to public transport hubs, have a good mix of leisure and retail amenities, and provide sustainable workspaces that meet occupiers' net-zero carbon emissions targets, Carter observed.

"*You absolutely need to be in supply-constrained markets where there is good demand*," for this to work, he said. "*A campus is a big sandpit for us to be an active investor. We're constantly refurbishing buildings, redeveloping them and moving customers around as their space needs evolve. The other thing is that if you achieve a really good letting on a new development, that creates the rental evidence to drive performance across the entire campus.*"

As part of the first phase of the development, British Land and AustralianSuper have tested out flexible, modular buildings at the Paper Yard section of the site. It provides 7,000 sq.m. of space for science and technology laboratories, including TEDI-London, a multi-disciplinary engineering faculty formed by Arizona State University, King's College London and UNSW Sydney.

Carter expects the delivery of phase one of Canada Water will make the project self-financing, from the sale of apartments and by making development finance more available. Average sales at The Founding are achieving 13,455 pounds per square metre, the company reported in May, while the business plan involves leasing the best office space at headline rents of more than 600 pounds a square metre.

AustralianSuper- "Rare breed of institutional investor"

Critical to British Land's campus strategy is bringing in institutional investment partners. Singapore's GIC sovereign wealth fund owns 50% of Broadgate and 75% of Paddington Central. AustralianSuper invested 290 million pounds in 2022 for a 50% shareholding in the Canada Water project, from which British Land also earns fees as the asset and development manager.

"*You can create most value if you can move quickly and the partnership also allows us to share the risk*," Carter said. "*AustralianSuper is a rare breed of institutional investor for taking on development risk with a long view to drive value for its pension fund members through sustainable regeneration.*"

AustralianSuper is no stranger to London regeneration developments, since its first direct investment in 2015: an initial 25% interest in the King's Cross Estate, a 27.1-hectare derelict industrial site behind the railway station of the same name. Today, AustralianSuper owns 74% of the net carbon neutral estate. There is also a link between the two developments in Roger Madelin, joint head of the Canada Water development, who led the King's Cross development for Argent prior to joining British Land in 2016.

"*We could see that by the end of 2024 that King's Cross was reaching its maturity as an asset, so Canada Water was a good opportunity to invest in a development that's fit for purpose for today and tomorrow*," said Paul Clark, Head of European Real Assets at AustralianSuper.

"*We're optimistic about the future for offices in the under-supplied central London market, which presents prospects of good returns.*"

TICKING ALL THE BOXES FOR AUSTRALIANSUPER

Canada Water is one of the last large sites in close proximity to central London. It is a project of scale which allows AustralianSuper to deploy large amounts of capital; has a large public realm for curating the right environment; will deliver high quality sustainable buildings; benefits from good public transport connectivity; has a stable ownership structure and both partners have a track record of delivering assets in London with a "*commitment to quality*," he added.

The partners have steering and working groups focused on the key decisions to be implemented by British Land as the development manager. The biggest challenge is the "*sequencing and phasing of the jigsaw puzzle*" at Canada Water, said Clark, who has worked for more than three decades in the Central London real estate market, 13 of which were as Chief Investment Officer of the Crown Estate.

Canada Water has been an exercise in patient site assembly and growing ambition in British Land's development pipeline since it first acquired an interest in the Surrey Quays Shopping Centre, in 2009. Assembling the site involved acquiring the remaining interest in the shopping centre, the adjacent site of the print works of the Daily Mail General Trust newspaper group and then Surrey Quays Leisure Park in 2015.

It took another four years of consultation with key stakeholders, led by local authority Southwark Borough Council, to work up and agree the masterplan for the site, drawn up by architects Allies & Morrison. In May 2020, Southwark Council granted unconditional consent for the masterplan, following an agreement on British Land's commitments to mitigate the development, including a new community leisure centre on the ground and basement floors of the Dock Shed building, affordable housing and 33 million pounds of investment into public transport.

GROWTH POTENTIAL THROUGH PATIENT SITE ASSEMBLY

The flexibility built into the masterplan gives British Land "*an amazing canvas on which to create a major new mixed-use district in London that is a fantastic place for living and working, as well as a destination for going out and as a place to study*," said Emma Cariaga, joint head of the Canada Water project and British Land's Head of Residential.

This flexibility allows British Land to deliver the appropriate mix of residential, offices, leisure and retail space, she added.

Surrey Docks closed in 1969 after almost three centuries, serving latterly for food imported from Canada and as ponds for timber shipped from Scandinavia and the Baltic. This heritage is reflected in many of the street and building names. Most of the docks and the canal network are filled in or serve as features for the homes delivered by the London Docklands Development Corporation and Southwark Council in the 1980s and 1990s, a development programme that included Surrey Quays Shopping Centre.

Transforming the neighbourhood was the extension in 1999 of the Jubilee Line, part of London's underground rail network. Bond Street, in the heart of the West End, is now a 15-minute journey from Canada Water station and Canary Wharf is one stop away. The station's overground rail service connects to the north side of the River Thames and into south-east London.

More than 52 hectares of parkland and the existing housing in or surrounding the site make Canada Water different from British Land's other more centrally located campuses, Cariaga says, adding that these "*green lungs*" make it an attractive location for businesses.

SUSTAINABILITY AND COMMUNITY COMMITMENTS

Cariaga said the project aims to set new benchmarks in terms of sustainability, including an innovation to re-cycle waste heat from offices to warm homes. The entire project will be gas-free, using 100% renewable electricity. Construction will deploy earth-friendly concrete and recycling materials will lower the carbon footprint of construction. Each of the buildings are to be built to achieve the highest ratings of BREEAM, NABERS, Home Quality Mark and SmartScore.

Building on more than a decade of community engagement surrounding the masterplan, 35% of Canada Water's residential provision will be social or affordable housing, while local businesses will have priority access to 4,650 sq.m. of workspace.

The next phases of the development will showcase British Land's development and asset management expertise as it converts the former Printworks Building into the Grand Press workspace alongside a unique cultural venue, building on its success as a temporary, yet internationally renowned cultural venue for concerts, music events and exhibitions. The subsequent phase of the project will deliver a new town centre and will involve the demolition and redevelopment of Surrey Quays Shopping Centre to add more office space and apartments on the upper floors as well as underground parking.

Based on current projections, British Land estimates a completed Canada Water regeneration will generate an annual internal rate of return exceeding 10% and approaching 15%.

"*If it was just about money and land, we would not have invested in Canada Water,*" said AustralianSuper's Clark. "*In 10 years I want people to find it a vibrant, sustainable place in which to live, work and spend their free time.*"•

Written by Simon Packard, Headlion Consulting

SIMON CARTER

Simon became CEO of British Land in November 2020. He had rejoined the group in 2018 as CFO, following three years serving as CFO at Logicor and Finance Director at Quintain Estates. He qualified as a chartered accountant at Arthur Andersen before working in fixed income at UBS. He went on to join British Land in 2004 and held various financial and strategic roles up until early 2015, latterly as a member of the Executive Committee.

EMMA CARIAGA

Emma is Joint Head of Canada Water & Head of Residential at British Land and a member of the Executive Committee since 2019. She joined British Land in 2014 from Landsec, where she delivered a number of Central London developments as well as overseeing its strategic land portfolio. Prior to this, Emma held development and land management roles at Barratt and Crest Nicholson.

PAUL CLARK

Paul is Head of European Real Assets for AustralianSuper and has spent more than 30 years working in London's real estate market. Previously, he was Chief Investment Officer at The Crown Estate for 13 years as he forged major strategic partnerships for parts of its London portfolio, completed the largest development pipeline in the organisation's history and facilitated the expansion of the UK's offshore wind generating capacity.


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Direct Property Funds Pivot to Listed Sector to Maintain Liquidity

A hybrid investment strategy incorporating listed real estate may chart a new course for open-ended direct property funds to navigate out of the crunch of maintaining liquidity levels for retail investors.

Investors in the nearly two-decade-old strategy, the Legal & General Property Fund and its feeder fund, the U.K.'s largest open-ended direct property fund for private individuals, voted in April to adopt a hybrid approach for the 1.1 billion pound portfolio. By mid-2025, the fund is expected to have transitioned to holding 45% of its assets in global listed real estate investment trusts (REITs), with an equal weighting in direct U.K. property investments and the balance in cash. Previously, the fund had targeted around an 80% allocation to direct U.K. property holdings.

Individual private investors have been deserting open-ended direct U.K. property funds in their droves, leading to multiple fund liquidations. This follows waves of fund suspensions that locked up their capital, amid concerns over prospects for real estate investments, and as the U.K. regulator flagged plans to require mandatory redemption notice periods. Assets under management for direct U.K. property funds fell to 4.5 billion pounds at the end of 2023 from 19.3 billion pounds five years earlier, Investment Association data show.

"*We've started to build the case that you can get the best of both worlds through the hybrid approach*," said Matt Jarvis, who co-manages the Legal & General Investment Management fund with Michael Barrie. "*There are lots of merits in being able to continue with a sizeable proportion of the fund exposed to real bricks and mortar assets, as before, but with this extra depth of liquidity through investing in REITs.*"

"*The hybrid idea is recognition that there is a cloud over the (open-ended direct U.K. property fund) space and retail investors don't want to get stuck in it*," he added. His fund's own assets under management have declined 51% at the end of March from 2.25 billion pounds at the end of September 2022.

LIQUIDITY MISMATCH OF OPEN-ENDED DIRECT PROPERTY FUNDS

Market stresses have put the spotlight on the inherent liquidity mismatch of open-ended direct property funds, which offer daily dealing in their units while being invested in an asset class where it can take weeks or months to transact. The Bank of England reported in 2019 that this mismatch creates an incentive for investors to rush to be the first to redeem units. Daily dealing, a major selling point of the funds for private individuals, can therefore compound funds' liquidity challenges and may impact the quality of the portfolio for those who choose to remain invested in the funds.

Open-ended direct U.K. property funds have been under severe pressure to suspend redemptions on three occasions in the past eight years: in 2016, after the U.K. voted to leave the European Union; during the Covid-19 pandemic; and in October 2022, when the announcement of unfunded tax cuts triggered a surge U.K. government bond yields.

Regulators and industry bodies have explored how best to balance liquidity management with the goal of democratising real estate investment for private individuals through open-ended funds. The low interest rate environment highlighted notably how keeping large cash allocations for potential redemptions can undermine fund performance and dilute the exposure to real estate that such funds are designed to provide.

