



Challenging times. How does European Listed Real Estate face the future ?

By Dominique Moerenhout, EPRA CEO

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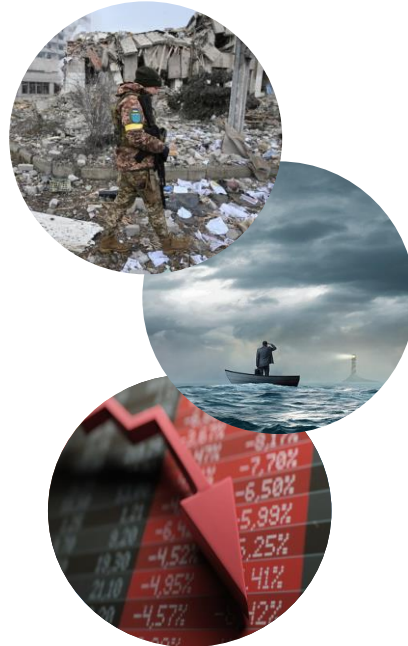
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- 1 2022: The Year of the Apocalypse
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- 3 European listed real estate: Growth success factors

(Listed) Real Estate in an increasingly uncertain world ...

- ❖ 2-digit inflation
- ❖ Rising interest rates
- ❖ Geopolitical mess
- ❖ War in Ukraine
- ❖ Energy crisis
- ❖ Increasing yields
- ❖ Valuations uncertainty
- ❖ Decreasing investment volume

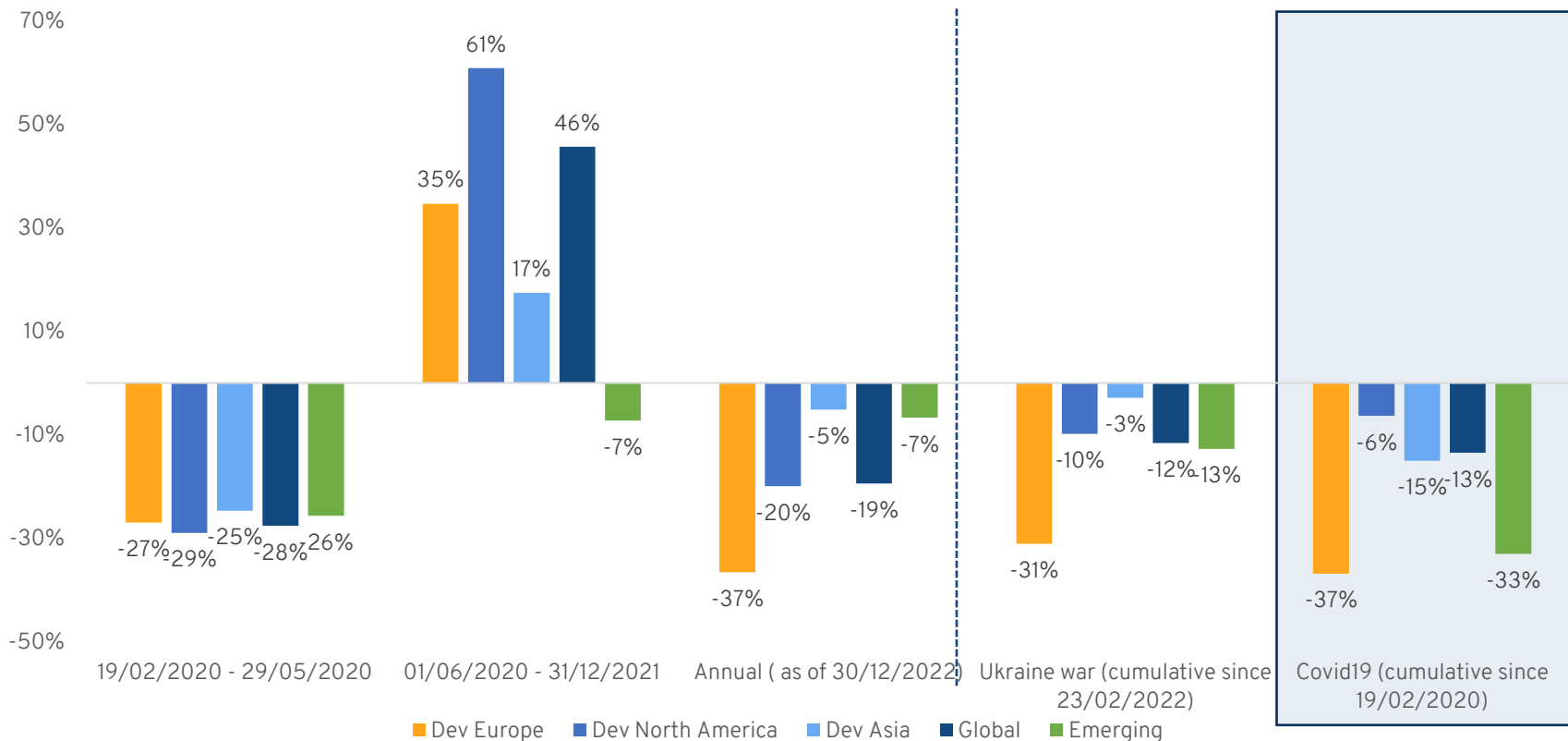


However, listed real estate demonstrated strong operational performance...

- ✓ Rental growth
- ✓ Vacancy rates stabilisation
- ✓ Resilient earnings
- ✓ Office take-up
- ✓ Etc.

