EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

MARKET
RESEARCH

Global Listed Real Estate

Emerging Markets

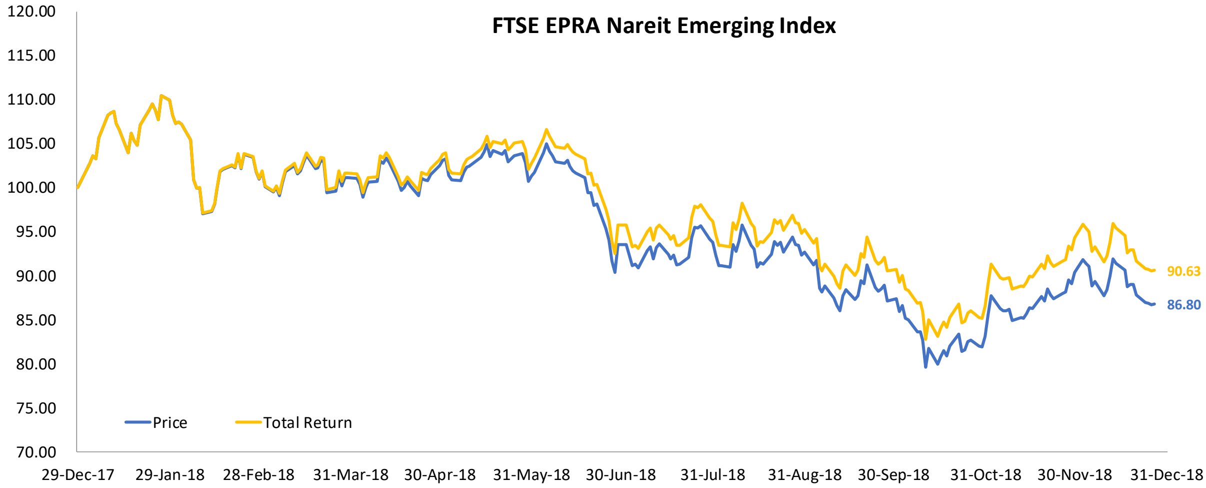
H2 - 2018

FTSE EPRA Nareit
Global Real Estate Index Series

February
2019

I. Executive Summary

During the second half of 2018 the listed real estate industry in emerging countries continued the negative trend observed in the start of the year. The FTSE EPRA Nareit (FEN) Emerging Index showed a total return of -2.96% in EUR from June to December and dropped -7.05% on an annual basis, then breaking the trend after those positive returns in 2017 (33.83%) and 2016 (4.15%). This movement was aligned to the general negative performance in the capital markets of many countries around the world during the last part of the year, but also with the listed real estate market in developed markets (Jun-Dec: -3.58%). In this report, we look at the size and performance figures of the main emerging listed real estate markets, as well as at the key drivers and changes observed during the second half of 2018. Finally, we present a short explanation of the main effects of the reclassification in our index series of Saudi Arabia to Emerging market (effective from Mar/2019) and China A-Shares to Emerging market (effective from Jun/2019).



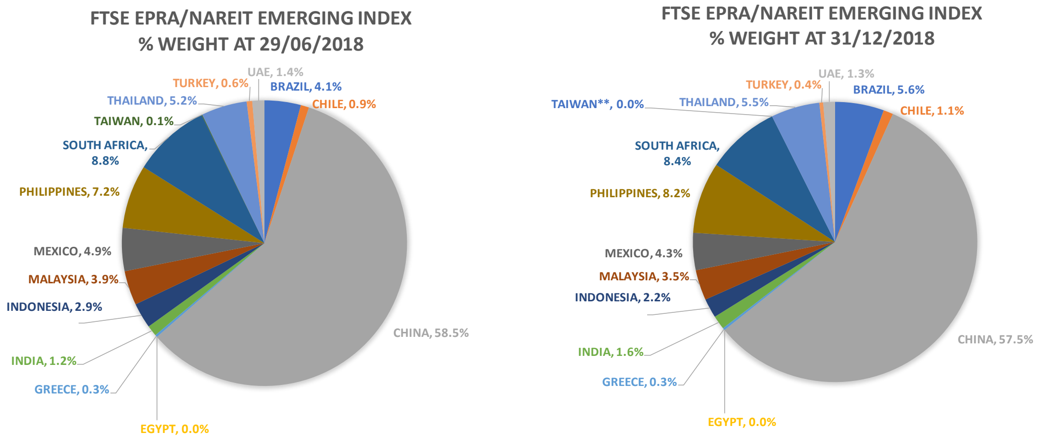
Source: EPRA.