After the 2016 wave, regulators instructed funds to suspend redemptions when there was a material risk to the valuation of 20% or more of their assets. In 2021 the Financial Conduct Authority created Long Term Asset Funds with at least a 50% allocation to illiquid assets, including direct property investments, and a 90- to a 180-day notice period for unit-holders. Individual investors have not waited for the regulator to announce whether this framework applies to existing open-ended direct U.K. property funds.

A REPONSE TO REGULATION

LGIM has targeted the fund's direct property allocation at 45% of assets partly in response to the regulator's position and partly as a result of its research into the appropriate balance between direct and indirect investments, Jarvis says.

Back-testing rolling three month returns between 2012 and 2024 revealed the hybrid strategy delivering a "*broadly comparable*" long-term performance and risk to that of the previous direct property strategy, he said. The hybrid approach, therefore, allows the fund to "*overcome the regulatory challenge and redefines the fund in a way that supports both the regulators and investors.*"

Under the new strategy, the Legal & General Property Fund will initially obtain its listed real estate exposure by replicating the Solactive L&G Green Real Estate Developed Index instead of an active stock-picking approach.

"*We have freedom to deviate from that,*" Jarvis said. "*At this time, it's not mandated that we have to have sustainability in our investments but we strongly believe in it as an investment theme. The strategy in itself will evolve over time in terms of the sort of metrics that can be examined across global markets and sectors.*"

"*The alpha proposition is within the U.K. direct property focus, where we have a long pedigree of delivering performance. The index operation on the global side in itself should manage away a degree of that volatility.*"

A "PASSIVE PLUS" APPROACH TO GLOBAL LISTED REAL ESTATE

The 10% allocation to cash and equivalents will provide liquidity to meet any redemptions as well as provide the working capital for the direct portfolio, while the listed real estate allocation will provide an additional short-term liquidity buffer, the LGIM fund manager said.

Adopting the "*passive plus*" index approach to investing in global listed real estate will lower fund management fees, while new classes of units will give private investors the choice to hedge the currency exposure from the global listed property assets, he said.

The Legal & General Property Fund is in the process of selling direct property assets to meet redemptions and to rebalance the portfolio, while Jarvis is optimistic that the new strategy will attract new investors with inflows directed to the fund's listed property allocation.

"*The market is looking appealing now,*" Jarvis said. "*Values are bottoming out and we can see that the return prospects going forward are interesting. The hope is that investors will now start to see the fund as a credible proposition again.*"

Time will tell if the Property Authorised Investment Fund (PAIF) hybrid model catches on in the U.K. as well as in other markets, including Germany, where the 115 billion euro open-ended direct property fund industry is also facing significant liquidity management challenges.•

Written by Simon Packard, Headlion Consulting

MATT JARVIS

Matt joined Legal & General Property as an Asset Manager in November 2004 and is Co-Fund Manager of the Property Fund, having previously been a Commercial Valuer with Jones Lang LaSalle. Matt holds a degree in Land Management from Reading University and is a Member of the Royal Institution of Chartered Surveyors (MRICS).

Why Mounting Regulatory Risks Require a New Approach for Listed Real Estate Companies

Europe's listed property companies must rethink public affairs strategies and collaborate more closely with peers and with industry trade associations to manage better the risks posed by new regulations or public policies, according to Aigline de Ginestous, Group Director of Institutional Relations at Unibail-Rodamco-Westfield.

"*We are facing a new geopolitical, economic, social and environmental reality*," which has moved the real estate industry into the sights of regulators and policy-makers, notably on sustainability and environmental matters, said the URW executive, a member of EPRA's Regulatory & Taxation Committee. The focus on the real estate industry increases the risk that new laws, rules and regulations will affect how property companies conduct their business.

The Taxonomy, Corporate Sustainability Reporting Directive (CSRD), and the Energy Performance of Buildings Directive (EPBD) form a raft of rules that will have a material impact on how property companies operate across the European Union if they are not anticipated. For example, The EPBD requires a doubling in the provision of electric vehicle charging points in shopping centre car parks to 10% of parking spaces. It underscores why companies need to look beyond the localised and project-driven public affairs strategy often adopted to date, seeking instead to anticipate new policy initiatives and bring expertise to co-construct regulations with public stakeholders at global, regional, national and local levels.

"*Today our capacity to operate is more at risk from a regulatory point of view, so it was necessary for us to professionalise our advocacy and work closely with the trade federations*" just as other regulated industries, such as financial services, conduct their public affairs - "*because they've been in the firing line before*," de Ginestous said.

URW's CEO Jean-Marie Tritant appointed her three years ago to structure the group's public affairs strategy and practice with a global approach. This followed the COVID-19 pandemic lockdowns, which affected all three of the company's business lines in Europe and the U.S.: shopping centres, offices and its events/exhibitions activities.

THE NEED FOR A GLOBAL APPROACH TO PUBLIC AFFAIRS

In France, where the company is headquartered, lockdown rules favoured high street shops over shopping centres "*for no objective reason*." Another key lesson from the pandemic was the interconnected nature of public policy- and regulation-setting, which underscored the need for a global approach to public affairs. The sanitary pass operated at a national level in France during the lockdowns was applied at a city level in Los Angeles, for example.

To have a relevant Public Affairs practice at group, country and asset level, de Ginestous has developed a global strategy with local implementation based on a network of public affairs specialists within URW, who work closely with federations and institutional allies to advocate properly at a local level.

There are key differences in the regulatory environment and advocacy approach between Europe and the U.S.. In the U.S., regulations are less devolved at federal level and need to be addressed mostly at a state or city level, while in the EU, the European Commission in Brussels "*creates an incredible number of regulations, notably with the Green Deal*" which are transposed at a national level.

There are also different cultural approaches to working with policy-makers: from the European relationship-driven model to the Washington model of advocacy by industry groups and through political donations.

APPROACHES TO PUBLIC AFFAIRS DIFFER ON EACH SIDE OF THE ATLANTIC

In the U.S, public affairs is focused on engagement at a federal level, working with the International Council of Shopping Centers (ICSC) in advocating policy change, while URW's local managers work on issues such as local tax legislation, handling organised retail crime, systematic homeless or addiction.

In the European Union country where it operates, de Ginestous has a public affairs specialist addressing national and local issues, such as the business rates regulation in the U.K., REIT status in Poland or new housing regulations in Spain.

At a European level, URW works in partnership with industry federation such as EPRA or the European Council of Shopping Places (ECSP), which URW co-founded in October 2020 after the ICSC closed down its European activities. The top-down flow of regulations in the EU means it is often more efficient to bring expertise and co-construct proposals with regulators at the source rather than at a national level, she explained.

"*Either you try to have a voice at the EU Institutions, or you will have to multiply your efforts in each of the countries where you have a presence,*" she explained. "*Our strategy is to be the preferred partner of our stakeholders*" by bringing practical expertise on how proposed regulations and policies would affect businesses, to become "*part of the solution, rather than being seen as the problem.*"

MAKING STAKEHOLDERS LISTEN

To gain traction with stakeholders, companies need to change the basis of the dialogue so that governments, regulators and other public authorities understand better why they should listen to the real estate industry. Today, a broader positioning is expected of corporations. Real estate's importance within the economy is recognised. However, "*with great power comes great responsibility*" and the sector needs to demonstrate its capacity to address the environmental and social transition, and build the sustainable and inclusive cities of tomorrow, she observed.

For de Ginestous this has meant developing a proper communication towards institutional stakeholders that measures URW's positive impact. URW published last January the first 360° impact report of the industry, itemising and quantifying the economic, social, environmental and public interest impacts of its shopping centres. It applied the requirements of the Corporate Sustainability Reporting Directive (CSRD) in its 2023 registration document one year in advance. It also initiated a collective work with the Palladio Institute on a broader study of the real estate sector's impact in France, which was published in July and in which EPRA was closely involved.

Since actions speak louder than words, URW has developed pro-bono initiatives to scale its impact. For instance, it provided vacant units in its malls to allow vaccination centres to open during Covid or for establishing administrative support units in Poland and the Czech Republic following the influx of refugees from Ukraine after Russia's invasion. Accompanying this have been multiple public service campaigns at its centres on topics such as culture, nature, health, diversity and inclusion. For instance, URW conducted in March the first global industry campaign in partnership with UN Women to display on screens for three days the "*Invest in Women*" campaign, enabling it to reach the equivalent of the annual visitor numbers of Paris's Louvre Museum.

In an environment where regulations can fundamentally affect their businesses, de Ginestous believes that if listed public companies want to become proper "*corporate citizens*" with a voice in the public debate, they need to approach public stakeholders in the way outlined by President John F. Kennedy in his 1961 inaugural address: "*Ask not what your country can do for you – ask what you can do for your country.*"•

AIGLINE DE GINESTOUS

Aigline is Group Director of Institutional Relations at Unibail-Rodamco-Westfield (URW), joining in May 2021 from public sector, serving as Chief of Staff and advisor at France's Economy & Finance Ministry and special advisor to the President of the National Assembly's Economic Affairs Committee. She was previously an M&A investment banker for nine years. Aigline holds a Masters in Management from EDHEC Business School and an MBA from INSEAD. She graduated from French War College in 2024.

Increase in Investment Flows to Listed RE from the Continent's Largest Pool of Institutional Capital to be Expected

One of the biggest obstacles to European insurers investing more in listed real estate companies is the heavy capital weightings imposed by Solvency II. The biggest piece of regulation of the insurance industry in Europe used to entail that listed real estate assets should be treated the same as short-term equity holdings, which is a common but grossly misplaced representation of the long-term investment opportunity listed real estate presents. Analysts and investors agree that Solvency II plays an important role in the insurance sector's underweight allocation to property stocks compared with other forms of real estate investment. Hence, EPRA has been strongly petitioning the European institutions to cut this burden from around the industry's neck – and it seems successfully.

The EU's Solvency II rules became fully applicable at the start of 2016 and are designed to ensure that insurance companies can meet their obligations to policy holders in the event of major losses. The rules fix the amount of capital they must hold against their investments for regulatory purposes and these vary according to the risk of potential losses for each asset class. The capital risk weighting required for listed real estate is 39%, along with equities. That contrasts with only 25% for direct property investments, due to the lower perceived risk or volatility of physical bricks and mortar.

