



EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

MARKET RESEARCH

European Listed Real Estate

**What are the
success factors
required for further
growth in the
European Listed Real
Estate Sector ?**

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This report commissioned by EPRA has been realized by Philippe Le Trung, with the support of Clément Orvoën, Thomas Paquet and Issam Hebbali, VIEWS+S Consulting.

The aim of this work is two-fold: providing a synthetic piece of research regarding the success factors that have enabled the growth of the European real estate sector and opening a broader debate with the entire industry to stimulate further growth.

Inputs and contributions have been provided by several EPRA members comprising Thomas Bimont (BNP Paribas), Dick Boer (Van Lanschot Kempen), Bart Gysens (Morgan Stanley), Rogier Quirijns et Ji Zhang (Cohen & Steers), Paul Pulze, (JPMorgan Cazenove), Struan Robertson, (BoFA), as well with the inputs of Dominique Morenhout, Barney Coleman, Dilek Pekdemir from EPRA.

To enrich the analysis of the historical data and the identification of the success factors that are supporting the European listed real estate sector growth, this report includes comments, opinions and feedbacks received notably, by the EPRA members quoted above.

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Executive Summary

2022 marks a genuine turning point regarding the economic and financial environment. Most asset classes (bonds, equities, real estate, private equity) are down on the back of geopolitical uncertainty, higher inflation and interest rates with next on the agenda, looming recession risks. Nevertheless, any changing environment offers new opportunities and new risks. In order to help the listed real estate industry to look ahead, the approach of this research project commissioned by EPRA is to lay out some key statistics to understand the past patterns, to identify success factors and issues for growth in the listed European real estate sector, which might be key takeaways for European players geared towards further growth.

From 2010 to December 2022, the listed European Real Estate sector grew 2.0x, i.e. a 6.1% CAGR, to EUR 228 bn (market cap of the constituents of the FTSE EPRA Nareit Europe index, or FEN Europe index), but this was a slower pace than in the US (3.2x, i.e. a 10.1% CAGR). In absolute terms based on the free-float adjusted market cap, Europe has added EUR 81 bn of investible market cap since 2010 while the US has added USD 612 bn. In order to put these numbers into perspective, it is interesting to look at what happened in other listed industries than real estate. Based on the largest European equity index (Stoxx 600), that encompasses all the main industry groups (Industrials, Healthcare, Financials...), the growth of the total market cap in the index between 2010 and 2022, has followed a similar trend to the FEN Europe Index, but the weight of the real estate sector in the Stoxx 600 index has remained roughly stable (1.4% at end-2021 vs 1.6% at end-2022), with several sectors experiencing a much stronger growth than the real estate sector.

The US REIT sector's superior growth could be largely attributed to more capital increases in some more efficient formats, such as private placements in the form of accelerated book building ("ABB"). However, Europe has been, on a relative basis of size, more active than the US on IPOs.

The sector's growth in Europe includes major discrepancies between subsectors and countries. Belgium (5.8x), Germany (5.7x), and Sweden (5.1x) have grown above average due to diversification and allocation to niche sectors such residential, healthcare and logistics instead of traditional ones, while Austria, France, Italy, and Netherlands have grown below average due to either allocation to single asset types like retail or having small market size. The UK (1.8x) has trended broadly in line with the European sector average.

In our view, due to its lower economic growth, its local legislations making it structurally more difficult to grow a portfolio across a pan-European market than in the US, and the structure of its domestic capital markets (capital increase features, shareholder bases), the size of the European sector will not reach that of the US. Nevertheless, this report points out several initiatives geared towards growing the sector that can be summarized in three themes:

- **More sought-after assets.** Traditional sectors (Offices, Retail, Diversified) represented over 90% of the FEN Europe index at the end of 2010. As of end-2022, they represent 50% of the index in Europe and 29% in the US. It is paramount to facilitate increased exposure to the new and higher-growth real estate sectors (Data Centers, Urban Logistics, Healthcare, Life Sciences, Hospitality, Self-Storage, Co-living, etc.). One initiative could be to educate private real estate owners and equity investors about the merits of a public format to grow and monetize their business, including capital raising under the "cash box format", which proved successful in growing the Spanish market post the Global Financial Crisis (GFC). We think that with the increased appetite among private real estate owners for the so-called "platform deals" (portfolios operated by dedicated and specialized operating team), the timing is right. Indeed, investors are increasingly interested to buy entire operating platforms (skills, people, systems, access to clients...) together with the assets and this appetite is particularly strong for specialized real estate businesses (student housing, PRS...). Listed real estate fits well with this platform strategy.
- **More efficient capital markets:** First, regarding capital increases, European real estate companies issue equity through capital increases, predominantly with subscription rights (58% of total capital increases since 2010 were rights issues). We understand the controversial debate behind the format of capital increases. Not all the shareholders can participate to private placements. Nevertheless, it is also fair to mention that rights issues are not fully neutral between the shareholders that participate and the ones that do not participate. Overall, as already discussed in different forums within the listed real estate sector, some local legislations might need to be adapted to enable companies to raise equity through private placements. The Belgian listed real estate sector is a good example of an adaptation of a

regulation to enable companies to raise through either rights issues or private placements. The Belgian real estate companies that have grown with a large support from retail investors and a regulation designed by the Banking sector, could historically only raise equity through rights issues. The legislation has been modified in 2019 thanks to the work performed by B-REIT, the Belgian REIT professional association, and the Belgian REITs can now issue equity both through private placements and rights issues.

To grow, the listed European real estate sector needs a more diversified investor base than just the specialist real estate securities fund investors. The presence of retail investors and generalists has proved to be a success factor for the sector. There is also a question mark regarding the reference shareholders often present in Europe. Do they provide resilience and a long-term view or are they a negative to investability and source of misalignments of interests? Finally, it would be a strong positive to give less predominance to NAV as a valuation metric. This is easier said than done, but NAV might be more useful as a KPI than as a valuation metric. The most successful subsectors seem to be driven by EPS and dividend growth rather than valuation relative to NAV.

- **More flexibility for the REIT regimes:** First, local European REIT regimes could be put on a level playing field compared to their global peers with respect to real estate investment activities eligible, payouts, operating activities, etc. Many US REITs would not qualify as REITs in many European markets due to their model. As an example, US data centres or healthcare REITs that combines rents and a substantial part of other revenues would not be considered as property companies in several European Markets.

