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EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Industry Newsletter

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Interview with Grainger CEO

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Welcome to our newest members

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'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

Update from Dominique Moerenhout

In the recent months, we have seen a growing number of new companies with an alternative business model springing up and entering the property market. In retail, office and even residential sector, it translates itself in a more flexible customer-offering to reflect the 'gig' economy. This development forces us to re-think every aspect of our industry and the market leaders of tomorrow will be those that have successfully taken up the challenge.

A consistent theme of EPRA's Industry Newsletter is how the break-neck pace of technological change is fundamentally reshaping the way we use real estate. Each edition of our publication focuses on the challenges and opportunities facing specific sectors, drawing on our interviews with the CEOs of listed property companies. This month we examine how e-commerce is affecting retail real estate, a particularly hot topic when we consider what is occurring across the Atlantic.

At EPRA we embrace innovation and competition, however unsettling it may be. That is why we have made dealing with uncertainty and change the centrepiece of our Annual Conference in September. We have an exciting line-up of speakers, who will challenge the way that we think about the real estate by exploring the economic, social, political and technological changes that are affecting our industry.

As a forward-thinking organisation EPRA must also build on its successes in anchoring listed property on the investment landscape and use this momentum to take the sector to the next level. We believe that Europe's listed real estate sector is entering a new era of growth and the industry is well-placed to respond to the social and economic challenges of our time. To embody this dynamic, we are giving EPRA a new look and feel – from the logo to a more user-friendly website. I welcome any feedback on our new branding. ●

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In this issue

Grainger CEO Helen Gordon sees service as foundation to prospects of UK's burgeoning private rented residential sector

Few listed property company CEOs field calls or e–mails from their tenants, particularly at weekends. After all, complaints and problems are typically dealt with by third party managers of the properties, aren't they? Helen Gordon doesn't see it that way.

Grainger's customer facing business model

"My mobile is never off and I put my number out there," says the Chief Executive of Grainger, the UK's largest listed residential property company which manages all its own assets. "People contact me on a Sunday morning or a Saturday afternoon and it's on the slightest detail. I get back to them always. If our tenants are upset about something going wrong in their home, you have to be responsive."

Gordon describes the operational side of managing Grainger's 8,600-unit portfolio as her "biggest area of focus" after restructuring the company founded in 1912 to concentrate on the burgeoning private rented sector (PRS) in the UK. Since her official start as CEO in January 2016, this has involved reassessing all the processes of the in-house teams – from maintenance and repairs, to development, leasing and customer operations. She appointed John Kenny as Chief Operating Officer and created a new role of customer operations director to improve the designs of Grainger's buildings.

The challenges of managing large numbers of residential properties and the reputational damage incurred when things go wrong are the main reasons why until recently most institutional investors avoided the UK's private rented sector (PRS). That has all changed, however, as key structural shifts alter the appeal of PRS, persuading institutional investors to return to it in their droves and allowed PRS REIT to raise GBP 250 million in an IPO in May.

"The UK PRS market has the potential to be a market of scale. It's our market and we know it well," she said, explaining her strategic plan, which involved the sale of Grainger's residential portfolio in Germany, assets in the Czech Republic and its UK home equity release business. "The new strategy is very much about giving our shareholders total returns from capital appreciation and income. The income side of residential has been ignored for quite a long time. It is very solid, very reliable and quite inflation-linked, so gives people a balance."

Grainger's PRS portfolio currently yields a net 5.25-5.5% annually and last year the company adopted a new dividend policy of distributing 50% of net rental income. That rate will most likely increase over time, Gordon says, as Grainger sells off its portfolio of more than 3,600 units on regulated tenancies -- mostly tenants from before 1988 who pay below-market rents. Selling the lower-yielding regulated tenancy portfolio properties once they become vacant currently generates about GBP 100 million a year and the proceeds will be reinvested as Grainger scales up its PRS portfolio, she said.

The PRS market's new appeal lies in the efforts of successive British governments to restructure the UK housing market. Currently only 150,000 new homes get built each year in the UK, about half of what is needed. Years of under-supply have fuelled house price inflation, putting home ownership beyond the means of many and lifting the number of renters. The latest statistics show that there were 4.5 million PRS households, or 20% of the UK housing market. PRS overtook social housing in 2011 after adding more than 1 million households since 2005 and doubling in size in the past decade. Most affected are younger people, with 46% of all 24- to 35-year-olds living in PRS properties.

Significant increases in property sales tax, or stamp duty, have made it harder for buyers to ascend the traditional home ownership property ladder, since each time they trade up, they must sacrifice a larger proportion of their home equity. This means people are deferring home purchases, while Gordon says attitudes towards renting have changed as the younger generation no longer regard it as second-best and prefer the flexibility it offers to relocate as their careers evolve. Tax changes and increased regulation have also fundamentally altered the economics of PRS for individual landlords, who filled the void and prospered during the past three decades as institutions drifted away from the sector. The loss of income tax breaks on mortgage interest payments and a 3-point higher stamp duty levied on rental property purchases have made PRS a significantly less attractive investment for "buy-to-let" investors who previously flocked to the sector.

The Grainger CEO expects tax changes and greater demands from regulation to reduce the competition from landlords with fewer than 10 properties, who currently own 98% of the UK's PRS housing stock. She says this highlights the importance landlords having quality management capabilities in a sector that PwC projects will add 1.8 million more households by 2025.

"There are a lot of new entrants and I welcome that because it will increase the professionalisation of the sector," she said. "There are some who are going to find it challenging because of their business-to-business backgrounds. PRS is a business-to-consumer relationship that Grainger has been involved in for more than a century, but that's quite a structural shift for a lot of other people to take on."

Gordon says she looks to the US multi-family sector for lessons on how to improve her company's performance. She explains that the American service-oriented model is more akin to the UK's nascent PRS market than the long-established and substantial German market, where tenants are more independent and there is a heterogeneous mix of quality in the housing stock.

Improved customer service and efforts to build communities in apartment blocks "create an environment where people want to stay for longer because they have friends in the block. Then we don't have the churn, the voids and we don't have to keep redecorating when people move on," she explains.

While newcomers to PRS in the UK may outsource property management, Grainger's in-house capabilities make it better placed to manage reputational risks, Gordon said. It has also taken a similar route to scaling up its PRS portfolio through development, a key issue for PRS in the UK. Grainger has invested GBP 462 million of the GBP 850 million in its investment programme through development or forward funded projects. Almost another

Finzels Reach in Bristol, a build to rent project Grainger is currently delivering

Grainger's newest PRS buildings, The Hortensia in Kensington and Chelsea, London

GBP 400 million of developments and projects are earmarked or pending finalisation, she said.

Grainger has gone down the development route because most of the income-generating stock available on the market was designed and built for sale, rather than for renting. Purpose-built rental blocks with larger common parts and units with equal-sized bedrooms to allow renters to share make more business sense in the longer run, Gordon says.

"A lot of the design is about longevity – how durable it's going to be because the gross rent to the net rent on residential is one of the key drivers of successful returns to shareholders," she said, adding that the gross yield on Grainger's PRS portfolio is 6.5%-7%.

While there is a housing shortage affecting most parts of the UK, Grainger is targeting those urban locations with a higher proportion of 25 to 35-year-old professionals, often in university towns with teaching hospitals and a solid underlying business community. Investments to date have been in London, Bristol, Manchester, Birmingham and Leeds, all of which offer prospects of sustainable rental growth, the Grainger CEO said.

As PRS in the UK gets more competitive, Grainger's century-old track record in the residential sector and established network give it an advantage in sourcing investment opportunities. Gordon says the company's long-term approach to investment also means that it can forge partnerships with local authorities, such as the seven site, rent-sharing deal that it has with London's Royal Borough of Kensington & Chelsea.

"I expect Grainger to remain the largest listed residential landlord in the UK and, over time, has the potential to be the UK's largest residential landlord," Gordon said. "That's a result of the belief in the investment potential and the strong tailwinds that are changing the sector. I think we're in a pretty good place and all the foundations are there for us to achieve that." ●

HELEN GORDON

Grainger appointed Helen Gordon as Chief Executive in January 2016. She joined from RBS, where since October 2011 she was Global Head of Real Estate Asset Management. Prior she was Director of Legal and General Property, responsible for the Main Life Fund and a number of smaller Funds; Group Property Director of Railtrack and Managing Director of John Laing Developments.

