EPRA

Industry Newsletter

ISSUE 53
MARCH 2016

FEATURES

- INSIGHT EVENT ROUND UP
- LOOKING TO THE FUTURE
- LISTED REAL ESTATE EVOLVES
- FUTURE OF WORK

VIEW POINT

- BRIAN BICKELL, SHAFTESBURY CEO INTERVIEW
- ROUNDTABLE
- NEW BELIGIUM REIT ASSOCIATION

MEMBERS LIST AS OF *MARCH 2016*

2

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- Resolution Capital

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- Great Portland Estates
- Green Street Advisors
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- Invesco
- Jefferies
- JLL
- JPMorgan
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- KPMG
- Land Securities
- LondonMetric
- Medicx Fund
- Moody's Investors Service
- Morgan Stanley
- Nabarro
- NewRiver Retail
- Nottingham Trent Univ.
- Picton Property Income Ltd
- Primary Health Properties
- Principal Global Investors
- Redefine International
- Safestore
- Schroder
- SEGRO
- Shaftesbury
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- Stenprop Limited
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- Target Healthcare REIT
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- SNL Financial
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- Ventas
- Virginia Tech Univ.
- Westfield Group
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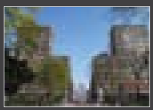

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UPDATE FROM *PHILIP CHARLS*

Welcome to the new-look bi-monthly EPRA magazine. We will use this new platform to better explain the Association's activities and services and provide compelling industry content which you'll want to read.

In the Strategic Review we carried out at the end of last year, communication with the membership was clearly a key area in which we need to lift our game.

You will see EPRA's initial response to the survey directly following this editorial.

At the top of the headlines is compliance with the EPRA Best Practice Recommendations (BPRs). Although we have made great strides forward in improving levels of compliance, there are still many companies who do not reach the standards required by investors, nor match their industry peers.

Hassan Sabir, EPRA Reporting & Accounting Officer, explains in an article where we are in the BPR compliance process and how the engagement programme with non-compliant companies is progressing. He also lays out the R&A Committee's agenda and priorities, which you may already have seen in abbreviated form in the new quarterly Committee Brief that was recently distributed.

It is our intention that all the Association committees will provide these type of despatches in future so members know where we are across the whole range of industry issues and get involved in the dialogue if they wish to.

I'd also like to guide you towards other stories contained in this magazine and some that will become regular features.

An investors' roundtable held in London in early February came to the conclusion that the volatility in equity markets since the start of the year is not related to Europe's macroeconomic performance. As pricing has become detached from the market's positive underlying fundamentals this provides a buying opportunity for real estate stocks, they conclude. >

We talk to Shaftesbury CEO Brian Bickell, whose company is in the enviable position of investing in London's vibrant West End district where valuations and returns have seen solid advances on the back of the city's attraction for global investment capital and the outperformance of the UK economy.

Closer to EPRA's head office in Brussels, we welcome the launch of Belgium's REIT association. The new industry body originally stems from the threat to the country's listed sector posed by the EU's AIFM Directive, where EPRA was actively involved in lobbying to ensure that real estate operating companies across Europe were not treated to the same regulation as investment funds. AIFM would have had a very negative impact on their business models and the Belgian companies realised they needed to speak with one voice on taxation and regulation issues to make themselves heard more effectively in the domestic corridors of power.

We have reports on the panel discussions from the EPRA Insight events in London and Amsterdam. The former has attracted increasing numbers of attendees as the first major real estate networking event of the year and in Amsterdam we resumed the Dutch Insight after a two-year hiatus in response to market demand.

Finally, I'd also like to welcome two new EPRA staff members. Laurent Ternisien is very well known across the industry as the former Managing Director of investment indices provider MSCI's real estate product and CEO of the Investment Property Databank. Laurent joins us as a Senior Advisor with a focus on our investment outreach in Continental Europe. At same time, Tobias Steinman comes on board as Director of Public Affairs from German chemical firm BASF's Government Relations office in Brussels.

I hope you enjoy the read and please provide us with feedback and suggestions on the content of the EPRA Magazine.

STRATEGY REVIEW – FEEDBACK

EPRA carried out the largest membership and stakeholders' consultation in its history during the last quarter of 2015, to help the Association calibrate a future road-map for its activities and services.

The Strategy Review carried out by EY consultants, involved a total of 72 in-depth interviews over two months with property companies, investors, peer industry associations, consultants, index/service providers and regulators.

We would like to warmly thank the interviewees, particularly our property company and investor group members, who gave up a significant amount of time to provide their opinions on EPRA. This is invaluable feedback from the clients for our services and the consumers of our data.

While there is a broad consensus of support for the direction in which EPRA is heading, it is also clear there are areas where we need to improve.

Over the coming weeks and months the membership will see EPRA addressing the issues raised and making significant investment in those services where there is the greatest demand for improvement.

Reporting & Accounting

EPRA's Best Practice Recommendations (BPRs) are a vital part of our offering, but compliance with these appear to be a major concern. We have an active programme of engaging with non-compliant BPR companies and an update on its progress has been provided in the Reporting & Accounting (R&A) Committee's regular Communication Brief.

Interesting ideas such as introducing a "comply or explain" principle and an EPRA "Gold Index" for BPR-compliant companies were raised in the consultation and will be on the R&A Committee's agenda.

Similarly in the accounting field, some respondents felt we should concentrate on providing a "facilitating" rather than an "interpretative" role when engaging and lobbying with industry bodies such as the ISAB and FASB.

Research, indices and Investor Outreach

Research was a key area where respondents wanted EPRA to review its approach to focus on the main issues facing the listed industry so this better supports members' day-to-day work and the Association's lobbying and investor outreach functions. >

The Research Committee will engage further with the membership on where most value and market relevance is to be extracted from our funding of specific projects.

For example, some respondents called for EPRA research to be more 'forward looking', but we try and avoid making 'market calls'. Another suggestion was for EPRA to fill the information gap on real estate's contribution to the real economy. This is an area where we continue to cooperate closely with INREV to support industry-wide lobbying at the EU level.

EPRA is also considering proposals to collect data on the total tax-take from the European industry, as this has been a successful approach used at the national level by UK and French companies.

The EPRA market indices were considered to be the strongest area of performance as the most widely recognised global benchmarks for the listed real estate industry.

The Investor Outreach programmes attracted the widest spectrum of both positive and negative responses in the survey with little consensus on where EPRA's main focus should be, or the approaches to investors we should be adopting. This is a clear signal to us that we need to explain with far more clarity the rationale and results for our existing global programmes and drill down further into what the membership wants and expects.

Regulation and political affairs

EPRA's activities in the regulation and political lobbying spheres were considered to be broadly comparable with its industry peers. The interviews showed that many respondents consider regulation to be a major threat to the sector and therefore attach heavy importance to the Association's lobbying activities. We were also encouraged to deepen our cooperation with national property federations.

Events, networking and communications

Feedback in this area concentrated on our flagship Annual Conference event and the general appeal for increased and improved internal communication and transparency.

We have already implemented one of the first ideas that emerged in the strategy survey by forming a Conference Committee composed of high-level property company and investor executives to help us restructure the event.

Corporate governance and 'other' regulatory issues

EPRA guidance or directives in corporate governance and 'other' regulatory areas such as directors' remuneration, shareholders' compensation etc. did not appear to be a key issue for respondents in the survey. Nevertheless, EPRA will continue to closely monitor these areas so we can act if market developments and membership demand justifies it.

Connectivity

There were suggestions that EPRA should 'reach out' more to smaller markets, for example through annual meetings in regions/countries in cooperation with local associations. We are pleased to have successfully restarted the Amsterdam Insight event this year after a two-year hiatus, which was well attended. EPRA is considering how we might introduce a similar type of event in other European markets that are not already covered.

We look forward to working closely with the membership to address the issues raised by the Strategy Review consultation and implement EPRA's responses in the very near future.

