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Pere Viñolas' 9 years of leadership at Colonial

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*Welcome to our newest members

Working with and for our members

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

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

Find out more about our activities on www.epra.com

Update from Dominique Moerenhout

At the end of 2017, looking back at my first year at EPRA, I am confident that the listed property sector is in rude health with a great future, and there are several developments pointing to it.

Savers and institutional investors are increasingly attracted to the listed property sector as a reliable source of income, which provides them with an attractive total return of 8.6% over 15 years, beating European general equities and government bonds. Investors are gaining a broader choice too, as new companies list their shares. Over the past 5 years we have seen over 80 real estate IPOs in Europe raising over EUR 20.5 billion; 25 of them are now in the EPRA Index. We had more good news when FTSE announced in September that the ICB would treat real estate as a separate industry group in its equity indexes, aligning its classification with the GICS, and further raising the profile of the sector.

EPRA is working to convince the European Commission to modify Solvency II's capital requirement rules for insurers so that listed real estate is treated in the same way as direct property investment. If we are successful, this would remove an unfair and major impediment to investment flows from Europe's largest pool of institutional capital.

Our work on Solvency II is part of a broad advocacy strategy that will be more proactive in influencing the regulatory and fiscal landscape, always with the aim of encouraging more investment into the listed property sector. Companies are playing their part too, which is why the increasing adoption of the Best Practices Recommendations (BPR) demonstrates that bringing greater transparency and disclosure to investors is vital. EPRA's hard work in this area was rewarded by the record number of BPR Award winners this year.

When you bring all these things together, it is no wonder that our Conference in London this year attracted a record attendance with a content-rich programme of events. I am already excited about the 2018 edition in Berlin, which will extend the theme of future challenges and opportunities in real estate.

My task as CEO has been to continue the job of implementing EPRA's Strategy Review and build on the momentum achieved to date. EPRA will celebrate its 20th anniversary in 2019 and so by 2020 I have set some key objectives, which I will discuss in more details in the coming editions.

In the meantime, I wish you all a happy festive season and a prosperous and healthy 2018 and I look forward to seeing you at our Insight events in January. •

In this issue

Editor & Production Manager
Kasia Jasik-Caínzos

Article Credits
Tom Branczik
Steve Hays
Simon Packard
Nicolas Rabener

Design & Layout
ZN Consulting | znconsulting.com

Comments & Suggestions
k.jasik@epra.com

EPRA
Square de Meeus 23, 1000
Brussels
+32 (0)2 739 1010

www.epra.com
@EPRA_realestate

Colonial's CEO shrugs off unknowns of Catalonia's political crisis after company's return to health from near-collapse in 2008

As the CEO who has spent nine years nursing the real estate investment trust (REIT) Inmobiliaria Colonial back to health from the brink of collapse in 2008, Pere Viñolas is sanguine about the impact of Catalonia's bid to secede from Spain.

Discovery Building, Madrid

Colonial joined about 2,000 companies in moving its registered headquarters out of Barcelona after the October 1st referendum, which was organised by the region's ruling parties in defiance of the Spanish Constitutional Court, Central Government and Catalans opposed to independence.

"We have no doubt that the rule of law will prevail," said the executive by e-mail two days before the Spanish Government invoked Article 155 of the Constitution to run the previously autonomous region. Since the fluid situation made it impossible to predict the future with any certainty, he observed at the time of this interview that "the Barcelona market remains quite strong, but this is hidden behind the emotions of the political dispute. We have no particular concerns."

Barcelona had been the headquarters of the group since its creation in 1946 as the real estate investment arm of former owner Banco Hispano Colonial, after which it is named. Focused on core office buildings in the principal central business districts of Barcelona, Madrid and Paris, Colonial's 19 properties in the Catalan capital represent about 10% of the gross asset value of the REIT's EUR 8.3 billion portfolio. These properties, with negligible vacancy and no imminent lease expiries, appreciated by 9% in the first six months of 2017, supported by rising rents, low vacancy and a limited pipeline of new supply coming onto the market.

"Our priority is to offer additional space to the outstanding take-up that we have been seeing up until now," Viñolas commented. "We only have one expected relevant development project to be launched, and the plans remain unchanged."

In Madrid, where the company is now headquartered and owns 23 properties, rental growth has been more subdued. Viñolas expects the city's shortage of modern office space, few new developments and the momentum in Spain's economic recovery to power growth in net effective rents in the capital city as tenant incentives recede.

Colonia's portfolio combines assets in the "hot" and "volatile" Spanish market with a large exposure to the Paris market, which is "calmer, with solid and satisfactory growth," the CEO said, referring to the 2.9% rental growth in the first half.

Colonial's 21 properties in the French capital are mostly in the CBD and are owned indirectly, through Paris-listed Société Foncière Lyonnaise, in which it owns a controlling 58.6% interest. The Paris portfolio, valued at EUR 6.1 billion as of June 30th, includes the Louvre Saint-Honoré building opposite the celebrated museum and the Edouard VII office complex near the Palais Garnier Opera House.

"You have a combination of a more speculative growth-oriented market like Spain with a more long-term value-oriented market in France, which is OK in risk-adjusted terms," he said.

The value of Colonial's portfolio climbed 11% in the first half from a year earlier, benefiting from the rise in market prices in anticipation of rental growth as well the gains from acquisitions, development and refurbishment programmes, which have cost about EUR 1.5 billion over the past three years. "Net asset value per share has climbed 65% in the past three years," he said.

"When people think of Colonial, they think of the company with the most beautiful assets in Spain and France, as if we are a museum or a trophy asset collector," he remarked. "Most of these trophy assets have been developed by us or have gone through comprehensive refurbishment or other kinds of value-added initiatives."

An example of this is the In/Out building in the Paris suburb of Boulogne-Billancourt, which underwent a EUR 100 million refurbishment, starting in 2010. Affiliate SFL signed the Organisation for Economic Cooperation & Development (OECD) as the 35,000 square-metre building's sole tenant for use as its headquarters. The company agreed on the sale of the property to Primonial in July. Media reports estimate the sale price is about EUR 450 million; a figure Viñolas declined to confirm.

"It's a huge story of value creation – we took a distressed property that was worth about EUR 150 million before we started the work to reposition it," he commented. "We see ourselves as a manufacturer of prime product. Because of this, the returns have been very good."

Other examples of Colonial's value add strategy for prime assets include The Cloud, the former Credit Lyonnais headquarters between the Paris Bourse and Palais Garnier; Recoletos 37, the 17,000 sq.m. prime office building in Madrid; and the former Abertis headquarters in Barcelona in one of the city's most exclusive neighbourhoods.

Ciutat de Granada office building, Barcelona

Viñolas said he wants to keep core, income-producing assets at about 80-85% of Colonial's portfolio, with the remaining balance made up of value-add investments.

"That's a balance with which everyone is quite happy. Going below this balance – less core – would be too risky and going too far the other way is not sustainable," he remarked, adding that he is resisting the temptation of getting caught up with the bullish sentiment in the Spanish market.

"Our Number One priority is to be disciplined in the business plan we share with our key stakeholders," he said. "It's important when the market is hot. We want to pay a dividend and remain an investment grade company, so we look at how much organic growth we can find."

His comments reflect his work restoring Colonial to its current standing, as a member since June of Spain's Ibex 35


Ciutat de Granada office building, Barcelona


#Cloud-Paris three-building complex, Paris

benchmark stock index. This contrasts starkly with the company he took over when it was on the verge of insolvency from the 2007 credit crunch and subsequent property crash.

He joined as CEO in July 2008 to lead the restructuring of the massively indebted company on behalf of creditor banks, which became majority shareholders in an emergency restructuring of the debt and recapitalisation. Another debt to equity swap followed in 2010, meanwhile Colonial ring-fenced its portfolio of non-core development sites into Grupo Asentia, from which it has now exited.

"We went through a number of years when to say you were a Spanish company in real estate with leverage would not open many doors," he said. "It took a huge effort to be close to the capital markets to explain the story. Managing trust and our relationships with the capital markets have been the key factors in our success."

"That continuous dialogue paid off," he continued, "by enabling the company to assemble a core group of supportive shareholders, consisting of Qatar Investment Authority, Mexico's Grupo Finaccess and the Santo Domingo Group from Colombia."

"In 2014, investors rediscovered their appetite for investing in Spanish real estate, comforted by the creation of Spain's 'bad bank' Sareb, the introduction of a REIT regime and signs of economic recovery," he said. In May 2014, the company raised a total of EUR 2.8 billion in fresh capital by issuing new equity and in a bond sale.

