Branding, marketing, and innovation
The URW story
Welcome to the EPRA Conference edition of our industry magazine. It is our pleasure to welcome back those who have made our previous events a success. We are excited to have you back to our flagship event in person and look forward to seeing many of you over the course of the next few days.

As this is the first conference back in person, we decided to change the format somewhat and convert the entire afternoon to a strategy session looking at the future of our sector. With inflationary headwinds, rising interest rates and some M&A activity ongoing, there is no more important time for us all to come together and discuss the potential future for the European listed real estate sector. I do not want this to be a talking shop, though, and an exercise that does not deliver tangible takeaways for us at EPRA but also for you as management teams in this space – so I count on your support and input during the sessions. Many of you may have been aligned and prepared.

I would also like to congratulate all winners of this year’s BPR and sBPR awards and especially the Supermarket REIT and Ascendo both looking at retail through a different lens and demonstrating how diverse and robust the retail sector is – I encourage you to read them both.

Finally, as usual, I would like to welcome our newest members; Alternative Income REIT, Bankinter Logistics Socimis, Epic Suisse, KMC Properties, Lazarid, Logistica, PIF, Tecon Investments, Ulster University, WEB+.

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Update from Dominique Moenshert

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Fostering transformation, Sparking connection

Human connection is what brings our spaces to life. What drives our business decisions: identifying the perfect asset and transforming what is good into an exceptional everyday experience to develop a sense of belonging.

Embracing the bigger picture
An interview with Jean-Marie Tritant

There can be no doubt that Jean Marie Tritant – the global Chief Executive of Unibail-Rodamco-Westfield (URW) – possesses the operational know-how required to run one of real estate’s most recognisable names. During his 25-year career at the company Jean-Marie has filled several roles that have been vital to its success. Before becoming CEO he spent two years and a half leading the newly merged Unibail-Rodamco-Westfield business in the USA, and prior to that he was the company’s Group COO when it was simply the European-focused Unibail-Rodamco, as well as earlier in his career there had led its offices division. This ability to run vital business lines during periods of change and expansion made him a natural choice to run the company, and the board appointed him to the top job starting in January 2021.

THE POWER OF BRAND
Jean-Marie articulates how creating a strong brand identity has been at the heart of URW’s strategy, and how this differentiates the company from its competitors. “Only one company in the world has a recognisable brand for retail real estate, and that is Westfield” he explains. The acquisition of the instantly-recognisable global brand was part of Unibail-Rodamco’s decision to purchase the Australian headquartered retail giant in 2018, which had operations across the US and in London.

Mr. Tritant goes on to explain that “a huge element of our future growth opportunity lies in our brand name and having the ability it provides us to act as a pan-European or global platform for retailers and brands”.

While the real estate industry isn’t short of chief executives who are also excellent operators, what makes Mr. Tritant stand out is his evangelical appreciation of both the moment of transformation within the industry, and the power of branding, marketing, and innovation. Hearing him talk about these subjects – and how they are central to URW’s philosophy and strategy – is perhaps more akin to talking to a young San Francisco tech executive than a seasoned veteran of the real estate industry.

Jean-Marie explains that “everyone is talking about innovation, but too often they are just focused on operational excellence. We are excellent operators, but have been able to differentiate ourselves through or focus on our brand and our customers”.

THE VISION FOR EXCELLENCE
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He describes how the Westfield brand name provides URW with the opportunity to think about its offering as an aggregate, digitally connected platform of assets, which enables it to approach its engagement with customers in an entirely unique way while also growing new revenue streams in areas like media, advertising, brand experience and data.

One example of this was its Lady Gaga album management of which took place in October 2021. This saw the performer broadcast a 45-minute show for audiences at over twenty different URW assets in ten different countries, along with a digital platform for live viewing from home, and streaming on Lady Gaga and Westfield's social channels - all under the Westfield brand.

As it looks to the future, this focus on leveraging the brand along with the audiences that exist because of the company's platform of assets isn't just limited to URW's physical assets, either. Jean-Marie explains that "we are always asking ourselves where do we need to be to grow both our brand and our audience as a function of serving both our retailers and our customers' brand experience and business, which is extremely important in an omnicom channel world. We are already looking to the Metaverse.”

Central to URW's capitalisation on its brand identity and increasing revenues via advertising and brand experience has been the appointment of a Chief Customer Officer, Caroline Puechoultres. Previously, Mr. Tritant explains, marketing and digital had fallen under the Chief Operating Officer's remit. "However, for URW it is vital to have someone at the highest echelon of the business who is completely dedicated to customers, marketing, and data" he explains.

This core tenet of URW's customer philosophy is based on the principal that its business is both local and global, and is therefore about understanding its customers in a specific place while leveraging its global reach. "It's about the customer's characteristics and that manifests itself in how we design and manage our assets. In Spain, for example, people go to dinner very late which moulds how we approach the experience and data," he continues.

That local and global perspective allows it to tactically understand its customers in some of the world's top markets, reaching affluent consumers throughout Europe and the U.S., while helping its retailers and brand experience clients leverage that audience in new ways. With this client-centric mindset, the company aligned its teams working on media, advertising and brand experience into a centralized commercial partnership division this year, with a target to reach €200 million or more of revenues by 2030.

THE FUTURE OF CITIES

A focus on brand and innovation alone have not been responsible for Jean-Marie and URW's successful future. Their ability to embrace new trends is underpinned by acquiring excellent assets and running them well. Jean-Marie says that fundamental to the continued success of URW is "the quality of the assets and the quality of the teams”.

In practice, this means paying close attention to geography and where the company can have the most impact. "When it comes to our markets we are not a country player, we are a city player. We are not in the UK we are in London, and we are not in Austria we are in Vienna. Our primary focus is on serving key cities and their surrounding regions allowing us to reach a global audience vs just a hyper-local one." You would be hard pressed to find a chief executive who has helped shape and define the URW approach more than Mr. Tritant. In 2002 he became the Managing Director of the offices division, becoming a member of the executive committee in 2007 on the back of the merger with Rodamco he has just appointed as Managing Director of the French business by former CEO Guillaume Potrinal.

This diverse background has served him well as the company also looks to establish itself as a leader in the urbanization and regeneration of its assets – with an eye to becoming the preferred partner to cities on their environmental transition. He shares "URW has a critical opportunity ahead of itself, where we look at the impact we can have with our assets, how we unlock value in our portfolio through mixed-use development and how we work with communities to lead sustainable change.”

The company to some degree is already there; it recently announced plans for its Lightwell office regeneration project in Paris, which has a host of sustainable bonafides: in 2021 it opened its Westfield Mall of the Netherlands, a comprehensive redevelopment of an existing shopping centre that welcomed over 13 million visits in its first year of operation, and is looking towards it 2024 opening of Westfield Hamburg-Uberseepark – a former waterfront industrial site that will become the centre of a bustling new district in the German city.

