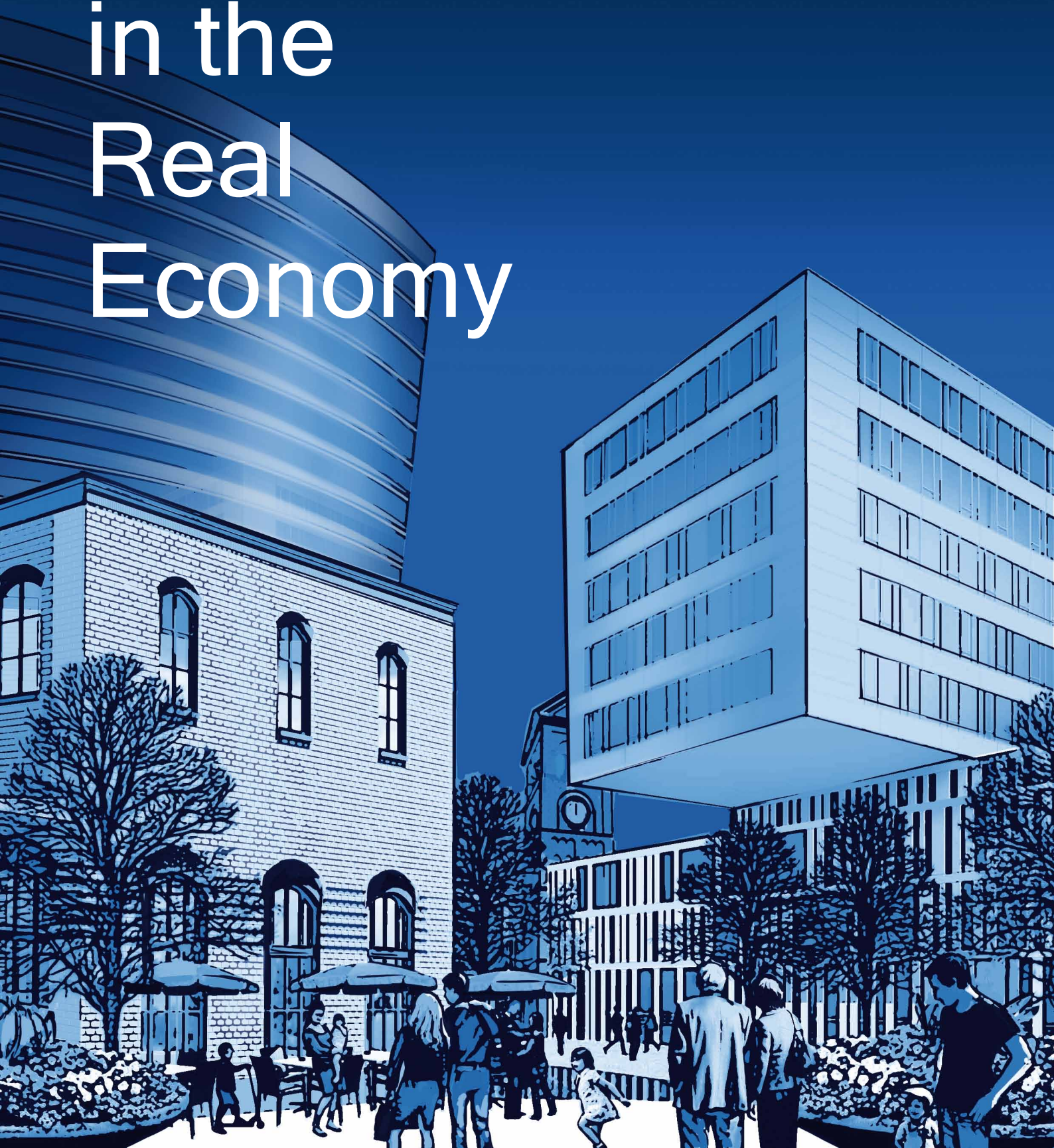


# Real Estate in the Real Economy





**EPRA**

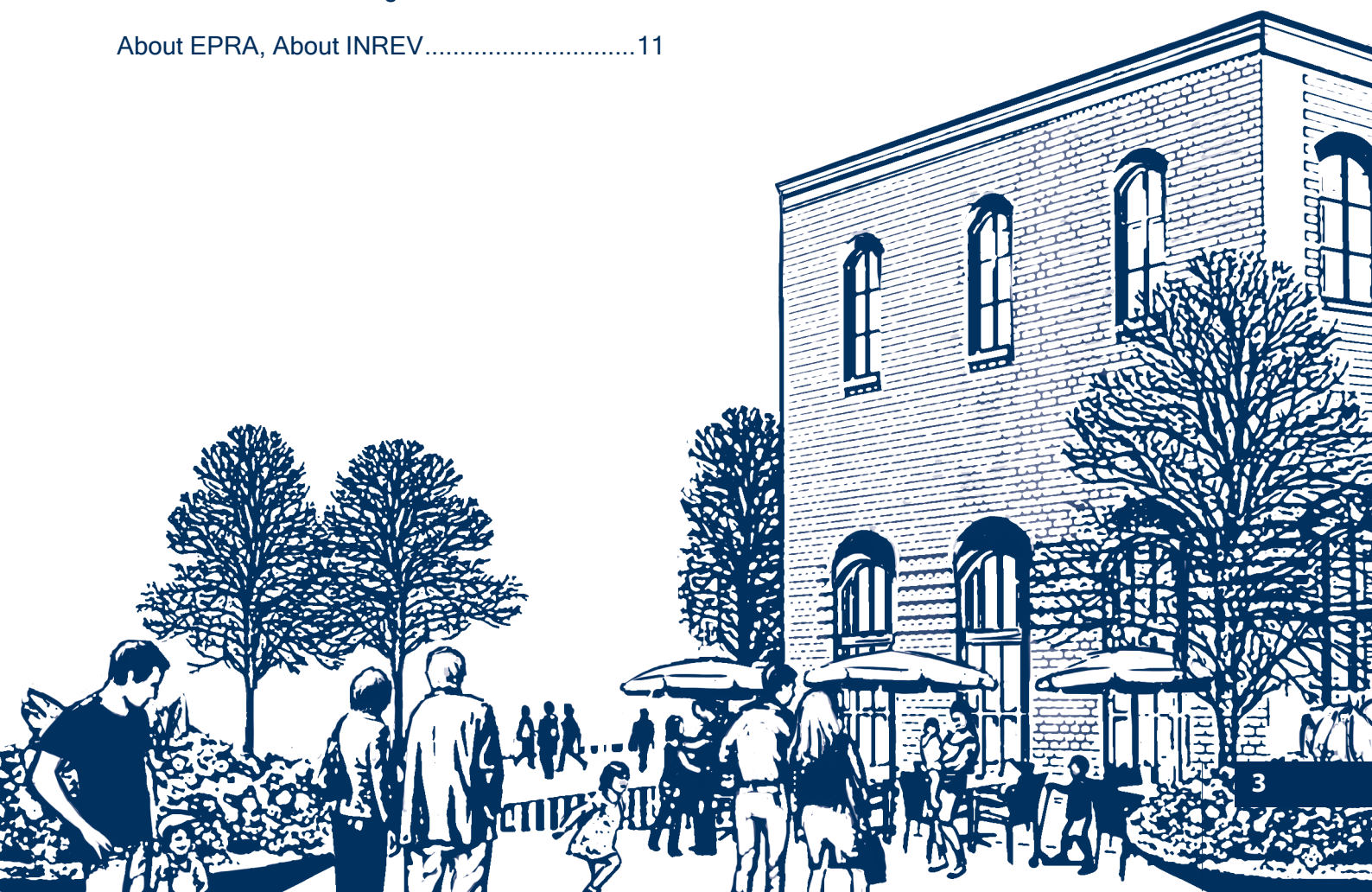
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## Supporting growth, jobs and sustainability

Real estate, as a general term, describes the built environment, which plays a vital role in every aspect of the European economy, society and environment. Businesses and society can't function without the services of commercial property including the provision of offices, shops, factories, housing and many other forms of real estate. The commercial property sector delivers and manages the infrastructure needed for entrepreneurship to thrive. It is therefore a fundamental source of employment and economic growth, and a major contributor in addressing two critical challenges of our time: providing liveable and functioning cities for a growing urban population and reducing the environmental footprint of the built environment.

The efficiency of the process through which the European real estate industry invests, develops, supports, and maintains the built environment, and services its clients, is of crucial importance to policy-makers. Although there are many factors that influence the well-being of European citizens and the European economy, a performing real estate sector provides the basic platform for all these other factors to deliver their full potential, and for the European economy to thrive and remain competitive.