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2017 HALF-YEAR RESULTS

€42.5 billion
Property portfolio

€6.16
+6.0%
Recurring earnings per share

33%
Loan-To-Value

€8.1 billion
Development pipeline

71 Shopping centres

"During the first half of 2017, Unibail-Rodamco's dedicated and hardworking teams delivered a solid performance across all businesses and grew the recurring EPS by +6.0%, to €6.16. Retail NRI increased by +4.1% (+3.4% on a like-for-like basis). The Group's tenant sales were up by +2.7% through May 2017, outperforming the aggregate national sales indices by +148 bps. Like-for-like NRI of the Offices division grew by +7.8%, supported by strong leasing performance in France, notably on Capital 8. The Group achieved an average cost of debt of 1.4%, a new record low. As part of Unibail-Rodamco's "Better Places 2030" CSR programme, the Group raised Europe's first green credit facility (€650 Mn). The Group confirms its outlook of between €11.80 and €12.00 per share for 2017."

Christophe Cuvillier,
CEO and Chairman of the Management Board

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Clicks n' bricks. How retail is changing

Recently appointed CEO of Klépierre Jean-Marc Jestin says innovation is how shopping centres will stand out in rapidly changing retail environment.

Porta di Roma, the largest shopping mall in Italy

© Photo by Alfred Cromback, Picturetank

The US news flow is bad concerning retail real estate. Is it a worry for Europe?

"I do not want to comment too much on a market which is not ours. You have over-supply – they have more than 1,500 square metres of retail for every 1,000 people, whereas in Europe we have an average of 250 square metres per 1,000 inhabitants. When you go to the US you can see the way cities have evolved, with many malls in the suburbs, and yet people are now moving back to city centres. Most malls are anchored by two, three or four department stores, which are going through severe difficulties all over the world from the fierce competition from fashion retailers.

In Europe, we do not have department stores as anchor tenants, we have hypermarkets and food retailers, which are a big draw to shopping centres. In the US, they are bringing back grocery stores into the malls. In Europe, we have greater population density in cities, where most of our shopping centres are located. This makes them better connected and more accessible. Finally, there are more retailers in Europe with good credit ratings, so we have not had so many bankruptcies. Which does not mean that we do not have our own challenges."

Such as?

"In Europe, we have high streets – something that almost does not exist in the US or Asia. Our challenge is to make shopping centres different venues for retail by being more customer-centric and doing more events. I am very positive about the future of shopping centres, but not all of them."

How do you see online retailing evolving?

"E-commerce is going to continue to grow, for sure. Its share of retailing in China is 17%, 10% in the US, 7% in France, 4% in Italy, 3% in Spain and in the UK, it is around 15%. This share is probably going to rise to 20% or 30%. All segments of retailing will be impacted. We thought fashion would be protected, but Amazon is now selling more garments in the US today than Macy's, formerly number one in fashion sales. But let us not be scared;

we and retailers see e-commerce as an opportunity to make stores different. Nobody sees online and offline retailing as opposites today. They are complementary. The best performing stores for retailers today are those where sales are in the store and where click-and-collect is also progressing well."

How do bricks and mortar stores hold their own?

"Physical stores are where the shopping experience takes place, where non-convenience services take place and where you have an opportunity to create a special relationship with customers. This depends on retailers investing in their stores. If they don't, the machine stops. To make the store come back, the challenge is to make it lively and experiential. Zara has changed its store concepts twice in the last five years, while Bershka has changed three times in the last six years, so it's a constant improvement. Sephora has just opened its new concept store in Val d'Europe with its latest digital innovations. These are the conditions that create footfall traffic."

How are retailers responding?

"First, retailers are rationalising their real estate. They are closing some stores to reinvest in the expansion of other units where they can showcase the full array of their products. Our objective is to create the conditions so that this transformation of physical retail happens in our malls. When I look at Klépierre's positioning, I realise that it allows us to attract the best retailers in their segments, namely those who know what to do and have the means to take up the challenge. The next challenge for retailers is to develop an online platform to be more efficient for logistics and marketing purposes. It requires massive investment in IT and logistics. Lastly, retailers must transform their supply chain to reduce the time from conception to delivering goods to the customer. This allows them to reduce costly inventories, increase margins and even to cut their prices to make them more competitive."

How must the shopping centre concept change?

"Everything is about creating a difference. The shopping centre is a market place and we need to stick to that. Looking back, fashion pushed everybody out of the malls. Our tenant mix today is 45% fashion, mainly for women. In every city, we need to find the sense and identity of where we operate by finding local retailers, food and restaurants, sport activities, working places for small business or start-ups. The trick is also finding ways to transform a visit to the mall into a fun, surprising and memorable experiment. That comes down to creating distinctive events and animations at the malls not only twice or three times a year but every week. It requires improvement in the customer path and to be obsessed with client satisfaction."

La Gavia shopping center in Madrid

© Photo by Alfred Cromback, Picturetank

Thank you to our Conference Sponsors!

Special thank you to the members of the Conference Committee for their ongoing support: Dirk Anbeek (Wereldhave), Rolf Buch (Vonovia), Olivier Elamine (alstria Office REIT), Helen Gordon (Grainger), Marcel Kokeel (Citycon), Timothy Leckie (JP Morgan), Alex Moss (Consilia Capital), Robert Noel (Landsec), Simon Robson Brown (CBRE Clarion).

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What is Klépierre doing specifically?

"We have launched operational initiatives in leasing, marketing, maintenance and mall design which form a holistic approach to retail real estate. As for capital allocation, we focus on shopping centres in the biggest cities of Europe. We have chosen to be in the premier league of shopping centres and we are almost everywhere in continental Europe. We will continue to invest in the portfolio. There are few acquisition opportunities and they are more and more expensive. This is why we are pushing more on extending our malls, provided that it is profitable. Another major topic is our focus on people. Our team will have to be more agile, more connected and more diverse. We need to create a new way of working and to innovate in the way we address our business to create more value for the company and for our shareholders. For that purpose, we have created an open innovation platform to foster creativity." •

JEAN-MARC JESTIN

Klépierre appointed Jean-Marc Jestin as Chief Executive in November 2016. Four years earlier he had joined as Chief Operating Officer from Unibail-Rodamco, where he was Deputy Chief Investment Officer in its International team. From 1999 to 2007 he was Chief Financial Officer and Chief Operating Officer of Simon Ivanhoe's pan-European platform. He began his career in real estate in 1991 at Arthur Andersen.

Sephora focuses on 'wow effect' stores, services and a daily conversation with a loyal customer base to compete in beauty products retailing

Sephora, the beauty products retailer owned by French luxury goods group LVMH, says it is embracing retail's new reality and the cornerstone to its strategy is real estate. Lots of it.

Sephora opened more than 100 stores last year, taking its global footprint to more than 2,300 outlets in 32 countries. Its development plans will continue this expansion since the company has doubled its sales globally in the past five years, says Stephan Borchert, Sephora's President for Europe & Middle East.

"Our conviction is that retail stores will never die," he said. "We are working on the key elements that differentiate us. Services are the one big thing for us. Everything we do is to facilitate web traffic coming to the stores so that it has a positive impact on sales growth."

It's clearly a winning strategy. Profits from recurring operations at LVMH's perfumes and cosmetics division, which includes Sephora, grew by 5%. The group only discloses publicly that Sephora grew its sales and profits at a double-digit rate last year and that it continued to increase its market share across the world.

Competition in beauty products, cosmetics and personal care items is fierce in Europe, with discounting price wars on products as incumbents, new entrants and online operators jostle for market share.

"We like this competition because it forces us to think, renew and kills complacency," he remarked. "The key challenge for us as a retailer is how do we personalise our customer relations better. Retail is moving from 'what can I buy from you?' to 'what can I achieve with you?' Retailing now is way beyond the simple transaction. It's about how we become part of every day in the customer's life."

The first plank of Sephora's strategy is to create a "wow factor" with its stores and constantly improve them, he said. Sephora is experimenting with store furniture on wheels, for example, so that it can be moved around on a daily or weekly basis. The newest store concept opened at Klépierre's Val d'Europe shopping centre on the eastern outskirts of Paris and is already performing ahead of budget projections. It is proving so successful that Sephora plans to roll out the concept in 70 stores next year, he said.

The key to success is not only about bricks and mortar, he said, it is also about people. Sephora employs about 35,000 in its stores worldwide and they are critical in attracting customers and growing the business, he said, since shoppers want an experience that they cannot obtain from online purchases. The trick is making the experience commercially viable, he noted.

Sephora is looking to dedicate about 15% of the space in its stores as beauty hubs, where customers can have a make-over and experiment with new products. The company has its own make-up artist school where it trains about a hundred staff each year, who can then go on to provide classes or personalised sessions in store. New products, tips and techniques are posted on social media to more than 20 million Instagram and Facebook followers of the Sephora feeds, while some of its beauty advisers have become like "rock stars" on YouTube, Borchert said.