Since then, Colonial has reduced the 20% vacancy rate of its portfolio to 4% and obtained a BBB credit rating plus REIT status, which have enabled it to refinance its debt more cheaply on the bond market. "The coupon of the bonds sold in 2014 was 4.5%, whereas the most recent issue was at an interest rate of 1.45%," he said.

"When international investors looked around Spain, they came across Colonial, which was so clean, so core and so simple to understand. We had been in contact for years, letting them know what was going on and building up trust by doing exactly what we said we would do," he recalled.

Charting the hazardous course "back to normality," as Viñolas described it, has clearly put Colonial and its CEO in a much better position to tackle the impact of the political crisis in Catalonia, whatever that may be. ●

PERE VIÑOLAS

Pere Viñolas joined Colonial from the financial group Riva y García, where he was Managing Partner. Previously he was General Manager of the real estate company at FILO SA and Deputy General Director of the Barcelona Stock Exchange, which he joined in 1990 as its Director of Research. He has an MBA from ESADE Business & Law School.

Foncière des Régions opts for simple and diversified strategy, with large mixed-use buildings in Continental Europe's leading cities

Explaining the merits of his company's diversification in various European real estate sectors has got much simpler for Christophe Kullmann, Foncière des Régions' CEO for the past 16 years.

Gone are the company's investments in nursing homes, car parks, logistics warehouses, retail parks and, in the coming months, the last of its French residential properties. A four-year disposal programme of non-core assets, which represented 15% of the company's portfolio in 2013, is almost complete and leaves it focused on offices in France and Italy, German residential properties and European hotels.

"There was a time when we had lots of business lines," Kullmann said, reflecting on the decade until 2011. During this period, real estate entrepreneur Charles Ruggieri was the company's largest shareholder and drove its growth through a series of opportunistic deals, taking it into new sectors and outside France.

Since then, the core group of shareholders has been made up of Italian billionaire Leonardo del Vecchio and a trio of French insurers. "We refocused on these four sectors and in each of them we have critical mass, are market leaders and have settled management teams who are among the best in their

Silex 1 building, Lyon ©KevinDolmaire

Art&Co building, Paris
©Golem Images

field," Kullmann said in an interview held at the company's offices near Paris's Arc de Triomphe.

"We are less cyclical than other companies because of our diversification, which makes us a defensive investment that delivers a high yield for our shareholders," he explains. "In the last cycle, some markets compensated for others: Germany residential, which was doing well, compensated for Italy, which wasn't doing very well at all. This reduces volatility, which is attractive for investors because it's less risky."

He is swift to point out that, for shareholders, this has not impeded Foncière des Régions' performance. During the past 20 years, the company's shares have generated an annual total return of 13% for investors, which "is much higher than the average for the market and the benchmark indices."

Investors who want to go down the narrower single sector focus route can invest directly in the shares of Beni Stabili, the Italian office REIT 52.2% controlled by Foncière des Régions, or in hotel REIT Foncière des Murs, in which it owns a 42% interest. The company holds its French office assets directly and also owns 61% of unlisted Immeo, the landlord of 45,000 apartments in Germany, mainly in Berlin. Controlling a portfolio worth EUR 21 billion, the consolidated value of the company's investments was EUR 12.6 billion at the end of the first half of 2017.

"Our structure has never held us back, but in terms of communication and our corporate profile, it required more time to explain," Kullmann said. "Our long-term strategy is to simplify the organisation. It's a long process, and there's no hurry" to buy out minority shareholders of the listed affiliates, as it has been doing at Foncière des Murs.

The company's focus is on the biggest cities in the Eurozone: Paris, Berlin and Milan are where 60% of its assets are located. The starting point is the building itself and the space that large city centre properties offer for a mix of uses. "We are approaching it so that we provide services alongside the space. It's an enormous change in our business," he said.

"Increasingly, a building will have several uses – an office, hotel and apartments – and things will be less and less segmented. Being able to offer different products and services will give us a clear competitive advantage."

Earlier this year, Foncière des Régions announced that it would offer co-working space in its offices as occupiers demand greater flexibility. This will start initially in France with the first opening in Marseille at the end of October, and two other projects in Paris planned to open at the beginning of 2018. Italy will follow, possibly next year.

"We could lease space to co-working companies," he said, "but we want to avoid these companies taking over the entire relationship with the customer, which is something we want to keep to ourselves."

Kullmann says the development of the hotel management business gave the company direct operational control of the properties that it owns under management contracts with the large hotel groups. "This in-house know-how is a solid foundation on which to build the range of services that Foncière des Régions will offer in its office buildings and its soon-to-be-launched co-working platform," he said.

With Paris offices and German residential blocks in particular commanding high prices, Foncière des Régions has been less acquisitive and focused on an ambitious EUR 4.1 billion development pipeline. This year, it will deliver a record 100,000 square metres of offices and 680 additional hotel rooms.

However, the company snatches up opportunities when they arise and has been particularly active in the hotel sector: announcing a German hotel portfolio acquisition in 2016 and a EUR 514 million purchase in Spain earlier this year. In Italy, income yields in the Milan office market remain attractive. The group has been able to consolidate its focus on the city with more purchases alongside its development program.

"The prospects for Foncière des Régions are good," its CEO commented, "with positive rental growth in all four of its business lines." This led the company to predict in July that net recurring profit would grow by more than 7% this year, raising its previous guidance of at least 5% growth.

Reflecting on his time at Foncière des Régions, Kullmann remains wedded to the diversified strategy of the company. "What helped us was our reactiveness and our agility; our strength has been our ability to adapt to a changing environment." •

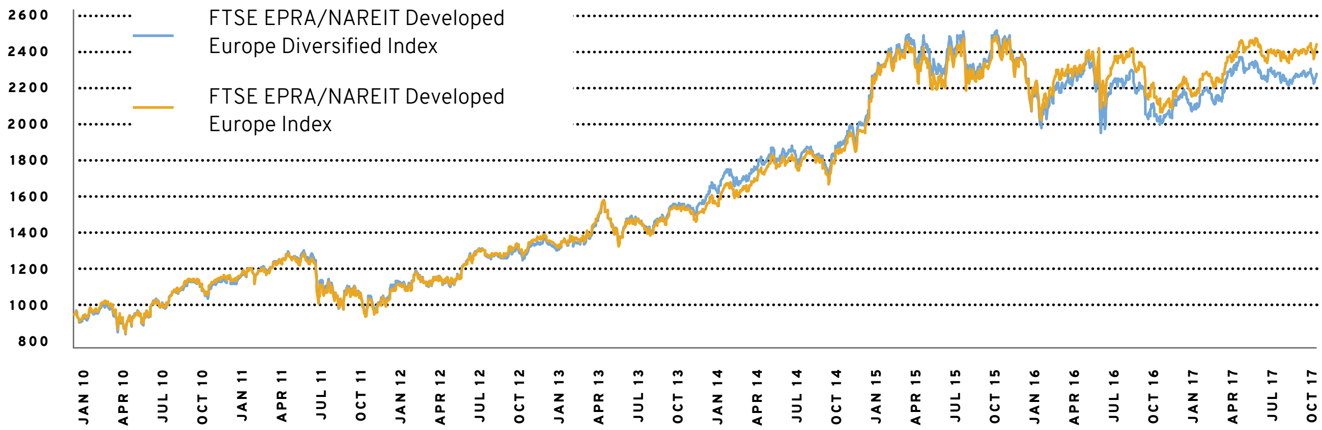
CHRISTOPHE KULLMANN

Christophe Kullmann has been CEO of Foncière des Régions since 2001 and is Chairman of France's property investment federation, FSIF. He was Finance Director of Immobilière Batibail for seven years until its merger with Gécina in 1999, when he became CFO of Gécina. He has a postgraduate degree (DEA) in management.

