

## European Listed Real Estate Market Benchmark to Double to EUR 500 Billion as Investment Flows into Alternative Sectors Accelerate – Kempen

Large, and accelerating, investment flows into alternative property sectors, such as logistics, industrials, healthcare, hospitality and self-storage, are forecast to drive a doubling in the size of the benchmark FTSE EPRA Nareit Developed Europe listed real estate index to around EUR 500 billion within the next five years, from its current approximately EUR 250 billion market capitalization. That was the conclusion of research from advisory firm Kempen, presented at the European Public Real Estate Association (EPRA) annual conference in Berlin on Wednesday.

Dick Boer, Head of Real Estate at Kempen Corporate Finance, said: “The European speciality real estate sectors are growing at a much faster pace than traditional listed markets like offices and retail, because they represent a way to access some of the best real assets behind the great secular investment themes of our time, including ageing demographics and e-commerce. Even based on very conservative assumptions, Kempen believes that we could easily see a doubling in the size of the market benchmark index within five years.”

Boer added that in the U.S., alternative real estate sectors already represent about 40% of the REIT market, compared with 10% in Europe. If the European companies match the market share of their U.S. peers, that would alone add 50% to the size of the European index. The potential for rapid capital accumulation in alternatives is illustrated by the residential market, which has expanded dramatically within just five years to create a major European listed real estate investment option in this sector for the first time.

The rise of the European listed residential sector has been driven by the advance of the German companies after the organic growth and acquisitions that followed a string of stock market flotations generated from previous private equity investments. As a result, Germany has emerged as the largest listed European real estate market overall, after overtaking the UK in second place and then France, earlier this year.

Boer said that residential markets are on the cusp of a new ‘internationalization phase’ and the German listed model may act as a ‘growth nucleus’ to be exported to other European markets -- which is already occurring with sector leader Vonovia’s acquisitions in Austria and Sweden.

Kempen is Europe’s largest listed real estate advisor on IPOs and equity capital markets by deal volume and sees a robust pipeline of listings in alternatives ahead. Growth clusters of European companies in areas such as logistics, healthcare and self-storage are expected to develop, providing sizable new liquid options for sector-focused investors. As with German residential, these companies are generally valued at a premium to the net asset value (NAV) of their underlying holdings, which allows them to raise capital to buy new assets and is a growth catalyst for equity listings.

New potential geographical hotspots also lie on the horizon for European listed real estate: Poland has been promoted to developed equities market status this month by index providers FTSE Russell, which could also help boost its nascent listed real estate sector. Spain is expected to generate a wave of IPOs in two to three years as private equity players target the liquid equities route for their post-financial crisis opportunistic investments and commercial mortgage-backed security (CMBS) terms expire.

**Kempen's Dick Boer** concluded: "European listed real estate is offering a rock-solid growth profile for investors if you look at the market's fundamentals and from a cash-flow perspective. Average leverage is much lower than a few years ago and companies have locked in low interest rates for extended bond maturities through the capital markets. Even if we get rising interest rates, that is not going to affect expanding areas like e-commerce, or the need for healthcare accommodation based on ageing demographics, and will probably indicate solid economic growth, which is only positive for real estate."

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### **About Kempen**

With more than EUR 100 billion in transactions since 2011, Kempen is Europe's leading advisory firm in real estate IPOs and equity capital markets and in M&A deals. Kempen is an independent advisor and does not offer lending services. The European Real Estate Securities teams have global reach operating from New York, London and Amsterdam for almost 40 years. Corporate Finance and ECM knowledge is concentrated in Kempen's Amsterdam headquarters.

### **About EPRA**

The European Public Real Estate Association is the voice of the publicly traded European real estate 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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