In 2019, a milestone was achieved with the introduction of a new risk-module for "long-term equity investment" under which listed real estate would fall, a change in the legislation EPRA's Public Affairs team successfully advocated for alongside the European insurance trade body after intense interaction with the EU insurance regulator EIOPA and the European Commission, showcasing that the impact of stock volatility on the performance of listed real estate was ironed out over time and that long term it offered a similar risk and reward profile to unlisted property.

The new article reduced the risk-charge from a burdensome 39% for overall equities to only 22% for long-term investments in equities, making the new sub-module lower and potentially more attractive than the capital requirements for direct property. Potentially.

However, EPRA's insurance members made us aware that the revisions also introduced a number of unworkable criteria that should be met by the insurers in order to benefit from the reduced risk-charge, hence the equity portfolios that would apply for the reduced capital charge remained limited. The biggest constraints were represented by stipulations to hold the investment for too long, as well as challenging organisational requirements of the portfolio.

ACHIEVEMENT

When the official review of the Solvency II Directive has begun, EPRA's Public Affairs team was again applying a multi-layered advocacy effort with regulators and institutions for improving the conditions for the earlier achieved sub-module. And again, we were very pleased to see that this time our call to improve the conditions with regards to a too restrictive holding-period of five years have been taken up the EU insurance regulator EIOPA and have found its reflection in the position of the EU Parliament and Council.

End of January 2024, the European institutions finally reached an agreement on the overall Solvency II Directive. A new article 105a on long-term equity investments was added into the Directive, explicitly reflecting two improvements EPRA has been calling for:

1. Softening the portfolio set-up which required to be "*organised separately from the other activities of the undertaking*", does need now (only) to be "*identified and managed separately from the other activities*". A small but crucial change moving away from what was considered by our insurance members as a burdensome "*ringfencing light*".
2. Softening of the holding period condition which required that "*the average holding period of equity investments in the sub-set exceeds five years …* ", does require now (only) a corporate policy which "*reflects the undertaking's*

> *commitment to hold the global exposure to equity in the sub-set of equity investment for a period that exceeds five years on average*". A fine line of difference which will mean a significant change.

Both improvements could be the game changer the insurance as well as the listed real estate sector have been waiting for.

NEXT STEP

The agreement will now need to be formally voted on, and good news is that the European Parliament did so already in its last Plenary session in April 2024. The EU Council is the missing bit which is foreseen to vote with no further surprises in September this year. Once it is published within a months' time in the EU Official Journal this will become European law. Member States will have then two years to implement it to their national legislation, with some countries being faster than others.

IMPACT

What can this mean for our sector? Europe's EUR 9.5 trillion insurance investment industry is the largest single pool of institutional capital in the EU. In such an environment, the preferential treatment of certain assets compared to others can have outstanding consequences in the equity markets. According to the rapporteur of the Solvency II review, Member of the European Parliament Markus Ferber said before the vote that the new rules could unlock hundreds of billions of Euros in capital from the insurance industry. Even a fraction of that would be extremely positive for investments in the European listed real estate sector.

EPRA will execute now over the coming months an awareness raising campaign among investors to give this huge piece of legislative work undertaken the best start possible. One member of EPRA's Regulatory Committee called it "*like moving a mountain*". I agree, it can be considered like that. Let's make now sure after the mountain was moved, the insurance sector will reach its peak for the best of our sector.•

TOBIAS STEINMANN

DIRECTOR PUBLIC AFFAIRS, EPRA

As Public Affairs Director Tobias is responsible for giving the listed real estate sector a voice in legislative processes across the EU. Before joining EPRA, Tobias worked for the BASF Government Relations office in Brussels, representing the company's interest in innovation and technology. Prior to that Tobias worked as Parliamentary Advisor and Head of Office for a Member of the European Parliament, followed by a position as a consultant for public affairs in several areas of EU policy-making. Tobias holds a Bachelor (Hons) in Business Administration from Munich University of Applied Sciences and received a Master double-degree in European Studies from the Universities of Vienna and Krakow.

Unlocking Diversification: The Strategic Role of Real Estate in Multi-Asset Portfolios

Lloyd Barton and Padmasai Varanasi, Oxford Economics

In August 2019, Oxford Economics released a study[1] that made a compelling case for European investors to increase their exposure to listed real estate. The findings suggested that boosting allocations to this often-overlooked asset class could help portfolios better achieve strategic objectives. But just months later, the European economy was rocked by a series of crises - the COVID-19 pandemic, the Russia-Ukraine war, and soaring inflation. These seismic events have taken a toll on European real estate, with higher interest rates depressing prices while the pandemic upended fundamental market dynamics.

With the landscape shifting so dramatically, it appeared timely to revisit our original analysis through a fresh lens. As well as updating the analysis, we also broadened the scope to include both direct and listed real estate holdings. While correlated to some degree, these two real estate investment vehicles can diverge in performance due to factors like asset composition, market structure, valuation differences, and market forces. Importantly, their low to moderate correlations with other asset classes position them both as potentially valuable portfolio diversifiers.

THE PITFALLS OF TRYING TO TIME THE MARKET

It may be tempting to conclude that an investor can maximise returns by adopting a dynamic investment strategy where the mix of assets is adjusted based on shifting market conditions. But extensive research, such as Morningstar's annual "*Mind the Gap*" report, has shown that attempting to time the market is a fundamentally flawed approach. These studies consistently find that investors who try to strategically enter and exit investments tend to underperform a simple buy-and-hold strategy; moreover, the most volatile asset classes resulted in the biggest gaps between reported returns and actual investor returns, underscoring the tendency for investors to be influenced by short-term market fluctuations.

The evidence underscores the merits of a disciplined, patient investment style over the long term. With this in mind, we examined the optimal allocations that would have maximized returns in a portfolio of European assets over the past 21 years.

OPTIMAL PORTFOLIO ANALYSIS – THE ROLE OF REAL ESTATE

Our findings reveal that real estate commands a sizeable allocation across varying risk tolerances, with direct real estate allocations fairly consistent and listed real estate weightings highest for medium/high risk investors.

As the sectoral compositions of direct and listed real estate can diverge significantly, influencing their relative performance, we also took a deeper dive to examine whether these two investment vehicles could act as complementary holdings within the same property sectors. Our findings revealed a clear advantage to incorporating both direct and listed exposure. Across virtually every major real estate sector, portfolios that included both direct and listed

Figure 1: Allocations to real estate by risk threshold

AVERAGE OPTIMAL ALLOCATION TO REAL ESTATE (2001-2023) (5-YEAR HOLDING PERIOD)

Source: Oxford Economics calculations

[1] Oxford Economics study:

Figure 2: Allocations in alternative economic scenarios

ALLOCATION TO REAL ESTATE BY SCENARIO (%) OVER Q3 2024 - Q4 2030						
Scenarios >	**DOWNSIDE**		**BASELINE**		**UPDSIDE**	
	Listed	*Direct*	*Listed*	*Direct*	*Listed*	*Direct*
Low risk tolerance	**0**	**5**	**6**	**14**	**6**	**15**
Medium risk tolerance	**3**	**10**	**10**	**14**	**15**	**15**
High risk tolerance	**3**	**10**	**10**	**11**	**13**	**15**

Source: Oxford Economics calculations

investments consistently exhibited higher risk-adjusted returns compared to those with just direct real estate holdings. The one exception? The retail sector. Here, adding a listed real estate component failed to improve risk-adjusted performance, likely reflecting the sector's well-documented struggles in recent years amid seismic shifts in consumer behaviour. With retail properties trading at steep discounts in public equity markets, the listed side appeared to weigh on overall portfolio metrics. But this was the only blemish in an otherwise compelling case for a multi-pronged approach to real estate investing.

THE FUTURE OF REAL ESTATE INVESTING

Looking ahead, we utilized Oxford's proprietary Global Economic Model to explore how real estate might perform relative to other assets under different global economic scenarios through 2030. As well as our baseline projections, we examined an upside scenario characterised by lower inflation rates and more favourable credit conditions (relative to the baseline), as well as a downside scenario where elevated interest rates constrain gains in both equity and property markets. Across all three scenarios analysed, real estate consistently earned a place in the optimal portfolio mix, reinforcing its role as a powerful diversifier.

The results aligned with the risk/return profiles of listed and direct real estate. As investors' risk tolerance rose, they allocated more to the potentially higher-returning (but riskier) listed real estate, while reducing direct real estate exposure in favour of other assets offering superior (albeit more volatile) average returns.

Our analysis demonstrates that combining listed and direct real estate can help investors achieve optimal risk-adjusted returns. Direct real estate provides relative stability and income, while listed real estate offers liquidity, diversification, and professional expertise. Listed real estate also allows easy access to specialized property types like self-storage, warehouses, and data centres poised to benefit from recent structural shifts.

This combination creates a well-rounded real estate allocation that can enhance portfolio resilience and performance across various market environments. These features also lend themselves to so-called 'core-satellite' investment strategies, where a core portfolio of stable, income-generating assets is complemented by satellite investments used to potentially enhance returns or diversify risk. For example, a core investment in direct real estate might include well-located, income-producing assets with a history of stable rental income and appreciation potential; satellite investments in listed real estate could then involve more specialized or higher-risk real estate sectors like healthcare facilities, data centres, or international properties.

In today's uncertain, volatile markets, a diversified real estate strategy is essential. With listed real estate often overlooked, our findings reinforce our original conclusion: a reassessment of strategic allocations may be warranted to fully capture the unique benefits of both real estate investment vehicles. By rethinking real estate's role, investors can enhance portfolio resilience and performance across market cycles.•

LLOYD BARTON
HEAD OF THEMATIC MACRO CONSULTING, OXFORD ECONOMICS

Lloyd Barton is Head of Thematic Macro Consulting at Oxford Economics, leading bespoke client research into long-term trends in the global economy and financial markets. His areas of specialism include macro forecasting & scenario analysis, global trade, banking & capital markets, real estate, and commercial advisory for infrastructure transactions. Lloyd holds degrees in Economics from the Universities of Cambridge and Warwick.

PADMASAI VARANASI
SENIOR ECONOMIST, OXFORD ECONOMICS

Padmasai is an Economist within the EMEA Macro Consulting team, based in the Oxford office. Since joining Oxford Economics in July 2019, she has contributed to a range of projects with a focus on economic forecasting, international trade and issues relating to the financial sector. She is also the country economist responsible for Pakistan.