Riverside offices, Toulouse ©L'Autre Image

Diversified sector snapshot

Performance Developed Europe vs Developed Europe Diversified

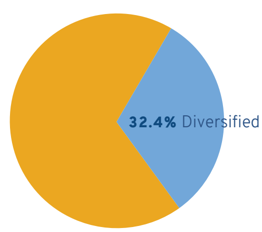


Value snapshot (October 2017)

* 1-year LTV and Div. Yield values as of Oct-16 and 5-year values as of Oct-12

DEVELOPED EUROPE DIVERSIFIED (EUR)	LATEST (MONTHLY)	YEAR TO DATE	1 YEAR	5 YEAR
Total Return (%)	-0.36%	4.30%	10.31%	10.91%
Premium/Discount to NAV (%) - Average	-8.96%	-10.21%	-10.75%	-8.01%
Loan-to-Value (%)*	36.77%	-	37.08%	43.10%
Dividend yield (%)	3.76%	-	3.56%	4.74%

FTSE EPRA/NAREIT Developed Europe Diversified Index sector share



FTSE EPRA/NAREIT Diversified Sector

STOCK	COUNTRY	INVESTMENT FOCUS	PRICE RETURN OCT-17	DIVIDEND RETURN OCT-17	TOTAL RETURN OCT-17
Aedifica	BELG	Rental	2.48	0.00	2.48
Cofinimmo	BELG	Rental	0.28	0.00	0.28
Leasinvest Real Estate	BELG	Rental	-4.02	0.00	-4.02
Icade	FRA	Non-rental	-0.62	0.00	-0.62
ANF-Immobilier	FRA	Rental	0.59	0.00	0.59
Fonciere Des Regions	FRA	Rental	-0.52	0.00	-0.52
TLG Immobilien	GER	Rental	1.85	0.00	1.85
DIC Asset	GER	Rental	7.50	0.00	7.50
WCM	GER	Rental	0.74	0.00	0.74
Hamborner REIT	GER	Rental	-0.70	0.00	-0.70
NSI	NETH	Rental	-2.33	0.00	-2.33
Lar Espana Real Estate SOCIMI	SP	Rental	2.48	0.00	2.48
Hispania Activos Inmobiliarios	SP	Rental	-2.92	0.00	-2.92
MERLIN Properties SOCIMI	SP	Rental	-3.33	1.71	-1.62
Wihlborgs Fastigheter	SWED	Rental	-0.20	0.00	-0.20
Hemfosa Fastigheter	SWED	Rental	-1.74	1.06	-0.68
Klovern	SWED	Rental	3.87	0.00	3.87
Dios Fastigheter	SWED	Rental	5.77	0.00	5.77
Hufvudstaden	SWED	Rental	-0.86	0.00	-0.86
Castellum	SWED	Rental	5.09	0.00	5.09
Wallenstam	SWED	Rental	-3.58	1.05	-2.53
Fastighets	SWED	Rental	2.93	0.00	2.93
Mobimo	SWIT	Non-rental	-3.63	0.00	-3.63
PSP Swiss Property	SWIT	Rental	-1.57	0.00	-1.57
Allreal Holding	SWIT	Non-rental	-1.71	0.00	-1.71
Swiss Prime Site	SWIT	Non-rental	-2.18	0.00	-2.18
British Land	UK	Rental	-0.17	1.25	1.08
Daejan Holdings	UK	Rental	7.55	1.09	8.64
Great Portland Estates	UK	Rental	1.72	0.00	1.72
Landsec	UK	Rental	-0.67	0.00	-0.67
Picton Property Income	UK	Rental	0.88	0.00	0.88
LondonMetric Property	UK	Rental	6.14	0.00	6.14
Custodian REIT	UK	Rental	1.52	1.40	2.92
UK Commercial Property Trust	UK	Rental	-4.84	0.00	-4.84
Shaftesbury	UK	Rental	-2.56	0.00	-2.56
F&C UK Real Estate Investments	UK	Rental	0.00	0.00	0.00
Schroder Real Estate Investment Trust	UK	Rental	-2.85	0.00	-2.85
Redefine International	UK	Rental	-2.08	0.00	-2.08
F&C Commercial Property Trust	UK	Rental	-4.43	0.34	-4.09

EPRA Conference explores how geopolitics, monetary policy and technological change are creating an uncertain future

"Europe must snap out of its complacency and address economic, geopolitical and technological disruption," leading historian Niall Ferguson told attendees at EPRA's 2017 Conference at London's Landmark Hotel in September.

"Pricing for almost every investment asset class has recovered or surpassed pre-Global Financial Crisis levels, convincing many that the crisis is over and that everything is awesome," he remarked.

"Ending ultra-loose monetary policy, rapid technological change, the UK leaving the European Union and other global geopolitical risks present worrying instability," he said, introducing the day of discussions and talks focused on the central theme of 'Dealing with uncertainty and change'. Sandwiching this EPRA event was a first day of property tours and a highly successful third day of investor meetings involving 38 listed companies.

The academic, author and columnist reminded the audience how the U.S. Federal Reserve led central banks in averting a re-run of the Great Depression in the Global Financial Crisis of 2008. "A decade later, unprecedented liquidity pumped into economies and interest rates at their lowest in history have been like a sedative," he observed.

China's massive expansion in credit in 2009-2010 softened the impact of the GFC and October's 19th National Party Congress will determine the course of its economy. "China is in a similar position now to where the English-speaking world found itself ten years ago when the GFC started," he said.

William Wheaton, Professor of Economics at the Massachusetts Institute of Technology, highlighted later why he expects future global capital shortages for investment. "Increasingly elderly populations will run down their savings as central banks cease buying securities and as governments need to make USD 1 trillion in collective annual investment to respect their climate change commitments," he warned.

"Geopolitical risks are escalating," Ferguson said, urging European governments to stop treating President Donald Trump as "a comedy show." He said that the U.S. dispute with North Korea, which risks escalating into a nuclear attack on South Korea, is the first test of the Trump Doctrine of U.S. foreign policy.

Ferguson, who is a Senior Fellow at the universities of Stanford and Harvard, described the European Union as a geopolitical "pygmy" in spite of the size of its economy. "Its failure to secure its borders, forge a coherent anti-terrorism effort and manage mass migration will continue to fuel populist political movements," he predicted.

Britain's vote to leave the EU "might be worth it" since it was a backlash to an EU "that has no answers to these questions," he remarked. Brexit negotiations will be like a long, drawn-out and expensive divorce rather than the sharp economic shock that was originally expected.

Rob Noel, CEO of Landsec, the UK's largest listed REIT, noted that the London office market is suffering from weaker rents as a result of Brexit. He tempered these remarks by saying he is "super relaxed and confident about the long-term prospects for London and the UK"

Nick Clegg, the UK's Former Deputy Prime Minister, ended the day by arguing that Brexit was "not inevitable" and that mature democracies can have second thoughts. "We are a galaxy away from the utopia that the Brexiteers promised," he said. Blaming the GFC for contributing to the populist backlash, he said that the EU must reform the Eurozone, address mass migration and the challenges posed by rapid technological change.

Technology was a recurring theme throughout the day's sessions and Salim Ismail, founder of the Singularity University, spoke of how "any entrepreneur can enter a business with a new mindset and disrupt the whole sector."

While technological advances have made the world a better place, by helping reduce global poverty and increase life expectancy, "we're not set up to absorb the challenges," he remarked. "Traditionally societies organised themselves to cope with scarcity, whereas technology is shifting the world to one shaped by abundance".

Wheaton of MIT predicted that urbanisation trends will continue and that suburbs will become more desirable places in which to live as a combination of self-sufficient solar-powered homes, enhanced battery storage and autonomous electric cars make city centres more expensive. He foresees "little limit to the penetration of e-commerce" in the U.S.

Recognising that online retailing has plenty of growth potential in Europe, Scott Crowe, CIO of CenterSquare Investment Management, said that the continent differs from the U.S., where in-store sales are dominated by an

From left to right: 1. Networking at the EPRA Conference; 2. Salim Ismail - Singularity University; 3. William Wheaton - MIT; 4. Full room for the Conference opening; 5. Luciano Gabriel - PSP Swiss Property & Mark Abramson - Heitman; 6. Niall Ferguson - Hoover Institute, Stanford University over-supplied shopping malls sector anchored by squeezed department stores.

Logistics warehouses are one sector benefiting from the rise of online retailing and David Sleath, CEO of Segro, expects the most successful brands to be those that combine online sales with physical stores. "Finding sites for last-mile delivery warehouses is becoming increasingly difficult," he said, adding that tenants increasingly want flexible buildings with sufficient "future proofing" in terms of power, automation and fibre optic cabling.

Landsec's Noel said that as mobile and digital technologies change work practices, landlords need to develop office buildings suitable for more intensive use by occupiers, putting pressure on plant, air conditioning and lifts. "That's a challenge when it takes a decade to buy a site in Central London, plan and construct a building on it," he added.

In the industry-specific panel discussions, Joris Jansen explained why PGGM lobbies listed companies to own sustainable buildings since they protect the long-term value of investments. He and fellow panellists Rogier Quirijns of Cohen & Steers and Marcus Phayre-Mudge of BMO Global Asset Management discussed the merits of senior executive pay through deferred stock payments and clawbacks, externally managed companies, and how boards need to be more open and decisive in firing underperforming CEOs.