II. Emerging Markets Index size

As of Dec/2018 the total FF Market Cap of the FEN Emerging Index reached EUR 144,415 Million (FEN Developed Index: EUR 1,201.3 Billion and FEN Global Index: EUR 1,345.7 Billion) representing a change of -7.45% compared to Jun/2018 and -10.98% against Dec/2017. In the same way, during the last five years the average size per company grew significantly, standing now at EUR 1,017 Million in FF Market Cap compared to EUR 655 Million in Dec/2013, equivalent to an annualised growth rate of 9.19%. Although the number of constituents did not show a significant change, moving from 143 in June to 142 in December, the composition of the Emerging Index did change significantly. During the first half of 2018 there were 9 additions and 10 deletions to the index, where some of the most important changes were the deletion of Hung Poo RE Development in September, the only Taiwanese constituent, and the addition of PLAZA SA (Chile, Retail, Rental, Non-REIT) added as a fast-entry inclusion in August. The quarterly index review in September was one of the most dynamic ones with 15 changes in total (6 additions, 8 deletions and 1 reclassification). The Emerging Index usually has a relatively higher turnover in terms of number of constituents, as the presence of many developers increases the index exposure to short-term property cycles while more volatile currencies plays a key role on the index eligibility in terms of size and liquidity.

In terms of size, China, South Africa and Philippines kept their position as the countries with the biggest share of the index, however the difference between the second and the third position reduced significantly mainly as a result of differences performance during the last quarter of the year. Similarly, Brazil also increased its weight in the index by 1.5% thanks to an outstanding performance (price return: 33.0%). On a regional perspective, the Americas regions increased its weight from to 9.9% to 11.0% while the Asia-Pacific and EMEA regions decreased to 78.6% and 10.5% (June: 79.0% and 11.1% respectively).

FTSE EPRA NAREIT Emerging Index: Weights by country



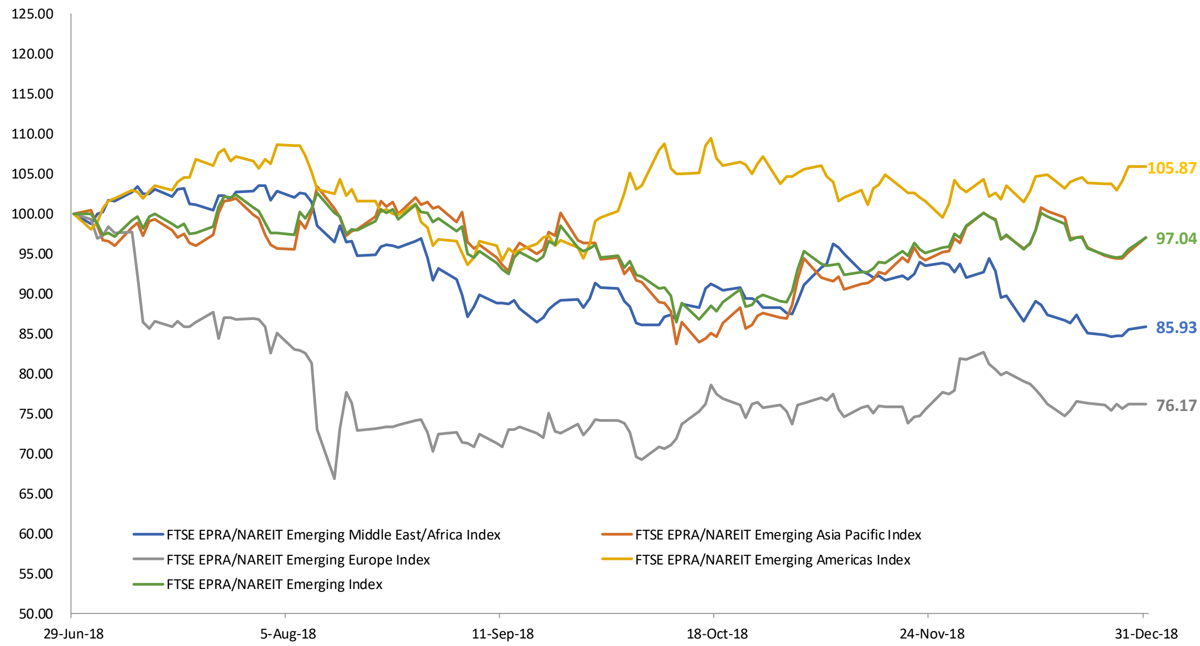
Source: EPRA.

