

THE LISTED FUNDS' REAL ESTATE INVESTMENT PROCESS:

Linkage between asset strategy & reporting and investor objectives

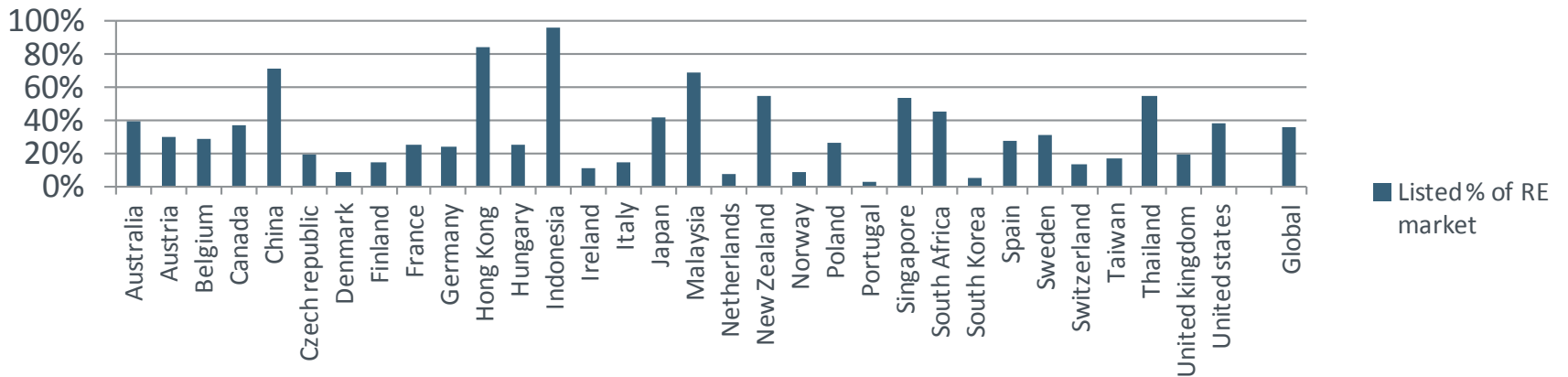
Bert Teuben, Mark Clacy – Jones, 26 June 2015

CONTENT

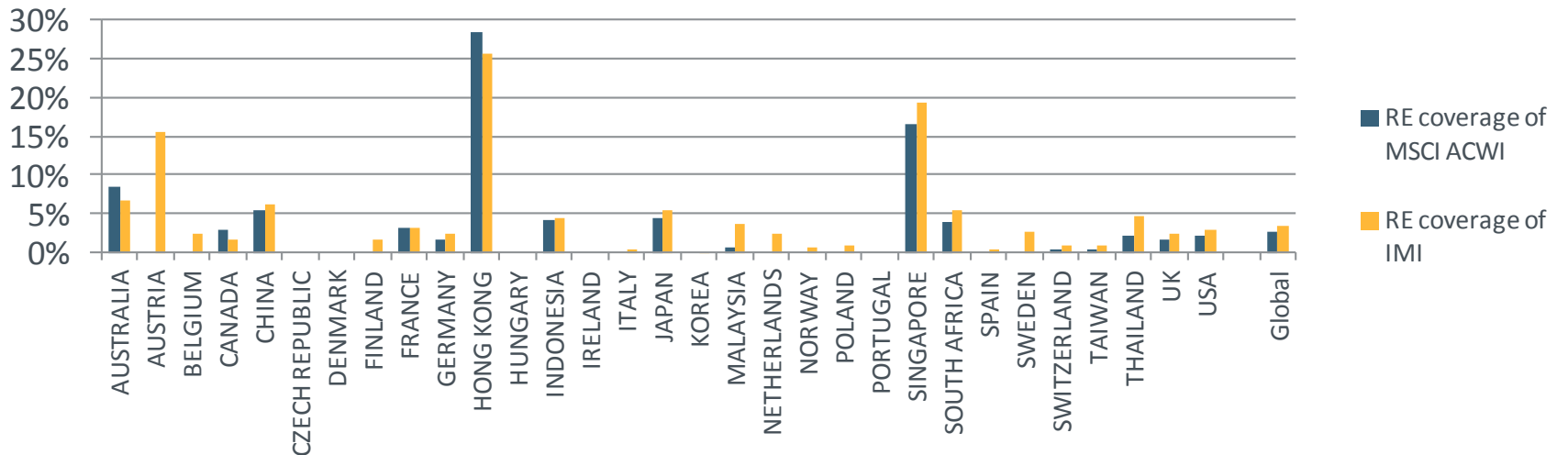
- The listed real estate market
- Investment process
- Strategy
- Listed real estate performance versus total market > UK example

THE LISTED REAL ESTATE MARKET

- The listed market: Proportion of total real estate universe (MSCI RE market size)

