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European Listed Real Estate: Challenges and Opportunities

VI Iberian REIT & Listed Conference –
Madrid – February 6, 2024
Dominique Moerenhout, EPRA CEO

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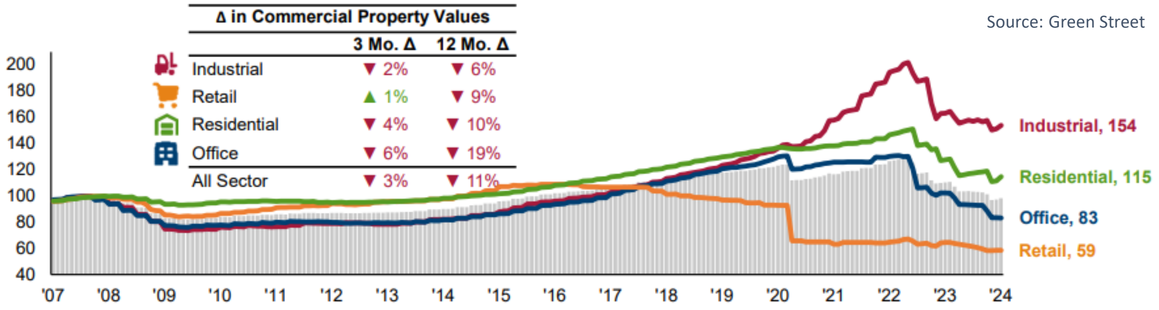
1. 2023- 2024 : Good reasons to be cautiously optimistic !
2. European Listed Real Estate benefits in portfolio allocation
3. Investors' sentiment
4. Conclusion

Property markets showed significant corrections in 2023

Valuations were affected by increasing interest rates and low liquidity

COMMERCIAL PROPERTY PRICE INDICES



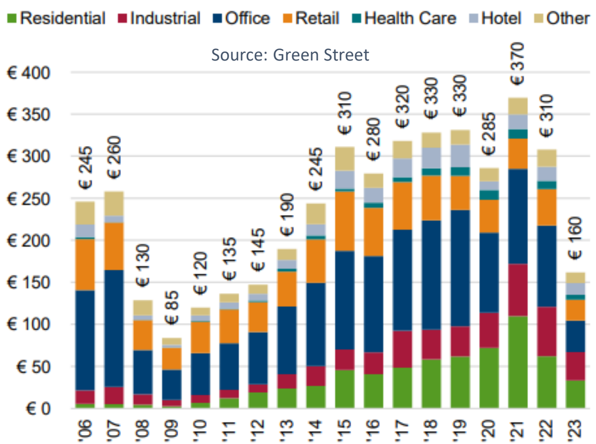
Property valuations still in process of correction

Green Street Commercial Property Price Index saw its first uptick (+1%) in Dec/23, down 11% for the whole of 2023.

Industrial properties remained resilient in 2023, while deepest corrections occurred in the office and residential sectors.

Retail asset prices were roughly flat in Q4 as rents begin to settle and monthly yield changes stabilise.

REAL ESTATE TRANSACTION VOLUMES(€B)

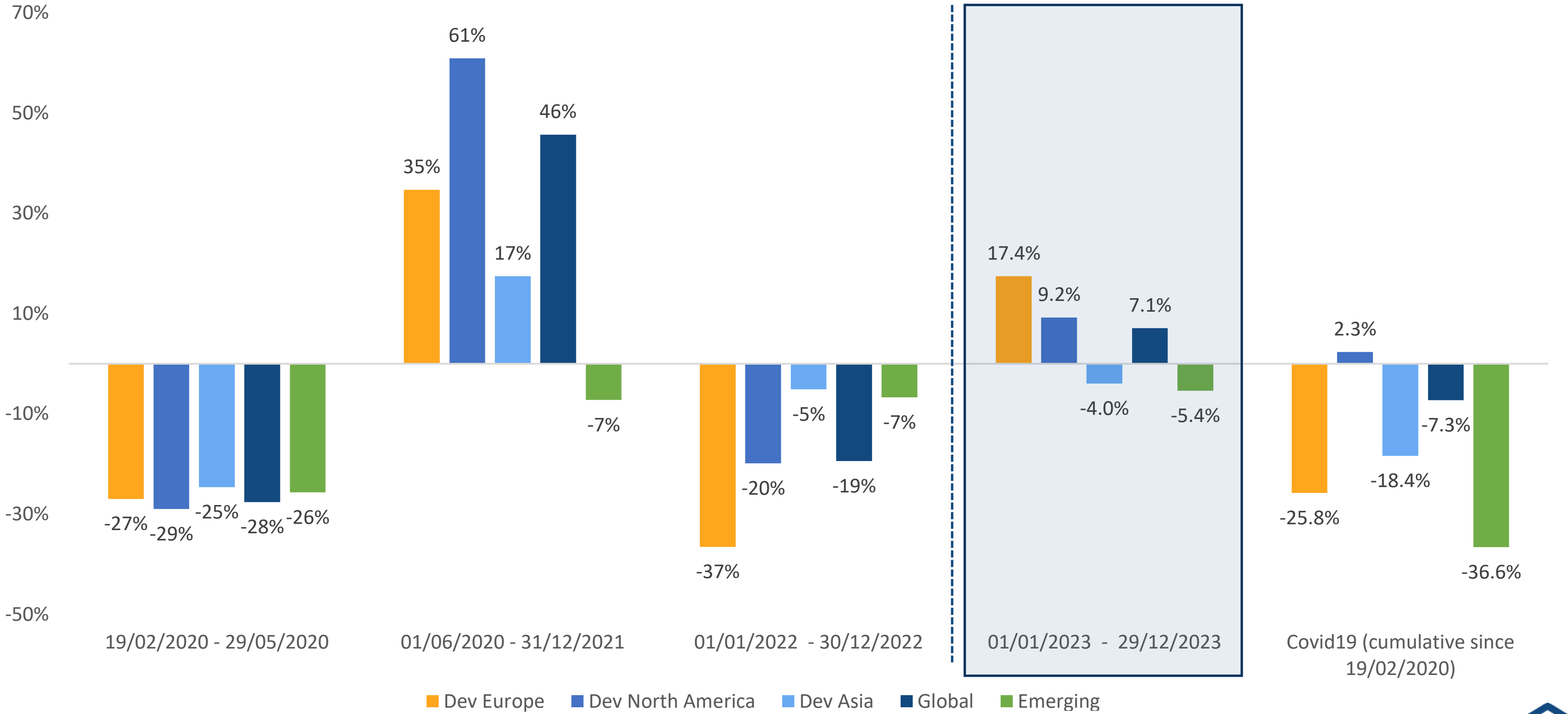


Transaction volumes fell in 2023

In spite of showing a slight recover in Q4, property transactions dropped 48% in 2023