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PARIS 2016

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September 06-08, 2016

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EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

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Program for the conference

Tuesday
06 September, 2016

French Property tour

There will be 3 tours to choose from, each managed by a leading bank:

- Paris Centre
- Paris La Defense
- Paris Nord & East

Wednesday
07 September, 2016

Future-proofing Real Estate

Welcome by EPRA CEO & Chairman

European Economic Vision

Technology & behavioural trends affecting real estate
Ray Kurzweil - Google
Followed by 3 panels
- Urban Density
- Retail trends
- Office trends

Lunch with Industry leader interview

EPRA Research Latest findings

EPRA Financial Workshop

Mayor of Paris -
Keynote on future of Paris
- Anne Hidalgo - Mayor of Paris

Real Estate and GICs - Implications for our industry

Global Investor Panel

Cocktails

Dinner

Thursday
08 September, 2016

Thursday will bring together a choice of 18 small and Mid cap companies which you don't hear from everyday. All index constituents, they will pitch to an investor audience throughout the final conference day of presentations.

The companies will be chosen based on investor survey, bringing the most innovative and agile into the spotlight.

IN THE HEART OF THE TOWN

BRIAN BICKELL
CEO, SHAFTESBURY

ONE Why are you focused on the West End of London?

"It's a unique location. We are sitting in the heart of the largest city in Western Europe with a population growing to 10 million and a catchment area in the Home Counties of another 10 million. We have a huge number of people working here with vast number of visitors – Londoners, domestic and from abroad. The New West End Company estimates that there are well over 200 million visits a year. Our particular focus is shops and restaurants, which are potentially very profitable businesses because of the volumes of visitors. The West End is space constrained and concentrated in a relatively small area. Much of it has conservation area status, so the opportunities to redevelop and mass up hugely are limited. These qualities bring good long-term growth. Rents for shops and restaurants in the West End have never gone down in living memory because of the structural imbalance between supply and demand."

TWO Has Shaftesbury always focused on the West End of Central London?

"No. When we started 30 years ago, the mantra was 'spread your risks.' We had offices in regional cities, industrial estates in the West Country, office developments in fringy parts of London and a block in the centre of Chinatown. In the downturn of the early 1990s, everything else got caught up in the perfect storm. It was the cash flow and resilience of Chinatown – a block of 32 restaurants – that made us think that we should just stick to the West End. We sold off everything else and started with a new strategy in 1993. It was an important lesson to learn. Since then, we have built the portfolio to 14 acres with more than 1 million sq ft of shops, restaurants, cafés and pubs. You couldn't put this portfolio together again today."

THREE Aren't there risks in having such a focus?

"We always remind shareholders that all of our eggs are in one basket. It's never been economic factors that worry us. The West End is not reliant on the fortunes of the UK economy. Currencies go up and down but the West End attracts people regardless. The general risk is anything that stops people wanting to come into the West End of London. It could be issues with terrorism, health scares or long-term transport disruption."

> *Our capital expenditure is only about GBP 30 million a year for about GBP 3.1 billion worth of assets that are predominantly shops and restaurants.*

FOUR Is there scope for more upside in the West End?

"Yes, there is. The Crossrail railway link coming in 2018 will be very beneficial for the West End, improving access and network capacity. Footfall patterns are going to change dramatically over the next few years around the new transport hubs. As they become busier, streets that previously we wouldn't have considered will be of more interest."

FIVE Isn't there massive competition for assets?

"Ownership in the core area is quite fragmented and there's very little institutional ownership in the sort of assets that we want to buy - relatively small buildings, where

the bulk of the value is in the lower floors of shops and restaurants. Competition is usually from private investors. Our portfolio has been pieced together like a jigsaw puzzle. You have to be very patient. A good time to pick up these assets is when it's gloomiest. Right now, owners are reluctant to sell as they see the long-term value of these assets. We always buy slightly secondary streets because they give you greater opportunities for long-term rental growth. We reposition streets and improve existing building stock rather than redevelop."

SIX Have you sold anything?

"We have a similar accumulation strategy as the large landed estates, so generally, no. It's unlikely that we would sell buildings out of the middle of the clusters of ownership that we have assembled because there is a premium value to owning whole streets. If we thought anything had run out of rental growth, either a block or those individual properties that are apart from the clusters, we would think about the right time to sell and reinvest or return the capital to shareholders."

SEVEN How robust is tenant demand and how is it changing?

"We have the benefit of such deep demand and very little vacancy. We interview prospective tenants carefully. Offering to pay the highest rent won't get you into a Shaftesbury unit, so you have to convince us. There is some of the world's best shopping here in central London. The variety is absolutely huge and a staggering volume of business is done here. We provide the mix of medium- and smaller-sized shops that attract independent and overseas operators, who are very keen to have a presence in this incredible location.

Our business has shifted over the last few years: 35% of income comes from retail and 35% comes from food and beverage leisure. We are the largest owner of restaurant and leisure premises in the West End, with 257 restaurants, bars, cafés, pubs and clubs. People come not just to shop, but to explore, or visit the unrivalled concentration of world-class theatres, museums, galleries and historic buildings – and you would normally have a bite to eat every four or five hours. That's an important part of the West End experience.

We avoid 'luxury' and always focus on a mid-market, innovative and affordable offer across all our areas."

EIGHT What has been your track record on rental growth?

"Our business is all about turning current estimated rental value into real income while growing the potential. A cautious guide would be about 5% compound rental growth a year. Often starting from a low base, and always striving to create the best trading environment for our tenants, we believe the long-term growth is sustainable."

NINE Are leases changing?

"Our retail leases have always tended to be shorter as our shops are relatively small and independent retailers do not want to be committed long term. They are looking for more flexibility, as are we.

Restaurant lease lengths have always been longer than for retail because they need this time to amortise their substantial fit-out costs. It's a landlord's market as, despite the exceptional demand for restaurant space, Westminster City Council is not inclined to change the balance between shopping and restaurants in the West End. These days, leases are typically 10-15 years, down from 25 years, and on terms that give us much greater control than before.

Our capital expenditure is only about GBP 30 million a year for about GBP 3.1 billion worth of assets that are predominantly shops and restaurants. It's the tenants who fit them out and when the kitchen or shop is looking a bit tired or worn out, it's not a cost to Shaftesbury.

Upper floors to our buildings are a mix of small offices and residential. We have quite a lot of residential – 529 flats now – to rent. They are studios and one- or two-bedroom flats, generally for younger people who want the buzz of living in the city centre. We have never believed in selling them off because we like to keep control of the buildings. Our 421,000 sq ft of offices are generally small, low-spec affordable suites that suit the many creative businesses in Soho and Covent Garden. The planning environment has changed to curb office to residential conversions to protect the local working community, which is important for the local economy."

TEN What should we read into the recent slide in Shaftesbury's share price?

"In an environment of low interest rates, growth and inflation, investors will see the benefits of long-term real estate ownership in good locations. The fundamentals of our business are as strong as ever and it's very difficult to see what would derail what's going on in the West End. But in the short term there is nervousness and we cannot buck wider market sentiment.

Our secure income means Shaftesbury shares are less volatile than other listed property companies. Historically we go down at half the rate of others and recover more swiftly. Our shares appeal to long-term investors. They may look expensive, but that's because of the security and long-term growth prospects offered by Shaftesbury."