**Last constituent was deleted on 24/09/18.
***Last constituent was deleted on 18/06/18.

III. Comparative performance

During the last six months of 2018 the FEN Emerging Index lost -2.96% (-4.88% price return and 1.92% return from dividends), just ahead of FEN Global Index by 56 bps. The Americas was the only region with positive return (5.87%) mainly driven by Brazil who has the biggest weight in the region, while Turkey and South Africa dragged the EMEA region to exhibit the worst performance (Emerging Europe -23.83% and Middle East & Africa -14.07%). The Emerging Asia-Pacific also exhibited a negative performance -2.96% influenced by China (-3.7%), which was positively influenced by a positive currency effect (2.24%) besides the negative price return (-5.6%).

FTSE EPRA NAREIT RE Index Series: Emerging Markets vs Global Index.



Source: EPRA.

Emerging Markets: Equity markets vs Listed RE and currency effects (6 months)

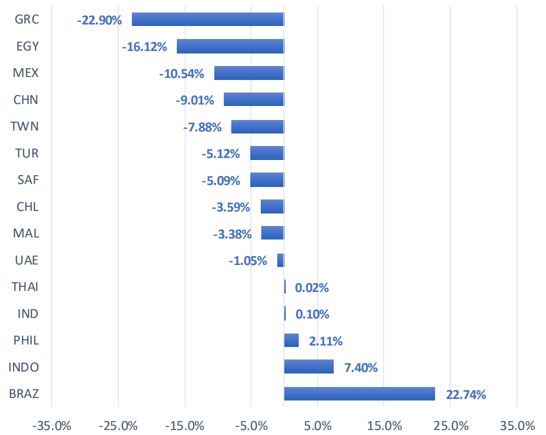
Country ***	(1) 6M RETURN FROM DIVIDENDS	(2) PRICE RETURN EPRA EMERGING INDEX	(1) + (2) TOTAL RETURN EPRA EMERGING INDEX (EUR)	% WEIGHT EPRA EMERGING INDEX	DIV. YIELD (y/y) at 29/06/18	CURRENCY PERFORMANCE VS EUR **	CURRENCY EFFECT ON THE INDEX	TOTAL RETURN Equity Market* (Local Currency)
BRAZIL	1.3%	33.0%	34.4%	5.6%	2.8%	1.37%	0.1%	22.7%
CHILE	0.0%	-16.0%	-16.0%	1.1%	1.9%	-4.37%	0.0%	-3.6%
CHINA	2.0%	-5.6%	-3.7%	57.5%	4.2%	2.24%	1.3%	-9.0%
EGYPT				0.0%		1.93%	0.0%	-16.1%
GREECE	0.0%	-2.8%	-2.8%	0.3%	4.2%	0.00%	0.0%	-22.9%
INDIA	1.1%	-8.7%	-7.6%	1.6%	0.5%	0.23%	0.0%	0.1%
INDONESIA	0.9%	-12.0%	-11.1%	2.2%	2.1%	1.75%	0.0%	7.4%
MALAYSIA	1.9%	-10.3%	-8.4%	3.5%	4.2%	-0.16%	0.0%	-3.4%
MEXICO	3.3%	-16.4%	-13.1%	4.3%	7.2%	1.90%	0.1%	-10.5%
PHILIPPINES	0.2%	7.6%	7.8%	8.2%	1.3%	3.53%	0.3%	2.1%
SOUTH AFRICA	4.1%	-14.6%	-10.5%	8.4%	8.0%	-2.76%	-0.2%	-5.1%
TAIWAN				0.0%		1.29%	0.0%	0.0%
THAILAND	0.4%	0.7%	1.1%	5.5%	3.2%	3.77%	0.2%	-5.1%
TURKEY	0.3%	-32.7%	-32.4%	0.4%	8.0%	-13.70%	-0.1%	-7.9%
UAE	0.0%	-10.7%	-10.7%	1.3%	2.9%	2.09%	0.0%	-1.0%
FTSE EPRA/NAREIT Emerging Index	**1.9%**	**-4.9%**	**-3.0%**	**100.0%**	**4.2%**		**1.67%**	
Emerging: Weighted Average								**-5.01%**

*Equity markets are represented by the Thomson-Reuters TR Index for each country.
**Currency performance for China combines HKD, SGD and CHN.
***Last Egyptian constituent was deleted on 18/06/18 and last Taiwanese was deleted on 24/08/18.

Source: EPRA. Data as 31/Dec/18.

The FEN Emerging Index is based in EUR, making currency fluctuations relevant for the overall index performance. Although most of the emerging countries experienced a significant depreciation against the euro in the first half of 2018, the second part of the year evidenced a much more diversified picture, with some positive appreciation in countries like Thailand and Philippines that overpassed the negative effect from countries like Turkey and Chile, -13.70% and -4.37% respectively. The 16 currencies included in the emerging index showed an average depreciation of -0.16% against the euro during the same period. The country-level indexes in EUR were significantly affected by the local currency performance, however, as a result of the weighting structure of the global index (based on FF market cap) the final currency effect in the total return result was positive (1.67%).

