EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Industry Newsletter ISSUE 59 MAY 2017

VONOVIA, THE GERMAN RESIDENTIAL CHAMPION

WORKING WITH AND FOR OUR MEMBERS

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 220 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 365 billion of real estate assets and 93% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry.

Find out more about our activities on www.epra.com

MEMBERS LIST AS OF *MAY 2017*

AUSTRALIA
- Univ. of Western Sydney, Property Research Centre
- Resolution Capital
- Westfield Group

AUSTRIA
- BUWOG
- CA Immobilien Anlagen
- Conwert Immobilien Invest
- Immofinanz
- S IMMO

BELGIUM
- Aedifica
- AG Real Estate
- Antwerp Management School
- Befimmo
- Care Property Invest
- Cofinimmo
- DeGroof Petercam
- Intervest Offices & Warehouses
- Leasinvest Real Estate
- Retail Estates
- Solvay Business School (Brussels Univ.)
- WDP
- Xior

BRITISH VIRGIN ISLANDS
- Eastern Property Holdings

CANADA
- Presima

FINLAND
- Aalto Univ.
- Citycon
- KTI Finland
- RAKLI
- Sponda
- UB Real Asset Management

FRANCE
- Affine
- ANF Immobilier
- BNP Paribas
- CeGeREAL
- Eurosic*
- Foncière des Régions
- Frey
- Gecina
- Icade
- IEIF
- Ivanhoé Cambridge Europe
- Klépierre
- Mazars Group
- Mercialys
- Société de la Tour Eiffel
- Société Foncière Lyonnaise
- Société Générale
- Unibail–Rodamco
- Université de Paris–Dauphine

GERMANY
- Adler Real Estate
- Allianz Real Estate
- alstria Office REIT
- AroundTown Property
- DEMIRE
- Deutsche EuroShop
- Deutsche Wohnen
- DIC Asset
- DO Deutsche Office
- Hamborner
- Heitman
- IREBS International RE Business School
- LEG Immobilien
- MEAG Real Estate Management
- PricewaterhouseCoopers
- Real Estate Management Institute
- Savills Fund Management
- TAG Immobilien
- TLG Immobilien
- VIB
- Victoria Partners GmbH
- Vonovia
- WCM
- Westgrund

GREECE
- Grivalia Properties REIC
- LAMDA Development
- NBG Pangaea

HONG KONG
- Univ. of Hong Kong

IRELAND
- Davy Group
- Green REIT
- Hibernia REIT
- Irish Residential Properties REIT

ISRAEL
- Azrieli Group
- Gazit-Globe

ITALY
- Aedes
- Beni Stabili
- Chiomenti
- Coima Res
- Immobiliare Grande Distribuzione

JAPAN
- NN Investment Partners

LUXEMBOURG
- ADO Properties
- Dream Global
- Grand City Properties

NETHERLANDS
- ABN AMRO
- Amsterdam School of RE
- APG Asset Management
- ASR
- Atrium European Real Estate
- Barings
- Bouwinvest
- CB Richard Ellis
- CBRE Global Investors Europe
- Deloitte Financial Advisory Services
- EuroCommercial Properties
- ING Bank Real Estate Finance
- Kempen & Co
- LaSalle Investment Management
- Loyens & Loeff
- MN Services
- NSI
- PGGM
- Redevco Europe Services
- Tilburg Univ.
- Univ. of Maastricht
- Vastned Retail
- Wereldhave
- Yardi

NORWAY
- Entra
- Norwegian Property

SINGAPORE
- National Univ. of Singapore

SOUTH AFRICA
- Growthpoint Properties

SPAIN
- Axiare Patrimonio
- Gmp Property
- Hispania Activos Inmobiliarios, S.A
- Inmobiliaria Colonial
- Lar España
- Merlin Properties
- URO Holdings
- VBARE Iberian Properties*

SWEDEN
- Atrium Ljungberg
- Castellum
- Dios Fastigheter
- Kungsleden
- Pandox
- SEB
- Wihlborgs

SWITZERLAND
- HIAG Immobilien
- Mobimo Holdings
- PSP Swiss Property
- Swiss Prime Site
- Univ. of Geneva

UAE
- Abu Dhabi Investment Authority
- Emirates REIT

UNITED KINGDOM
- AEW Europe
- AMP Capital
- Assura
- Aviva Investors
- Bank of America Merrill Lynch
- Barclays Bank
- Barclays Capital
- BDO
- Big Yellow Group
- Blackrock Asset Management
- BMO Global Asset Management (EMEA)
- British Land
- Capital & Counties Properties
- CBRE Clarion Securities
- Citigroup Global Markets Limited
- Credit Suisse Securities
- Custodian REIT*
- Derwent London
- Deutsche Alternative Asset Management (UK)
- Deutsche Bank
- Ediston Property Investments
- Empiric Student Property
- EP&T Global
- EY
- GIC Real Estate
- Goldman Sachs International
- Grainger
- Great Portland Estates
- Green Street Advisors
- Hammerson
- Hansteen Holding
- Helical Bar
- Henderson Global Investors
- intu
- Invesco
- Jefferies
- JLL
- J.P. Morgan
- Kennedy Wilson Europe Real Estate
- KPMG
- Land Securities
- LondonMetric Property
- MedicX Fund
- Moody's Investors Service
- Morgan Stanley
- Nabarro
- NewRiver REIT
- Nottingham Trent Univ.
- Phoenix Spree Deutschland*
- Picton Property Income Ltd
- Primary Health Properties
- Principal Global Investors
- Redefine International
- Safestore
- Schroders
- SEGRO
- Shaftesbury
- Standard Life Investment
- Stenprop
- Target Healthcare REIT
- Tritax Big Box REIT
- U+I Group
- UBS
- Unite Group
- Univ. of Aberdeen
- Univ. of Cambridge
- Univ. of Reading, CRER
- Urban & Civic
- Workspace Group
- Züblin Immobilien

USA
- CenterSquare
- Cohen & Steers Capital Management
- Dickinson College
- Duff & Phelps
- EII Capital Management
- Fidelity Management & Research
- Forum Partners
- Neuberger Berman
- Northstar Realty Europe
- Real Foundations
- Russell Investment Group
- Simon Property
- SNL Financial
- Univ. of Cincinnati
- Ventas
- Virginia Tech Univ.
- Zell–Lurie RE Center at Wharton

BPR LICENCE HOLDERS

- A&J Mucklow Group
- Baltic Horizon Fund
- Orava Residential REIT
- Palace Capital
- Secure Income REIT
- Terreis
- Qrf

*Welcome to our newest members

CONTENTS

Editor & Production Manager
Katarzyna Jasik

Article Credits
Saira Choudhry, *Niall Ferguson*, *Steve Hays*, *Nick Mansley*, *Simon Packard*, *Jana Repelova*, *Tobias Steinmann*

Please send your comments and suggestions to:
info@epra.com

Design & Layout
Fuse Consulting Limited, London
hello@fuseconsulting.co.uk

EPRA
Square de Meeus 23, B-1000 Brussels
+32 (0) 2739 1010

www.epra.com
@EPRA_realestate

UPDATE FROM EPRA CEO
DOMINIQUE MOERENHOUT

I have thoroughly enjoyed my first two months at EPRA, getting to know the team, meeting with the membership, and getting a better grasp of the raison d'être of the association. When I took up the CEO role I have been entrusted with the complex task of implementing EPRA's Strategy Review. Talking it over with those of you who I already met gave me confidence that EPRA is going in the right direction. While I look forward to discussing it further at our Annual Conference in September, let me share here my initial thoughts on where EPRA's focus will be.

We aim to extend EPRA's relationship with our Index partners FTSE and NAREIT to develop new products such as sub-indices for Exchange Traded Funds and tailor-made indices for individual companies.

In the research area, we will be more forward looking in our analyses and will prioritise studies that demonstrate the powerful role investments in listed real estate companies can play in the asset allocation of institutional investors.

We intend to concentrate more on 'generalist' institutional investors, asset managers and private wealth managers, where greater gains can be made through education on the benefits of listed real estate than among the already converted specialist-type investors. It may take some time, but when large generalist investors make even relatively small shifts in asset allocations the impact on a particular sector can be substantial and they are far more underweighted in listed real estate than they should be.

Another area we will push is in developing relationships with other local industry associations, such as pension, insurance and asset management groups, to open access to their membership bases and convince them to consider raising their allocations to property stocks.

EPRA has established a very solid bridgehead in Asia in the last few years and our close partnership with NAREIT means we are well represented in North America. We will now give more attention to Investor Outreach in our European home markets and I will make this a priority in the coming months.

The ongoing transition from defined benefit to defined contribution pension schemes, as well as the GICS reclassification of listed real estate as a stand-alone equities asset class, represent other opportunities for EPRA and our industry. We will closely monitor these trends and seek the best ways to exploit them in the interests of our members.

EPRA will continue to reinforce industry compliance with the financial Best Practices Recommendations (BPRs). In order to address the European institutional investors' growing interest in Environmental, Social and Governance (ESG) matters, EPRA will work to bring the Sustainability BPRs up to the same level of corporate acceptance and integration in annual reports that has been achieved in financial BPRs. To this end, EPRA has recently recruited a specialist in the Brussels team to focus on sustainability and ESG.

A clear focus of EPRA's advocacy work has to be on the EU Solvency II regulations, which unjustifiably penalise real estate equities with high capital weightings in institutional portfolios, relative to other forms of property investment. Solvency II is a major impediment to institutional capital flows into European listed real estate within the EU's Capital Markets Union and amending its effects could correspondingly boost investment significantly.

The Public Affairs team will also concentrate its efforts on further developing new REIT regimes in Europe, in the first instance in Poland and Sweden where a clear process is already underway.

Deepening our cooperation with other national and international real estate associations, including through the Real Estate Equity Securitization Alliance (REESA), on issues where we have common agendas is another good way of magnifying our efforts and efficiency.

All these efforts will be supported by targeted communication materials, and we will make sure to keep you up to date on our activities and achievements.

I look forward to us working together in implementing the plan and encourage you to contact me or members of my team with any initiatives.

GERMAN RESIDENTIAL CHAMPION VONOVIA CLEARS THE *MIST OVER ORGANIC GROWTH MODEL*

"I think it's our duty as the market leader in Germany and a member of EPRA to supply the input to achieve better BPRs"

Vonovia, then Deutsche Annington, burst onto the listed real estate scene with its IPO in 2013 and became the only bricks and mortar ticker in the German DAX 30 of top stocks on the Frankfurt bourse in 2015. In the four years since flotation, the residential investment firm and its sectoral peers have driven a doubling in Germany's share of the FTSE EPRA/NAREIT Developed Europe Index and created a new large-scale multifamily sector option in Germany for international equity investors for the first time.