SEEING AND SEEKING GLOBAL CONNECTIONS

Reflecting on his time leading the newly merged Unibail-Rodamco-Westfield business in the USA in the two years and half he became global CEO, Jean-Marie explains that "this was an opportunity for me to have two reasons. Firstly, it provided me with an opportunity to get out of my comfort zone and experience something new. Secondly, I became the only person in the business with a clear understanding of our operations in the USA and Europe.”

That insight combined with his lengthy career has provided Jean-Marie with a tremendous capacity to manage the impact that global consumer and economic trends are having on the real estate industry. He believes that physical retail is in a stronger position than it has been for some time, saying that "even before Covid there was a question around physical retail. Everyone thought that everything would be done online eventually, yet Covid has actually proved that this will not be the case. The store has re-emerged as vital to retailers’ profitability – and their recovery.”

Mr. Tritant also believes that his business is in robust shape when it comes to the inflation and the cost-of-living crisis. “We have yet to see the impact of inflation on the volume of consumption in our locations. Rather than a stabilisation, we are continuing to see sales rise back towards the levels they were in 2019.”

Jean-Marie explains that this is partly due to the company’s customer profile. He says that “we are obviously helped by our strategy to focus on strong urban locations, which are mostly always in areas where the average income is higher. This isn’t the case everywhere, but it does provide us with some degree of protection.”

With the challenges ahead, Jean-Marie and Unibail-Rodamco-Westfield’s focus on combining solid business fundamentals, the right assets in the right locations and an innovative and customer-led approach ensure that they are meeting the future head-on. He concludes “we don’t have all the answers today, which is the exciting part, but we have the right team, right assets and right strategy to succeed.”

JEAN MARIE TRITANT

Graduated from Dijon Business School and holder a Master’s degree from Paris Sorbonne University in commercial Real Estate, Jean-Marie Tritant began his career as an auditor at Arthur Andersen in Paris. He joined Unibail in 1997 as Project Manager in the Offices Division. Then followed on in the Group’s Asset Management department for three years - which he headed from 2001 to 2002, before heading the Office Division from 2002 to 2007. He was appointed Managing Director Retail France during the merger of Unibail with Dutch company Rodamco in 2007. In 2012, he became Managing Director Retail and Offices division. He then headed Group Operations from 2013 to 2018. After being appointed President of Unibail Rodamco-Westfield in the United States for two years, he became Chief Executive Officer in December 2020. Jean-Marie Tritant was also appointed Chairman of the Management Board in January 2021.="}"
A BRIGHT FUTURE FOR LISTED

An interview with Morten Schou, Co-founder, REIT Adviser

REIT Adviser isn’t your typical investment firm, and Morten Schou isn’t your typical co-founder. Together with Søren Gjelstrup, Schou created REIT Adviser in Copenhagen four years ago. The firm manages EUR 500 million worth of funds across Europe’s real estate sector and is performing 12% above the industry benchmark. Schou and Gjelstrup work in central Copenhagen with just one other employee — a senior advisor who provides operational and marketing support. But what REIT Adviser lacks in size, it makes up for in focus. Its small footprint allows: “When we go into the office, the first thing we do is to look at our portfolio. We update our model, check in on the companies we’ve invested in and speak to them to get any updates directly,” Schou says. This allows the co-founders to concentrate on what really drives the business — their deep knowledge and judgement of opportunities.

One thing that has remained constant is their love for Copenhagen, which has an institutional investment sector that punches above its weight. Pension funds — where the Dane spent many years — are thriving, and interest in the real estate market from the institutional sector is growing.

There is a challenge to overcome, however: “There’s still no consensus on how listed real estate is viewed and what it is. Some see it as stock, others real estate, meaning there’s a real lack of clarity around the asset class.” While this debate rumbles on, investors’ motivation remains focused on finding the best value for money. This is where listed real estate comes into its own in Denmark and across Europe.

THE CREAM OF THE CROP

REIT Adviser’s strategy is centred on finding the very best companies and opportunities in the sector. Put simply: Schou and Gjelstrup have faith in their views of value, have good knowledge of the sector across Europe, and are driven by finding the best discounts on offer thanks to the listed market’s current position as a cheap option to invest in.

At its core, the firm’s approach is based on deep knowledge: “You have to know your stuff — that’s as much about knowing what you shouldn’t go for as much as what you should. It’s because we know what we’re not invested in that we can perform well, and it’s something which sets us apart from the wider investment world.”

It’s not just about the numbers for REIT Adviser, though; putting money in the right places, as well as the profitable places, is very important for Schou. He explains that “we’ve always had ESG in our minds when deciding where to invest, and in the last few years, it’s become one of the first criteria we assess when modelling and thinking about our direction.”

He believes that housing markets across Europe aren’t working for everyone and that there aren’t enough homes to meet demand in nearly every country in the region. This is increasing demand on the private rented sector and providing an opportunity not just for returns but also for projects to make a real difference to people.

Schou says that “this is an area where we don’t just look at the numbers. The intangibles are really important for investing in residential projects. For us, it’s things like how landlords treat their tenants”. He continues that “the German market is a great example. It used to be all about the returns, but now there’s a lot more attention paid to the quality of the housing and building communities in which people can feel at home.”

REIT Adviser’s sense of responsibility extends to how businesses are being run, and they won’t invest in a company that doesn’t have good enough governance. EPRA’s rating is a key benchmark for judging this, as it’s not always easy to see behind the scenes and past annual reports that aren’t always a true representation of the inner workings of a business. In particular, the Dane says that sensible gearing is a crucial measure for both the management of a firm and its prospects for future success.

NAVIGATING CHOPPY WATERS

Schou doesn’t see rising inflation as the nadir many others do: “To properly understand how inflation is impacting the listed market, you need to look backwards. The financial crisis of 2008 meant that gearing is far lower in many businesses, and debt levels tend to be below 40%. This means that interest rates are having a much smaller effect than they would have done 15 years ago, and even the rapid rises we’ve seen this year aren’t enormous when considered against recent history.”

This means that listed is an attractive and investable asset, and inflation could deliver greater returns as rents increase over H2 and into 2023. Any further rises from central banks are also unlikely to be felt as rate increases have, to some extent, already been priced in.

According to Schou, the most unpredictable variable continues to be Ukraine and the impact the conflict has on commodity price inflation. This is already having a big impact on homeowners and tenants alike, but it may also be felt in the form of rate increases for asset owners. He says that “there’ll be a lag between commodity price rises and rent increases due to contract terms, and also many landlords and developers are rightly reluctant to pass on higher costs at a time when personal finances are under immense pressure”. Coupled with the demand for more housing in eastern Europe to accommodate those who have fled the war, it’s possible to see a crunch point for demand not far over the horizon.