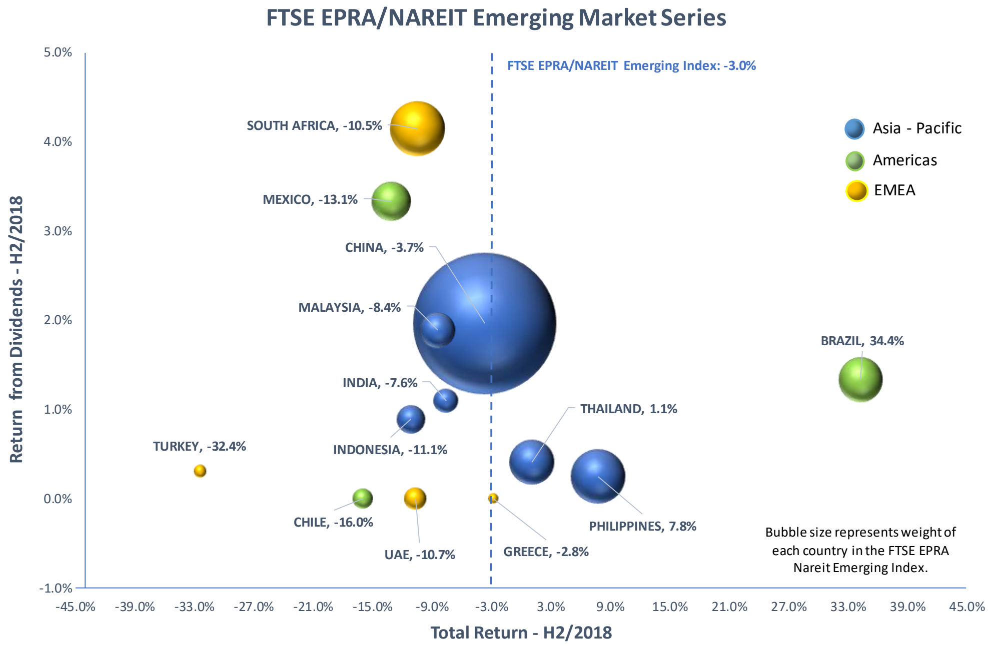
Local Equity Markets -Total Return
29/06/18 - 31/12/18
(Local Currency)



Source: Eikon – Thomson Reuters.

The performance of the listed real estate markets in emerging countries was strongly influenced in 2018 by the local equity markets (on average equity markets declined -5.01% in local currency during the second half of the year). Most of the investors started considering a reduction in their allocation to investments in emerging countries as a result of a less positive expected growth for the word economy in 2019 and 2020, in particular, on the impact that slower growth in developed economies can have on the emerging ones. This was aligned with a substantial price drop on several commodities which finally guided to negative returns and weaker currencies.

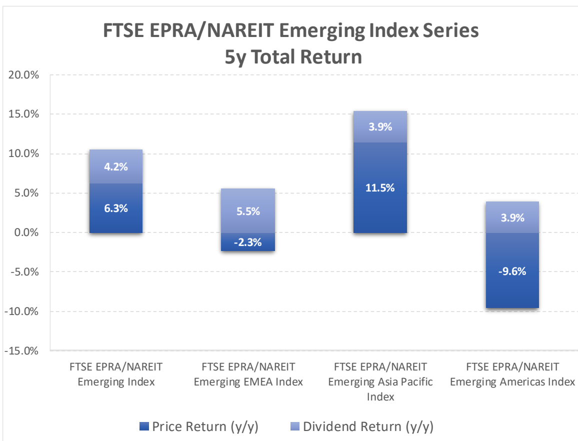
Concerns around the political stability in countries like Turkey and South Africa and the possibility of an escalate in the trade conflict between the US and China have affected the performance of both REITs and REOCs. Dividends played a substantial role in the emerging markets performance. In countries where REITs represent a significant portion of the total listed real estate like Mexico and South Africa, the return from dividends exceed 3% and helped the country-level index to reduce the impact of negative price movements. Nevertheless, changes in share price remain as the most significant source of return, in particular in countries with high weights in the Emerging Index (Brazil and China). This is a common fact across emerging countries where the real estate market is mainly focused on property development [28% rental vs 72% non-rental] and highly sensitive to prices of land and certain imported products, while developed markets are characterised by a higher proportion of property owners focused on managing and leasing properties. Compared to H1-2018, the return dispersion is much higher in 2018 (Max-Min: 66.8% in H2/18 and 52.6% in H1/18) making evident the presence of more volatile returns at the end of the year. Finally, China remains steady with significant returns coming from dividends, providing some stability to the index as it represents more than 50% of the total weight.