Brian Bickell
CEO, Shaftesbury

Brian Bickell qualified as a Chartered Accountant in 1976. His first role in the real estate sector came in 1983 as Group Financial Accountant at Stock Conversion PLC, a listed company taken over by newly founded Shaftesbury three years later. He was Shaftesbury's Finance Director from its IPO in 1987 until 2011, when he became Chief Executive.
b.bickell@shaftesbury.com

ACTING ON INSIGHT

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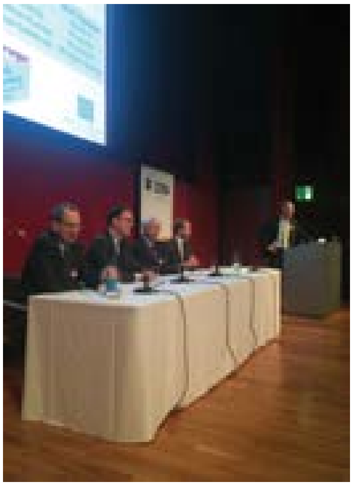

Photos by Dominic Turnbull

EPRA's customary curtain-raiser to the year for the listed real estate sector took place this January in London and Amsterdam, with the ongoing support of Nabarro and Loyens & Leoff.

EPRA Insight – London (London, January 12, 2016)

The UK property market may deliver positive surprises in 2016 as risks mount

The UK property market may deliver positive surprises in 2016 and perform better than the "bearish outlook" reflected in pressured company share prices, a packed EPRA London Insight Conference heard on January 12th.

"Not all the risk indicators are on red," Morgan Stanley property analyst Bart Gysens said at the event. "Yes, this year will be less good than 2015, but it won't be as bad as is currently priced into stocks."

Reasons to be less gloomy include bank lending that is "far removed" from the levels of previous peaks in the property cycle, "very comfortable" spreads between property and benchmark bond yields, and pockets of rental growth, particularly in London, he said.

The comments from the Morgan Stanley analyst challenged the view of some in the UK property industry who say that market is close to, or at, the peak of the cycle.

Among the most commonly cited reasons for their view are the 'red flags' of record low property yields, sky-high transaction volumes, increased M&A activity and equity market issuance, plus high levels of interest in real estate from generalist investors. Other areas of concern include the uncertainty over the outcome of a referendum on Britain's future in the European Union, a weaker London housing market and the slide in the stock market, Gysens noted.

Registration for the EPRA Insight event at the British Museum, organised with law firm Nabarro, closed after three days. This reflected its importance in kick-starting the property industry's year and also the increased demand for insights at a time when prospects for the UK's real estate market appear uncertain. The event also took place before negative sentiment about economic growth prospects for China and the slide in oil prices effecting global stock markets.

Marcus Phayre-Mudge, a real estate equities fund manager at BMO Global Asset Management, moderated the discussion by a panel composed of three executives of listed property companies and Gysens. He opened by contrasting the gearing levels of each of the panelists' companies – British Land, Great Portland Estates and Kennedy Wilson Europe.

Gearing up

Toby Courtauld, CEO of Great Portland, observed that high levels of gearing do not correlate with value creation for shareholders. His company's falling debt reflects its disposal of assets that have met their business plan and because "market yields are pretty punchy" in the central London market on which it concentrates.

He predicted that yields for secondary properties in central London will start to rise, whereas they will remain stable for prime assets.

Peter Collins, Chief Operating Officer of Kennedy Wilson Europe, said the company's 42% loan-to-value ratio was appropriate given the company's low exposure to development and a 2.9% cost of debt finance. He expects office rents in Dublin, where more than a quarter of Kennedy Wilson Europe's assets are located, to grow at a double-digit rate and for its Irish retail assets to start performing.

British Land CEO Chris Grigg said that his company's debt ratio is lower than before the global financial crisis. It reflects a strategy of positioning the company as a "total return" play for shareholders, which includes a dividend distribution commitment, he said.

Phayre-Mudge, who is sceptical about investing in retail-anchored properties given the structural changes to retailing unleashed by e-commerce, challenged the panelists on their retail exposure.

Collins responded by saying that "good retail pitches will survive and thrive." Kennedy Wilson Europe's retail assets yield 7% and were acquired in a receivership sale, while the company's business plan assumes no rental growth, he added. Grigg added that retailers still regard bricks and & mortar stores in the right location and configuration as central to their expansion plans.

On the subject of share buy-backs, Grigg said British Land's share price would need to remain at a significant discount to net asset value for an extended period of time before he would consider buying back stock to generate value for his shareholders.

Asked about the housing market, Grigg said Prime Central London – (where sales prices start at £GBP 1,000 a per sq ft) has "bullish" medium to long-term prospects even if tax increases and increased supply mean "it will get squeezed in the short term."

Toby Courtauld, CEO of Great Portland, observed that high levels of gearing do not correlate with value creation for shareholders."

EPRA Insight Amsterdam (January 18)

Investors home in on simmering Dutch opportunities

LOYENS & LOEFF

The low cost of financing generated by very accommodative ECB policies and stiff competition between lenders, combined with economic recovery and growing consumer confidence, have reignited previously slumbering Benelux property investment markets, particularly in the Netherlands, the EPRA Amsterdam Insight event heard in mid-January.

Attendees at the seminar, hosted by law firm Loyens & Loeff, heard that the main Dutch markets, notably Amsterdam, have seen a strong shift in pricing from value-add >

Global REIT Survey

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NAREIT

pwc

Each REIT regime is unique. The latest survey updates the regulatory changes which have occurred this year - across 37 countries.

The 11th REIT Survey, covers four continents. It is a hugely collaborative effort - with major contributions from Deloitte, PWC, Ernst & Young, KPMG, Clifford Chance, Loyens & Loeff and NAREIT.

We've seen the major REIT regimes withstand recent traumas and remain popular with investors and governments around the globe. This is evident from the ability of many REIT regimes to raise capital and the attention paid by the authorities to the continued development of existing regimes. A new, online, interactive REIT Survey will be launched soon.

The *EPRA Global REIT Survey* is your window on the REIT world.

Visit: www.epra.com/reitsurvey

About EPRA

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, encouragement of best practices and cohesion, and strengthening of the industry.

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towards more core investing as foreign capital has flowed in. This has encouraged domestic portfolio holders to put their assets up for sale in a market that had been lagging its EU peers in transaction volumes.

The debate at EPRA's London Insight a week earlier focused on raising red flags over pricing and yields as the British capital enters the late stage of the current property cycle, while in Amsterdam the speakers' panel saw the main upside being offered by Dutch and other Continental European investment markets.

"Opportunities today lie on the Continent... where core investors have been sleeping for some years now," Erik Langens, Executive Director Investment Properties at CBRE told the EPRA Insight audience. He said these investors are collectively waking up as more portfolios come onto the market.

In the Netherlands there are still enough value-add opportunities to be found, as witnessed by private equity real estate manager Tristan Capital Partners' acquisitions of two property portfolios from insurers Delta Lloyd and Generali totalling EUR 485 million; NSI buying the Cobra portfolio from Goldman Sachs and reports that the UK's Marathon is targeting more Dutch deals in coming months, Langens said.

The outlook for the Dutch market is very positive and investment volumes should stay high, particularly as Amsterdam is currently among the cities with the highest real estate to government bond yield spreads globally, suggesting there is considerable potential for further compression of cap rates.

EPRA CEO Philip Charls told the Insight event that the European listed real estate sector has been enjoying strong investor interest with EUR 25 billion of new capital raised by companies in 2015, 11 new inclusions in the FTSE EPRA/NAREIT European Index and the industry's average gearing decreasing from 41% to 37% loan-to-value.

"The liquidity advantage of real estate stocks is likely to be in the spotlight as global markets enter the late stages of the cycle.

Investors will be better served by assembling blended portfolios of listed and non-listed property, both from risk and return perspectives," he said.

Joost Uwents, CEO of listed Benelux warehouse specialist WDP, said his company was currently in the "sweet spot," with the logistics sector booming on the back of the e-commerce revolution.

"The Netherlands is an interesting market for us as the government has done its homework and invested a lot in infrastructure, there is plenty of land available and labour costs and flexibility are attractive. With logistics everyone thinks of non-food e-commerce, but we are only at the beginning of the growth curve as soon there will be an online solution for everything that is fresh and frozen," Uwents said.