In the preceding roundtable, the CFOs of Gecina, Great Portland Estates and Vonovia compared their experiences on corporate and asset acquisitions, discussing whether scale matters, prospects for M&A activity and how takeovers must deliver value to shareholders.

On prospects for European real estate, Collin Lau, Founder of Hong Kong-based BEI Capital, spoke about the "tremendous build-up of wealth" in China that is targeting property over bonds. "While capital controls may slow the flows into European real estate, the long-term trends will be positive," he predicted.

Mark Abramson of Heitman supported changes to the EU's Solvency II regulations so that the listed and direct property markets get equal treatment in capital set-aside rules for insurers. "This would be a 'game-changer' for the listed property sector," he predicted, "since it will trigger huge inflows of investment from a EUR 1 trillion pool of capital."

EPRA members will find out how the main geopolitical and market trends identified and analysed by participants in this year's conference evolve over the next 12 months when the location of the leading event for Europe's listed real estate industry switches to Berlin. ●

EPRA exceeds targets in financial reporting as a record 78% of benchmark Index members win awards

"EPRA has already surpassed its 2018 targets for the number of listed real estate companies complying with its Best Practices Recommendations (BPR) for disclosure and transparency in financial reporting," according to the yearly analysis of company annual reports prepared by Deloitte.

"I am very pleased to report that in 2017 we have exceeded the targets set in the EPRA strategic plan," said Dominique Moerenhout, EPRA CEO. "This year 75% of the companies in the survey gained an award, setting a new record high of 106 companies to comply with the EPRA BPR, representing 88% by market capitalisation. That compares with the 76 companies that received awards in 2016 and exceeds the target of 90 that EPRA set itself to reach by 2018. This great success does not, however, mean that we will rest on our laurels. In the year to come, we will continue working to maintain and improve the BPR quality and further build investors' confidence in the reporting benchmark standards."

Low levels of compliance with the BPR emerged as a concern of EPRA members in the 2015 Strategy Review. EPRA's Reporting & Accounting Committee launched a successful engagement programme to lift compliance levels since the BPR form a vital part of the Association's mission to raise standards of transparency and disclosure.

There are 65 Gold Awards winners in 2017, compared with 47 last year, representing a 41% increase. Silver Award winners totalled 29, an increase of nine from last year, while a dozen companies received Bronze Awards (nine in 2016). Twenty-two companies reviewed last year either gained an award for the first time or were awarded one in a higher category. Altogether, the 106 award winners account for 88% of the market capitalisation of the companies surveyed.

"The Committee has worked hard to persuade non-compliant companies that it is in their interest to adopt the BPR and given feedback to the partially compliant on how they can attain a Gold Award," said Jean-Michel Gault, Chairman of EPRA's Reporting & Accounting Committee and Deputy CEO of Klépierre. "The BPR gained a proper legal copyright framework earlier this year, ensuring that this industry-leading set of standards inspires the confidence of investors and companies. There is still more work to do, however, and many companies still need to be persuaded of the merits of improving their transparency and disclosure."

Deloitte grants the awards based on its analysis of 2016 annual reports of the 102 constituents of the FTSE EPRA/NAREIT Developed Europe Index and the reports of another 40 companies that are not index constituents.

Its analysis focused on six BPR: Earnings Per Share (EPS), Net Asset Value (NAV), NNNAV (triple net asset value), Net Initial Yield (NIY), Vacancy Rate and Cost Ratios. It also examined information provided by companies on their investment properties.

Deloitte found that the most widely used BPR metric is NAV, with 98% of Index members reporting it. EPS and NNNAV followed. The Cost Ratio metric was the least utilised by Index members, although 61% of them still used this measure of changes in a company's operating costs. The biggest improvement in the use of BPR was for NIY, which was adopted by 73% of Index members, a 12-point increase from last year – although not all of the companies provided the required calculation details.

EPRA's Reporting & Accounting Committee will continue to focus on improving the quality and relevance of companies' reporting, with a particular emphasis on the disclosure of metrics that are lagging behind.

"This impressive level of BPR adoption has been achieved thanks to various support initiatives led by EPRA, such as one-on-one meetings, but also thanks to workshops that EPRA and Deloitte have organised in Germany, Spain, Sweden and in the UK," said Emmanuel Proudhon, Partner at Deloitte France. "Last year, for the first time, companies have received an individual BPR feedback report prepared by EPRA and Deloitte. It has been very useful for companies to identify main areas where disclosures were to be improved. EPRA's drive has taken compliance with the BPR to the next level, and we expect this momentum to continue." •

EMMANUEL PROUDHON

Emmanuel Proudhon, statutory auditor, is a partner at Deloitte France. He has an extensive experience of leading audit engagement of RE companies. He is the coordinator for Deloitte of the EPRA survey and is a member of the EPRA Reporting and Accounting committee. He is graduated from ESCP Europe and has the German Diplom Kaufmann.

Emmanuel Proudhon from Deloitte France presents the 2017 BPR Awards report at the EPRA Conference

How to navigate the sustainability reporting landscape

The past 20 years have seen sustainability reporting move from a niche activity to a mainstream practice as the number of companies publishing an annual sustainability report has mushroomed. According to research conducted by KPMG, sustainability reporting is now standard practice for large and mid-cap companies around the world. 75% of the largest 100 companies in 49 countries published a corporate responsibility or sustainability report in 2017 . In Western Europe, the figure is higher at 82%.

Boosting corporate reputation and employee engagement levels are widely recognised benefits of sustainability reporting. Reporting can also be an effective tool for improving performance; after all, what gets measured gets managed. The process by which companies gather information, analyse trends, set targets and communicate their performance all serve to focus minds and drive progress.

But as sustainability reporting matures, it has moved beyond the domain of interested employees and NGOs to an increasingly more informed audience. Pressure on companies to communicate their sustainability performance, whether this is through industry benchmarks or sustainability reporting frameworks, is now coming from all sides of the corporate parapet.

Regulators, for instance, are now demanding it. The EU's Non-Financial Reporting Directive requires companies to provide an account of their environmental and social performance – including human rights, anti-corruption and bribery, and employee diversity – in their annual reports. The Directive is being transposed into national legislation and is expected to affect 6,000 companies across the Union from 2018.

Investors too are increasingly looking for evidence that companies have identified, and are managing the sustainability risks that can impact shareholder value. Longstanding investor-led initiatives such as the Carbon Disclosure Project (CDP), which collects data on corporate climate impacts on behalf of investors with close to EUR 100 trillion under management, have been joined by younger upstarts such as the Integrated Reporting Framework and the Task Force on Climate-related Financial Disclosures. The latter is developing common climate-related financial risk disclosures for shareholders and has the backing of heavyweights Michael Bloomberg and the Governor of the Bank of England.

These initiatives illustrate a wider challenge for companies. Since the introduction of the Global Reporting Initiative (GRI) in 2000, multiple sustainability reporting standards, frameworks and benchmarks have emerged – and continue to proliferate. The GRI remains the de-facto global standard for sustainability reporting with more than 6,500 companies using the GRI as the basis of their reporting. On top of these, we can add EPRA, INREV and GRESB for the property sector alone!

What should property companies – both experienced reporters and newcomers – make of this crowded landscape, and which route to reporting should they take? Our advice is twofold: keep it simple, and keep it relevant.

As a member-led initiative, the EPRA Sustainability Best Practice Recommendations (sBPR) offer a straight-forward route into reporting. Specifically designed for the public real estate sector, the performance measures and overarching recommendations address the most material sustainability impacts of the industry.

Of course, it takes more than a user-friendly framework to overcome the more prosaic challenges real estate companies can face when collecting reporting data, such as uncooperative property managers and inaccurate utility bills. The sBPR nonetheless provide specific advice and guidance on how to overcome the common challenges facing property companies in choosing what and how to report.

Furthermore, they set a comparable benchmark across the industry and provide a stepping-stone for companies looking to take their reporting to the next level. The recently issued 3rd edition of the sBPR, for example, has been extended to cover environmental, social and governance issues in line with the EU's Non-Financial Reporting Directive, and individual performance measures are aligned with the GRI.

The property sector still has some way to go to match the broader trends reported by KPMG. It is, however, extremely encouraging to see participation rates increase since the sBPR were launched in 2011. In 2017, 68% of EPRA members reported at least one sustainability performance measure – and 40% received an award. We are confident this trend will continue as sustainability reporting, supported by the sBPR, becomes a must-do activity for property companies across Europe.