Visitors to its stores can book make-overs, take pictures of these looks to create their own individual beauty book dashboard, which they can share with their friends on social media or the broader Sephora digital community. An in-store kiosk handles click-and-collect orders and advises shoppers on the broader range of products that may not all be available in the store.

However, "the shopper journey doesn't end with a purchase," Borchert said. "We are competing every day within the digital ecosystem of our consumers – the Facebooks, the Instagrams, everything, – so we try to find ways of being part of their lives every second. It's a 360-degree integration of digital and physical communities. Omni-channel is not e-commerce and/or in-store, it's an ensemble of those."

Sephora is investing heavily in new approaches to cultivate this "ecosystem" using CRM systems, community tools and social media to establish a daily interaction with its customers, whose engagement will be incentivised with personal beauty profiles and invitations.

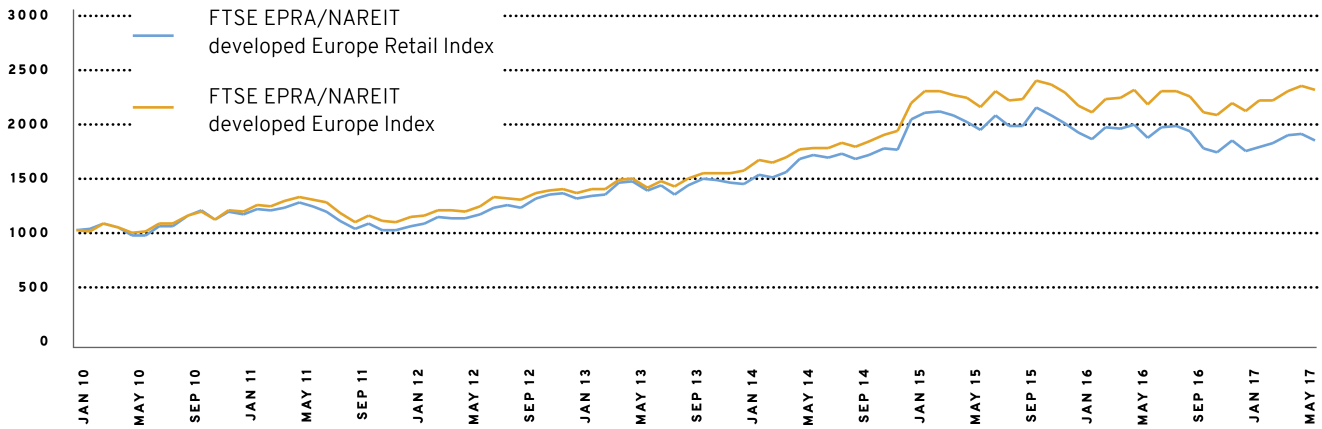
"The future of retailing is very bright," he said. "The life cycle of products, brands and concepts is shorter and, unfortunately, the investment curve is higher. This means the entrepreneurial risk-taking and daring is becoming more and more important.

"We are committed to stores and not reducing our investment in retail, so we are looking for strong partnerships with landlords worldwide. For us, this partnership is about really understanding retail and the way that we want to go. It's about creating vibrant and community entertainment concepts, attracting customer segments that are relevant to us and actively supporting innovative event management and store design. Finally, it's about valuing the investment that Sephora is making into the stores – because it's a really big deal for us." •

STEPHAN BORCHERT
joined Sephora as President of Europe & Middle East in February 2015 following three years as a member of the executive management board of Celesio AG. Previously, he was General Manager of Douglas Parfümerie International and held various senior roles at Red Earth, Roland Berger Strategy Consultants and PM Organization.

Retail sector snapshot

Comparison of asset classes

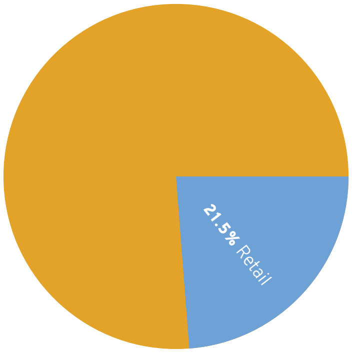


Value snapshot (June 2017)

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

DEVELOPED EUROPE	(LATEST) MONTHLY	YEAR TO DATE	1 YEAR	(LONG RUN) 10 YEAR
Total Return (%)	-3.29%	-0.63%	-1.56%	9.96%
Premium/Discount to NAV (%)	-6.49%	-6.39%	-4.35%	2.59%
Loan-to-Value (%)*	35.57%	-	36.29%	40.32%
Dividend yield (%)	4.52%	-	4.13%	5.31%

FTSE EPRA/NAREIT Developed Index Retail Sector share



FTSE EPRA/NAREIT Retail Sector

STOCK	COUNTRY	INVESTMENT FOCUS	PRICE RETURN JUNE-17	DIVIDEND YIELD JUNE-17	TOTAL RETURN JUNE-17
Unibail Rodamco	NETH	Rental	-3.92%	0.00%	-3.92%
Klepierre SA	FRA	Rental	-3.48%	0.00%	-3.48%
Hammerson Plc	UK	Rental	-1.88%	0.00%	-1.88%
INTU Properties Plc	UK	Rental	-1.07%	0.00%	-1.07%
Capital & Counties Properties PLC	UK	Rental	-6.87%	0.00%	-6.87%
Wereldhave NV	NETH	Rental	0.08%	0.00%	0.08%
Deutsche EuroShop AG	GER	Rental	-6.96%	3.77%	-3.19%
Eurocommercial Properties NV	NETH	Rental	-5.57%	1.50%	1.10%
NewRiver REIT plc	UK	Rental	-0.40%	0.00%	-0.40%
Citycon Oyj	FIN	Rental	2.59%	0.00%	2.59%
Mercialys	FRA	Rental	-1.66%	0.00%	-1.66%
Vastned Retail NV	NETH	Rental	3.99%	0.00%	3.99%
Retail Estates	BELG	Rental	-0.27%	0.00%	-0.27%
Capital & Regional Plc	UK	Rental	-3.02%	0.00%	-3.02%
Immobiliare Grande Distribuzione SIIQ SpA	ITA	Rental	-6.83%	0.00%	-6.83%
Wereldhave Belgium	BELG	Rental	0.25%	0.00%	0.25%

Reforming Solvency II for insurers could trigger 'Big Bang' for European listed real estate and lead to surge in investment capital flows

A reduction in the risk capital weighting of listed real estate to the level of direct property investments under Solvency II regulations could result, over time, in a sharp increase in investment flows to the industry from insurers, the largest pool of institutional capital in Europe, EPRA and major investors say.

"One of the biggest obstacle to European institutional investors investing in listed real estate companies is the heavy capital weightings attributed to them under Solvency II. EPRA is strongly petitioning the European Commission to cut this weight from around the industry's neck under the mid-term review of the Capital Markets Union, which includes the regulations," EPRA CEO Dominique Moerenhout said.

He added that there is no market risk, or research justification, for this burden on EPRA's members. Solvency II deprives investors of a key source of quality assets and management, liquidity and transparency, in their real estate portfolios. The regulations also reduce investment in Europe's urban landscape, divert pensioners from a major stable source of retirement income from dividends, restrict job creation, and have been a drag on the growth of EU-listed companies relative to their peers in the U.S. and Asia.

Solvency II became fully applicable at the start of 2016 and requires insurers to weight 'riskier' investment assets classes more heavily in the capital levels they are obliged to maintain for regulatory purposes. Listed real estate is categorised with the general equities asset class under the rules and therefore attracts the same capital weighting of 39%, compared with only 25% for direct property investments, due to the perceived greater volatility, or risk, of stocks compared with bricks and mortar.

Numerous academic owever, However-studies have demonstrated, however, that listed real estate's performance increasingly convergences with that of the underlying direct property after only about 18 months. In the latest and most definitive study earlier this year, MSCI provided the final piece in the jigsaw when researchers Bert Teuben and Ian Cullen examined how the performance of the properties held by 19 European listed real estate firms related to the stocks of these companies over time. Previous studies have looked at the correlation between assets and fund vehicles and equity indices, but this is the first time a large sample of listed company portfolios have been assessed in-depth.

The MSCI research study was sponsored by EPRA and concluded: "There are strong correlations across asset, vehicle and security, particularly over three- and five-year periods, suggesting that long-term investors may be able to use listed real estate companies as components of their overall real estate portfolio strategies."

Europe's EUR 10 trillion insurance investment industry is the largest single pool of institutional capital in the EU – the reverse of the situation in the U.S. where pension funds dominate – but it has very limited exposure to listed real estate. This could stem from a range of reasons, including the tax treatment of equity dividends for life and health insurers in European states, but analysts were agreed that Solvency II has played an important role in the sector's se-

vere underweighting of property stocks compared with other forms of real estate investment.

