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REAL ESTATE ASSOCIATION

THE IMPACT OF EUROPEAN REITS

The Role of Real Estate Investment Trusts in the European Economy

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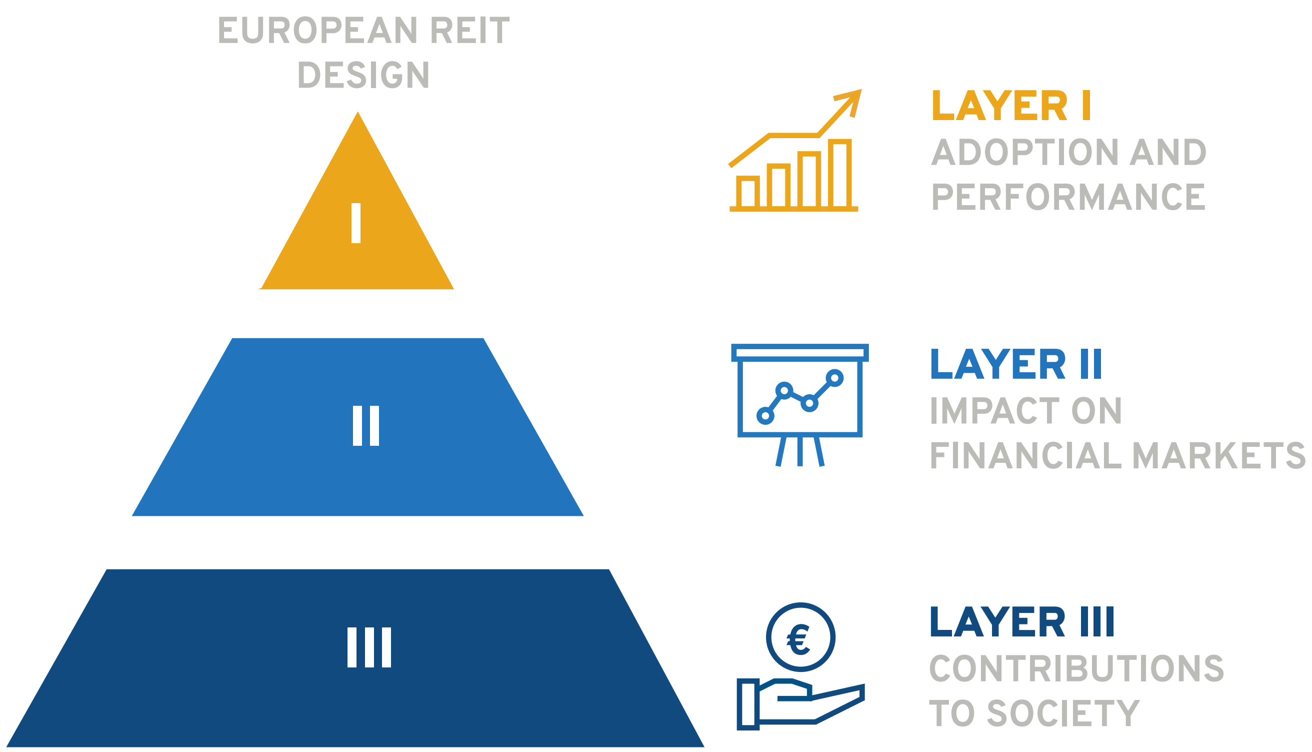
CONTENTS

INTRODUCTION

Real Estate Investment Trusts (REITs) have increased across Europe over the last 50 years. REITs are companies that own, operate, or finance income-producing real estate and are typically listed on stock exchanges like other firms. The enactment of REIT structures in European geography accelerated around the turn of the century, and now (2023) encompasses fourteen countries[1] .

The influence of REITs in the European space is commonly looked at within the confines of the financial performance of REITs, which is a narrow view of how REITs affect economies. The objective of this document is to provide a much broader perspective on the influence of REITs. It follows a three-layered approach, in which each layer extends the research into a wider level of influence.

Three layers of influence of REITs in Europe



[1] 13 EU Member States and the UK.

The first layer looks at how the design of REITs is influencing outputs in terms of REIT adoption, market growth and performance. Data on the three largest European economies, together covering around 80% of the European REIT market capitalisation is being used for this analysis. The second layer broadens the scope of research by looking at the evolution of REITs in Europe over time, how it is transforming access to capital for the real estate sector, and the impact this has on financial markets in general. The third layer looks at the outcomes of REITs on society. The outcomes from REIT enactment and adoption are potentially the most significant elements that incentivise policymakers to enact REIT laws, but these continue to be under-researched. Prior studies have already highlighted the impacts of REITs on job creation and their contributions to taxation in Europe[2]. In contrast, this report will further explore how REITs contribute to the challenges within the European economy against a backdrop of wider societal challenges. This document is a condensed version covering the key takeaways from a research report commissioned by EPRA[3].

[2] https://www.epra.com/application/files/9916/0571/5734/EPRA_Total_Tax_Contribution_report_2020.pdf

[3] The full report with the underlying empirical analysis is available from EPRA.

LAYER I: REITs in Europe

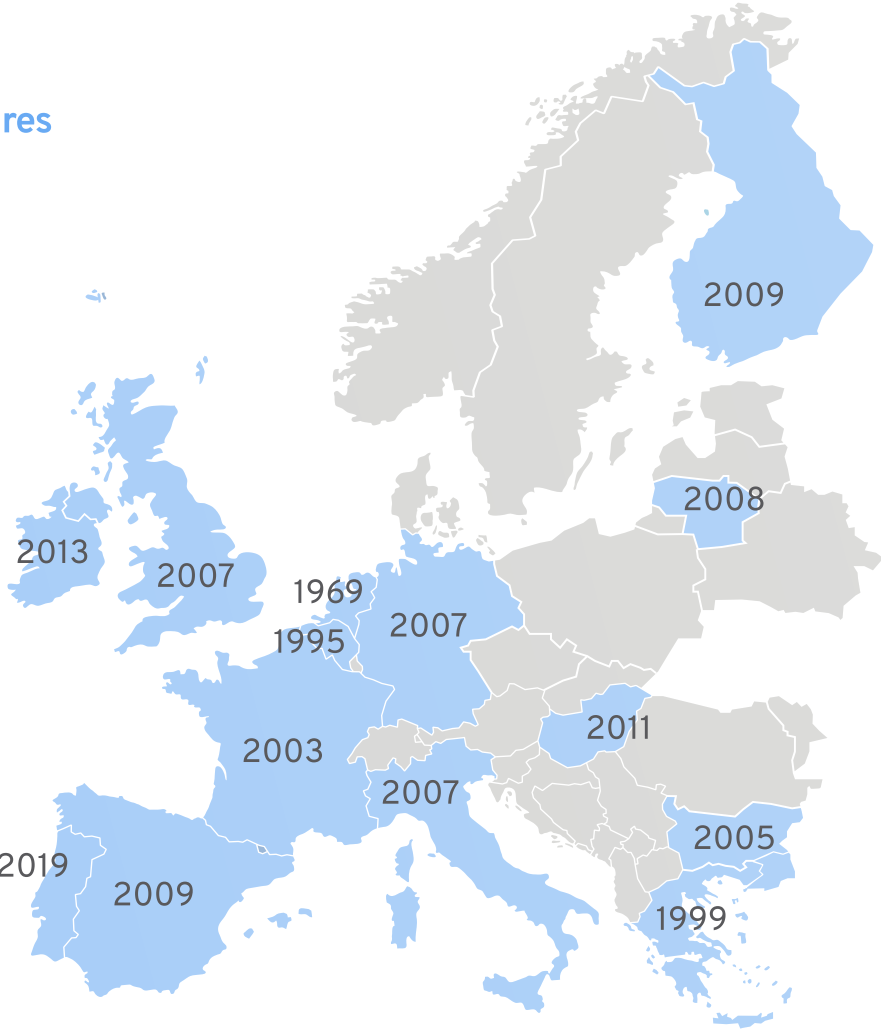
KEY TAKEAWAYS:

- REITs have multiplied at an accelerating pace throughout Europe
- REIT converters evolved to differentiate themselves from non-REIT peers
- European REIT legislation has changed the characteristics of listed real estate markets
- Investors have assigned higher valuations to REIT adopters
- European REITs have delivered on risk moderation versus non-REITs

INTRODUCTION

REIT markets in Europe have existed since the adoption of a tax-transparent structure in the Netherlands in 1969. Over 50 years, fourteen European countries have enacted the structure.

Overview of European REIT structures and their date of establishment



European REITs share significant characteristics indicated by main design features. However, it should not be supposed that the structures are identical, even though they are under the same REIT label. Differences concerning the key features of the most significant European REIT regimes are evidenced in the table below.