THE WAY AHEAD

Schou and REIT Adviser believe that listed real estate can play a big role not only in the economic development of Europe but also in doing good and solving the challenges its societies are facing. Immediately, the demand for housing caused by limited stock and the war in Ukraine is something REITs can address; but in the longer term, working on backing the best companies and developments will have a big impact. As far as REIT Adviser is concerned, it plans to continue to make a difference while also delivering for its investors.

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We have the track record

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Supermarkets in Europe

Stability and evolution in the face of new challenges

Supermarkets have been woven into the fabric of our lives for generations, and as such, the industry can appear to change at a slow pace. For example, food - by far the youngest of the big four UK supermarkets - was founded in 1949. While the major players have diversified their operations into new formats like hypermarkets and smaller urban shops, the physical store remains at the heart of the business model.

Beneath the surface, however, the sector is an extremely dynamic early adopter of technological innovation, and the fact that the same brands remain on the shelves for decades is testament to their excellence and firm grasp of customer behaviour. The level of innovation taking place extends far beyond the self-service checkouts, loyalty schemes and home deliveries with which consumers are now familiar. In recent years, supermarkets have been forced to adapt to a continually evolving market, as consumers have been forced to adapt to the effects of the global pandemic.

From an investor standpoint, supermarkets have an obvious attraction. The counter-cyclical nature of the sector makes them a strong defensive option for investors looking to weather macroeconomic uncertainty. Furthermore, management teams of large supermarket companies have been able to weather macroeconomic uncertainty. Furthermore, management teams of large supermarket companies have a high level of assurance and certainty; they are fundamentally well-run businesses. While large operators like Tesco have weathered their share of challenges in recent years, these rarely derailed them, and brands typically bounce back quickly and effectively.

Lerouret Ascencio

COUNTER-CYCLICAL STRENGTH

From conversations with European players, it is abundantly clear that the supermarket sector remains one of relatively few that are open to consumers even during the lockdown periods. When compared to pre-pandemic times, supermarkets are up by around 10%.

Philippe Scheirinckx, Asset Management & Acquisitions Director at Ascencio, backs this up, saying that “during the pandemic, the supermarkets have been particularly attractive, as a result of changes to consumer behaviour that it accelerated”. He continues that “while volumes are down a year ago, this is because the sector was one of relatively few that were open to consumers during the lockdown period.

However, one thing that separates the sector from many alternative categories is its ability to deal with the effects of the pandemic and the changes to consumer behaviour that it accelerated.”

The big supermarkets, Rob Abraham points out, have proven their ability to adapt in the face of competition and remain well-positioned to outmanoeuvre these newer companies. He explains that “the scale of their operations, their investment in physical retail sites, the range and the stability of their supply chains mean that it costs them much less money to fulfil orders than it does for the rapid grocery players.” This scale enables them to outflank smaller rivals. “During the pandemic, the incumbents doubled down on home delivery. Tesco, for example, grew their online capacity by three times as much as Ocado’s, their entire delivery volume in just a number of weeks by adding hundreds of new delivery vans to existing stores,” he says.

Similarly, the model that many of these businesses are offering might be a step too far for many consumers. Ascencio’s Aurèle Angbergen says that “most of these challengers are still looking for some profitability, and if they do, it is mostly in large city centres. Notably, all markets are mature enough for these new means of consumption. For example, Gorillas recently announced it is stopping its activities in Belgium.”

The new financial reality is not ideal for startups either. Rising interest rates and tapering private equity investment are making it harder for these newer businesses to raise funds, which in turn curtails their ability to grow aggressively and attract new consumers. At the same time, their cost bases are rising, making it difficult to keep the cost of their products down. Mr Abraham points out that their products are on average of 30% higher than their equivalents at incumbent supermarkets – they cannot afford for this to carry on.

In conclusion, Europe’s supermarket sector is in a strong position to overcome what will be a testing few months for the continent’s economy. Its solid foundations, evolving business models and a continued focus on economic headwinds will help ease inflationary pressures. Furthermore, the sector looks well placed to see off potential threats. This is good news for the real estate industry, with the physical store remaining at the heart of the business model.

ROB ABRAHAM (ATRATO):
Rob joined the Atrato Group in 2017. He is responsible for managing the alternative investment fund for the Group, Prior to joining Atrato, Rob spent 14 years at Lloyds Bank, most recently in the Loan Markets business working with borrowers and lenders across the corporate, funds and real estate sectors. His experience includes the syndication of significant event-driven debt facilities to support M&A activity involving the acquisition of hospitals, and the structuring of senior, junior and mezzanine debt facilities to support growth and recapitalisation. Rob is a Fellow of the Chartered Financial Analyst designation and holds a Masters in Business Economics from the University of Manchester.

VINCENT H. QUERTON (ASCENCIO):
Vincent H. Querton holds a law degree and an MBA from INSEAD-CEDER. Fortableviseur, Vincent H. Querton has expanded his experienced in banking and real estate sectors in Belgium and abroad. In particular, he was Senior Vice President with Fortis Real Estate from 1996 to 2002 and then worked for James Long Safety from 2003 to 2017 as an International Director and CEO of Bankers. Vincent H. Querton joined Ascencio as CEO in 2017.

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Rob joined the Atrato Group in 2017. He is responsible for managing the alternative investment fund for the Group, Prior to joining Atrato, Rob spent 14 years at Lloyds Bank, most recently in the Loan Markets business working with borrowers and lenders across the corporate, funds and real estate sectors. His experience includes the syndication of significant event-driven debt facilities to support M&A activity involving the acquisition of hospitals, and the structuring of senior, junior and mezzanine debt facilities to support growth and recapitalisation. Rob is a Fellow of the Chartered Financial Analyst designation and holds a Masters in Business Economics from the University of Manchester.

VINCENT H. QUERTON (ASCENCIO):
Vincent H. Querton holds a law degree and an MBA from INSEAD-CEDER. Fortableviseur, Vincent H. Querton has expanded his experienced in banking and real estate sectors in Belgium and abroad. In particular, he was Senior Vice President with Fortis Real Estate from 1996 to 2002 and then worked for James Long Safety from 2003 to 2017 as an International Director and CEO of Bankers. Vincent H. Querton joined Ascencio as CEO in 2017.
## Sector focus - Retail

### 10 YR TR

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<th>COUNTRY</th>
<th>SECTOR</th>
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<th>REIT</th>
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<td>3.18%</td>
<td>2.94%</td>
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<td>3.60%</td>
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### Performance

- **As at mid July 2022**
- **As at the end June data**

## Green Street, the preeminent global provider of actionable commercial real estate research, news, data, analytics, and advisory services, is proud to deliver **React News**. Access exclusive, real-time breaking news from Europe’s leading commercial real estate journalists and retrieve market-moving news as it’s happening, with ground-breaking analysis and insights allowing you to react with informed, timely investment decisions.
Transition risks in real estate: What’s next?