In our view, a more flexible REIT regime, as in the US, would put some European REIT regimes in a better position to supply the right property solutions for their clients and consequently grow their business. Similarly, it would be useful to think about adapting FEN Global Real Estate Index series ground rules to encompass more business models especially the business models with more operating revenues like hotels. This can only be a medium-term goal as EPRA is the main benchmark for specialised funds and ETFs, and a major change in the index's composition would have an impact on portfolio construction and risk management.

1. Introduction: the right time to think about growth

The purpose of this document is to answer the following questions:

- How much has Europe's Real Estate sector grown since the Great Financial Crisis?
- Which have been the most successful subsectors and why?
- What are the lessons that could be learnt from the real estate companies that have achieved the fastest growth in terms of size?
- Are there any takeaways from the US REIT sector, the most mature and sophisticated global REIT market?

With a single goal in mind, the approach of this research project commissioned by EPRA is to identify some success factors and issues for potential growth for European players. The current market turmoil and several game changers (new real estate needs, inflation, higher interest rates, sustainability, climate resilience, etc.) appear to offer a great opportunity to analyse developments in the European Listed Real Estate sector over the last decade and its capacity to continue to attract capital and to grow in order to deliver real estate solutions for its different stakeholders, i.e. end-users, public authorities, investors and listed real estate companies themselves.

With this research project, first we put some numbers behind the trends in Europe's Listed Real Estate sector since 2010 with a focus on some countries and some comparisons with the US REIT market. Then, we review the success factors that have explained these growth patterns, factors that have been identified by analysing the key sector KPIs during this last decade. The main rationale behind this approach is to be able to suggest what could be done to generate and accelerate further growth. Finally, we run several comparisons in order to quantify the potential upside in size terms offered by this sector, which is relatively young in Europe compared to other industries. The catchy numbers resulting from these comparisons are not estimates *per se* but a way to illustrate what the impact could be from some new initiatives. The road is long, but the upside is huge.

2. The Listed European Real Estate sector has grown but at a slower pace than in the US with major discrepancies between subsectors and countries

2.1. Scope of analysis

In order to take a relevant approach to assess growth in the sector, the right scopes of analysis need to be chosen. The appraisal values and development pipelines of the portfolios managed by the different listed property companies could be a good way to assess growth in the sector. The data is available, even if it is challenging to restate and compile, our view is that they show only one side of the equation, the companies' side. Such data is not fully relevant for investors. They also cannot be used to compare Europe and the US, as US REITs do not perform external valuations. We favour market capitalisation when examining the size of Europe's Real Estate sector and its trends.

Depending on the available data on the topic being examined, we will use three scopes:

- the market cap of the entire sector (big and small caps),
- the market cap of companies belonging to the FEN Europe index (an industry-driven approach focusing on larger caps) and,
- the free-float weighted market cap of companies in the FEN Europe index (the investor approach).

We think that the total market cap and the free-float adjusted market cap are the most relevant metrics to assess sector growth. For Europe, we will focus on Developed Europe.

Note that, to identify the success factors for growth in the sector, we have used the period running from end-2010 to end-2022. This period gives us a medium-term perspective on trends in the sector since the GFC and enables us to include both the pandemic and the recent increase in interest rates.

2.2. What growth for listed European real estate since end-2010?

The other issue is the sample of companies to analyse. As of end-2022, EPRA identifies in total 473 listed companies that can be defined part of the real estate sector (property companies with rental property as major activity). They have a combined market cap of EUR 369 bn. The FEN Europe index represents 111 companies that have a total market cap of EUR 228 bn, and EUR 173 bn adjusted for free-float. We estimate that with the constituents of the FEN Europe index, which represent 62% of the total market cap of the overall sector, analysing the FEN Europe index constituents is a relevant way to identify industry trends. It also makes it possible to rely on a strong set of data produced by EPRA following *the FEN Global Real Estate Index Ground Rules*.

Table 1: Number of companies and full market cap, FEN Europe vs Total Sector (2010 – 2022)

	2010		2022	
	Market Cap (EURm)	No. of companies	Market Cap (EURm)	No. of companies
FEN Europe	112 182	82	227 964	111
Total Europe	190 287	324	369 448	473
<i>% represented</i>	59%		62%	
FEN Europe (free float adjusted)	91 375	82	172 640	111

Source: EPRA (As of December, 30, 2022).

The numbers clearly support the fact that the listed European Real Estate sector has grown substantially. In total, the increase in size has been considerable: c. EUR 180 bn additional market cap since end-2010. The Total European sector grew by 96% between end-2010 and end-2022, which reflects a 5.8% market cap CAGR. During the same period, FEN Europe market cap (total including non-free float), increased by 2.0x (6.1% CAGR).

There are some major discrepancies between countries, as explained previously. Belgium, Germany, Ireland, Spain and Sweden have grown above average, while Austria, France, Italy, and Netherlands have grown below average. The UK and Finland have trended in line with the European sector average.

Table 2: Full market cap of FEN Europe constituents (2010 – 2022)

Country	2010 Number of companies	2010 Market Cap (EURm).	2022 Number of companies	2022 Market Cap (EURm).	Var. Market Cap (x)	CAGR (%)
Austria	2	1,898	1	2,855	1.5	3.5%
Belgium	6	3,733	12	21,838	5.8	15.9%
Finland	3	2,087	2	4,46	2.1	6.5%
France	9	35,708	6	24,264	0.7	-3.2%
Germany	9	6,478	9	36,985	5.7	15.6%
Greece*	2	534	0	0	ns	ns
Ireland	0	0	1	590	ns	ns
Italy	2	1,647	1	0,344	0.2	-12.2%
Netherland	6	9,16	5	9,272	1.0	0.1%
Norway	1	662	1	1833	2.8	8.9%
Spain	1	1,242	3	7,644	6.2	16.4%
Sweden	6	7,214	19	36,675	5.1	14.5%
Switzerland	4	7,47	7	17,762	2.4	7.5%
UK	31	34,349	44	63,443	1.8	5.2%
Total	82	112,182	111	227,964	2.0	6.1%

Note: (*) Greece reclassified as “Emerging Europe” in March 2016.

Source: EPRA (As of December, 30, 2022).

2.3. Where does the listed European Real Estate Sector stand vs the US?

A comparison with the world’s most mature and most developed global REIT market is a useful way to put Europe’s trends into perspective. Note that for US REITs, our analysis excludes Mortgage REITs which we perceive as being publicly traded real estate debt vehicles rather than real estate companies.

The statistics for the European sector, by market capitalisation, show that the listed real estate sector has grown significantly in size terms. Nevertheless, when compared to the US, the European sector’s growth has lagged. Whereas the listed European real estate sector is up 2.0x (i.e. a 6.1% CAGR since end-2010), the FEN US is up 3.2x (i.e. an 10.1% CAGR). Since end 2010, in absolute terms, the FEN Europe index has added EUR 116 bn of investible market cap while the FEN US index has added USD 614 bn of market cap.