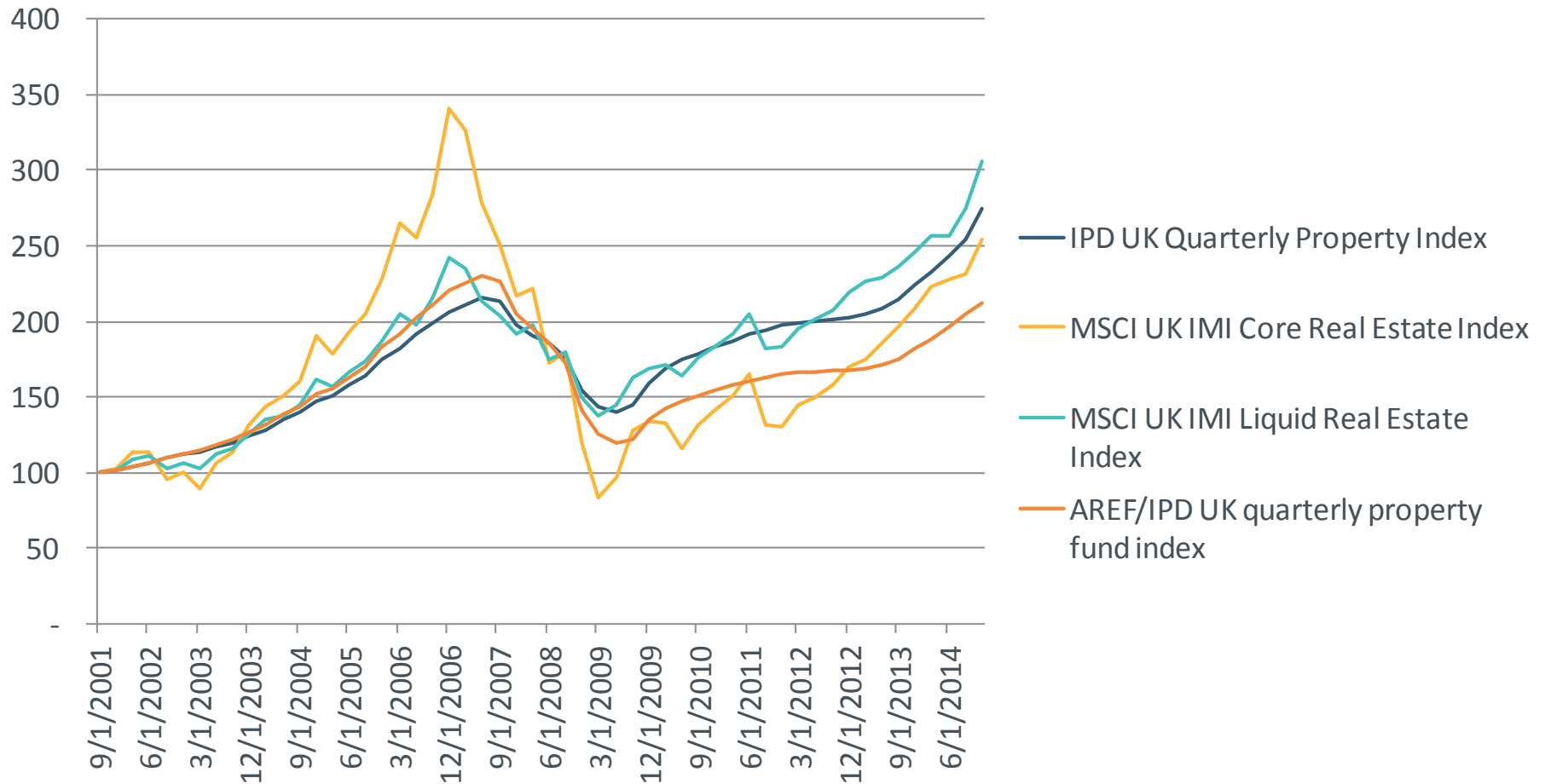


- The listed market: Proportion of total equity universe



THE LISTED REAL ESTATE MARKET

- Performance of listed real estate in the UK.



INVESTOR STRATEGY TO INVEST IN FUNDS

1. Detailed strategy

- Long term – short term
- Income focus – capital growth focus
- Diversified fund versus focused funds
- Risk averse – risk seeking
- Listed RE as part of real estate portfolio or part of equity portfolio
- Stock selection

2. Index tracking / factor investing

ESG applies to both

INVESTOR'S VIEW ON LISTED FUNDS

Just a small amount of asset owners view listed real estate as part of their real estate exposure. Sometimes those investors act as anchor investors (could be founder or an institutional shareholder)

The allocation of real estate within the 31 asset owners which invest in listed real estate varies between less than 10% up to 100%

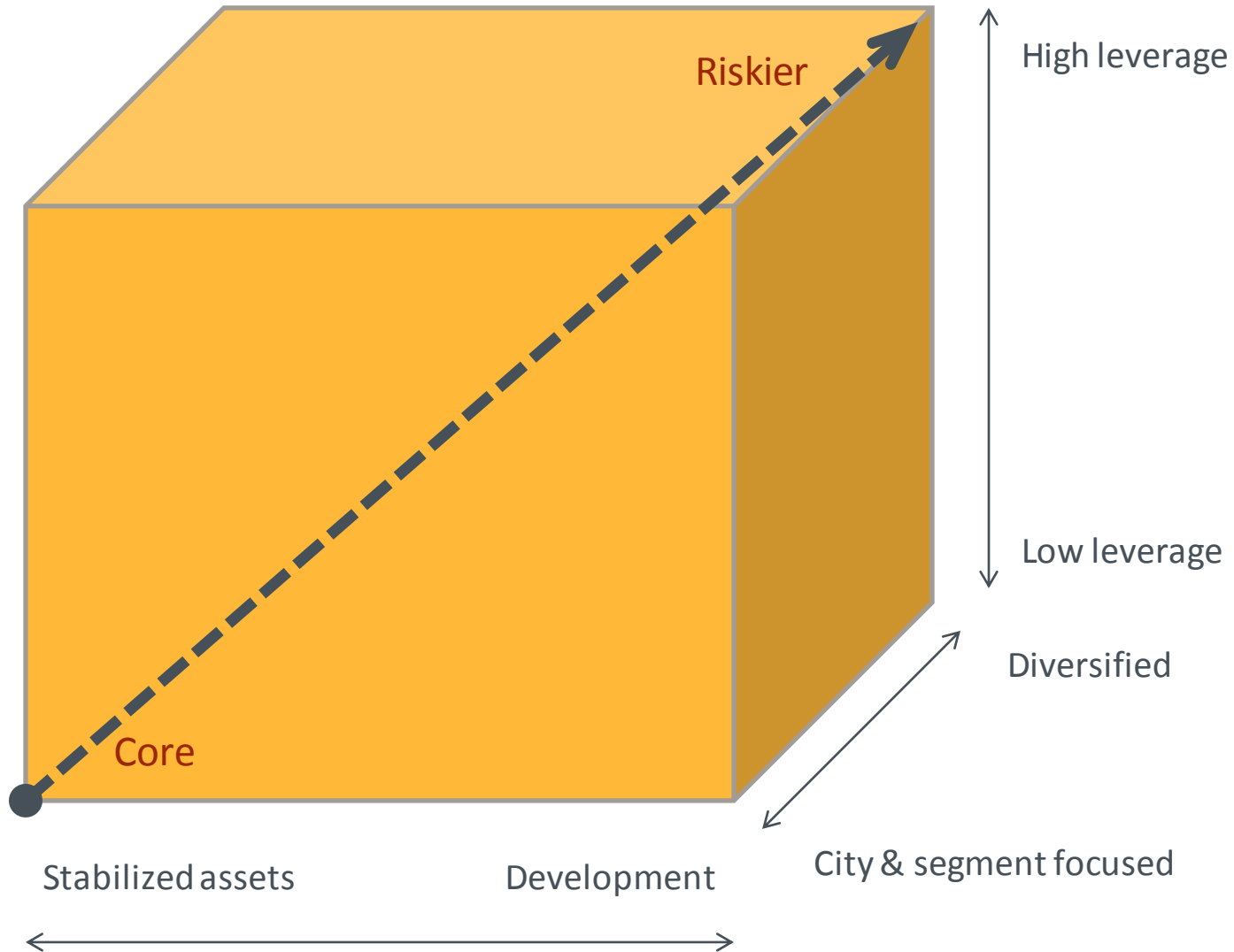
Out of the 129 asset owners within the MSCI asset owner survey with a real estate exposure only 16 referred to a (blended) listed benchmark