Transition risk is increasingly viewed as a strategic concern. A majority (68%) of financial institutions surveyed by UNEP FI and CRREM expect climate risks to become substantially more important in the coming years when making strategic decisions regarding real estate holdings.

**TRANSITION RISK EVOLVES TO BE A MAJOR STRATEGIC CONCERN**

They cited key drivers such as tightening regulatory frameworks regarding energy efficiency and GHG emissions, the rising risk of economic obsolescence of properties, expected increases in carbon and energy prices as well as more related reporting requirements.

One of the biggest challenges in the reduction of GHG emissions results from the poor energy efficiency of existing buildings and still too low refurbishment rates in virtually all European countries. More than 80% of the property stock that will be used in 2050 is already built today; therefore, the sector needs to optimise existing investments in order to win the race to net-zero. The Carbon Risk Real Estate Monitor (CRREM) initiative’s main objective is to support and enable this necessary transition to a decarbonised built environment and also steer this process. CRREM provides real estate investors, managers and other stakeholders globally with a clear Paris-aligned direction to set and control ambitious 1.5°C aligned decarbonisation targets in order to stay in the downscaled ‘fair share’ of the GHG budget for real estate in the use phase (operational emissions).

EPRA and CRREM joined forces in April 2022 to support the listed real estate sector in formulating, setting and implementing science-based targets to reduce operational carbon emissions of buildings towards a 1.5°C goal, hence reducing transition risks.

It remains an open question as to which measures investors should consider to gradually bring their portfolios in line with the Paris Agreement trajectories. As an initial step, there should be not just a net-zero commitment but a clear and feasible roadmap to decarbonise the entire portfolio until 2050. Activities may include upscaling the green retrofit capacity and budgets, developing clear efficiency standards for new developments and acquisitions (taxonomy and CRREM pathway compliance), promoting data sharing across the value chain, more renewable energy production on-site and addressing behavioural changes, etc.

**HOW TO OVERCOME TRANSITION RISKS**

As an initial step, there should be not just a net-zero commitment but a clear and feasible roadmap to decarbonise the entire portfolio until 2050. Activities may include upscaling the green retrofit capacity and budgets, developing clear efficiency standards for new developments and acquisitions (taxonomy and CRREM pathway compliance), promoting data sharing across the value chain, more renewable energy production on-site and addressing behavioural changes, etc.

**Phase 1 'Why You?’**
- Understanding environmental impacts and business risk
- Defining & understanding the main policy challenge

**Phase 2 'How To?'**
- Provision of Carbon Risk Tools and Decarbonisation Pathways
- Addressing: Transparency, Approach, Application and Cost

**Phase 3 'Now Do’**
- Enabling the implementation of a CRREM Policy Environment
- Establishing Critical Success Factors

What are the key drivers for increasing focus on transition risk?

- Increasing pressure from NGOs and other stakeholders/public
- Fear of increasing risk of economic obsolescence of properties
- Loss of reputation
- Expected rise carbon prices/taxes & energy prices
- Need for reporting & Increasing reporting requirements
- Tightening regulatory framework on energy efficiency and GHG
- Increasing pressure from the market (lower demand from market)

[Table showing relevance of drivers: No relevance, Medium relevance, High relevance]
Certainly, energetic retrofits are necessary to achieve climate goals. Electrifying the assets and just waiting for the electric grid to decarbonise is not a strategic option for various reasons. Firstly, regulators will ensure a fair split between the energy and the real estate sectors’ contributions to decarbonisation. Furthermore, also energy prices soaring upwards will put more and more market pressure on inefficient buildings; it can be expected that tenants will, even more than today, decide upon the overall operating expenses and not just the net rent. Lastly, regulation will also in the future address energy efficiency and not just carbon intensity. So, just switching to electricity and not reducing energy consumption is not a solution.

For those continuing to hold high-risk properties, a higher rate of return may be required to compensate. It is likely that grey discounts for properties not meeting decarbonisation and efficiency requirements will increase. Nevertheless, also energetic retrofits require a lot of material and produce waste, both leading to embodied carbon. Therefore, the net reduction must not only ensure a positive financial trade-off related to the retrofit but also a positive ecological trade-off between the embodied carbon of the investment versus the operational savings achieved.

**BOARD-LEVEL ATTENTION ON THE RISE**

A survey undertaken by CRREM reveals that already a majority (95%) of company boards have ESG topics as a board-level discussion. Further, responses indicate an increase in climate change risk assessment activities in the next two years (89% of respondents confirm this). Nevertheless, an increasing gap between net-zero commitments being made and operational changes and action implemented can be noticed. There is the danger that our industry is underestimating the challenges and changes required and that greenwashing is taking place.

Companies need to develop a holistic approach to structure and implement the ESG/sustainability agenda within the organisation. ‘Green Governance’ is needed to ensure ambitions and net-zero commitments will be implemented on all organisational levels and within all processes of the company’s value chain.

**UPCOMING PUBLICATIONS**

EPRA and CRREM will publish two white papers with the support of Hines (Privately owned global real estate investment, development and management firm) and UNEP FI (The United Nations Environment Programme Finance Initiative) on best-practice and frameworks for Green Governance enabling net-zero commitments as well as a paper on the pay-off from energetic retrofits from an ecological perspective. The articles are addressed to leaders, pioneers and professionals in the real estate industry. Also EPRA and CRREM will further collaborate to facilitate the use of CRREM resources for EPRA members.

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**Investoren.vonovia.de/en**

At Vonovia, we are not just a DAX 40 member and market leader as a nationwide real estate company. We also stand for exceptional values. All Vonovia tenants can rely on customer-oriented service as well as on fair rent prices. We believe that good homes should be affordable – with us, families should be able to grow without a care. You, too, can invest in exceptional values.
Interest rates and inflation: Challenges for listed real estate?

By David Moreno, CFA. Indexes Manager at EPRA

Economic growth and nominal interest rates have remained relatively low and stable across Europe in the past 15 years. Except for a short period during the Eurozone debt crisis (2011-2013), most of the European economies grew on a stable path and inflation was under control, closely aligned with central banks’ long-term goals. However, two big events affected the continent in the last two years that changed this economic background: the global pandemic and the war in Ukraine. After a strong freeze-out of the economic activity in 2020, many businesses were able to re-open in 2021, but the GDP rebound brought some supply issues in many markets and products that pushed the core inflation. Simultaneously, the Russian invasion of Ukraine put additional pressure on oil, gas and other commodities, driving the total inflation to levels not seen in almost 20 years. Now, global monetary policy is set to change; therefore, higher nominal interest rates and higher inflation represent a challenge for several asset classes, including listed real estate. Let’s see how.

Key interest rates vs GDP growth and inflation

Future inflation does not necessarily imply an increased risk for property investors. In the event of higher inflation, property owners would be entitled to increase rents (indexation/rent reviews). Higher rents would eventually lift values, considering the usual six- to 18-month time lag and also an increase in corporate profits for tenants, although increasing interest rates will also increase financial costs.