At the end of 2012, Germany had the smallest listed real estate sector of any major economy in the world relative to the size of its underlying investable property stock. The market was dominated by open-ended property funds and private equity investors. Europe's largest economy made up just under 9.0% of the benchmark index and the German listed sector was only a third of the size of the French market and a quarter of the top-placed UK. Fast forward to the start of 2017 and Germany is still in third place, but now only slightly behind France, and it makes up 20% of the market capitalisation of the European Index.

Vonovia, with EUR 27 billion in residential assets, accounts for about 36% of the German listed real estate market, across all property sectors, followed by Deutsche Wohnen, which it unsuccessfully tried to acquire last year, and then LEG Immobilien.

The dramatic growth in the listed residential sector has been supported by private equity investors exiting investment positions. They have been able to capitalise on the strong gains in apartment prices created by a severe shortfall in the supply of housing in the larger cities in recent years and the structural preference of Germans to rent their homes rather than buy. Germany's housing market is roughly 60/40 rental to owner-occupier, compared with a 30/70 ratio in the UK.

Vonovia CEO Rolf Buch, interviewed at the firm's head office in Bochum in the industrial Ruhr region, said that the rapid emergence and consolidation of the German listed residential sector had probably coloured >

Vonovia's share in Germany Index

Company name	% in Germany Index
Vonovia SE	36.39%
Deutsche Wohnen AG	25.40%
LEG Immobilien AG	11.71%
TAG Immobilien AG	4.50%
Deutsche EuroShop	4.48%
Grand City Properties	4.43%
alstria Office REIT AG	3.98%
TLG Immobilien GmbH	2.50%
ADO Properties SA	2.35%
Hamborner REIT AG	1.75%
DIC Asset AG	0.99%
Adler Real Estate AG	0.93%
WCM Beteiligungs und Grundbesitz AG	0.57%
Total	**100.00%**

Data as of 30/12/2016, free float market capitalisation is used


Munich, Papinstraße


Munich Ruffini-Straße


Essen Eltingviertel

investors' perceptions of its growth strategy.

"I think many investors may incorrectly see acquisitions as being our sole growth driver. In this respect, 2016 was an interesting year. For the first time we were able to clearly show that our results are being driven by organic growth. The company had fewer apartments in its portfolio at the end of last year than at the start and we didn't book any significant acquisitions, but we still achieved tremendous increases in our funds from operations and the value of our assets by organically growing the business," he said.

Vonovia's FFO rose 25% in 2016 over the previous year to EUR 760.8 million, while NAV was up 22% year-on-year, against a proposed dividend yield of 3.6%. The company offered guidance for a roughly further 10% rise in FFO to between EUR 830 million and EUR 850 million in 2017 before any acquisitions. For 2017, around a EUR 60 million additional FFO 1 contribution is expected from the acquisition of Conwert.

Earlier this year, Vonovia also completed its EUR 2.8 billion acquisition of Austria's Conwert, which contributed 25,000 apartments across Germany, and in Vienna, to a total 355,000-unit portfolio.

Buch said the company would still examine further acquisitions opportunistically if they arise, but this was supplementary to Vonovia's focus on its three core investment strategies. Moreover, leverage of between 40% - 45% LTV has been identified as the most efficient range for gearing:

1. **Operational** - Day-to-day management of standard apartments, generating steady rental income flows from average 13.5-year lease durations and offering 5.8% rental yields. Germany's rental market regulation guarantees upward-only rent reviews and normal rental rises are about 1.6% a year before additional charges to cover investment in modernisation.

Vonovia's share in Germany Index 2012 (left) and 2016 (right)

Ranking	Index Country	MCap (EUR Mln)	Share in Developed Europe Index (%)
1	UK	39,501	37.0%
2	France	26,936	25.3%
3	Germany	9,291	8.7%
4	Switzerland	9,151	8.6%
5	Sweden	7,840	7.3%
6	Netherlands	5,776	5.4%
7	Belgium/ Luxembourg	3,269	3.1%
8	Finland	1,934	1.8%
9	Austria	1,716	1.6%
10	Norway	635	0.6%
11	Italy	532	0.5%
12	Greece	88	0.1%
	Developed Europe Total	106,669	100.0%

Data as of 31/12/2012

Ranking	Index Country	MCap (EUR Mln)	Share in Developed Europe Index (%)
1	UK	60,828	30.7%
2	France	41,724	21.1%
3	Germany	39,571	20.0%
4	Sweden	15,511	7.8%
5	Switzerland	11,137	5.6%
6	Spain	7,311	3.7%
7	Belgium/ Luxembourg	6,322	3.2%
8	Netherlands	4,528	2.3%
9	Austria	4,423	2.2%
10	Finland	2,428	1.2%
11	Ireland	2,186	1.1%
12	Norway	1,072	0.5%
13	Italy	844	0.4%
	Developed Europe Total	197,885	100.0%

Data as of 30/12/2016

"Vonovia, with EUR 27 billion in residential assets, accounts for about 36% of the German listed real estate market"

2. **Development** – A high-value strategy generating a minimum unleveraged average yield to cost of around 7.0%, due to Vonovia's ability to add new floors when it is renovating assets, or develop on land between its existing buildings. "We can lift out this hidden value and get a free lunch in terms of land," Buch said. In many German cities, particularly popular working and lifestyle destinations such as Munich and Nuremberg, the availability of development land is extremely constrained and this 'densification' approach is a way of reducing the supply problem for new builds.

3. **Upgrade** – Vonovia takes the reletting of units as an opportunity to make extensive investments in apartment fittings, for example, by modernising bathrooms or installing new floors and electrical installations that are in line with the latest standards. This means that the properties can meet the customers' current demand for modern residential standards, including the demand for senior-friendly fittings, for example. These apartments can also produce a minimum unleveraged average yield to cost of around 7.0%.

Alongside the core strategies, Vonovia also has a disposal programme, mainly selling assets in peripheral cities that are not benefitting from positive urbanisation trends and Germany's upsurge in migration flows. These non-core assets made up 13% of the portfolio at the time of the IPO and are now down to about 2%.

Buch said that Vonovia's future growth will be driven by the company's huge investment programme, projected at EUR 1.0

billion a year over the next 10 years and beyond. Aside from development this will include the optimisation of the energy efficiency of the portfolio to contribute to the German government's CO2 emission-reduction targets for the real estate industry.

"Germany needs to renovate 3.0% of its housing stock every year to reach its energy efficiency target in 2050, but this is currently running at only 1.0%, whereas Vonovia has reached the 3.0 % ratio and is still accelerating. We achieved a lot, but still have further potential. This is an attractive investment for us as we can use subsidised loans available from the government for these conversions," he added.

"Energy may also play a larger role in Vonovia's future as the company's customers already pay close to EUR 500 million a year for gas and electricity supplies. The prices Vonovia and its customers pay to buy energy from the national grid are more than twice the level Vonovia receives for supplying electricity from internal sources such as solar panels. With legislation in the pipeline to correct this market abnormality, interesting income-generating opportunities could arise in selling electricity to residents in coming years."

Stuttgart, Heilbronnerstraße

"We're a B-to-C company, not B-to-B, and we have a million consumers in our properties. There is a very lively debate internally over whether Vonovia is a bricks and mortar business or, as the new school says, the value lies in our contract with the tenant," Buch said.

"We have a huge potential to sell our tenants additional services, such as television and telecoms, water metering, energy supply, parcel pick-ups, extended maintenance and perhaps even outpatient care and household services eventually. These types of add-on services generated around 7.0% of our EBITDA in 2016 and are expected to nearly double to EUR 100 million, in 2017, but for NAV-focused investors this value creation doesn't show up in EPRA NAV of course," he added.

"Germany needs to renovate 3.0% of its housing stock every year to reach its energy efficiency target in 2050, but this is currently running at only 1.0%, whereas Vonovia has reached the 3.0 % ratio and is still accelerating"

Real estate needs peculiar KPIs to describe its business to the general and specialist investment community. Vonovia's CEO said that EPRA's work on the standardisation and improvement in transparency of financial reporting for the European listed real estate industry was very important for its professionalism in the eyes of international investors. Although not all the association's Best Practices Recommendations (BPR) suited his company's needs.

"I think it's our duty as the market leader in Germany and a member of EPRA to supply the input to achieve better BPRs. We also value EPRA's lobbying for the industry at the European level as so much regulation is now decided in Brussels. For me personally the access to high level investors through our membership is also important, so I can better understand their needs, and my visits with the CEO delegations to Asian markets were particular eye-openers," Buch said.

"Vonovia went from nothing to receiving an EPRA Gold Standard for its financial reporting last year and we want to do the same for the sustainability BPRs target. The message for the industry is that if you really want to achieve Gold in your business you can do it," he concluded.

Rolf Buch
Vonovia
Rolf Buch serves as CEO of Vonovia SE since April 1, 2013. Prior to that, Rolf Buch acted as management board member of Bertelsmann SE and as CEO of Arvato AG. During his time at Arvato, the company has grown into a global BPO service provider with more than 60,000 employees in over 40 countries and has developed into the fastest growing business division of Bertelsmann SE. After Rolf Buch had studied Mechanical Engineering and Business Administration, he started his career at Bertelsmann in 1991.
Rolf Buch is married and has two children.

RE-think listed real estate with us in London

Come and join us in London, September 5-7, for the event to be listed in – EPRA Conference 2017!