Almost all asset owners invest direct or indirectly in listed funds as part of their equity portfolio

(based on MSCI's asset owner survey)

FUND STRATEGY

FUND LEVEL STRATEGY



QUESTIONNAIRE ON LISTED COMPANIES

Strong focus on net income growth instead of total return, but are some exceptions which focus on income return

Quality of asset is very important all tend to invest in the best quality > style drift in overheated markets

All tend to sell bad quality assets in good times

NAV / stock price is effected by general stock market movement and stronger focus on forecasts than asset valuations

Difference between NAV and stock price also impacted due to ability to attract debt

LEVERAGE

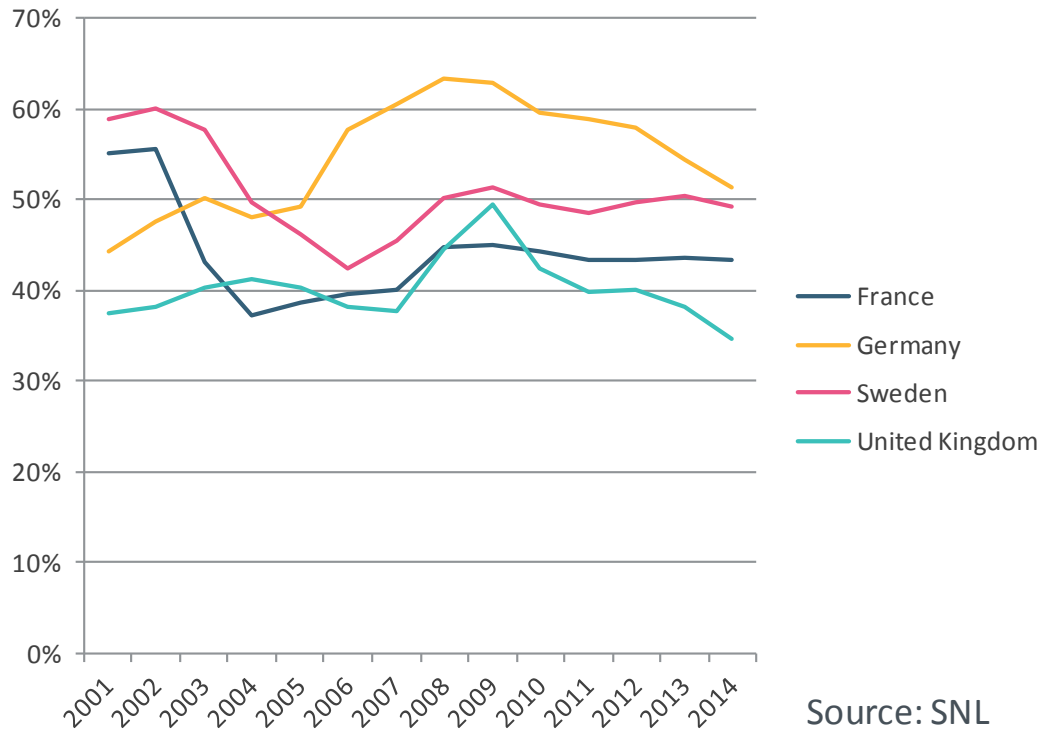
Leverage is one of the key risk factors

To be contracyclical is very hard because you have got almost free money and you can't pay comparable prices compared to other investors