Global listed real estate recovered in 2023

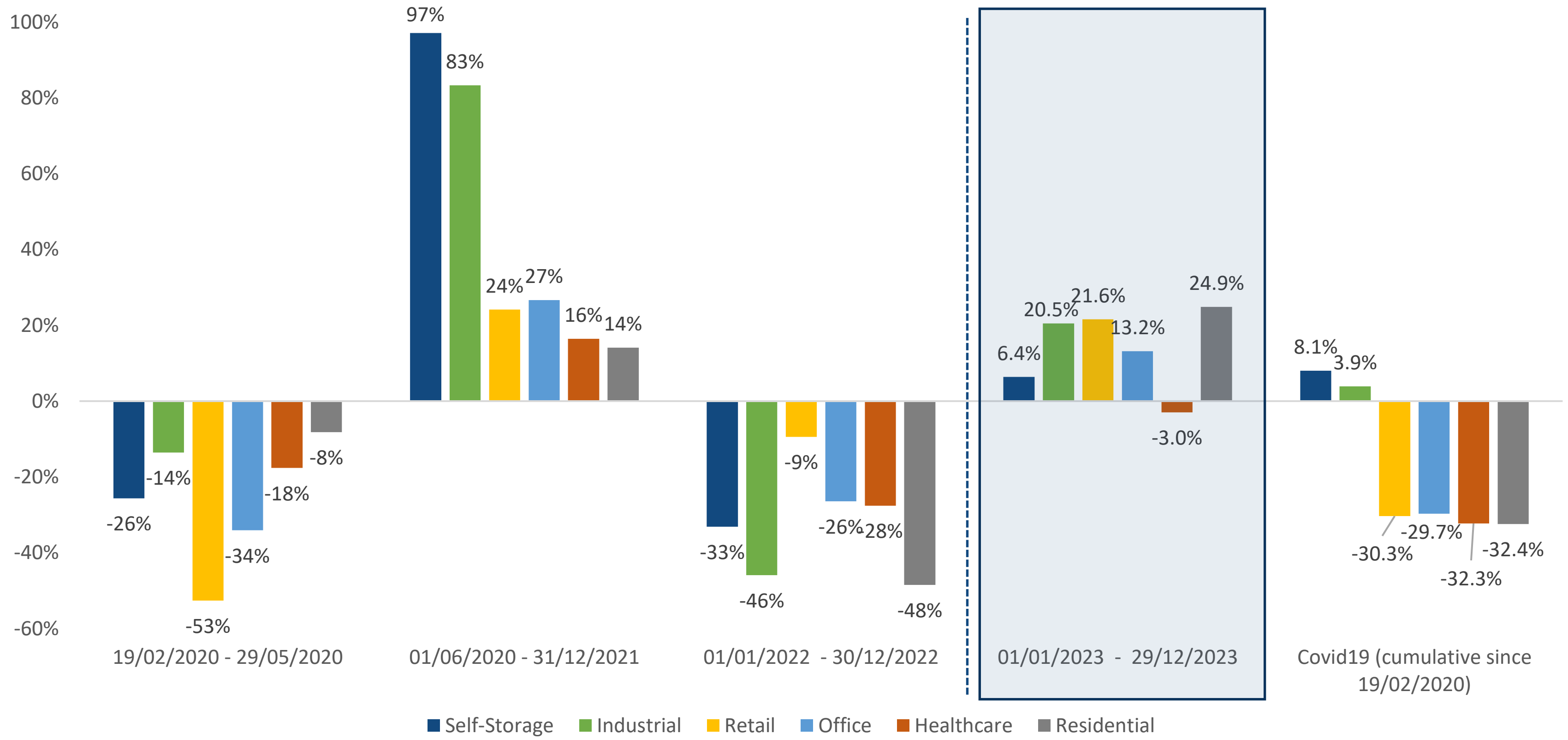
Cumulative total returns over the pandemic period by region, Feb ‘20 – Dec ’23



Source: EPRA Research. Compiled from FTSE EPRA Nareit Index series. Data as of 29/12/2023

2023 performance of European LRE suggests excessive correction in 2022

Cumulative total returns over the pandemic period by sector, Feb ‘20 – Dec ’23



Source: EPRA Research. Compiled from FTSE EPRA Nareit Index series. Data as of 29/12/2023

Retail and Resi lead the league in 2023 Spanish listed real estate

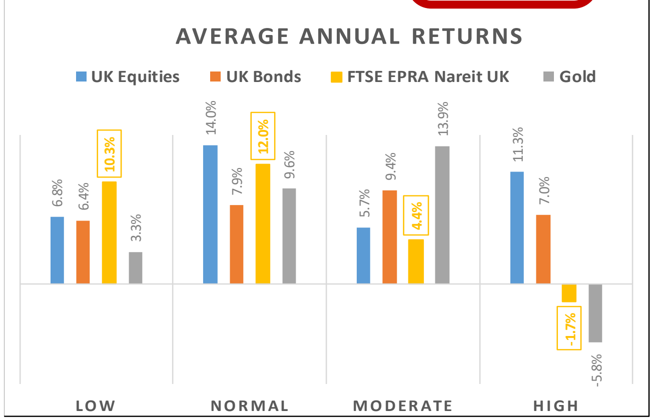
Source: EPRA
Data as of: December 31, 2023

Listed real estate outperforms under normal and moderate inflation cycles

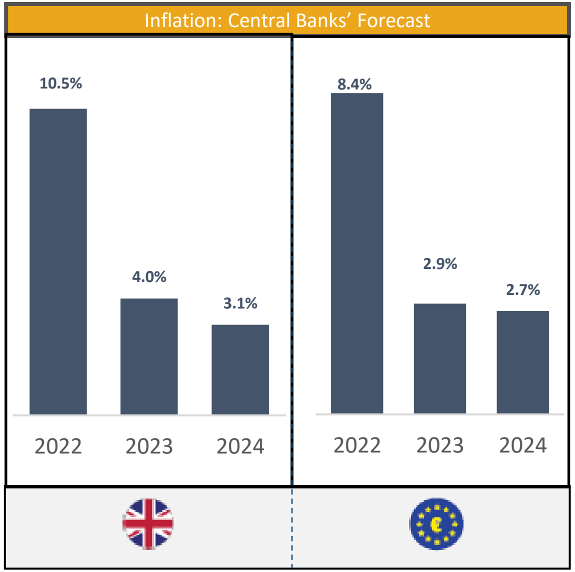
Central banks, investors and analysts expect inflation to return to the range 2% - 4% in 2024

Inflation peaked in 2022, decreased in 2023 to 2.9% in the Eurozone and 4.0% in the UK and is expected to continue to falling towards 2% target afterwards