On the agenda this year:

- global socio-political developments
- technology trends and consumer behaviour
- climate change impact on cities
- Brexit and the way forward for the EU

Discussed by:

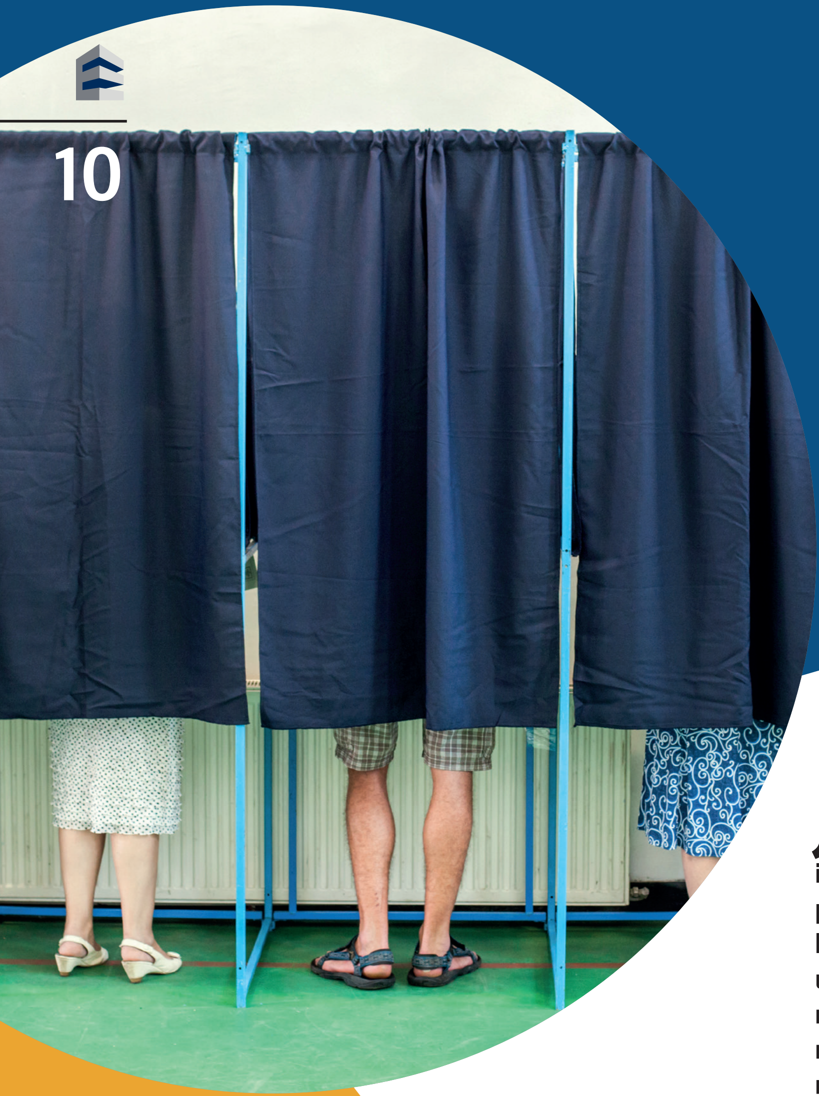
Hoover Institute,
Stanford Professor
Niall Ferguson

Executive Director at
Singularity University
Salim Ismail

MIT Economics Professor
William Wheaton

Former UK Deputy Prime Minister
Rt. Hon. Nick Clegg MP

Do not miss the chance to visit the most interesting listed properties in London on 5 September and stay with us for the interactive speed pitching of more than 35 small and mid-cap companies to investors, on 7 September.



POPULISM AS A BACKLASH *AGAINST GLOBALISATION*

By Niall Ferguson

Journalists are fond of saying that we are living in a time of "unprecedented" instability. In reality, as numerous studies have shown, our time is a period of remarkable stability in terms of conflict. In fact, viewed globally, there has been a small uptick in organised lethal violence since the misnamed Arab Spring. But even allowing for the horrors of the Syrian civil war, the world is an order of magnitude less dangerous than it was in the 1970s and 1980s, and a haven of peace and tranquility compared with the period between 1914 and 1945.

This point matters because the defining feature of interwar fascism was its militarism. Fascists wore uniforms. They marched in enormous and well-drilled parades and they planned wars. That is not what we see today.

So why do so many commentators feel that we are living through "unprecedented instability?" The answer, aside from plain ignorance of history, is that political populism has become a global phenomenon, and established politicians and political parties are struggling even to understand it, much less resist it. Yet populism is not such a mysterious thing, if one only has some historical knowledge. The important point is not to make the mistake of confusing it with fascism, which it resembles in only a few respects.

Rather like a television chef, I shall describe a recipe for populism, based on historical experience. It is a simple recipe, with just five ingredients.

FIVE INGREDIENTS FOR A POPULIST BACKLASH

The first of these ingredients is a rise in immigration. In the past 45 years, the percentage of the population of the United States that is foreign-born has risen from below 5 percent in 1970 to over 13 percent in 2014 – almost as high as the rates achieved between 1860 and 1910, which ranged between 13 percent and an all-time high of 14.7 percent in 1890.

So when people say, as they often do, that "the United States is a land based on immigration," they are indulging in selective recollection.

There was a period, between 1910 and 1970, when immigration was drastically reduced. It is only in relatively recent times that we have seen immigration reach levels comparable with those of a century ago, in what has justly been called the first age of globalisation.

Ingredient number two is an increase in inequality. Drawing on the work done on income distribution by Thomas Piketty and Emmanuel Saez, we can see that we have recently regained the heights of inequality that were last seen in the pre-World War I period.

The share of income going to the top one percent of earners is back up from below 8 percent of total income in 1970 to above 20 percent of total income. The peak before the financial crisis, in 2007, was almost exactly the same as the peak on the eve of the Great Depression in 1928.

Ingredient number three is the perception of corruption. For populism to thrive, people have to start believing that the political establishment is no longer clean. Recent Gallup data on public approval of institutions in the United States show, among other things, notable drops in the standing of all institutions save the military and small businesses.

Just 9 percent of Americans have "a great deal" or "quite a lot" of confidence in the U.S. Congress – a remarkable figure. It is striking to see which other institutions are down near the bottom of the league. Big business is second-lowest, with just 21 percent of the public expressing confidence in it. Newspapers, television news, and the criminal justice system fare only slightly better. What is even more remarkable is the list of institutions that have fallen furthest in recent times: the U.S. Supreme Court now has just a 36 percent approval rating, down from a historical average of 44 percent, while the Presidency has dropped from 43 percent to 36 percent approval.

The financial crisis appears to have convinced many Americans – and not without good reason – that there is an unhealthy and likely corrupt relationship between political institutions, big business, and the media.

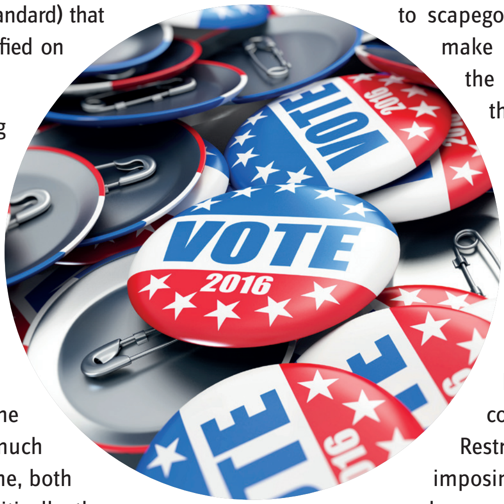
The fourth ingredient necessary for a populist backlash is a major financial crisis. The three biggest financial crises in modern history – if one uses the U.S. equity market index as the measure – were the crises of 1873, 1929, and 2008. Each was followed by a prolonged period of depressed economic performance, though these varied in their depth and duration. >

"Populists are bound eventually to disappoint their supporters. For populism is a toxic brew as well as an intoxicating one"

"Even allowing for the horrors of the Syrian civil war, the world is an order of magnitude less dangerous than it was in the 1970s and 1980s, and a haven of peace and tranquility compared with the period between 1914 and 1945"

In the most recent of these crises, the peak of the U.S. stock market was October 2007. With the onset of the financial crisis, we essentially replayed for about a year the events of 1929 and 1930. However, beginning in mid to late 2009, we bounced out of the crisis, thanks to a combination of monetary, fiscal, and Chinese stimulus, whereas the Great Depression was characterised by a deep and prolonged decline in stock prices, as well as much higher unemployment rates and lower growth.

The first of these historical crises is the least known: the post-1873 "great depression," as contemporaries called it. What happened after 1873 was nothing as dramatic as 1929; it was more of a slow burn. The United States and, indeed, the world economy went from a financial crisis – which was driven by excessively loose monetary policy and real estate speculation, amongst other things – into a protracted period of deflation. Economic activity was much less impaired than in the 1930s. Yet the sustained decline in prices inflicted considerable pain, especially on indebted farmers, who complained (in reference to the then prevailing gold standard) that they were being "crucified on a cross of gold."



We have come a long way since those days; gold is no longer a key component of the monetary base, and farmers are no longer a major part of the workforce. Nevertheless, in my view, the period after 1873 is much more like our own time, both economically and politically, than the period after 1929.

There is still one missing ingredient to be added. If one were cooking, this would be the moment when flames would leap from the pan. The flammable ingredient is, of course, the demagogue, for populist demagogues react vituperatively and explosively against all of the aforementioned four ingredients.

IRONIES

Populism is not just a form of political entertainment and one should not underestimate its power. One sometimes hears it said of Donald Trump: "Ah, he says wild things on the campaign trail, but when he is president it will be fine." History suggests otherwise. It suggests that men who threaten to restrict immigration – as well as to impose tariffs and to discourage capital export, as populists generally do – mean what they say.

Indeed, populists are under a special compulsion to enact what they pledge in the campaign trail, for their followers are fickle to begin with. In the case of Trump, most have already defected from the Republican Party establishment. If he fails to deliver, they can defect from him, too.

Of course, populists are bound eventually to disappoint their supporters. For populism is a toxic brew as well as an intoxicating one. Populists nearly always make life miserable for whichever minorities they chose to scapegoat, but they seldom make life much better for the people whose ire they whip up.

Whatever the demagogues may promise – and they always promise "jam today" – populism tends to have significantly more economic costs than benefits. Restricting immigration, imposing tariffs on imported goods, penalising firms for investing abroad: such measures, if adopted by an American government in 2017, would be almost certain to reduce growth and employment, rather than the reverse. That has certainly been the Latin American experience – and few regions of the world have run the populist experiment more often.

The foreign dimension brings us to a final irony. Despite their habitual insistence on narrow national self-interest, populists are nearly always part of a global phenomenon. Globalisation had been making enormous strides prior to 1873, with world trade, migration, and international capital flows growing at unprecedented rates. But the crisis of that year generated a populist backlash against globalisation that was itself global in its scope.

Then, just as now, the principal targets of the demagogues were immigration, free trade, and high finance. Just as the United States excluded immigrants and raised tariffs, so did European countries by adopting similar discriminatory measures. In Bismarck's Germany, populism was often anti-Semitic – as it was in the France of the Dreyfus Affair – while in late Victorian Britain it was anti-Irish. Tariffs went up almost everywhere except in Britain.

Populism today has a similarly global quality. In June, the British vote to leave the European Union was hailed by populists right across the European continent as well as by Donald Trump in the United States and, implicitly, by Vladimir Putin in Russia.

YIELDING TO THE COMPLICATORS

Let me conclude with a note of qualified optimism. Because populism is not fascism, populist victories should not be construed as harbingers of war – if anything, the opposite is true. In the 1870s and 1880s, populists did achieve significant reductions in globalisation: not only immigration restrictions, but also higher tariffs. But they did not form many national governments, and they did not subvert any constitutions. Nor were populists much interested in starting wars; if anything, they lent towards isolationism and viewed imperialism as just another big business racket.