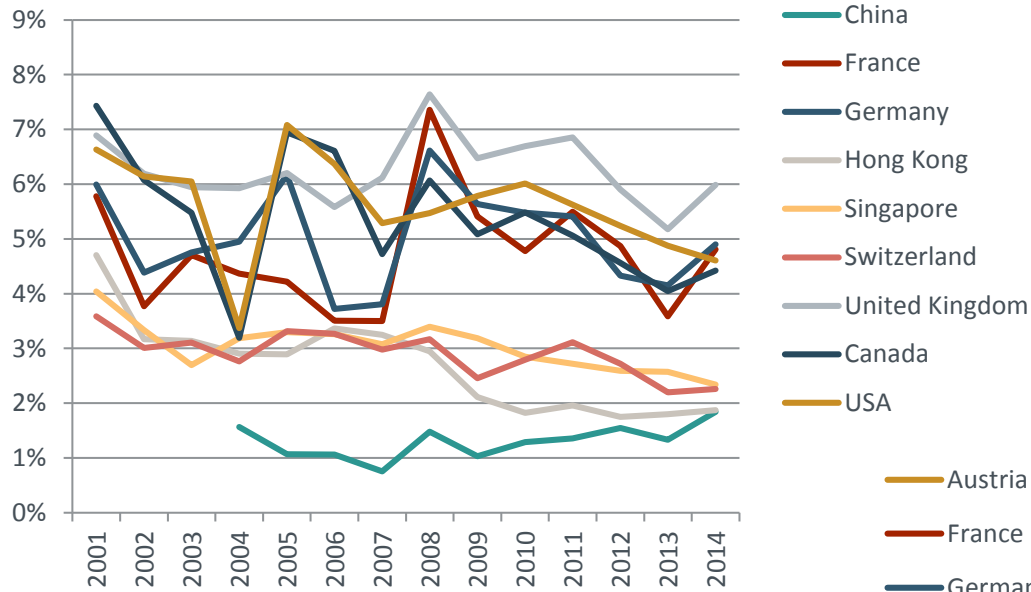
No clear view on level of debt
(based on desk research):

- 2 had clear view on LTV
- 16 band-with LTV
- 18 maximum LTV
- 7 no clear view found at all

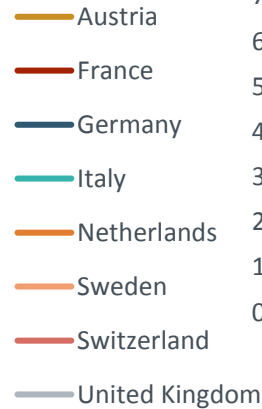
Leverage is high compared to
IPD fund indexes



LEVERAGE – INTEREST EXPENSES



Source: SNL



DIVERSIFIED VS. FOCUS

Some asset owners would like to have diversified portfolios others tend to diversify themselves.

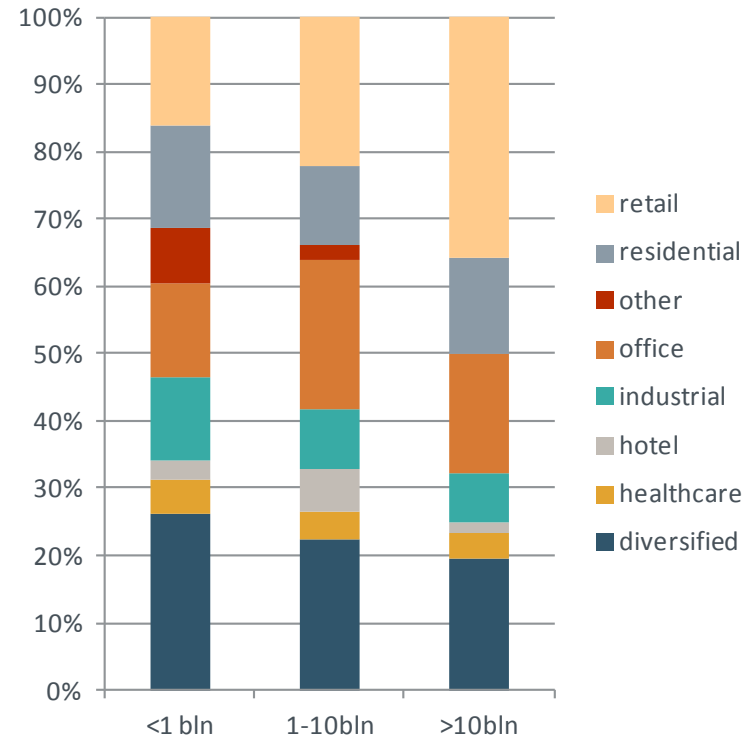
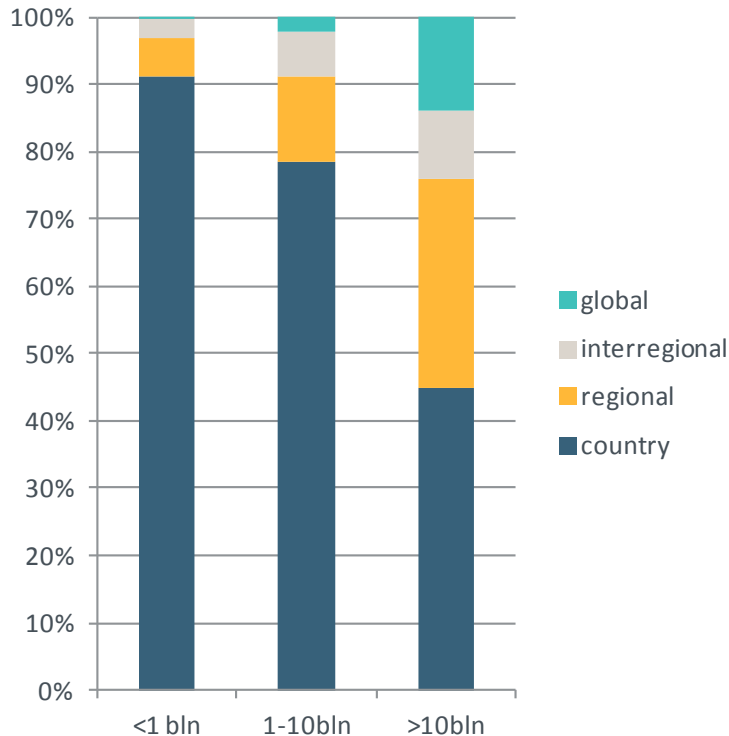
Due to the better information availability investors tend to diversify more themselves

Geographic diversification is also related to tenants geographic exposure and the size of the market in which they operate

DIVERSIFIED VS. FOCUS

Geographic focus and fund size (based on Real estate AUM)

– Based on MSCI real estate market size work with information on over 900 listed portfolios



Size has got an effect on geographic focus but not that much on sector diversification