Table 3: Full market cap and number of companies in FEN Europe index vs FEN US (2010 – 2022)

	2010		2022		Var 2010-2022	
	Market Cap (m, EUR)	Nb of companies	Market Cap (m, EUR)	No. of companies	Market Cap	No. of companies
FEN US	282 550	126	896 950	112	3.2x	0.9x
FEN Europe	112 182	82	227 964	111	2.0x	1.4x

Source: EPRA (As of December, 30, 2022).

To understand why the US REIT market has achieved stronger growth vs the listed European Real Estate sector, it makes sense to take a closer look at three external positive and negative components - IPOs, capital increases and public-to-private deals - to identify where the differences come from. Note that we have analysed all IPOs, capital increases and public-to-private deals, which for Europe and the US (in EUR m) are calculated on the entire sector and we also mention the results for the FEN Europe index constituents. Housebuilders and property services activities have been excluded from the analysis. All the club-deal Spanish SOCIMIs have been also excluded from these numbers, despite having a quotation, they are not investible as they have hardly any free-float.

Important IPO activity in Europe. Relative to the market size of the US and European listed real estate sector, the IPO activity in Europe has been important. From end-2010 to end-2022, there were a total of 55 IPOs of European Real Estate companies (developed Europe only and excluding housebuilders and property services business) totalling EUR 16.7 bn. In the US, the number of IPOs stands at 81 operations totalling EUR 21 bn during the same period. The slower growth in the European sector does not come from a lack of IPOs, as in Europe IPOs have proportionally more contributed to the sector growth than in the US. Note that regarding size, both US and Europe, have an average c. EUR 300 m placement size. Note that in Europe, three countries account for 71% of IPOs in volume terms: UK (EUR 5.3 bn), Germany (EUR 4.0 bn) and Spain (EUR 2.7 bn).

It is worth mentioning, that between 2013 and 2018, several European real estate IPOs, representing EUR 9.4 bn were from companies that have been included in the FEN Europe index. A part of the growth of the FEN Europe investment universe comes from relatively recently IPOed companies.

Table 4: Real Estate IPOs in developed Europe and in the US (2010 – 2022)

	IPOs - US		IPOs - Europe (Total)		IPOs - Europe (FEN constituents)	
	Number	Amount (EURm)	Number	Amount (EURm)	Number	Amount (EURm)
2011	9	1 638	2	682	0	0
2012	9	1 396	0	0	0	0
2013	20	4 237	7	2 793	5	2 103
2014	8	3 823	14	6 023	8	3 010
2015	7	1 273	4	817	4	1 007
2016	4	1 521	4	886	2	419
2017	9	2 523	9	1 639	6	1 161
2018	5	2 717	6	2 068	4	1 704
2019	2	196	2	526	0	0
2020	4	863	2	410	1	264
2021	4	709	2	528	1	948
2022	0	0	3	343	0	0
Total	81	20 897	55	16 715	31	10 616

Source: VIEWS+S, Dealogic, EPRA (As of December, 30, 2022).

More companies going private in Europe? There has been a lot of public-to-private activity in Europe, especially since end-2020; Alstria REIT, Befimmo, Coima RES, Deutsche Euroshop, Hibernia REIT and St Mowden have been bought by consortiums often led by private equity players. Several points can be made when comparing public-to-private activity in the US and European listed real estate sectors. In absolute and relative terms, for our reference period running from end-2010 to end-2022, public-to-private activity was greater in the US than in Europe, with respectively EUR 95 bn and EUR 18 bn. As a proportion of total market cap at end-2022, the total amount of deals since end-2010 represents 9% for the US and 7% for Europe.

More than half of the US public-to private deals on the period were before 2016. Note that the public-to private activity in Europe has been meaningful, in the last 2 years (4% of the sector went private), with an important share of the public-to-private activity concerning the FEN Europe constituents.

Table 5: Real Estate public-to-private deals in developed Europe and in the US (2010 – 2022)

	Public to private - US		Public to Private Europe (Total)		Public to Private Europe (FEN constituents)	
	Number	Amount (EURm)	Number	Amount (EURm)	Number	Amount (EURm)
2011	4	12 296	0	0	0	0
2012	9	28 861	0	0	0	0
2013	2	1 248	0	0	0	0
2014	2	3 253	2	864	1	300
2015	4	19 902	1	1 021		
2016	4	7 753	0	0	0	0
2017	0	0	0	0	0	0
2018	5	20 767	2	2 320	1	1 590
2019	1	434	3	3 820	1	1 340
2020	0	0	3	2 403		
2021	2	37	4	2 621	1	552
2022	0	0	5	7 153	3	9 541
Total	33	94 552	18	18 201	7	13 323

Source: VIEWS+S, Dealogic, EPRA (As of December, 30, 2022). (As of December, 30, 2022).

Capital increases: the key fuel for growth. During our reference period, the US REIT sector raised EUR 335 bn vs EUR 63 bn for developed Europe, i.e. 5.3x more capital raised in the US. Capital increases in the US are executed in the form of secondary underwritten offerings or accelerated book building (ABB), or At Market offerings (ATM). In Europe, during the reference period, 42% of capital increases were performed through private placements (also called ABBs) and 58% through rights issues. The latter enables existing shareholders to be granted the right to participate in the equity issuance proportionally to their holding, but they are longer to execute and need much steeper discounts to the prevailing share prices. Private placements work very well for acquisitive strategies and have been often used in Europe by logistics and healthcare real estate companies.

Overall, the US REIT sector's superior growth could be largely attributed to more capital increases in more efficient formats (ABB/ATM), but not to a smaller number of IPOs. Note that the public-to-private activity does not seem to be a key negative differentiating factor on growth.

Table 6: Real Estate capital increases in developed Europe and in the US (2010 – 2022)

	Capital increases (US)				Capital increases (Europe)			
	Total		Total		Private placements		Rights Issues	
	Number	Amount (EURm)	Number	Amount (EURm)	Number	Amount (EURm)	Number	Amount (EURm)
2011	139	24 993	15	1 806	5	549	10	1 257
2012	187	36 613	16	2 499	5	544	11	1 955
2013	171	31 550	13	2 296	8	1 763	5	533
2014	131	21 267	22	6 096	9	2 070	13	4 026
2015	96	24 772	28	10 049	14	2 674	14	7 375
2016	143	34 378	22	4 145	8	1 309	14	2 836
2017	132	34 178	25	6 469	14	3 383	11	3 086
2018	82	18 358	22	4 852	8	2 552	14	2 300
2019	152	40 569	21	4 679	13	3 240	8	1 439
2020	122	28 080	29	6 837	23	4 853	6	1 984
2021	172	40 064	25	12 343	17	2 822	8	9 521
2022	0	0	7	952	5	688	2	264
Total	1 527	334 822	245	62 859	129	26 283	116	36 576

Source: VIEWS+S, Dealogic

2.4. A focus on three countries

The overall growth of the European listed real estate sector also masks contrasting growth trends, especially on a country level. To illustrate this, we present below the development trends of three countries that are showing quite different patterns. It is an interesting step towards identifying the factors that do or do not support growth.