UK Inflation Cycle		Average annual total return (1990-2021)			
Average Inflation	Cycle	UK Equities	UK Bond	FTSE EPRA Nareit UK	Gold
1.3%	Low	6.8%	6.4%	10.3%	3.3%
2.4%	Normal	14.0%	7.9%	12.0%	9.6%
3.3%	Moderate	5.7%	9.4%	4.4%	13.9%
6.7%	High	11.3%	7.0%	-1.7%	-5.8%

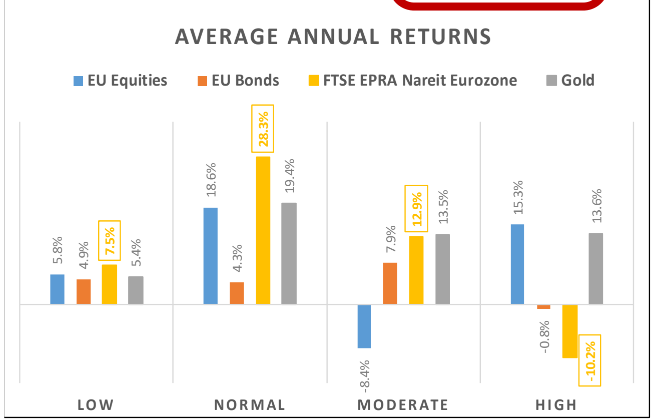


Source: EPRA Research



Source: Bank of England and ECB

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%

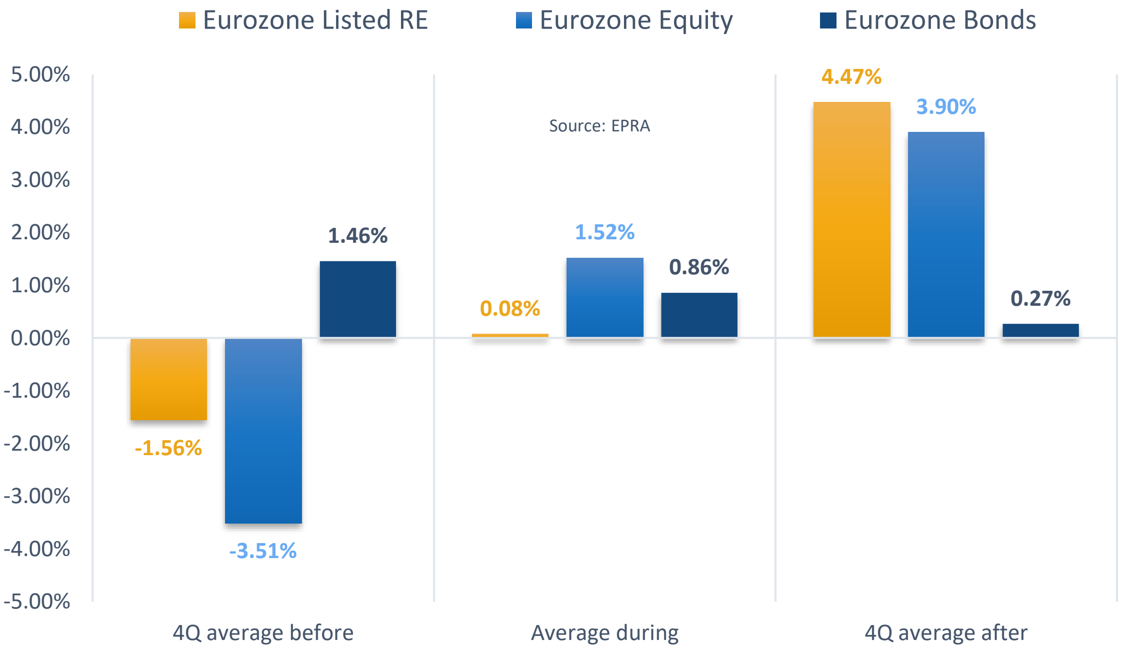


Source: EPRA Research

Periods of low economic growth represent opportunities in listed real estate

Listed property companies benefit from economic recoveries and outperform other asset classes

Historical performance during low economic growth periods (1995 - 2022)



- **Equity reacts first** to expectations on coming recessions, therefore under- performing 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

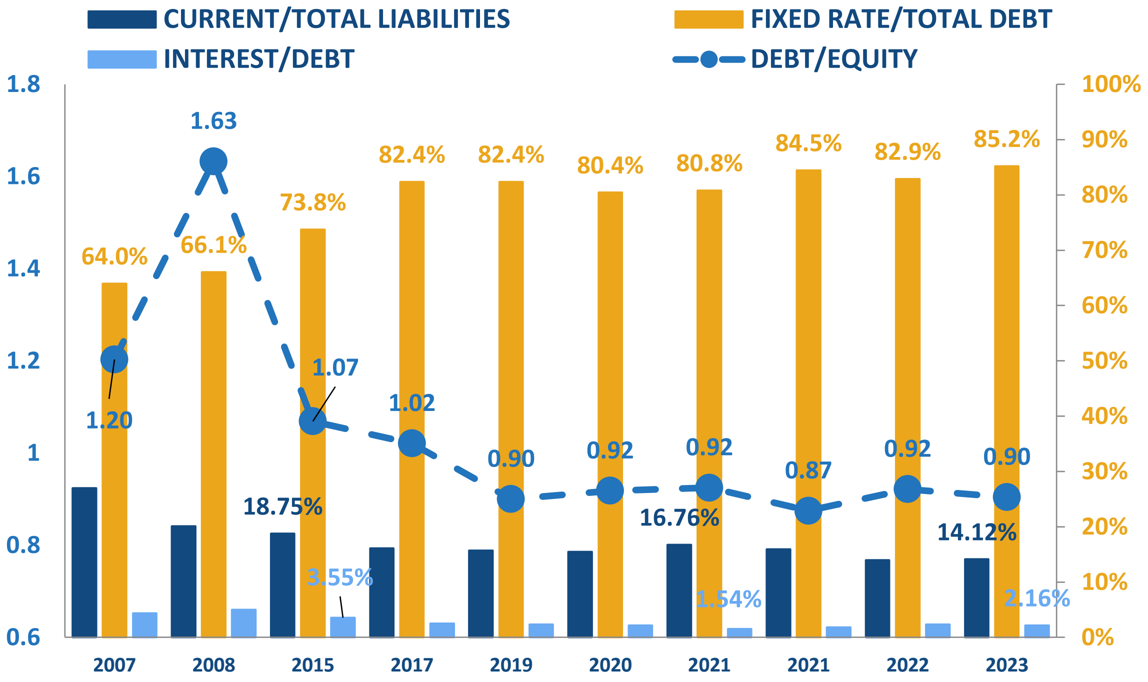
Listed real estate is well-prepared for higher interest rates (1/2)

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

Key takeaways

- Stable D/E ratio
- High proportion of fixed interest rate debt
- Decreasing current labilities (< 1 yr)
- Low interest payments compared to size of debt
- Debt profile looks much stronger now than in previous crises.