In our latest inflation report, we discussed this issue, commenting that “property companies see changes in both revenues and expenses when inflation rises. In the case of European listed real estate companies, there is evidence of a strong and positive correlation between corporate profits and inflation as well as shareholders’ returns and inflation” (EPRA, 2022). In the short term, rising inflation may lead to higher volatility because nominal interest rates will also rise, but many listed property companies across the continent have made significant efforts during the last decade to improve their debt profile.

The use of financial leverage in listed real estate

FTSE EPRA Nareit Developed Europe Index

DEBT PROFILE: simple average

Source: EPRA Research (as of 31/03/2022)

ISSUE 77 – SEPTEMBER 2022

INTEREST RATES AND INFLATION: CHALLENGES FOR LISTED REAL ESTATE?
When interest rates are rising, investors may decide to invest in other asset classes – such as investment-grade bonds – because their rate of return is becoming more ‘attractive’. Moreover, the financing costs of real estate companies may also grow if debt is contracted at floating rates. However, today the vast number of European property companies have less leverage, with an average loan-to-value (LTV) below 37%, where debt is largely fixed-rate while the average maturity of this debt is quite long. And approximately 85% of total outstanding debt is contracted at a fixed interest rate, 1.8% on average.

As a consequence, debt issued by listed property companies is now less sensitive to changes in nominal interest rates than in previous cycles of interest rate hikes. Between April 2021 and April 2022, government bond yields for Germany, Sweden and the UK increased 112 bps on average, while the corporate bonds of property companies increased 157 bps, representing an increase in the risk premium of 45 bps (in function of maturity). This seems to be very reasonable and, in our view, reflects how investors continue trusting the listed real estate industry and the conservative debt management of many property companies.

REAL ESTATE BOND YIELDS MODESTLY ON THE RISE

One-year average change on yields of corporate bonds issued by large property companies as of April 29, 2022

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<th>Eurozone</th>
<th>UK</th>
<th>Sweden</th>
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<tr>
<td>1Y AVERAGE CHANGE ON YIELDS</td>
<td>181 bps</td>
<td>158 bps</td>
<td>134 bps</td>
</tr>
<tr>
<td>GOVT. BONDS</td>
<td>102 bps</td>
<td>111 bps</td>
<td>123 bps</td>
</tr>
<tr>
<td>DIFFERENCE</td>
<td>79 bps</td>
<td>46 bps</td>
<td>11 bps</td>
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Listed real estate can differentiate itself from other asset classes, even in the current market conditions. Rental flows are (partially) indexed, which could drive up valuations and corporate profits. Conservative financing policies could be considered a strength by many investors, and several property markets still show healthy fundamentals and some signals of undersupply, supporting the expectation of rental growth in the near future and the idea of a resilient industry that is well prepared to face the increasing inflation and higher interest rates environment.

Check EPRA’s full report on interest rates here: https://www.epra.com/research/market-research

DAVID MORENO

David joined EPRA in 2016. He has a background in financial markets, with a focus on financial institutions mainly as analyst for fixed income and corporate finance. CFA charter holder. He is Economist and Professional in Finance from Universidad del Rosario (Colombia) and holds a joint Master degree in Quantitative Economics and Financial Engineering from Université Paris / Panthéon-Sorbonne (France) and Università Ca’Foscari di Venezia (Italy).

As a top player in the European real estate sector with 35 years of experience, CA Immo is specialised in high-quality office buildings. In developing and managing innovative working environments in prime inner city locations, we create places where people love to work.

Special tenant comfort and high technological and ecological standards are our business, value creation in balance with the environment and society is our mission.

Read more about our sustainability commitment and initiatives at www.caimmo.com/sustainability.
Developing a leverage metric for the listed real estate sector

Loan-to-value (LTV) is a key metric for the real estate sector. It is used by equity analysts and investors to understand the overall leverage of a company and the susceptibility of this leveraged position to a change in property values. It is also used by rating agencies, banks and bondholders for the purposes of raising debt capital.

However, in reviewing various LTV calculations disclosed by EPRA members, it was clear that there was no one definition that was universally used. Indeed, how one intends to use an LTV metric will impact what is included in the calculation. Some EPRA members focus on the LTV as a metric for raising debt capital, and therefore tend to prepare an LTV calculation with balance sheet debt only. Others focus on an LTV metric for users focusing on equity investment, and this tends to be calculated on a look-through basis, including a company’s share of joint venture debt and property assets. Many companies also have specific individual items unique to them that also impact their LTV calculation.

On top of that, we also reached out to the rating agencies and found out they used their own bespoke methodology when assigning corporates an LTV. Adding the bank covenants requirements to the mix and it was clear enough to conclude that no apple-to-apple comparative LTV was available for users of the financial statements. We decided to remediate this. The idea of designing such a metric has been on the table for a hot minute now. Back in 2014, the idea was attempted, but the project never saw the light of day because the task of creating a metric that would fit all purposes seemed too challenging at the time. Well, not any more today.

Indeed, in early Q4-2020, the idea resurfaced and discussions regarding the introduction of an EPRA LTV metric resurfaced, and discussions regarding the purposes seemed too challenging at the time. Well, not any more today. Back in 2014, the idea saw the light of day because the task was attempted, but the project never was fully completed. The EPRA LTV was finally ready to be released in the public domain. It was included as part of the New EPRA BPR Guidelines approved by EPRA’s Board of Directors on October 16, 2021.

Our approach was driven by the objective to create a shareholder-facing metric that is not meant to replace pre-existing ones but rather to help equity holders understand the gearing of their shareholding. The EPRA LTV was aimed to provide shareholders with a metric designed for the listed real estate companies comparable across various jurisdictions and irrespective of the sector (retail, office, logistics, etc.) they operate in. Helping investors to understand and better compare our members’ LTVs has been the main focus all along this project.

Adjustments composing the L and the V parts of the EPRA LTV have been thoroughly discussed during the Sub-Committee Meetings. When aiming at designing a one-for-all tool in an environment as described previously, it might appear easier to agree to disagree. One of the key adjustments on which it was arduous to reach a consensus was the hybrid instruments.

As a basis for our debate, we conducted a sample analysis in order to observe how hybrid debt instruments were treated in the current market. Out of 21 companies selected, only convertible bonds were identified within ten of them, and 50% of the time, they were classified as debt and included on the L side of their respective LTV. There was no real guidance on hybrid instruments and this tends to be treated as debt until conversion.

Another highly discussed adjustment referred to the property transfer taxes. We used the same methodology and realized that a significant percentage of the companies selected excluded the property transfer taxes from their own LTV and decided to follow the same treatment for our EPRA ratio.

Other key adjustments concerned foreign currency derivatives that would be included in the reporting currency of the company on the L side and the current accounts with equity characteristics that will be treated as equity and therefore excluded from the L because of their substance. Indeed, as the financing provided is considered an extension of the equity investment, they are treated as debt.