TABLE: OVERVIEW OF THE LARGEST REIT REGIMES IN EUROPE, COMPARED AGAINST THE U.S. AS A 'REFERENCE' MARKET

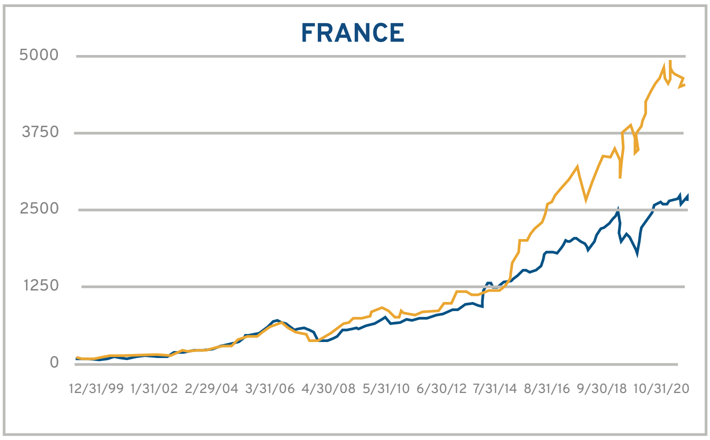
	US (Reference Structure)	BELGIUM	FRANCE	GERMANY	SPAIN	UK
Structure Name	Real Estate Investment Trust	Société d'investissement en immobilier à capital fixe / Vastgoedbeleggings vennootschap met vast kapitaal (1995)Société immobilière réglementée / Gereglemen- teerde vastgoedvennoot- schap	Sociétés d'investissements immobiliers cotées	German Real Estate Investment Trust	Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario	United Kingdom Real Estate Investment Trust
Abbreviation	REIT	Sicafi/Bevak (1995) SIR/GVV (2014)	SIIC	G-REIT	Socimi	UK-REIT
Year enacted	1960	1995	2003	2007	2009 (revised 2012)	2007
Mandatory listing	No	Yes	Yes	Yes	Yes (within 2 years)	Yes
Asset test	At least 75% in real estate. government securities or cash, 75% or 95% income tests	Only investing in real estate, including participations <25% in REITS	Primary aim to rent out real estate, other activities <20% of book value of assets	At least 75% of total assets in real estate, investment in housing < 2007 prohibited	At least 80% qualifying assets, including land held for development and rental real estate and held for > 3 years	At least 75% rental income at least three assets with no property exceeding 40% of assets
Development activities	Below 20% when held in TRS (Taxable REIT Subsidiary)	Permitted, provided the asset is held for at last five years after completion	Below 20% of book value of assets	Below 20% of book value of assets via wholly owned subsidiary		Allowed for own portfolio, taxation if sold within three years
Leverage ceiling	None	LTV = 65% of assets interest expenses < 80% of income < 50% mortgage limit	None	< 66.25%	None (after 2012 revision)	Debt service coverage >125
Management	internally/externally	Internally	Internally	Internally/externally	Internally/externally	Internally/externally
Personal requirements: -Recurring (rental) income -Realised capital gains	90% None, but not distributing has tax consequences	80% None, provided proceeds are reinvested within four years	85% 70%	90% Minority share of sales <50% over moving 5-year window; capital gains reserve for 2 years applies over 50% of gains	80% (100% of dividend income) if holding period requirement is met; 50% with remainder allowed to be reinvested within 3 years	90% (100% of dividend income None
Shareholder requirements: -minimum number of shareholders	Minimum > 100 shareholders Top 5 shareholders must hold less than 50%	None Freefloat above 30%	None No shareholder may hold > 60%; 15% must be held by shareholders holding less than 2%	No shareholder may hold more than 10% Besides the above, free floatmust be above 15% (25% at introduction)	None (stock exchange dependent) Minimum freefloat of 25% to list on main market	If no shareholder may hold more than 10% Minimum of 35% needs to be owned by individual or entities holding less than 5%

REIT CONVERTERS EVOLVED TO DIFFERENTIATE THEMSELVES FROM NON-REIT PEERS

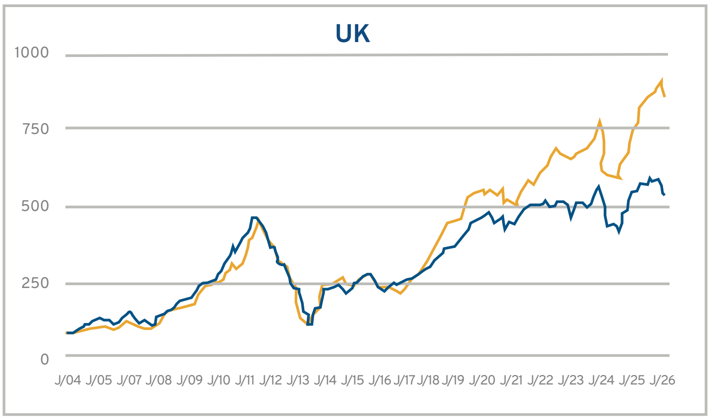
It is reasonable to infer from the structure table that while European REIT structures share important characteristics, they also differ from one another. The essential question for policymakers is whether REIT enactment affects the real estate market.

To be able to answer these questions, it is helpful to look at what happened in those countries that had a pre-existing listed real estate market before enacting a REIT structure. By looking at these markets, it is possible to compare how the enactment of a REIT regime and the subsequent adoption of the structure by companies converting into REITs has impacted performance.

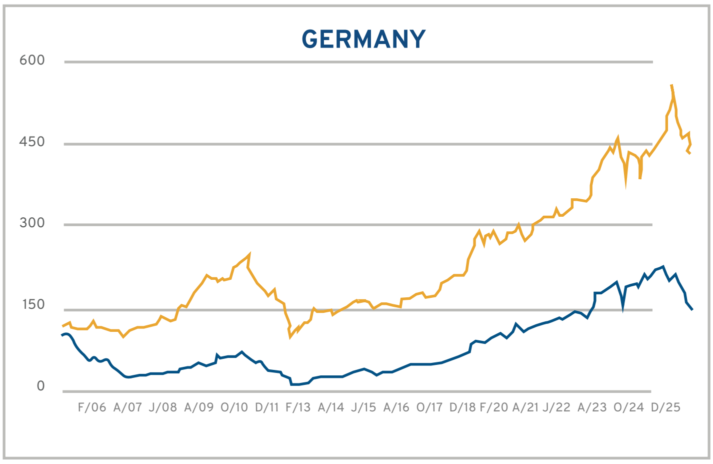
To this end, it is necessary to verify whether companies that went on to become REITs differ from those companies that did not adopt the structure. If the financial performance before REIT conversion was already different, the enactment of the REIT structure proper has had little influence on the evolution of companies. Any difference in characteristics may have been in place irrespective of adopting the REIT structure. However, if before REIT adoption companies that did and those that did not convert were indistinguishable from one another, we know that REIT legislation has exerted an influence. This influence would affect performance differential once the REIT structure is adopted. To measure this, a dataset of real estate firms already listed before the REIT enactment was compiled.
A proportion of these firms went on to convert into REITs, whereas others remained so-called real estate operating companies (REOCs). For the markets of France, Germany and the UK, the graph maps out performance behaviour pre- and post-REIT enactment in the respective countries.



Total Returns of French REIT converters versus non-converters in local currency 01/01/2000-100



Total Returns of UK REIT converters versus non-converters in local currency 01/01/1999-100



Total Returns of German REIT converters versus non-converters in local currency 01/01/2000-100

Graphs: Total shareholder returns of non-REITs (yellow line) versus REITs, by country