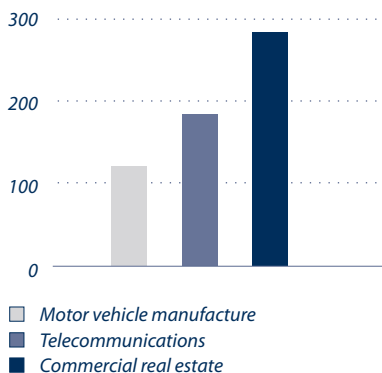
The European Public Real Estate Association (EPRA) and the European Association for Investors in Non-listed Real Estate Vehicles (INREV) represent the full spectrum of the European property investment industry. EPRA and INREV have commissioned this research which evaluates the role and importance of commercial real estate in the European economy. Details of the sources and methodologies used to derive the information are presented at the end of this report.



## 1. Contributing to the economy and supporting jobs

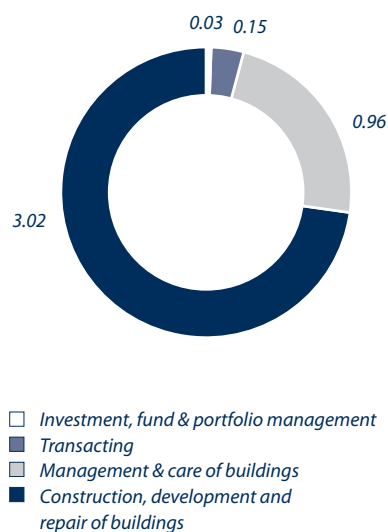
Studies indicate that real estate in all its forms accounts for nearly 20% of economic activity. The commercial property sector alone directly contributed EUR 285 billion to the European economy in 2011, about 2.5% of the total economy and more than both the European automotive industry and telecommunications sector. It directly employs over four million people, which is not only more than the car industry and the telecommunications sector, but also greater than banking.

**Contribution to the European economy**  
€ billion, 2011



Most employment activity in the commercial property sector is through the construction and repair of buildings. The upkeep, management and care of commercial buildings is also a sizeable activity, undertaken either directly by property owners or on their behalf by a growing number of specialist contractors. All of the above activities are an essential part of maintaining and improving the quality of the accommodation service provided to businesses.

**Direct employment in the EU commercial property sector**  
million people, 2011



Investment, fund and portfolio management is a small but disproportionately high value-added activity.

## 2. Commercial real estate - a significant role in business, industry and the social life of millions

Analysis of commercial property held as investment  
2011



Commercial property, other than residential, encompasses shops and retail outlets, offices, warehousing and light industrial premises, as well as hotels, leisure facilities and other forms of infrastructure. New forms of commercial

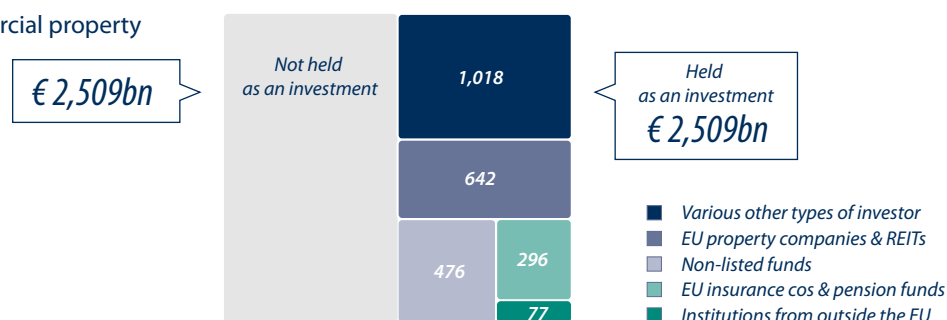
property are continuously emerging.

It plays a vital role in Europe's business, industry and social life. Its market value in 2011 was approximately EUR 5 trillion. This is comparable to the

value of plant and machinery in Europe's businesses and is close to the size of European stock and government bond markets. The total value of housing, at EUR 22.5 trillion, far exceeds other property sectors.

## 3. Investment and management of the built environment - non-listed funds and listed companies at the forefront

Investment in commercial property  
€ billion, 2011



Half of all commercial property – with a total market value of EUR 2.5 trillion – is held as an investment. While most families prefer to own their own homes, around half of the EU's commercial property is leased by businesses who prefer the flexibility of

renting and are reluctant to commit the capital and management time required of owner-occupation. The commercial property industry meets this need by investing in commercial property and providing accommodation services to these businesses.