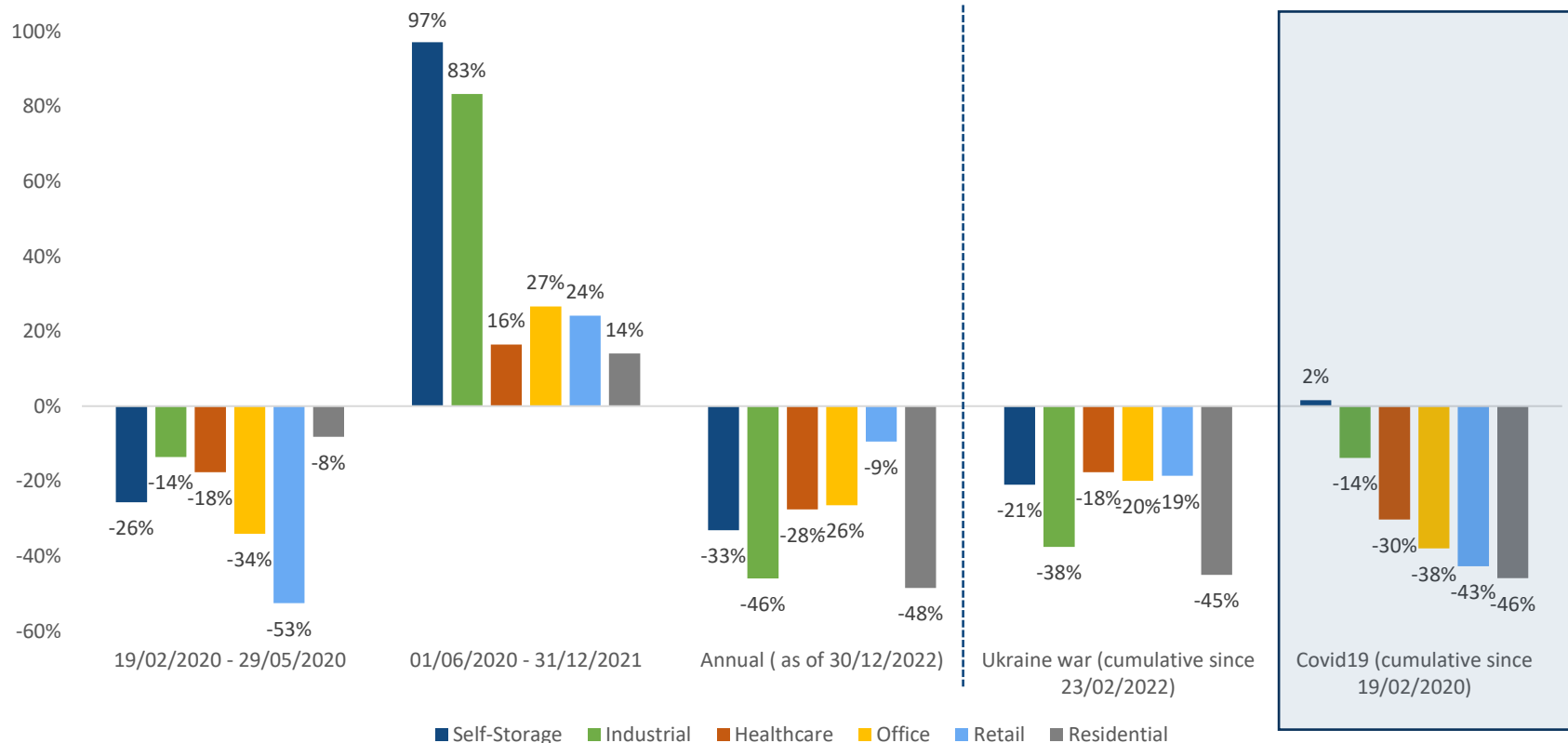
Global listed real estate share price corrections