REIT ADOPTION HAS DRIVEN MARKET CHANGE

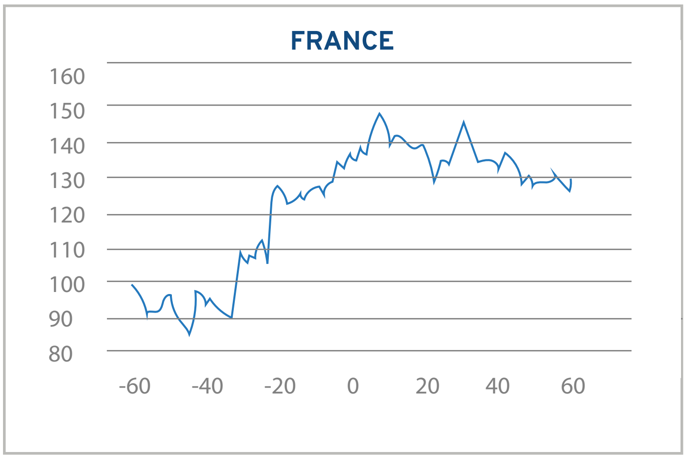
In line with expectations, the graphs show that before REIT enactment, the financial performance of companies that remained REOCs and the REITs was practically identical. This confirms that before the REIT enactment, the set of companies was homogeneous. Even for a short period after REIT enactment, the performance remains fairly similar. The outlier is the German market, in which many companies were unable to join the regime due to the limitations on residential investments. Empirical tests (logit regressions) were carried out to determine whether the evidence – as provided by the graphs – is substantiated statistically. This was done by testing whether the inclination of a company to convert to a REIT is conditional on characteristics such as size, liquidity, leverage, dividend payout and level of investment. These tests show that in the case of the U.K., larger companies with lower levels of development (measured through capital expenditure) and higher levels of free float had a somewhat higher propensity to convert into REITs. However, for the other countries and in the entire dataset of 135 companies in this analysis, this effect was statistically insignificant (even though the factors pointed in the same direction). One finding that is not self-explanatory is that those firms that did not convert into REITs show higher total return index values than the REIT converters. While the returns of the non-REITs have been higher, their equally higher risk as measured by volatility more than makes up for this difference. On a risk-adjusted basis, REITs have outperformed the non-REITs. This is in line with expectations given the policy aims. 'REIT structures were intended to curtail risk by imposing limits on risk activities (operational risk) as well as borrowing (financial risk). Second, the data displayed only pertains to the companies that existed before the REIT enactment, which is a subset of the complete market. Interestingly, the market as a whole has seen increasing volatility over the period covered in the analysis, which has meant that both REIT converters as well as those firms that did not convert into REITs were subjected to higher risk levels. However, the risk of REITs, measured by their beta has increased much less than the risk of non-REITs, meaning that REITs have dampened financial risk.

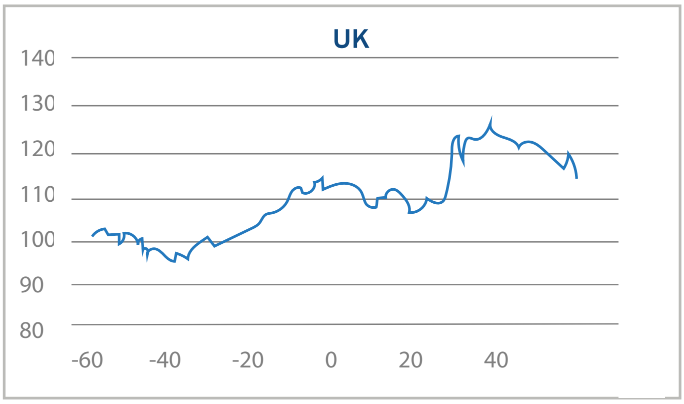
“REIT structures intend to curtail risk by imposing limits on activities (operational risk) as well as borrowing (financial risk).”

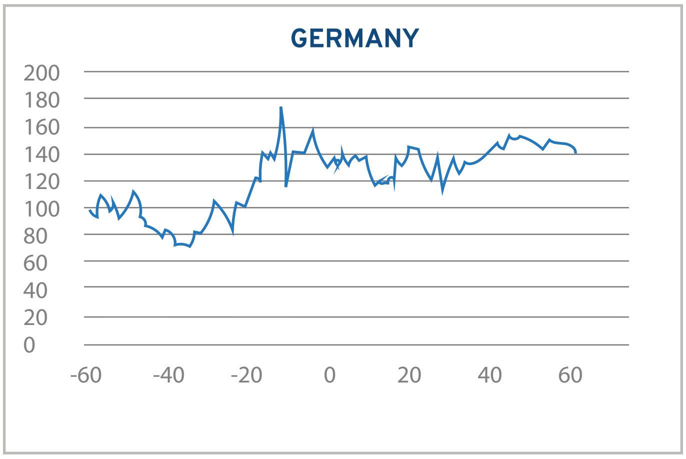
INVESTORS HAVE ASSIGNED HIGHER VALUATIONS TO REIT ADOPTERS

As could be seen from the graphs, performance divergence started well after REIT enactment, as companies began to adopt the structure and change their capital structure accordingly. Furthermore, it may be that the investment community recognized the change and started to assign a different valuation to REITs. This is an interesting notion that warrants further exploration. To this end, the outperformance of REITs in the period five years (60 months) before REIT conversion to five years after conversion is tracked in the three major European REIT markets. The pattern of outperformance is quite similar from one market to another. In the period leading up to REIT conversion, the shares of REIT converter outperformed the wider listed real estate market. This effect is in the French and German markets very similar at an aggregate of 35% over the five-year period, whereas in the UK this is lower at around 14%. Importantly, outperformance appears to start around 3 years (36 months) before the actual conversion date. This term coincides with the amount of time companies need to implement the conversion, which involves shareholder approval, the application with financial and tax authorities and repositioning the company to comply with regulatory requirements. The strong appreciation of the valuation is evidence of the market acknowledging the impact of REIT adoption. This underpins the notion that REIT enactment supports (real estate) market resilience.

> ***"From a policy perspective, it should be noted that investors are assigning value to stability in the sector brought about by REIT legislation."***







Graphs: Abnormal total return index of REIT converters versus the broader market

Relative performance from 60 months prior to REIT conversion to 60 months after

LAYER II: Financial markets impact of European REITs

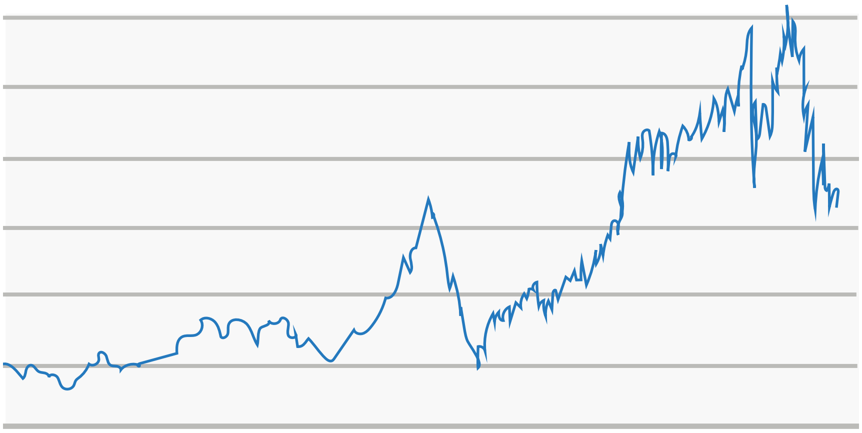
KEY TAKEAWAYS:

- REIT enactment has resulted in IPO activity throughout European markets
- The role of REITs in European debt markets is growing
- REITs have been an important instrument in the resolution of real estate crises by offering liquidity to bad banks and other institutions overextended in the real estate sector
- The growth of the REIT market is supporting stability in the European financial markets
- By using alternatives to bank debt REITs are reducing the risk of real estate on bank balance sheets, reducing risk contagion in distress
- REITs are playing an increasingly important role in the European debt markets

INTRODUCTION

We can see by looking at Layer 1 that European REITs have changed the makeup of the real estate industry in Europe. Based on the data from the largest European real estate markets it is clear that REITs have brought changes to both the firms that have adopted the structure as well as to the market as a whole. It would be logical to expect that these benefits would support market growth. Indeed, the European listed real estate market has grown significantly over time, tripling in size between 1999 and 2022.

Evolution of the size of the European Listed Real Estate Securities Market



Market capitalization of the FTSE EPRA Nareit Europe Developed market index[4] in million euro

Source: FTSE EPRA Nareit

This is a reflection of both the underlying real estate returns as well as the influx of new REITs and hence capital in the market. Understanding the role that the enactment of REITs has had in the development of European markets is key to judging whether the structure has been and continues to be relevant as a policy tool to support financial market maturity.
In this chapter, both the activity resulting from the introduction of REIT regimes as well as the drivers of growth are looked at. Furthermore, the analysis is extended beyond the equity market, as REITs play an increasingly important role in European (public) debt markets.

REIT ENACTMENT HAS RESULTED IN IPO ACTIVITY THROUGHOUT EUROPEAN MARKETS

As the European REIT regimes were introduced, most pre-existing real estate firms decided to convert to REITs. While this has changed the characteristics of the market, it was also meant to provide greater access to real estate investments for a wider group of shareholders. Particularly for those countries that had a small or even non-existent listed real estate market prior to the arrival of REITs, this has been an important motive to introduce a REIT regime.

> *"Small private investors can invest with the same conditions as institutional investors."*

By offering the opportunity to invest in real estate portfolios with essentially the same conditions that institutional investors could only enjoy before REIT enactment, (small private) investors were offered an opportunity to diversify their investments and benefit from a wider choice of asset classes. This benefits shareholders, but also managers looking for capital and on a higher level it benefits the entire economy as it deepens the capital market.