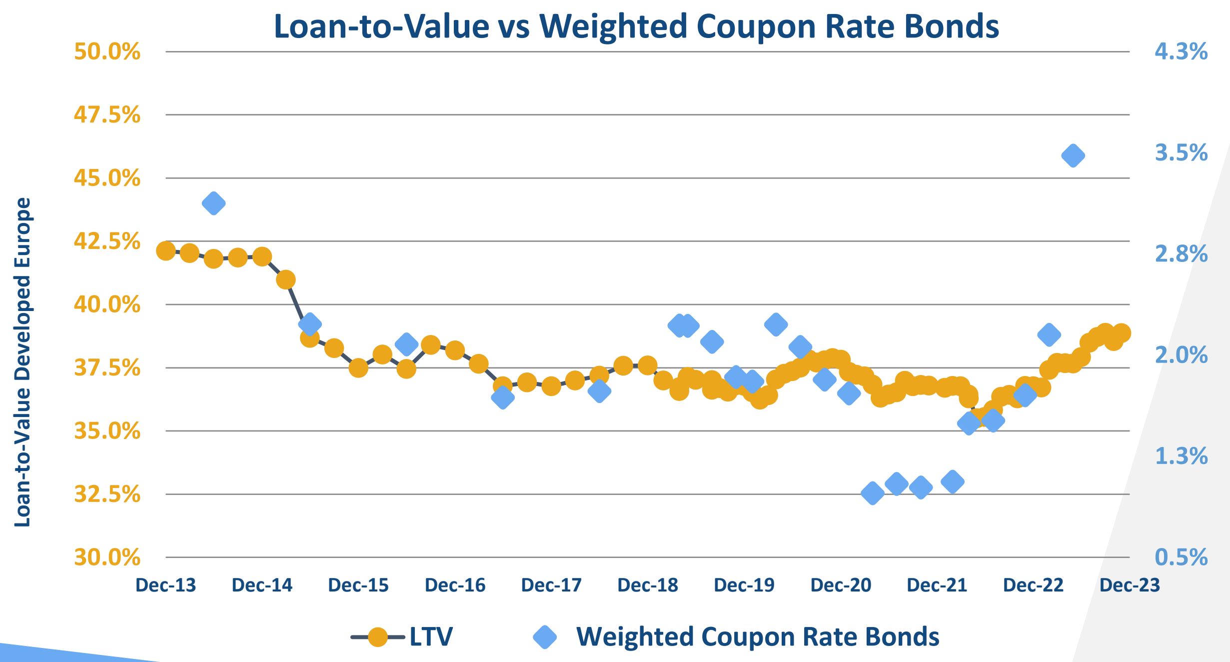
The listed real estate sector has been well-prepared for rising interest rates

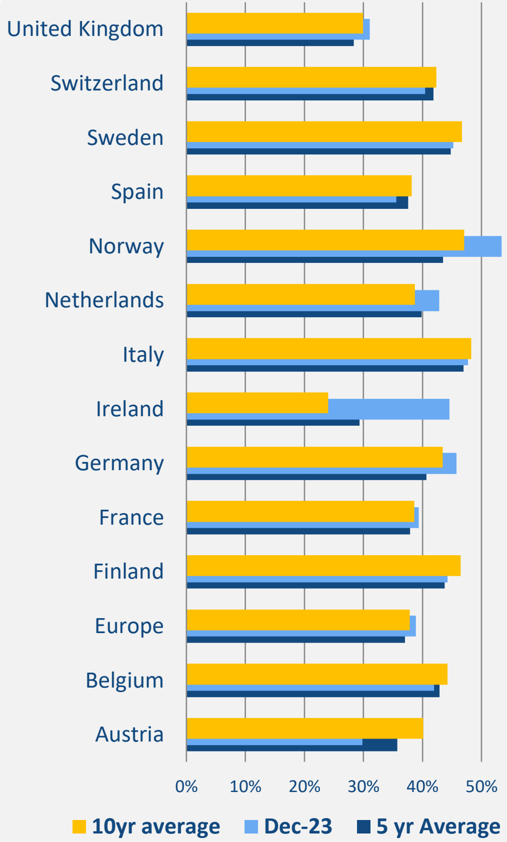


Note: FTSE EPRA Nareit Developed Europe Index constituents.
Only those index constituents with three consecutive years' inclusion
Source: EPRA

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

Leverage and cost of debt have largely decreased in the last decade, higher interest cost is just a small portion