Finally, the EPRA LTV is based on a proportionate consolidation basis. All material equity is accounted for as investment, and joint ventures will be proportionally consolidated, i.e., accounted for in proportion to the reporting entity’s equity ownership in such investment. For subsidiaries that include third-party non-controlling interests, that are fully consolidated, the proportionate consolidation requires that a similar adjustment be made, i.e., the assets and liabilities that are accounted for should reflect the equity ownership of the reporting entity. A picture is worth a thousand words, and for that purpose, we built an illustrated example that will assist any preparer in computing the ratio.

The new BPR is effective for accounting periods starting on or after January 1, 2022, and will be the basis of EPRA’s BPR Awards in 2023 and beyond.

For any questions about the EPRA LTV metric please contact randa@epra.com • www.epra.com
New European Bauhaus

Simeona Manova, Member of Cabinet of Commissioner Elisa Ferreira, Cohesion and Reforms

The Commission President said, “If the European Green Deal has a soul, then it is the New European Bauhaus.” What does New European Bauhaus mean to you?

The New European Bauhaus is a creative and interdisciplinary initiative that connects the European Green Deal to our living spaces and experiences. People are in its very centre. It calls all of us to imagine and build together a sustainable and inclusive future that is beautiful for our eyes, minds and souls. To me, this means creating space for art and culture in everything we do and in the places we live; a chance to be in harmony with nature and the environment now and in the future; a common understanding that inclusive communities and societies are stronger and fairer, more resilient.

It is impressive to see that the three inseparable values of the New European Bauhaus – sustainability, aesthetics and inclusiveness – mobilise enormous galvanising energy in so many people and organisations, with projects and actions mushrooming across Europe and in other countries. Their effort and enthusiasm give a soul to the institutional, regulatory and policy-making process towards a carbon-neutral economy.

How can the stock-listed real estate sector, with its unique features like transparency, liquidity and diversification, bring its strengths to this concept?

The private sector can greatly contribute to the success of the New European Bauhaus, from lifecycle thinking in industrial ecosystems to public and private spaces and the built environment. The initiative is flexibility very much bottom-up, with ideas by thousands of individuals and small-scale projects. An ever-growing number of countries, regions and cities get involved with their own local projects.

The European Commission animates a very flexible framework for initiatives to multiply and spread. One of them is the NEB Lab, which is a think-tank where different stakeholders can engage in actions of their choice, for example, the ongoing regulatory analysis of the challenges and opportunities in the built environment and construction sector from a New European Bauhaus perspective. Since we opened the community for the participation of private sector actors, the NEB Friends, for-profit organisations can host their own NEB Labs and sponsor various activities. This is one area that the stock-listed real estate sector can contribute to, for example, by creating an NEB Lab to explore how the real estate sector can be better aligned with the principles of the New European Bauhaus and the areas where it can be involved such as places and the built environment, or focus on a specific issue – for example, investor reporting.

There are also many projects and ideas involving sustainable social housing, affordable and accessible building solutions and the improvement of neighbourhoods and locations where a highly diversified investment portfolio can benefit from transparency in the value created in line with the New European Bauhaus criteria while responding to financing needs. This is very much in line with the growing trend of impact financing, creating a win-win opportunity for investors, businesses and clients.

Is the New European Bauhaus a chance to add value to renovation and adapt financial tools?

In real estate, location matters. The New European Bauhaus is very much about places – improving life in urban and rural spaces, promoting the accessibility and attractiveness of public spaces, building communities and regenerating abandoned buildings. Renovation of the building stock is a big priority for the European Commission among the ambitious objectives of the European Green Deal.

The New European Bauhaus is a value-creating force: first, by focusing on people, taking a people-centric, design-driven approach that is inclusive to all members of society, especially the most vulnerable who are most in need of energy-efficient accommodation. There is a strong social element to the RENovation Wave.

Secondly, sustainability is matched with style. Affordable, accessible, energy-saving and innovative solutions should be available on a mass scale without compromising on quality or aesthetics. Successful investments, whether public, private or both, will recognise this added value. And so will innovative financing solutions, crowdfunding and philanthropic sources, which is another domain of activity by the NEB Lab.

If you visited a redeveloped city borough in ten years’ time, what do you envisage that experience would be like?

In an optimistic scenario, we would all live in such a borough. Even today, there are neighbourhoods and communities across Europe which have embraced innovation as a pathway to sustainable living, joining arts and crafts with technology. Such places are usually open access to all who are willing to experience a different approach to everyday life, work and leisure. Seeing this in real life is very attractive – people realise that it is possible and ask themselves, why can’t I live like this too? This is starting a trend and creating demand.

In ten years’ time, one New European Bauhaus neighbourhood will necessarily differ from the next, thanks to the creativity and contribution of its residents. But a redeveloped area based on these shared values of sustainability, inclusiveness and aesthetics will certainly benefit from high-end technological solutions to improve the efficiency of public and private mobility. It will be energy-saving and energy-independent. It will enable a work-life balance thanks to proximity and connections to both the urban centres and nature. Cultural activity will be an essential part of the neighbourhood identity. Importantly, it will provide an opportunity for members of society to contribute to the community, leaving no one behind.

Policymakers have a big role to play here, and we hope to see these principles in the development strategies that places of different size will adopt, with the support of EU and national funding as well as private investment.

SIMEONA MANOVA

Simeona is a member of the cabinet of Elisa Ferreira, European Commissioner for Cohesion and Reforms, where she is responsible for the New European Bauhaus initiative, among others. She also follows SMEs, industry and tourism.

Simeona first joined the European Commission in 2013, Directorate-General for Budget. She holds a Master’s degree in International and Development Economics and a Bachelor of Business Administration in International Management. Jean-Marie Tritant was also appointed Chairman of the Management Board in January 2021.
Tel Aviv... it's more than just beaches

Gigantic stock exchange: The total equity market capitalisation of the Tel Aviv Stock Exchange (TASE) is more than EUR 300 billion. That’s bigger than all of Central Europe combined... plus Austria and Athens thrown in for good measure. And it is about half as large as the BME in Spain. Oh, and more capital was raised by more companies so far this year on the Tel Aviv stock exchange than on the BME... and add the SIX and the Deutsche Boerse too, and it was still larger.

Huge listed real estate sector: With 90 listed real estate companies with around EUR 70 billion total equity market cap, little Israel has the fourth-largest listed real estate sector when ranked in Europe, after only Germany, the UK and Sweden. And we know that Germany is a skewed number, given the small number of very large companies that make up the totals there. And of these 90 companies listed on the TASE, close to 20 of them have mainly or only property outside of Israel (in the USA and/or in Europe), so many that the TASE created a new real estate sub-index for international property companies. Given the prominence of real estate sector entrepreneurs in the European property sector, I guess it should be no surprise that Israeli institutional investors also have a giant appetite for real estate abroad. In fact, the listed real estate sector in Israel makes up about 25% of the total market cap of the stock exchange. How do you think that compares to Europe?