Wereldhave CEO Dirk Anbeek said the company had been challenged by developments in the Dutch market following the collapse of big retailers V&D and Macintosh.

"Macintosh we clearly anticipated and prepared a Plan B. V&D came as a bigger surprise, because the financers had committed their money until 2017. Overall we will be able to fill up most of the empty spaces -- in places like Hoofdorp and Purmerend for instance, but it is very clear that small cities will go through big changes in retail. If you are a shop owner close to a V&D in Meppel or Den Helder, for example, you definitely have a problem." >

The main Dutch markets, notably Amsterdam, have seen a strong shift in pricing from value-add towards more core investing as foreign capital has flowed-in.


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Johan Buijs, CEO of NSI, the only Dutch listed office specialist, said the retail sector seemed to be repeating the experience of the much maligned office market in the Netherlands, which has been characterised by strong polarisation trends between good and bad locations, but is now seeing the first positive price revaluations for many years.

"In 2015, we were at the lowest share price ever mainly due to the stock market collapse in China, but the office market is now finally bottoming out and companies are relocating their main offices again. The Cobra-portfolio we bought from Goldman has an 8% annual return and we bought other offices at yields of around 10%. It looks like the retail market is catching up, because we've had the problems with oversupply in the office market for years already," Buijs commented.

Healthcare is another "one to watch," since demand in the Netherlands is exploding on the back of a rapidly ageing population and new legislation, which is refocusing the state sector on "cure" provision and leaving "accommodation" to the individual and the market.

"The Dutch market is really opening up and creating interesting investment opportunities. In the US, three of the ten largest REITs are healthcare REITs and as the demand grows further in Europe, we will see a dramatic change in this market as well," Jean-Edouard Carbonnelle, CFO at Cofinimmo said.

"Last year we raised more equity, but also couldn't resist selling some assets given the price we could obtain for healthcare and office properties. The current yields in the healthcare market are around 5.5% for Belgium and France and 100 basis points more for Germany and The Netherlands. That can change rapidly when this sector becomes more mainstream," he added.

The EPRA Insight panelists were posed the question on how far Dutch real estate yields could fall if the current very low interest rate environment is sustained:

"In the Netherlands we are currently below 6% for prime logistic assets and that could drop towards 5.5% and perhaps further. It's not only about yields though, people tend to forget they also buy the buildings and land behind it," WDP's Uwents said.

"It will depend on how bad the money is burning in the pockets of investors, but in the Amsterdam Zuidas office market the yields are already very low, a trend that is slowly slipping into the other markets," NSI's Buijs added.

"We are looking for healthcare in core markets and new markets at yields of 5.0% to 5.5% for first category assets and lower 6% for after that. In current markets it's wise to sell at 4.20% and re-invest at yields of 5.0% to 5.5%," Cofinimmo's Carbonnelle said.

"There are still great opportunities in the European market. The assets in the French portfolio we bought from Unibail-Rodamco are located in good markets in provincial cities like Rouen, Strasbourg and Le Havre. For Unibail it no longer fits their core strategy of capital cities, but I'm positive we can achieve some very nice returns there," Wereldhave's Anbeek concluded.

LOOKING AHEAD

UK REITs are pricing in a more bearish scenario than what we think is the base case.

The quoted property sector had a tough start to the year, just like any other sector in the equity market. The de-rating has been so severe that UK REITs are now pricing in material portfolio valuation declines. The larger UK REITs are trading at 25-30% discounts to spot NAV; in the UK REIT era such discounts have typically been followed by 15-20% declines in NAVs, or around 10-15% falls in values. This implies property yields moving out by around 50-75 basis points all else equal.

Risks have been building for a while and that is why for a year or so we have been looking at a number of key risk indicators, many of which have become red flags; property yields reaching new lows, and direct property markets and property equity capital markets activity reaching previous highs.

But then we also note that during the last 30 years, the only times during which the IPD All UK Property index fell by 10% cumulatively over a six-month period, all occurred in the 2007-2009 downturn.

We think there is a real risk yields move out as concerns about the health of the financial system and political uncertainty (the Brexit referendum) sap confidence from property markets at a time when some sovereign investors may consider rebalancing their investments.

But we are not assuming a major and sustained outward shift in yield; we are assuming property yields will end the year 10 basis points higher than where they started the year. Usually yields move out in a meaningful way when credit availability reduces sharply and/or when real bond yields move out. Neither of these is on the cards we argue.

Property is not overly indebted after years of bank deleveraging. That matters as the only three periods of falls in average commercial property values over the last 45 years all came after several years of bank balance sheet expansion and rising exposure to commercial property lending. In other words, when the asset class was hooked on abundant credit, and credit availability suddenly dried up.

Where capital flows

Perhaps this time direct property, particularly in liquid markets such as London (and Paris), has benefited from abundant equity capital flows rather than debt capital flows. Property is not hooked on debt but maybe it is hooked on abundant equity. This may well make it equally vulnerable to a pullback when equity capital availability dries up. But then we note that equity does not come with covenants, an amortisation schedule or a set maturity.

We do worry about financial conditions; credit spreads have blown out by around 60 basis points year to date, and offset the entire move in gilt yields. That's not great.

There is an increased consensual view among market participants that the UK may also gravitate to a low growth, low interest rate and lowflation environment similar to Japan and Switzerland in recent decades, and the eurozone currently, in which property yields tend to be dragged down. Recent Paris office disposals by Unibail-Rodamco and Gecina provide a case in point, we argue. As such we think there is a risk that such a low growth, low interest rate and low inflation environment could well be dragging UK property yields down again soon enough, or at least prevent them from rising too much.

So where does that leave us on the UK REITs? We are of the view there is deep value in these UK REITs even if we worry that some of the de-rating of the UK stocks is likely here to stay. It is impossible to disaggregate the impact from different risk factors. But we highlight that if some macro concerns and worries about the financial system were to abate, there is a risk that some of the recent de-rating becomes permanent reducing the potential for the UK stocks to participate in any bounce back owing to concerns about the end of the cycle and a Brexit referendum.

They offer a value proposition but are lacking in a catalyst to unlock such value as the only certainty we have ahead of the referendum is that there will be a period of uncertainty. As such we worry to some extent these UK stocks could well be range bound again this year, but we nevertheless think that current levels are towards the lower end such a range.

Red flags; property yields reaching new lows, and direct property markets and property equity capital markets activity reaching previous highs.

This article is based on research published for Morgan Stanley Research on January 28, 2016. It is not an offer to buy or sell any security/instruments or to participate in a trading strategy. For important disclosures as of the date of the publication of the research, please refer to the original piece Property: Why we do not expect a major outward move in UK property yields. For important current disclosures that pertain to Morgan Stanley, please refer to the disclosures regarding the issuer(s) that are the subject of this article on Morgan Stanley's disclosure website: www.morganstanley.com/researchdisclosures.

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WARMING TO LISTED

The role that listed real estate can play in portfolio management continues to evolve.

There are three factors in particular which have been instrumental in a significant reassessment of how this sector can contribute to portfolio risk-adjusted returns.

The first factor is the size of the sector. At the end of February 2009, the free float market capitalisation of the FTSE EPRA/NAREIT Global Index was USD 297 billion and the sector represented 1.1% of the global equity market. Fast forward to December 2015 and the free float market capitalisation of the FTSE EPRA/NAREIT Global Developed Index is USD 1,284 billion, (a four-fold increase) and represents 2.7% of the global equity market.

During that time, two major index providers, S&P Dow Jones Indices and MSCI announced that they plan to move listed REITs and real estate companies from Financials into a separate Real Estate sector, which will form the 11th industry classification. The move marks a major step in the growth and recognition of REIT-based real estate investment. Capital Innovations estimate that USD 100 billion could flow into the sector as managers allocate funds to meet the (new) market weighting.