Before joining Oxford Economics, Padmasai worked as an Economist in the Research and Public Policy division at the World Federation of Exchanges in London where she undertook research on global stock and derivatives exchanges and the wider economy.

She holds an MSc in Economics from University College London (UCL) and has also passed the CFA Level 1 exam.

The Rise of Alternative Property Sectors

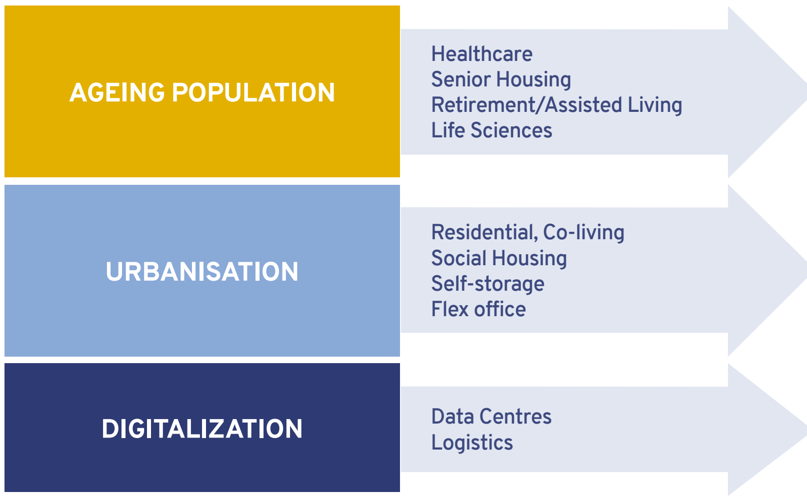
Historically, the European real estate industry has been dominated by four traditional property sectors: office, residential, retail, and industrial. However, during the last decade, the industry has undergone a notable shift away from these traditional core property sectors towards other alternatives, seeking more diversification, innovation, and growth.

This movement began before the pandemic and accelerated afterward, supported by some megatrends (Fig. 1) that are reshaping the European economy. Other property spaces like healthcare, self-storage, senior and student housing, and data centres are gaining traction, becoming flagship opportunities for many REITs, property companies, and institutional investors.

Over the past 20 years, many real estate specialist and investors have increased the number of sectors included in their research reports[1] and investment universe. The need for investments allowing to catch these megatrends has boosted the desire for this type of property spaces. A survey from CBRE[2] (2024) shows an investors' increasing appetite in alternative property sectors, with student housing (49%), senior living (38%) and data centres (35%) being the favourite asset types, while all the others alternative sectors score more than 25% of intention from the institutional investors surveyed.

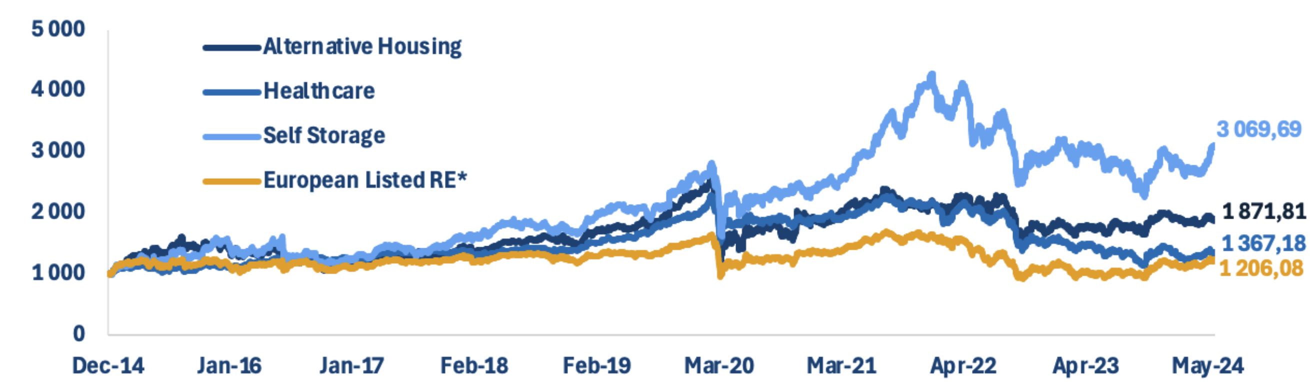
To better understand the performance and evolution of these alternative sectors, EPRA has created some in-house research benchmarks for each of these alternative sectors as well as a composite Alternatives Sectors benchmark. Let's dig into the details of each of these alternative sectors.

Figure 1: Megatrends in the post-pandemic world boosting alternative RE sectors



Source: EPRA Research.

Figure 2: Total Return: Alternative RE Sectors vs European Listed RE (Dec/14 - May/24)



*Source: EPRA Research. *FTSE EPRA Nareit Developed Europe Index*

[1] Good examples are PwC & ULI in their Emerging Trends in Real Estate report.
[2] CBRE (2024), European Investor Intentions Survey.

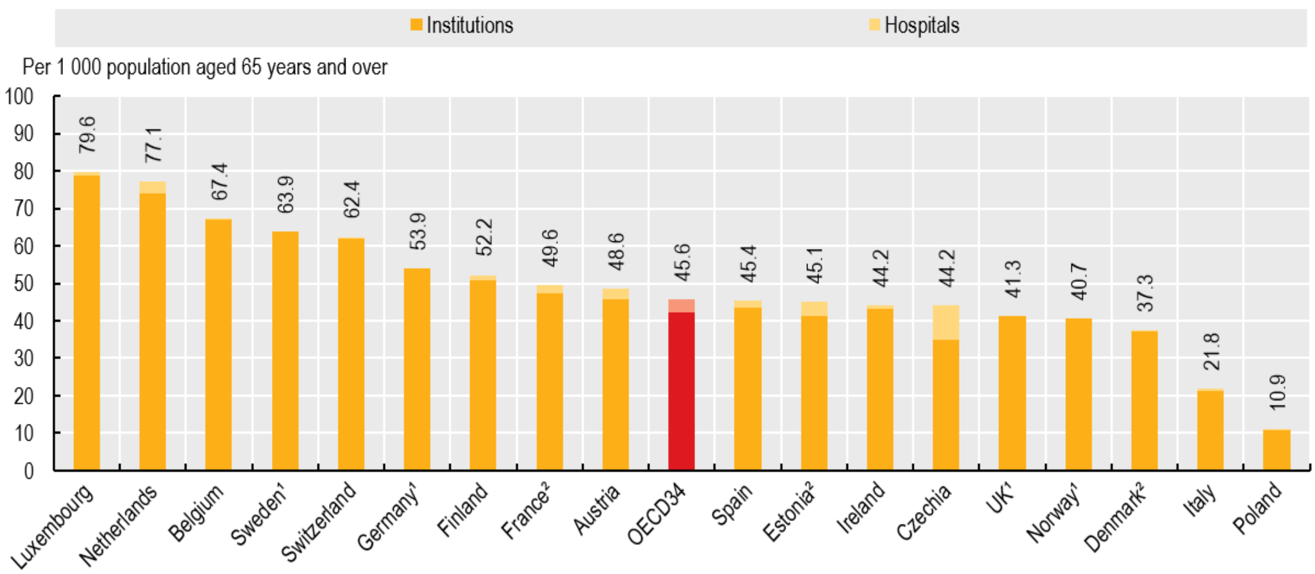
HEALTHCARE

Demographic projections over the long-term reveal that the EU is 'turning increasingly grey' in the coming decades. The total population of the EU is projected to decline over the long term, but also to experience a significant change in its age structure, with the ageing of the baby boom cohorts. Eurostat projects a 4% decline in the total EU population from 449 million (2022) to 432 million (2070). Simultaneously, a significant upward shift in the age distribution is expected, as the share of the elderly population will increase from 21.2% to 30.5% by 2070. In addition to demographic shifts, clinical and technological advances also contribute to increased healthcare spending (Deloitte, 2019). Consequently, there is a rising demand for high-quality care facilities to meet these needs, leading to expanded investment opportunities in healthcare assets.

However, the availability of stock is one of the biggest barriers to sector expansion. According to the OECD, on average, the EU has approximately 46 beds in residential LTC facilities per 1,000 population aged 65 years and over, which clearly does not match the growing demand. Moreover, the provision of new developments is generally low across Europe. Finally, the growing demand for life science facilities and labs has boosted investments in this specific property type in many different geographies.

These elements support the case for rental growth and operational expansion for healthcare facilities in the European real estate market. EPRA identified seven listed REITs in the European healthcare sector, with a total market cap of EUR 9.2 billion as of March 2024, which has more than doubled in the last decade.

Figure 3: Beds in LTC facilities in Europe (per 1,000 population aged 65+)



1. Number of LTC beds in hospitals are not available in these countries.
2. Number of LTC beds in hospital excluding psychiatric beds.

Source: OECD Health Statistics (2023).

ALTERNATIVE HOUSING

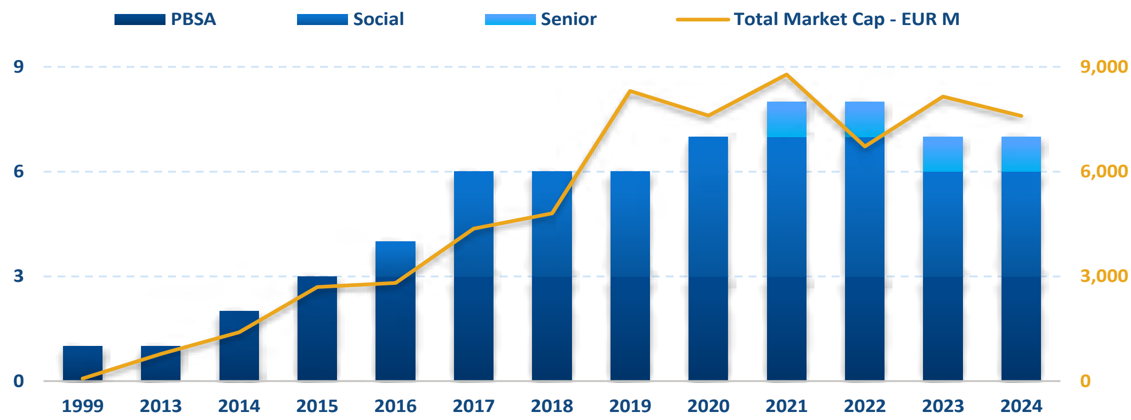
Residential properties have been part of the listed real estate industry in Europe for decades, although they became much more relevant after 2012 with the expansion of the German residential landlords and the emergence of several alternative subsectors like co-living, social housing, senior living, and purpose-built student accommodation (PBSA) in continental Europe.