2.4.1. France: a large real estate market but no growth in its listed sector

The total market cap of the FEN France index constituents as of 30 December 2022 is EUR 24 bn (11% of the total market cap of the FEN Europe index constituents) and EUR 15 bn adjusted for free-float (8% of the FEN Europe index), whilst France is amongst the largest European Commercial Real Estate markets, after Germany and the UK, corresponding to 14% of Europe's total commercial real estate market.

Table 7: France: Number of companies and full market cap (2010 – 2022)

	2010		2022	
	Market Cap (EURm)	No of companies	Market Cap (EURm)	No of companies
Total France	54 410	62	43 419	47
FEN France	35 708	9	24 264	6
<i>% represented</i>	66%		56%	

Source: EPRA (As of December, 30, 2022).

Several remarks can be made regarding the key reasons for this decrease in size both in relative and absolute terms:

- French real estate companies are highly exposed to shopping centres and offices. In the last few years, shopping centres have experienced low investor interest and little need for capital increase. Offices have performed well but capital recycling has prevailed in this sector as well with no real need for new equity.
- French real estate companies have a REIT regime (SIIC), so the framework is there and the lack of growth cannot be attributed to a lack of suitable regulations.
- The smallest and least liquid French real estate companies have developed better than those in the FEN Europe index. Note that some of them have business models that more closely resemble club deals or closed-end type of vehicles, than genuine listed property companies with large free floats.

2.4.2. Spain: a flurry of new companies but few are investible.

Spain is in a very different situation. The size of the FEN Spain index has increased by 6.2x since end-2010 but remain modest at EUR 7.6 bn full market cap of total market size.

Spain's REIT status (SOCIMI) was created in 2009. Coincidentally, since the GFC and the Euro crisis, which took a heavy toll on the Spanish Real Estate industry, the SOCIMI has proved to be a great tool for raising equity capital within this specific recovery context. Several IPOs have raised capital through a format called the "cash box", whereby a company raises equity on the market with an investment strategy but without any assets to start with. In this context, there were no valuation issues. It was the investment strategy, the team and an acceptable incentive package for the sponsor and/or management (fee structure, carried interest, etc.) that made the difference. Note that some of them went private since IPO.

Note also that the large number of SOCIMIs created that are not part of the FEN Europe index today reflects the use of this status to create regulated SPVs used by real estate investors to hold Spanish assets in a tax-transparent format. Such investors have no intention of expanding the free float and attracting new investors. These are pure holding companies.

Table 8: Spain: Number of companies and full market cap (2010 – 2022)

	2010		2022	
	Market Cap (EURm)	No of companies	Market Cap (EURm)	No of companies
Total Spain	16 390	15	26 792	97
FEN Spain	1 242	1	7 644	3
<i>% represented</i>	8%		29%	

Source: EPRA (As of December, 30, 2022).

2.4.3. Belgium: the model pupil

Belgium is among the European countries that has experienced the fastest growth in its listed real estate sector, with its size increasing by 5.5x between end-2010 and end-2022, to reach EUR 24bn total market cap.

Amongst the success factors of Belgium REITs, we would emphasize the following:

- Exposure to sought-after asset classes (logistics, healthcare, student housing, etc.).
- Several Belgian REITs have become key players in Europe within their subsector (WDP, Montea, Aedifica, Cofinimmo, Xior, etc.), enabling them to grow beyond Belgium.
- EPS and dividend growth are the most important metrics for Belgium's REIT investors.
- A large base of retail and HNWI shareholders.

- LTV are higher than the European average (targets are between 45% to 50%, when the most other European real estate companies guide to maximum LTVs from 40% to 45%). It is important to keep in mind, Belgian companies are more active in expanding their portfolios in niche sectors (especially in healthcare) and also other geographies (France, Germany, Netherlands, Nordics, Spain), the raising capital is used to finance new projects.
- Belgium's REIT regime has been adapted to introduce capital increases via private placement, which has proved to be an efficient way to raise capital. Before that, Belgian REITs could only raise equity through rights issues. Thanks to the change in legislation in 2019, more capital increases took place with more than EUR3.3bn between 2019 and 2022 raised. This welcomed change in legislation has benefited most to the most sought-after sectors (logistics, healthcare and student housing) and deployed on acquisitions.
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Table 9: Belgium: Number of companies and full market cap (2010 – 2022)

	2010		2022	
	Market Cap (EURm)	No of companies	Market Cap (EURm)	No of companies
Total Belgium	4 470	19	24 379	28
FEN Belgium	3 733	6	21 838	12
<i>% represented</i>	<i>84%</i>		<i>90%</i>	

Source: EPRA (As of December, 30, 2022).

Overall, in a growing listed European Real Estate market, a focus on the development of these three countries highlights the positive and negative factors that are in play.

3. Analysing the key characteristics of listed real estate companies to identify success factors and issues for growth in the European sector.

