OXFORD ECONOMICS

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

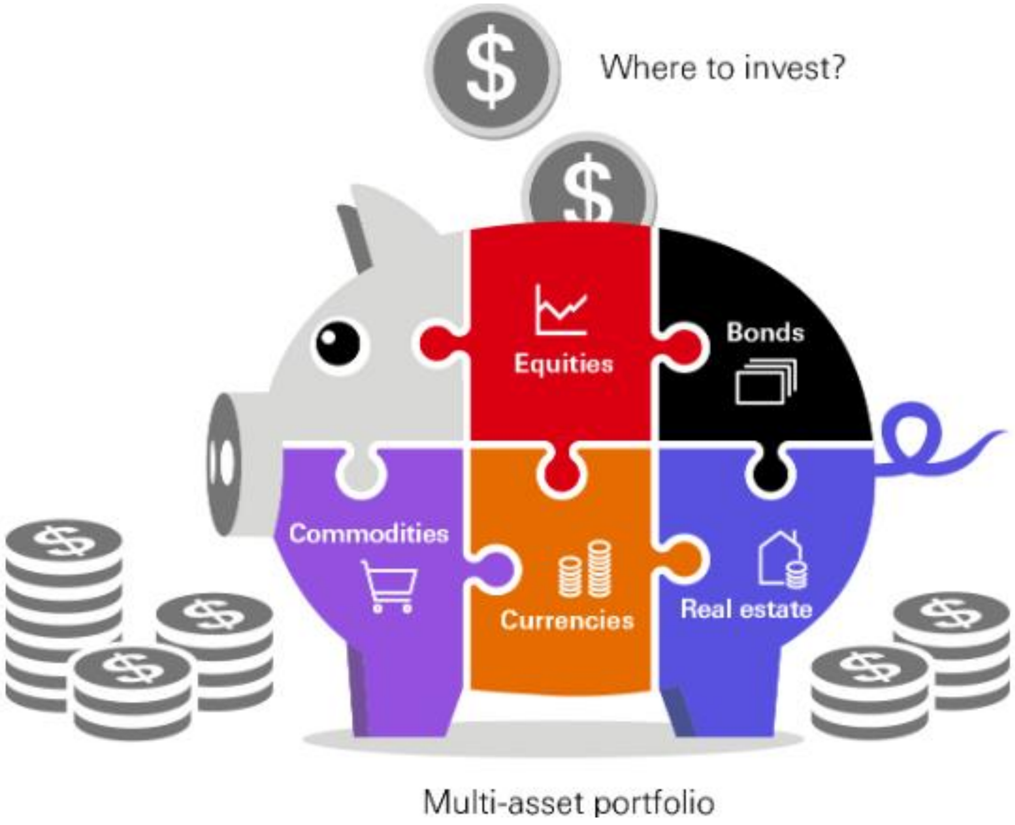
THE STRATEGIC ROLE OF REAL ESTATE IN MULTI-ASSET PORTFOLIOS

Lloyd Barton | Head of Thematic Macro Consulting

September 2024

Introduction

- This report builds on our 2019 research examining the optimal allocation to listed real estate in a mixed-asset portfolio.
- We have reassessed the optimal role of listed real estate in the wake of recent, significant global economic shocks.
- The study also examines the advantages of gaining exposure to real estate through both listed and direct investment vehicles.



Historic performance of European asset classes

- Listed real estate shares the strongest correlation with equities, whilst direct real estate has relatively weaker correlations with other assets.
- Listed and direct real estate have moderate positive correlations with each other, suggesting they could both serve as distinct portfolio diversifiers.