Second factor is the emerging prominence in the market of the real estate departments of the very large pension funds and Sovereign Wealth Funds (SWFs), in particular GIC, CPPIB, ADIA, PGGM, APG, and GPFG. The significance of these operations is their ambivalence to whether a real estate investment is in a listed or unlisted form to access the underlying real estate return as they can invest throughout the capital stack. This means that they are able to formulate and execute real estate strategies incorporating listed real estate outside of a standard (c. 3%) equity market allocation. As a result, more funds and institutions are re-assessing the role that listed real estate can play in their portfolio allocations. Typically, global real estate allocations range from 5-15% of total assets under management.

The third factor is the unique structure of REITs, particularly in a market environment of low inflation and low bond yields. REITs now account for around 70% of the FTSE EPRA/NAREIT Global Developed Index. The company structure means they are comparable to holding the underlying real estate in the terms of the cash flows they produce and distribute. The REITs also have unique characteristics in relation to the obligatory (typically 90%) payout ratio of profits to shareholders.

It is interesting to look at some of the key findings from a report issued by the Norwegian Ministry of Finance in December last year, as the report's conclusions and recommendations on various topics identified important implications for practitioners

The listed real estate sector is now sufficiently large to warrant separate allocations and dedicated resources.

The listed real estate sector has therefore found favour with asset allocators as they seek to combine income and capital growth as the market adjusts to expected rate rises and more normalised bond yield levels.

in the listed sector. An issue we have written extensively on in the past few years is 'blending' real estate allocations. The academic evidence in the report established that listed and unlisted real estate investments have the same return characteristics over the long run. In fact, there is no evidence for superior performance or reduced risk of unlisted real estate investments, or of the diversification benefits of adding unlisted to listed real estate investments.

The report states that the unlisted real estate sector is considered too large to ignore. The average investor has 75-85% of its real estate investments in unlisted investments and therefore 15-25% in listed. It is worth noting of course, that some of the largest real estate investors in Europe – the Dutch pension funds: are closer to 50/50 in this mix.

Where small numbers count

When looking at expected returns: there is academic evidence demonstrating the expected returns are higher on listed 11.3% (+ 3% pa higher than unlisted). The volatility of unlisted is similar to listed after adjusting for smoothing and extending the time horizon and they use the example of 40 months estimated volatilities, they use data in the US markets to highlight this: 19.2% for NCREIF vs. 25.1% for REITs. The correlation between listed and unlisted increases as time horizon expands and subsequently they can be treated as close substitutes over a medium to long-term investment period.

In terms of costs, larger funds outperform smaller funds and this is largely due to greater use of internal management which has associated cost savings. The whole question of the associated costs in these vehicles is difficult to unwind from a research perspective, but we can draw upon pension fund experience, which we will do in a later EPRA report.

When looking at global performance, the report indicates that in the period 1994-2015 investors were fairly compensated. Correlations increased (i.e. diversification reduced) with stocks and bonds, meaning that a greater return is required. The combined fluctuations in returns on stocks and bonds explain 62% of the variation in global real estate returns. This suggests there are diversification benefits from adding real estate as 1/3rd of the returns is uncorrelated. Over all three investment periods studied in the report, listed real estate outperformed private real estate, which outperformed stocks, which outperformed bonds. At the time of writing, the report indicated that valuations were elevated relative to historic pricing, however, this has obviously pulled-back recently.

The report introduces the Opportunity Cost Model (OCM) as an appropriate benchmark and, rather interestingly, indicates that an appraisal-based index is unsuitable for benchmarking real estate performance. Rather than filling a target allocation to real estate, the OCM shifts the focus from asset-class labels to the underlying risk exposure and the report provides specific recommendations on how to address the challenge of applying this to real estate. Further real estate investments (outside of those included in stock and bond benchmarks) are only justified if their expected returns exceed those of the appropriate combinations of stocks and bonds.

A weighting range of 5-15% is consistent with global real estate allocations (source Norges Bank "Diversification Potential of Real estate"). The authors estimate that real estate represents about 6% of the "world market portfolio" with listed real estate comprising 15% of the real estate universe. At present REITs make up at most a small fraction (12-13%) of total real estate investment by pension funds worldwide but we expect this portion to grow over the next five years.

Alex Moss

Alex Moss is the founder of Consilia Capital, a London-based research and advisory firm, Chairman of the Investment Committee for the Investec GSF Global Real Estate Securities Fund, and a Visiting Professor at Henley Business School, (Real Estate and Planning) University of Reading.
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MIXING THE STOCK

Stock market slide creates stock-picking opportunities for Europe in 2016, investors say.

Meeting in London in early February to discuss this year's outlook were: Sara Bellenda, Research Analyst at Fidelity Management & Research; Hans Op 't Veld, Head of Listed Real Estate at PGGM Investments; and Simon Robson Brown, Principal at CBRE Clarion.

Europe's listed real estate sector offers attractive opportunities for stock-pickers after a general slide in values, according to three managers whose companies oversee in excess of EUR 45 billion of global real estate equities investments.

Photos by Yves Salmon

What does the recent slide in the stock market tell us about the underlying property market?

Bellenda: "Some stocks did particularly well last year, so there's been some profit-taking as there are worries from around the globe, including China and oil. There are also some clouds closer to home, which include the 'Brexit' referendum and the discussions on forming a government in Spain."

Robson Brown: "The big de-rating of the listed property sector since the start of December has had more to do with macro concerns than to do with the property market. The big cap UK companies are at a 20-25% discount to net asset values but there are also some small caps trading at premiums."

Op 't Veld: "There is a divergence with the most liquid part getting hit hardest, suggesting it's a common equities theme driven mostly by retail investors and ETF (exchange traded funds) flows, so I'm not sure that this is a reflection of the view of dedicated real estate investors."

Is this a good opportunity to buy the market?

Bellenda: "There are definitely opportunities with some stocks trading at relative values at which they have never traded in the past. When you compare those with the fundamentals going forward, you can say that there are a handful of bargains such as in small- and mid-cap companies."

Op 't Veld: "We have to think harder about how much we have left to run in this cycle. You need to proceed on a selective basis. I'm referring in particular to development schemes – how far do you want to be exposed at this stage? Rampant development right now with all the uncertainties is more risky than it was 24 months ago."

Robson Brown: "UK big caps and the London specialists have got de-rated the most. If the Brexit vote goes the way of staying in the EU, the other macros concerns dissipate and there are signs of the development pipeline letting up and achieving decent headline rents, that could be a powerful cocktail for re-rating them."

What is the general outlook for the underlying market in 2016?

Op 't Veld: "In the retail industry, the quality of the portfolio is particularly important. We see a continued concentration on the better shopping facilities and the polarisation of retail space. Consumers' spending power is improving, so we have no worries on that front."

Robson Brown: "Operationally, things are OK. The sweet spots are London offices, where we're factoring in 10% rental growth. German residential is going to give you 2-3% like-for-like rental growth. Broadly, the risk is more on the capital investment side and how quickly property yields increase."

Bellenda: "This year is perhaps reaching an inflection point and we may already have passed it in certain markets. There is definitely a lot of attraction in the London rental growth story but from a capital growth perspective, we are at the point where it means figuring out whether it still stacks up to be in that market. In the UK the cycle is more advanced and it's moving at a different pace to what we are seeing on the Continent. This makes it more interesting to look at stock-specific situations rather than countries or sectors."

Where are the investment opportunities?

Bellenda: "I favour stock-picking, particularly managers with strong track records and company balance sheets. They know best what's happening on the ground and when is the right time to de-risk or go into developments. Experience matters. I like anything related to the housing market in the UK because there is a structural imbalance that will go on for a few years. That's also the case for the West End – London needs to attract talent and people need to work and live there."

Robson Brown: "The Spanish market is interesting. Property yields have come down a long way but rents have barely started to move, so there's an opportunity for that market to kick on. The German residential market remains strong, offering relatively good internal and strong external growth factors. I have already mentioned the UK big caps, but the UK student accommodation market has got also further to go in its institutionalisation."