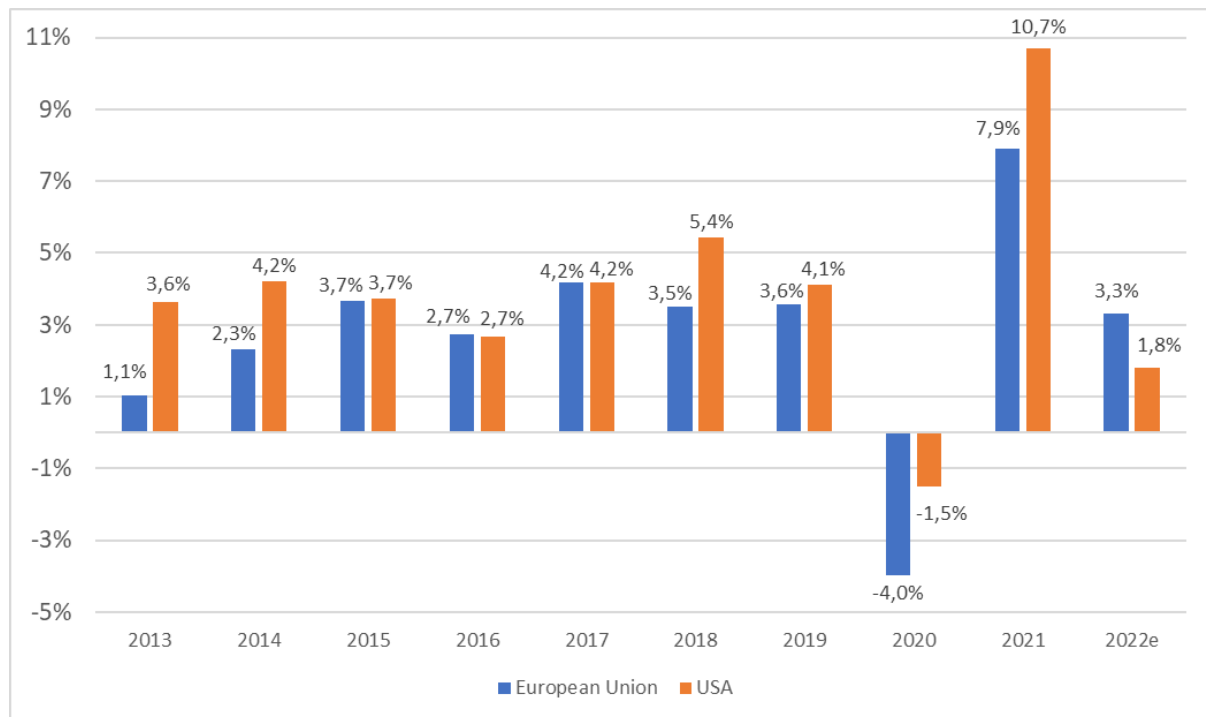
Based on an analysis of the listed European sector’s growth over the past decade, the key takeaways from the successful US REIT market and, of course, some subsector and country performance patterns in developed Europe, we have identified seven characteristics that we believe are relevant when reviewing the success factors and potential issues for driving further growth in the European listed sector.

3.1. The economic context

“It’s the economy, stupid”. This catch phrase, which appeared in the US Democrats camp during the Clinton vs Bush campaign, is an obvious feature of the environment in which European real estate companies operate.

The table below shows that US GDP growth has outpaced European GDP growth.

Table 10: Nominal GDP growth – US vs Europe



Source: OECD / Eurostat

So, the starting point is that Europe is a lower growth environment than the US, which is negative for growing a business, but consequently a lower interest rate environment, which is positive for investing in real estate. Europe’s subdued GDP growth could help to explain the slower growth in Europe’s listed real estate sector. Nevertheless, with increased demand for green buildings and new real estate needs (affordable housing, data centres, healthcare assets, coworking, co-living, etc.), lower GDP growth is not necessarily synonymous with weak growth for the real estate sector.

To complete the analysis regarding Europe’s economic context, there is a structural issue to mention when it comes to scaling a portfolio to the European level. The issue is not on the corporate side of a need for a European REIT regime but has its roots in the coexistence of different local real estate regulations and currencies (GBP, SEK, CHF and EUR). Operating a pan-European real estate business is much more complicated than running a US business across several states.

As an example, some feedback has been received from EPRA members that to provide to the equity investors a sizable data centres European listed real estate company, the company would need to operate on several countries in Europe and have a sufficient scale to be relevant on these markets. For this reason, there are fewer candidates in Europe to be able to emerge and offer sizable platforms than in the US, which has a more unified regulatory environment.

So, the economic context of lower growth in Europe and the complicated framework for scaling up a business to a pan-European level are macro-characteristics that need to be taken into account and that are negatively impacting the growth potential of Europe's listed real estate sector. Nevertheless, one positive factor should not be underestimated, Europe is more advanced than the US in addressing the Paris Climate agreement, that 196 countries signed to reduce carbon emissions. These climate-friendly real estate strategies require capital and a rapid execution and can fuel growth in activity and investment, especially because the different stakeholders (tenants, equity investors, debt investors and banks) are aligned with this target.

3.2. The underlying real estate dynamics

The real estate markets in which listed companies operate are key to explaining the success factors of the companies and subsectors that have grown the most.

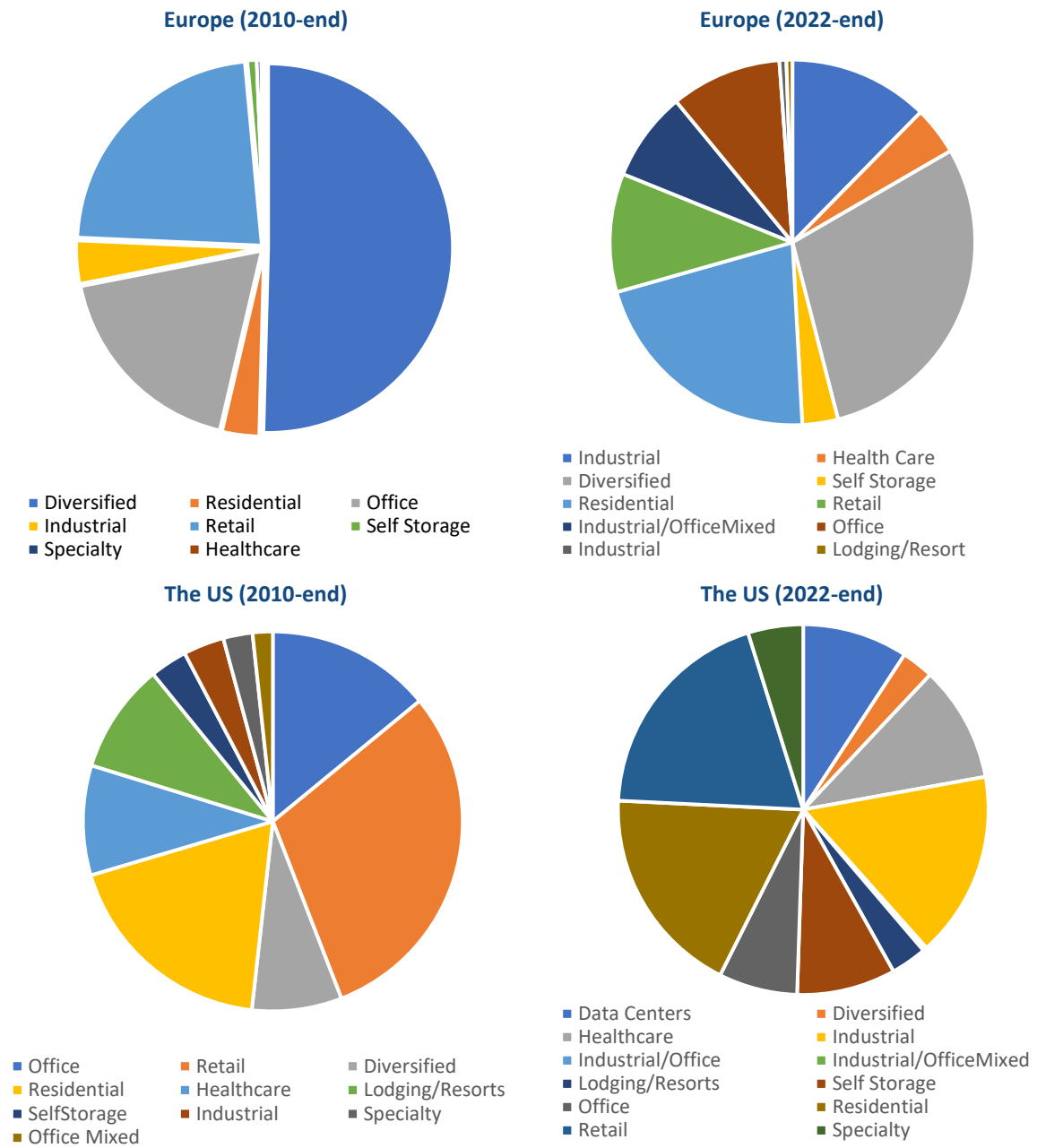
First, it is crucial to bear in mind that the European sector at end-2010 was highly exposed to offices (directly or indirectly for diversified European REITs) and retail. But growth has largely occurred in new and more promising sectors like Logistics, German Residential, Healthcare and Self-Storage.