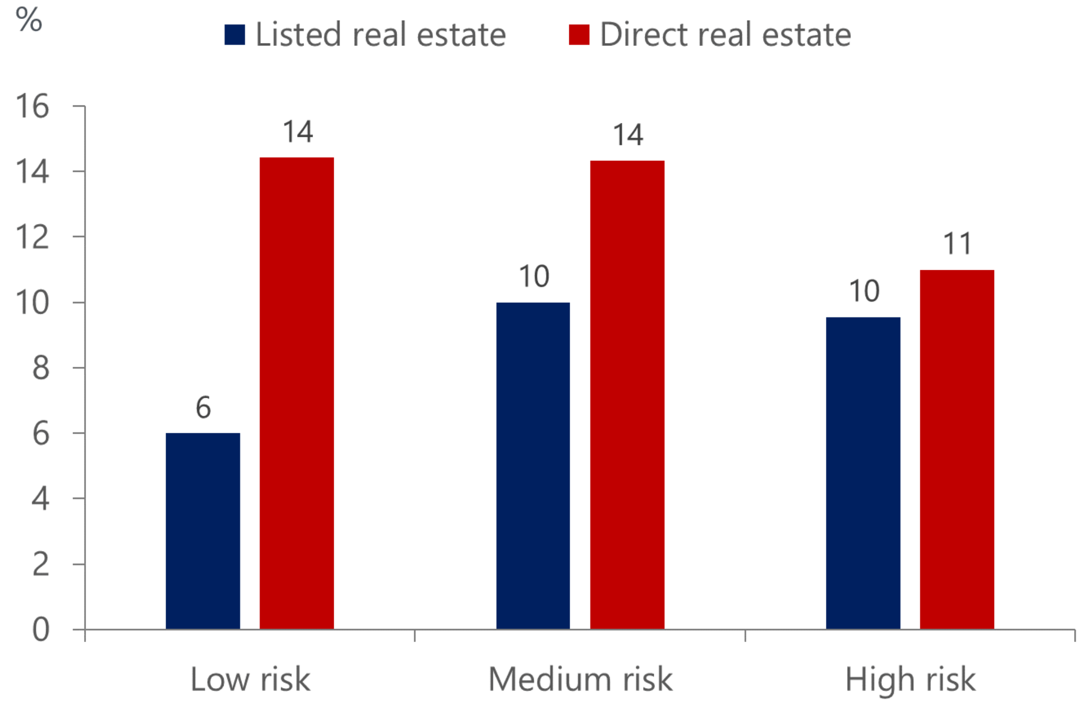
Total Returns by Asset Class, Dec 2002 - Dec 2023

	Equities - Broad Market	Government Bonds	Corporate Bonds - Investment Grade	Corporate Bonds - High Yield	Diversified Commodities	Listed real Estate	Direct real estate
Summary Statistics							
Arithmetic Average growth rate	7.5%	2.4%	3.2%	8.6%	3.6%	8.3%	7.5%
CAGR	5.0%	2.4%	3.1%	7.0%	1.9%	5.9%	4.3%
Standard Deviation	19.3%	5.5%	6.5%	17.1%	19.7%	24.1%	20.7%
Sharpe Ratio	0.19	0.18	0.27	0.33	0.03	0.19	0.14
Correlation between annual returns							
Equities - Broad Market	1.00						
Government Bonds	0.06	1.00					
Corporate Bonds - Investment Grade	0.47	0.75	1.00				
Corporate Bonds - High Yield	0.61	0.36	0.78	1.00			
Diversified Commodities	0.29	-0.17	0.04	0.26	1.00		
Listed Real Estate	0.76	0.36	0.71	0.65	0.29	1.00	
Direct real estate	0.37	-0.04	0.20	0.10	0.35	0.60	1.00

Optimal portfolios for the years to 2030

- Portfolio performance was modelled for Q3 2024 – Q4 2030.
- Optimal asset allocations were identified, such that returns are maximised at varying levels of risk tolerance.
- Allocations to direct real estate diminish with increased risk tolerance, in favour of listed real estate with more volatility but potentially higher returns.

Average optimal allocation to real estate (Q3 2024 - Q4 2030) (Baseline, 5-yr holding period)



Source: Oxford Economics calculations

Alternative future scenarios

- In an upside scenario, characterised by lower inflation rates and more favourable credit conditions (relative to the baseline), asset markets experience a strong uptick.
- This environment prompts a somewhat higher allocation to real estate assets.
- In the downside scenario, elevated interest rates constrain gains in both equity and property markets.
- Investors tend to seek refuge in safer, defensive assets.

Allocation to real estate by scenario (%) over Q3 2024 - Q4 2030

Scenarios >	**Downside**		**Baseline**		**Upside**	
	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