Cumulative total returns over the pandemic period by region, Feb '20 – Dec '22

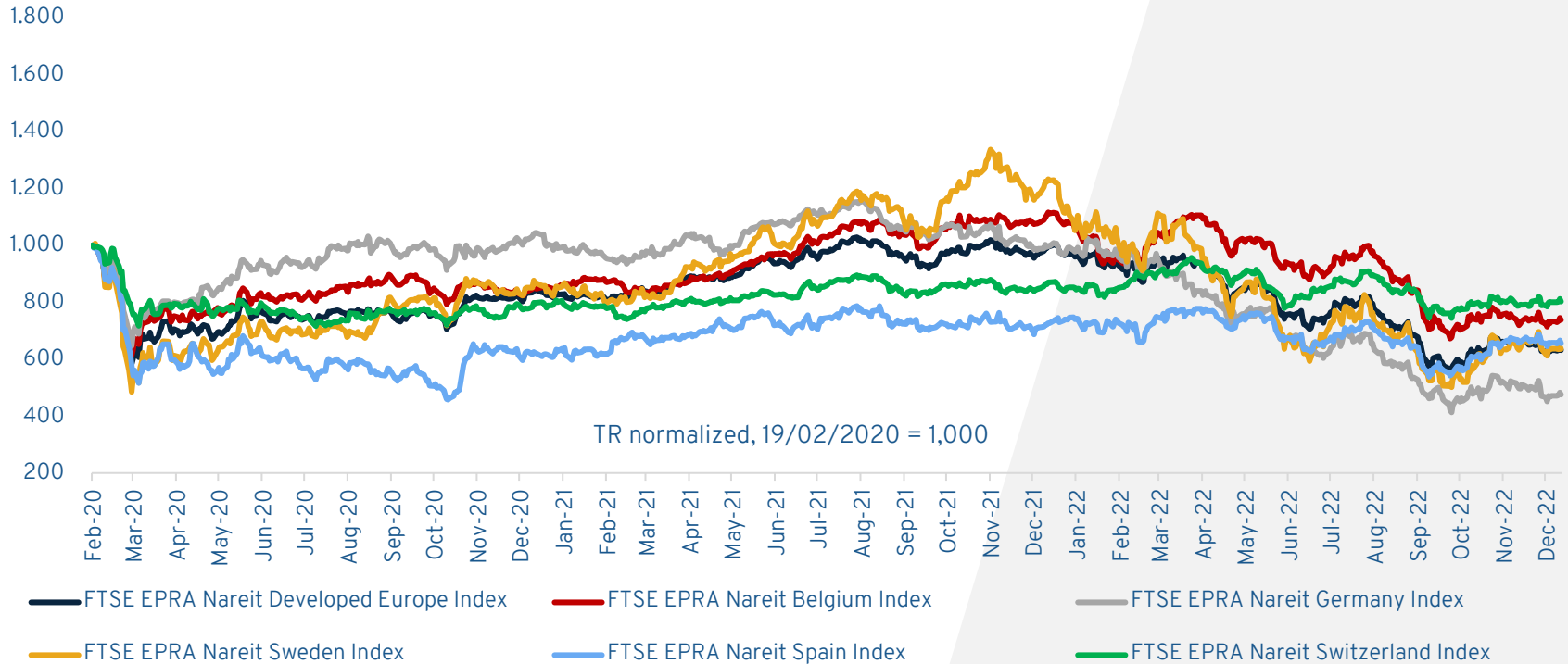


European listed real estate share price corrections

Cumulative total returns over the pandemic period by sector, Feb '20 – Dec '22



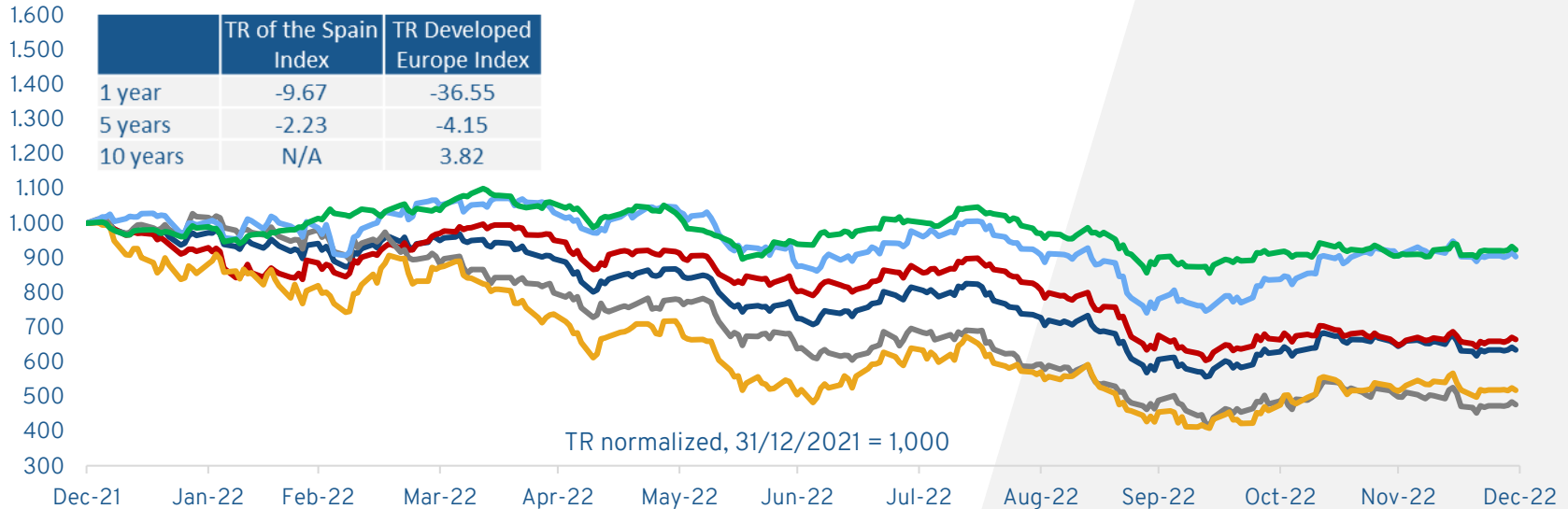
Spain listed real estate in the top-3 league since Covid-19 outbreak



Source: EPRA
Data as of: December 30, 2022



Spain listed real estate #2 out-performer in 2022



	TR of the Spain Index	TR Developed Europe Index
1 year	-9.67	-36.55
5 years	-2.23	-4.15
10 years	N/A	3.82

— FTSE EPRA Nareit Developed Europe Index
— FTSE EPRA Nareit Germany Index
— FTSE EPRA Nareit Spain Index

— FTSE EPRA Nareit Belgium Index
— FTSE EPRA Nareit Sweden Index
— FTSE EPRA Nareit Switzerland Index

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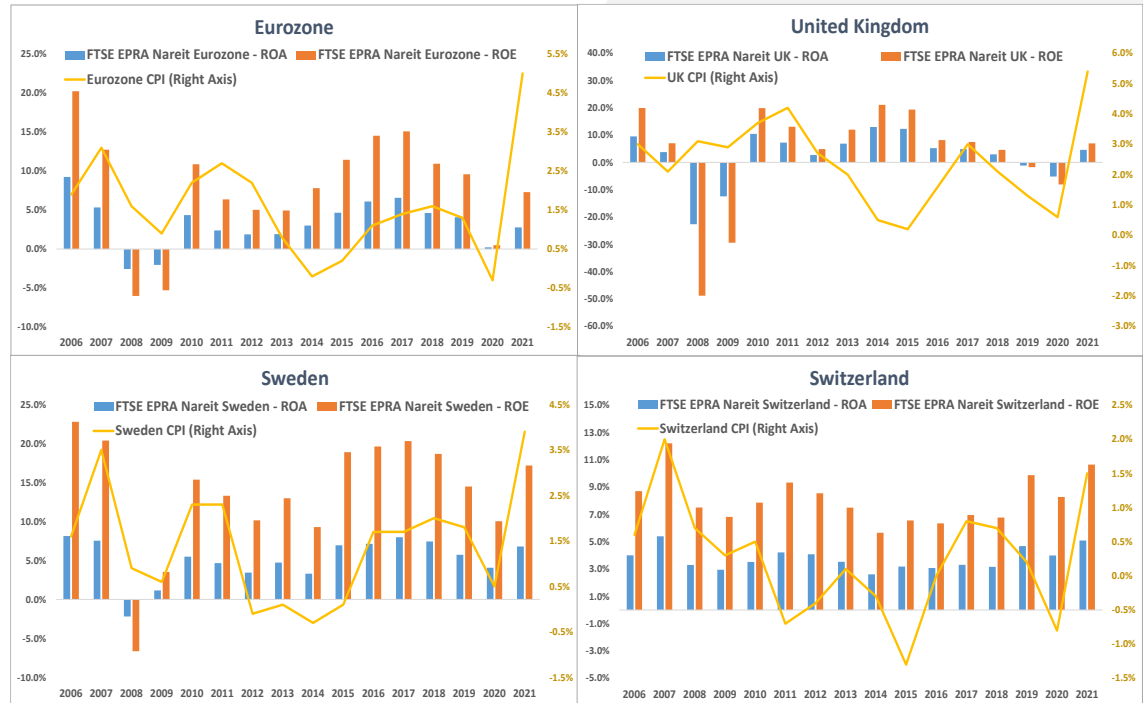
Shorter-term inflation's positive impact