CORRIGENDUM

We would like to apologise Wereldhave for the mistake made in the 2017 Sustainability Best Practices Recommendations Award Survey. Wereldhave retained the Gold Award level for their sustainability reporting, while we incorrectly attributed them a Bronze Award. We congratulate Wereldhave for their score. ●

TOM BRANCZIK

Tom Branczik is responsible for Upstream Sustainability Services' Reporting service line. He provides strategic advice on all aspects of sustainability reporting and communications. He joined Jones Lang LaSalle in 2012 and has more than 10 years' experience drafting and advising on sustainability reports, benchmarks and indexes for leading property companies in the UK and Europe.

Denise Michela Sofia from JLL presents the 2017 sBPR Awards report at the EPRA Conference

Big Data puts a price tag on ESG in company valuations

Kempen Capital Management has radically restructured its listed real estate investment strategies in the past five years, boosting returns by harnessing 'Big Data' to its company and asset research as well as diversifying beyond Europe into global markets. That process has also revealed the increasingly important role environmental, social and governance (ESG) factors play in corporate valuations within Kempen's EUR 1.0 billion real estate equities portfolio.

"At the end of 2011, we brought in a whole new team and philosophical approach for our listed real estate investments," Jorrit Arissen, Senior Portfolio Manager at Kempen Capital Management, told the EPRA Newsletter at the company's offices in Amsterdam. "The greatest change was that we started using Big Data to collect information about individual buildings. We now log something like 22.5 million data points a day. In 2014, we launched a global strategy where we use the same investment philosophy as for the European strategy but applied to a different set of companies.

"The switch in approach has lifted investment performance. The annualised total return from the Kempen European Property portfolio over five years since late-2011 was 15.3%, before fees, compared with 13.0% for the FTSE EPRA/NAREIT Index over the same period.

"The Kempen Global Property Fund also completed its first three-year investment track record at the end of September, producing an annualised return of 11.6%, compared with the FTSE EPRA/NAREIT Global Index return of 8.2%."

The EPRA Newsletter posed Jorrit Arissen some additional questions relating to ESG and investments.

What role do ESG factors play in Kempen's investment decisions?

Kempen believes that approximately 70% of the value of a real estate investment is determined by its location and 30% by the 'bricks and mortar' of the asset itself. We cover about 200,000 buildings worldwide with 'bottom-up' analysis.

Overlying the portfolio, there are essentially three key drivers in determining corporate quality and whether or not we want to pay a premium for a company: management track record, the balance sheet and ESG factors. As ESG is fully integrated into our processes, if a company improves in this area then it will increase its score, and our warranted valuation of its stock also goes up.

Which elements within ESG do you focus on in your investments in REITs and listed real estate?

While all these elements are important, it is in the environmental area that companies can really make a difference. After all, real estate is responsible for approximately 40% of energy consumption and about a third of CO2 emissions globally.

There is a growing body of academic research demonstrating the positive investment valuation case for ESG. In the residential sector, it's super strong for nearly all major markets. A Maastricht University study showed, for example, that in 2010 energy efficiency labels had no discernable correlation with Dutch residential asset valuations, but by 2015 this had changed and there was a real impact. In offices, it's not so clear but we believe the difference in valuations between 'good' and 'not so good' buildings is only going to increase. This represents a fantastic opportunity to 'future proof 'your investment by redeveloping today on ESG principles.

EPRA has recently launched the third edition of its sustainability Best Practices Recommendations (sBPRs) on reporting, which expands its scope to the social and corporate governance impact areas. As an EPRA sustainability committee member, you have been involved in the process.Can you describe the scope of the guidelines and the new indicators included?

Hopefully, there won't be any need for Environmental guidelines in 20 years because they will just be a given and

intrinsic part of any investment, so I think it's also natural that EPRA is expanding the scope of the sBPRs to also focus on social and governance factors.

(The new non-financial performance measures cover areas such as diversity employee development, health and safety, community engagement and Board composition, selection and conflicts of interest).

My personal view is you should always have the best person for the job, regardless of whether they're male or female and their religious or ethnic background. But it will be interesting to see how the raw data emanating from the new guidelines develops and how it relates to a company's performance. For example, if the data show a company as a real anomaly within its peer group in an area such as diversity, then we can use this as a starting point for a discussion with the management to discover why this is so. We don't just take the data at face value.

Today, we also focus on energy and CO2 but this is only a small percentage of total outgoings and, ideally, we would also like more information on areas such as air quality in offices, which hopefully the new EPRA guidelines will help to stimulate. Levels of sick leave and personal productivity are usually way bigger issues for companies, so tracking the correlation to air quality could result in big changes and better returns.

EPRA sBPR Guidelines promote ESG disclosure among listed properties companies, enabling investors to access raw ESG data. From your perspective, do you see investors more willing to collect and analyse raw data or to rely on 'ready to use' ESG rating scores?

You want the raw data for one company to be comparable to the same data point for another one. Since we invest globally, this is quite a challenge. EPRA's scope is Europe while other data vendors have a more global view, but this is far from perfect – GRESB has only 56% coverage of the listed sector. I think Kempen's knowledge goes far further than what we see in MSCI's ESG reports, for example, and we sometimes totally disagree with their ratings. You need to have a view over the quality of the data and be able to validate the observations of the data vendors as it's crucial to the research process.

Would you walk away from an investment where the financial case is strong but the ESG case is weak?

Because we have integrated ESG into our investment framework, we can assign a price to it and we sometimes share that with companies. If you say "the valuation of your company improves 15% if you become best in class in ESG processes," then you usually get a very different and much more constructive discussion than if you talk in more general terms.

It would be strange to punish a company and cut it off from the capital markets because it lags on ESG. The laggards are precisely those who have the most to gain in their valuations. Kempen has CO2 intensity data on all the companies in our investment universe, and this is typically the area where we try to engage with management if we see an anomaly in the numbers relative to their peers. We generally only walk away from an investment on ESG grounds if a company's management refuses to engage with us on the issue because alignment of interests with shareholders has the heaviest weighting in our assessment of corporate quality. •

JORRIT ARISSEN

Before joining KCM in 2015, Jorrit Arissen worked as senior portfolio manager Global Real Estate securities at leading asset managers such as APG and F&C Asset Management, and most recently at Dutch asset manager for pension funds PGGM. At F&C and PGGM Jorrit was ultimately responsible for listed real estate investments in the US and European regions. Jorrit received his Masters in Economics at Tilburg University and his Masters in Real Estate Investment and Finance at Reading University in the UK. He is a member of the VBA Real Estate Committee and sits on various committees actively promoting Environmental, Social and Governance (ESG) standards in real estate (EPRA sBPR, Investor Advisory Committee).

Grand City Properties wins EPRA inaugural Outstanding Contribution to Society Award

Germany's Grand City Properties won the crown in EPRA's inaugural Outstanding Contribution to Society Award at this year's Annual Conference from a remarkable and diverse range of 18 submissions from member companies for projects they sponsor in their local communities.

The qualifying submissions, selected from an original pool of 24, were evaluated by an independent jury according to three criteria: the extent/scale of their impact, their innovativeness/uniqueness and corporate endeavour to make the project happen. Judi Seebus, Editor-in-Chief of PropertyEU, chaired the jury, which also included Saira Choudhry, Director, PwC UK Real Estate; Jon Lovell, Co-Founder & Director, Hillbreak; and Matthew Ulterino, Member of UNEP FI Property Working Group.

"I found it really inspiring to see how some of the EPRA members are not only doing their job but, at the same time, making a difference in society," said Judi Seebus. "In my opinion, we cannot emphasise often enough that real estate companies – whether or not they are listed – have an important role to play in society. Making an outstanding contribution to society should, in effect, become second nature for them, just as it is for so many of them to now be transparent in their reporting and to follow best practices in the field of sustainability. EPRA's new awards initiative is, I believe, a step in the right direction."

Seebus added that the 18 projects fell into one of two categories: the first category included a type of construction, refurbishment or repurposing of a building, while the second category comprised corporate initiatives, such as projects aimed at educating or raising awareness on a social challenge in a community. Without exception, the winner and the two runners-up, UK REIT Landsec and Helsinki-listed retail specialist Citycon, were all from the second category.

"This is an important point," Judi Seebus said. "Four of the submissions were from the first category. They included projects like Gecina's 55 Amsterdam in Paris, the first office in France to receive the Well Core & Shell and

EPRA Outstanding Contribution to Society Award

Christian Windfuhr, CEO of Grand City Properties, winner of the competition

BiodiverCity labels, as well as #Cloud by Inmocolonial and Société Foncière Lyonnaise. #Cloud renovated historic buildings to create a cutting-edge office tailored to the needs of the new economy and supporting the health and well-being of its occupants with a high environmental performance.