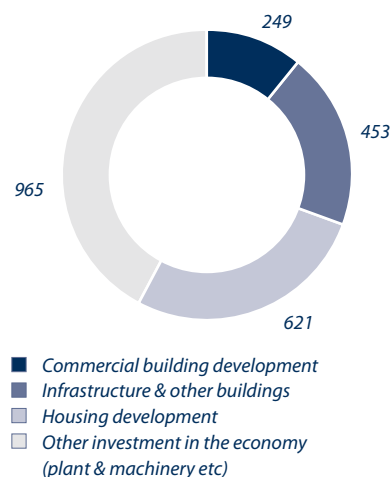
Listed property companies and non-listed funds are the biggest single owners, while traditional investors' (insurance companies and pension funds) directly owned share has been declining.

## 4. Investment - delivering infrastructure

Investment in new commercial property buildings and the refurbishment and development of existing buildings on average totals nearly EUR 250 billion each year – representing over 10% of total investment in the European economy and equivalent to the GDP of Denmark.

Investment in other buildings, infrastructure and housing is also substantial, totaling EUR 1 trillion, and when included with commercial property, represents almost 60% of capital investment in the European economy.

**Investment in the economy**  
€ billion gross capital formation,  
three-year average

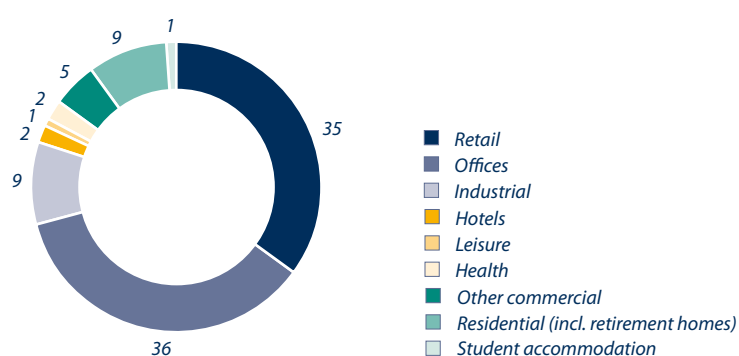


## 5. Providing the capital, ownership and management behind a wide spectrum of business, social activities and housing

While retail and office property dominate portfolios, commercial property investment covers the spectrum of business and social activities – from hotels, leisure facilities to health.

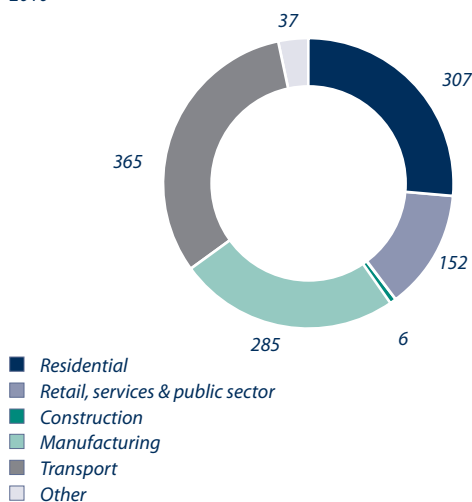
Investment in, and management of housing – for students, families and the elderly – is also significant, accounting for a tenth of portfolio values and in total representing EUR 275 billion of investment.

**Property sectors**  
EPRA & INREV portfolios  
%

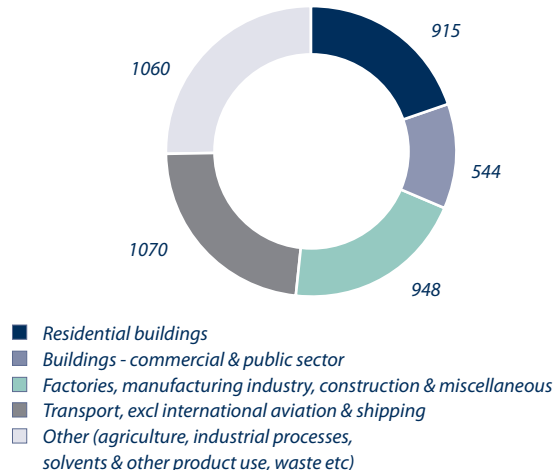


## 6. Contributing towards a low-carbon economy

EU final energy consumption  
million tonnes oil equivalent  
2010



End-user direct & indirect emissions of greenhouse gases  
million tonnes CO<sub>2</sub> equivalent  
2009