My timing also was, apparently, impeccable. In the last few years, the TASE has penned new agreements with multiple international stock exchanges, including the LSE, that enable automatic dual-listing. It was kind of a mini-trend a few years ago for UK-listed property companies to dual-list on the JSE in South Africa. However, the TASE is five times larger in terms of the size of potential investment capital waiting in Israel than there is in South Africa. My hunch is that when European property companies realise that an LSE listing is also a ticket to an automatic dual-listing into the large, dynamic and real estate-hungry Israeli investment market through the TASE, there will be a line of European issuers形成 around the corner of Ahad Ha’Am Street.

Corporate Governance: Another surprise. Let’s just take ‘related party transactions’, which is a subject in the news these days in the listed property sector. In Israel, it has been a requirement for a few years to have the independent directors and audit committee review and approve an RPT. This is ‘optional’ in Germany, the UK, Sweden and France. The Israeli standard also goes even beyond that, with a majority of minority shareholders having to approve any material RPT. You won’t find that in too many European countries.

FIFA and Eurovision can’t be wrong. And while Israel was promoted by the rating agencies to a ‘developed’ economy many years ago and is considered ‘Europe’ in terms of football and singing, and is in the S&P’s family of European stock indices, it is also interesting to note some interesting investment factors. National debt to GDP is around 70%, lower than the EU average of 86% and right next to Germany’s 69% level. Population growth is higher than in any other EU country, which is kind of the starting point for real estate fundamentals. With central bank reserves at 46% of GDP, a shallower contraction in GDP during the Covid downturn, and a vibrant tech sector launching an all-time record of 75 IPOs last year (lending with Sweden for the second-most active tech IPO market after New York), it seems like there is a bit more than sun, sand and hummus to find in my new favourite European city.

On a more depressing but equally important note, whereas continental Europeans used to sometimes shy away from doing business in Israel due to its proximity to hostile neighbours, we’ve all come to recently realise that continental Europe is no different from its Israeli counterpart. FIF A and Eurovision can’t be wrong.

Mark Abramson is an investment advisor to private equity, family offices and listed companies in the real estate sector in Europe. •
New Chairman, new chapter

What do you see as your main goals for your period as Chairman?

I would first like to thank Mëka Brunel for her time as Chairwoman of EPRA and congratulate her on her many achievements, most notably of which, in my opinion, is the launching of the EPRA Diversity and Inclusion (D&I) program.

We are clearly facing macro-economic headwinds, but EPRA is well-capitalised, and the membership numbers have not declined thanks to the hard work of the EPRA management team. More than the economic issues is the steady stream of legislation that we all face. Whether it is the EU Taxonomy, taxation or threats to REIT legislation, the list goes on, and EPRA’s role will be to advocate for our sector and help guide us as an industry. To this end, one of the first items we have agreed on is for EPRA to produce a comprehensive set of guidelines and share best practices around the EU Taxonomy.

EPRA will, of course, continue to run the D&I program started by Mëka and focus strongly on ESG and the growth of the sector so we can continue to be ahead of the curve when it comes to the climate emergency.

Finally, on the legislation part, and as a landlord who operates across borders, I would like to see mutual recognition of REITs and work at a European level to facilitate cooperation and harmonisation as well as to protect existing REIT regimes.

You mentioned economic headwinds. As an office landlord in Spain’s main urban hubs, what are your greatest challenges?

The pandemic has clearly thrown up challenges, many of which we are all yet to fully see, though I believe that main trends, such as urbanisation, remain as strong as ever. Our assets are more than 80% located in prime CBD locations in the main Spanish and French hubs such as Barcelona, Madrid and Paris. Furthermore, with 45% Energy Certified in the highest categories, I still believe that the highest quality assets in the right locations will win. Tenants and their employees increasingly demand buildings that are efficient, green and have an emphasis on well-being, and we deliver these assets through renovation or development.

More than this, as I already mentioned, is the climate emergency and how we as a sector respond. This is not my challenge but our sector’s greatest challenge and will be a main focus of my time as EPRA Chair.

At Colonial, we are requalifying all our bonds debt to green bonds so that the capital we deploy has ESG at its heart and will certainly continue to advocate for this at the EPRA level.

There has been a lot of M&A activity in the real estate sector recently. Do you think this will impact your time as Chairman?

Indeed, we have seen a number of companies either go private or merge with their peers. This is partly cyclical and a response to the pandemic, but I think there are a number of things we can do as a sector. One of my goals, as I mentioned, is to help grow the sector.

If you look at other markets, the new economy is becoming a large part of the real estate world. Whether that is data centres, cell towers or life sciences and here, again, we have a link with the pandemic.

So growing the sector in Europe post-pandemic and encouraging EPRA to look at the new economies for the European sector will be one of my aims. The European sector has diversified very well over the last decade, away from just the traditional assets that I represent. If we think back only six or seven years, there was almost no residential exposure and a few healthcare assets. These sectors now make up 32% of the FTSE EPRA NAREIT European Index (FEN Index). So, as an industry, European listed real estate is used to change and diversification, but we need to do more and I will be encouraging Dominique and his team to pursue these growth opportunities.

I don’t want to put a figure on it, but perhaps at the end of my period as Chairman, the European sector’s share of the FEN Global Index will have grown – now there’s a challenge! •

Cofinimmocom has been acquiring, developing and managing rental properties for almost 40 years. The company has a portfolio spread across nine countries, with a value of approximately 5.9 billion EUR.

Thanks to its expertise, Cofinimmocom has assembled a healthcare real estate portfolio of approximately 4 billion EUR.

The company applies an investment policy aimed at offering a socially responsible, long-term, low-risk investment that generates a regular, predictable and growing dividend. Cofinimmocom is listed on Euronext Brussels (BEL20).

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Innovations in the Resi market

In the latest of our series of prop-tech and innovation interviews, we discuss the challenges facing the residential sector from a technology perspective with Grainger’s CIO, Paul Glibbery.

What was the challenge you faced that led to Project Verkada?

“Security is a key challenge and focus area for a landlord like ourselves across such a broad portfolio,” remarked Paul. “Clearly, resident safety is our number one priority and having reliable and modern security systems is essential. However, we had multiple legacy CCTV systems which did not meet the standards and level of best practice that we always strive for.”

“We, therefore, embarked on the project in Q4 2020 to upgrade the systems and leverage the most modern technology and infrastructure using cloud-based computing.”

So, how does the solution work in practice?

“Well, the Verkada Intelligent Hybrid platform sits in the cloud and can be accessed centrally. It provides real-time monitoring and analysis and means our security teams are more responsive and informed.”

Presumably, this has streamlined operations and provides greater security for your residents?