During the last decade, the number of alternative housing specialists in Europe multiplied by four and their total market cap changed from EUR 1,403 million in 2014 to EUR 7,252 million in 2024, representing a total growth of 416.7% (CAGR 17.8%).

Regarding a long-term potential growth, some demographic trends can be highlighted. First, the provision of care homes and senior living facilities has not evolved fast enough[3]. Simultaneously, looking at senior housing, most of the European markets remain highly fragmented, mainly due to regulatory and idiosyncratic differences across several territories. Second, there is substantial evidence of undersupply of student accommodation in most of the main cities in Europe[4]. Third, several investors are eager to increase their allocations to this sector in the near future, although some important barriers need to be surpassed. Finally, ESG and sustainability are becoming the most important topics for all types of stakeholders, where REITs and listed property companies are growing in importance and becoming a key participant in the sector.

[3] Savills, presentation at the Senior Housing & Healthcare Summit, Brussels, June 27th 2023.
[4] JLL Research, European PBSA Investing in the Future, June 2024.

Figure 4: Number of Listed Alternative Housing Specialists in Europe

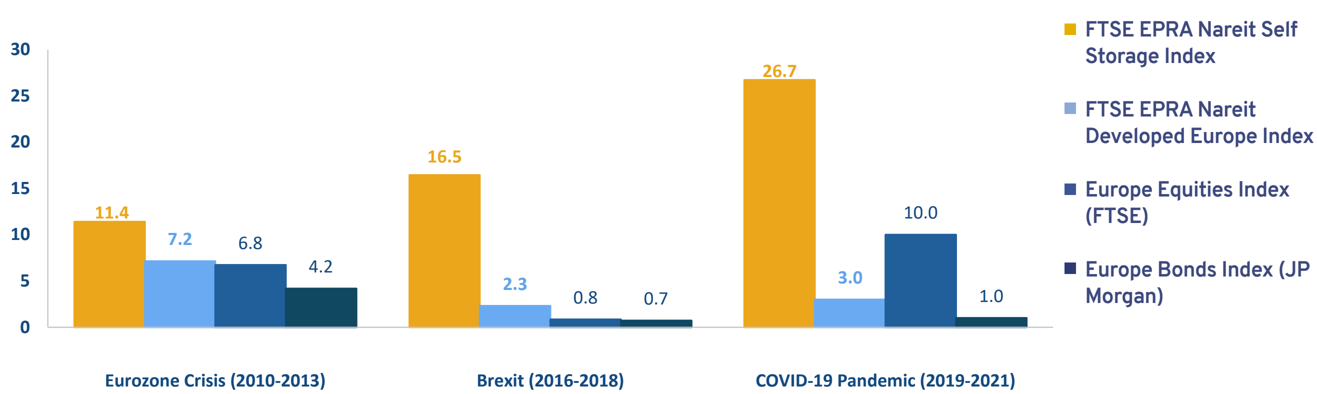


Source: EPRA Research.

SELF STORAGE & DATA CENTRES

Self-storage companies are entities which rent units out to individuals and companies for a contractual minimum period, usually above 6 months, for the sake of storing their goods. As an industry, it has been fuelled by many drivers, including changes in consumers' behaviour, households composition and digitalization, which have boosted the growth of this sector in recent years. The FTSE EPRA Nareit Developed Europe index currently counts 3 self-storage constituents, Shurgard Self Storage, Safestore Holdings, and Big Yellow Group, and has proven to be resilient during economic downturns. In previous difficult periods in Europe, the sector managed to maintain strong results, outperforming not only listed real estate but also some other asset classes, reaching strong total returns during the COVID-19 pandemic (26.7%), Brexit (16.5%) and the Eurozone Crisis (11.4%) periods.

Figure 5: Self Storage Performance During Economic Downturns



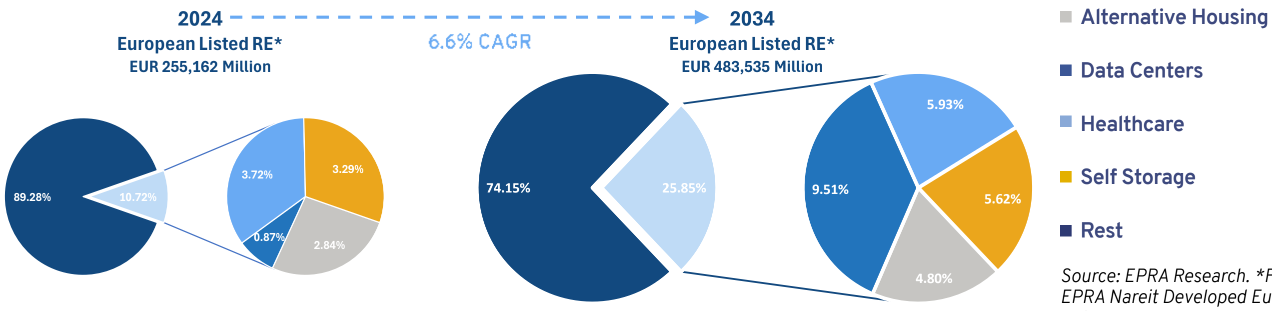
Source: EPRA Research.

On the other hand, data centres are some of the rising stars in the real estate industry. The IT infrastructures at the core of the new "*digital economy*" are mainly stored in data centres, which are assets that allow efficient storage and management of large amounts of data. Despite looking like "*conventional*" warehouses, they are designed to provide high-level technological space in which companies, institutions and other organizations can allocate their computing resources. As a matter of fact, a large amount of the available space is leased out to tech giants ("*hyperscalers*") which are involved in cloud services and AI development. These heavy tech corporations[5] have seen an incredible growth in market capitalization, reaching 23.87% of the S&P 500 as of March 29, 2024.

In terms of size, the largest market in the world is the US, led by two listed giants: Equinix and Digital Realty, that combined make up for 11.8% of the FTSE EPRA Nareit North America Index as of March 29, 2024. In the European listed arena, currently there are no listed specialists, however, some of the listed REITs are already investing in this type of properties. In Spain, Merlin Properties launched a new business line dedicated to data centres at the end of 2021, four already completed in Madrid, Barcelona, and Alava, with a

[5] Google, Microsoft, Nvidia, Meta, Amazon, Oracle, Adobe.

Figure 6: Potential Estimated Growth of Alternative Sectors in Europe



*Source: EPRA Research. *FTSE EPRA Nareit Developed Europe Index*

total capacity of 60 MW. In the United Kingdom, SEGRO has also ventured into the data centre landscape by owning the land and the 'shells', but not operating them, instead, it leases them out to operators such as Equinix, CyrusOne, and Iron Mountain.

Given the rising demand for data centres and the overall growth of the region, EPRA estimates a significant expansion of the sector that could reach EUR 46 billion in market capitalization by 2034, representing around 9.5% of the FTSE EPRA Nareit Developed Europe Index.

ALTERNATIVE SECTOR DURING THE NEXT DECADE

By considering the fundamentals of each of these property sectors, as well as the historical trends of growth and diversification in the European listed real estate industry, EPRA estimates that the alternative property sectors could represent around 26% of the industry by 2024.•

DAVID MORENO
INDEXES MANAGER, EPRA

David joined EPRA in 2016. He has a background in financial markets within financial institutions mainly as analyst for fixed income and corporate finance. CFA charter holder. He is Economist and Professional in Finance from Universidad del Rosario (Colombia) and holds a joint Master degree in Quantitative Economics and Financial Engineering from Université Paris I Pantheón-Sorbonne (France) and Universitá Ca'Foscari di Venezia (Italy).

Climate Data Disclosures & Indexing in the Listed Real Estate Market: a New Approach in Estimation

FTSE Russell Outlines the Challenging World of Emissions Disclosures, and how Partner Measurabl Approaches Climate Data Provision in this Field

Since their introduction in 2017, the FTSE EPRA Nareit Green Index Series has brought climate solutions to the listed real estate index space, targeting companies with higher levels of green certifications and lower energy usage. In a sector contributing close to 40% of global emissions, the Green Target Indexes were subsequently introduced in 2022, incorporating carbon emissions targets at a universe level, leveraging FTSE's target exposure tilting methodology. Today these indices represent more than $8 billion globally tracking sustainable real estate solutions.

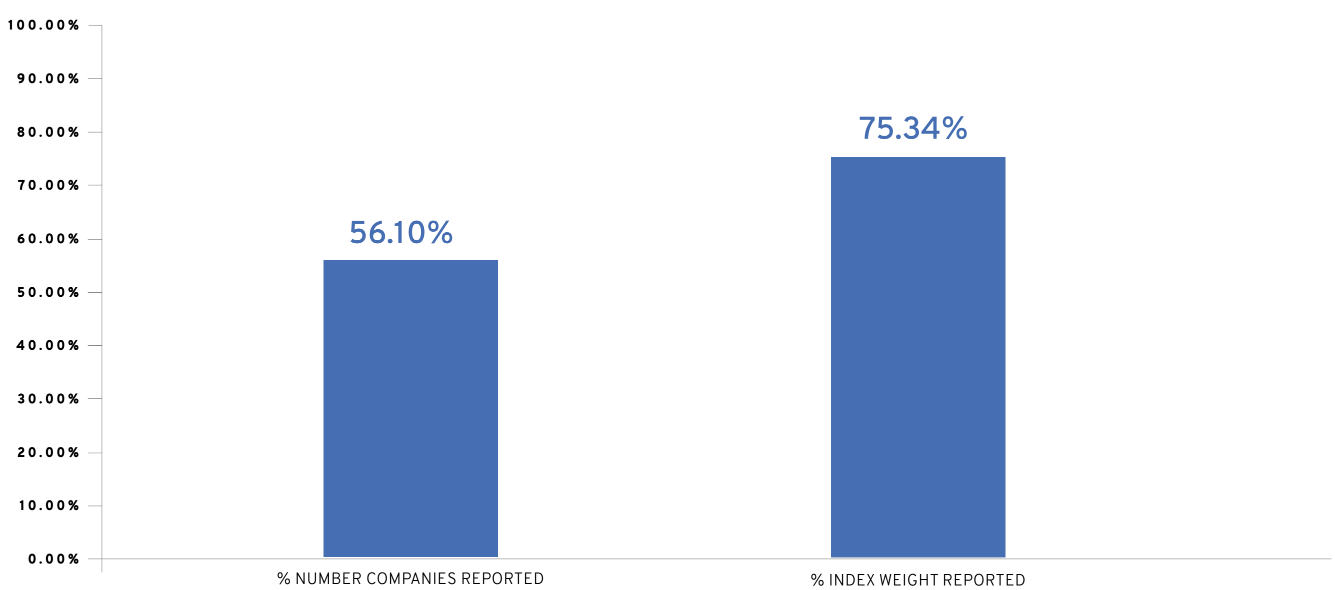
In assessing emissions exposures, companies in the listed real estate sector represent a different challenge to the broader listed equity universe. Emissions are defined across three scopes. Direct emissions (Scope 1) and purchased electricity emissions (Scope 2) exposures, are comparatively low in this sector compared to the wider equity space. Scope 3 emissions are those resulting from activities from assets not owned or controlled by anorganization, but that the organization indirectly affects in its value chain. These can be either upstream from suppliers or downstream from customers.