To put it simply, traditional sectors accounted for c.90% of the market cap in Europe at end-2010 vs c.50% now, which is an illustration of where the growth came from. In the US, the starting point at end-2010 is that these traditional sectors (Office, Retail and Diversified) accounted for c.50% of the sector's size and are now at around 30%. The US REIT sector is more exposed than Europe's to Logistics, Healthcare, Hotels and Self-Storage.

It is also interesting to highlight that US REITs are active in some sectors that do not exist in Europe: Infrastructure, Data Centers, Timber, Farmland, etc. These sectors account for c.10% of the US REIT sector today. In a context, with more strategies in private real estate markets focusing on land (land piggybacking, land reserves, forest, and agricultural land...), Europe has a clear potential to offer public vehicles exposed to these strategies.

A clear and pretty straightforward takeaway is that being exposed to the most promising sectors is a prominent success factor. The most important criteria include the need for capital, which can be attributed to the need to build new space (logistics, healthcare) or to create new asset classes (data centres), and when REITs deliver a clear competitive advantage on the operating side (self-storage) or on the cost of capital (infrastructure, timber). Offices and retail have experienced less need for REIT ownership, also because ownership is already largely institutional, and less capital is needed to expand supply.

Table 11: Europe and the US sector exposure, (2010 – 2022).



Source: EPRA, Nareit (As of December, 30, 2022).

3.3. Business models and operational activities

The definition and construction of Europe’s investment universe is an interesting aspect to review. In the US, all listed real estate companies but one in the index are REITs and the main criteria to be included relate to size and liquidity. Europe’s listed Real Estate sector was very fragmented and diversified to start with. Thanks to their industry association, EPRA, the sector’s participants have worked to increase comparability (Best Practice Recommendations) and to identify what makes a European Real Estate company. The real estate sector has been defined historically as an asset class that is able to deliver to its shareholders solid cash flows and dividends, as well as capital appreciation.

Unlike the US REIT sector, the European real estate sector and the presence of companies in the FEN Europe index which has become key to being part of the investment universe, rely upon an accounting test. European market participants have included a P&L criterion to focus on companies that largely generate their earnings from their rental property activity. Note that they have been agnostic about the REIT regime (both REITs and non-REIT companies are in the index).

In our view, this criterion was relevant when the sector first took shape, but one could reasonably ask whether it might now be a factor that is impeding the sector's growth. First, several US REITs (Data Centers, Hotels & Lodging, Self-Storage and Healthcare) would not necessarily be qualified as FEN Europe constituents if they were operating in Europe and as they derived a share of their earnings from operating activities. Moreover, developers (residential and commercial) and housebuilders that in Europe often have a landbank (i.e. a possibility to generate capital appreciation) are not part of the investment universe. Last, it is worth mentioning that with increasing demand among tenants for services and flex options, there will be a larger share of revenues generated from operating activities or a more blurred distinction between rental and operating activities.

3.4. REIT regime

Surprisingly, operating under the REIT regime does not appear to be a key success factor for growth in Europe's listed real estate sector. The table thereafter presents by country, the evolution of the market cap in the FEN Europe Index, and the presence of a REIT status. Note that there are 3 distinct situations: companies operating in a market with a REIT regime, companies in countries without REIT status and the situation of Germany, where a REIT regime exists only for companies investing in commercial property and not for the residential property companies that have experienced most of the growth.

As several European countries (France, Italy, UK, Spain, Greece, Germany for commercial property) created domestic REIT status for their real estate companies between 2002 and 2005, i.e. before the reference period of our end-2010 to end-2022 analysis, the table below shows that growth in the size of the subsectors has no direct link with the REIT regime. The findings are even counterintuitive. Some subsectors without REIT status (Sweden, Switzerland which consists essentially of residential companies that are non-REITs) have grown substantially. Some sectors with REIT regimes (France, Italy) have not grown.

Table 12: European subsectors, growth, and REIT regime – 2010 to end-2022

Country	Regime	Var. Market Cap (x)	CAGR (%)
Austria*	Non-REIT	1.5	3.5%
Belgium	REIT	5.8	15.9%
Finland**	Non-REIT	2.1	6.5%
France	REIT	0.7	-3.2%
Germany	REIT and non-REIT (resi)	5.7	15.6%
Italy	REIT	ns	ns
Netherlands	REIT	ns	ns
Norway*	Non-REIT	0.2	-12.2%
Spain	REIT	1.0	0.1%
Sweden*	Non-REIT	2.8	8.9%
Switzerland*	Non-REIT	6.2	16.4%
UK	REIT	5.1	14.5%

(*) No REIT legislation.

(**) REIT legislation, but no companies formed as REIT.

Source: EPRA, [EPRA Global REIT Survey 2022](#).