"My twenty-something years of experience in the capital markets screams at me that if the risk charge goes down on REITs then it could unlock hundreds of billions of euros in capital from the insurance industry. Even a fraction of that would be extremely positive for listed real estate in Europe," said Mark Abramson, Director of the European REIT investment business at Heitman and a member of EPRA's Taxation and Regulatory Committee.

Abramson added that insurance capital would tend to have a lower return requirement than other investors currently active in the listed real estate sector. This suggests that under a revised Solvency II regime with a much lower capital charge, REITs could raise IPO and follow-on capital far more cheaply, resulting in more new companies entering the market and existing businesses growing more rapidly.

"European REITs could afford to run a less risky business model that wouldn't need to chase development returns so aggressively by turning on the development pipeline prematurely. The REIT model would be all about inflation-protected cash-flow, with perhaps some incremental redevelopment included, and the volatility of their shares would go down in a virtuous circle for both the companies and their investors," he said.

Abramson said he believed the public policy objectives of creating REITs – first in the United States in 1960 – had become obscured over time:

"In the early post-war era there weren't enough income-orientated, asset-backed securities for the typical U.S. household saver to utilise. There weren't the bond funds or ETFs we see today and the only options for the average private sector investor or small institution were equities or saving deposit accounts. REITs could level the playing field between large private equity real estate investors with advantageous tax structures and the man on the street."

He added that an analogous situation to the U.S. of the 1950s and the Europe of 2017 was the relative attractiveness of open-ended property funds to investors compared with REITs. For example, French OPCI property open-ended funds have been attracting over EUR 30 billion in retail capital flows annually in recent years, compared with capital raises of about EUR 2.0 billion for French SIICs (REITs). The same picture is repeated for German, UK and Italian open-ended funds, where capital flows dominate the listed sectors.

"Somehow the securitisation of real estate through the REIT market got lost in Solvency II, whereas other investment forms of property are recognised as a unique asset class. But we now have a lot of market factors converging in Europe that could lead to a 'Big Bang' in the listed sector comparable to the exponential growth we witnessed in U.S. REITs in the 1990s," Abramson said:

- Solvency II capital weightings could be significantly revised under the EU's CMU initiative.
- Real estate is likely to be more attractive in a higher inflation environment targeted by central banks as they attempt to 'normalise' global interest rates.
- Listed companies will be in the sights of more generalist investors since the Global Industry Classification Standard (GICS) reclassification as a separate equities investment sector last year.
- The move to defined contribution (DC) from defined benefit (DB) pension schemes in Europe, could be expected to boost demand for listed as an easy liquid real estate 'default option' for higher income-orientated securities on DC retail investor checklists.

The insurer investor perspective

MEAG is the asset management arm of global reinsurance giant Munich Re and the investor is very rare among German insurers in having a sizeable allocation towards REITs of over EUR 500 million, in its roughly EUR 11 billion total real estate portfolio.

Stefan Krausch, who heads MEAG's real estate portfolio management, said Solvency II's high capital charge is an important factor in the low exposure of insurers towards listed property, but it was too simplistic to say allocations would soar if the charge were to be slashed. Other factors, such as the varying local tax treatment of dividends for different types of insurance companies in international markets and a lack of industry understanding on the positive attributes of real estate stocks are also impediments to investment.

"We're not going to arrive in REIT paradise tomorrow if the Solvency II charge is cut, but it could have a very positive effect as the insurance industry is looking for new investment opportunities. The industry is having a tough time in general covering its liabilities due to the low yield environment in bond markets. The listed real estate sector has arguably some of the best properties and most qualified managements, so it is a very interesting and positive investment story and it would make sense to open up the space for insurers and let them capitalise on its advantages," Krausch said.

MEAG has achieved handsome returns from its REIT investments with these holdings outperforming the three-year (2014-2016) average total return on the rest of the real estate portfolio by at least 300 basis points for its actively-managed mandates, albeit with significant volatility over time.

"The European listed real estate sector has to market itself. It's not just about education, but also the willingness of people to be educated. Other insurance companies are starting to see the point, however, and asking how to go about investing in REITs. This is the first time that it's really happening and it's why Dominique Moerenhout and I are engaging with the Association of German Insurers," Krausch said.

EPRA response to the European Commission's CMU Action Plan mid-term review highlighted the way Solvency II regulations unduly restrict the ability of insurers to gain an appropriate level of exposure to listed real estate. The association said the regulations excessively encourage short-term investment behaviour for what should be long-term strategic investments in the built environment of Europe's cities.

"The European Commission has an opportunity in its review of Solvency II rules to sharply reduce a major impediment to the flow of institutional investment capital into the strategically important listed real estate industry. It is precisely this type of barrier to investments and the free movement of capital in the European single market that the Capital Markets Union was established to eliminate," Tobias Steinmann, EPRA Director Public Affairs, concluded. •

AMP capital looks to the North and South of Europe for the best returns in the continent's real estate markets

The Nordic region and Southern Europe, chiefly Spain, currently offer the most attractive returns in the continent's markets, said James Maydew, Head of Global Listed Real Estate at AMP Capital, the Sydney-headquartered manager of AUD 6.5 billion (EUR 4.3 billion) of property securities.

"The fundamentals in the Nordics are phenomenal and they are delivering some of the strongest results globally that you can get exposure to," said Maydew, speaking in a video conference interview from Hong Kong. "Southern Europe was so beaten up for such a long period of time. Supply completely dried up in Spain for an extended period. It's in an early cycle recovery - what we have seen in other parts of the world five or so years earlier. It's still very much yet to play out. We've seen that coming through in results, which have been reasonably strong."

The two regions are the bright spots in terms of rising rents, occupancy and higher capital values as economic growth gathers momentum across Europe, supported by historically low interest rates. With an investment strategy honed since 2002 that assesses listed companies in a global rather than regional or national context, Europe generally gets a neutral rating from AMP in its search for property stocks offering the best risk-adjusted returns.

Certain sectors or submarkets within the main "core" Western European markets – France, Germany and the UK – also interest the manager of listed real estate funds, whose client base comes predominantly from the Asia Pacific region. Maydew said that what AMP finds attractive in the core markets are listed companies with a focus on logistics warehousing in supply-constrained markets like the UK, or certain locations of Germany, as well as specialists in 'alternative' real estate outside the industrial-office-retail sectors.

AMP cut its "massive overweight" allocation to the UK in late 2015, when it became clear that the property market was at or near its peak, Maydew said. The investment house is sceptical about the outlook for French REITs with exposure to the Paris office market, which faces over-supply issues and is unlikely to benefit substantially from any relocations of large corporate tenants out of London following the UK's decision to leave the European Union.

Germany is certainly of interest, although its listed property market is too shallow in its range of sectors outside the attractive residential sector, he said.

"If here were more opportunities in the office markets, we would be interested," he commented. "Part of the logistics markets there are strong, but you can't own a core logistics exposure in the markets that we want, so we have to do it through a more convoluted fashion."

AMP's global approach allows it to gain exposure to sectors like logistics warehousing or data centres in Europe through the shares of companies headquartered in the US or Australia, which have large portfolios of assets on the continent. The US market has led the way in developing a broad array of listed real estate companies operating in sectors like healthcare, data storage, self-storage and student housing, Maydew said.

"The 'alternative' real estate sectors are no longer alternatives," he explained. "In the US over the last 10 years these sectors have become an institutional product with world class capabilities in delivering strong risk-adjusted returns over a real estate cycle. The challenge is the limited number of ways of playing it in Europe," he observed.

The underperformance of US mall REIT shares, following a succession of weak department store earnings reports and store closures by major chains, highlights how online retailing is changing the way that consumers shop. This will have consequences for landlords in Europe, particularly in national markets where the penetration of online retailing is relatively low, while the continent also faces other challenges from an ageing population and urbanisation, he said.

"There's quite a few headwinds that concern us and we don't think that these have been priced in to the European market yet," Maydew said. "Broadly that's a bearish message about retail real estate in Europe, but you will have winners within that.

"We made a conscious decision that our portfolio should only own the true, highest quality retail assets in the world," he said, adding "The secular trends that are under way have got a long way to play out and you have to be in bricks and mortar that is truly different and will deliver productivity in sales to the underlying tenant."

His frank assessment of Europe extends to improvements in environmental, social and corporate governance, which underpins AMP's three-step investment process.

