

## Listed Real Estate Tops Institutional Investment Returns in UK, Second in Netherlands, CEM Benchmarking Research Concludes – EPRA Conference

Listed real estate produced the highest average institutional investment returns in the UK (2010 – 2016) and the second largest in the Netherlands (2005 – 2016) across eight major asset classes,<sup>1</sup> a study by researchers CEM Benchmarking of European institutional investors concluded. The institutions had combined assets under management (AUM) of EUR 2.6 trillion, representing 36 percent of the top 1,000 funds in Europe,

The research commissioned by the European Public Real Estate Association and presented at EPRA's annual conference in Berlin on Wednesday, showed that the average annual net return for listed real estate over seven years for UK institutional investors was 10.93 percent, slightly above private equity at 10.86 percent and general equities at 10.76 percent. In the Netherlands, listed real estate's net return was second highest at 9.32 percent, after private equity at 10.78 percent, over the 12-year period.

The UK and the Netherlands, respectively Europe's two largest private pension markets, appear to differ, however, in their view of the future direction of the real estate sector as a whole. Dutch funds are de-risking, reducing allocations to equities and real estate while increasing allocations to fixed income. UK funds are doing the opposite, increasing allocations to equity and real estate while lowering allocation to fixed income. Other Euro area funds are comparatively stable.

In the UK, listed real estate averaged only 0.3 percent of funds' total AUM, but this has been increasing by a staggering +25.9 percent a year in over the research period. In contrast Dutch funds, which at 1.9 percent have the highest average institutional allocation from total AUM to listed real estate in Europe across CEM's three sample groups (UK, NL, and other Euro area funds), show a widely diverging trend to the UK market. Listed real estate allocations have been decreasing by -7.9 percent a year for the Dutch funds over the research sample period.

**Ali Zaid, EPRA Director of Research & Indices**, said: "The strong returns of listed real estate demonstrate the merits of long-term institutional investor allocation to the sector independent of the general equities allotment, particularly with the risk diversification qualities this contributes to the overall portfolio. The performance of real estate stocks is driven by the optimisation of rental income streams and the ownership of high quality assets, while providing unmatched liquidity compared with other forms of property investment. The CEM research also shows that the costs of listed real estate investment are a fraction of investing through funds, or holding property directly."

### Other key findings of the CEM Benchmarking research included:

- The average annual net investment return from listed real estate for other Euro area funds for the period 2008 – 2016 was 5.59 percent, compared with 11.55 percent for private equity.
- Real estate is the primary diversifier in European institutional investor portfolios, against the main fixed income and general equities asset classes. Dutch funds allocate 8.0 percent to real estate on average, split 25/75 between listed and unlisted real estate. UK and other Euro area funds allocate just over 5.0 percent to real estate on average.
- For the longest sample period where listed and unlisted real estate appear (Dutch funds 2005 – 2016), listed and unlisted real estate have comparable annualised volatilities (22.85 percent and 23.55 percent respectively). In other region/time samples, unlisted real estate is more volatile than listed real estate, largely due to the asset class having more idiosyncratic risk.

- Gross of investment costs, private equity was the best performing asset class overall, but also the most expensive with investment costs of 452 basis points (Dutch funds), 382 basis points (Euro area funds), and 415 basis points (UK funds). Net of investment costs, private equity returns remained the highest of all asset classes with the exception of listed real estate in the UK.

<sup>1</sup> The eight aggregate asset classes included in the CEM Benchmarking study are: Public equity, private equity, fixed income, hedge funds, listed real estate, unlisted real estate, unlisted infrastructure and 'other.'

To see the full CEM Benchmarking report go to the EPRA website: <https://bit.ly/2CiRM2x>

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### About the CEM data used in this study

Of the 20+ countries that provide data to CEM Benchmarking, only the subset of European funds is relevant towards understanding how European funds have invested in real estate. And while an even sampling across all of Europe would be ideal for this study, differences in culture and regulation of pension systems across countries motivate participation with CEM by some more than others.

Traditionally, funds from the Netherlands have seen the greatest participation with CEM, with funds from the UK seeing increasing participation. Other European countries that benchmark with CEM and are included in this study are funds from Denmark, Finland, the Republic of Ireland, Norway, Sweden, Switzerland and France. And while not all funds included in this study are traditional defined benefit (DB) pension funds, nearly all manage DB pension assets related to a DB pension liability; for the funds included for 2016, 92 percent are DB pension funds, 4 percent are buffer funds for DB pension systems, 3 percent are asset managers for DB pensions, and 1 percent are sovereign wealth funds.

### About EPRA

The European Public Real Estate Association is the voice of the publicly traded European real sector. With more than 265 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 450 billion of real estate assets\* and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index. Through the provision of better information to investors, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe.

*\*European companies only*

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