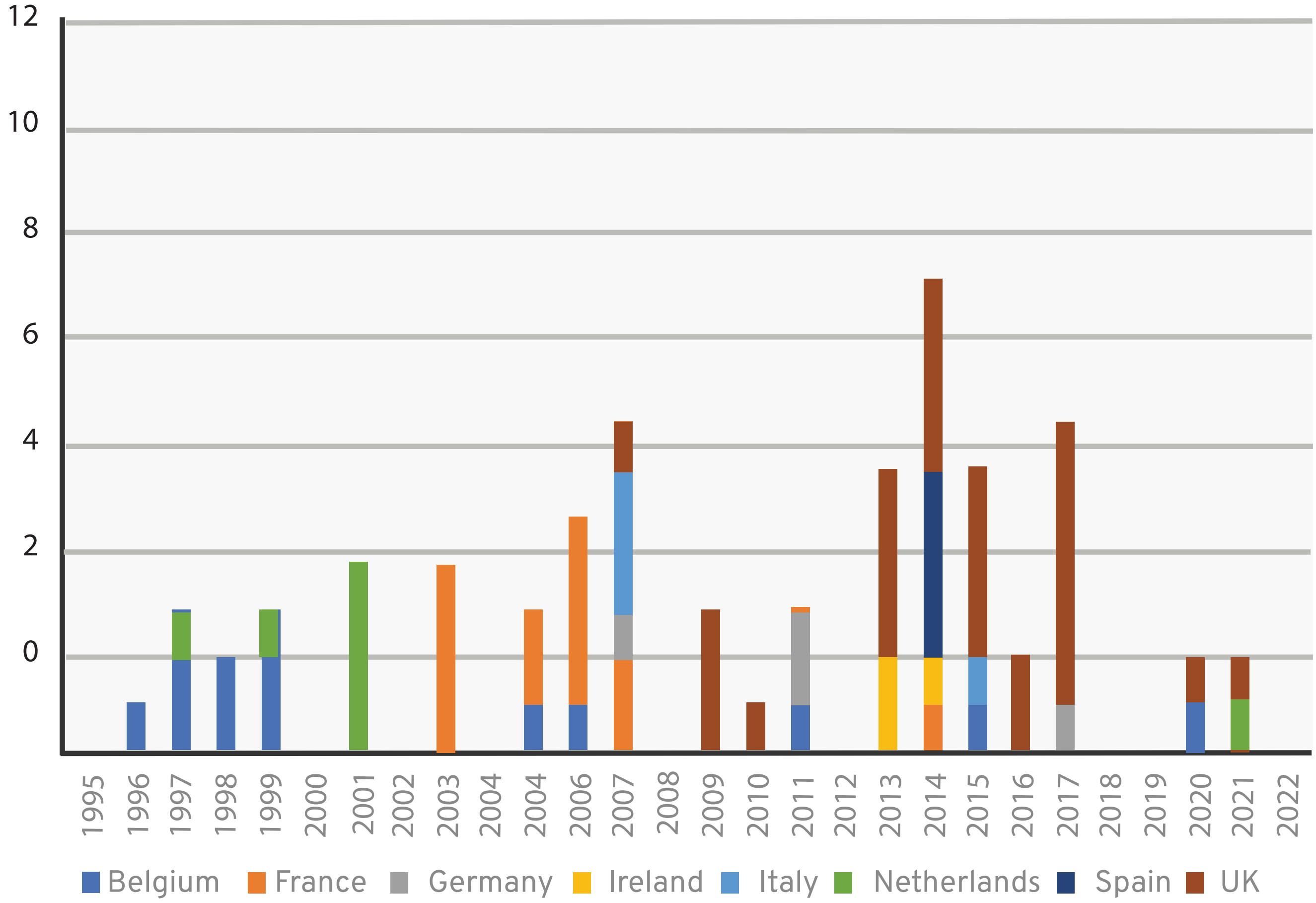
The success of this objective can be measured by looking at the influx of new companies in the market over time. The figure below looks at eight markets across Europe that introduced the structure and monitors the amount of stock market introductions (IPOs) that have taken place.

[4] The FTSE EPRA Nareit Developed Europe Index is a subset of the FTSE EPRA Nareit Developed Index and is designed to track the performance of listed real estate companies and REITS.

The graph starts in 1995, which coincides with the date of the introduction of the Belgian (Sicafi) REIT structure, the predecessor of the Belgian BE-REIT. The only European REIT market that existed before the Belgian market was the Dutch FBI[5] Because only one market existed, the period before 1995 is not covered in the graph. However, Dutch REIT IPOs after 1995 are included in the sample.

Distribution of European REIT IPOs over time, 1995 - 2022

This Figure provides an overview of real estate investment trusts that were listed between 1995 and 2022 in European markets, broken down by year and by country of listing.



Source: EPRA research, author analysis

The figure indicates that IPOs primarily tend to cluster by country. For obvious reasons, the initial part of the sample solely consists of Dutch and Belgian IPOs. In Belgium, many REITs launched on the back of the structure being introduced. Dutch companies also saw IPOs at the time the Belgian REIT structure was introduced, even though the Dutch structure had been in place for quite some time. The countries that introduced REITs at a later date saw similar behaviour. Even though there was a pre-existing French-listed real estate market, there have been substantial additions to the universe due to the introduction of the SIIC structure. This is evidence of the REIT structure permitting a more efficient ownership distribution.

[5] FFBI stands for fiscale beleggingsinstelling (Fiscal Investment Institution regime)

In Spain, the introduction of the SOCIMI regime in 2014 immediately led to an IPO wave that hitherto has proven to be very concentrated in time. The same holds for the Irish market. In these two geographies, immediately after the introduction of the structure, there was a strong take-up as REITs could generate the capital needed to replace government financing injected into the real estate market.

> *The introduction of REIT structures was a catalyst for resolving pre-existing issues in the market as a result of the global financial crisis.*

In Spain and Ireland, government-backed 'bad banks' were created (Sareb in Spain, NAMA in Ireland) to bail out commercial banks and developers that had overextended themselves in the real estate market. These two markets were among the most affected countries in the global financial crisis. In both cases, bad banks had large positions in real estate that had to be resold into the market and REITs offered a solution to this issue. The transfer of assets from the government-owned banks into the market supported the resolution of the real estate crisis and freed up the capital that governments had to put into bail-out programs. The situation has strong similarities with the savings and loan crisis in the United States, where REITs took on a similar role.

The UK market did not have a bad bank as such, but commercial banks had similar issues with real estate debt. Here, the process of digesting the real estate positions took more time. However, the UK market also saw growth after the financial crisis, even the way in which REITs thrived took place over a larger period. After an initial IPO peak just after the REIT enactment, the volume of IPOs rose again after the global financial crisis. This suggests that the capital demand hypothesis in particular offers a strong explanation for the changing IPO frequency through time. The growth of REIT structures in Europe therefore appears to be predicated both on having the structure in place and a need for market restructuring supported by the availability of an efficient real estate vehicle that does not experience liquidity issues when other forms of real estate do.

REITS HAVE BEEN AN IMPORTANT INSTRUMENT IN THE RESOLUTION OF REAL ESTATE CRISES BY OFFERING LIQUIDITY TO BAD BANKS AND OTHER INSTITUTIONS OVEREXTENDED IN THE REAL ESTATE SECTOR

As indicated and given the data, the growth of the European REIT market has been driven by a combination of two factors. The structure itself has made real estate investment more attractive and has led to IPOs around the introduction date of the structure. A second driver has been the resolution of distress in the real estate market, as evidenced by the inflow of capital into the REIT market in the aftermath of the global financial crisis. The assumption that the strongest growth has been a result of financial crises is validated, as indeed the IPO volumes were highest after the global financial crisis, helped by the introduction of REIT structures in Ireland and Spain.

> *The ability of REITs to play a role in the resolution of financial distress in the real estate and banking sector is an important consideration for policymakers.*

REITs have proven able to provide a transfer mechanism for (real estate) assets from the public to the private sector, thus freeing up capital locked up in government-owned bad banks as well as commercial banks.

THE ROLE OF REITS IN EUROPEAN DEBT MARKETS IS GROWING

The resolution of problems due to commercial banks becoming overexposed to real estate is beneficial, but ideally, policymakers promote the prevention of such issues from occurring. REITs can play a role in this as well, as demonstrated by the growing number of REITs that are not relying (solely) on bank debt but have gained access to the public debt market as well. Even though there is little literature on the use of the bond market by REITs, the importance of REITs in the public bond market has been growing in the last decade. According to the ICE BofA Euro Corporates (Bond) index, some 6% of the volume of the public corporate bond market consists of real estate.

This should be considered alongside the fact that this percentage was close to zero at the beginning of the century and also taking into account the growth of the European corporate bond market itself by around ten times within that timeframe. The exponential growth of the European real estate bond market has been driven by REITs. In the graph below, the evolution of the volume of the European REIT bond market between 2010 and 2021, according to BNP Paribas, is provided. The 2021 market volume was fifteen times the volume of 2010, exceeding the growth of the bond universe as a whole.