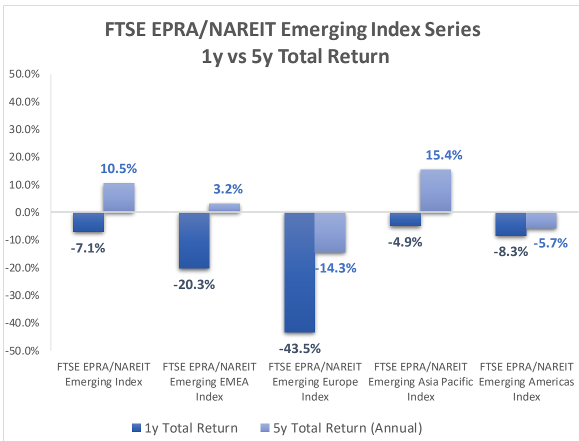


Source: EPRA.

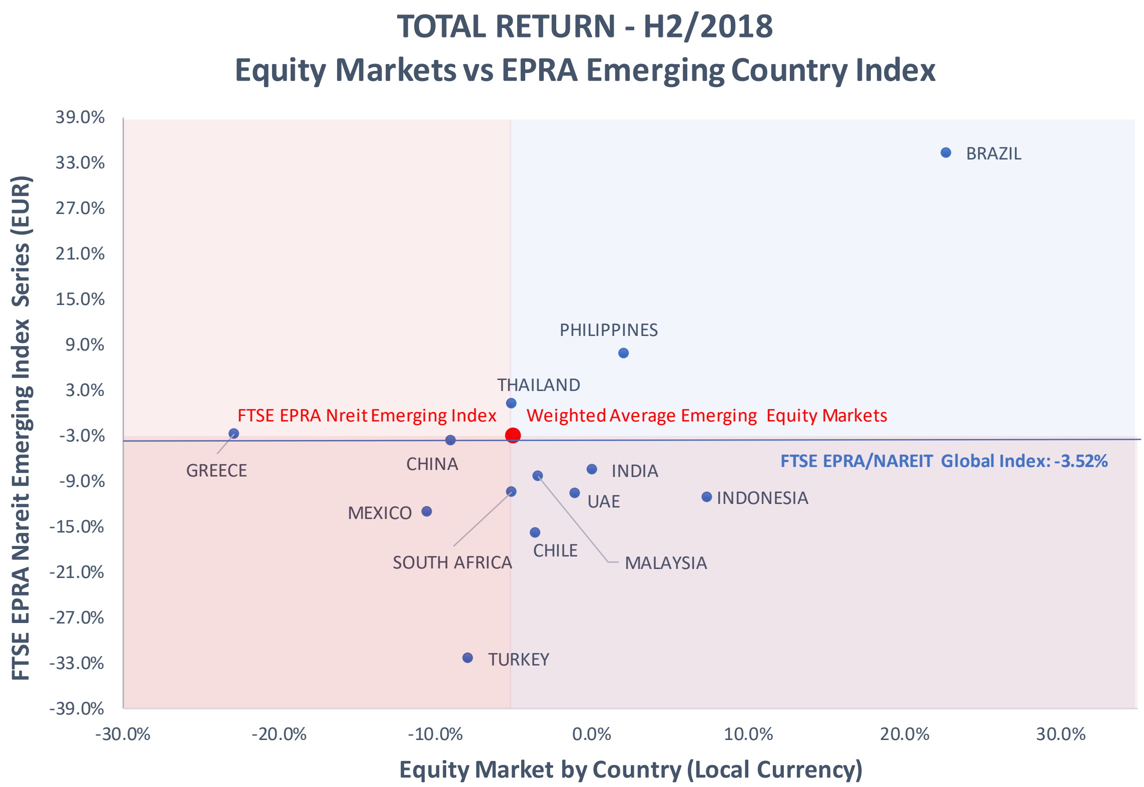
Finally, the annual figures for the FEN Emerging Index show a 1-year total return of -7.1%% as 31st of December 2018, and the 5-years figure reached 10.5% a.a, where 60% of it came from prices (6.3%) while annual dividend return for the 5 years was 4.2%.

Comparative Long-Term returns





Source: EPRA.



Source: EPRA and Thomson Reuters.