"It's not just lip service. We want management teams to change... there is more work to do in Europe," he said. "One of the biggest frustrations that we have is in alignment of interest. The number of times that I have sat opposite a CEO of a European company and asked them how they are aligned to the company that we're investing in, and the response is always very disappointing to me."

He added that this can be addressed in a relatively short time frame, pointing to how companies in Australia "have cleaned up their act since the Global Financial Crisis from being the poster-child of what you didn't want to be."

Looking ahead, Maydew expects investing in listed real estate will be less about buying markets or sectors and more about stock-picking and a "differentiated approach to portfolio construction."

In Europe, as concerns about political risk recede following the Dutch parliamentary and French presidential election results, attention is switching to how central banks will respond to inflation. Maydew doesn't expect interest rates to rise as high as average levels of a decade or more ago because of high household and government indebtedness. Europe's ageing population and the continued strong demand for higher-yielding assets will support investment in listed real estate in Europe, he predicts.

"The rubber will hit the road when we get through, perhaps the German elections (in September) or perhaps the first commentary from the European Central Bank that is hawkish. Then people will take a fresh look at listed real estate and say 'that's interesting. Where can I get good, long-term, risk-adjusted returns?'" •

JAMES MAYDEW
joined AMP Capital in 2006, starting in its shopping centres division before transferring to the firm's global listed real estate team one year later. He joined from Cushman & Wakefield, where he worked for four years in the capital transactions team in London. He is a fully accredited member of the Royal Institution of Chartered Surveyors.

Calling time on NAV, Europe needs to move to FFO as valuation bedrock

Ding ding. It's time. We're ringing the bell. It's time that we – the community of EPRA members and stakeholders – move away from NAV (net asset value) as our main valuation reference point. The time of FFO (funds from operations) and other cash flow-oriented metrics has arrived (if not overdue by years).

Our sector can be forgiven for instinctively reaching for NAV as the default. The REIT* sector has historically been an equity market afterthought, confined mostly to a handful of specialists and individual retail investors. For most of these investors, the preferred and more easily accessible way to invest in commercial real estate was through one of a variety of types of open-ended real estate funds, promoted by banks or other savings institutions. They were encouraged to believe they could redeem their investment in an open-ended fund at NAV at any time.

Despite the clear weaknesses of these investment models in most European markets the open-ended fund sector still dwarfs the listed real estate equities option by orders of magnitude in both size and annual net inflows. It is therefore natural for these investors, who dominate the register of shareholders of publicly traded real estate companies in most countries, to transpose this NAV mindset from open-ended funds to listed equities.

In the institutional investor world, those very few European insurance companies or pension funds that have dabbled in listed real estate, have tended to do so through highly concentrated "strategic" investments in one (or a handful of) companies. This enabled them to hold their position more efficiently under the relevant regulation at the 'look-through NAV' of their strategic stake, rather than the apparently more volatile share price. Within much larger institutional direct holdings or investments in closed end real estate funds, where quarterly or less frequent valuations are the norm, the obsession with NAV made sense.

IAS40, the international accounting standard for investment property, didn't help things. Since IAS40's introduction in Europe, most REITs have adopted the fair value appraisal approach to their investment property holdings, rather than historical cost. One of the problems with the reliance on appraisal values is that they often bear little resemblance to real world values at which assets could be sold. Annual studies by RICS, the main source of appraisal valuation methodology, consistently show that upwards of 40% or more of property transactions occur at prices 20% above (or below) the last appraisal value in some major European countries. With a confidence interval so wide (especially as compared to cash flow estimation), it argues for a big dose of caution in relying on appraisal NAV as a valuation reference.

The financing model for most real estate companies in Europe, may also play a contributing role. Compared with the U.S., where REITs have historically relied heavily on the bond and CMBS markets for funding, their European equivalents continue to be overwhelmingly users of bank financing. This matters insofar as bond investors tend to place more emphasis on credit ratios related to cash flow, like debt service coverage and debt/EBITDA, than they do on LTV prioritized in bank loan covenants.

During the global financial crisis, some European real estate companies were forced to the wall and had to conduct emergency equity capital raises because of technical breaches of LTV covenants, even in instances where their cash flows amply covered their interest payments.

But now we're in a new world, the global real estate industry has graduated with its own top level GICS (Global Industry Classification Standard) equities sector and is no longer the junior partner buried in the large and volatile 'Financials' basket of stocks.

The GICS classification change has played a part in the increasing number of generalist equity investors looking at listed real estate who are unversed in the nuances of industry jargon like single versus double, versus triple net NAV, or initial yields versus equivalent yields. Why should they care, as they're unlikely to receive the underlying NAV of a perpetual operating company's assets, unless it goes into liquidation.

REITs have been given preferential tax treatment because they are intended to be a class of liquid securities that distribute long-term stable and inflation-linked income to the investing public. Looking ahead to 2018, if we as an industry are very lucky, the largest pool of investment capital in Europe, held by the insurance industry, will finally be able to use diversified portfolios of REITs as part of their formal real estate allocation, something the current form of Solvency II capital weighting regulations preclude.

Given the technical requirements of Solvency II, it is likely there will be pressure from insurers on REIT managements to operate with even lower levels of leverage, although levels of LTV have come down substantially since the GFC. Under this scenario, REIT business model targets will have to evolve – away from total returns and more toward cash flow generation. •

MARK ABRAMSON *has been a manager of portfolios of publicly traded European real estate companies for over a decade. Over the prior decade he was a sell-side equity research analyst covering a variety of industry groups in Europe, North America and emerging markets.*

JONATHAN TYLER *works with a range of large and sophisticated public companies around issues with their investors and the capital markets. These include several property companies. He was originally a sell-side research analyst and then more recently corporate financier.*

**the term REIT is used here as shorthand and meant interchangeably to cover all corporate issuers focused primarily on owning real estate as investment property.*

Acting from strength

How advancements in capital raising could enhance shareholder value and grow Europe's listed real estate market

We have long advocated for a more progressive and flexible approach to offensive capital raising by European REITs—one that allows companies to approach value-creating opportunities from a position of strength. While there has been some progress, we continue to see instances where deeply discounted pre-emptive rights issues have disadvantaged REITs' cost of capital—ultimately hurting shareholders—prompting us to once again raise this important subject.

Raising capital more efficiently offers several potential benefits:

- Improved management discipline in capital allocation through increased focus on the cost of equity capital, which continues to be obscured by fully underwritten pre-emptive rights structures
- Higher valuations and lower stock price volatility for companies that use their greater flexibility
- Greater capacity to meet the financing needs of capital-intensive REITs, which are already constrained in pursuing external growth due to their requirement to distribute most of their recurring earnings
- Enhanced opportunities for external growth through better utilisation of listed REITs' cost-of-capital advantage over unlisted investors, including the ability to access capital at a premium to intrinsic value
- Increased securitisation of private real estate and a larger listed real estate universe, with more European companies accessing the public market

Furthermore, we believe the pre-emptive rights market structure—due to its broad application across many industries—could be a reason for excessive leverage in Europe. Such rights issues may also open the door for deals that have lower investor support and which could destroy shareholder value.

For these reasons, we believe continued reform in this area remains an imperative.

Getting off on the right foot

We distinguish deal structures in the following ways, ranked from most to least efficient:

1. **Primary accelerated book building (ABB)**
2. **Open offer with claw back structure (ABB with pre-emption rights)**
3. **At-market rights issue – without rights trading**
4. **Discounted rights issue – with or without rights trading**
5. **Fully underwritten deeply discounted rights issue – with rights trading**

Decisions about a deal structure—and therefore the discount—are often affected by local advisors, corporate governance and deal size. However, many advisors still seem to have difficulty applying a pan-European sector perspective: analysing real estate deals in different countries under comparable jurisdictions or governance rules.

Too often, we see investment banking teams compare a REIT's equity offering structure with recent transactions in their local market and a different sector, rather than comparing similar cross-border European real estate financings. In our view, the first step to improving capital raisings is taking a true pan-European real estate sector view of equity offering structures.

Making headway

Efforts to improve capital-raising efficiency have increased in recent years, and REIT investors have united their voice through the Investor Advisory Committee, helping to bring our case to the broader attention of investment bankers, companies and EPRA. Since our last publication on this topic in 2011, we have noted a number of positive advances.

Regulations are evolving to allow greater flexibility. Belgium made it possible to reduce the offering period of rights issues to three days, which has helped to produce above-average performance and below-average discounts during rights issues.

In the U.K., we have also seen a shortening of the offering period—and, importantly, a new EU prospectus regulation has been proposed that would allow a company to initiate a capital raise up to 20% of its market capitalisation without publishing a prospectus (from a maximum of 10% currently). This new proposal could increase flexibility and further reduce costs and time, which should benefit the companies and shareholders.