In most countries, the populist high tide was in the 1880s. What came next – in many ways as a reaction to populism, but also as an alternative set of policy solutions to the same public grievances – was Progressivism in the United States and socialism in Europe.

Perhaps something similar will also happen in our time. Perhaps that is something to look forward to. Nevertheless, we would do well to remember that World War I broke out during the progressive not the populist era.

The world today is, as I observed at the outset, in much less turmoil than one might infer from television news. Nevertheless, the economic and social consequences of globalisation and the most recent financial crisis sowed the seeds for the populist backlash that we now see.

Populists are not fascists. They prefer trade wars to actual wars; administrative border walls to more defensible fortifications. The maladies they seek to cure are not imaginary: uncontrolled rising immigration, widening inequality, free trade with "unfree" countries, and political cronyism are all things that a substantial section of the electorate have some reason to dislike. The problem with populism is that its remedies are wrong and, in fact, counterproductive.

What we most have to fear – as was true of Brexit – is not therefore Armageddon, but something more prosaic: an attempt to reverse certain aspects of globalisation, followed by disappointment when the snake oil does not really cure the patient's ills, followed by the emergence of a new and ostensibly more progressive set of remedies for our current malaise.

The great Swiss historian Jacob Burckhardt once memorably warned against "terrible simplifiers." In many ways, that is what populists are. But history suggests that they will end up yielding power to progressive complicators. The latter will be more congenial to educated elites, no doubt, but they may prove to be every bit as dangerous as the populists, if not more so.

"No one should underestimate the power of populism"

Niall Ferguson
Niall Ferguson is a Senior Fellow at Stanford University's Hoover Institution, a Senior Fellow of the Center for European Studies at Harvard University, and a Visiting Professor at Tsinghua University in Beijing. You may follow him on Twitter @nfergus.

LISTED COMPANIES DRIVE GROWTH IN UK'S OUTPERFORMING *HEALTHCARE PROPERTY SECTOR*

Moor Park Health Centre situated in Bispham is an innovative facility bringing together a range of services all under one roof

When Jonathan Murphy invests in a property, its location is not his primary concern.

As the CEO of Assura plc, the listed Warrington-based company that owns almost 400 primary healthcare properties, it is the UK's National Health Service (NHS) instead of property market dynamics that shapes his main investment criteria. While general practitioners are self-employed in the UK, rental costs for their surgeries are reimbursed as part of their contractual relationship with the NHS. This allows the public body established in 1948 to have ultimate say over where a GP may open a surgery and ensure that primary healthcare provision is allocated appropriately across the entire country.

"Our properties are often in less attractive locations in the UK because these are the places with the highest and most pressing medical needs, said Murphy. "Since everything is ultimately approved by the NHS, you don't have the normal supply and demand drivers that you find in other real estate sectors - so there's no investment cycle and no speculative supply."

This suspension of normal market factors has sheltered the sector from the volatile investment cycle, including the slump of 2008-2009, and allowed this niche subsector to outperform most other property sectors in the UK: assets delivered unlevered total investment returns of more than 7% annually from 2007 to 2015, according to figures compiled by MSCI's Investment Property Databank. Long leases of more than 20 years, a rental income that has risen over the long run by 1 percentage point more than inflation, plus an implicit state-backed covenant, have all provided for consistent returns with very low volatility.

Assura is one of a trio of fast-growing listed companies specialised in investing in primary healthcare real estate in the UK. In the past five years, Assura, The MedicX Fund and Primary Health Properties have each at least doubled the size of their portfolios to capture a market share equivalent to roughly one eighth of the 9,000 GP surgeries in the UK between them. Collectively their portfolios are worth more than GBP 3 billion, based on the most recent valuations. Scale allows them to improve operating margins and to tap >

"We are moving towards larger, modern medical centres, where you have multiple practices either joining together or co-locating"

Latest Primary Care Property development in North Leeds, West Yorkshire

cheaper sources of debt financing, the Assura CEO said.

With an average transaction size of GBP 3-4 million, the fragmented and illiquid primary care real estate market means it is time-consuming to assemble a portfolio of scale, Murphy said, explaining why the returns generated by the sector have not attracted more institutions and allowed the listed companies to prosper.

"This niche subsector outperformed most other property sectors in the UK and delivered total investment returns of more than 7% annually from 2007 to 2015"

MedicX and PHP have already exported their investment model to the Republic of Ireland, where they see the potential for similar growth opportunities. Murphy says that Assura hasn't followed because he still sees plenty of opportunity in the UK through its in-house development capabilities.

He estimates that between one half and two thirds of GP surgeries are owned by their doctors, while 40% are in buildings that pre-date the NHS. A British Medical Association survey conducted in 2014 found that four in 10 doctors consider their surgeries to be no longer fit for purpose. This presents ample opportunity for sale and leaseback investments or to develop new surgeries, he said, adding that the expense of larger modern facilities and the desire for career flexibility is deterring younger GPs from owning their surgeries.

"Most of our growth has come from referrals from other GPs, so a property seldom goes onto the open market," Murphy explains. "Our brand and reputation are very important. We are a long-term investor/developer and we're not out to make a quick buck off the back of the doctors and flip the building. Some private equity money has tried to be more aggressive in our space but it hasn't been successful because that's not what doctors want."

All three listed companies see the NHS as a major driver for the sector's growth prospects in the UK. In its General Practice Forward View published last year, the health body reiterated its commitment to primary health services as the cornerstone to healthcare delivery. It aims to invest GBP 2.4 billion a year in GP services to increase staffing, extend "out of hours" services, develop clinical hubs and to ease the pressures on accident and emergency services.

The NHS has earmarked GBP 900 million for investment in the GP estate and infrastructure. Late last year the structure established to deploy this capital identified 600 projects, including the construction of 200 new primary care facilities. In parallel, NHS organisations across England are to draw up plans to work more closely with local authorities and other care providers as the health service seeks to find cost savings. Here again, primary care services are a major plank in NHS reforms that involve moving non-acute services typically handled by hospitals into the community.

"The direction of travel is very clear," said Murphy. "We are moving towards larger, modern medical centres, where you have multiple practices either joining together or co-locating to provide a broader range of services side by side. That's not going to happen immediately. It's a long-term trend which is an incredibly positive underlying driver for our business. That's just replacing what's needed for now and then you have the broader healthcare drivers – demographics and an ageing population – that are also hugely supportive for growth."

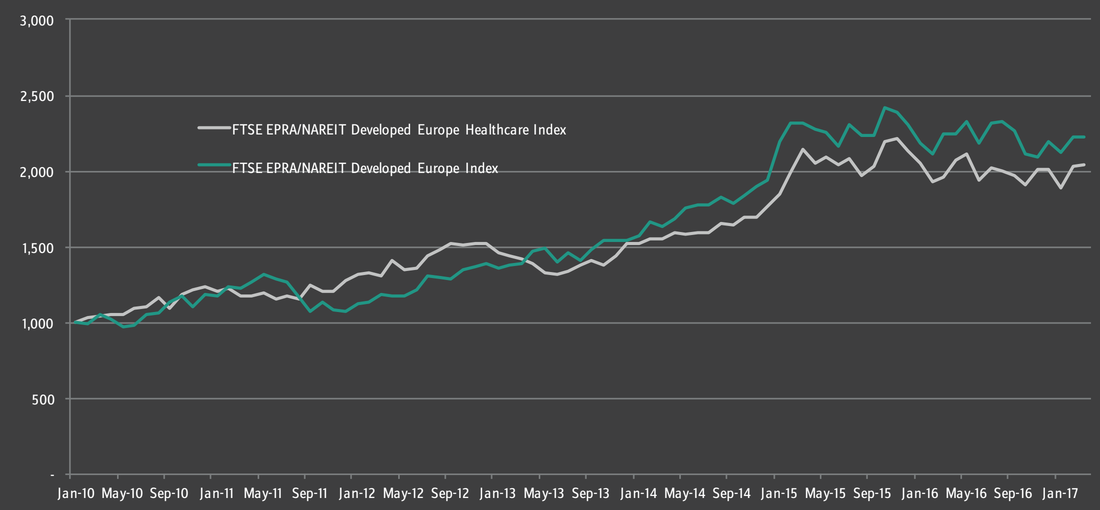
'Mission creep' into care homes is not something that Assura is contemplating, Murphy said, because it runs off a different set of drivers, requiring a different operational skill set and risk appetite.

"Ultimately we are working with GPs on their aspirations for their buildings and helping them get it approved by the NHS," he said. "Obsolescence is the single biggest risk that we face on any single investment, so the key judgment is: are we confident that this building will still be essential to the local health economy upon lease expiry in 20 or 25 years' time?"

Jonathan Murphy
Assura
Jonathan Murphy was Assura's Finance Director before becoming CEO in February. He joined the Group in January 2013 from Brooks Macdonald Group, where he had a variety of finance and property management roles. His earlier career included commercial and strategic roles at Spirit Group, Vodafone and PricewaterhouseCoopers, where he qualified as a Chartered Accountant.