“Well indeed. What’s more, the Verkada Command centre is a web-based dashboard where our colleagues can access footage in seconds. They can do this remotely and share footage with other colleagues, security staff or emergency services via email or text. With features such as motion detection, people analytics, heat mapping, crowd alerting and vehicle analytics our team can quickly search across the dashboard to find relevant footage. The solution is secure and GDPR compliant.”

“We opted for a 10-year warranty system so that it is baked into all our build-to-rent assets. This provides cost savings for the business, and, of course, we will receive all upgrades automatically.”

“It’s been a real game changer for us, and as I said at the start, it enhances resident safety across the portfolio.”

In the latest of our series of prop-tech and innovation interviews, we discuss the challenges facing the residential sector from a technology perspective with Grainger’s CIO, Paul Glibbery.

Paul Glibbery is the Chief Information Officer for Grainger PLC, the UK’s largest listed residential landlord. His appointment reflects Grainger’s significant investment in its technology platform CONNECT, which provides an integrated solution to enhance the customer experience and improve operational efficiency. Paul has over 20 years of extensive experience leading the delivery of global technology and digital business transformation programmes for major brands including Hewlett Packard, Airbus and Fujitsu. During his 7-year tenure at Hewlett Packard, Paul held a number of appointments. He was Delivery Director for the $1Bn HP UK Defence contract, led the Group’s EMEA Business Transformation Programme and was most recently responsible for a Global business, with the remit of helping clients implement a strategy to transition to digital services.

INNOVATIONS IN THE RESI MARKET

ISSUE 77 — SEPTEMBER 2022

Leading owner and operator of Shopping Centres in Central and Eastern Europe (CEE)

- 9 countries
- 244 MILLION visits in 2021
- 52 retail properties
- €5.9 BILLION investment portfolio
- Nearly 173,000m² GLA of developments, extensions, and refurbishments.

Verkada's hybrid cloud architecture

No NVR or DVRs

Easy to scale

Industrial-grade solid state storage saves up to 365 days of continuous video

Bandwidth friendly and supports thousands of cameras across unlimited locations

Centralised management

Modern platform enables secure access on any device from anywhere in the world.
“Absolutely delighted to be back in person” was the opening line from Dominique Moerenhout (EPRA CEO) at the start of this year’s event, and it suitably summed up the mood of the attendees. The buzz and in-person interaction were noticeable, with many participants not having seen each other since April 2019, when the event was last held in person.

Roger Bootle, Chairman of Capital Economics, kicked off the morning content with a swift if sombre run-through of the macro projections for the UK and the Eurozone for the next two years. Unsurprisingly, the major themes were inflation, Ukraine, interest rates and supply chain issues. One of his most interesting comments came towards the end when he took us back to the future and referenced monetarism and Milton Friedman: “Inflation is always and everywhere a monetary phenomenon”. Nevertheless, his conclusion was that the “institutional architecture” is nothing like the 1970s and that likely real wages growth will outstrip CPI by late 2023 with inflation dropping back to 3-4%.

In the CEO panel response, Giacomo Balzarinì, Margaret Sweeney and Evert-Jan Garderen all agreed that whilst their local markets were tough, with supply chain issues hampering new development – and “just-in-case being the new just-in-time” – they were well protected by indexation and were unlikely to see government intervention in the rental markets. Margaret Sweeney outlined the growing threat of delays in supply chains for IRES’ new development – and “just-in-case architecture” is nothing like the 1970s. Nevertheless, his conclusion was that the “institutional architecture” is nothing like the 1970s and that likely real wages growth will outstrip CPI by late 2023 with inflation dropping back to 3-4%.

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An eagerly anticipated panel followed, discussing LTV and the new EPRA LTV metric, Nick Sanderson from Great Portland Estates (LTV 20.5%) argued that low leverage at this point in the cycle allowed them to be opportunistic, and they have the flexibility to raise LTV to 30% so they can deploy capital quickly and increase LTV for the right opportunity. Els Vervaecke from Montes (LTV 38.6%) argued that whilst five years ago their LTV was over 50%, they have been able to reduce it whilst also growing the portfolio through recycling assets. Simon Robson-Brown from Morgan Stanley, one of the EPRA LTV committee members, passionately defended the new metric arguing that it gives investors a clearer and transparent overview of companies’ leverage and risk on equity. Nevertheless, the takeaway all agreed that leverage was lower and debt had longer maturity with fixed rates meaning “it was different this time”.

No summit can be complete without ESG, and the afternoon started with a panel on sustainable finance. Greenwashing and regulation were the key topics with Jana Sehnalova, Conduit Asset Management, said that whilst “for once, Europe is doing a better job than other jurisdictions”, and the EU Taxonomy, whilst not perfect, is putting pressure on companies. Timon Drakesmith pointed out that listed companies were at the forefront of addressing the issues but makeup only 7% of the built environment. Nicolas Dutreuil, Gecina, welcomed the Taxonomy on the basis that they are already nearly compliant, and it gives investor comparability across all industries, not just real estate.

The summit closed with a panel discussing the public to private trajectory with Olivier Elmame from alstria (whose recent acquisition by Brookfield gave him a perfect judgement), Matt Norris from Gravis Capital and James Seppala of Blackstone. James and Matt both agreed that it is not just the assets that are driving their decisions, and the REIT space is very good for accessing high-quality alternative assets. Taking one example, he explained that student accommodation is more likely to have en-suite bathrooms than elderly accommodation and, thus, there is massive room for investment. To conclude, all three agreed there was too much focus on NAVs and discounts in Europe, and this was a drag on raising capital and growing the sector.
Index focus

Comparison of asset classes

Value snapshot
(mid-July 2022)

* 1-year LTV value as of March 2022 and 10-year value as of 2012

<table>
<thead>
<tr>
<th>DEVELOPED EUROPE</th>
<th>LATEST</th>
<th>YEAR TO DATE</th>
<th>1-YEAR</th>
<th>10-YEAR</th>
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<tr>
<td>Average Total Return (%)</td>
<td>3.10</td>
<td>-25.25</td>
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<td>Average Premium/Discount to NAV (%)</td>
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<td>Loan-to-Value (%)</td>
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<td>Average Dividend yield (%)</td>
<td>4.05%</td>
<td>3.18</td>
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Top 10 European performers
(July 2022)

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<tr>
<th>FTSE EPRA NAREIT GLOBAL INDEX</th>
<th>STOCK NAME</th>
<th>COUNTRY</th>
<th>REAL ESTATE STATUS</th>
<th>SECTOR</th>
<th>INVESTMENT FOCUS</th>
<th>PRICE RETURN (MAY 2022)</th>
<th>DIVIDEND PAID (MAY 2022)</th>
<th>TOTAL RETURN (MAY 2022)</th>
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<td>Nextensa</td>
<td>BELG</td>
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<td>Flexita</td>
<td>NL</td>
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