Here below we present a short summary of the key facts affecting the performance of the countries and sectors included in the FEN Emerging Index:

Brazil

Against the general trend observed in the financial markets around the world, Brazilian markets provided significant profits during the second half of the year. The FEN Brazil Total Return Index (EUR) showed a return of 34.4% (33.0% Price return). The Brazilian rally was mainly related with a breakpoint on Brazilian politics once Jair Bolsonaro was elected as new president of the biggest economy in Latin America and 8th in the world. Besides the general perception of the new president as a highly divisive figure, his election and proposal of a national pact brought a lot of positivism for both local and international investors, who were hoping for more stability and new reforms that will allow the country to leave behind the economical and political crisis of the previous governments. The local equity market reached an outstanding 22.7% return in local currency and the Brazilian real advanced 1.37% against the euro. The increasing consumer confidence that came with the election has been supporting some of the massive sectors in the Brazilian economy. In particular, most of the retail landlords like BR Malls, Multiplan and Iguatemi managed to overpass the negative numbers of the previous six months, reaching a moderate positive return in the annual figure. In the same way, residential developers highly benefited by the positive forecasts on economic growth for the coming years after several quarters of deeply negative numbers, companies like Cyrela, Constructora Tenda and Engenharia saw an end of the year with annual returns above 25%.

Performance of the largest constituents (2018)[1]: BR Malls Participacoes (3.42%, Retail), Multiplan Empreendimentos Imobiliarios (5.78%, Retail) and Cyrela Brazil Realty Empreendimentos (25.5%, Residential).

[1] Performance figures for individual constituents stated in local currency.

Chile

Besides its status as the most developed economy in the region, Chilean economic performance is still highly correlated with commodity prices, especially with cooper which remains as the main product in the country exports. Cooper prices fell 17.7% in 2018 and so the local equity markets -3.6% and the Chilean peso -4.37%. The weak performance of country exports and the local markets also affected the consumer confidence, then reduce the growth forecasts for retailers around the country and a similar trend was observed in those countries where Chilean retail landlords have presence like Peru and Colombia. The FEN Chile Index showed a total return of -16.0% in EUR during the second half of the year and -20.12% on an annual basis. However, the latest addition to the Chilean index, Plaza SA, performed well since its IPO (27/07/18) mainly thanks to a good perception by many investors regarding the quality of its properties.

Performance of the largest constituents (2018): Parque Arauco (-17.5%, Retail) and Plaza SA (6.7%, Retail).

China

Both analysts and investors around the world still have many concerns on the soft-landing of the 2nd biggest economy in the world for 2019, after having seen the GDP growth reaching levels below 7% again in 2018. The decreasing trend in the inflation that ended the year below 2% seems to confirm these concerns, in addition to all the uncertainty around the extension of the trade war with the US and lower growth of the Chinese main trade partners. The FEN China Index showed a total return of -3.65% (-5.62% from prices and 1.97% from dividends) during the last 6 months of the year and -0.51% on an annual basis. Most of the specialized residential developers, except for China Overseas Land and China Resources Land, underperformed the Chinese index. The increasing appetite for class-A shares as they become more accessible to international investors and their inclusion in the FEN Emerging Index series from Jun/2019 has supported the liquidity of several companies.

Performance of the largest constituents (2018): China Overseas Land & Investment Ltd. (10.46%, Residential), China Resources Land Ltd (35.20%, Residential), Country Garden Holdings (-29.7%, Residential) and Sunac China Holdings (-19.63%, Diversified).

Turkey

The geopolitical uncertainties coupled with increasing macroeconomic imbalances in the Turkish economy continue to exert pressure on the exchange rate and the overall economy. The depreciation of the TRY against EUR and USD accelerated after a record low in August 2018. As a result, the currency has lost almost a third of its value against the dollar/euro in 2018. Inflation also recorded a historical hike of the last 10 years and it almost doubled in 2018 with 20.3% as end of 2018. Besides the strong GDP growth observed in H1-2018, the rising inflation and current account deficit, together with increased downside risks, have led investors to adjust their expectations towards a prolongation of the economic slowdown in the Turkish economy for some additional quarters. Recent developments in the H2-2018 had a negative impact on both consumers' and investors' appetite, resulting in lower volumes on residential sales and weakening consumer confidence. Apart from the political and economic developments, recent regulation on foreign currency-based rental contracts (which is a common market practice especially for commercial properties) put a pressure on renegotiations of currently foreign currency-denominated lease contracts converted to lira at the official exchange rate. There are still some concerns, particularly in the retail property market, that companies with foreign currency debt could struggle to repay if they are unable to generate foreign currency revenues against the weakened lira.

Performance of the largest constituents (2018): Emlak Konut (-40.4%, Residential), Torunlar REIC (-53.2%, Diversified), Is Gayrimenkul Yatirim Ortak (-15.1%, Diversified).