Much of a listed real estate company's emissions instead lie in this scope 3 bucket, coming both upstream from embodied carbon emissions (those from the CO_2 emitted in construction materials supplied) and downstream in the form of tenant emissions. A 2023 Robeco report[1] showed that among the 200 largest listed real estate companies, for those reporting scope 3 they represented 86% of their total emissions on average. Clearly, for both asset owners assessing their own carbon footprints and index providers assessing an entire portfolio, estimating these scope 3 exposures is crucial.

CURRENT CLIMATE REAL ESTATE DISCLOSURE CHALLENGES

Disclosure across the EPRA Nareit Developed Index universe have changed a lot over the history of the Green Index Series. In 2017 climate disclosures were still nascent but are now quickly maturing. This can be seen looking at participants to the Global Real Estate Sustainability Benchmark (GRESB) ESG Reporting Standards, which have grown by over 150% to-date, including over 2000 participants globally and representing over 65% weight of the EPRA Nareit Developed Universe[2]. These standards

Percentage FTSE EPRA Nareit Developed Index with Reported Emissions Data[3]



commit participants to certain levels of emissions disclosures across all scopes.

However, there are still gaps in the proportion of companies disclosing comparable emissions data, and in the quality of these disclosures. Currently, roughly 80% index weight of the EPRA Nareit developed universe is covered by reported emissions data[3]. However, when you look instead at the number of companies this represents just 50% of the universe, implying that quality disclosures on emissions are less prevalent among smaller companies.

Even among those companies disclosing emissions figures, there is large heterogeneity in the methodologies being used. Whether emissions are market based or location based, expressed in absolute terms, or rebased by revenues or by floorspace all vary from company to company. Whether Scope 3 emissions are considered also varies. The same 2023 report from Robeco demonstrating the importance of Scope 3 disclosures stated that among their 200 companies analysed, just 56% reported on their Scope 3 emissions exposures.

Breaking out scope 3, embodied carbon is still very nascent as a reporting field. Tenant emissions are more commonly included in reporting frameworks, although often are included in scope 2 totals alongside landlord-controlled emissions totals, where totals are broken down at all. The result of these differences can mean that two companies with very similar asset portfolios are reporting very different emissions figures, and in absence of high-quality reporting it can be difficult to reconcile these differences.

MEASURABL CARBON EMISSIONS DATA MODEL

Thus the problem in constructing an index benchmark using carbon emissions data is to ensure that data is available throughout the universe and comparable between companies. For this reason FTSE Russell has partnered with Measurabl, utilising their listed real estate data model[4].

Measurabl already has a close relationship with many real asset owners, and is the world's most widely adopted ESG data management solution for real estate. Measurabl helps collect and report on more than 17 billion square feet of real estate across 93 countries, working with over 970 clients. As such, Measurabl has the largest database of actual asset level data on the market, including scopes 1, 2 & 3 tenant energy usage and emissions data.

This real estate data powers a machine-learning model with the capability to estimate sustainability data for virtually every building in the world with high accuracy. Measurabl combines this modelling capability with publicly available disclosures on asset portfolio; it thenaggregates this asset-level data to provide company-level ESG data for all companies in the FTSE EPRA Nareit Developed Index. This ESG data comprises energy usage, emissions and green certifications at asset and portfolio levels. The dataset does not include embodied carbon emissions, as methodologies for estimation here are still scarce, but Measurabl and FTSE will continue to monitor the dataset for potential evolutions as these topics progress.

Measurabl's methodology results in a dataset 100% coverage of the FTSE EPRA Nareit Developed Index, with consistent assessments across each of the three metrics. FTSE Russell intends to leverage this Measurabl data across its EPRA Nareit Green and Green Target Indices, having recently launched the new FTSE EPRA Nareit Green Low Carbon Target Select Index utilising the data and transitioning the remainder of the series this September. FTSE looks forward to working with Measurabl going forward, to continue to provide effective data solutions in this challenging sector.•

JARED BUTTERS

Jared is a senior associate within the FTSE Russell Sustainable Investment team, having joined in 2020. He is responsible for the management of FTSE's EPRA Nareit Green and Green Target Index Series, working closely on the development of the new Measurabl partnership. Jared holds an MA in economics from Cambridge University, with specialisation in Development Economics.

Sources:

[1] Scope 3 emissions in real estate: The elephant in the room - Robeco UK

[2] 2023 Real Estate Assessment Results - GRESB

[3] Figures based on FTSE Carbon Emissions Data Model (Guide to FTSE and Third Party Sustainable Investment Data used in FTSE Indices (lseg.com)), companies with reported scope 1+2 figures in either 2023 or 2022 financial years. Data collected as at March 2024

[4] Listed real estate data model - Measurabl

EUREX

Charting a New Future for Real Estate: FTSE EPRA Nareit Futures on Eurex

Eurex's launch of futures on three FTSE EPRA Nareit indexes earlier this year has marked an important milestone for the listed real estate market. After 20 years of growth and increasing diversification, market participants can now access trading instruments that will finesse risk management and improve the asset class's transactional liquidity.

In an upcoming whitepaper authored by Eurex in partnership with FTSE, EPRA and Nareit, we investigated the changes that these futures represent for the market. As well as examining the new product suite, we look at the history of listed real estate, particularly the rising appeal of REITs — to assess why the asset class appeals to portfolio managers and how it is anticipated to grow in the coming years.

Since March, Eurex members have been able to trade futures on the FTSE EPRA Nareit Developed Europe Index, FTSE EPRA Nareit Eurozone Index and FTSE EPRA Nareit UK Index.

The indexes capture a complete range of activity in the real estate market. As of June 2024, the Developed Europe index alone contained 103 constituents, representing €251 billion in full market capitalization. These constituents own approximately €660 billion in real estate assets.

The futures add to a range of products that reference FTSE EPRA Nareit indexes, including ETFs, structured products and mutual funds. Eurex members can now trade FTSE EPRA Nareit futures alongside other equity and index products in their portfolios, achieving strong margin efficiencies at the exchange.

This development promises to increase market participation in listed real estate markets. The already active cash equity and ETF markets are now supplemented by the ability to trade exposure on an unfunded basis. This attracts new traders and provides the tools for investors already active in real estate to execute new and more sophisticated strategies with greater speed. The futures also enhance risk management in the asset class, allowing investors to hedge with greater accuracy and control market and credit risk more dynamically.

This is set to encourage more participation and liquidity provision in the markets. At a time when the future path of interest rates is still uncertain, futures also create the tools for a more diverse complex of views, with traders better able to take positions that reflect their views on the market's direction.

It also further emphasizes the importance of FTSE EPRA Nareit indexes to the asset class. Aside from forming the underlying for an increasing range of investment products, these indexes have also solidified their status as a benchmark of choice for investors to measure their performance in the market.

The indexes are constructed according to a distinct methodology, based on activity that generates EBITDA, and provide the most accurate representation of price movement in the property market to date. As such, investors using the indexes can trust that they are gaining exposure to a true asset class representation.

At the same time, firms can enjoy the benefits of a listed asset class — principally transparency, and greater transactional liquidity than the private property markets. Transparency, in particular, is a major attraction for many asset managers, who must consider the compliance burden of entering into any new asset class.

Trading listed real estate also offers easier adoption, with less new investment infrastructure and staffing needed than for directly investing in private property markets.

Both credible benchmarks and new investment instruments are essential ingredients for the sustained growth of listed real estate. Indeed, the asset class is already attracting substantial interest from multi-asset managers, who are attracted by its transparency and liquidity features and the diversity of exposures that can be accessed through index investment.

The development of listed real estate has brought with it the opportunity to gain exposure to a range of themes adjacent to the property markets themselves. Investors can gain access to different regional economies and different sectors — with exposure to the living sector and data centers, for example.

This ability to take on new forms of real estate is a continued strength of the market. In the coming years, we expect the proliferation of sectors such as self-storage and student and social housing to grow in our indexes.

Overarching these developments will be the continued transition to a sustainable economy. As a sector that accounts for 40% of CO_2 emissions and energy consumption, it will be crucial to see how real estate adapts to the transition's requirements—not just for the market itself but the world economy. A key element will be standardization to allow for robust indexation, an area in which the market is already making significant progress.

Achieving this will help the market in its next phase of evolution and further cement it as a crucial element in investors' portfolios.

With the move away from simple bond and stock portfolios becoming widespread across the industry, more investment officers are searching which markets can provide them with a diversified source of income. Among the many alternatives, real estate remains one of the most tried and tested options, with differentiated returns from the traditional asset classes, and a long performance history. Within that, the case for index-based investment strategies continues to be strengthened by the growing ecosystem around FTSE EPRA Nareit benchmarks.•

ABOUT EUREX

Eurex is the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. As architects of trusted markets characterized by market liquidity, efficiency, and integrity, Eurex provides customers with innovative solutions to seamlessly manage risk. On the trading side, Eurex masterminds the most efficient derivatives landscape by pioneering ingenious products and infrastructures as well as by building 'smart' into technology – offering a global product range, operating the most liquid fixed income markets in Europe and featuring open and low-cost electronic access.

Access the full whitepaper here:

The Way We Communicate Makes Us Stronger

ALIGN WITH THE MEGATRENDS AND RECOGNISE YOUR IMPACT

Real estate companies are the most socially relevant investment sector. We should promote the unique abilities we possess to influence and improve society within our external and internal messaging. Not only are we able to influence the built environment, we are also able to improve the natural environment and contribute to better social cohesion. One of the main advantages that enables us to differentiate ourselves from other real estate investment options is permanent capital.