HEALTHCARE SECTOR SNAPSHOT

Performance Developed Europe vs Developed Europe Healthcare

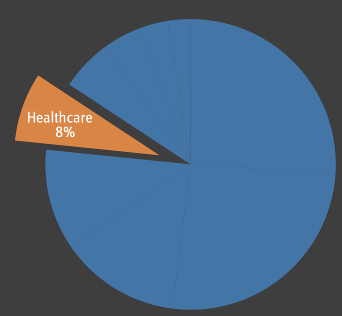


Value snapshot (March 2017)

Healthcare	Latest (monthly)	Year to date	1-year	5-year
Total return (%)	0.26%	1.50%	4.16%	9.31%
Premium/Discount to NAV (%)	21.96%	19.43%	20.88%	17.68%
Loan-to-Value (%)	39.35%	-	39.86%	57.80%
Dividend yield (%)	4.79%	-	4.77%	5.42%

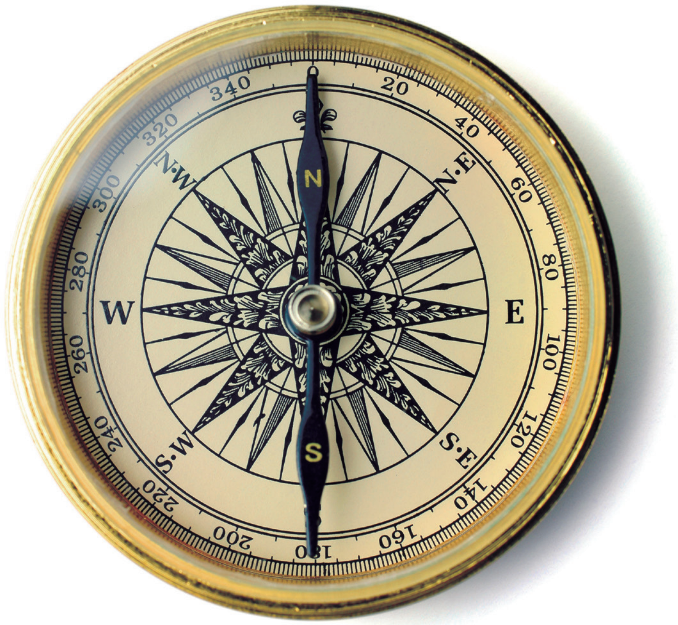
**1-year LTV value as of Mar-16 and 5-year value as of Mar-12*

FTSE EPRA/NAREIT Developed Index Healthcare Sector share



FTSE EPRA/NAREIT Healthcare Sector

FTSE EPRA/NAREIT Global Index						
Cons Code	Constituent Name	Country	Investment Focus	Price Return Mar-17	Dividend Yield Mar-17	Total Return Mar-17
C85158	Assura	UK	Rental	-1.11%	1.03%	-0.08%
C33075	Primary Health Properties	UK	Rental	0.68%	0.00%	0.68%
C18163	Medicx Fund	UK	Rental	0.85%	0.00%	0.00%
C145498	Target Healthcare REIT	UK	Rental	1.11%	0.00%	1.11%

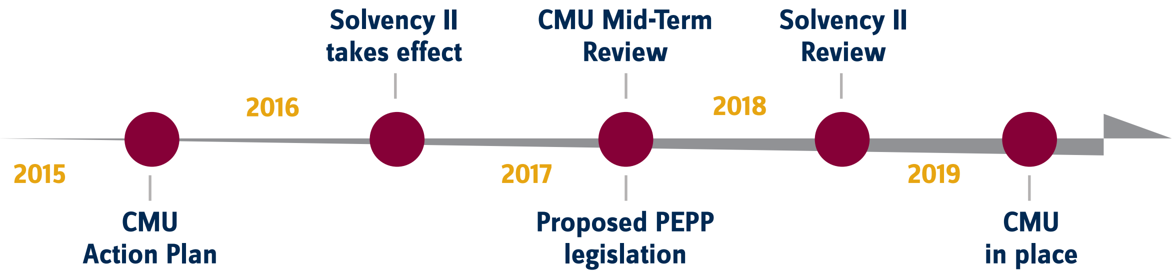

N
N·E
E
S·E
S
S·W
W
N·W

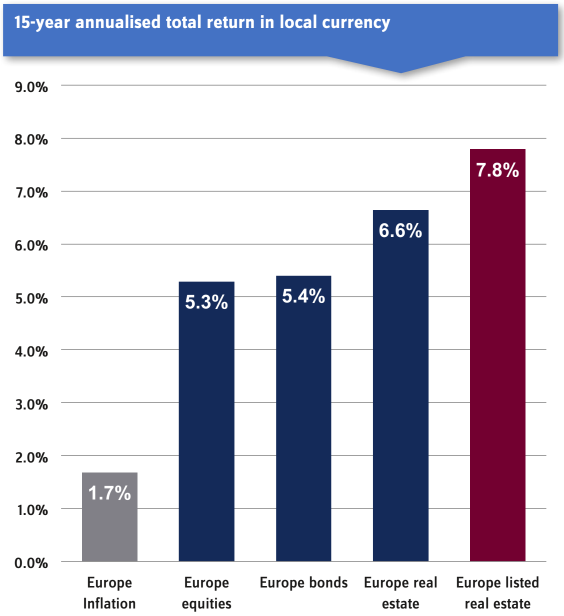
IS CAPITAL MARKETS UNION THE ANSWER TO EUROPE'S *PENSION CRISIS?*

Europe needs deeper capital markets to strengthen investment in the long term, including investment into publicly listed property companies. These would help increase broaden financing options in the EU, attract more foreign investment, facilitate cross-border investment and make the economy more resilient. That is why Jean-Claude Juncker, the President of European Commission, set out as one of its key priorities the need to build a true Capital Markets Union (CMU) for all Members of the European Union.

Some 15 initiatives have been completed by the Commission since the publication of the CMU Action Plan in September 2015. However, much more needs to be done to have a fully functioning, deep and integrated capital market by 2019. With that in mind, last month the Commission announced its intention to double its efforts after consulting on the CMU mid-term review with the key stakeholders. As part of this process, EPRA together with the Regulatory and Taxation Committee submitted its input reflecting the needs of the listed property sector and emphasising its importance as an asset class to investors. The Commission is expected to present its final CMU-Mid Term Review by July 2017.

There are many initiatives which have either been completed or are already in the pipeline to achieve the CMU's objectives. In this article we will focus on Europe's efforts to overcome its pension crisis and the role the listed sector can play.





Sources: EPRA, FTSE, JP Morgan. Data as of: March 31, 2017

Is europe on the track to overcome its pension crisis?

EPRA believes that we all need to work smarter to provide Europeans with an adequate income and decent living standards in retirement. This task is now particularly important as demographic and labour market changes have put pressure on national budgets and are challenging our national pension systems. It is therefore safe to say that the traditional employment-based pension systems are not prepared to overcome such challenges. This is why the listed real estate sector has become increasingly important over the last few years, as the demand for solid long-term income producing investments is stronger than ever.

The beginning of cross-border defined contribution pensions across the EU

One of the questions we should be asking ourselves is whether we can afford to continue funding defined benefit schemes the way we do. The European Insurance and Occupational Pensions Authority (EIOPA) estimated in 2015 that aggregate deficits of European Defined Benefit pension funds amount to EUR 1,200 billion under standard valuation basis. It is therefore clear that it is the time to work together to overhaul the traditional pension regulations, develop cross-border defined contribution pensions across the EU and overcome its market fragmentation. This should help unlock capital markets by providing a critical mass of investments at a pan-European level which can better support the long-term funding.

The potential of a pan-European Personal Pension Product

The Commission will soon propose a set of European rules to develop a true EU single market for personal pension products (PEPP). This new initiative is being developed by a close cooperation of public and private stakeholders. Various industry bodies from financial institutions, multinationals and trade unions to consumer protection groups strongly support the initiative.

What could an attractive PEPP look like? So far, all we know is that a PEPP might be introduced in a form of a second personal pension product regime, parallel to the national regimes. It should have standardised features considering the specific objective of a personal pension product to provide for future retirement income, alongside flexible elements taking into account national specificities. Individual savers will thus be able to make savings via personal pension accounts which are portable and can be moved from one provider or country to another. >

CMU MID-TERM REVIEW: EPRA'S VIEW

The European listed property sector needs:

- **a more neutral and investment-friendly tax system (the proposed Common Consolidated Corporate Tax Bases (CCCTB);**
- **more inward and intra-EU investments (Solvency II);**
- **a Europe which works smarter to fill the pensions gap (European Personal Pensions Products (PEPP));**
- **an improved withholding tax refund (WHT) procedure to boost cross-border investments.**

Read EPRA's response to the CMU mid-term review consultation

European Listed Real Estate has much more to offer

Liquidity

Efficient geographic and sector diversification

Quality of assets and quality of management

Governance, tranparency & oversight

Going concern status enables access to capital (Equity & Debt)

Cost effectiveness

Real active management

Contribution to the community

In fact, EIOPA advised the Commission to consider the following:

- Standardised information provision;
- Standardised limited investment choices, with one core "default" investment option, where the investment strategy considers the link between accumulation and decumulation;
- Regulated, flexible caps on costs and charges;
- Flexible biometric and financial guarantees.

The PEPP should also have a long-term perspective in its investment policy, similar to the long-term nature of listed real estate, to better reflect the long-term nature of retirement savings. But what else needs to be considered in order to deliver desired pension outcomes?

Europe needs to consider the benefits of listed real estate to deliver desired pension outcomes

The insurance sector's recent 'Blueprint for Pensions: Saving enough, saving well, saving wisely' explains that future adequacy of pension provision depends not only on how much individuals save and how early they start saving, but also on their asset mix. Investing in the right range of assets can be as important as saving enough because of the very different long-term returns and diversification that are offered by the different asset classes.

We fully agree that it is important to set investment objectives of PEPPs correctly, including its much-needed default investment option to protect European savers. At the same time, we need to think of how we can enable them to receive high enough returns. And that is how listed real estate can play an important role. Liquid investment assets with a strong dividend yield have the potential to help Europe overcome its pensions' challenge. This would not only be beneficial for all stakeholders, from institutional investors to individual savers in Europe, but could also increase the stability of the financial markets.

NAVIGATING DISRUPTION – ...REAL ESTATE STRATEGIES FOR GROWTH AND OUTPERFORMANCE

Join Asia's real estate leaders to explore:

How AsiaPac real estate wins from Brexit and Trump – 2017 will be a tectonic turning point for politics, consumers and markets. There'll be more political and economic disruption, but also plenty of opportunities.

Hear about the real estate investment playbook suited to these disruptive times.

China and India – get briefed on the dynamics driving the world's fastest growing real estate markets.

Bold new real estate frontiers - hear about property markets that will reach the top of investor rankings (and those falling behind).

The fight for capital - inbound to Asia versus outbound to the rest of the world: what is the prognosis for cross-border real estate capital flows during the next three years?

The real asset class revolution - REIT and PE platforms are flourishing as new investment styles proliferate.

Opco-propco approaches, debt-funds, and more than a dozen new REIT types herald a revitalised investment class. Which of the rising styles show the most promise?

Market makers - hear from investors who are actively re-framing their growth strategies. How do they plan to move the investment needle? Which cities and investment platforms get a thumbs-up?

The Investment Committee - back by popular demand: the industry's canniest deal-makers offer their buy, sell or hold calls on specific property projects across the region.

Fintech, robots and real estate – commercial real estate may soon be at the epicentre of the blockchain and fintech revolutions. Hear how you can position your business to maximum advantage.

Real estate futures [SPOILER ALERT!] – APREA's new forecasting time machine offers candid insights into the market's new *alpha*-bets: get an inside track to the A to Z of real estate outperformance in a disrupted business environment.

Please reserve your place NOW at www.apreasummit.asia

For Sponsorship enquiries and to guarantee preferential rates, please email Noel Neo at **noel.neo@aprea.asia** or phone +65 6438 1110.