Research demonstrates strong and positive correlation between corporate profits and inflation

Key takeaways

Based on temporary higher inflation:

- CPI-indexed leases and rent revisions support companies' revenues and rental growth
- However, higher inflation also feeds higher maintenance expenses, development costs and property acquisitions
- **The revenue effect is usually stronger than the cost effect**, therefore corporate profits are positively affected by inflation



Listed real estate outperforms under normal and moderate inflation cycles

ECB expects inflation to normalise in 2023 and come back to the range 2% - 3% in 2024

ECB: Inflation projected to decrease to 5.5% in 2023 and 2.3% in 2024

Euro area HICP

(annual percentage changes)

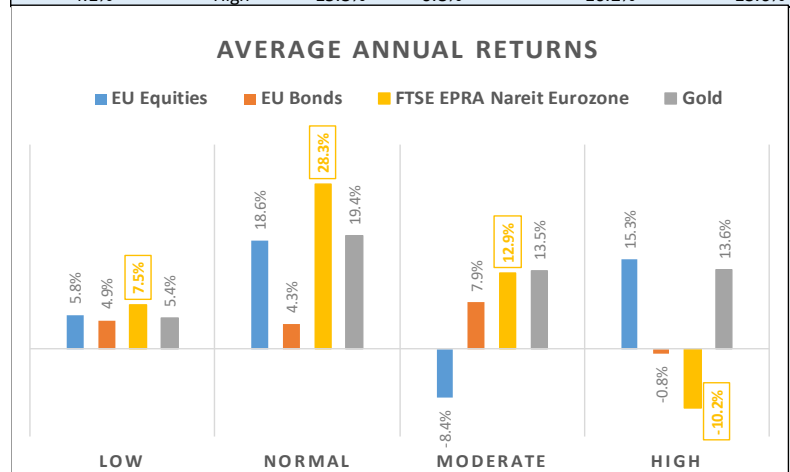


Note: The vertical line indicates the start of the projection horizon.

Source: ECB.

LRE usually outperforms other assets classes under normal and moderate inflation.

Eurozone Inflation Cycle		Average annual total return (2002-2021)				
Average Inflation	Cycle	EU Equities	EU Bonds	FTSE EPRA Nareit	Eurozone	Gold
0.8%	Low	5.8%	4.9%	7.5%	5.4%	
2.1%	Normal	18.6%	4.3%	28.3%	19.4%	
2.5%	Moderate	-8.4%	7.9%	12.9%	13.5%	
4.1%	High	15.3%	-0.8%	-10.2%	13.6%	



Source: EPRA, ECB, Eurostat



Inflation gradually returning to single digits, but economic growth slowing down

Normalisation expected in 2023-2024

- Inflation is slowly decreasing but remains far from central banks' long-term targets
- Central banks assumed hawkish positions and will increase interest rates further in 2023
- A slowdown in economic growth is evident, the GDP is expected to grow 3.2% in 2022 and 0.9% in 2023 (ECB). The contraction of economic activity is set to continue in 2023 with the erosion of households' purchasing power and tighter financing conditions.

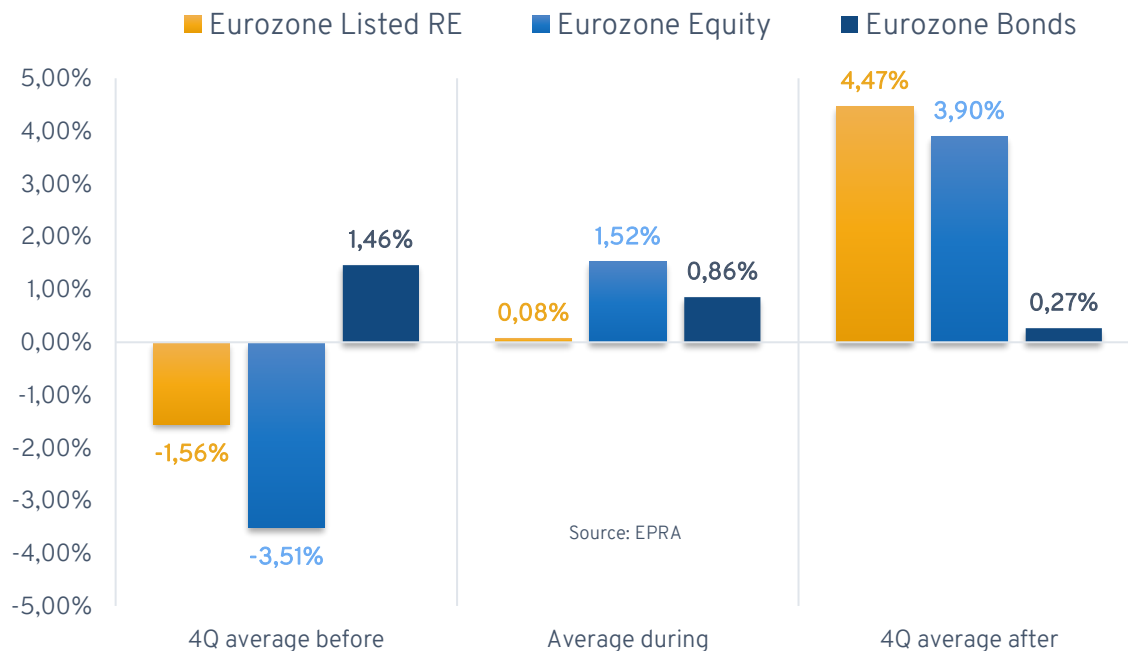


Source: Eurostat, ECB, BoE, Riksbank, SNB, Bloomberg, IMF, EPRA Research
(* Dec-22 GDP figures are estimation by IMF (World Economic Outlook November 2022).