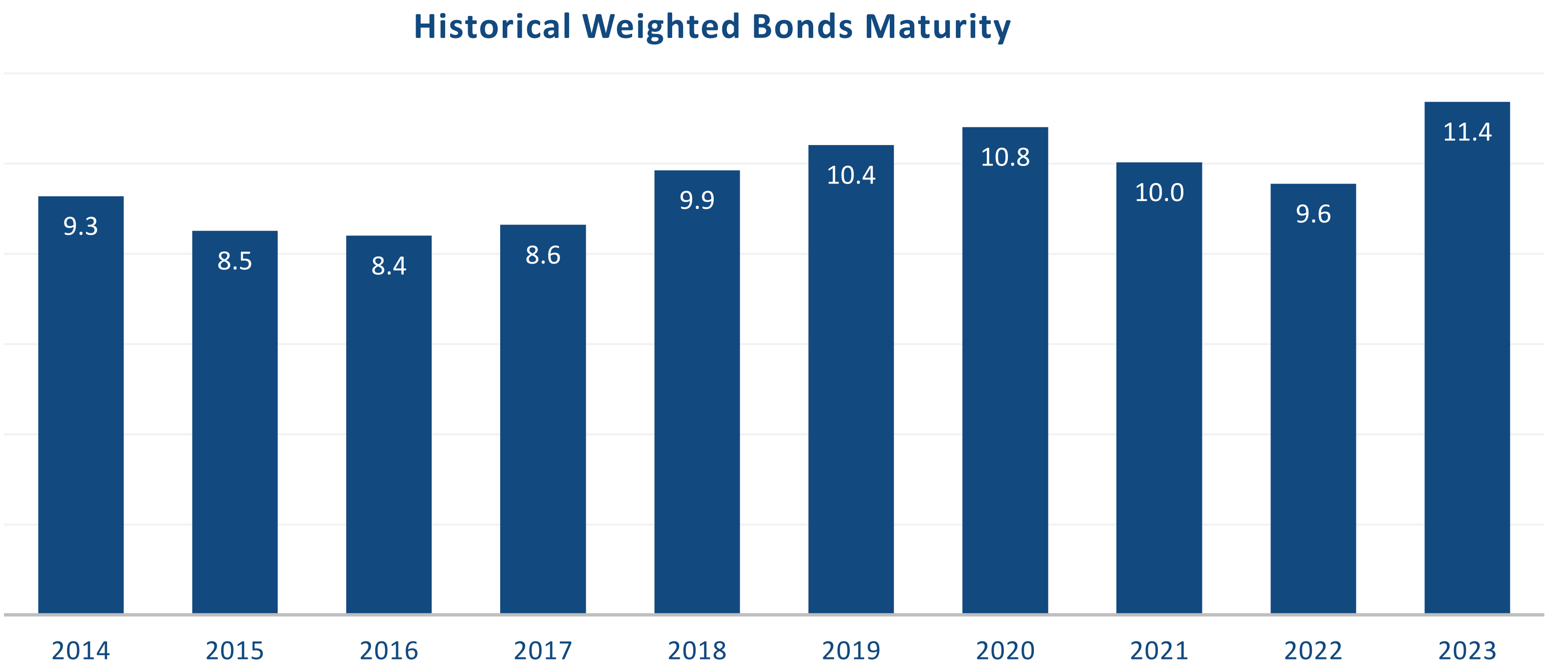




Source: EPRA
Data as of: December 29, 2023

Property companies have increased the maturity of their bond

In 2023, the average bonds maturity is more than 2 years longer than 10 years ago

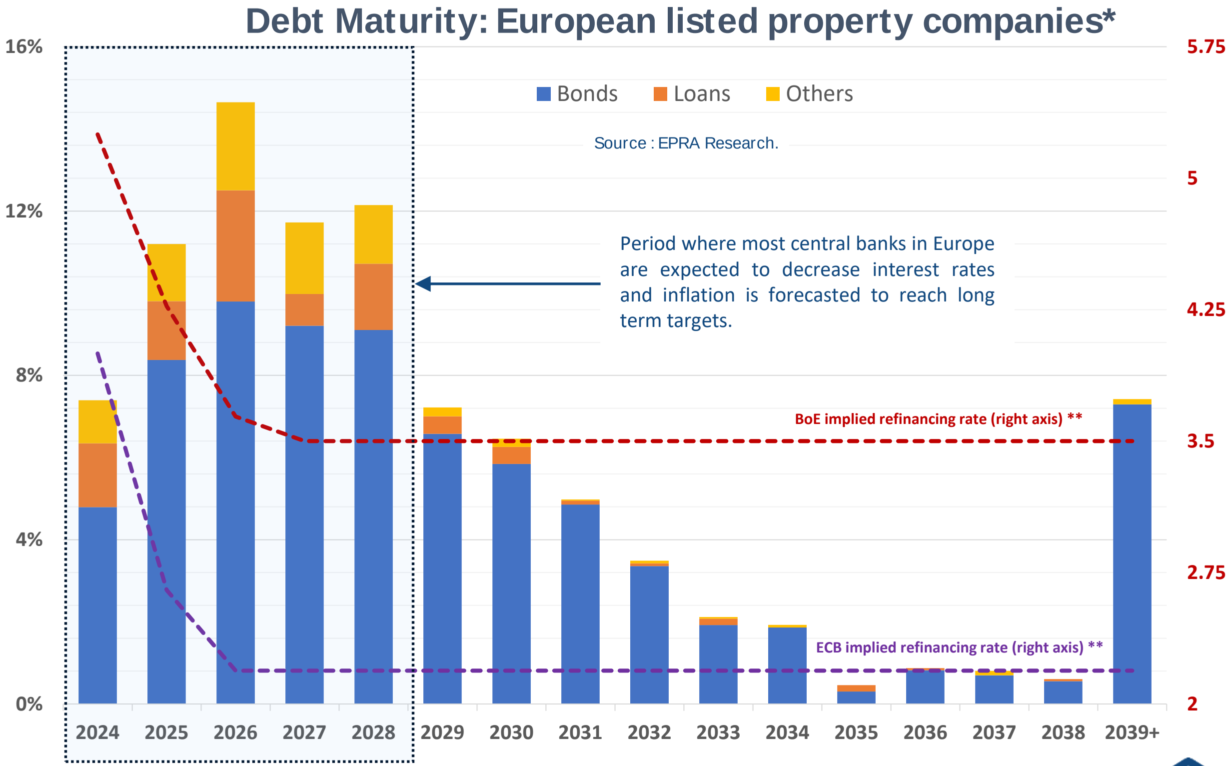


Source: EPRA Research. Data as of: September 29, 2023

Debt maturity gives some time to companies for adjusting their cashflows

38% of debt will mature between 2026 and 2028 and less than 20% will mature in 2024/2025

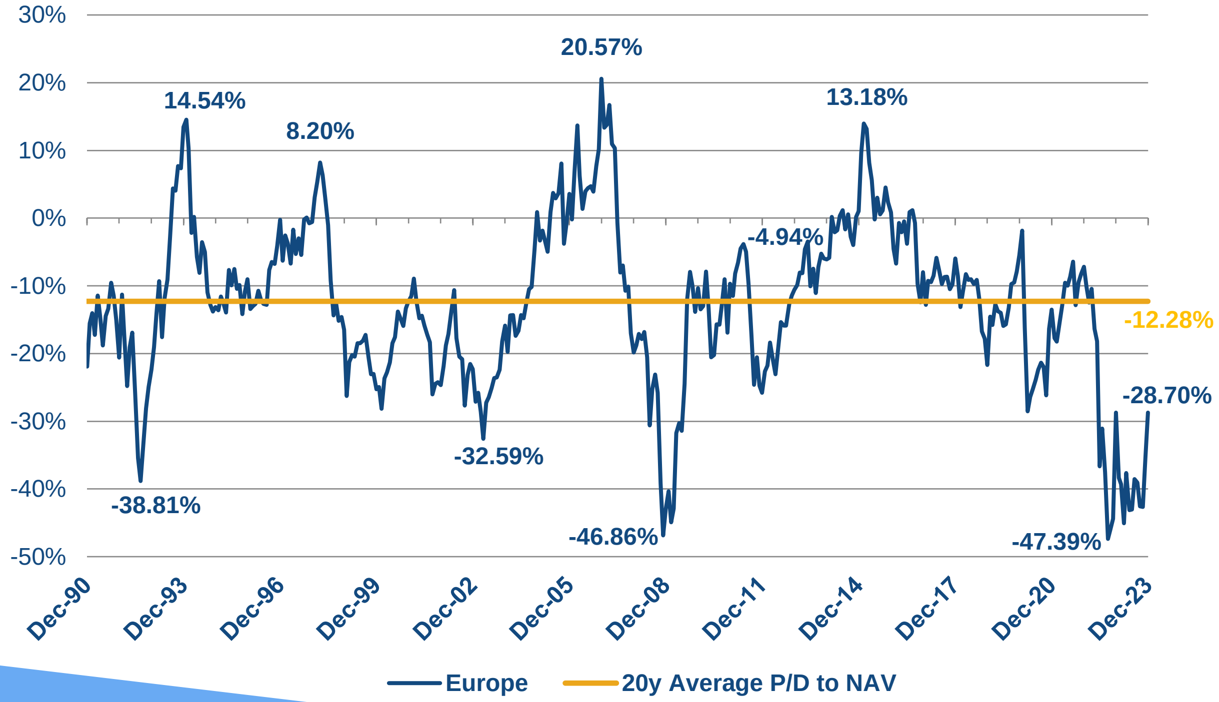
- The main central banks in Europe expect the **inflation to continue falling** and reach the long-term target by 2025.
- Most economists and investors expect central banks to **start decreasing interest rates in 2024** and get a neutral level at some point between 2026 and 2028.
- Around **38% of the debt** issued by properties companies will mature between 2026 and 2028.
- Therefore, most property companies should be able to **roll-over bonds at lower interest cost** than current levels.