Germany and Austria have seen several at-market rights issues for offensive deals when it was expected that share prices would react favourably to the announced deals. Some of these transactions were completed in rather tough capital market conditions, and we applaud these deals initiated by companies such as Deutsche Wohnen AG and Buwog AG.

Leading management teams have generally grown more resistant to deeply discounted underwritten offensive rights issues, showing a stronger preference for ABBs, open offers with claw backs, or at-market rights issues—and being more mindful about the discount. When ABBs have not been an option, we have seen a shift to shorter-term structured equity raising deals, often a combination of open-offer and claw-back structures, with or without rights being traded, or at-market rights issues without rights being traded.

Also, for pre-emptive rights issues, we are seeing greater appreciation for the benefits of a tighter discount (to the theoretical ex-rights price, or TERP), such as a lower risk of value loss due to inefficient rights trading or of share-price declines (higher volatility) during the rights trading period. There is more awareness of how different choices will impact the cost of capital, which we see as a clear positive. Perhaps most significantly, when the offering's value creation potential is apparent to investors, there is no need to coerce participation with a large discount. By acting from a position of strength and maintaining capital discipline, the company/advisors signal confidence that the offering will create shareholder value.

What are the solutions?

While these advancements are cause for optimism, we believe much more needs to be done. Specifically, for offensive transactions that have the support of specialist investors, we would like to see better and more creative offering structures with lower costs (less underwriting), smaller discounts and more at-market rights issues for deals considered value-accretive.

Specialist investors and advisors are likely to play an important role in achieving these improvements, as they can reduce fees and backstop deals via underwriting. Even without underwriting, we would argue that wall-crossed investors and the syndicate should be able to strike a better balance between risk-return for pricing these offensive deals. With sufficient support from specialist investors, investment banks should be able to set the discount at a level that prices risk more efficiently, but still satisfies their internal risk committee.

Below are four actions that we believe would move the market in the right direction:

1. **Wall-cross more investors.** By bringing as many investors over the wall as legally possible, companies and the syndicate can gain greater comfort about the deal and build a shadow book to tighten the discount.
2. **Make selling an attractive deal (not pre-emption and underwriting) the main goal.** Companies should focus on protecting their cost of capital by pursuing a low discount. To this end, we believe the open offer with claw back structure allows companies to act out of strength, while giving existing shareholders the option to participate or even expand their holdings without the potential for loss of value from inefficient trading of deeply discounted rights. It still protects shareholders 'dilution,' but not at any cost.
3. **Consider an at-market rights issue or set the discount after the announcement.** A deal could theoretically be priced at market or at a later date based on investor demand.
4. **Set a wider discount range. This would be most applicable during unusually volatile market conditions.** Companies could use the wall-crossing period to gain input from specialist investors. If the feedback is positive and the deal has a high chance of being done, the discount could be set at the lower end of the range.

Why it matters: competing globally

The stakes of this agenda should not be underestimated, as Europe and the U.K. are competing for real estate capital flows not just within their borders, but in a global market.

Since the inception of the FTSE EPRA/NAREIT Developed Index in 1989, Europe's share of the market has been cut nearly in half, from 32% to 17%, while the U.S. has grown from 8% of the market to more than 53% today. Despite having similar-sized economies, the U.S. listed property market is now more than three times the size of Europe's. One key difference is that U.S. REITs use almost exclusively our most preferred route to raise capital via direct placements—ABBs.

We believe the Europe REIT market's relative disadvantage in raising capital has hindered its ability to attract additional capital flows and has contributed to its long-term underperformance versus global and U.S. indexes.

Conclusion: Better Growth Ahead

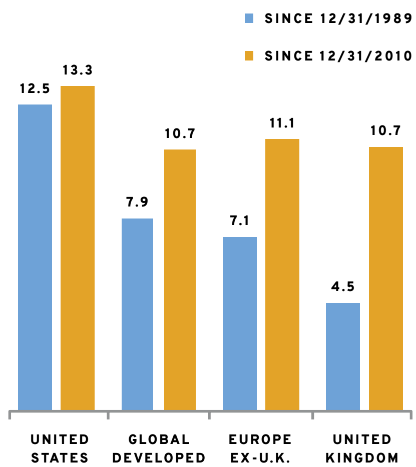
While there is still work to be done, we believe the market is clearly moving in the right direction. Since the global financial crisis, European and U.K. REITs have made significant progress on reforms. In addition to the increased attention on raising capital more efficiently, companies have reduced leverage, placed a greater focus on income, increased sector and regional specialisation and taken a more conservative approach toward development.

We believe these changes have been a material factor in the improved relative performance in recent years. As shown in the chart below, since 2010, Europe and U.K. REITs have performed in line with the global listed real estate market and have narrowed the gap with the U.S.

We are confident that increased awareness of raising growth capital in a more progressive and flexible way will help the European EPRA index continue to grow, building on the momentum from recent years. •

FTSE EPRA/NAREIT Index Annualised Total Returns

in EUR (%)



At May 31, 2017. Source: FTSE.

Data quoted represents past performance, which is no guarantee of future results. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

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It's been a bumper year for PropTech, but that's only part of the story

2017 is proving to be another extraordinary year for UK PropTech and all signs point to that continuing. Investment is at its highest ever and innovation is arriving at a breakneck speed. The effect that this is having on the property industry is profound, but it is only one small part of the digital transformation of the built environment, a movement in which PropTech remains dwarfed in comparison to the investment into, and uptake of, FinTech.

As predicted, 2017 saw investment into Asian and American PropTech plateau after a very busy couple of years. However, in its place, Europe, and in particular the UK, is soaring. In Q1 of 2017, the UK received more PropTech investment than anywhere else in the world despite Brexit.

Unsurprisingly, this has taken great effect on the wider property industry. The rules are changing and the parameters are shifting. It would take up my entire word count to list the various ways in which property is being disrupted, so let me just quickly mention a couple of the most important ones.

Perhaps the most talked about and most controversial disruption is coming from companies that are taking the agency role online. Now, while it's indisputable that this is throwing the role of the agent into very different surroundings, I'm not in agreement with those who believe it to be a fast track to dystopia; the death of the high street agent. Property is, and always will be, a face-to-face, handshake industry. The human element will never be fully replaced, but the job description will certainly change. I firmly believe that the benefits will far outweigh the drawbacks.

Another major influence has been that of Big Data. The insight and ability that Big Data gives us cannot be overstated. Innovation has enabled us to harvest, analyse and curate vast amounts of data instantly and automatically. We know everything about our properties, everything about our market and everything about our industry; which elements are performing well and which are dragging us down. We can also more accurately predict what is going to happen in the future. Decision making relies less and less on educated guesses. As a result, risk is diminishing and more opportunities are being spotted and grabbed.

This barely scrapes the surface of PropTech's influence, the list goes on and on, but I also think it's important to put things in perspective. For the purpose of demonstration, let's put it in the perspective of PropTech's closest and most symbiotic partner in the Digital Transformation, FinTech.

FinTech investment and uptake leaves PropTech in the shadows. You can see from the two graphs that although both industries have enjoyed bumper growth since 2012, FinTech is almost in a different league. Let's not forget though, FinTech is a far more established industry, as we can see from the 2012 figures, where FinTech received USD 1.9 billion compared to PropTech's USD 221 million. PropTech, still in its adolescence, has plenty of room to grow.

This is all important to note because PropTech is so greatly influenced by FinTech, and vice-versa. For the property industry to thrive, it is essential that a plethora of other industries also thrive. Look to the future, and this rule becomes even more essential.

The Future of PropTech

Bill Gates said it best:

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten..."

To that end, the next 2 years of PropTech are going to see a focus on process improvement. In other words, the lion's share of efforts will be put towards making the industry's work processes as efficient as possible. Examples of such areas are workflow management, property listing, marketing, brokerage and property management. In his recent report for The University of Oxford, PropTech 3.0, Professor Andrew Baum labelled this as Endogenous Tech; change coming from within the property community.

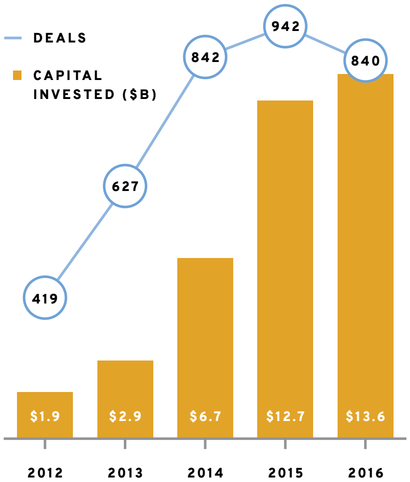
However, the 10-year picture sees the hand of disruption move to focus more heavily on Exogenous Tech. That is to say, tech coming from outside of the property industry. Examples of this are artificial reality, blockchain, virtual reality, robotics and autonomous vehicles. All of these industries and many more will start to force radical change in the property industry.