Periods of low economic growth represent opportunities in listed real estate

Property companies are strongly benefited from economic recoveries and outperform other asset classes

Historical performance during recession periods
(1995 - 2022)



- Equity reacts first to expectations on coming recessions, therefore underperforming bonds and listed real estate.
- During periods of weak economic growth, both listed real estate and bonds show low returns while stocks start focusing on the recovery.
- Once the low economic growth is left behind, listed real estate shows a strong performance and outperforms the other assets classes.

Listed real estate is well-prepared for rising interest rates (1/2)

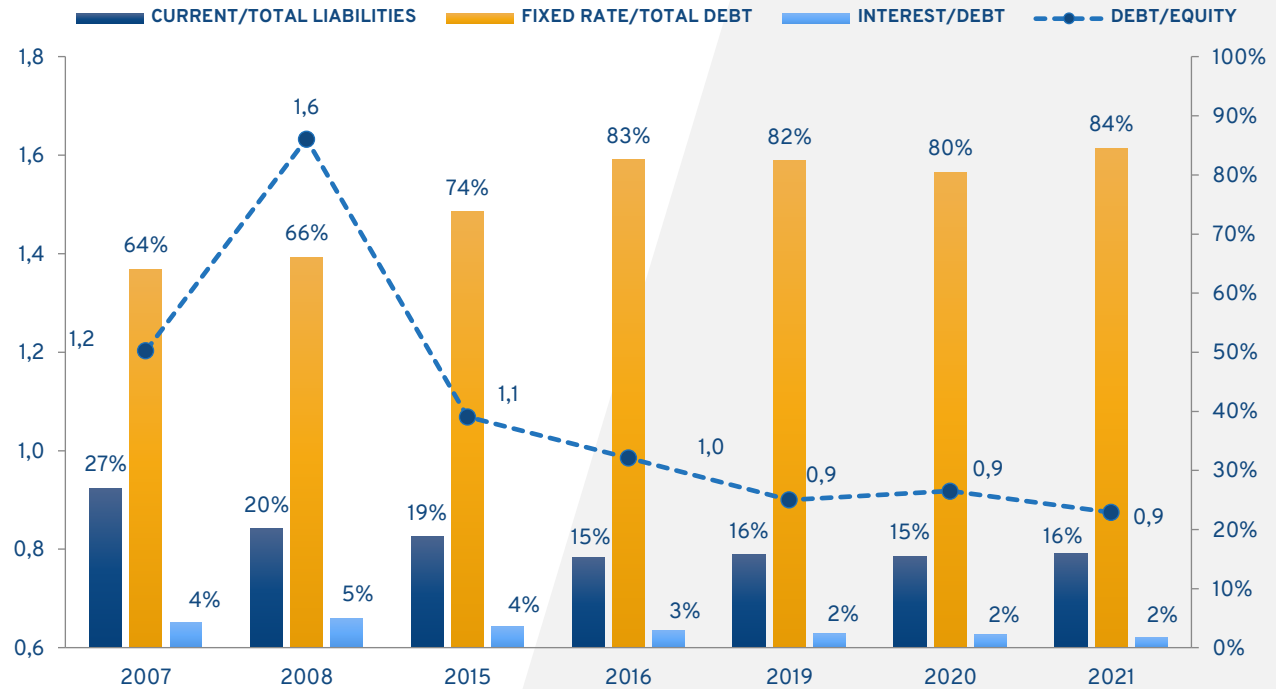
Significant fixed rate to total debt and low current to total liabilities are a positive sign

Key takeaways:

- Decreasing D/E ratio
- Increasing fixed interest rate debt
- Decreasing current liabilities (< 1 yr)