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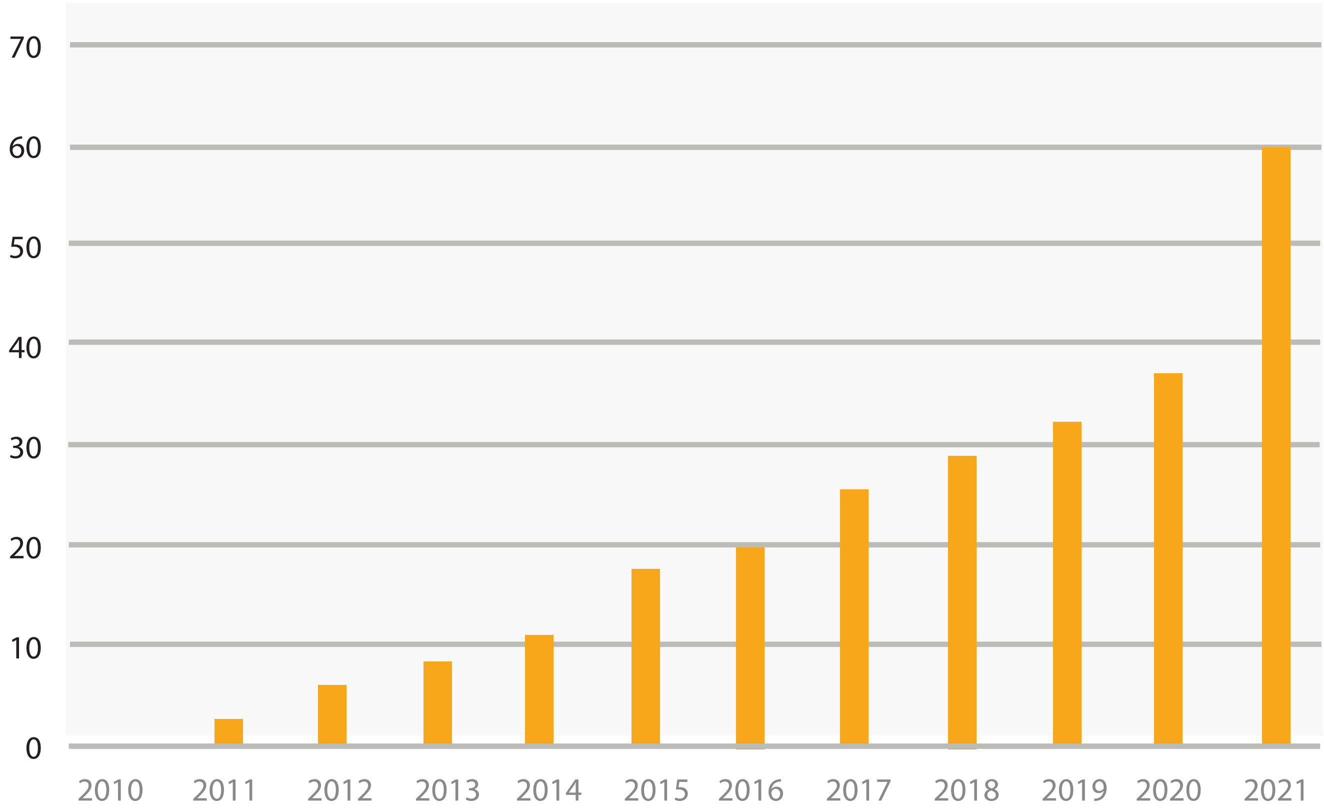
European REIT bond market issuance in EUR billion, 2010-2021

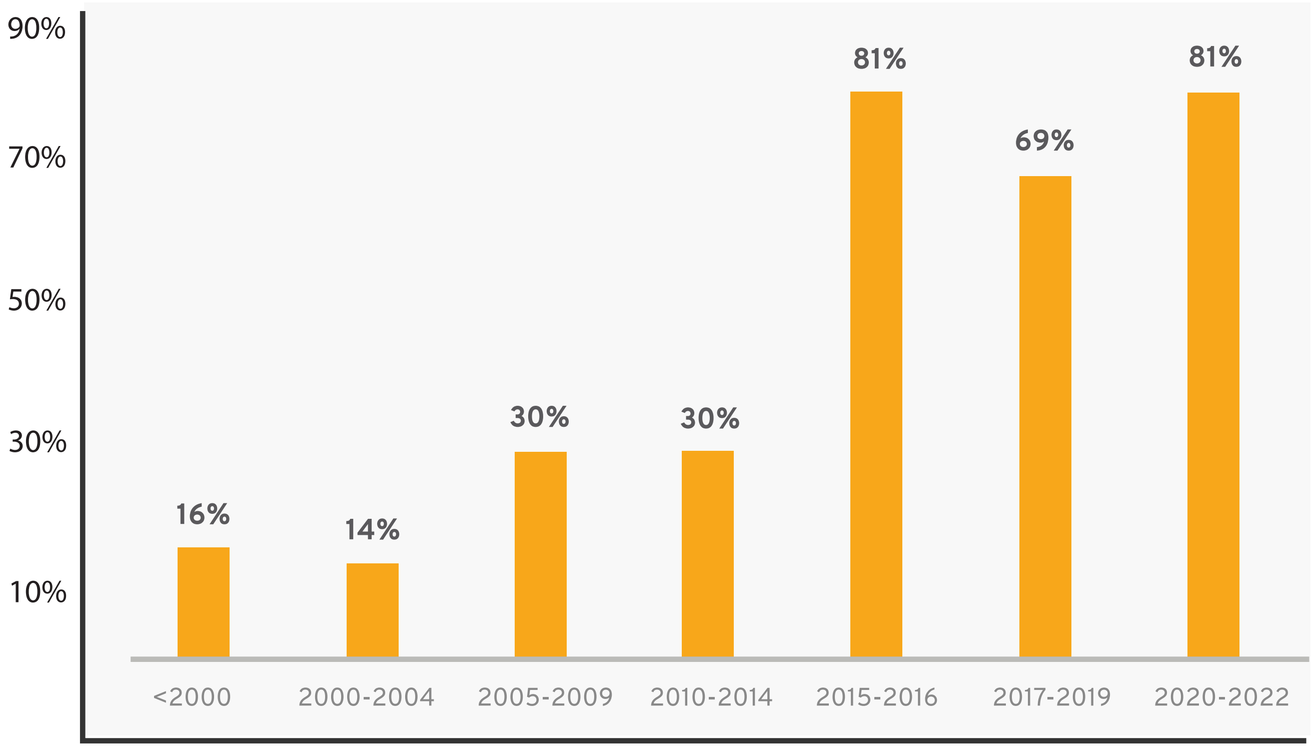


Source: BNP Paribas research

When looking at the percentage of REIT bonds in the overall real estate bond market, the numbers become even more impressive. Over the last years, REITs have made up ~80% of the issuance volume when looking at fixed-rate bond issuance. According to academic studies, the issuance of bonds does not only help firm managers diversify their sources of capital and reduce their reliance on banks. It also contributes to more disciplined financial management of REITs, as managers will want to maintain credit ratings that will allow them to borrow against attractive rates.

The proportion of REITs in total European fixed rate real estate bond issuance, 2000 – 2022

The figure provides the proportion of bonds issued by REITs in Europe as a percentage of the total bond volume issued by real estate bond issuers.



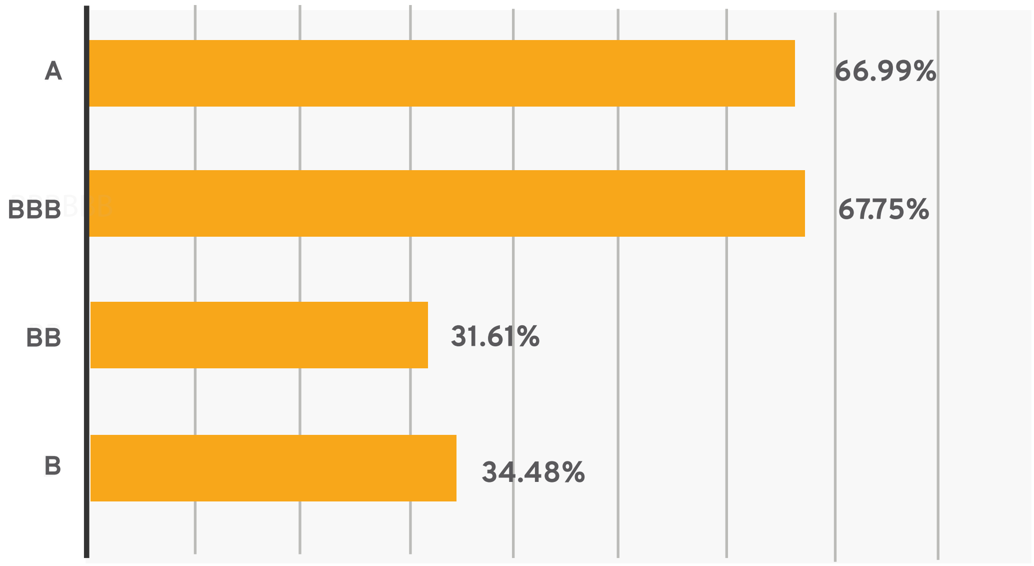
Source - Baynes Business School

This should translate into a relatively large proportion of the higher-rated European real estate bond market being issued by REITs. Indeed, REITs clearly make up 67.5% of the European institutional grade real estate bonds outstanding, whereas, among lower-rated bonds (B and BB), the REIT component is only 34% and 31% respectively. This highlights the relative quality of REIT bonds. Literature finds that in the U.S. REIT market, higher-rated REIT bonds are associated with longer debt maturities, which adds to the stability of the market (Brown and Riddiough, 2003). The dataset used for the analysis in this paper does not allow for making such a comparison, but it is an important notion in the context of the capital structure of European REITs that should be investigated further.