Buildings contribute significantly to energy use and greenhouse gas emissions, directly and indirectly accounting for 40% of the EU's consumption and a third of its emissions. Residential housing accounts for the vast majority of this with non-residential buildings – including the public sector – account-

ing for 12% of the EU's energy consumption and greenhouse gas emissions. Residential and, to a lesser extent, commercial and public sector buildings also represent one of the most important untapped potential sources of energy savings. The cost over the decade of meeting this untapped

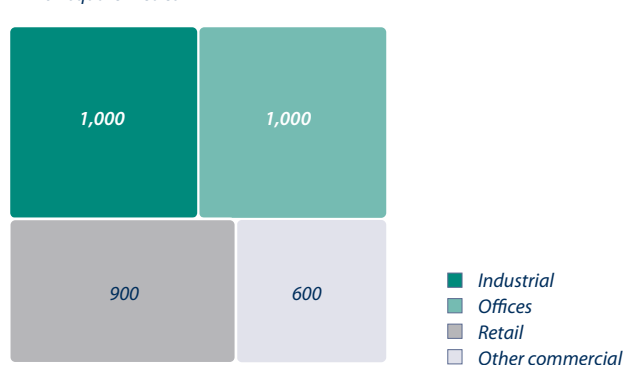
potential for residential and non-residential buildings has been estimated at almost EUR 60 billion per year – a big commitment which emphasises the importance of Europe's commercial property sector in delivering these important energy efficiency improvements.

## 7. The area covered by commercial property

Commercial property floorspace in Europe measures 3.5 billion square metres – enough to cover half a million football pitches.

Shops, offices and warehouses all occupy sizeable areas, of approximately 1 billion square metres each.

Commercial property floorspace  
million square metres





## 8. Accommodation services - a critical part of the supply chain for European businesses

Rents for the provision of office accommodation, at around EUR 140 billion, represent around a tenth of the outlay required to meet employment costs, but are nevertheless a critical service for business tenants.

Rental payments by retailers, approximately EUR 120 billion, are two-fifths the level of staff costs. However, the rental costs borne by retailers are small (5%) in relation to their shop-base turnover. These costs do vary according to the type of retailer.

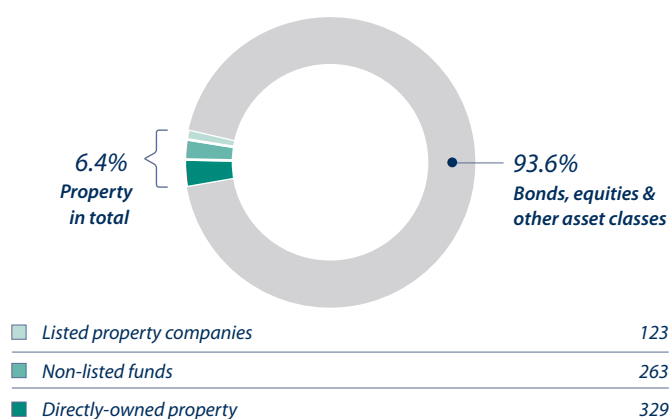
Rental vs. employment costs in the EU office & retail sectors  
€ billion, 2011



## 9. An important source of income for European savers and pensioners

The long-term cash flows generated from property investment provide an important source of diversified income in the portfolios of European savers and pensioners. Property in its various forms represents EUR 715 billion – over 6% – of European pension funds and insurance companies' total investments. Direct ownership is their most common form of property investment but indirect forms of investment – either through non-listed funds or listed property companies & REITs – are becoming increasingly important.

Commercial real estate in pension funds allocations  
€ billion, 2011



## Sources and Methodologies

### 1. Contributing to the economy and supporting jobs

Data for the commercial property sector are Paul Mitchell Real Estate Consultancy (PMRECON) estimates. Approach is to take Eurostat estimates of Gross Value Added (GVA) and employment for the Construction, Real Estate Activities (excluding imputed income from owner-occupiers) and other sectors from its National Accounts and Structural Business Statistics series and apportion shares to commercial property based on various criteria; "investment, fund & portfolio management" is mainly based on information from a sample of fund managers and listed property companies, grossed-up on the basis of gross asset value. Overall, commercial property is estimated to account for 19% Construction's (NACE F) GVA and 30% of Real Estate Activities' (NACE L less NACE L68A) GVA.