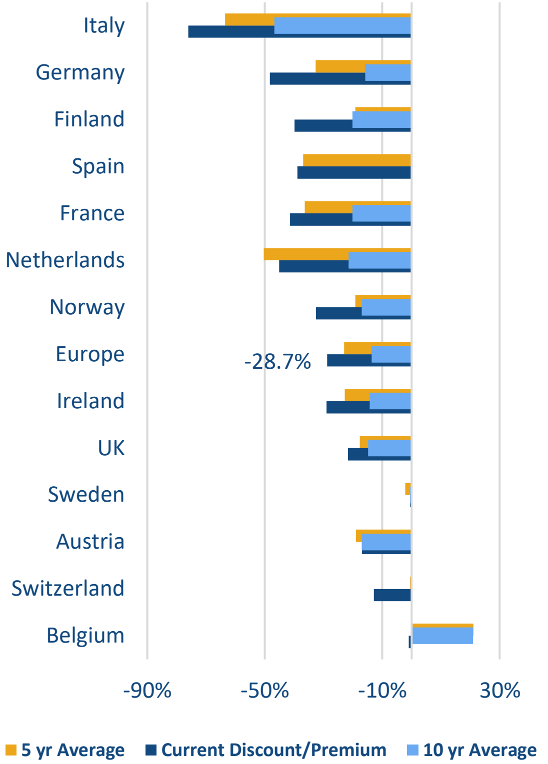


* All 108 constituents of the FTSE EPRA Nareit Developed Europe index
** Bloomberg computation on implied rates until 3y derived from the derivatives market
Source: EPRA Research & Bloomberg

Current European share prices represent significant opportunities

Average discount to NAV decreasing but still high – Disconnect between share prices and operational performance





Source: EPRA
Data as of: December 29, 2023

Difference between listed and direct real estate is decreasing and might turn in favour of public property companies

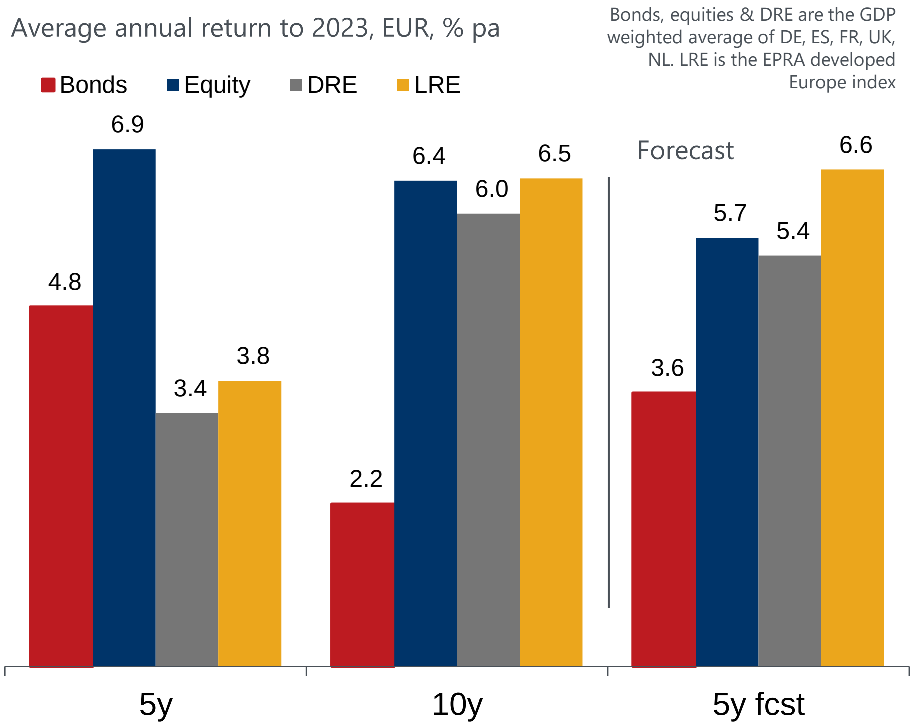
- Oxford Economics forecasts a **GDP growth of 0.6% in 2024 and 1.8% in 2025 for Europe**. Simultaneously, the CPI **should fall to 1.7% in 2024 and 1.1% in 2025 (2.9% in 2023-end)**.

- 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. However, **listed real estate (LRE) markets rallied in Q4 2023** and returned 17.4% (y-o-y).

- LRE still looks well positioned relative to DRE forecast due to **an attractive combination of strong balance sheets and steep discounts-to-NAV combined with high quality portfolios** which stand to benefit in the next leg of the cycle.

- Looking 5-yr ahead, it is expected that **LRE will outperform equities and DRE owing to a stronger bounce back in 2023**.

Europe : Multi- asset class performance until 2023 and 5y forecast



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

Our environment has changed…

And still significant uncertainty to cope with…

But we are surrounded by many positive factors…

- Earnings/ rental growth
- Footfall/ vacancy
- Investment markets
- Attractive yield spread vs direct RE
- ESG initiatives
- Alternative sectors
- (Green) Bond market
- New investors

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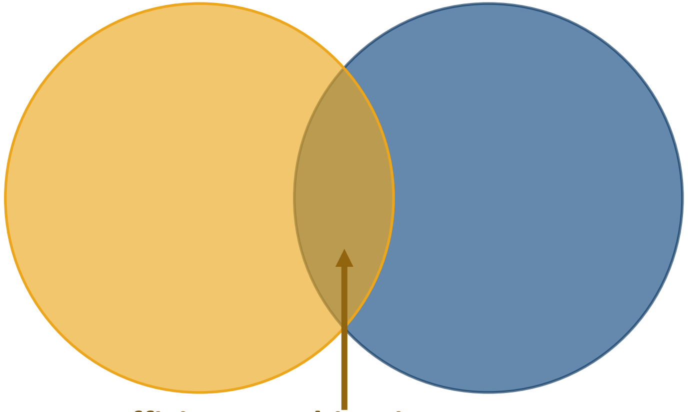
Potential benefits of combining listed and private real estate