-> Lower interest payments compared to size of debt

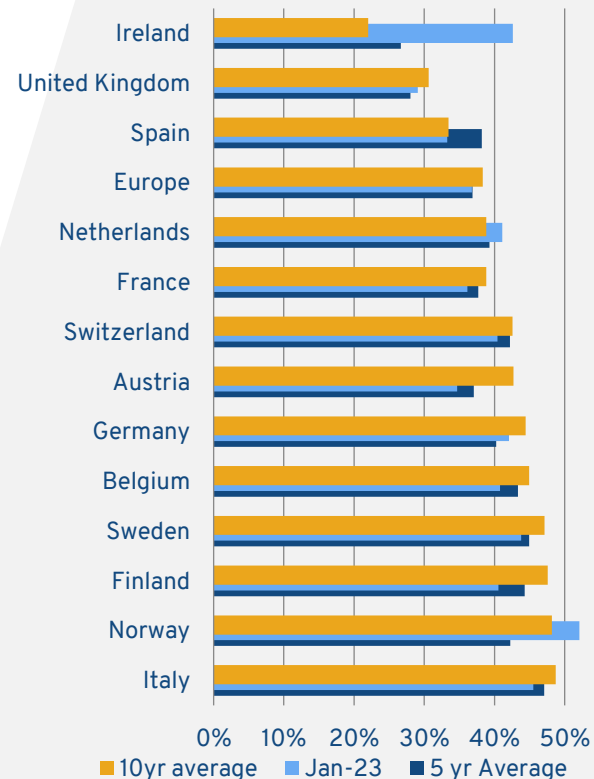
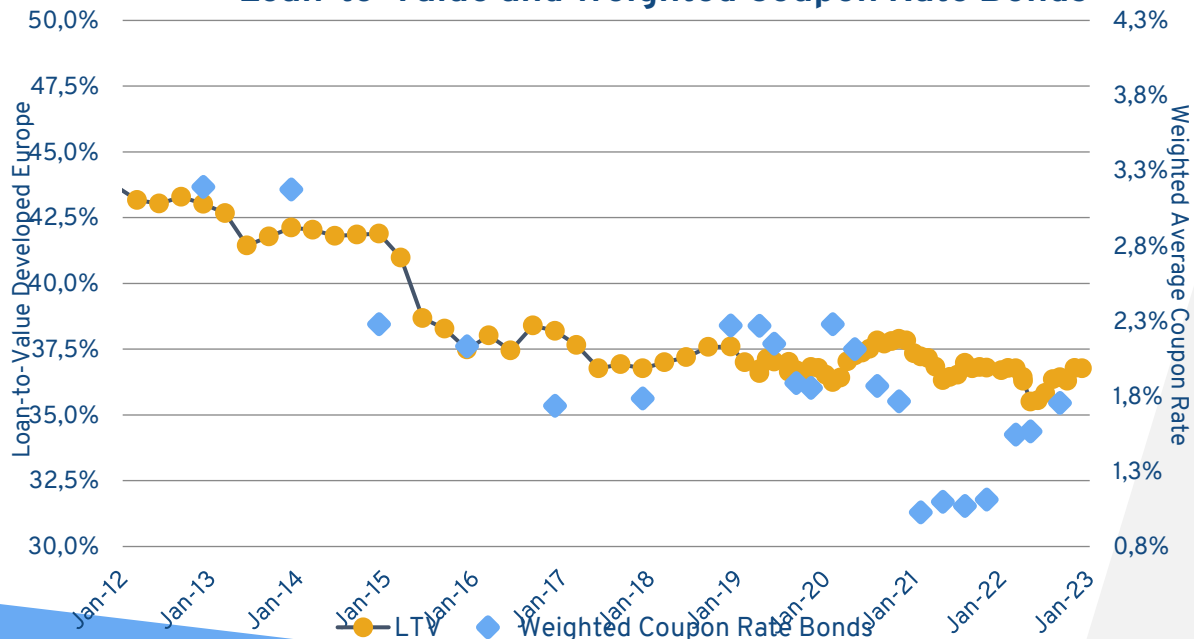
The listed real estate sector appears well-prepared for rising interest rates



Listed real estate is well-prepared for rising interest rates (2/2)

Leverage and cost of debt have largely decreased in the last decade

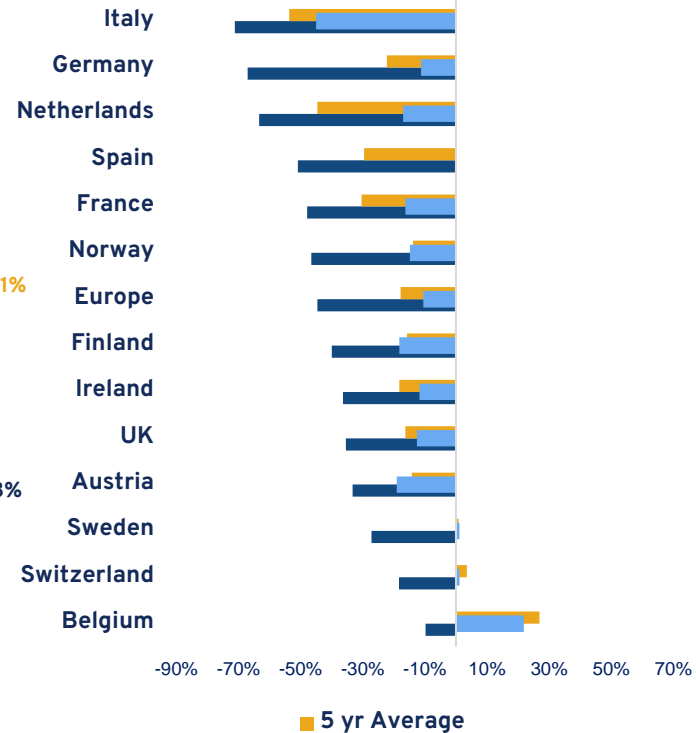
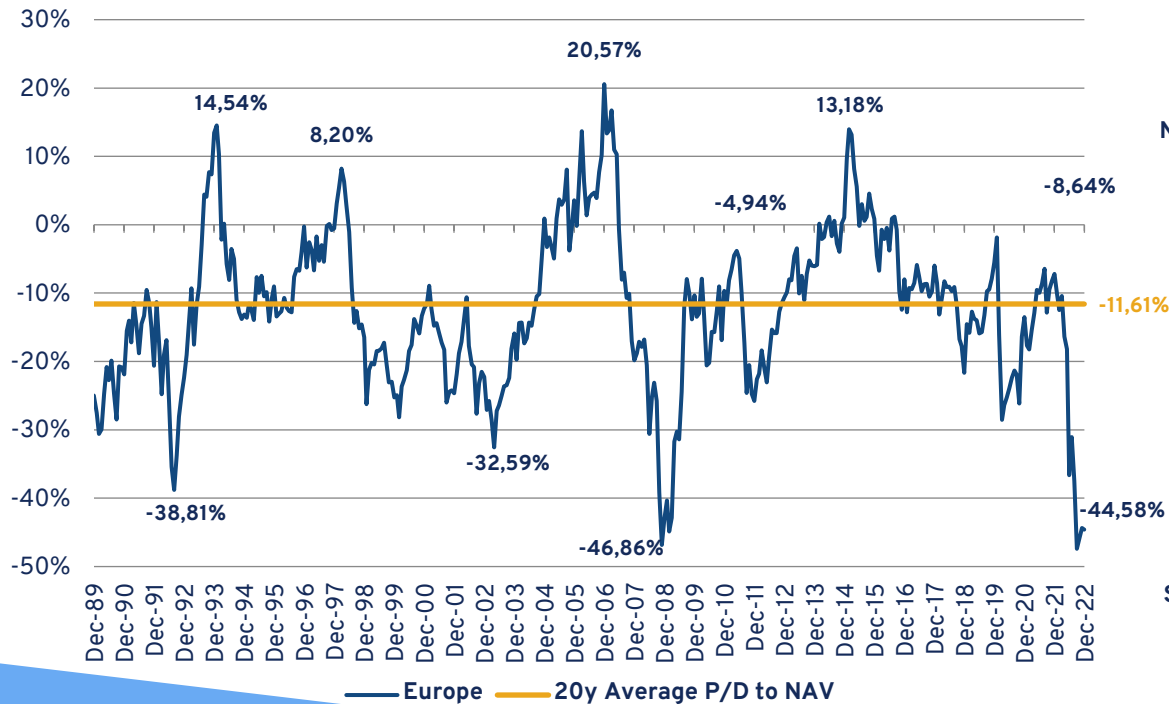
Loan-to-Value and Weighted Coupon Rate Bonds