But if one wants to compare apples with apples, the features of the US REIT regime differ from those of certain European regimes. Interestingly, US REITs have lower effective dividend payouts and can perform operational activities that cannot be performed under some of the local European REIT regimes. Likewise, Swedish, and German real estate companies, which are not REITs, have lower dividend payouts than Spain, France, or Italy.

During discussions with EPRA members, it seems that there are two distinct camps. On the one hand, the ones that believe the REIT regime have the key features of a listed real estate company. Obviously, this regime enables efficient capital rotation and provides with a clear commitment with the investor base: paying out as much as possible in dividends. On the other hand, some EPRA members, especially in the sell-side community have been vocal on the success of business models (Swedish real estate- do not have a REIT legislation (regime?) or German resi- Non-REIT even has REIT legislation and can fuel additional growth through reinvesting a part of their earnings but also by maintaining the quality of their portfolios with self-funded capex. By nature, this debate is fascinating and might show that there are different paths possible to achieve further growth for the European sector: REIT and non-REIT business models.

Note that, as always when it comes to Europe, REIT regimes differ significantly from one country to another and are still evolving. An analysis needs to be carried out at a country level. For example, Belgium's REIT regime has delivered some interesting reforms to support growth (ABBs, reduced withholding tax for REITs investing in nursing homes).

Finally, it is worth mentioning that, compared to a few years ago, a European REIT regime could potentially be helpful, but for according to some feedback received by sector specialists, does not seem to be the trump card to grow the sector. On the other hand, the current debate on mutual recognition of REIT regime within the EU might be an opportunity for players who are operational in different countries and to avoid some legislation issues.

3.5. The impact of leverage

Growth for real estate companies can be explained by rental growth, yield compression, value creation but also often by increased leverage. We have investigated LTVs and Net Debt / EBITDA by country over the 2010-2022 period to understand the contribution of leverage to the real estate sector growth. We have used the EPRA LTV monitor data and have focused on the period 2014 to 2021 to have a comprehensive set of data.

Table 13: Growth in Market Cap vs LTV and Net Debt / EBITDA (per country)

	Growth Mkt Cap 2010 - 2022 (x)	LTV 2014	LTV 2022	Change in LTV	Net Debt/EBITDA 2014 (x)	Net Debt/EBITDA 2021 (x)
Spain	6.2	32.3%	33.3%	1.0%	23.3	14.5
Belgium	5.8	47.7%	40.8%	-6.9%	9.1	10.3
Germany	5.7	52.9%	42.1%	-10.8%	10.8	12.8
Sweden	5.1	52.0%	43.8%	-8.2%	9.8	12.8
Norway	2.8	50.5%	52.1%	1.6%	10.2	12.6
Switzerland	2.4	44.3%	40.4%	-3.9%	12.4	14.3
Finland	2.1	53.0%	40.2%	-12.8%	9.1	11.4
Europe	2.0	41.8%	36.8%	-5.0%	10.8	12.4
UK	1.8	37.0%	29.1%	-7.9%	8.8	12.8
Austria	1.5	48.1%	34.7%	-13.4%	8.3	12.1
Netherlands	1.0	39.4%	41.1%	1.7%	8.6	10.8
France	0.7	41.8%	36.1%	-5.7%	10.0	11.2
Italy	0.2	49.8%	45.5%	-4.3%	n/a	n/a

Source: LTV data is compiled from EPRA Monthly LTV Monitor (As of December, 30, 2022).

Overall, on the period, for Europe, the LTV ratio has decreased from 41.8% to 36.8%. The countries that have experienced the most important growth (Germany, Belgium, and Sweden) have a slightly higher LTV than the European average but have decreased their LTV ratio. The countries that have experienced some decreases in market cap, have a higher LTV (Netherlands, and Italy) than the European average and have marginally reduced their LTV ratio. From this analysis, it does not seem that there is a relationship between higher leverage and higher market cap growth.

Note that, despite a lower LTV ratio, the European sector has a higher Net Debt to EBITDA ratio over the period, from 10.8x at end 2014 to 12.4x at end 2021. Nevertheless, this factor does not appear to explain a higher or lower market cap growth at the country level.

On the other hand, companies capability to pay debt and having income generating portfolios provide them to have healthy balance sheet. As with case of Belgium and Sweden, whilst having a higher LTV, but market size grew above the European average.

3.6. The cost of capital advantage

Capital markets are structured around changes in the cost of capital (risk-free rate, risk premium, beta, etc.). When listed real estate has a cheaper cost of capital, its competitiveness enables the different real estate companies to be better positioned when it comes to acquiring assets and raising cheap capital. In the last 10 years, the cost of capital in Europe has sometimes favoured the listed sector but very often the private sector. There are structural reasons for this.

- Europe has many private real estate players (pension funds, insurance companies, retail funds, etc.), especially for sought-after sectors like Residential, Healthcare, and Industrial. Many of these investments' strategies are evergreen, which means that they do not have termination dates and the investment's liquidity and/or exit strategy is not a key issue.
- Investment grade ratings for listed European real estate companies have put the sector at a competitive advantage, enabling listed companies to have access to a sizable and cheap amount of debt capital when rates are low. Bank debt is usually cheaper than public debt; nevertheless, the banking market has less depth and offers less flexibility regarding the use of the cash raised with such debt. On that front in the current context of rising interest rates, one could question the outlook for availability and cost of public corporate debt and bank debt (secured and unsecured). In the past 10 years, debt was cheap and with little cost differentiation between the different sources of debt for strong investment grade rated issuers. It might differ in the coming future.
- Cash box-type IPOs have been a successful way to raise equity as a competitive alternative to private equity (Spain, Ireland).
- Investors focused on dividend and dividend growth, especially private individuals and HNWIs (Belgium, UK), have provided cheap equity. The impact of EPS-accretive acquisitions is magnified when interest rates are low.

One could say that private real estate investors have a structural advantage when investing in Europe and, to some extent, restrain the listed real estate sector's capacity to grow. Nevertheless, some features (access to investment grade debt capital markets, cash box structures, private investor shareholding bases) can improve the cost of capital for Europe's listed real estate companies' vs their private real estate peers. We also see the trend towards more co-investments between public and private companies (JVs, vehicles managed by listed companies, strategic holdings from private real estate investors in public companies), as a way for the listed sector to improve its cost of capital.

3.7. The shareholder base

Looking at the US REIT situation and growth patterns in Europe's subsectors, we conclude that the European real estate shareholder base plays a role in the sector's relatively lower growth. Compared to the US, Europe has the following particularities when it comes to the sector's shareholding structure.