The breakdown of the European REIT bond market by rating class is presented in the chart below.

While the European REIT bond market is still in a phase of growth, its development has similarities with the equity market for REITs. The use of financial instruments is a sign of market maturity and will help the robustness of the market, by increasing the number of options available to firm managers to (efficiently) obtain capital and to become less dependent on traditional sources of financing that are greatly affected by cycles.

Breakdown of the European REIT bond market by rating, Q3 2022



Source - Bayes Business School real estate bond data

Having access to public bond markets is an efficient way of gaining access to debt capital, but it does require a certain size to justify the costs of obtaining credit ratings and to go through the process of listing bonds, as requirements apply. This in part can explain the fact that REITs are overrepresented in corporate real estate bond issuance. REITs are sizeable, and have a long investment horizon and diversified portfolios. It is therefore likely that REITs will continue to be a prime source of issuance.

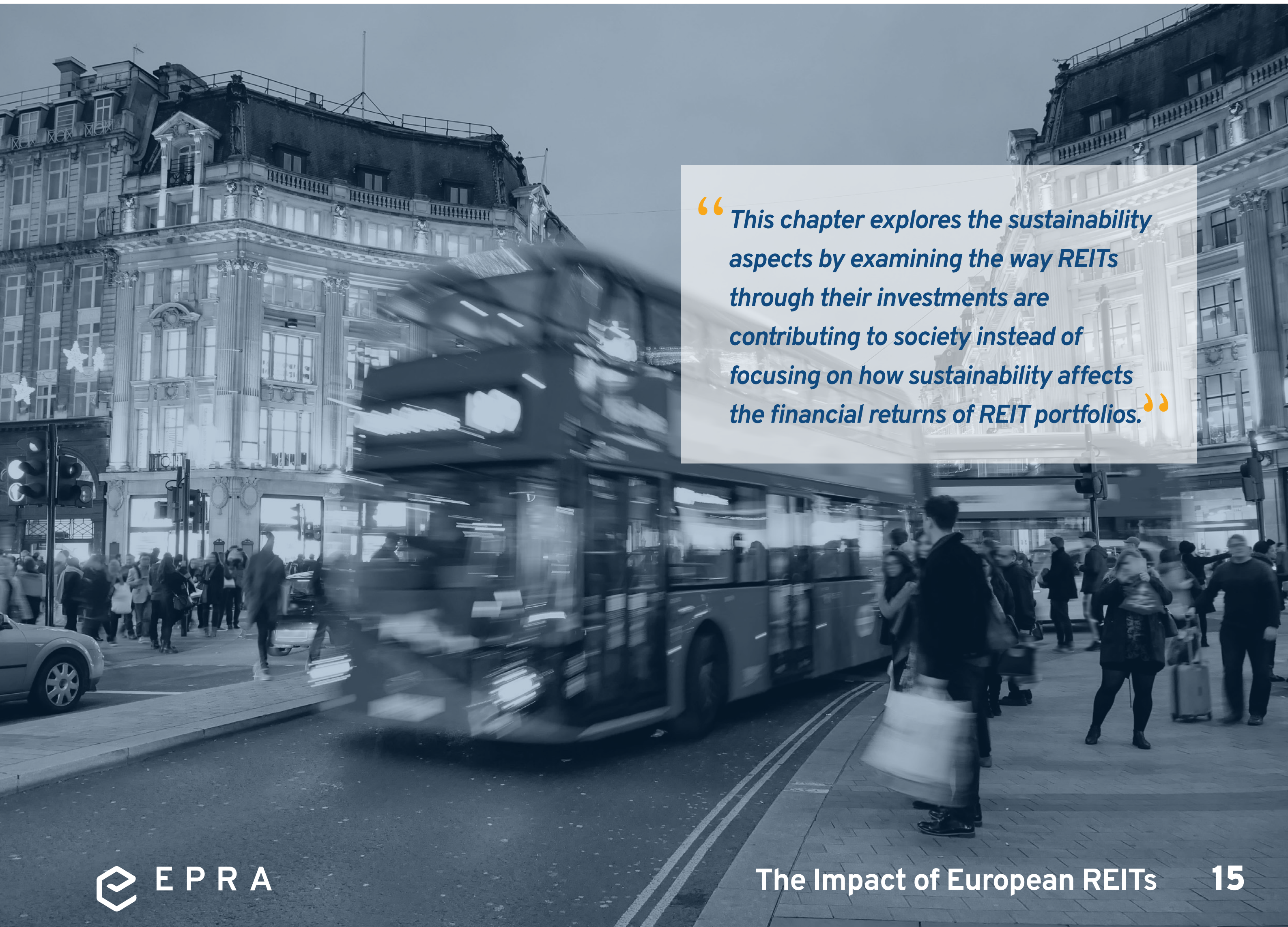
LAYER III: Impact of European REITs on Society

KEY TAKEAWAYS:

- REIT contributions to society surpass their financial benefits
- Using the UN Sustainable Development Goals (SDGs) as a framework, REITs are able to demonstrate their contributions
- The outcomes of REIT investments are substantial but often overlooked
- The role of REITs as part of the fabric of society offers opportunities for the resolution of social and environmental challenges

INTRODUCTION

Layers I and II of this report have focused on the real estate and financial market influence that European REITs have exerted. While this has certainly been the key rationale for policymakers to introduce REIT legislation, there are significant effects that REITs have beyond the financial characteristics.



> *"This chapter explores the sustainability aspects by examining the way REITs through their investments are contributing to society instead of focusing on how sustainability affects the financial returns of REIT portfolios."*

Investors are increasingly looking for investments that contribute to society, thus providing them with both financial as well as tangible societal returns. This type of investment is typically called impact investment and in the past was considered to be in the realm of philanthropy. However, according to the Global Impact Investing Network, the size of the global impact investment market is now estimated to have reached a size of US$ 715 billion (GIIN, 2020) and is growing rapidly. As mainstream investors are including impact investments in their portfolios and reporting on these is becoming relevant, it is interesting to explore how REITs can and do play a role in this emerging space of sustainable investment. The relevance of the topic goes well beyond the objectives of investors, but should primarily resonate with policymakers, as they can be and are using REITs to support their societal objectives.

REIT CONTRIBUTIONS TO SOCIETY SURPASS THEIR FINANCIAL BENEFITS

In the past, the contributions of REITs to society were primarily being evaluated through the lens of the economic activity that is being generated by REITs. This includes the benefits of providing jobs (EPRA and PWC, 2017), the generation of tax revenues for the government (EPRA & PWC, 2020) and providing income security for people through the financial returns REITs make. Besides these sizeable and relevant contributions, the emphasis of the stakeholders in REITs is increasingly on the sustainability aspects of their activities. Investors have started to embark on strategies that specifically look for investments that combine market-rate financial returns with explicitly stated positive contributions to society.

> ***"Because of the nature of REITs and their role in society, REITs tick many of the boxes in terms of being impact investments."***

However, the criteria for being an impact investment are rather unclear, and the phrase is in some geographies even contentious. This is due to the debate about whether striving for social contributions is at odds with the objective of achieving financial returns. According to the Global Impact Investor Network (the GIIN), impact investing is defined as "an investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

Besides the notion that impact investing is expected to make social returns alongside financial returns, impact investing is different from socially responsible investments in the sense that the latter category is primarily focused on the reduction of negative effects brought about by investments, whereas impact investing is primarily focused on the positive consequences of the investment and attempts to enlarge these (Clarkin and Cangioni, 2015). The focus on the positive contribution to society is particularly salient for REITs, as many key social functions are created and maintained by REITs.It is therefore relevant for REITs to determine in which way they can contribute and how they communicate these contributions. One of the frequently cited challenges in reporting on societal contributions is that there has not been a commonly accepted framework that is being used. This creates challenges for reporting, but also for measurement. However, investors and governments have in the past years gravitated to use the UN Sustainable Development Goals (the SDGs) as the framework to communicate about contributions to society. This has become the most widely used structure within which sustainable investments are now being evaluated.