We should also be clear in referencing our positive involvement in the global megatrends that equity investors desire exposure to. Investors in real estate companies, and other equity sectors, are actively considering an investment's role in society. They are purposefully making investment decisions that enable a positive impact, while also offering attractive investment returns.

PLAY TO YOUR ADVANTAGES

An equity investor usually intends to make an investment with a time horizon of at least three, and often five, years. We are able to demonstrate incremental portfolio improvements that match this same time-horizon and investment period. We are also able to point towards a longer-term positive contribution through permanent capital allocation. Placemaking is an important and distinct advantage with the listed real estate model that is not as easily replicated in other real estate investing. Nor is this type of impact and improvement easily demonstrated across other equity sectors.

The EPRA Outstanding Contribution to Society Award projects that were submitted for 2023 are wonderful examples of our sectors benefit to society. Unibail-Rodamco-Westfield's Les Ateliers Gaîté project demonstrates impact through development that benefits the local community. And Korsningen in Örebro by Castellum highlighted new construction standards that become the base-level for future projects. Continual improvements in methods and standards should be spoken about to make sure they are recognised.

KEY MEGATRENDS TO CONSIDER

We live in a time of profound global societal development that is unlike previous periods and the velocity of change appears faster than many before. These megatrends are long-term, transformational processes with broad societal, economic, environmental, and technological implications.

The consequences of these trends appear to include increased economic and political uncertainty, globalisation questions, and an urgent need to sustainably manage what we have and what we create. In this environment, listed real estate companies have the opportunity to reinforce their underlying value to society, and the contribution they make to it by offering suitable accommodation and sustainable improvements for better outcomes.

There are some valuable highlights of the underlying asset values managed within the FTSE EPRA Nareit Developed Europe index that EPRA present to investors. Listed real estate companies operate over €170bn of assets within the private rented sector (PRS). There is over €14bn of senior housing within index companies and healthcare-related real estate represents over €12bn.

It is important we are clear about how we not only touch most of the major megatrends, but also explain how we assist on the journey to positive outcomes. It may be the case we have unintentionally assumed our involvement was obvious. There is no harm or disadvantage in repeating the message.

ARTIFICIAL INTELLIGENCE (AI):

AI will play a significant role in our lives and society. Although it's importance is not yet fully quantifiable, it's applications are likely to become pervasive.

GEOPOLITICAL SHIFTS:

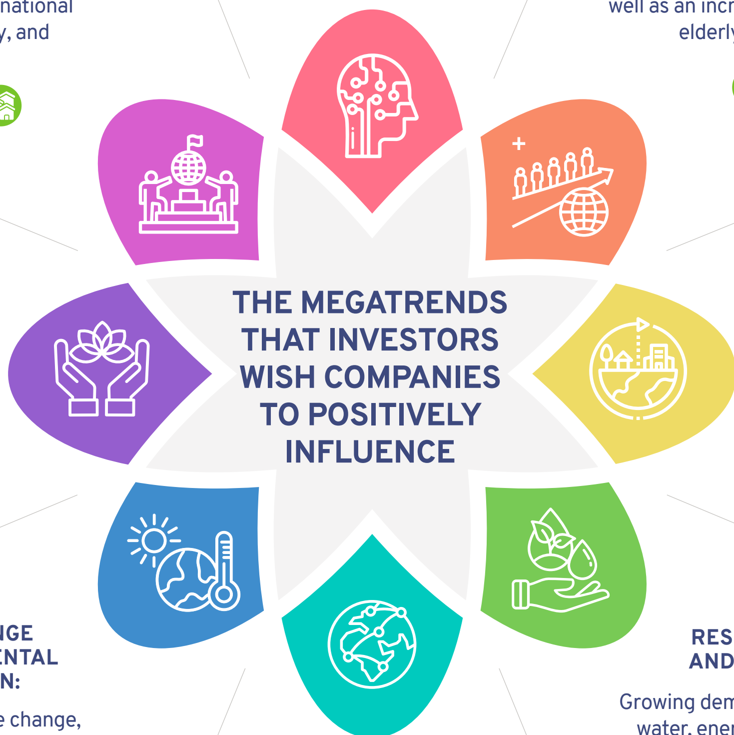
Changes in geopolitical dynamics, including the rise of new global powers, shifting alliances, and conflicts, are reshaping the geopolitical landscape. These shifts have implications for international relations, trade, security, and governance.

DEMOGRAPHIC SHIFTS:

The world's population is growing and aging, leading to significant demographic changes. This includes population growth in some regions and declining birth rates in others, as well as an increase in the proportion of elderly people globally.

HEALTH AND WELLNESS:

Concerns about public health, including infectious diseases, non-communicable diseases, and mental health issues, are growing. Access to healthcare, medical innovation, and lifestyle factors all play significant roles in shaping global health outcomes.



URBANISATION:

More people are living in cities than ever before, leading to rapid urbanisation. This trend poses challenges related to infrastructure, transportation, housing, and resource management and offers opportunities for innovation and economic growth.

CLIMATE CHANGE AND ENVIRONMENTAL DEGRADATION:

The impacts of climate change, including rising temperatures, extreme weather events, sea-level rise, and biodiversity loss, are becoming increasingly evident. Efforts to mitigate climate change and adapt to its effects are crucial global priorities.

RESOURCE SCARCITY AND SUSTAINABILITY:

Growing demand for resources, including water, energy, and food, coupled with environmental degradation and climate change, is creating sustainability challenges. Efforts to promote resource efficiency, renewable energy, and circular economies are increasingly important.

GLOBALISATION AND ECONOMIC INTERCONNECTEDNESS:

The world is increasingly interconnected through trade, finance, and communication networks. Globalisation has facilitated economic growth and lifted millions out of poverty. It has also led to challenges such as income inequality, job displacement, and financial instability.

All Real Estate sector | Health care | Residential | Office | Industrial | Retail

We know these megatrends interact with each other in complex ways, shaping the trajectory of global development and posing both opportunities and risks for societies worldwide. Nonetheless, we should highlight, describe and demonstrate our involvement in the positive outcomes for these megatrends. This explanation should form a focal point of our internal and external messaging if we are to attract long-term equity investors and stakeholders to our companies. Understanding and effectively responding to these megatrends is an essential task for policymakers, businesses, and individuals alike.

Our task is effectively communicating our involvement in societal improvement and being part of the solution to the biggest questions of our times. And we are fortunate to have the tools at our disposal.•

MATTHEW FLETCHER
DIRECTOR OF EUROPEAN INVESTOR OUTREACH, EPRA

Matthew joined EPRA in 2013, moving from P3 Limited where he was Head of Investor Relations. After joining the Schroders graduate scheme, he qualified as a management accountant before joining SVG Capital as an investment analyst. Matthew gained extensive private markets and real estate business development experience at Cambridge Place Investment Management and Hermes GPE.

Why Canada and Norway's Pension Fund Behemoths Turn to Listed Sector

The two women overseeing listed real estate on behalf of Canada and Norway's national pension plans share the same starting point when it comes to making their high conviction investments across the globe.

Kim Wright, Head of Listed Real Assets at Canada Pension Plan Investment Board (CPPIB), and Mie Caroline Holstad, Chief Investment Officer for Real Assets at Norges Bank Investment Management (NBIM), start from an integrated approach to real estate, scanning private and public markets for opportunities to generate the best risk-adjusted returns. While listed real estate equities are critical to their portfolio construction, they diverge when it comes to putting their respective strategies into action.

CPPIB and NBIM were set up by their respective governments with investment mandates enacted by law during the 1990s to deliver the returns necessary to serve future generations. The funds they manage have different funding sources and objectives, which determine how, where and for how long they make investments.

Established 25 years ago, CPPIB manages investments on behalf of more than 22 million contributors and beneficiaries of Canada Pension Plan, the country's national retirement income system. CPPIB oversaw C$632.3 billion (429 billion euros) in assets as of the end of March, of which 8% was in real estate. It does not disclose how much it holds in the listed sector.

NBIM is owned by Norway's central bank and oversees the 17.7 trillion-kroner (1.5 trillion euro) Government Pension Fund Global, which receives tax and other revenues generated from the country's oil assets. Only a small proportion of the Fund's returns is returned to the government for immediate spending, however it still represents around 20% of Norway's annual budget. The rest is kept for when the oil reserves become exhausted, which may occur in 50 years, according to some projections. The Fund has around US$60 billion of real estate assets, of which half is in listed markets.

INTEGRATED APPROACH TO PUBLIC AND PRIVATE REAL ESTATE MARKETS

Wright's team is responsible for investments in public securities across the real assets investment universe, which includes real estate, infrastructure and sustainable energies. By working closely with the private investment groups, her team helps deliver an integrated public and private investment strategy that "*maximises alpha, contributes towards desired portfolio construction and facilitates knowledge sharing.*"

It is a global approach focused on sectors which have "*favourable tailwinds and will deliver competitive returns,*" such as data centres and housing, she says. The team undertakes in-depth sector research and builds detailed company models which are used to forecast five-year total returns, forming the basis for relative value decision-making across the Real Estate group.

CPPIB actively manages the portfolio to maximise the risk adjusted return. "*We're constantly assessing the relative forward returns of each of our investments. We typically invest with a three- to five-year investment horizon in mind, but if the forward returns are no longer competitive following strong share price appreciation, or a changed investment view, the team will sell or reduce its position and focus on opportunities with better forward returns* " she said.

Another key focus is the quality and experience of the management team. CPPIB keeps tabs on a company's management "*through an active dialogue*," typically involving at least quarterly meetings, as well as improving understanding of market dynamics by talking to listed and private peer companies, industry experts and site visits.

"*It's really about understanding the medium-term thematics behind any investment, market fundamentals, the specifics of the company and the management's strategy,*" Wright added.

LIQUIDITY FACTOR OF LISTED REAL ESTATE

Wright and Holstad also work with specialist teams in sustainability and corporate governance within CPPIB and NBIM respectively. The listed real estate team at CPPIB works closely with the direct real estate investment team across the globe, within the larger Real Assets department, which includes Infrastructure and Sustainable Energies. The listed real estate team actively leverages expertise across the Fund, including Private Equity, Credit and Active Equities.