BENCHMARKING PERFORMANCE

Listed funds tend to benchmark at security level with performance indexes like MSCI, FTSE/EPRA, GPR and national indexes

In general no benchmark at asset level (except for UK and South Africa)

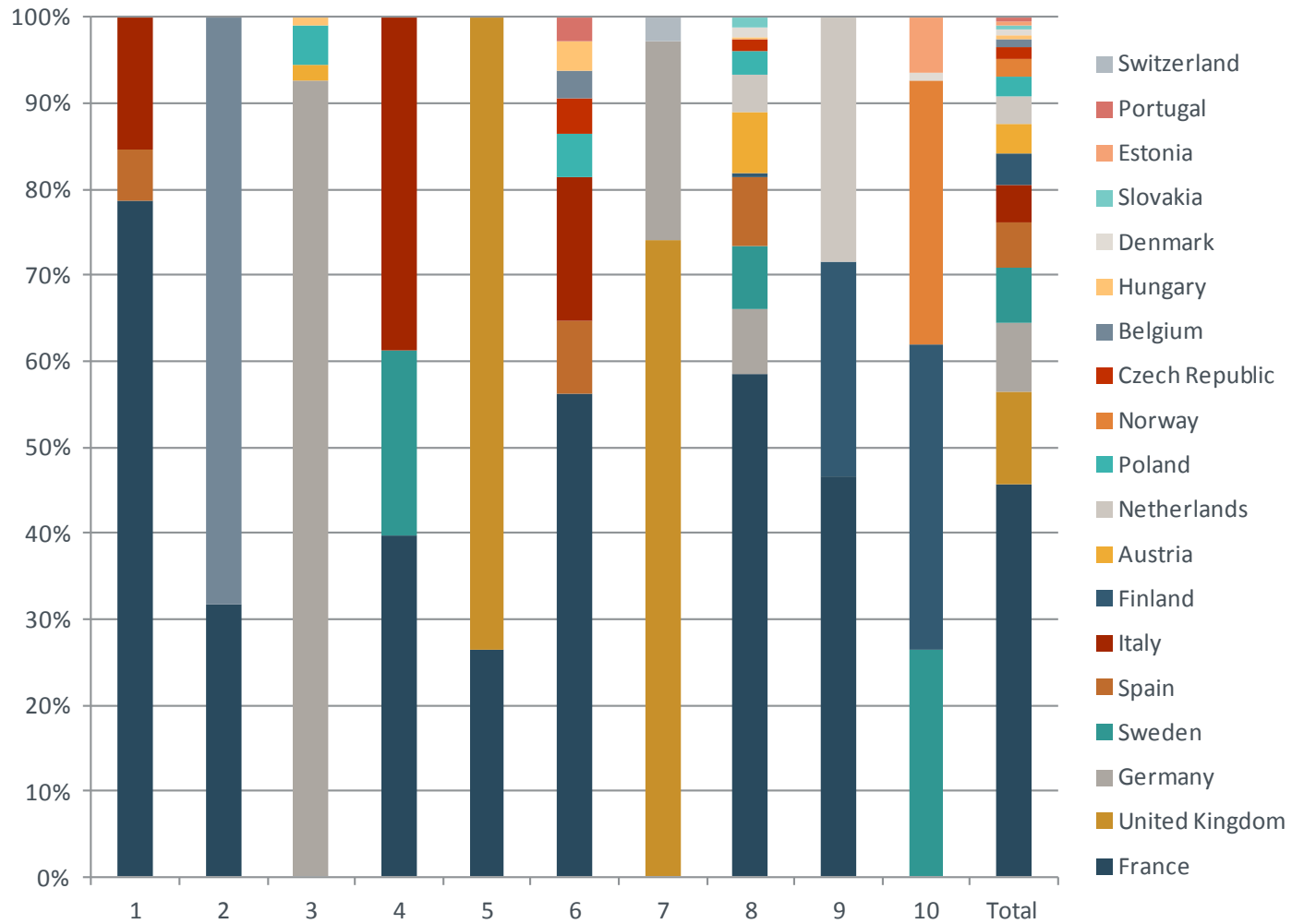
Very hard to compare the like-for-like growth for listed companies and investors (not 100% consistent)

Hard to compare performance due to different composition /strategy of listed funds

BENCHMARKING PERFORMANCE

	COUNTRY					REGIONAL				
	diversified	industrial	office	residential	retail	diversified	industrial	office	residential	retail
Austria	1					3		1	2	
Belgium			1	1	3	3	3	1		1
Denmark	2		1	1	1					
Finland				1		1		1		1
France	4		1		4	1		1		3
Germany	3		4	9	2	1		1		1
Ireland			2	1						
Netherlands			1		1					2
Norway	1		1			1				
Poland	1		1			3				
Spain	4		4		1			1		
Sweden	6	1	3			1	1			
Switzerland	5		3	1				1		
UK	11	5	5	4	5	2	3			2
Europe	38	6	27	18	17	16	7	7	2	10