In 2015 the United Nations introduced the framework of the SDGs. The 17 SDGs were introduced as the successors of the Millennium Goals. One of the key challenges according to literature is the need for the private sector to invest in solutions to the challenges of the SDGs, as this is the largest part of the economy. It would therefore be impossible to leave a contribution to the goals to the public market only. Even though the SDGs themselves and the underlying targets and indicators have not been explicitly created for investment purposes, these do expect the involvement of corporations to achieve the goals. Thus, the SDG framework can be used in support of reporting on the positive contributions that investments deliver. Indeed, it is estimated that for the 2021 reporting year, 73% of listed European real estate companies did at least mention one or more of the SDGs in corporate reporting. This evidences that the SDGs have become an important framework for communicating on social contributions. At the same time, there is no commonality in reporting by REITs, which would be conducive to making a collective case for the importance of the sector to their stakeholders. Because of the above, it is both relevant and important to explore the societal contributions and how these can be related to the SDGs and to chart the significance in practice, as evidenced by the activities REITs engage in. This chapter follows the SDG framework to assess and measure these.

USING THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGS) AS A FRAMEWORK, REITS ARE ABLE TO DEMONSTRATE THEIR CONTRIBUTIONS

The contributions of REITs to society through their activities – apart from their economic significance as alluded to before – are manifold. When looking at the structure of the SDGs, the key demonstrable elements are captured in the five SDGs. This pertains on the one hand to the social element of the SDGs, and on the other to the environmental element. The latter, which is primarily the ability of REITs to play a role in decarbonisation by conserving energy and by contributing to the generation of renewable energy is an important contribution that, because of climate change, is receiving a lot of attention for obvious reasons. The 17 SDGs are mentioned below.

Overview of the Sustainable Development Goals

Source - United Nations

Sustainable Development Goals relevant for and translated to real estate

This table presents an assessment of how real estate, through its activities, contributes to various SDGs on the target level, as well as on the sub-target level. Category names, as well as subcategories and metrics, are provided to translate the goal into measurable units. Finally, the definitions of the (sub)goals are given.

Product / Service	SDG	SDG-12	Category	Subcategory	Metric	Definition
Healthcare Services	3	3b	Healthcare equipment and services	Investible entities that provide affordable access to quality essential health-care services (e.g. public hospitals, affordable private clinics)	Gross rental income from hospitals and clinics (suggestion: long term acute care would qualify)	Affordable healthcare facilties are those facilities that admit significant amount of publicly financed or co-pay options
	3	3.8	R&D of vaccines and medicines	Investible entities that provide R&D services and facilities	Gross revenues from the provision of lab space	Lab space is purpose built real estate for R&D purposes
Build and upgrade educational facilities	4	4a	Real Estate and infrastructure related	Schools, universities &refurbishment of such facilities built environment	Gross revenues from the provision of education related facilities	Leasing and ownership of schools and universities
	7	7.3	Double the global rate of improvement in energy efficency		Gross revenues from renewal energy generated	Generators of electricity and / or heat generated from wind, solar, biomass, geothermal, hydro, waste or tidal sources
Access to safe and affordable housing and basic services	11	11.1	Affordable housing	Social housing	Gross rental income from social housing	Social housing is shelter or low income households
				Student housing	Gross rental income from student housing	Student housing is shelter specifically/exclusively designed to provide housing for students
				Senior / Elderly housing	Gross rental income from Senior/ Elderly housing	Senior housing to shelter elderly people with a care element
				Sustainable property	Gross rental income from sustainable real estate	Assets with a carbon footprint below the Paris aligned pathway according to CRREM
				Safe housing	Gross revenues for upgrading existing housing	Assets upgraded/ adapted to address health & safety considerations/ regulatory requirements
Life on Land	15	3b	Finance and incentivise sustainable forest management	Sustainable forestry	Gross revenues from sustainable forestry	Investible entities which operate sustainable forestry (certified to FSC, SFI or PEFC)

Some of the SDG sub-targets are *directly* served by REIT sectors, as they are engaged in the specific activity indicated by the sub-target. The intentionality and additionality in these cases are more or less baked into the sector focus. This includes SDGs 3 (healthcare), 4 (education), 11 (sustainable cities) and 15 (sustainable forestry[6]). These sectors together form around 4% of the European REIT market as measured by their market capitalisation[7].

[6] Sustainable forestry is of relevance to Timber REITs, which are part of the REIT universe in the U.S..
[7] Source: FTSE EPRA Nareit index, June 2023.

This percentage will likely grow, as many of the recently created REITs do have a specific focus on these sectors, but also because the demographic situation in Europe calls for additional investments in the activities supported by REITs focused on these sectors. There is a considerable and growing shortage of healthcare real estate due to the increasing pressure on healthcare systems brought about by an ageing population. Below are examples of REITs specifically focused on these activities within the universe of the listed European sector as defined by the FTSE EPRA Nareit Developed Europe index. Within this index, 11 companies with a combined real estate asset value of some € 19.2 bn. were represented in June of 2023. The REITs are listed in Belgium and in the UK. However, their assets are located throughout Europe. In total, over 170,000 European people are being served by these REITs.

Example: REIT contributions to SDG3, 4 and 11 through direct sector focus

This table provides an overview of REITs with a specific focus on real estate sectors that are identified within the context of the sub-targets of the Sustainable Development Goals (SDGs). The basis for the sample is the constituent list of the FTSE EPRA Nareit Developed Europe index as of July 1st, 2023. Besides the name of the REIT, the country of listing, its sector and the revenue contribution of that sector are provided. Furthermore, the number (#) of assets and the number (#) of residents served as per the 2022 company annual report are provided.

REIT name	Country	Relevant Sector	%	#_of assets	#_of residents
Aedifica	Belgium	Healthcare -senior housing	100%	622	35,600
Cofinimmo	Belgium	Healthcare -senior housing	72%	405	29,200
Xior Student Housing NV	Belgium	Housing - student housing	100%	42	18,208
Assura Healthcare	United Kingdom	Healthcare - primary care	100%	608	N/A
Civitas Social Housing	United Kingdom	Housing - social housing	100%	619	4,295
ESP Empiric Student Property	United Kingdom	Housing - student housing	100%	85	8,533
Impact Healthcare REIT plc	United Kingdom	Healthcare - care homes	100%	141	7,854
Primary Health Properties (PHP)	United Kingdom	Healthcare - primary care	100%	513	N/A
Target Healthcare REIT Limited	United Kingdom	Housing - social housing	100%	97	N/A
Triple Point Social Housing REIT PLC	United Kingdom	Housing - student housing	100%	494	3,246
Unite Group PLC	United Kingdom	Healthcare -senior housing	100%	162	70,000
Total				**3,788**	**176,936**

Source: Company Reporting, FTSE EPRA Nareit

The second category mentioned pertaining to energy conservation and renewable energy generation in support of SDG 7 is achievable for all REITs, both by preserving energy and by generating renewable energy REITs can reduce the carbon footprint of the urban environment. The number of REITs that have committed to a 'net-zero' strategy has been growing ever since Hammerson (UK) was the first REIT to publicly commit to becoming 'net positive' in 2017. The ability to decarbonise real estate with its ~40% contribution to carbon emissions is perhaps one of the most challenging tasks in the energy transition, given the investments that are required to turn the existing building stock into net zero emitters. Looking at the opportunity side of this from an impact point of view, REITs have the ability to use their portfolios to generate renewable energy and to also improve their assets to contribute. Indeed, many REITs have embarked on such strategies, e.g. by looking at alternatives for the use of concrete in buildings, but also by generating renewable energy. Using the example of logistic REITs included in the European developed market FTSE EPRA Nareit index as of July 2023 as an example, the amount of installed photovoltaic renewable energy capacity in 2022 amounted to some 323 Mwh peak. This substantially reduces the carbon footprint of the buildings and supports the effort to reach the net-zero goal. The example provides a synopsis of the installed capacity as reported by these REITs.

Example: European logistic REIT contributions to SDG7: renewable energy

REIT	Country	Installed capacity in MWh
WDP	Belgium	113
SEGRO PLC	United Kingdom	44
VGP	Belgium	57
CTP	Netherlands	38
ABRDN European Logistics Income	United Kingdom	N/A *
Montea	Belgium	49
Tritax Eurobox PLC	United Kingdom	7
Tritax Big Box REIT Plc	United Kingdom	15
Total		**323**

*One project in the Netherlands was cited

Source: 2020 Company annual reports

In addition to the above, perhaps the largest social contribution that REITs are making beyond a direct link to sector and environmental activities is the indirect contribution to SDG 11: "Make cities and human settlements inclusive, safe, resilient and sustainable.". There are many ways in which such an ambition can be interpreted. However, the sub-targets do provide a more precise definition of what is included in this SDG. These mainly refer to the contributions that are indirectly influencing the viability of the urban environment. This includes – among other things - ensuring accessibility to public transport and the management of public space.