- **Core shareholders.** Some European real estate companies (France, Spain, Sweden) have founders or core shareholders that own substantial stakes in the business, combined with board seats. Consequently, the investible free float is smaller for these companies compared to the US. At equivalent market cap, some listed European real estate companies have lower liquidity than their US peers. Investors also often challenge the alignment of interests between them and founders / core shareholders. Do they want to reach the same goals?
- **Private investors.** With the exceptions of Belgium and the UK (especially in the small and midcap space), there is a small percentage of private investors and HNWIs who invest directly in stocks in Europe. In these two countries, these types of investors have proved to be a good source of capital. It is difficult to put any numbers on retail investor activity. Euronext CEO Stéphane Boujenah said to Reuters in June 2021 that the share of volume trading from retail investors on the Euronext stock exchange before Covid was 2% compared to 5% now. The same stats in the US (source: Bloomberg Intelligence) are respectively 25% in Q1 2021 vs 15% before Covid. US numbers need to be read with some caution as the data are very sensitive to activity in so-called meme stocks (GameStop, AMC). In our view, the listed real estate performance profile (dividend + capital protection/appreciation) is especially well-suited to retail investors. In this context, it is fair to say that a high proportion of retail investors is a positive for valuations and for sourcing new equity. With the US, Belgium and the UK as examples, retail investors are a success factor for growth in the listed real estate sector.
- **Specialists vs generalists.** In Europe, listed real estate remains a specialist sector. Most investors interacting with sell-side analysts and investor relations managers are sector specialists, i.e. investors that run strategies and funds specially dedicated to the real estate sector. Consequently, the equity story and KPIs are skewed to the specialist audience. To grow, the listed real estate sector needs the presence of generalist investors.

There are no reliable data on the ownership of specialist investors in the sector. Nevertheless, based on the analysis of several companies, the dedicated real estate securities specialists including passive investors (ETF), can account up to 30/50% of the small and mid-cap registers and are often in the region of 10/30% of the shareholding of large caps. Dedicated research on this topic would be very helpful for the sector.

This balance between specialist and generalist investors raises some issues today. Specialists investors are important to the European listed real estate sector, but the European exposure is less and less important to the specialist investors. These investors usually have global exposure to the sector and today developed Europe is 12.8% of the FEN Global developed index when it was 15.4% at end-2010.

Interestingly, some feedbacks from EPRA members have been received on specialists vs generalists, when it comes to capital formation. In the US, the REIT specialist community is large enough to carry a capital increase. In Europe, it is not feasible to get a deal done without making it work with the generalists, however the specialists continue to have an outsized voice in articulating views on pricing and structure. This imbalance is detrimental to growth in the sector.

- **Preferred securities.** In the US REIT sector, companies issue common equity and also preferred equity. Preferred equity issuances offer higher and guaranteed coupons. They make it possible to attract a different investor base. In Europe, a few large real estate companies have issued hybrid equity to optimize their investment grade ratings.

Overall, the US REIT sector and some European subsectors show that a diversified investor base (especially more private investors and more generalists) has been a success factor for growth.

3.8. The prevalence of NAV in Europe

If we focus on the countries that have grown above average (Belgium, Germany, Spain and Sweden), it is interesting to note that some of these countries, often do not have NAV as a prevailing valuation metric. German Residential, Belgian SIR, Swedish property companies and logistics players in general have demonstrated their capacity to raise capital above NAV. This indicates that a valuation above NAV is something that investors can easily understand and accept.

Nevertheless, NAV remains an important valuation metric in Europe, especially for other countries (UK, France), and appears to be an issue for capital formation, a specificity often referred to as the “Tyranny of NAV”. In the US, there are no external valuations performed by appraisers. NAV is widely used but by analysts and investors, in our view, more as a proxy to capture the valuation status vs the private market rather than as a sole valuation tool.

For companies not under the “Tyranny of NAV”, the most important valuation metrics are P/E or P/FFO, dividend yield and especially EPS growth and dividend growth. These metrics are also more investor-friendly for private investors and generalists.

Note that amongst the listed real estate specialists that have been interviewed for this report, there is an interesting opinion on the role of the Board of Directors in the prevalence of NAV. According to some of these specialists, the supremacy of NAV in the boardroom is a significant impediment in both capital raising and M&A. If a Board has signed off on NAV in the accounts, the members of the Board consider NAV as a non-negotiable valuation benchmark. Other members have added that, this position ignores the fact that shares are trading below and above NAV, but also that with the nature increasingly operational of real estate, a company is not just the sum of its assets and its debt mark-to-market.

To put some numbers behind what can be considered as a misleading valuation metric, Warehouses De Pauw is an interesting example. We show thereafter the EPS, dividend, NAV and share price since 2012. For 2022, we have used company guidance (EPS and dividend) and included end-2022 share price.

Table 14: WDP – 10 years of EPS, dividend, NAV and valuation metrics

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
EPRA Earnings	0.2	0.55	0.59	0.71	0.76	0.80	0.86	0.93	1.00	1.10	1.25	9.2%
Dividend	0.44	0.46	0.49	0.57	0.61	0.64	0.69	0.74	0.80	0.88	1.00	8.6%
EPRA NAV NTA	4.9	5.1	5.6	6.4	7.3	8.3	10.2	12.8	14.3	20.1	21.6	16.0%
Share price	6.8	7.5	9.0	11.6	12.1	13.4	16.4	23.2	28.3	42.2	26.7	14.7%
												Average
P/E	13.1	13.6	15.3	16.3	15.9	16.8	19.1	24.9	28.3	38.4	21.4	20.3
Div. Yield	6.5%	6.1%	5.4%	4.9%	5.0%	4.8%	4.2%	3.2%	2.8%	2.1%	3.7%	4.4%
P/NAV	1.39	1.47	1.61	1.81	1.66	1.61	1.61	1.81	1.98	2.10	1.24	1.66
Total Shareholder Return												16.2%

Source: VIEWS+S from WDP annual reports

Based on a NAV approach, the WDP shares have traded on average from 2012 to 2022 at 1.66x NAV, or a 66% premium, which is widely considered by investors and analysts using NAV as a primary valuation metric, as far too expensive. “Why should I buy a company 66% premium to its NAV?”

Interestingly, the total shareholder return (acquisition of the shares in 2012, receiving all dividends until end dec 2022 and selling at end dec 2022 share price) equals to 16.2% annualized, thanks to an 8.6% dividend CAGR 2012-2022. On the same period NAV CAGR is 16.0%.

In our view, investors have been attracted by the capacity of the company to grow consistently EPS, dividend and NAV rather than by the valuation to the NAV per share. This capacity to grow has been delivered by the subsector (logistics) but also by the team and the platform.