The physical infrastructure of the built environment will have to be overhauled to accommodate the shift. City planning will have to take into account a wild reduction in personal car ownership, property viewings will move online, changing working habits will require a radical rethink of the office environment, and a property's connectivity will become more valuable than its location.

Gates finished his favourite quote by saying, "Don't let yourself be lulled into inaction." For the next couple of years, we might get away with only looking inwards for advice on which direction

Global Analysis of Investment in Fintech

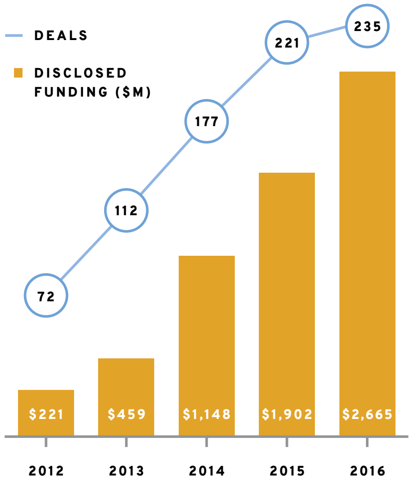
2012-2016



Source: KPMG (Data provided by PitchBook)

Real Estate Tech Global Financing History

2012-2016



Source: CB Insights

to move in, but we will very quickly learn that we need to be aware of what is happening outside, all around us; that is where the future of property is coming from. •

JAMES DEARSLEY

is a global commentator and keynote speaker on the subject of real estate technology and was recently voted the most influential person in PropTech by mortgage lending and investing marketplace, LendInvest. Having spent 15 years working in both UK and International property markets, James is the Co-Founder of PropTech Consult, a firm that specialises in helping global corporations and smaller, more localised startups, understand the digital transformation in the real estate sector.

Meet the EPRA Team

DOMINIQUE MOERENHOUT
CEO
Dominique is responsible for the day-to-day management and implementation of the strategic plan for EPRA's development. He also plays an active role in supporting current and prospective members.

ALI ZAIDI
Director Research & Indexes
Ali leads the team responsible for operating and maintaining the FTSE EPRA/NAREIT Global Real Estate Index. He is also in charge of EPRA's research output and liaises with the Research Committee members.

INNA MASLOVA
Analyst Research & Indexes
Inna is working on the EPRA Index and is responsible for preparing member-only monthly reports such as NAV and LTV bulletins. She is also coordinating academic research submissions and industry white papers, with a view to further promote the sector's benefits.

DAVID MORENO
Analyst Research & Indexes
David deals with all member and external queries related to the FTSE EPRA/NAREIT Index. He analyses the underlying data of EPRA market research and produces member-relevant reports. He also assists the team in the quarterly Index reviews.

HASSAN SABIR
Director of Finance
Hassan is leading EPRA's efforts to enhance listed property companies' levels of compliance with EPRA financial and sustainability Best Practices Recommendations. He is responsible for EPRA's Reporting & Accounting and Sustainability Committees. Working closely with our members and other listed real estate firms, Hassan developed an engagement programme to encourage and advise on the adoption of financial and sustainability BPR and to keep the guidelines up to date.

PANTELIS PROTOGEROS
Reporting & Accounting Officer
Pantelis' role is to support the efforts of the Reporting & Accounting team to further promote the financial Best Practices Recommendations. Following the initiation of the BPR copyright by EPRA, he is responsible for managing the project. Liaising with the Committee members, he also works in the accounting field and is engaged in advocacy with industry bodies such as the IASB and FASB.

GLORIA DUCI
ESG Officer
Gloria is dedicated full time to further improving EPRA's sustainability efforts and her main tasks are to research and collect company ESG data, provide support on EPRA sustainability Best Practices Recommendations initiatives and queries as well as monitor sustainability-related developments at EU level.

MATTHEW FLETCHER
Director Investor Outreach, UK & Nordics
Matthew is leading the investor outreach activities in the UK and Nordics from EPRA's London office and has frequent meetings with pension funds, insurance and asset management groups. Matthew is responsible for the Investor Outreach Committee and organises regular Capital Markets Days and one-on-one investor pitches for member companies.

TIM KESSELER
Investor Outreach Continental Europe
Tim is responsible for EPRA's investor outreach activities in continental Europe. His role is to explain the benefits of the listed property sector by holding one-on-one meetings and attending various industry events. Tim is focusing on generalist institutional investors and local industry associations to open access to their membership bases and convince them to consider raising their allocations to property stocks.

YURI ZHOU
Director Asia Pacific

Yuri is heading EPRA's Hong Kong Office and is responsible for its investor outreach activities in Mainland China, Hong Kong, Taiwan, South Korea, Singapore, Malaysia and Japan. With the aim to promot e the sector to institutional investors and high-net-worth individuals in the region, Yuri builds contacts with local investors, national regulators, media and partners in the region, organises Asia Week visits for CEOs of EPRA member companies, as well as holds regular seminars and networking events in major cities.

SISSI LI
Assistant

Sissi is an office assistant based in Hong Kong providing administrative support for Asia investor outreach activities, such as event preparation, office operation, and research support.

TOBIAS STEINMANN
Director Public Affairs

Tobias is steering EPRA's efforts to address the numerous legislative initiatives being developed in Brussels and the EU member states, and brings the large contribution the listed real estate sector makes to the European economy and its urban landscapes to the attention of EU policy makers. He is responsible for the Regulatory and Taxation Committees and liaises with its members to develop EPRA's public affairs strategy.

JANA BOUR
Policy Officer

Jana is supporting the public affairs department in its EU and national outreach efforts. Her legal background with a strong specialisation in European Law is an asset for the development of position papers and advocacy materials on EPRA's main priorities: the EU Capital Markets Union, Solvency II and EU taxation proposals.

KASIA JASIK-CAÍNZOS
Public Affairs Communications Advisor

Kasia's role is to continuously improve the way that the Association projects its brand externally and to enhance internal communication with the membership and associated organisations. She is also responsible for EPRA's Diversity Programme.

BARNEY COLEMAN
Head of Operations

Barney is overseeing the smooth work of EPRA's various departments and ensures that the budget is being respected and correctly allocated. He is the go-to person for membership queries and makes sure our members get access to all the benefits. He is also responsible for website development and IT maintenance.

ROXANA CABA
Events & Projects Officer

Roxana works on delivering an ambitious programme of successful events. She is responsible for preparing the Annual Conference and assists EPRA in organising its investor outreach efforts and enable its participation at industry events.

FIONA SCOTT
Office Manager

Fiona is responsible for keeping EPRA's accounts in order. She also acts as a de facto personal assistant to the CEO and deals with HR-related matters as well as office management administrative tasks.

SHAOHONG WU
Office Assistant

Shaohong takes care of issuing membership invoices, following up of membership payments and bookkeeping. She also assists the team with their travel arrangements, as well as taking care of the office supplies. •