Op 't Veld: "The German residential market will benefit, provided that the companies are discipined. There is an opportunity to destroy a lot of value. For quick wins, I favour the London office market and large caps that have been punished too much. In Continental Europe, the key higher quality shopping centre players stand to benefit as consumers have more money in their pockets and more spending power."

Which sectors or geographies are the most risky?

Robson Brown: "Anything in the CEE, except for particularly dominant assets. Any exposure to Russia is tricky, such as Finland."

Op 't Veld: "We shy away from poor quality, whether it's the assets or the management. There's a lot of room to destroy value and even though a rising tide lifts all boats, we have to think long-term and be careful about what happens if the cycle turns. We want robustness."

Bellenda: "There are no 'no-go' areas as such, they just need to be priced at the right level. However, managers who repeatedly destroy value become uninvestable for us."

What should CEOs and their teams be doing in 2016?

Bellenda: "Keep focused and disciplined. Looking back three or four years ago, a lot has been done. Companies have got to work on improving the quality of the portfolio, the balance sheet, etc. Some companies are still in denial or they haven't done it yet. You can see that in the divergence in valuations; the market will decide if they fail to decide for themselves."

Robson Brown: "Deleveraging would be good, although we are quite late in the cycle now. Keep the business model simple. Crosscheck your resources in a market that you truly understand and in which you have a true edge. Trimming costs is another. It's been very easy to say: 'we're a capital-intensive business, so the cost line isn't very important.' There might be some relatively easy kills on the costs."

Op 't Veld: "Management teams have the opportunity to improve the quality of their portfolios. When target returns are not available, they need to be disciplined. >

Robson Brown:
Property fundamentals don't explain listed sector slide

Bellenda:
Targeting strong management track records and company balance sheets

Op 't Veld:
Managers need disciplined approach to improve portfolio quality

Leverage is an easy one and they should be careful not to try to time the market too much. In terms of governance, Europe has a long way to run in terms of getting the quality of disclosure, board composition and management up to a level at which it can compete in a global environment. Now is the time to do that."

What corporate activity can we expect in 2016?

Robson Brown: "There's indigestion, particularly in the German residential sector, in terms of M&A. There is an ongoing long-term trend of specialisation. There may be one or two new REITs established as offshore funds come onshore. Italian REITs haven't really got going but there are a lot of funds that are expiring and if they can get the corporate governance and corporate structure right, that should be an angle."

Op 't Veld: "I don't expect to see too many IPOs. There is so much private equity real estate capital available and the managers would rather sit on their fees than lose them through a listing. Generally they propose externally managed structures with governance that just isn't good enough for us. On M&A, there are some obvious cases for consolidation. The current environment means that everyone has access to capital, so it's not really needed. We might see some companies using the valuation difference to buy other companies and try and accelerate their growth and prospects."

Bellenda: "There's a lot of M&A bubbling along and also from a consolidation perspective. It's an ongoing trend. I don't anticipate seeing much of it in 2016, but perhaps towards the end of the year. Current share pricing means there's less appetite for new IPO stories."

Sara Bellenda
Sara Bellenda is responsible for European property and homebuilder stocks. She has been in the fund management industry for 13 years and before joining Fidelity in 2011 was a portfolio manager at CBRE Investors and Henderson Global Investors. Prior to that, she was a sell-side analyst at Lehman Brothers and an asset manager at Westmont Hospitality.

Simon Robson Brown
Simon Robson Brown is head of the firm's London office and a Portfolio Manager responsible for European listed real estate companies. He has more than 17 years of real estate investment experience in a career that includes various research and analyst positions at UBS and Citigroup prior to joining CBRE Clarion Securities' predecessor firm in 2006.

Hans Op 't Veld
Hans Op 't Veld is responsible for PGGM's global listed real estate securities portfolio of €10 billion and is Co-Chair of the European Investment Advisory Committee. Prior to joining PGGM in 2007, he held various research and advisory roles at IPD, Kempen & Co. and GPR. Hans is a Fellow at the Amsterdam School of Real Estate.

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THE FUTURE OF WORK: A COLLISION OF TALENT, TECHNOLOGY, LOCATION AND REAL ESTATE?

The future of work is so much more than 'just' the latest workplaces enabled by the latest technology. As recent Deloitte global research shows, the HR and talent management dimensions are critical to the future of work debate. Martin Laws, Partner and Lead of Deloitte's Work+Place initiative looks at the issues.

> *In the UK the adoption of new technologies has created nearly four times as much employment as it has eliminated*

The "future of work" is becoming a recurrent theme in articles, podcasts or blogs by economists, social scientists, business strategists and human capital experts. Each offer their own perspectives on the 'war for talent', the rise of the virtual worker and global talent networks, the implications of fast-moving robotic and cognitive workplace technology and the challenges of managing a Millennial generation that is rapidly becoming the majority of our future workforce. Deloitte's latest global research suggests that this corporate focus on the fast-changing world of work is both long overdue and also high up the agenda of many of the world's largest corporations.

Advancing technology and machine learning is undoubtedly a trigger. Oxford University research of the US market and joint Deloitte/Oxford University research of the UK market indicates that 47% of US and 35% of UK jobs could be replaced by automation technology within two decades.

But new technology isn't all about jobs lost. In fact Deloitte's research shows that in the UK the adoption of new technologies has created nearly four times as much employment as it has eliminated.

Some jobs will remain inherently difficult to automate entirely. Nevertheless, in removing some of the most tedious tasks from these roles, robotics can free-up employees to spend time on more varied, more creative, and ultimately more productive types of work. And if the type of work being done is evolving, it is only a short hop to how employee skills, and the physical workplace, will need to adapt too.

Modern, innovative, flexible and creative workplaces capture our imagination as to how 'the future of work' could look. But it is the sourcing, managing and retaining of the fast evolving skillsets required by tomorrow's businesses – indeed by today's businesses if they are to survive for tomorrow – that presents perhaps the largest opportunity and most current challenge for many companies. Yet many corporates, worryingly, appear to be behind the curve in their readiness to manage tomorrow's workforce and working practices.

Deloitte's 2015 Global Human Capital Trends survey of more than 3,300 organisations across 106 countries identified employee engagement and culture as a priority talent challenge. The new world of work is changing the way employers need to engage people:

employees today work more hours and are nearly continuously connected to their jobs by pervasive mobile technologies. They work on demanding cross-functional teams that often bring new people together at a rapid rate. Flexibility, empowerment, development and mobility all now play a big role in defining a company's working culture.

One in three workers surveyed by Deloitte reported that being able to flexibly integrate work and life is the most important factor in their choosing a job. It is telling that recent entrants to the employment market no longer talk about work-life balance, but rather work-life integration. They expect their work and the other parts of their lives to connect seamlessly.

Millennials take a different approach

Yet expectations and reality do not always align: Deloitte's most recent survey of Millennials (the generation born between 1982 and 2004) found that while the vast majority of respondents globally want the opportunity to work flexibly, only 40% are currently able to do so. Crucially, Millennials could represent 75% of the workforce by 2025 yet, for now at least, the research shows they think businesses are not focused enough on aiming to be 'the best possible place to work'. For this emerging workforce generation, purpose, mission and work-life fit is valued more than compensation growth or skills development, with more than half believing that increased mobile working would improve their personal productivity.

The pace of skills change appears to be accelerating too. The Deloitte "London Futures" report showed that 84% of London-based employers anticipated some or significant changes in the required skill set of their employees in the next decade, with digital know-how heading the list of fast-emerging priority skills.

But at the same time, there are concerns over the rise in the phenomenon of the 'overwhelmed employee', struggling to cope with organisational complexity, information overload and a 24/7 connected work environment. Global Human Capital Trends 2015 concludes that: 'Not only has technology become a critical and pivotal part of human resources, but we have also identified a new human capital issue… the overwhelmed employee'.