BENCHMARKING PERFORMANCE – EUROPEAN RETAIL FUNDS

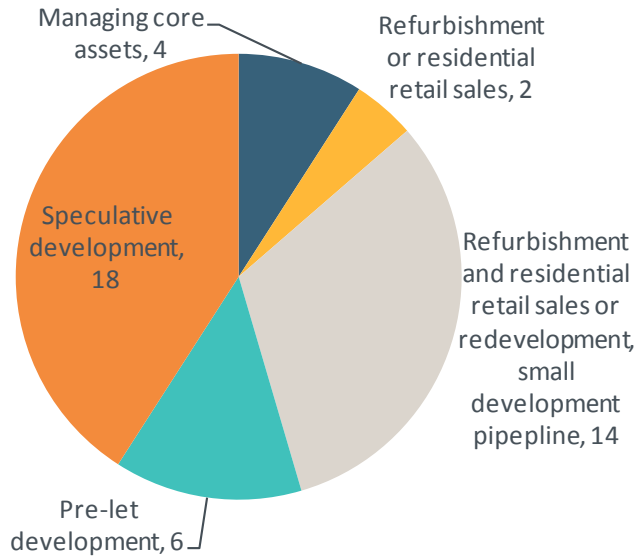


TR - country weighted using market indexes

7.0	11.5	7.1	5.9	12.4	7.0	12.4	7.0	5.6	5.9	9.7
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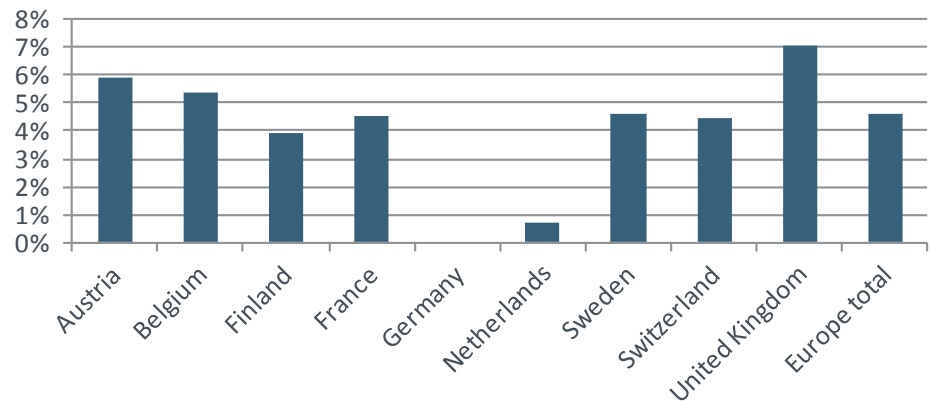
ACTIVE MANAGEMENT

Based on strategy documents and annual reports (44 categorized)