Source: EPRA
Data as of: December 30, 2022

European share prices suggest significant opportunities

A clear disconnect between share prices vs operational performance



A favourable comparison for listed real estate

Low leverage, resilient corporate profits and low valuation ratios

Weighted Average: European Mid and Small Caps ratios by sector*

Industry	# of companies	Total Market Cap (EUR M)	Average Market Cap (EUR M)	PE	Price to Book Ratio	DPS Growth 5 Years	Dividend Yield	Debt / Assets	Return On Equity	Return On Total Assets
Industrials	655	1,728,172	2,638	22.05	4.27	5.87	2.04	56.72%	12.31	5.63
Financials	411	1,331,584	3,240	12.08	1.75	3.97	3.98	73.51%	13.85	4.79
Communication Services	177	545,649	3,083	22.49	3.23	-1.10	3.13	55.31%	17.97	9.34
Materials	221	660,926	2,991	13.42	2.11	7.57	3.60	43.68%	13.61	7.70
Information Technology	321	487,239	1,518	29.52	7.46	7.35	1.47	49.92%	15.50	7.39
Health Care	280	725,612	2,591	24.93	5.35	4.83	1.07	42.95%	7.13	4.83
Consumer Staples	177	591,298	3,341	18.33	4.61	4.77	2.56	53.08%	12.57	5.26
Utilities	82	462,229	5,637	21.06	2.80	4.06	3.64	73.66%	9.62	3.00
Energy	95	199,950	2,105	8.82	2.91	3.86	3.64	57.26%	3.06	4.79
Consumer Discretionary	334	740,545	2,217	22.91	3.42	5.49	1.77	54.59%	11.32	4.51
RE Services & Homebuilding	64	63,108	986	10.38	1.09	5.90	5.99	45.06%	12.87	6.94
Real Estate	240	370,410	1,543	10.00	0.94	1.12	3.67	39.72%	12.62	7.59
Total / W.Average	3057	7,906,722	2,586	19.16	3.53	4.71	2.70	56.32%	12.35	5.75

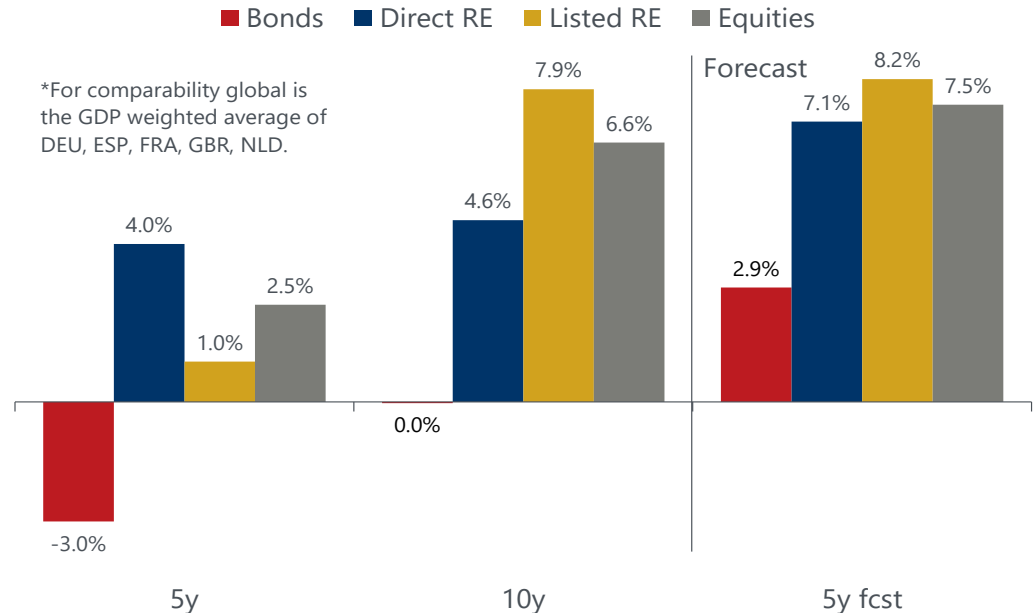
*Defined as companies under EUR 30 billion and above EUR 100 million in Market Cap

Source: EPRA and Refinitiv
Data: January 17, 2023

Differences between listed and direct real estate will decrease and might turn in favour of public property companies