Organisations face an imperative to find ways to absorb more technology while simultaneously making it simple. We are increasingly overwhelmed by the flood of data in our lives but are unfortunately saddled with an ancient computing architecture that has not seen a major upgrade in more than 50,000 years: the human brain.

It is telling that more than 70% of the global organisations surveyed by Deloitte rated the need to simplify work as an 'important problem', with more than 25% citing it as 'very important'. Today, only 10% of companies have a major work simplification programme; 44% are working on one. Design thinking, work redesign and technology replacement are becoming critical for HR and business leaders seeking to simplify work practices and systems. Many of the positive intentions of tomorrow's ways of working – technology, globalisation, mobility, the virtual workforce – are actually adding complexity to work. But technology and design thinking are helpfully converging in a way that offers significant opportunities for businesses to get ahead of the curve.

Enabled by evolving technology in the workplace that could not have been envisaged a decade ago, and a generation of talent that is growing up with new expectations from the ever-lengthening portfolio careers ahead of them, the future of work presents a fascinating opportunity and challenge to every employer. How employers respond to this challenge and manage their interconnected strategies, processes and attitudes around their talent, technology, geographic locations and physical workplace is going to be key to their winning this war for tomorrow's talent.

Recent entrants to the employment market no longer talk about work-life balance, but rather work-life integration.

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REPORTING ON RESULTS

A round-up of some of EPRA's Reporting & Accounting latest activities.

It's been a busy 2016 so far for Reporting & Accounting activities here at EPRA. The year started off with the introduction of the EPRA 2016-2018 strategic plan which was based on membership and stakeholder consultation during Q4 2015. For Reporting & Accounting, this translates to the goal of convincing 30 new companies to improve their score to at least bronze award standard. In target terms, this means going from the current 60 award winners to 90 by 2018. The target for Gold awards is 55 from the current 33.

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EPRA Best Practice Recommendations (BPR) compliance progress:

The EPRA Financial Reporting BPR have been developed to enhance the financial reporting of listed property companies and attract investment in the listed property sector. They include key performance indicators that are used by around 80% of the largest listed property companies.

To encourage adoption of the BPR, EPRA reviews the Annual Reports of the largest European property companies and awards Gold, Silver and Bronze based on adherence to the BPR. The review is undertaken by Deloitte.

As there are high expectations from investors, and indeed all stakeholders, that companies should achieve a minimum reporting threshold, we work closely with our members and other listed real estate firms to encourage and advise on the adoption of financial BPR.

I contacted 38 BPR non-compliant companies and have conducted one-on-one meetings with 26 of them since September 2015. These companies were located in the UK, Germany, Spain, Sweden, Austria and Belgium. The one-on-one meetings mainly focused on the importance of EPRA BPR reporting, how it encourages comparability and transparency among peers, and why the broader investment community strongly encourages the listed sector to comply with the industry standards.

This engagement programme also provides an opportunity to gather and understand the concerns of the non-compliant companies and allow them to address their issues to the BPR advisory panel.

I intend to meet the remaining 11 non-compliant companies during Q1 2016.

Hassan Sabir, EPRA

IAC Meeting - February 05, 2016

EPRA attended the Investor Advisory Committee (IAC) meeting in London on February 05 and had the opportunity to discuss BPR compliance activities with its members. EPRA CEO, Philip Charls started by explaining our BPR strategy, which involves further compliance with existing BPR measures and initiatives to support this goal. These initiatives may include 'name & explain' by non-compliant companies, an EPRA 'Gold Index' and 'quarterly reviews' etc. to maintain further compliance momentum. With IAC's involvement and support, we should be able to attain the 2016-2018 EPRA BPR goals. Charls added that the above initiatives will also be tabled and discussed at the upcoming Reporting & Accounting summit in Brussels in April 2016.

Reporting standards

The BPR Adviser tool, hosted on www.epra.com/BPRadviser has seen busy traffic since its launch in September 2015. To date, 20 detailed member questions ranging in complexity were handled by the BPR advisory panel. This tool and its direct link to the experienced panel members is an important resource for BPR interpretation and ultimate implementation by non-compliant companies and companies wishing to increase their awards rating.

EPRA is also developing a BPR analytics tool which is nearing completion. This will provide users with the opportunity to benchmark BPR performance measures against peer companies and/or across regions.

EPRA' s new Reporting & Accounting Chair, Jean-Michel Gault reiterated EPRA's commitment to achieving BPR compliance goals, he said: "EPRA BPR compliance has been a top priority for the R&A Committee and we are focusing, will tackle where necessary, BPR reporting challenges. We intend to achieve maximum level of BPR compliance in the coming years."

EPRA NEWS

Fraser Hughes has left EPRA as Deputy CEO to pursue other career opportunities. EPRA would like to thank him for his contribution to the Association's work over many years, in particular his role in developing the FTSE EPRA/NAREIT Indices products, and wishes him success in the future.

Events and engagements

EPRA conducted a joint information seminar in Spain with Deloitte on January 19. I used this platform to highlight the importance of EPRA BPR to the participants of the major Spanish real estate companies.

The next R&A Committee meeting is scheduled for April 26, 2016 in Brussels. The meeting is invitation-only for committee members.

I plan to attend REITWISE in Washington in March. This is NAREIT's annual Law, Accounting & Finance Conference. The event focuses on political, economic and market events that impact on legal, financial, tax and accounting operations within REITs and publicly traded real estate companies.

Accounting issues

EPRA has been actively monitoring and lobbying the International Accounting Standards Board (IASB), the independent standard-setting body for International Financial Reporting Standards (IFRS), on issues that impact on the European listed real estate sector.

a) IASB-FASB Joint session

EPRA attended the IASB-FASB joint session in September together with NAREIT and Realpac. The joint session allowed the three associations the opportunity to observe Best Practice sharing between IASB and FASB on the following topics:

- Disclosure Initiative
- Conceptual framework
- Business frameworks

b) IASB 2015 Agenda Consultation

EPRA, together with other Real Estate Equities Securitization Alliance (REESA) members, submitted recommendations in response to IASB's request for views on the 2015 agenda consultation. REESA is a global alliance of representative real estate organisations and seeks to promote equity investment in real estate on a securitised basis.

The content was the result of a REESA-wide member survey, intended to provide a clear snapshot of the accounting issues considered to be priority. EPRA submitted its views via the R&A committee.

Hassan Sabir
EPRA

Hassan Sabir joined EPRA in 2015 as Reporting & Accounting Officer. He graduated with a LLB from Queen Mary, University of London and holds an MBA from Rotterdam School of Management, Erasmus University. He has 8 years finance & strategy experience including in depth financial analysis and reporting experience gained at Stanley Black & Decker, ABN AMRO Bank and One Gas Consultants.

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WHAT IT TAKES TO BE-REIT

Belgians band together in new BE-REIT Association after their AIFMD experience.

Photos by Thijs ter Haar

Seventeen listed Belgian property groups, with assets totalling around EUR 13 billion and a combined market capitalisation of EUR 9.0 billion, have joined together in a new REIT Association to advance the interests of the sector. The companies all achieved the new REIT status under Belgian legislation introduced in 2014 to separate them from funds and so avoid the costly burden of being subject to the EU's Alternative Investment Fund Managers Directive (AIFMD) implemented after the financial crisis.

"The Belgian firms closely cooperated in their discussions with the authorities over the new REIT status to ensure we were treated as the property operating companies that we are and not investment funds as defined under AIFMD. This experience made us aware of the importance of working together and being recognised as a single industry sector by regulators across a range of areas," said Laurent Carlier, Chief Financial Officer of Befimmo and chairman of the Belgian REIT Association.

The Belgian REITs discussed the structure of the non-profit Association in the course of 2015 and all the listed real estate companies in the country have joined the body, including most recently Xior - the only student housing REIT in Continental Europe.