Source: SNL

Development as part of total real estate investments



DIRECT REAL ESTATE RESULTS

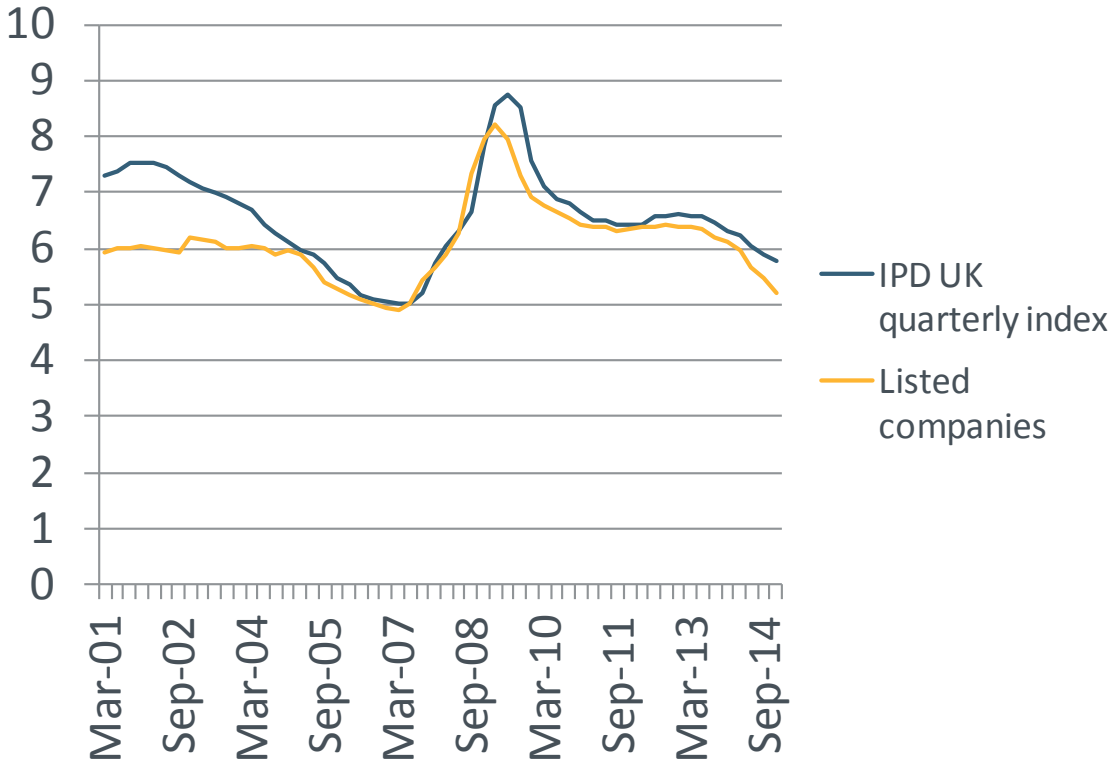
UK example

DIRECT REAL ESTATE QUALITY

Listed companies mention they own better quality assets

Based on the equivalent yield that is the case

Retail



Office

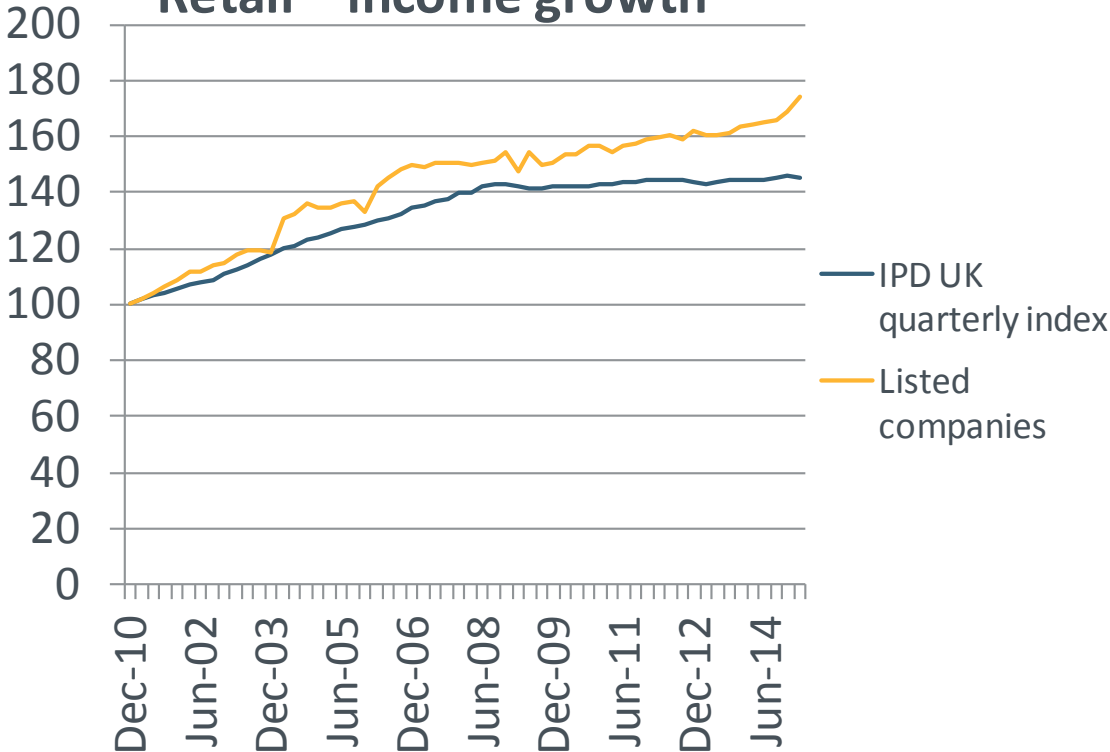


DIRECT REAL ESTATE QUALITY

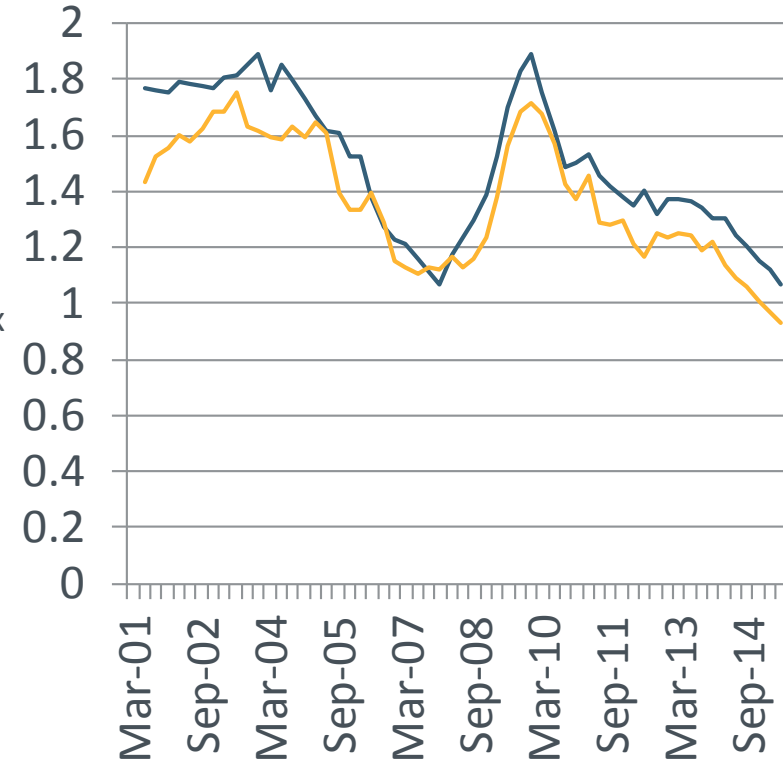
Higher income growth

Lower income return

Retail – income growth

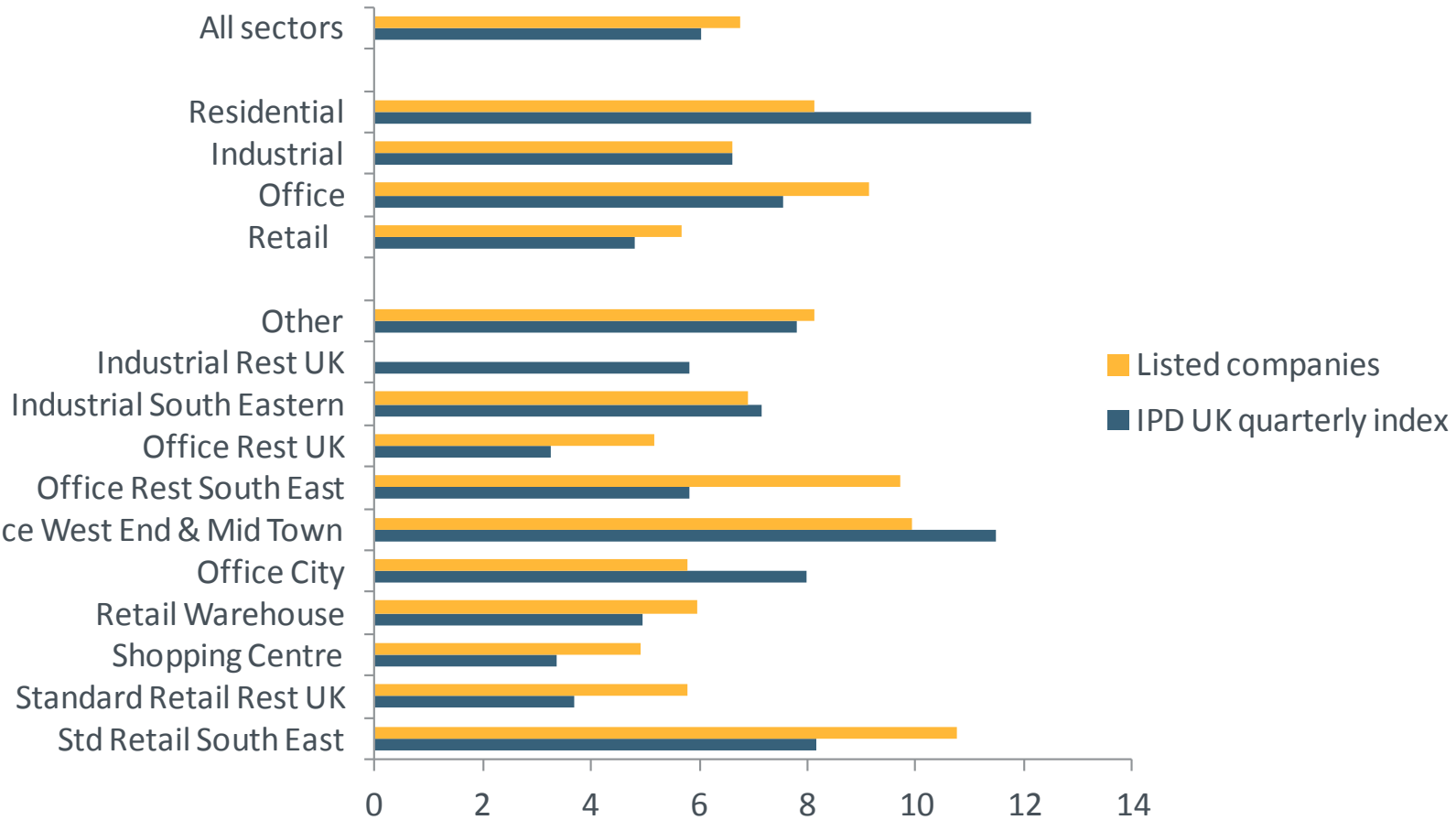


Office – income return



PERFORMANCE – STANDING INVESTMENTS

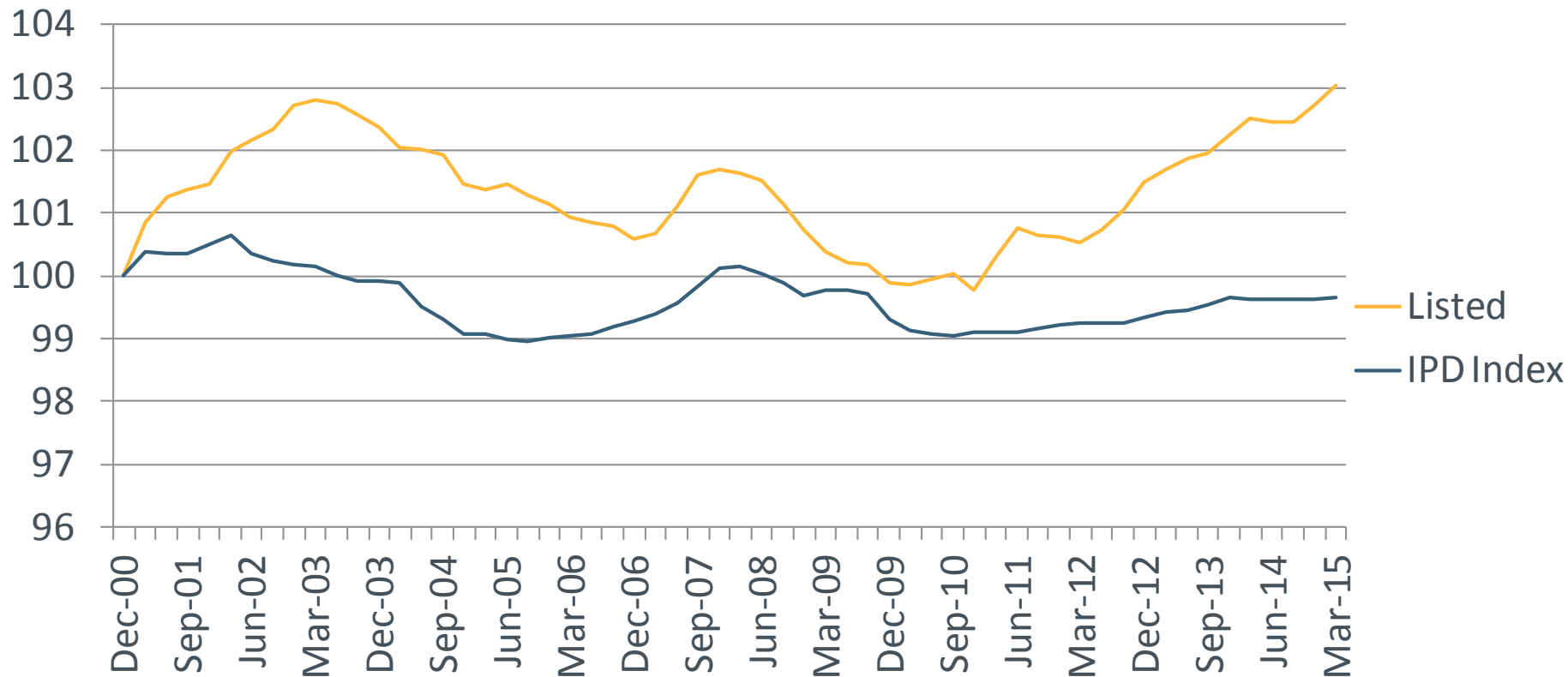
Total return was in general higher in past 10-ys for listed companies



PERFORMANCE – EFFECT OF ACTIVE MANAGEMENT

Cummulative total return difference of standing investment returns and all benchmarked assets returns (effect of purchases, sales and developments).

Effect is limited and difference approximately 20 bbp per year



CONCLUSIONS

Almost all listed companies are different and therefore it is hard to compare their performance at security level > benchmark at asset level gives more possibilities to compare like for like

On the other hand investors have also got different investment goals

Risk of leverage is very important

Listed companies in the UK tend to performance better than their peers in other parts of the real estate market

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