ITALY'S PROPERTY FEDERATION LOOKS TO REGULATORY AND FISCAL REFORMS *TO UNLOCK INVESTMENT POTENTIAL FOR THE ITALIAN REAL ESTATE MARKET*

Italian property federation Assoimmobiliare's patient approach in pressing for reforms to the country's regulation and taxation, the thorniest issues holding back the development of the real estate market, appears to be bearing fruit.

Investment in the Italian commercial real estate market rose in 2016 for the fourth consecutive year to EUR 8.6 billion, the highest since 2007, according to data compiled by Savills. Not only did investment volumes exceed the 10-year average by 45% but the figures also reveal the continued appetite of foreign investors for property in Italy.

In the past three years Italy has upgraded its regime for listed real estate investment trusts (SIIQs) and property funds. It has also introduced SICAFs (società di investimento a capitale fisso) – regulated closed-end investment funds – to give investors clear choices for deploying capital into its property market.

Assoimmobiliare makes no bones about the importance of the reforms to Italy's regulatory and tax regime, which address what its chairman Aldo Mazzocco describes as the "peculiarities" that for too long have deterred much-needed international investment into Italy. The changes mark a significant advance in addressing the issues that hold back the real estate market of Europe's fourth largest economy, which lags behind the more expensive markets of the UK, Germany and France in terms of investment.

"There is a political will to bring about change in Italy but it takes time, patience and perseverance for things to get done," says Roberto Fraticelli, who heads up Eurocommercial Properties' Italian arm and chairs Assoimmobiliare's committee for relations with associations and global international institutions.

Assoimmobiliare has been active in changing perceptions about the real estate sector in the corridors of power in Rome and the way that it works with lawmakers and government officials. The association's change of tack emphasises the contribution that the real estate industry makes to the economy, employment and society. It highlights how real estate touches the everyday lives of Italians through the places where they live, work and spend their free time. Its daily newsletter provides a flow of industry-related news to underscore these qualities.

"The real estate industry was traditionally regarded as a bunch of pirates by many in government circles, so our engagement with politicians and the administration has been to educate, assist and bring new ideas to the table," said Fraticelli. "It's enabled us to establish a climate of cooperation, rather than the association being perceived as an interest group continually lobbying for handouts or special treatment."

This cooperation enabled Assoimmobiliare to have a proactive and constructive approach flagging to the government the practical consequences of several proposed changes to the tax system and to the legislation. This helped the Government to fine-tune its legislation before it was published. This prevented embarrassing "steps back," as happened some years ago with the value added tax, which threatened to saddle local developers with billions of euros of back taxes and potentially lead to their financial ruin, he said.

The association's efforts in helping develop Italy's listed property sector focus on fixing key areas of the current REIT regime, or Società di Investimento Immobiliare Quotate (SIIQ), which was updated in the Sblocca Italia decree by the government of former prime minister Matteo Renzi in late 2014. There are currently four SIIQs listed on the Milan stock exchange whose assets benefit from the status that exempts them from paying tax on operational profits and capital gains: Aedes, Beni Stabili, Coima and IGD.

"There is a political will to bring about change in Italy but it takes time, patience and perseverance for things to get done"

Current SIIQ rules require companies to pay a 20% entry tax based on the net capital gain between the "fair" value of its assets and their fiscally recognised value. This exceeds, however, the 15% rate applied in other countries with the effect of deterring foreign companies from adopting the Italian regime for their Italian assets, Fraticelli said.

Another proposal would aim to bring greater liquidity to the Italian listed property market by facilitating the transfer of assets into SIIQs. "Currently the vast majority of the Italian real estate assets is owned either by the Italian state or by rich families. Gradually unlocking this "potential" and bringing assets on the (listed) market would significantly increase both the liquidity and the transparency of the Italian real estate industry, two characteristics sought for by international investors".

"These are areas that are holding up the broadening of the SIIQ regime in Italy," said Fraticelli.

The Italian government started going into this direction by exploring assets sales that may include such gems as disused city centre army barracks that are ripe for redevelopment. The process has stalled since the collapse of the Renzi government in December following its defeat in a referendum on constitutional changes and on prospects of a possible general election later this year.

For Fraticelli, the state asset sales programme and the huge potential for more investment grade stock to come onto the market present attractive opportunities for international investors. He pointed to more work needed at a local government level to harmonise planning rules and to tighten up their procedural calendars to allow investors to predict their tax liabilities, so that investors gain greater visibility on their potential returns in their project planning.

"If you are prepared to bide your time and know the market, then Italy presents an opportunity to make significant returns," said Fraticelli.

Roberto Fraticelli
Assoimmobiliare / Eurocommercial Properties
Fraticelli is responsible for the Italian activities of Eurocommercial Properties, a company he joined in 1998. He is President of the committee for relations with associations and global international institutions at the Italian Property Federation, Assoimmobiliare, and a committee member for EPRA and CNCC. He has an EMBA from the Rotterdam School of Management/Erasmus.

> *"Real estate is behind comparable sectors such as banking and asset management in the diversity of its leadership"*

CULTURE HOLDS THE KEY TO AN INCLUSIVE *REAL ESTATE INDUSTRY*

How can real estate businesses create a better balance of men and women in their leadership teams and reap the rewards this would deliver?

From broadening the talent pool to bringing in the fresh ideas needed to deal with disruption and change, the business case for promoting diversity has never been more compelling. Research shows that the more diverse an organisation is the better it performs and the more attractive it is to talent. Indeed, the key question is no longer why increased diversity is needed, but how it can be achieved.

To explore how far real estate has come in promoting gender equality and what more could be done, PwC recently published a report with Real Estate Balance, a group set up to develop practical ways to improve gender balance at senior levels in the property industry. The basis for the research was an in-depth survey of 40 companies and 382 employees working across the industry in the UK.

Barriers remain

A lot of the findings are encouraging. Across the industry, companies have launched a wide range of policies and initiatives to increase diversity and balance including mentoring, flexible working, unconscious bias training and return to work programmes. The survey also reveals a high level of senior management commitment towards promoting gender equality. Yet barriers remain. Many of the employees in the survey are frustrated by what they see as the slow pace of progress and the limited impact of some of the policies and initiatives in place. And with women making up less than 20% of the board members in the companies we surveyed, real estate is behind comparable sectors such as banking and asset management in the diversity of its leadership.

If change is too slow and expectations on gender balance aren't met, the real estate industry faces a diminished pipeline of talented men as well as women.

Businesses could also face heightened media scrutiny and potential reputational damage, especially as gender pay reporting becomes mandatory for larger firms.

To sustain attractiveness to talent, avoid reputational risk and realise the business benefits of greater inclusion, it is therefore important for companies to assure stakeholders that they are stepping up efforts to tackle gender inequality. And to accelerate progress it may be necessary to look beyond policies and initiatives at how to change the culture within the industry. This is certainly the view of the employees in our survey, who see cultural and behavioural change as the number one priority for achieving increased gender balance, though this is less of a priority in responses from company representatives.

Shift in attitudes

Steps towards creating a more inclusive working culture include looking at how to make sure working hours and ways of working reflect different needs and aspirations. A typical example would be varying team social or client events so that they are not always planned around sporting events, evening meals or pub visits, and varying the timing so they are not always in the evening or at weekends.

It is also important to challenge assumptions, for example that a member of the senior leadership team cannot work flexible hours or that women will not want to take up international assignments as it will take them away from their family. And this shift in attitudes applies as much to men as women. For example, many men are reluctant to request flexible working as their employers assume that this is only an option for mothers with young children, rather than a way of working that could benefit everyone within the organisation.

Equality lens

These shifts in attitudes can provide a foundation for looking at business activities through a gender equality lens. What is the male-female ratio on project or client pitch teams, for example? Other considerations include setting targets against which to track progress in areas such as recruitment, promotion or attrition. Regular tracking of progress against these targets would enable organisations to gauge whether policies to increase gender equality are having an impact, and explore ways to address this if not.

Source of strength

We have seen in other industries how this combination of cultural change and closer monitoring can accelerate and strengthen the impact of the policies and initiatives in place and help to ensure that everyone can truly fulfil their potential. The real estate industry would emerge stronger and more profitable as a result.

To find out more about the survey results and to download a copy of the report, please see '*The power of real balance: How diversity can transform your real estate business*' or scan the code.

Saira Choudhry
PricewaterhouseCoopers
Saira is a director in PwC's real estate assurance practice. Saira has been with PwC for 13 years and in this time has worked with numerous UK and global real estate businesses. Saira leads on talent, diversity and inclusion on the PwC UK and Global Real Estate Leadership Teams, and is a member of the Talent Committee of Real Estate Balance, an association focussed on addressing gender imbalance in the industry.

BOUWINVEST BACKS BLENDED PORTFOLIOS *FOR BEST RETURNS AND DIVERSIFICATION*

Bouwinvest, the real estate investment arm of bpfBOUW the Dutch Construction Workers Pension Fund, is the third largest institutional property investor in the Netherlands after APG and PGGM. We travelled to Amsterdam to discuss their investment model and the importance of blending listed and non-listed real estate.

"I'm convinced that blending listed and non-listed investments gives us better risk-adjusted returns"

When did Bouwinvest start investing in listed real estate stocks and what is the current total market cap of your international listed portfolio?

"Bouwinvest started its active approach to investing in real estate stocks on behalf of our institutional sponsor, bpfBOUW, in 2012. At the end of the first quarter this year the total listed portfolio was EUR 535 million."

What are the benefits to Bouwinvest of investing in REITs and listed real estate generally alongside your direct property and non-listed fund and JV investments?

"Not surprisingly, bpfBOUW has one of the highest exposures among Dutch pension funds to the industry where its pensioners come from, with about a 19% allocation to real estate in a total EUR 54 billion investment portfolio. Bouwinvest's investment performance has served our sponsor very well in recent years as real estate has made a positive contribution to bpfBOUW's higher coverage ratio for its liabilities, relative to the rest of the pensions sector in the Netherlands. Listed comprises about 25% of the total strategic international real estate mandate for bpfBOUW and we are a fully integrated part of the international investments portfolio.

We started our active equities strategies originally because we noticed it was difficult to access quality assets in some specific markets and sectors. By solely investing via unlisted, a significant part of the global real estate opportunity set would be neglected such as U.S. regional malls. Moreover, I'm convinced that blending listed and non-listed investments gives us better risk-adjusted returns and this is supported by our internal studies and several external academic research from EPRA and others. There are also other advantages, such as providing easier cost effective diversification across international markets and giving greater liquidity to the portfolio. Our real estate equities investments have achieved an average annual total return of around 12% over the last five years.

At the end of the day, listed real estate is just a different wrapper for the underlying assets."

How are your equities investments distributed?