### 2. Commercial real estate - a significant role in business, industry and the social life of millions

Commercial and residential property are PMRECON estimates. The calculations use Eurostat, ECB and OECD data relating to the value of the stock "fixed assets". For residential, the official data on dwellings for 2010 is updated where appropriate to 2011 using house price inflation. For commercial, the official data on "non-residential buildings" includes non-commercial buildings and it is apportioned to commercial property by PMRECON; it is estimated that approximately 60% of the value of these "nonresidential buildings" are commercial. 2010 values are updated to 2011 using IPD capital growth. Equities are Eurostat's estimate of EU equity market capitalisation and bonds are its estimate of EU governments' outstanding "long-term securities".

### 3. Investment and management of the built environment - non-listed funds and listed companies at the forefront

Insurance companies and pension funds are estimates (updated by PMRECON to 2011 where appropriate) from Eurostat, the ECB and OECD of these institutions' investments in "fixed assets" (almost all of which are buildings, including residential which the PMRECON estimates exclude). Non-listed funds are PMRECON estimates, based on data gratefully provided by Property Funds Research, of the gross asset value of EU domiciled funds' monies invested in EU27 countries (excluding residential). EU-domiciled listed property companies & REITs is EPRA Index portfolio value (EU27 only and excluding residential) grossed-up on the basis of EPRA's coverage of the total listed market. Non-EU institutional investment is a PMRECON estimate partly based on data of net investment flows gratefully provided by Real Capital Analytics.

### 4. Investment - delivering infrastructure

PMRECON estimates derived from Eurostat data on "gross fixed capital formation" (GFCF, commonly known as investment). Housing and other investment are directly from Eurostat. Commercial property is derived from Eurostat's estimate of "non-residential buildings & other structures". Additional information from other sources has been used by PMRECON to get an indication of how much of this GFCF is buildings and how much of these buildings is commercial. Approximately 35% of GFCF in "non-residential buildings & other structures" is estimated to be in commercial buildings, the remainder in infrastructure and other non-residential buildings such as public hospitals, universities, museum, and manufacturing etc.

### 5. Providing the capital, owner-ship and management behind a wide spectrum of business, social activities and housing

Derived by PMRECON from the gross asset values in the INREV vehicle database and from EPRA estimates of the listed sector's property portfolio values (EU27 only).

### 6. Working towards a low-carbon economy

Energy consumption from Eurostat, with the published sectors re-categorised and re-aggregated by PMRECON. Emissions from the European Environment Agency, again with sectors re-categorised and re-aggregated by PMRECON.

### 7. The area covered by commercial property

Estimated capital values per square metre for each property sector have been applied by PMRECON to the capital value estimates in section 2. The overall estimate of almost EUR 1,500 per sqm reflects a preponderance of secondary property; values per sqm for prime property are substantially higher.

### 8. Accommodation services - a critical part of the supply chain for EU businesses

PMRECON estimates. Rental costs include the imputed rents of owner-occupiers and are estimated by applying gross rental yields (of 6.9% on average, which is higher than for prime property given the preponderance of secondary) to the market capital value estimates. Employment costs and retail turnover are derived from Eurostat's Structural Business Statistics data, re-worked by PMRECON to exclude non-store retailing and to account properly for office-based activities and updated to 2011.

### 9. An important source of income for EU savers and pensioners

Insurance company and pension fund investments in directly-owned property are from section 3 and in "equities, bonds & other asset classes" are from Eurostat, the ECB and OECD, updated to 2011 where appropriate by PMRECON. Listed property company exposures are PMRECON estimates based on the product of institutions' allocations to equities in total and of listed property's share of equity portfolios (in aggregate, estimated respectively to be 30% and 2.6% for the EU27). The exposure to non-listed real estate is a PMRECON net asset value (NAV) estimate using information from INREV Universe studies, investment consultants & other information.

This report was sponsored by EPRA and INREV  
and prepared by Paul Mitchell Real Estate Consultancy Ltd

## About EPRA

The European Public Real Estate Association (EPRA) - is the voice of the publicly traded European real estate sector. With more than 200 active members, EPRA represents over EUR 250 billion of real estate assets and 90% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

Through the provision of better information to investors, improvement of the general operating environment, encouragement of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe.



## About INREV

INREV is the European Association for Investors in Non-listed Real Estate Vehicles. Since its launch in 2003, it has grown to almost 350 members from more than 28 different countries. INREV's aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, profession-

alism and standards of best practice. INREV is led by institutional investors and supported by other market participants such as fund managers, investment banks, academics, lawyers and other advisors. As a pan-European body, INREV represents a unique platform for sharing knowledge on the non-listed real estate funds market.





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