- Oxford Economics forecasts a **GDP growth** of -0.2% in 2023 and 1.8% in 2024 for Europe. Simultaneously, the **CPI** should fall to 6% in 2023 and 1.3% in 2024.
- Over a 10-yr horizon, **listed real estate outperformed** equities, direct real estate and bonds.
- In the last 5-yr, LRE returns were dented by the sharp decline in 2022, whereas the DRE market has held up relatively well to-date due to lagging valuations.
- Looking 5-yr ahead, it is **expected that listed real estate will outperform** equities and DRE thanks to a stronger bounce back in 2023. This scenario implies:
 - Gradually falling inflation
 - Central banks less hawkish
 - No severe recession / increases in unemployment
 - No defaults for corporates or real estate investors in current interest rates environment

Annual total returns in USD



Source: Oxford Economics (Jan-23) EPRA Real Estate Report.
Oxford Economics, Haver Analytics, MSCI, EPRA



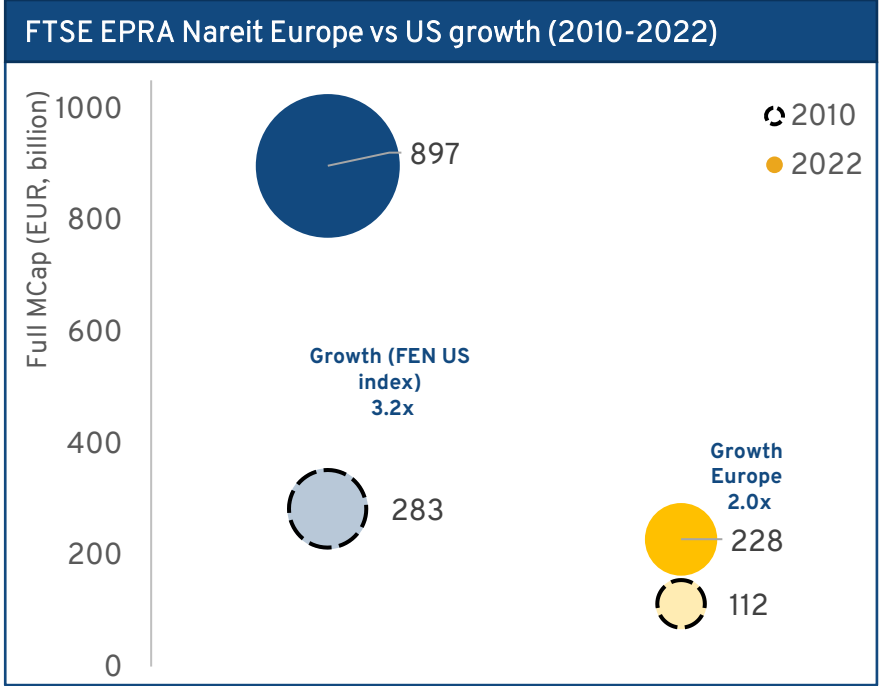


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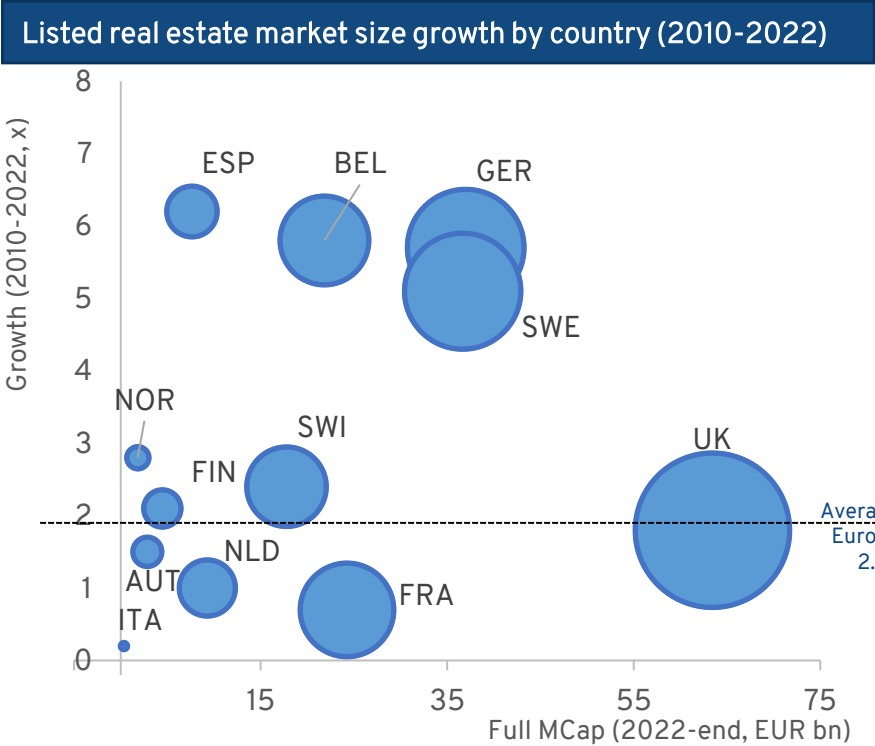
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2010 – 2022 : Significant growth difference Europe vs US and inside Europe



Source: Philippe Le Trung, VIEWS+S Consulting – January 2023



Success factors required for further growth in European listed real estate

Key take-aways

- ❑ Higher-growth real estate sectors vs traditional sectors
- ❑ Private to public
- ❑ More efficient capital markets: combine right issues and ABBs (private placements)
- ❑ Expand investor base with generalist, equity and retail investors
- ❑ Operational/cash flow vs NAV as a valuation metrics
- ❑ Mutual recognition / flexibility of REIT regimes



Source: Philippe Le Trung, VIEWS+S Consulting – January 2023

Conclusion

- ❑ Disconnect between share prices and operational performance offers opportunities to investors
- ❑ Investors in listed real estate are strategically positive, but tactically cautious
- ❑ Huge potential to grow the European listed real estate market, but requires some patience

General enquiries:

info@epra.com

Switchboard:

+32 2 739 1010

More information:

www.epra.com

HEAD OFFICE
Square de Meeûs 23
1000 Brussels, BE

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