Annual Performance of the 3 largest constituents by country in EUR and Local Currency

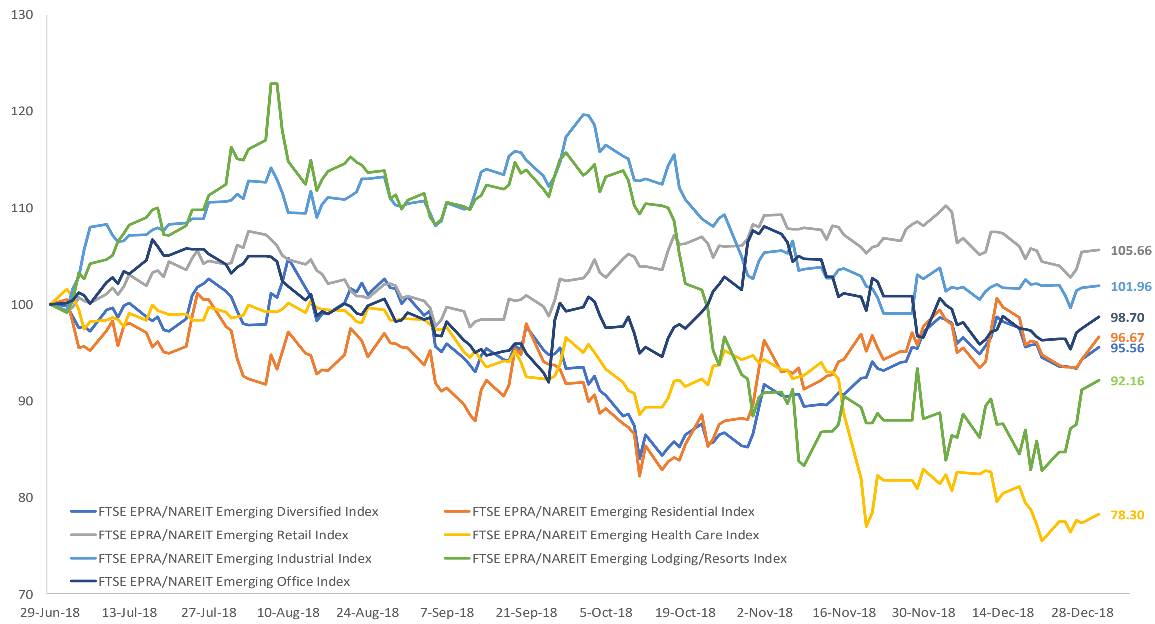
Constituent	Country	Sector	REIT/Non-REIT	Total Return in EUR	Total Return in Local Currency
BR Malls Participacoes	Brazil	Retail	Non-REIT	-8.4%	3.4%
Multiplan Empreendimentos Imobiliarios	Brazil	Retail	Non-REIT	-6.7%	4.6%
Cyrela Brazil Realty S/A Empreendimentos	Brazil	Residential	Non-REIT	12.9%	25.7%
Parque Arauco SA	Chile	Retail	Non-REIT	-23.8%	-17.5%
PLAZA SA (since IPO: 27/07/18)	Chile	Retail	Non-REIT	-6.8%	6.7%
China Overseas Land & Investment Ltd.	China	Residential	Non-REIT	12.9%	10.5%
China Resources Land Ltd	China	Residential	Non-REIT	39.4%	35.2%
Country Garden Holdings	China	Residential	Non-REIT	-33.2%	-29.7%
SM Prime Hldgs	Philippines	Diversified	Non-REIT	-3.9%	-4.2%
Ayala Land	Philippines	Diversified	Non-REIT	-8.8%	-8.0%
Megaworld	Philippines	Diversified	Non-REIT	-7.2%	-6.5%
Emlak Konut	Turkey	Residential	REIT	-56.6%	-40.4%
Is Gayrimenkul Yatirim Ortak	Turkey	Diversified	REIT	-31.8%	-15.1%
Torunlar REIC	Turkey	Diversified	REIT	-66.0%	-53.2%

Source: EPRA and Bloomberg.

Sectors

Finally, in terms of the sector-level indexes, the emerging markets have been showing some trends a bit different than those observed in developed countries, where the traditional sectors have underperformed the new alternative ones. During the second half of 2018, Health care and Lodging/Resorts where the worst performers (-21.7% and -7.84% respectively) whilst Retail and Industrial showed the best results (5.6% and 1.96%. During the last three years the sectors with the best performance are Industrial (10.82%), Retail (10.56%) and Diversified (9.41%).

FTSE EPRA NAREIT Emerging Index Series: Sectors



Source: EPRA.