10 strategic issues that European real estate companies cannot afford to ignore

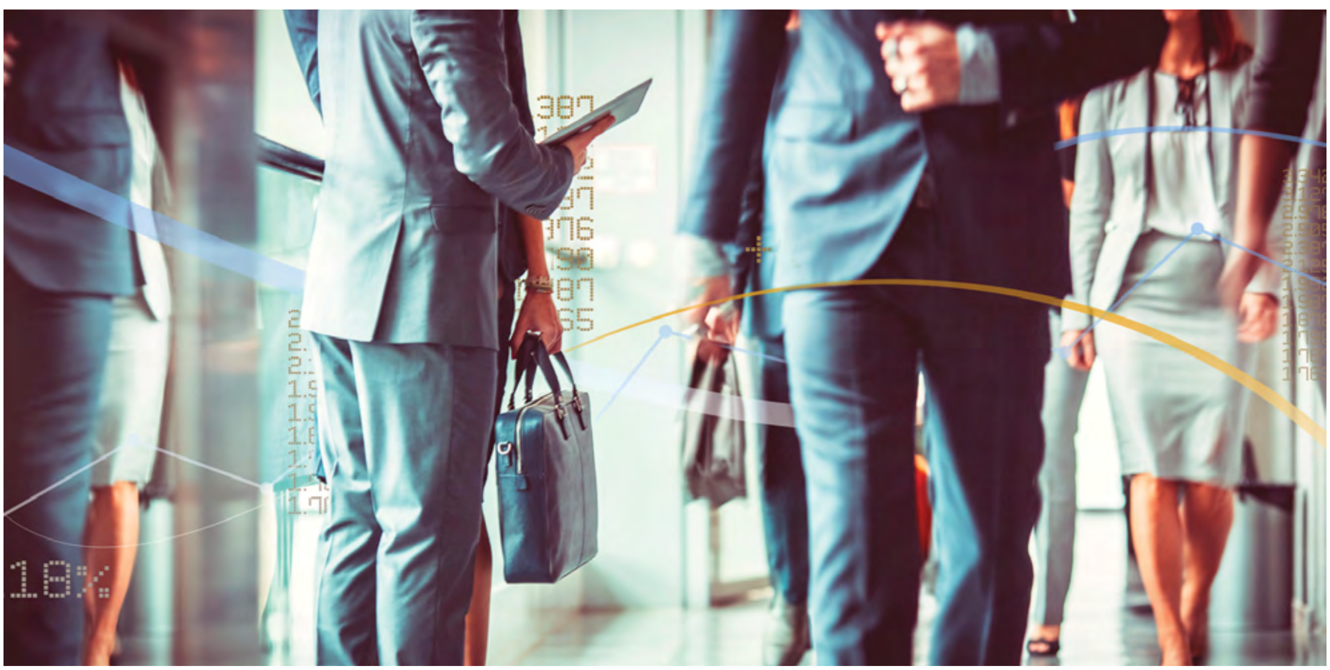
The pace of change in our world is speeding up. Obviously, disruptive transformations are triggered by the new behaviours and the new needs, that are the direct consequences of our digital age. On the top of that, demographic trends, citizen expectations and environmental challenges mean that businesses need more than ever to adapt and even sometimes to re-invent themselves. It means that many strategic roadmaps need to be revisited. In the real estate sector, we should see inflections, transformations and new players. Especially because, this is a pretty different world today. European real estate has historically benefited from a long bull market cycle, thanks to interest rates and a lack of any over-supply in most markets. The asset class is there to stay relevant to investors and critical to build tomorrow's Smart Cities. Our purpose, here, is not to call the top of the market but to highlight that with lower (if any) capital growth and relatively low cash flow generation, the cost of adapting and transforming will have a more visible burden. It is also normally, times for more differentiation between the players.

Instead of producing another piece of research analysing of the state of the world and how it impacts real estate, VIEWS+S has decided to produce for the EPRA Conference 2017 in London, a short and punchy paper on the 10 strategic issues that a European real estate companies cannot afford to ignore. The target is to explicitly identify ten different strategic issues ("It is a new property cycle", "Alternative is the new normal", "Disintermediation is not just for taxis", "Activists at the gate", "Date, flirt, marry: what should you do with a Proptech?"), explain why and how these strategic issues affect real estate companies and to suggest initiatives for real estate companies to address the issues.

The aim behind that is to generate a dialogue between the different stake-holders of the European Real Estate sector and to put firmly the Strategy (with a capital S) in the investment debate. Focus and LTV are interesting points of discussion when it comes to strategy for European real estate companies but they have been extensively covered...

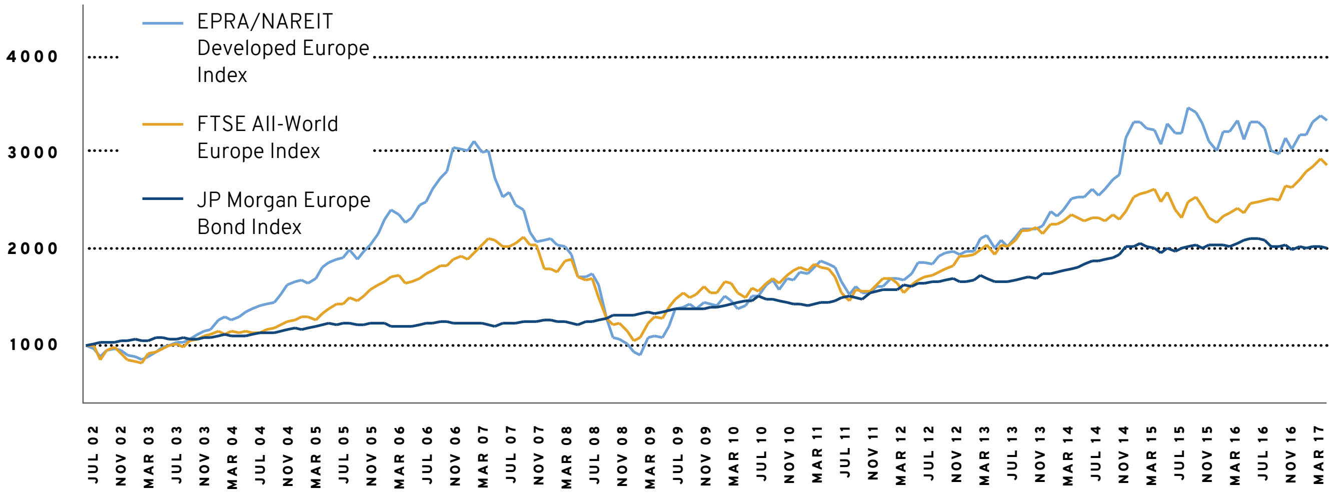
We will also be able to flag a couple of these strategic issues during the research panel at the Sept 2017 EPRA Conference. Feel free to contact me or a colleague at VIEWS+S Consulting to discuss the issues and maybe to help us prepare the part 2: "10 other strategic issues that European real estate companies cannot afford to ignore". •

PHILIPPE LE TRUNG
is the Managing Director and Founder of VIEWS+S, an advisory and consulting business focused on strategy and corporate finance, and specialising in the real estate sector. Before this, Philippe headed the corporate development of Foncière des Régions and worked as equity analyst at Citi in London. He is member of EPRA's Research Committee.



Index focus

Comparison of asset classes

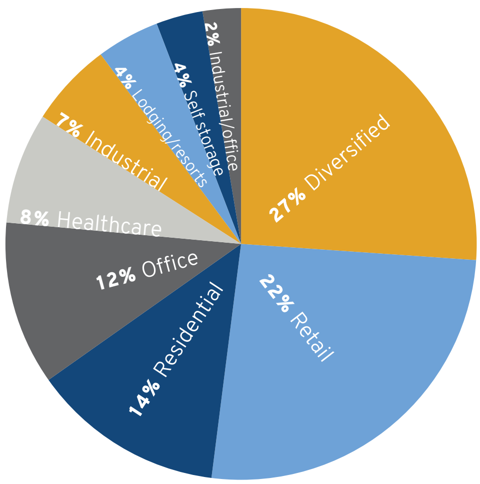


Value snapshot (June 2017)

* 1-year LTV value as of Jun 16 and 10-year value as of 2007

DEVELOPED EUROPE	(LATEST) MONTHLY	YEAR TO DATE	1 YEAR	(LONG RUN) 10 YEAR
Total Return (%)	-1.85%	5.7%	6.3%	2.0%
Premium/Discount to NAV (%)	-4.8%	-7.0%	-6.0%	-11.5%
Loan-to-Value (%)*	37.0%	-	37.5%	42.1%
Dividend yield (%)	3.6%	-	3.4%	2.5%

Developed index sector share



Top 10 European performers (June 2017)

FTSE EPRA/NAREIT GLOBAL INDEX							
STOCK	COUNTRY	REIT STATUS	INVESTMENT FOCUS	SECTOR	PRICE RETURN JUN 17	DIVIDEND YEILD JUN 17	TOTAL RETURN JUN 17
Sponda Oyj	FIN	NON REIT	Diversified	Rental	21.93%	0.00%	21.93%
Technopolis Plc	FIN	NON REIT	Office	Rental	11.48%	0.00%	11.48%
Kennedy Wilson Europe Real Estate	UK	NON REIT	Diversified	Rental	7.56%	0.00%	7.56%
Redefine International Plc	UK	REIT	Diversified	Rental	3.62%	3.38%	7.00%
Inmobiliaria Colonial SA	SP	NON REIT	Office	Rental	5.39%	0.00%	5.39%
UK Commercial Property Trust	UK	NON REIT	Diversified	Rental	4.95%	0.00%	4.95%
Vastned Retail NV	NETH	REIT	Retail	Rental	3.99%	0.00%	3.99%
ANF Immobilier	FRA	REIT	Diversified	Rental	-1.50%	5.40%	3.90%
Beni Stabili SpA	ITA	REIT	Office	Rental	3.86%	0.00%	3.86%
Irish Residential Properties REIT	IRE	REIT	Residential	Rental	3.82%	0.00%	3.82%

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