“These projects are without a doubt commendable and offer interesting solutions to modern-day requirements. But, according to the jury, you would expect a real estate company to incorporate the best possible standards in terms of construction, efficiency, sustainability and wellness as part of their normal business.”

It is no coincidence, therefore, that the winner and the two runners-up all fell under the second category: each of them goes a step further in engaging with the broader community innovatively through their developments. Each of these projects also embodies a broader vision of the impact of a real estate development or asset in the community and reflects a willingness to take responsibility towards multiple stakeholders.

Grand City Properties (GCP), a specialist in investing in residential assets that have been mismanaged or undermanaged, won the award for its Social Tenant Manager programme launched in 2013.

The company says it is the only German real estate company with a 24/7, free of charge service centre for its residential complexes. It recognises that many of its tenants have special needs that present challenges in integrating with the broader community. A large number are immigrants, unemployed or disabled and may face language barriers, need career and education advice, or lack an understanding of the legal and financial systems.

The GCP Social Worker Programme supports clients in their individual life situations through mediation with a whole range of local authority services, whether at the job centre or for obtaining handicapped certificates or resolving questions on immigration status. The programme has helped transform the lives of tenants, produced a more positive atmosphere around GCP’s residential buildings and supported a more structured and transparent interaction with local authorities.

“Our properties are in the affordable living space, so our tenants are usually people on lower levels of income, such nurses and drivers, who have to work hard to make ends meet,” Christian Windfuhr, CEO of GCP, told EPRA in a video interview at the Annual Conference. “Immigrants generally have the greatest need because they often don’t know where to go to get the support they’re entitled to.”

“We also improve the efficiency of our operations because there is a direct feedback loop from our tenants through the service centres and our apps on Android and iPhones. Tenants can create their own tickets for repairs

by taking a photo of the problem and sending it to us, for example. This system is also helpful in re-letting vacant flats since the service centres become the first point of contact for information and this helps us avoid empty units falling through the cracks," he added.

Landsec was first runner-up in EPRA's Outstanding Contribution to Society Award with its community employment programme in the UK. This programme addresses the broader problem of unemployment, focusing on those groups that are most excluded in society, such as ex-offenders. It helps them get jobs in the property industry; this is despite the fact that the UK's construction industry is struggling to fill a severe skills gap, with more than 182,000 construction jobs needing to be filled by 2018. So far, Landsec has exceeded its initial expectations by placing nearly 1,000 people in work.

The jury recognised how second runner-up Citycon had harnessed its own shopping centre expertise and network to address a social issue – the need for greater entrepreneurship in Finland – in a creative and stimulating way. Entrepreneurship has traditionally been seen as a big risk in Finland, and young people, in particular, have been reluctant to start their own businesses.

The 'Citycontest' project focuses on the problem of rising youth employment since the financial crisis and offers young people the opportunity to start their own entrepreneurial businesses by providing education and information support services. The individuals selected for the best business ideas to emerge from this process are then given a chance to test their concepts in the market within Citycon stores.

Following the enthusiastic response from its members, EPRA has already announced it will organise the second edition of the Outstanding Contribution to Society Award at the 2018 Annual Conference in Berlin.

THE 15 OTHER QUALIFYING PROJECTS SUBMITTED BY EPRA MEMBERS FOR THE OUTSTANDING CONTRIBUTION TO SOCIETY AWARD 2017 INCLUDED:

AG Real Estate *Schools of Tomorrow programme*

Befimmo *B-Switch project*

British Land *Young Readers programme*

Castellum *Eminent Building project*

Cofinimmo *Belgian Federal Prison project*

Gecina *55 Amsterdam project*

Green REIT *Live Work Grow programme*

Hammerson *Transformation of 130 Vicar Lane project*

Icade *GEM Les Colibris de Rungis project*

Inmocolonial/Société Foncière Lyonnaise *#Cloud project*

Mercialys *Toulouse Fenouillet Shopping Centre project*

Redefine International *Movie Hub at Weston Favell project*

Shaftsbury *Soho Parish Playground project*

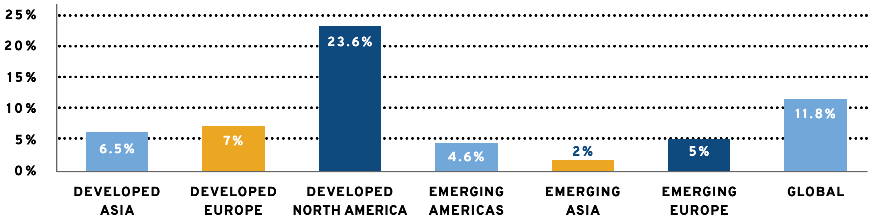
Unibail-Rodamco *The UR for Jobs programme*

Vonovia *The Eltingviertel District project* ●

ETFs – friend or foe?

Exchange-traded funds (ETFs) are expected to reach 50% market share in the U.S. by 2025, which will be great for investors, somewhat mixed for corporate REIT managers and negative for active fund managers, according to an EPRA research study.

Current ETF Owndership in Real Estate Stocks (2017 Q1)



ETF ownership has reached 11.8% in real estate stocks globally and 23.6% in the U.S. as of the beginning of 2017, making ETFs meaningful shareholders of the listed real estate market. Market participants expect ETFs to become the majority shareholders in the near-term future, raising questions about the impact of this new type of owner.

EPRA sponsored a research study that focuses on this timely topic and provides a perspective on the current and long-term impact of ETFs on the listed real estate market.

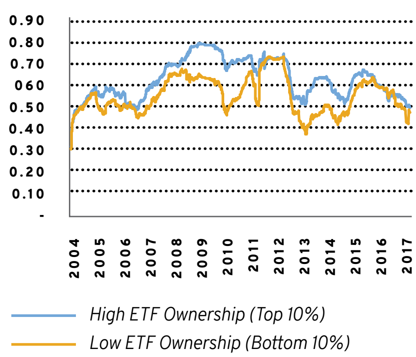
Academic research indicates that ETFs in general equities seem to have a negative impact on market structure. Specifically, these studies highlight that higher ETF ownership is associated with higher stock volatility, higher correlations, higher transaction costs, lower liquidity and less pricing efficiency. There is a price to pay for efficient capital markets and ETFs might not be considered a free lunch after all.

The EPRA research study analyses the impact of higher ETF ownership in real estate based on a sample of 206 companies from Europe, Asia and the U.S. The focus of the analysis is on stock correlations, dispersion and volume from an absolute and relative perspective.

The results from an absolute perspective show that correlations and dispersion of real estate stocks closely follow those of general equities and exhibit a high degree of volatility over time. Correlations, dispersion as well as volume peaked during the Global Financial Crisis in 2008-2009 and have been consistently moving lower since then. ETF ownership in real estate stocks has been increasing in an almost linear fashion since the start of the analysis in 2004 and does not seem to have an impact on the trend of these metrics.

On a relative basis that contrasts stock correlations, dispersion and volume for the real estate stocks with highest and lowest ETF ownership, the study does not show results comparable to those from general equities. However, higher ETF ownership probably has similar negative effects on the market structure of real estate stocks as on general equities, but the much smaller sample size is likely to obscure results.

Stock Correlations & ETF Ownership (2004-2017): Developed Americas



The long-term impact is likely different for each of the key participants of the listed real estate markets, which include investors, corporate REIT managers and active fund managers.

Investors have benefitted from being able to access listed real estate markets via cheap, tax-efficient and transparent vehicles. The Vanguard VNQ ETF, which tracks the MSCI US REIT Index, currently charges a total expense ratio of 0.12%. This makes the ETF compelling for any investor seeking exposure to the listed real estate market in the U.S. In addition to the plain vanilla index proxies, product providers have also issued an abundance of smart beta ETFs, allowing investors to harvest risk premia very efficiently.

Corporate REIT managers have likely benefitted from less critical passive investors; however, they are increasingly facing difficulties since there is no significant relationship with passive investors, which is important for well-f¬unctioning capital markets. These executives may find that their stock prices may trade less in line with the underlying fundamentals going forward.