In short, the sub-targets of SDG 11 point to two key attributes that most REITs possess; i.e. (1) their ability to shape the urban space through their projects and (2) the relevance of cooperation of owners of real estate with public entities in creating the urban environment that is conducive to this SDG. This is particularly relevant to those REITs that engage in large-scale urban gentrification, regeneration and development. In many cases, these projects are complex, as they involve both municipalities and private market parties, require substantial long-term (capital) investments and have specific goals in terms of societal outcomes. Even though REITs are routinely involved in these projects, the SDG reporting of REITs seldom uses this element to demonstrate their contribution. Furthermore, the literature suggests that many listed real estate companies are focusing on smaller contributions of an operational nature that are potentially easier to measure than larger societal contributions. It is therefore useful to discuss these types of contributions and the challenges around measurement to explore whether there are opportunities to improve on the understanding of the indirect benefits to society as brought about under SDG11.

Case studies illustrate the ability to discuss indirect contributions. Seven cases are selected as a collection of examples that underline a variety of different outcomes, geographies and REITs. On all of these, there have been academic studies on the outcomes of the schemes.

Examples of large-scale urban redevelopment projects by REITS

This table provides selected statistics on four large-scale regeneration schemes conductedwith a component executed by European REITs. The selection is based on the scale and the duration of the scheme. For each of the schemes, the location, project name, participating REIT and the project duration have been provided. Additionally, the estimated total investment volume and the number of visitors as an estimate of people affected are provided.

Example	Country	City	REIT	Project	Project timeframe	Investment volume in millions	Visitors per annum in millions
1	France	Paris	URW	Forum des Halles	2010-2016	EUR 802	50
2	France	Lyon	URW, Icade	Part Dieu	2018-2021	EUR 390	31
3	Netherlands	Utrecht	Klepierre	Hoog Catharijne	2011-2020	EUR 3,200	30
4	UK	London	URW	Stratford	2010-2022	GBP 12,500	50
5	UK	London	Landsec	Nova Victoria	2009-2020	GBP 2,200	115
6	UK	Birmingham	Hammerson	Bullring	2000-2010	GBP 600	35
7	UK	London	British Land	Canada Water	2022-2034	GBP 5,600	N/A
						EUR 28, 427	311

Each of the seven examples pertains to a combination of public and private investment and includes public transport hubs as a key part of the scheme. This means that in aggregate on an annual basis (ignoring double counting) ~311 million people in Europe have benefited from just these four schemes, which translates into about a third of the total European population. Additionally, all examples are cases of pre-existing urban environments that suffered problems with a declining social environment. This was in general characterized by increasing poverty, unsafe environments and social cohesion issues.
The investment in these places has undoubtedly prevented a continuation of this situation, which would have had many negative social implications, and replaced this with a positive and self-perpetuating improvement. It is important to mention though, that the benefits are not entirely uncontested. There is often discussion on the wider consequences of an improved environment. In the case of urban gentrification, there are questions around affordability and displacement, i.e. the effect that neighbourhoods may become less affordable due to the improved circumstances and drive away the population. This can be prevented by explicitly building affordable housing and education opportunities to ensure that the upgraded environment is available to all. Furthermore, the benefits of the improvement as a result of urban schemes cannot be entirely attributed to the REITs involved, as there is an obvious mix of functions and investment sources that generate outcomes. However, since the scheme is dependent on the collaborative investment of various entities, their participation is necessary to get the intended results. It is therefore good to have an idea of the magnitude of the impacts brought by the confluence of resources in the entire scheme.

What sets the involvement of the REITs apart from other parties that could have played a similar role is that through the continued ownership of the assets the REITs are not only a provider of capital, but also long-term beneficiaries from the investment in the creation or transformation of an area. Doing this successfully requires a skill set that is not readily available to municipalities, but is one of the key attributes of REITs. Since they own large schemes and know how to operate these over longer periods, they can contribute to the success of urban projects. This is certainly true for those large-scale projects in which partnerships between municipalities and REITs have been created to drive shared value. In all cases provided, the REIT has been part of a bigger consortium that has driven the project. Furthermore, the duration of the schemes extends in some cases to over a decade, which requires a long-term commitment of the REIT to the project.

This requires permanent and considerable capital in order to see a project through, which is something that many real estate parties cannot cope with.

CHALLENGES TO MEASUREMENT

While the opportunity to provide a better understanding of the role of REITs in society is clear, there are also a few challenges that firms are facing when looking through the lens of impact investment. As the methodologies to report are still young, standard setting is something that has yet to occur. Even though there are emerging standards, REITs have to determine how to best provide this type of information. A key element in reporting on contributions is that the scrutiny of reporting is likely to increase substantially over the years to come.

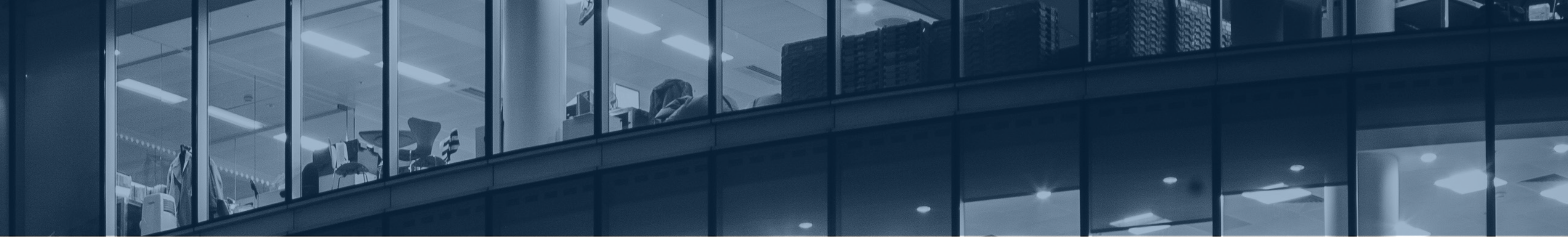
This impacts investors through legislation like the European Sustainable Finance Disclosure Regulation (SFDR) and the EU Sustainable Finance Taxonomy, as well as firms through the Corporate Sustainable Reporting Directive (CSRD).It is also noteworthy that in other parts of the world, similar regulations are being developed. On the one hand, this makes firms nervous to report as there is a (perceived) risk of having to adapt or change reporting to the emerging standards. On the other hand, there is the concern of greenwashing (or in the case of SDGs 'rainbow washing') accusations that would be detrimental to reputation. Within this context, firms need to focus on those elements that are genuine, key and measurable, in line with the concept of impact investing. This will help stakeholders to more fully understand the purpose of REITs and their ability to contribute to the challenges of society, as they already do.

"REITs stand out not only by providing capital but also by serving as long-term beneficiaries through continued asset ownership, bringing both the skills and expertise needed to support municipalities in the success of urban projects."

CONCLUSION

Established 50 years ago, European REITs have a long history and have become synonymous with listed real estate investment. Due to the identification of REITs with listed real estate as a broader group, it perhaps is not easy to distinguish the impact REITs have had on the European economy and society. Using both the rich history of the European REIT market and the differences in their regulation as a laboratory it is possible to evaluate the relevance of the structure. The analyses can help policymakers, firm managers and investors to better understand what REITs are delivering and how their decisions affect markets. It is important to look at these issues holistically, as choices in the design of REITs have shown to result in consequences for the success of the structure and the ability to deliver on policy objectives. This report extends the body of literature on the financial performance of REITs in terms of REIT equity but goes well beyond that by also exploring the effect of REITs in debt markets (layer II) and on society as a whole (layer III).

First and foremost, European REITs have helped economies in Europe to mature. The provision of a liquid real estate market that puts the European space on par with global standards has had tremendous value. This is true throughout history but matters most when challenges occur. Real estate remains a cyclical industry, and especially in times of distress REITs have proven to be key instruments to mitigate and resolve distress in the real estate market and in the financial system. This is essential to the robustness of the capital markets. Second, the REIT structure has allowed investors both in the equity as well as in the debt market to diversify their investments by increasing the number of companies on the listed market. Pre-existing companies that converted into REITs also saw changes, as the REIT structure through its structural design has helped to mitigate risk, both operational and financial. Third, REITs, through their permanent capital and access to capital markets are ideally suited to play a role in the resolution of challenges to society. Both through the real estate sector they invest in as well as through their collaboration with public entities and their involvement in large-scale schemes, they are ideally positioned to contribute to positive societal change.



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