The BE-REIT Association has formed three working groups covering its core activities

- **Accounting** - chaired by Kara De Smet, CFO of Retail Estates
- **Legal and Regulatory** - chaired by Aminata Kaké, General Counsel & Secretary General of Befimmo
- **Tax** - chaired by François Roels, Secretary General & Group Counsel at Cofinimmo, who also sits on the EPRA Regulatory Committee

On common ground

In the run-up to its formal launch in January, the Association's members had already been working on the issue of a dividend withholding tax that unintentionally had been applied to foreign pension funds investing in Belgian REITs. Unlike domestic retirement plans, foreign pension funds had not been exempted from the tax in the 2014 REIT legislation.

"We all worked together last year to make sure the withholding tax anomaly was corrected. It would have been a big disincentive for foreign pension funds to invest in Belgian REITs. The adjustment to the law was passed on December 28," Carlier added.

One of the issues the newly formed Association is focusing on is a clarification on the treatment of "subsidiary REITs" to make them more operationally flexible by simplifying the rules. Subsidiary REITs are useful in structuring investment partnerships, for example where a Belgian REIT wishes to invest in a large asset alongside an institutional partner.

Regulatory constraints make this difficult as under the current rules, such a partnership subsidiary is not allowed to benefit from the Belgian REIT regime at the same time as a 'normal' real estate subsidiary - i.e. public REITs have to choose one or the other as they are not allowed to have both types of subsidiaries.

Another problem with the legislation governing Belgian REITs and external partnerships is that, in the event of a conflict between both sides, a partner has to either leave the subsidiary or completely take it over.

"The treatment of conflict in subsidiary REIT partnerships is not balanced as both partners have to be on the same footing. Managing conflicts should be defined contractually and it is not fair that a partner has to takeover 100% or be forced out," Carlier said. >

Country		Free Float Mcap (EUR Mln)	% of Developed Europe Index
1	UK	68,059	35.25%
2	France	41,610	21.55%
3	Germany	34,657	17.95%
4	Sweden	13,145	6.81%
5	Switzerland	10,163	5.26%
6	Spain	5,958	3.09%
7	**Belgium**	**5,411**	**2.80%**
8	Netherlands	5,153	2.67%
9	Austria	3,096	1.60%
10	Finland	2,113	1.09%
11	Ireland	1,872	0.97%
12	Italy	880	0.46%
13	Norway	678	0.35%
14	Greece	275	0.14%
	Total	193,070	100.00%

Data as of January 29, 2016, Source: EPRA   ** Unibail-Rodamco is included in France*

Fig 1. Country ranking in FTSE EPRA/NAREIT Developed Europe Index

The Association will ensure that any initiatives taken locally are aligned with the EPRA Best Practice Recommendations at a European level.

The other areas on which the BE-REIT Association is initially focusing lie mainly in the accounting sphere, notably in the application of new IFRS rules.

Carlier said that the Association will ensure that any initiatives taken locally are aligned with the EPRA Best Practice Recommendations at a European level."We really want to work closely with EPRA. It makes sense to coordinate our positions nationally and then present a single common approach to EPRA when there is an issue on the table affecting us at a European level. During the IFRS lease accounting and AIFMD processes, EPRA was very effective as the voice of the industry internationally, but the Belgian companies then just gave their opinions individually. With a unified Belgian REIT Association we will be more efficient in the future," he said.

Fig 2. Belgian companies - increase in market capitalisation

Company name	2016	2011	% change
Befimmo	1,170	1,015	15.2%
Cofinimmo	2,023	1,322	53.1%
Wereldhave Belgium	698	374	86.7%
Intervest Offices & Warehouses	375	325	15.3%
WDP	1,383	486	184.8%
Leasinvest Real Estate	440	263	67.3%
Total	6,089	3,785	60.9%

Data as of January 29, 2016, Source: EPRA

Laurent Carlier
Chief Financial Officer of Befimmo

Laurent Carlier is CFO of Befimmo sa since July 01, 2006. Befimmo sa is the second largest Belgian REIT. The company manages real estate assets worth 2.4 billion EUR and focuses on the Brussels office market.

Carlier said that the Belgian listed companies had changed their status to REITs from the previous SICAFI fund structures to be able "to continue to operate as before," but that in fact he'd noticed a subtle shift in the way they present themselves. The very fact of being more clearly defined as real estate operating companies seems to have lead to more of a focus on the quality of their services to customers or tenants. Although these relationships are still very important, the previous prime focus had been on shareholders, he noted.

Integration horizon

As to the future, the Belgian REITs would like to see their regime extended to infrastructural assets to allow listed real estate companies to make a greater contribution to the development of the urban landscape at a time when public spending budgets are severely constrained. Ultimately it would also make sense to have one European REIT structure with common rules for investors, to remove the national legal and regulatory complexities involved when, for example, a Belgian REIT invests in the neighbouring French or Dutch markets.

The Belgian real estate investment market has been very active over the past year. International investors, such as those from China and the Middle East, have started to move from European markets further up the property cycle, like London and Paris, to others, including Brussels, where there is perceived to be more upside left in values.

In the listed real estate market, Belgium is ranked seventh in the FTSE EPRA/NAREIT Developed Europe Index, behind Spain and ahead of the Netherlands (See Fig. 1), with a free float market capitalisation of EUR 5.4 billion, or 2.8% of the index. The six Belgian companies included in the index have grown strongly over the past five years, with their full market capitalisation expanding by over 60% (See Fig. 2).

EPRA BOOST TO INVESTOR OUTREACH AND PUBLIC AFFAIRS

EPRA has made two new senior appointments to strengthen the Association's position in the key areas of Investor Outreach and Public Affairs.

Laurent Ternisien (top right), former Managing Director of Real Estate at MSCI, takes up the position of Senior Advisor responsible for Investor Outreach activities in Continental Europe and Tobias Steinmann (bottom right) joins from German chemical firm BASF's government relations office in Brussels as Director of Public Affairs.

"I'm very happy that EPRA has attracted an executive with the impressive real estate investment analysis experience and organisational management skills of Laurent Ternisien. He will focus on our Investment Outreach programme in continental Europe to carry the message of the advantages of investing in listed real estate to institutional and retail investors alike," EPRA CEO Philip Charls said.

Ternisien, a French national who has worked in London for the last ten years, lead the successful integration of the Investment Property Databank (IPD) into MSCI, following the takeover of the global real estate markets data company in 2012. Prior to that, he was CEO of IPD for seven years, where he led an expansion into 32 markets worldwide and implemented an investment programme to develop indices and portfolio analytics for investors, fund managers and REITs.

"Exciting challenges lie ahead for EPRA, and I'm looking forward to making my contribution to progress in the important area of Investor Outreach. I intend to put my 25 years' experience in real estate and financial information and my existing network amongst international investors at the service of the Association's membership to contribute to the development of the publicly listed real estate sector in Europe. I've enjoyed working with a number of EPRA members in the past and I'm looking forward to re-establishing contact and getting to know new faces in the months ahead," EPRA Senior Advisor, Laurent Ternisien, said.

Before his position with BASF, German national Tobias Steinmann, worked as a public affairs consultant in several areas of EU policy-making, after a role as parliamentary advisor and head of office for a Member of the European Parliament.

"In Tobias Steinmann we have a very capable public affairs professional with intimate knowledge of the EU's policy-making processes. It was clear in our recent extensive Strategy Review survey that respondents considered regulation to be a major potential threat to the listed real estate industry and therefore attach heavy importance to EPRA's lobbying activities," Philip Charls added.

"I am looking forward to steering EPRA's efforts to address the numerous legislative initiatives being developed in Brussels and the EU member states. Having gained professional experience inside the European Parliament and corporate lobbying before, I'm confident I can bring the large contribution the listed real estate sector makes to the European economy and its urban landscapes to the attention of EU policy makers," EPRA Director of Public Affairs, Tobias Steinmann, said.

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