"We are invested in three regions: Europe, North America and Asia-Pacific through 14 concentrated market/sector combinations.' Each category consists of between four to six companies that are the best-in-class in that universe, fit in our existing and strategic integrated portfolio, and which are typically difficult to access via private investments. So the self-storage sector in the U.S., for example, or access to high quality retail and office assets in Hong Kong, etcetera.

On a relative basis, Europe makes up about 35% of our listed holdings and is in line with the strategic allocation. For North America and Asia-Pacific there is more room to grow, both on an absolute and a relative level. The European portfolio is the most mature in terms of AUM, hence for this region active rebalancing and rotation in close conjunction with the unlisted portfolio plays a bigger role. Moreover, in the European listed portfolio we have been piloting a bucket we call 'special situations' where we invest in off-benchmark companies, IPOs, or companies that are in some type of corporate distress, and this has performed very well since inception in 2014 in terms of absolute return and diversification.

How do you select the companies you invest in?

"Bouwinvest has an absolute return investment approach and we really try to drill down into the performance drivers of a stock's underlying real estate assets within each of the 14 buckets. Therefore we ask a lot of our external managers, who assist us in the execution of the strategy. They are selected on a 'bucket by bucket' basis, where the expertise of their local teams is one of the key criteria. Our proprietary risk-return model for stocks is the same as that used by the non-listed side of the business with obviously allowances for the liquidity and volatility differences. In our approach towards the return expectations we initially try to mimic the unlisted approach towards the underwriting to the maximum. It is only in the final steps of the investment process that we match the private market expectations with the public market expectations of the companies within the buckets."

> *"My biggest frustration is hearing real estate described as an 'alternative investment industry' when it's one of the largest asset class in terms of its investible universe"*

How do you see the outlook for the listed real estate market?

"The initial reaction of the listed market to the prospect of rising interest rates was to sell off, but I think the industry is far better placed now than before the financial crisis in 2007 because the amount of leverage that companies are employing is significantly lower. Higher rates and inflation will also tend to weigh on the real estate supply pipeline and allow rents to rise on the back of more demand for space as economies improve. This will benefit those companies which already have good quality portfolios in place.

I'm also optimistic that last year's change in the GICS (Global Industry Classification Standard), to recognise real estate as a stand-alone equities investment class, will ultimately attract far more capital into the market. My biggest frustration is hearing real estate described as an 'alternative investment industry' when it's one of the largest asset class in terms of its investible universe."

Friso Berghuis
Bouwinvest
Friso Berghuis joined Bouwinvest as Analyst Strategic Investments in 2010. Since January 2014 his role was Senior Consultant Strategic Investments. As per March 1st, 2016 he was appointed Manager Global Listed Real Estate. He has over 10 years of experience in real estate investments. Previously, he worked as Real Estate Analyst and Portfolio Manager at Dutch private bank Theodoor Gilissen Bankiers. Friso holds a master degree in International Business & Economics from the University of Groningen and completed the postgraduate Investment Analysis (VBA/CEFA) program at VU University Amsterdam. Friso is a member of the Real Estate Committee at the Dutch Association of Investment Professionals (VBA).

EPRA INTRODUCES THE EUROPEAN *LISTED SECTOR TO CHINA... IN MANDARIN*

European REITs Policy and Practices Internal Forum, Beijing, 29 March, 2017

An audience of 200 high-ranking Chinese investment industry officials attending the European REITs Policy and Practices International Forum in Beijing on March 29 were surprised to be welcomed in Mandarin by the Chairman of EPRA Hong Kong, Philip Charls. The former EPRA CEO is known for his command of several European languages, but Chinese isn't one of them.

The local introduction followed intense rehearsal with Yuri Zhou, Director of EPRA Asia-Pacific, and sprang from the idea to target the highest level of Chinese regulators and market participants for the Forum after Charls and Zhou hosted Fred Wang, Secretary General of the Chinese REITs Alliance, on a rainy property tour of northern Italy in February. Proposed Chinese REIT legislation has been gathering momentum as the government looks to create a better regulated and professional domestic real estate investment sector. Mainland REITs are expected to be launched within the next 12 months.

Yuri Zhou said: "The Chinese industry is eager to understand more about European REITs because they share some similarities in the sense that there are a range of local markets at the provincial and city levels with differing rules and regulations and both the EU and China don't have the same homogeneity that say the U.S. REIT market has. It could be that Chinese regulators eventually introduce a flexible REIT regime adapted to local market conditions."

She added that Fred Wang had facilitated the attendance of Lei Hong, the Chairman of the Asset Management Association of China (AMAC), which has a semi-regulatory function in the investment industry, to open the Forum.

In an interview with the EPRA Newsletter in Beijing, Lei Hong said: "REITs will serve as an efficient tool to utilise large volumes of capital for all types of infrastructural investment. They will help mitigate local government debt risks, improve capital efficiency, create long-term investment vehicles and finally enhance the efficiency of the whole capital market."

He added: "From a financial perspective, more capital will be matched with high-quality assets to generate long-term and stable cash flows and raise the efficiency of capital supply. Just as importantly, some of the most value assets in the real economy, offering stable income returns, will be open to the general public through these investment vehicles, so everyone can share in the country's economic growth."

Lei said that China needed to establish a legal framework and shape regulatory standards to facilitate the development of REIT trading

"It usually takes advanced economies approximately a decade to develop an effective REITs regime. In China, financial regulators and the industry started research and preparations a little over ten years ago. The time is opportune, we won't have to wait too much longer"

mechanisms for IPOs and the listing of their underlying assets. Regulators also want to learn more about real estate securitisation and the experiences with REITs in other markets to gradually reach a consensus on how to go forward.


Jean-Michel Gault, Deputy CEO of Klépierre

"It is essential to help regulators, fund managers and investors correctly understand the taxation on products and investors under the trust regime. At a regulatory level, the next step is to introduce specific investment operational standards, especially for publicly offered REITs. These standards and rules should be consistent with the principles of investment funds and the basics of REITs under the framework of the Securities Investment Fund Law," he said.

On the EPRA side, senior executives from three of the largest European listed companies spoke at the Forum: Jean-Michel Gault, Deputy CEO of Klépierre and Chairman of the EPRA Reporting and Accounting Committee, briefed the audience on the scope and purpose of the association's Best Practices Recommendations; he and Jaap Tonckens, CFO of Unibail-Rodamco and Stefan Kirsten, CFO of Vonovia, explained their respective companies business models and shared their views on the outlooks for European markets.

Ruud Vogelaar, Group Director of Tax at Unibail-Rodamco, provided a tour d'horizon of the different REIT tax and legislation regimes in Europe, while Daniel Feldmann, Director of Real Estate Securities at Timbercreek Asset Management and Jana Sehnalova CEO/CIO of La Française Forum Securities gave the fund manager's perspective on investing in European listed real estate.

Jean-Michel Gault of Klépierre said: "We'd tried as a group of European listed real estate companies to get access to investors in China through our banking contacts, but it didn't really work as it's difficult to see the right level of people. The EPRA-organised trip to Shenzhen, Shanghai and the seminar in Beijing was much better structured and we had good meetings with senior executives."

He added: "We stressed that the purpose of the EPRA BPRs is to provide better transparency for investors when they are investing in listed real estate, not only REITs. But we also emphasised the detailed KPIs of REITs as they are easy for investors to understand and to make comparisons between companies. The payback from these type of trips in terms of enlarging our investor base is very long-term, however, there is a huge amount of capital in China within insurers and pension funds. Marketing the European listed sector in China is a bet, but if we win the potential is enormous."


Stefan Kirsten, CFO of Vonovia

Stefan Kirsten of Vonovia, said it was very clear to him what his company's main USP is to Chinese investors after the EPRA roadshow:

"Vonovia doesn't have a REIT structure as that isn't permitted for listed residential investment companies in Germany, but we are a perfect low-risk investment diversifier away from the U.S. dollar. Asian export economies are naturally long on the dollar, so they need alternative investments that are big, liquid and investible."

Jaap Tonckens of Unibail-Rodamco said it would take a long-term educational and marketing drive to shift the focus of Chinese institutional investors away from large direct property investments and towards REITs.

"It's not going to be a rapid evolution. I think it will be five to 10 years before REITs are recognised as a stand-alone asset class in their own right in China. A cost-effective way of accessing quality assets and management in a liquid form. The Chinese are comfortable with their direct holdings and people are risk-averse. They want to see the investment benefits and a long-term track record first," he said.

An emerging quasi-REITs market

Fred Wang of the Chinese REITs Alliance told the Forum that some properties located within China are already securitised in a quasi-form:

"There are overseas-traded REITs backed by assets inside Mainland China, mostly listed in Hong Kong and Singapore. In Mainland China there are what we call quasi-REITs, namely securities structured as if they were REITs, issued and traded in organised exchanges, on OTC markets, or through private placements."

In the former category, Wang pointed to Singapore-based CapitaLand which owns higher-end shopping malls, offices, hotels and service apartments in Beijing. Another example is the RMB 21 billion floating in Singapore of the hotel and resort properties of Greenland Holding, a Shanghai-based state-owned developer, which is by far the largest REIT offering by a Mainland Chinese concern.

Mainland Chinese quasi-REITs are characterised by features that a European portfolio manager would find unfamiliar within his or her home markets. For instance, rather than being an 'ongoing' entity that is typical of an equity REIT, Chinese quasi-REITs usually have durations of three to five years and, >

Jaap Tonckens, CFO of Unibail-Rodamco

upon maturity, they can only provide an investor with an 'exit' through the consent or buyback of the original property owners. There is also an investor eligibility threshold of RMB 1 million for any market participant that may be interested in these types of securities and they can be only traded in bulk within the wholesale trading segments of stock exchanges.

"We have been closely tracking the development of this quasi-REIT segment in the past year or two, but have yet to make any major inroad," the CIO of a medium-sized local life insurer said at the Forum. "The yield, volume, liquidity and duration of the current offerings do not seem attractive enough given our asset allocation-style."

Despite their limitations, Wang said quasi-REITs should not be dismissed out of hand.

"They serve as a good transitional instrument towards real REITs by accumulating experiences, collecting quality assets and preparing SPV structures," he said.

Three Hurdles Hindering the Development of REITs in China

AMAC's Lei said the development of REITs in China faced three major hurdles:

- There are no clear stipulations concerning the flotation of the underlying assets of REITs, making it difficult to distinguish the listing of real estate developers with stable cash flows from general equity IPOs.
- There is, as yet, no regulatory guidance on the operation of REITs, which, with the exception of a few pilot programmes, have yet to gain real traction in the market.
- Consensus has yet to be reached concerning the tax treatment of financial products and their holders under REIT structures, so double taxation has holding back their development.