On the other hand, active fund managers have lost significant market share to ETFs since they currently provide little value to investors. To be fair, a large part of the lack of alpha generation can be explained by high fees, but active investment managers can't compete with ETFs on fees. One viable route for active managers is to become more activist investors, given that they have the best knowledge of companies and real estate markets. Naturally, this does mean that fund managers need to reinvent themselves, but it seems like one of the more promising avenues for survival. ●

NICOLAS RABENER

Nicolas Rabener is the Managing Director of FactorResearch, which provides quantitative solutions for factor investing. Previously he founded Jackdaw Capital, a quantitative investment manager. Before that, Nicolas worked at GIC and Citigroup. Nicolas holds a Master of Finance from HHL, is a CAIA charter holder and enjoys endurance sports.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EPRA has an opportunity to develop its Investor Outreach programme as EU directive tightens corporate access rules

EPRA's Investor Outreach programme, which connects listed property companies with investors, may benefit from new European Union regulations coming into force next year that tighten up the rules governing corporate access.

The EU's second Markets in Financial Instruments Directive (MiFID II) is forcing brokerages to unbundle corporate access, research and other services from dealing in securities, for which they charge investment managers a commission. The goal is to increase transparency, protect investors and eliminate unnecessary costs.

"Corporate access arranged by a brokerage is not deemed to be research and may, in many cases, be an inducement for which investment managers and their advisers must pay a separate fee," according to law firm CMS Cameron McKenna Nabarro Olswang LLP. "There is no conflict of interest or inducement offered by EPRA Investor Outreach events, which is why they are unaffected by the MiFID II changes."

"It's a good opportunity for EPRA since it falls outside the new rules," said Sam Robinson, a Partner at CMS, speaking at an event to explain how the listed property sector might benefit from MiFID II, which his firm co-hosted with EPRA in its London offices on November 2nd.

EPRA organised 10 Investor Outreach events this year, involving 72 companies and more than 500 investors.

"MiFID II means we can expand and develop our Investor Outreach programme," EPRA Chief Operations Officer Barney Coleman said.

At the event, CMS' Robinson and his colleague Susann Altkemper outlined nine practical steps that investment managers, brokerages and third-party research firms need to take to be compliant with MiFID II, even if they are based outside the EU.

They stressed that the UK's Financial Conduct Authority has signalled that enforcement of the new rules will take into consideration whether companies can demonstrate that they have taken sufficient steps to be MiFID II-compliant. National regulators in the EU have taken similar stances.

"The rules on corporate access fall under MiFID II's regulation of inducements and research. What constitutes research will need to be assessed on a case-by-case basis, notably in the area of macro-economic research," CMS' Altkemper said. "In practice, it will be difficult for investment managers or their advisers to receive research in compliance with the general inducements rules given the more prescriptive MiFID II rules around the quality enhancement test."

"A survey of 31 of the largest investment management companies showed all but one has decided to pay for research themselves rather than establish Research Payment Accounts for their clients to cover the research costs," CMS said, adding that the one outlier is still undecided on which approach to adopt. ●

SUSANN ALTKEMPER

Susann is Of Counsel in the Financial Services Regulatory practice having re-joined the team at CMS London in 2015 as specialist Counsel. Prior to that she spent seven years working as in-house legal adviser and consultant for Euroclear UK & Ireland Limited where she gained an in-depth knowledge of and advised on supervisory and regulatory matters affecting financial market infrastructure and other players in the market.

SAM ROBINSON

Sam is a partner in the CMS London Financial Services Regulatory practice where he advises clients on a broad range of regulatory and compliance matters within the financial services sector. Prior to working in private practice, Sam worked for seven years at the UK financial services regulator, the Financial Services Authority, and has also spent time on secondment at Santander Asset Management UK Limited.

Nareit and REALPAC CEOs lay out their views in London

EPRA caught up with Nareit and REALPAC CEOs Steve Wechsler and Michael Brooks at the Annual Conference in London to ask them for updates on the U.S. and Canadian listed real estate industries and their views on the global market:

Nareit

What are the main market and regulatory challenges facing the U.S. REIT industry at the moment and how is Nareit responding to these?

Steve Wechsler: Right now, we have one large opportunity and one potential challenge. The opportunity is that last year MSCI and S&P adapted their GICS regime to make real estate the 11th headline sector. Now FTSE has announced that the ICB industry classification, the other leading benchmark in the world, will also make real estate a headline sector. We will use these developments in the coming years to reach out with EPRA to generalist investors; Nareit has started to do so in a material way with a serious effort this year.

The potential challenge in the United States is that we're working with the Trump administration and Congress on tax reform-related initiatives and the range of possible outcomes is really very wide. So, we expect to be working day-by-day on the variety of proposals as they arrive. They may well affect real estate and investment quite generally. There could be sweeping or more tailored change, but our underlying feeling is that both the Trump administration and members of Congress promoting tax reform are really looking to make things better, and that would work for real estate investment and REITs.

The U.S. REIT model has been adopted to varying degrees across the world. In which markets do you expect to see most future growth in REITs and why?

Steve Wechsler: If I look ahead to the next ten years, I truly believe we'll see the biggest markets for REITs develop in Asia, particularly India and China. India very recently adopted a REIT regime that is quite forward-looking, and there's vast potential there. China is also seriously considering a REIT regime. We, together with EPRA, have had an ongoing dialogue with senior officials in the Chinese government, private sector actors and the state community, and we're very hopeful that China will, in the near to intermediate term, introduce a REIT regime. We've already seen quasi REITs in China, and we do anticipate that the Chinese real estate market will become increasingly REIT-friendly.

Nareit and EPRA cooperate in Investor Outreach programmes explaining the attributes and advantages of REITs to investors. What are the key messages you will be taking to European investors directly after the EPRA conference?

Steve Wechsler: The messages that we are taking to investors in Europe are in many senses 'evergreen' messages. The benefits of REIT-based real estate investment are significant and demonstrable and have been documented, in the U.S. over decades and in Europe over the past decade or so: liquidity, diversification and the income-based return, which is extremely important. REITs and listed real estate are designed to throw off income. In societies with ageing demographics, particularly in Europe and the United States, it's going to be critically important for investors to seize control of that income to their benefit and supplement retirement and future needs.

Nareit and EPRA partner with FTSE Russell in the management of the FTSE EPRA/Nareit Global Real Estate Index. What do you see as the strategic purpose of the index and how successful has the index been in accomplishing that purpose?

Steve Wechsler: FTSE, Nareit and EPRA have partnered now for many years in the global index. This was conceived to identify the opportunity set around the world available to investors in each and every nation, to broaden and diversify their real estate investment holdings on a global basis. It's worked out very successfully. We've been able to adapt and refine the index. We continue to do so in consultation with the investment community. EPRA, Nareit and FTSE work very closely and cohesively to create a coherent set of ground rules, and we anticipate that the index will increasingly be the leading way for investors not only to benchmark but also better to understand the dynamics of real estate investing through the listed markets. Over time, we expect that investors will increase their exposure to real estate and listed relative to private real estate as the securitised market becomes deeper and more advanced around the world.

REALPAC

Please explain to us REALPAC's role in Canada?

Michael Brooks: We're a trade association for both the listed and non-listed sectors in Canada. We have CEO representation, well over 90 members, are the leading voice for advocacy and the forum that connects senior industry members. We're also involved in conferences, education and training.

What are the main market and regulatory challenges facing the Canadian listed real estate industry at the moment and how is REALPAC responding to these?

Michael Brooks: On the market side, it's shortage of product. Most markets in Canada, I'd possibly exclude Calgary and Edmonton because of low oil prices, are very strong. Vancouver and Toronto are on fire with multiple bids for any institutional grade asset that comes up for sale. So, a lot of Canadian REITs are doing development and looking at opportunities outside our borders. Generally though, it's pretty smooth sailing with no real pressures right now.

Both REALPAC and EPRA are part of REESA (the Real Estate Equity Securitization Alliance). How do you see REESA's role?

Michael Brooks: REESA is really important for us to collaborate on issues that are globally important for the listed sector. We can co-operate on regulatory issues such as accounting, where REALPAC is very deeply involved. We've also been involved with the OECD on global tax reform over standards such as the AIFMD and equivalent types of European and North American initiatives to make sure there's nothing there to inhibit the growth of the REIT sector.

Do you have any observations on the European listed real estate industry and what are Canadian investors looking for in European property companies?

Michael Brooks: The European companies are in many respects further ahead than some of the Canadian companies in areas such as governance standards and sustainability, particularly with reference to EPRA's Best Practices Recommendations and sustainability BPRs, which I'd love to catch up with in Canada. The markets in Europe are also mature and stable so, from a diversification point of view, I think a lot of Canadian REITs would be interested in furthering their investments in Europe as a diversification strategy. ●

STEVEN WECHSLER

Steven Wechsler is Nareit's president and CEO. Wechsler joined Nareit in 1997 from the National Realty Committee, where he served as president from 1990 to 1997. Prior to joining the NRC in 1983, he practiced law with Stein, Miller and Brodsky and served as counsel to Thevenot, Murray and Scheer.