Listed Real Estate

- High liquidity and simple investment process
- Easily accessible to any type of investor
- Attractive total returns, dividends and capital appreciation
- Large diversification across regions and property sectors



Efficient combination

- **Improved risk adjusted returns**
- **Balanced liquidity and volatility**
- **Enhanced property exposure**
- **Ability to capitalize on mispricing**

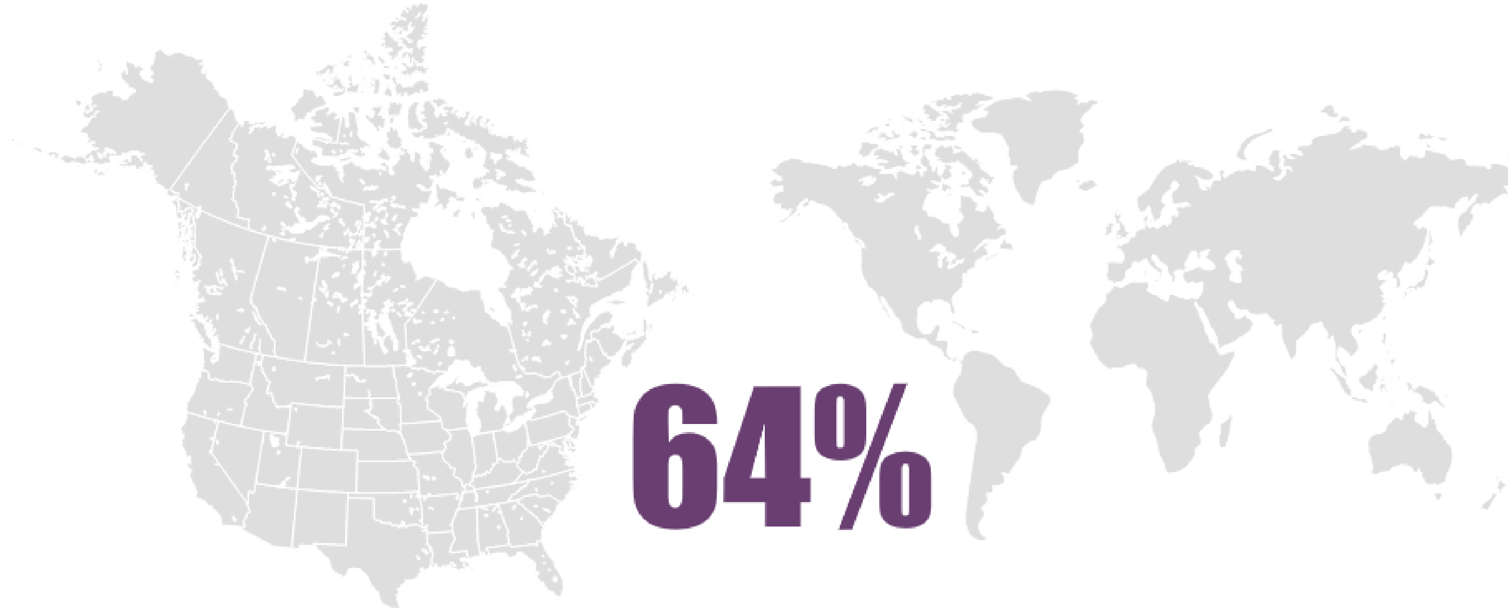
Private and Direct Real Estate

- Strong recurrent income
- Stable cash generation
- Diversification benefits
- Downside protection

Source: CBRE/Nareit/EPRA
CBRE's report available here

Institutional Investors’ REIT/listed real estate usage

Most public pension investors invest in REITs as part of their real estate allocation



64%

Of both largest 25 North American and global investors use REITs alongside private real estate

*Preqin: average allocation to REITs within blended real estate portfolios is 13%

top1000funds.com

NBIM: Listed and private real estate is all the same in the long run

Amanda White September 5, 2023 **Save Article**

The differentiating characteristics of unlisted and listed real estate diminish over time according to new research by Norges Bank Investment Management, supporting the sovereign wealth funds' unique combined strategy for real estate that sees both private and listed sit in the same team. Amanda White spoke to Norges' CIO of real assets and global head of research.

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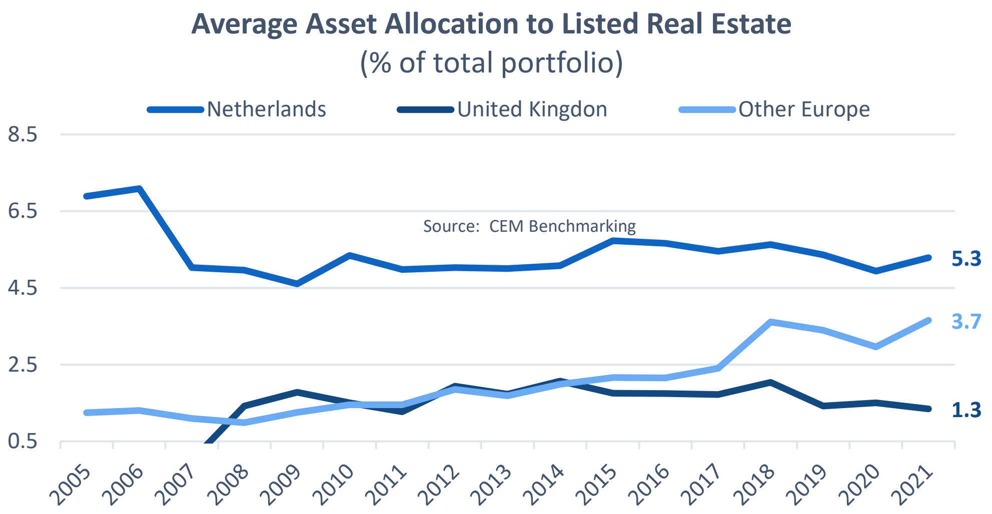
Back on track: Listed real estate securities are back on a convergence path with private property and on target to deliver some attractive gains