"It usually takes advanced economies approximately a decade to develop an effective REITs regime. In China, financial regulators and the industry started research and preparations a little over ten years ago. Therefore the time is opportune, and we won't have to wait too much longer," Lei concluded.

ASSESSING SIZE EFFECTS AND ECONOMIES OF SCALE *IN EUROPEAN REAL ESTATE COMPANIES*

Do economies of scale exist in European real estate companies?

As with many other industries there is an expectation that average costs for real estate companies should fall with size - that real estate companies with larger property portfolios should demonstrate efficiencies. As firms grow and add properties it is expected that costs will not rise in line with the increase in assets under management. If this is the case then larger real estate companies should exhibit higher returns.

> *"Faster growing companies appear to be better able to control costs"*

The limitations of the size of the REIT/ real estate company universe mean that early studies based on the 1970s and 1980s struggled to find any meaningful economies of scale. The growth in the real estate industry in the 1990s and 2000s enable us to econometrically measure economies of scale. Studies of US REITs have generally found evidence of economies of scale, but there has not been a recent study of European real estate companies. Based on the sample of 236 real estate companies/REITs across Europe over the period 2001 to 2015, this EPRA-supported research finds economies of scale exist with firm size. That is, larger companies have lower costs and higher profitability; however, we find that the economies of scale diminish as the firm size increases.

How do expenses and profitability relate to the company size?

We examined size effects on revenue, expense, profitability and capital costs. We found that selling, general and administrative (SG&A) expenses / total assets fall as company size increases. Based on this analysis, the predicted SG&A expenses / total assets by firm size is shown in Figure 1. The ratio of SG&A expenses/ total assets falls significantly when the total enterprise value is below EUR 500 million but the effect reduces as a company grows beyond EUR 500 million. Net operating income (NOI) / market capitalisation and rental revenue / revenue increase with company size. Interestingly, we did not find evidence of economies of scale in the cost of capital. Both weighted average cost of capital (WACC) and cost of debt did not appear to exhibit any significant relationship. >

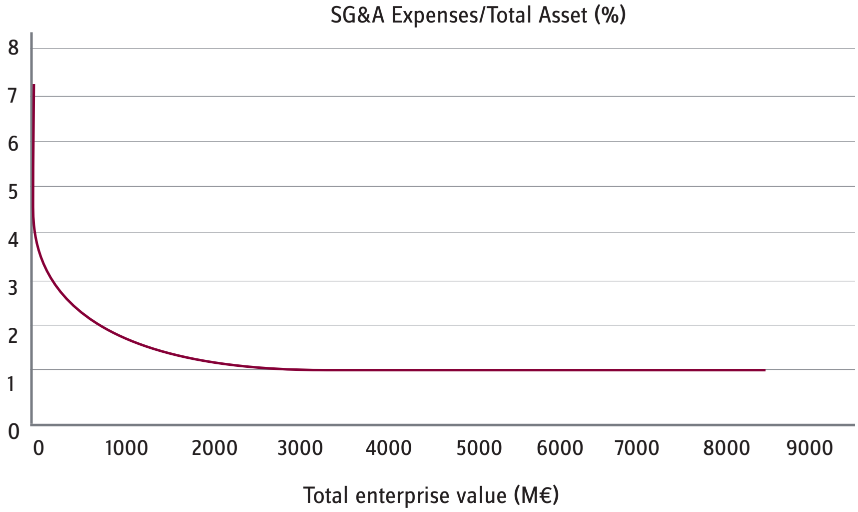


Figure 1: Predicted SG&A Expenses/Total Assets by Size of Firm

"Larger companies have lower costs and higher profitability; however, the economies of scale diminish as the firm size increases"

What is the effect of asset growth and M&A?

Given real estate companies can achieve economies of scale, should they grow faster by acquiring assets and other companies? Our results show that faster growing companies appear to be better able to control costs. Asset growth is associated with a decrease in both SG&A expenses and cost of capital. On the other hand, focussing on income, NOI / revenue and rental revenue / revenue are negatively correlated with asset growth. Overall, return on equity and return on asset both increase with asset growth. Growth and greater size both appear to improve performance so does M&A offer a route to secure this improvement in performance. We analysed 6 merger and acquisition cases, comparing the company's industry-adjusted performance before and after the acquisition (using both a 2 year and 3 year event window), we found that SG&A ratios increase after the merger, whereas NOI ratios and returns decrease after the merger. There is no evidence that there are synergies generated by merger and acquisition, indeed, the merged firm's performance is worse than the two firms running separately.

Leverage and company performance

Companies could grow faster by acquiring assets using debt which will increase leverage. Thus it is important to understand how leverage is linked with company's performance. Our results show that more highly leveraged firms operate more efficiently, with lower SG&A expense ratios. The pressure from debt servicing may increase the focus on SG&A expenses. On the other hand, the total cost / total asset ratio increases with leverage. Interest expenses are one of the components of total cost and higher leverage is obviously linked with higher interest expenses. Furthermore, more highly leveraged firms have a higher WACC and deliver lower returns on equity.

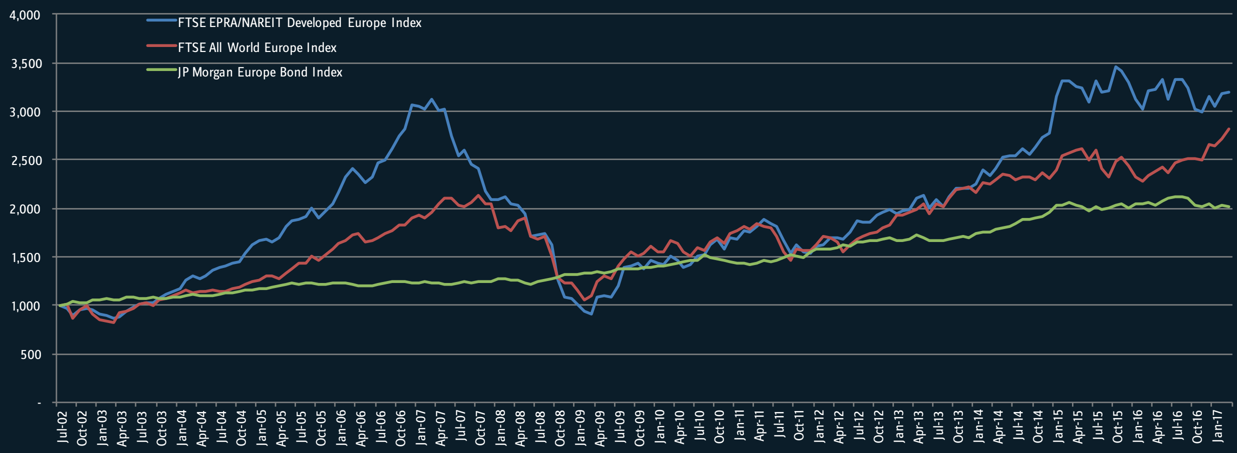
Conclusions

There is evidence that economies of scale exist for European real estate companies. Companies can reduce costs and deliver higher returns as their assets increase. This raises the question of how companies can grow bigger and get the benefit of economies of scale. We show that mergers and acquisitions do not generate synergies or efficiencies from scale (leveraged buyouts actually dampen company performance and deliver lower returns) suggesting that the benefits from economies of scale come from internal growth.

Nick Mansley
University of Cambridge
Nick Mansley is the Executive Director of the Cambridge Real Estate Research Centre, within the Department of Land Economy at the University of Cambridge. Nick also holds several other positions. He is Chief Executive of Cambridge Research and Investment Consultants, a Member of the Urban Land Institute Executive Committee, and the Chair of the Lord Chancellor's Strategic Investment Board (within the Ministry of Justice).

INDEX FOCUS

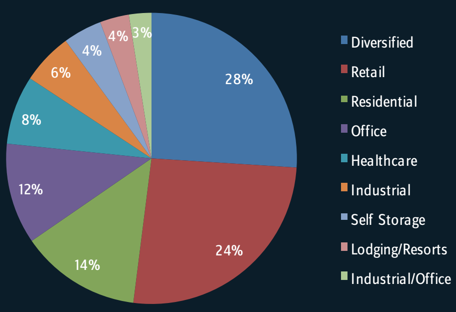
Comparison of Asset Classes



Value snapshot (March 2017)

Developed Europe	Latest (monthly)	Year to date	1-year	10-year (long-run)
Total return (%)	0.35%	1.4%	-0.6%	0.2%
Premium/Discount to NAV (%)	-7.3%	-8.4%	-5.0%	-11.0%
Loan-to-Value (%) *	37.7%	-	38.0%	42.1%
Dividend yield (%)	3.5%	-	3.4%	4.2%

Global Sector Breakdown



Top 10 European Performers (March 2017)

FTSE EPRA/NAREIT Global Index

Stock name	Country	REIT Status	Sector	Investment Focus	Price Return Mar - 17	Dividend Yield Mar - 17	Total Return Mar - 17
CA Immobilien Anlagen AG	OEST	Non REIT	Rental	Office	11.32%	0.00%	11.32%
Immobiliare Grande Distribuzione SIIQ SpA	ITA	REIT	Rental	Retail	10.81%	0.00%	10.81%
Hispania Activos Inmobiliarios, S.A	SP	Non REIT	Rental	Diversified	9.82%	0.00%	9.82%
Gecina	FRA	REIT	Rental	Diversified	5.91%	2.16%	8.07%
Irish Residential Properties REIT Plc	IE	REIT	Rental	Residential	3.33%	4.08%	7.41%
Vastned Retail NV	NETH	REIT	Rental	Retail	5.51%	0.00%	5.51%
F&C Commercial Property Trust	UK	Non REIT	Rental	Diversified	4.18%	0.36%	4.54%
WCM Beteiligungs- und Grundbesitz-AG	DE	Non REIT	Rental	Diversified	4.44%	0.00%	4.44%
Allreal Holding AG	SWIT	Non REIT	Non-Rental	Office	4.27%	0.00%	4.27%
LondonMetric Property Plc	UK	REIT	Rental	Diversified	3.10%	1.16%	4.26%

EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Head Office
Square de Meeus 23,
9th Floor,
B-1000 Brussels,
Belgium
T +32 (0)2739 1010

UK Office
Berkeley Square House,
Berkeley Square, London,
W1J 6BD,
United Kingdom
T +44 (0)7973 109117

EPRA Hong Kong Ltd
Suite 2207-09, Tower II,
Lippo Centre,
89 Queensway,
Admiralty, Hong Kong
T +852 2530 8170

Find more information on www.epra.com and follow us on
Twitter @EPRA_realestate
and other social media