PRESS RELEASE

Research shows real estate stocks behave more like bricks and mortar than equities, supporting case for pension fund allocation shift – EPRA

Berlin, September 06 – Investing in listed real estate produces a performance which is very closely linked to that of the underlying property portfolio rather than the general equities market, two independent research studies commissioned by the European Public Real Estate Association (EPRA) show. The studies represent the most conclusive evidence to-date that institutional investors can achieve the same diversification benefits of real estate as an asset class by increasing the proportion of listed real estate in their portfolios, but with the additional benefits of greater liquidity and lower costs.

EPRA head of research Fraser Hughes said: "These research findings are another fundamental building block in the case for listed real estate investing. They show investors can achieve both portfolio diversification and the same, or superior, performance, by investing in listed real estate as they can in the underlying bricks and mortar, but in a more transparent, liquid, and cost effective way. The research also suggests that pension funds should manage their investments in listed real estate as part of the overall real estate allocation rather than as part of the equities allocation in their multi-asset portfolios as this is clearly where they belong."

Looking forward, any strategic switch of European pension fund real estate allocations into listed real estate from direct property could potentially represent a huge influx of capital, because this alternative asset class represents about 6% of all institutional investment assets, with listed property around 1% of that proportion. Most institutions currently invest in listed real estate through their equities allocation, with the notable exception of the large Dutch pension funds, and listed real estate constitutes less than 1.5% of the market capitalisation of European share markets.

"Are REITs real estate? Evidence from international sector level data" was carried out by Martin Hoesli, Professor of Real Estate Finance at the HEC Business School of the University of Geneva and Elias Oikarinen, Assistant Professor of Economics at the University of Turku in Finland.

"*Commercial real estate investment: convergence and portfolio optimisation*" was carried out by a team from the University of Ulster in the UK.

The Hoesli/Oikarinen research differed markedly in its approach to previous studies because of the controls they applied in undertaking the project, for example through allowing for the different weighting of real estate sectors such as offices and retail and the leverage disparities between listed and direct real estate in market indices.

The study also considered the linkages between listed and non-listed real estate and the major underlying fundamental economic factors such as GDP growth and the term structure of interest rates for three main markets, including the US, UK and Australia.

Professor Martin Hoesli of the University of Geneva said: "Our findings suggest that listed and direct real estate returns are tightly linked in the long run, but that REIT returns are largely independent with regards to 'shocks' in other investment assets. It appears that 'real estate shocks' take place first in the REIT sector, after which the direct market adjusts to these events. The resemblance between REIT and general stock market dynamics is substantially weaker."

The University of Ulster research concluded that real estate plays a crucial role in a multi-asset investment portfolio from a diversification perspective and in terms of enhancing performance over the long term across key international markets.

Although listed real estate display higher levels of volatility relative to direct investment, they also show superior levels of annualised returns. This suggests that institutional investors should be seeking to construct a 'blended' real estate investment portfolio comprising of direct and listed property to benefit from their complementary attributes.

Dr. Martin Haran of the University of Ulster said: "In an investment environment governed by a renewed and insatiable appetite for transparency and liquidity, listed real estate has the capacity to act as a 'liquidity buffer' for institutional investors seeking the best optimal performance from their allocations to bricks and mortar."

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About EPRA

The European Public Real Estate Association – 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.

For more information please contact:

Fraser Hughes, Director of Research, EPRA: +32 (0)2 739 1010.
Email: f.hughes@epra.com