S. MICHAEL BROOKS

Michael is the CEO of REALPAC (1997-), the senior Canadian trade association for large public and institutional investment real estate companies, an Adjunct Professor at Ryerson University, and a former commercial real estate lawyer. Michael has represented the Canadian real estate industry in all major policy initiatives with governments at all levels.

Real estate's ascendancy in global equity markets boosted by ICB move

FTSE Russell's decision to designate real estate as a stand-alone equities sector within its Industry Classification Benchmark (ICB), announced at EPRA's Annual Conference, is expected to attract further major investment capital flows into property stocks. It follows a similar move by MSCI and S&P, the other main global indices providers, with their GICS benchmark last year.

"REITs continue to grow globally as they provide investors with stable long-term dividend income streams," said EPRA CEO Dominique Moerenhout. "FTSE Russell's elevation of Real Estate as its 11th ICB Industry is timely; the listed real estate industry is growing strongly and is increasingly viewed as an investment asset class in its own right. The asset class never sat comfortably in the ICB 'Financials" stock basket, which has very different investment characteristics."

The new ICB Real Estate industry sector represents around 4.0% of the world equities market as represented by the FTSE Global All Cap Index, or USD 2.0 trillion in investable market cap. This is roughly a quadrupling of the global listed real estate industry's relative size from the 1% of the global stock market it represented at the trough of the market cycle in 2009. A combination of equity market fundraising and strong investment performance has powered this surge in the industry's free float market capitalisation.

The growth in the global listed market is also largely due to the expansion of REIT regimes, which now make up 80% of the Global Developed Market Index. REITs distribute most of their rental income cash flows as dividends, so gaining favour with investors seeking income and capital value growth in the prevailing low-interest rate environment.

Under ICB, each company is allocated to the subsector that most closely represents the nature of its business, which is determined by its primary source of revenue and other publicly available information. Approximately 100,000 equity securities worldwide are currently classified by the ICB system, providing a comprehensive data source for global industry analysis for the investment community and others.

Financial stocks still make up about 20% of the FTSE Global All Cap Index with real estate removed, and they remain the single largest industry in the ICB. One of the reasons for elevating real estate was the low correlation in the performance of property stocks relative to financials, such as banks. Listed real estate also has a lower volatility on average than financial stocks.

The volatility of listed securities has been the main rationale referenced by European institutional investors for why they do not allocate to real estate equities. This further decoupling of the major market indices from financials is expected to improve the risk-profile of REITs and help attract new investor allocations.

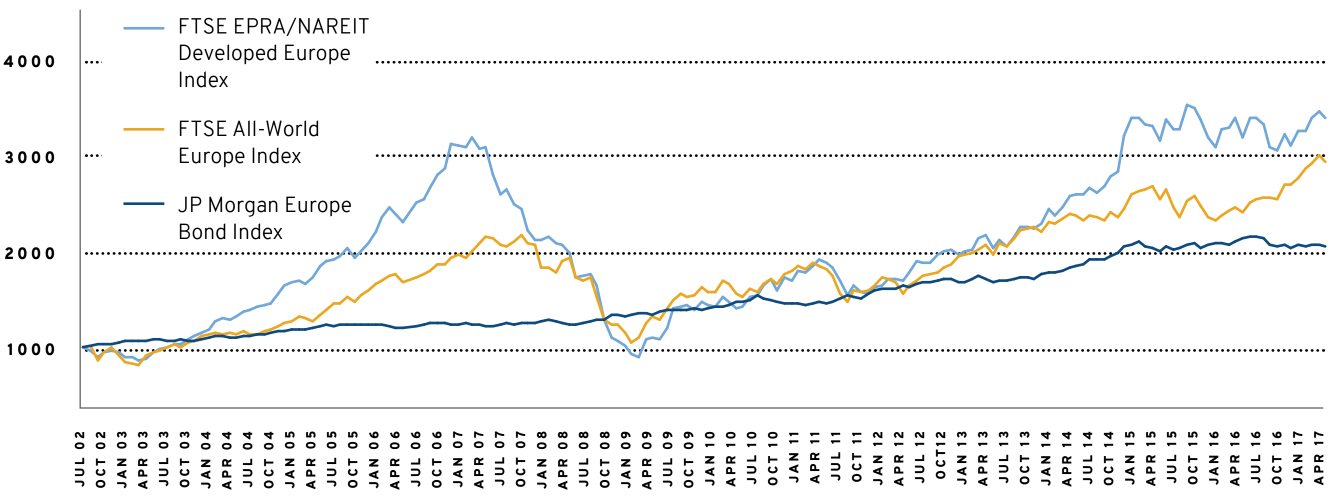
"FTSE Russell has undertaken a significant and comprehensive enhancement of its industry classification framework following a market-wide consultation," said Dr. Christian Bahr, Head of Market Data & Analytics at SIX Swiss Exchange and member of FTSE Russell Industry Classification Advisory Committee. "FTSE Russell is not only bringing the best of breed to investors with this alignment but also reflecting the evolution of industries and laying a critical foundation for future classification expansion."

The new ICB structure will be effective after market close on December 31, 2018. The transition dates for individual FTSE Russell index series will be announced by June 2018. ●

Catherine Yoshimoto from FTSE Russell announces the ICB move at the EPRA press conference in London on September 6, 2017

Index focus

Comparison of asset classes

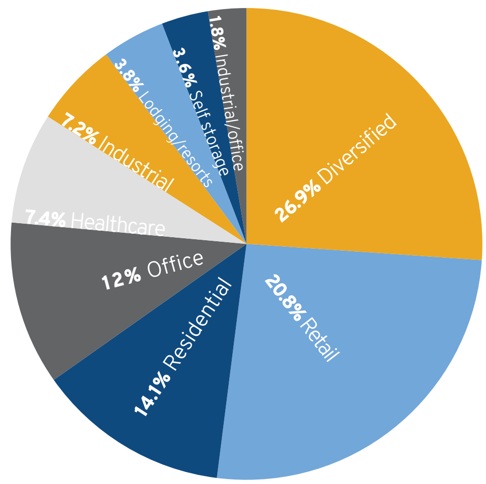


Value snapshot (October 2017)

* 1-year LTV value as of Jun 16 and 10-year value as of 2007

DEVELOPED EUROPE	LATEST (MONTHLY)	YEAR TO DATE	1 YEAR	10 YEAR (LONG RUN)
Total Return (%)	1.10%	7.0%	3.7%	3.2%
Premium/Discount to NAV (%)	-6.3%	-8.0%	-8.5%	-11.4%
Loan-to-Value (%)*	36.9%	-	37.5%	42.1%
Dividend yield (%)	3.6%	-	3.4%	2.5%

Developed Index sector share



Top 10 European performers (October 2017)

FTSE EPRA/NAREIT GLOBAL INDEX							
STOCK	COUNTRY	REIT STATUS	SECTOR	INVESTMENT FOCUS	PRICE RETURN SEPT-17	DIVIDEND YIELD SEPT-17	TOTAL RETURN SEPT-17
WCM	DE	Non REIT	Rental	Diversified	12.66%	0.00%	12.66%
Irish Residential Properties REIT	IE	REIT	Rental	Residential	8.86%	0.00%	8.86%
Pandox	SWED	Non REIT	Rental	Lodging/Resorts	8.54%	0.00%	8.54%
Green REIT	IRE	REIT	Rental	Office	4.65%	3.50%	8.15%
Phoenix Spree Deutschland Limited	UK	Non REIT	Rental	Residential	8.11%	0.00%	8.11%
Axiare Patrimonio SOCIMI	SP	REIT	Rental	Industrial/Office	7.93%	0.00%	7.93%
Dios Fastigheter	SWED	Non REIT	Rental	Diversified	7.00%	0.00%	7.00%
Hibernia REIT	IRE	REIT	Rental	Office	6.79%	0.00%	6.79%
Hemfosa Fastigheter	SWED	Non REIT	Rental	Diversified	5.94%	0.00%	5.94%
Hansteen Holding	UK	REIT	Rental	Industrial	4.15%	1.77%	4.50%

HEAD OFFICE
Square de Meeus 23
1000 Brussels, BE
T +32 (0)2 739 1010

UK OFFICE
Berkeley Square House,
London W1J 6BD, UK
T +44 (0)7973 109117

HONG KONG OFFICE
Suite 2207-09, Tower II, Lippo Centre
89 Queensway, Admiralty, HK
T +852 2530 8170

Find more information on www.epra.com