IV. Country reclassifications: Saudi Arabia and China A-Shares

The FEN Global Real Estate Index Series follows the Country Classification determined by FTSE Russell. Under this classification, only companies with assigned nationality to a country considered as either Developed or Emerging (both Advanced and Secondary) are eligible for this index series. As part of its interim review, in March 2018, FTSE Russell announced that Saudi Arabia will be reclassified as a Secondary Emerging country (previously Unclassified) and effective from March 2019. The main reason for the reclassification of Saudi Arabia is the introduction of several reforms to the capital markets framework by both the Capital Markets Authority and the Saudi exchange. As FTSE Russell expressed in its official March 2018 - update: *During 2017-2018, the Capital Market Authority of Saudi Arabia and the Saudi Arabia Stock Exchange (Tadawul) introduced a number of improvements to the market infrastructure aimed at opening up the domestic market to international investors. These included but were not limited to the simplification of the QFI registration process and enhancements to the Independent Custody Model (ICM), which included the introduction of a T+2 settlement cycle with a Delivery versus Payment (DvP) model in April 2017.*

In the same way, in its September 2018 – update FTSE Russell announced as part of its annual review the reclassification of China A-Shares also as a Secondary Emerging country (previously Unclassified), effective from June 2019. In this case, thanks to some improvements implement by the Chinese authorities improved the accessibility to of foreign investors to the PRC mainland interconnected markets, then FTSE Russell decided to run a more comprehensive evaluation of the Northbound Stock Connect route and then to change the A-Shares classification. *"The Stock Connect market enhancements include: The four-fold increase in the Daily Quota Limit which means there is less likelihood of intra-day closures of the Stock Connect facility. The Special Segregated Account (SPSA) allows for the facilitation of Delivery versus Payment (DvP) via the Stock Connect Northbound program. Unlike QFII and RQFII, there is no requirement for foreign investors to apply for a licence to trade China A Shares via the Stock Connect program".*

Saudi Arabia's reclassification is in line with the general improvement observed in the Middle East countries, last changes were Kuwait in Dec/2018 (from unclassified to Secondary Emerging) and Qatar (from Frontier to Secondary Emerging Market) in Sep/2016. Similarly, the reclassification of the China A-Shares represents a new step forward on the globalization of the Chinese capital markets[2]. As a result, the FEN Global Real Estate will have the following changes:

Saudi Arabia

- Prospective constituents with assigned nationality to Saudi Arabia now will be eligible for the FTSE EPRA Nareit Emerging Index series. As Dec/2018, FTSE Russell has identified 94 potential eligible companies that will be tested for eligibility to the FEN Emerging Index series in Mar/2019 review.
- Rental properties and property development projects in Saudi Arabia will now be considered eligible when assessing the eligibility of listed real estate companies under the EBITDA criteria and their assignment of nationality.
- In order to minimize the price pressure on potential new constituents and ensure the all the mechanisms required for this change are operating, FTSE Russell decided to implement the inclusion of Saudi Arabia by

[2] For a more comprehensive analysis of the reclassification of China A-Shares in the FTSE Russell equity series go to https://www.ftserussell.com/index-series/index-spotlights/china-indexes?_ga=2.201765073.1174422299.1549638011-1765805619.1544028116

tranches, applying initial an inclusion factor of 10% to the free float of each company in March 2019 and the remaining 90% in 4 additional dates under the following schedule:

	Tranche One	Tranche Two	Tranche Three	Tranche Four	Tranche Five
Review Schedule	March	April	June	September	March
Effective Date	Open Monday 18 March 2019	Open Monday 22 April 2019	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 March 2020
Saudi Arabia Inclusion Factor	10%	15%	25%	25%	25%
Total	10%	25%	50%	75%	100%

Source: FTSE Russell. Available on-line : https://www.ftse.com/products/downloads/FTSE_FAQ_Document_Saudi_Arabia.pdf

China A-shares:

- RE companies traded in China under the A share category will now be tested for FTSE EPRA Nareit Emerging Index Index series. Companies with different listed-equity lines in the Chinese markets already eligible for the index series (H shares and B shares) will be tested interpedently, then current constituents under the H or B shares could be found also eligible under the A shares and so have two different weights under the FEN Emerging Index. As Dec/2018, FTSE Russell has identified 94 potential eligible companies that will be tested for eligibility to the FEN Emerging Index series in Jun/2019 review.

- Following a similar structure than the case of Saudi Arabia, FTSE Russell decided to implement the new classification of China A-Shares by tranches under the following schedule:

Phase 1	Tranche One	Tranche Two	Tranche Three
Review Schedule	June 2019	September 2019	March 2020
Effective Date	Open Monday 24 June 2019	Open Monday 23 September 2019	Open Monday 23 March 2020
Proportion	20%	40%	40%

Source: FTSE Russell. Available on-line : https://www.ftse.com/products/downloads/FTSE_FAQ_Document_China_A.pdf

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