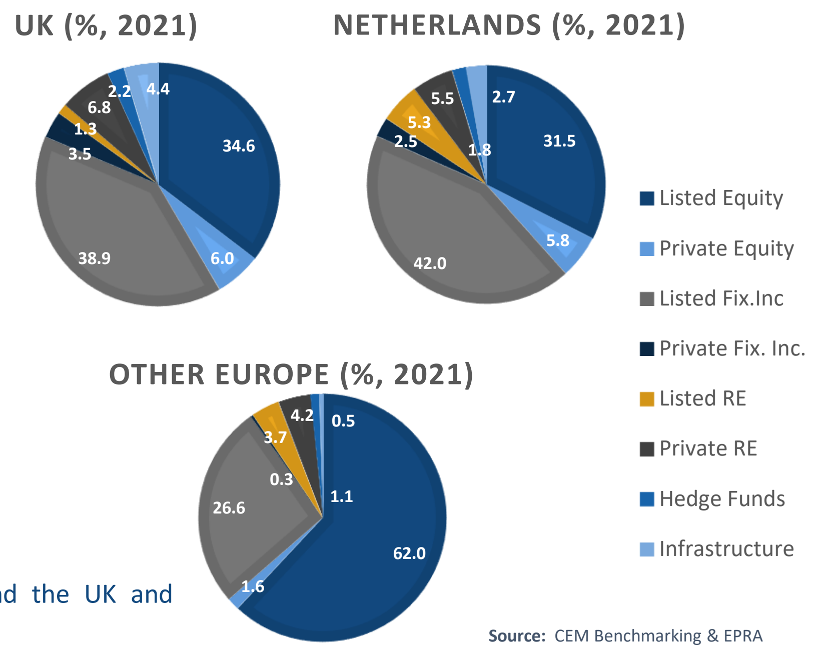
BY STELIOS BOURAS

As expected, the prices of public and private real estate assets each went their own way in 2022. REITs were hit hard by plummeting global equities, while values continued to move forward in private real estate, continuing the unlisted segment's longstanding tendency to react slower to shifting economic conditions.

Allocation, cost & performance of European Institutional Investors

Allocation to listed real estate has grown, but remains below optimal levels





Source: CEM Benchmarking & EPRA

- Since 2007, allocation to Listed RE has remained stable in the Netherlands and the UK and increased substantially in the Other Europe region.

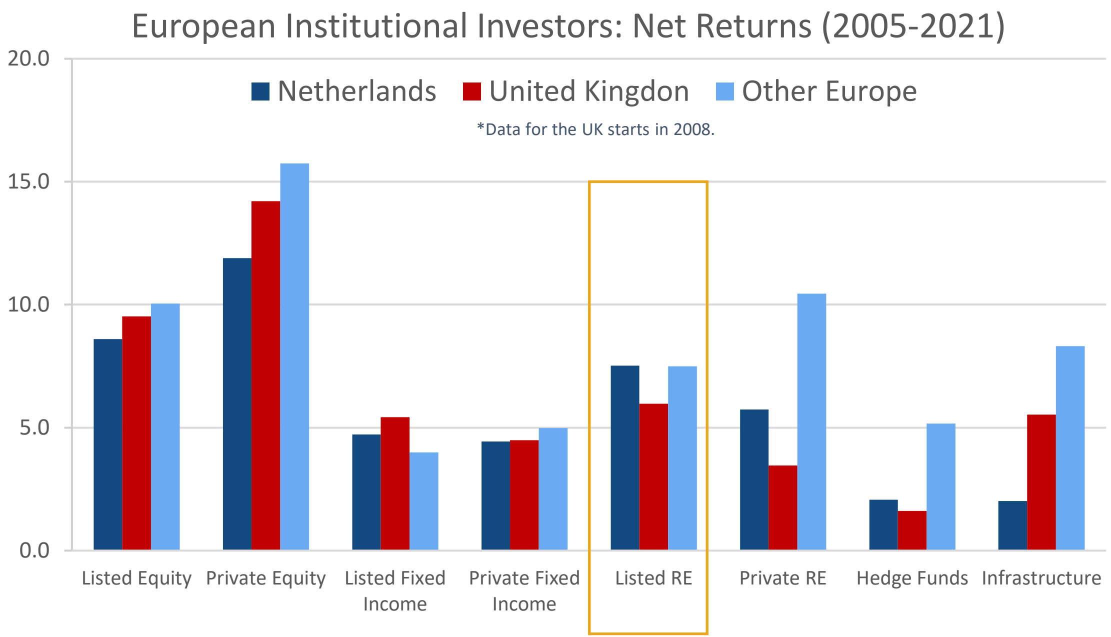
- **During the entire period, allocation to Listed Real Estate was estimated to be between 1.1% and 7.1% (1.3% and 5.3% in 2021), well below the optimal levels suggested by academic and market research studies (9% - 24%)***

*Sources: Oxford Economics and University of Cambridge

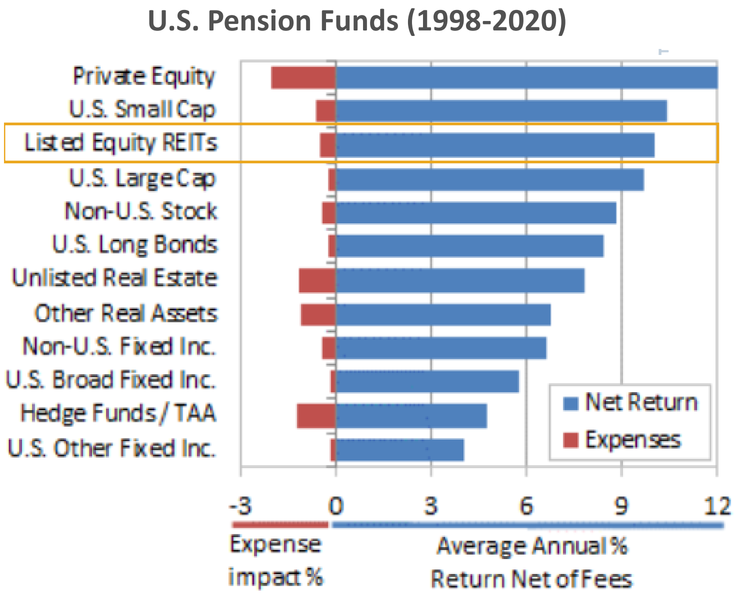
Allocation, cost & performance of international investors in Europe and the US

CEM Benchmarking studies show Listed RE among the top performers in the portfolio of institutional investors

Average Annual Net Total Returns per Asset Class – Europe & US



Source: EPRA, CEM Benchmarking



Source: Nareit, CEM Benchmarking

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What do we hear from investors ?

- Recovery anticipated for 24H2, based on valuations landing & interest rates stabilisation
- Strategically positive, but tactically cautious
- Asian bearish – US & Middle East opportunistic
- Diversification is key, but inflation-hedge and ESG increasingly important
- Listed real estate for completion strategies

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Conclusion

- Current (but improved !) disconnect between share prices and operational performance makes European listed real estate look attractive. So, *a buy opportunity* for investors.

- The vast majority of global real estate investors use listed real estate alongside direct real estate. They should allocate more to listed. So, *a portfolio repositioning opportunity* for investors.

- Huge potential to grow the European & Iberian listed real estate market. Be a bit patient.

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