NBIM also combines public and private market real estate expertise, within a larger Real Assets department which includes infrastructure for renewable energy. The combined real estate strategy was an approach adopted more recently following a reorganisation since Nicolai Tangen's appointment as CEO in 2020, Holstad says. "*We have over time changed from an institutionalised information barrier model with two separate organisations to a one-team approach,*" she explains.

Both CPPIB and NBIM's holistic approach to real estate markets also involves sharing their insights with colleagues in the fixed income and equities departments. Their active listed real estate strategies sit separately from their respective funds' broader public equities sleeves, however this does not preclude liaison with those teams. Public equities accounted for 28% of CPPIB's overall assets under management, whereas they make up 71% of the assets managed by NBIM and involve shares issued by almost 9,000 companies.

With a 3-7% allocation to real estate, NBIM has tended to focus its direct property investments on the office, retail and logistics sectors, while the listed real estate strategy concentrates on consumer-facing real estate and niche sectors that are harder to access through direct investments. Its active investment strategy has resulted in 40 investments to date in Europe and the U.S., generally involving a 5-10% interest in each company, Holstad said.

"*Certain real estate sectors are becoming more operational as businesses*," she explained. *Indirect investment in listed companies with established platforms represents a simple and more cost-efficient way for us to get exposure to these sectors*".

Wright indicated that they have focused their listed real estate investments in sectors such as data centres, housing and self-storage, underwriting its investments over five years. This contrasts with NBIM, although the sector focus is more or less the same, NBIM treats unlisted and listed real estate investments as complementary strategic allocation decisions and applies the same long-term horizon in its underwriting, Holstad said.

DIFFERENT APPROACHES TO UNDERWRITING INVESTMENTS

Listed real estate is "*a long-term hold for us and that's what differentiates us from other institutional players, who use real estate more as a tactical allocation*," Holstad said. "*We are never a forced seller, nor a forced buyer. Having the ability to look through higher short- to medium-term volatility for listed real estate is really important in our mission to construct a diversified and high-quality portfolio.*"

Like CPPIB, it screens for opportunities arising from investment themes and trends, however "*we need to be very, very careful we're not leaving a footprint in the market when we make a move*," the NBIM executive explains.

A significant part of the listed portfolio is not acquired in open market purchases. Instead NBIM uses IPOs (initial public offerings), ATMs (at the market offerings), ABBs (accelerated book building), for example, as the entry point. This has contributed to significant savings in implementation costs and speed in ramping up the portfolio, Holstad said.

NBIM believes in stock selection and has a concentrated portfolio. The 10 largest holdings represent around 60% of the total portfolio value, Holstad explains. Many of these positions are core positions owned for many years, and a few are considered liquidity positions while Holstad's team establishes a firm view about the management team, its business plan and the company's direction of travel.

Norway's GPFG is the largest foreign institutional owner of REITs in the U.S., where eight of its 10 largest holdings are held. In Europe, the Fund owns 25.2% of Shaftesbury Capital, 14.9% of Vonovia and 12.0% of Great Portland Estates, according to its latest disclosures.

Once invested, NBIM might take a "*hybrid approach*" by setting up a private joint venture with a listed company, such as the Fund's life sciences co-investment with Alexandria Real Estate Equities, in which it also has a shareholding.

PRIVATE INVESTMENT OPPORTUNITIES WITH LISTED PARTNERS

Holstad says she prefers to look at real estate sector by sector rather than at the asset class as a whole. Higher interest rates, a new macroeconomic reality and a highly uncertain geopolitical environment have to led to a re-pricing of assets.

"*Most of the volatility that we see is about interest rates*," she said. "I*t's not really about the operating fundamentals and the headlines don't match what's going on out there. The exception is certain parts of the office sector, where there's a structural shift going on and which we all need to get our heads around.* "

Ramping up the listed real estate strategy since 2020 has allowed NBIM to lower its exposure to offices, which now account for 30% of the overall real estate portfolio, down from 60%, she said.

"*We believe in cherry picking office assets because there's a major bifurcation going on. That means it's all about having the right type of offices: in locations with amenities, sustainability and the amount of capex (capital expenditure) you need to make assets attractive*," Holstad said. "*Office is still an important part of our real estate strategy, and we are open for business for the right opportunities. The Fund's unique characteristics allow us to be contrarian in times like this.*"

For Wright, the quicker re-pricing of real estate assets in public markets, in response to higher interest rates, resulted in higher go-forward returns compared with private markets.

This led CPPIB to be "*very active in public real estate over the last two years. However, the large pricing disconnect between public and private real estate has now narrowed. We see favourable tailwinds attached to many sectors, like data centres and housing, and believe they should provide competitive returns over the next three to four years.*"•

Written by Simon Packard, Headlion Consulting

MIE CAROLINE HOLSTAD

Mie was appointed Chief Investment Officer Real Assets October 2020 having joined Norges Bank Investment Management in 2010 and held a number of senior positions overseeing the real estate portfolios. Prior to joining NBIM, she worked in PwC's audit and advisory services. Mie holds a Master of Science in Business and Economics and a Master in Professional Accounting, both from BI Norwegian Business School.

KIM WRIGHT

Kim leads the Listed Real Assets Group at CPPIB, which she joined in 2018 from UBS, where she had spent 22 years covering listed real estate in a career at the investment bank that culminated in her appointment as Global Head of Real Estate Equities Research, based in Hong Kong. She is a CFA charter holder and obtained a Bachelor of Commerce from the University of Western Sydney, Australia.

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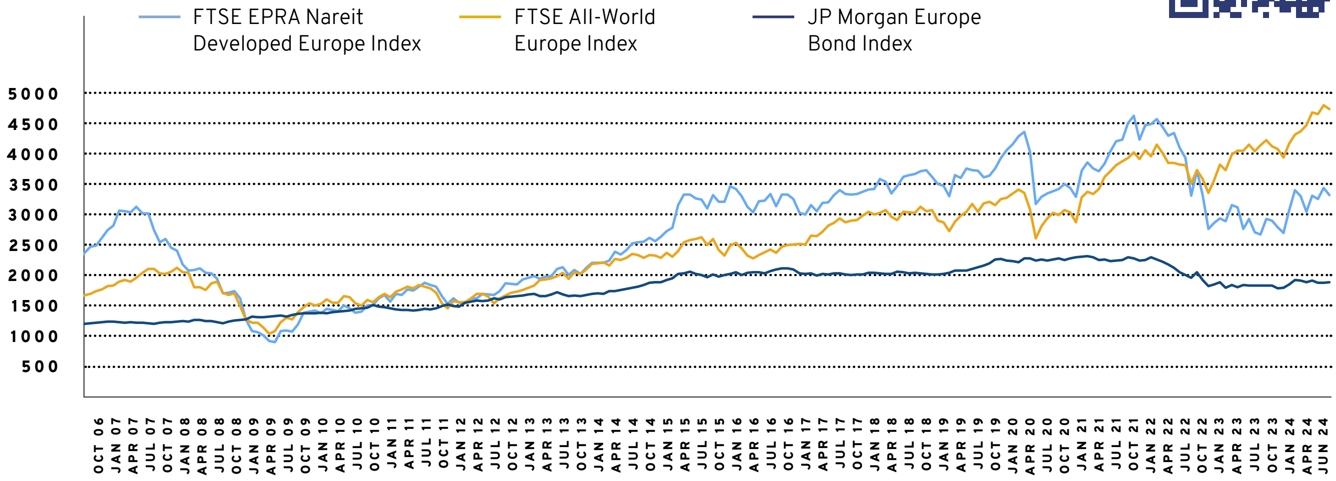
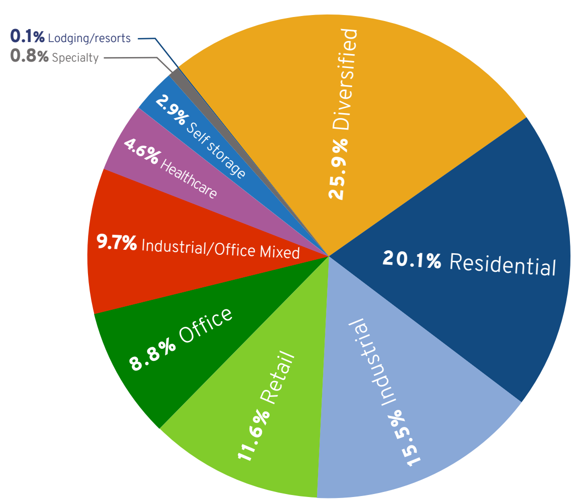
Comparison of asset classes



Value snapshot (June 2024)

DEVELOPED EUROPE	LATEST (HALF MONTH)	YEAR TO DATE	1-YEAR	10-YEAR (LONG RUN)
Average Total Return (%)	-3.36%	-2.32%	23.98%	2.67%
Average Premium/ Discount to NAV (%)	-29.81%	-28.48%	-33.45%	-14.75%
Loan-to-Value (%)	38.51%	38.68%	38.61%	37.66%
Average Dividend yield (%)	4.09%	3.97%	4.21%	3.69%

Developed Europe Index sector share



Top 10 European performers (June 2024)

FTSE EPRA NAREIT DEVELOPED EUROPE INDEX							
STOCK NAME	COUNTRY	REIT STATUS	SECTOR	INVESTMENT FOCUS	PRICE RETURN JUNE 2024 (%)	DIVIDEND PAID JUNE 2024 (%)	TOTAL RETURN JUNE 2024 (%)
Samhällsbyggnadsbolaget i Norden AB	SWED	Non REIT	Diversified	Rental	5,25	23,42	28,67
Tritax Eurobox PLC	UK	REIT	Industrial	Rental	14,31	0,00	14,31
Helical plc.	UK	REIT	Office	Rental	10,49	0,79	11,29
Workspace Group Plc	UK	REIT	Office	Rental	11,03	0,00	11,03
Regional REIT Ltd.	UK	REIT	Office	Rental	9,09	0,00	9,09
NewRiver REIT plc	UK	REIT	Retail	Rental	7,73	0,00	7,73
Residential Secure Income plc	UK	REIT	Residential	Rental	5,46	2,25	7,71
Deutsche EuroShop AG	GER	Non REIT	Retail	Rental	7,28	0,00	7,28
Schroder Real Estate Investment Trust	UK	REIT	Industrial/Office Mixed	Rental	3,48	1,98	5,46
ESP Empiric Student Property	UK	REIT	Residential	Rental	1,33	3,89	5,22

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