EPRA

EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Global Listed Real Estate

Emerging Markets

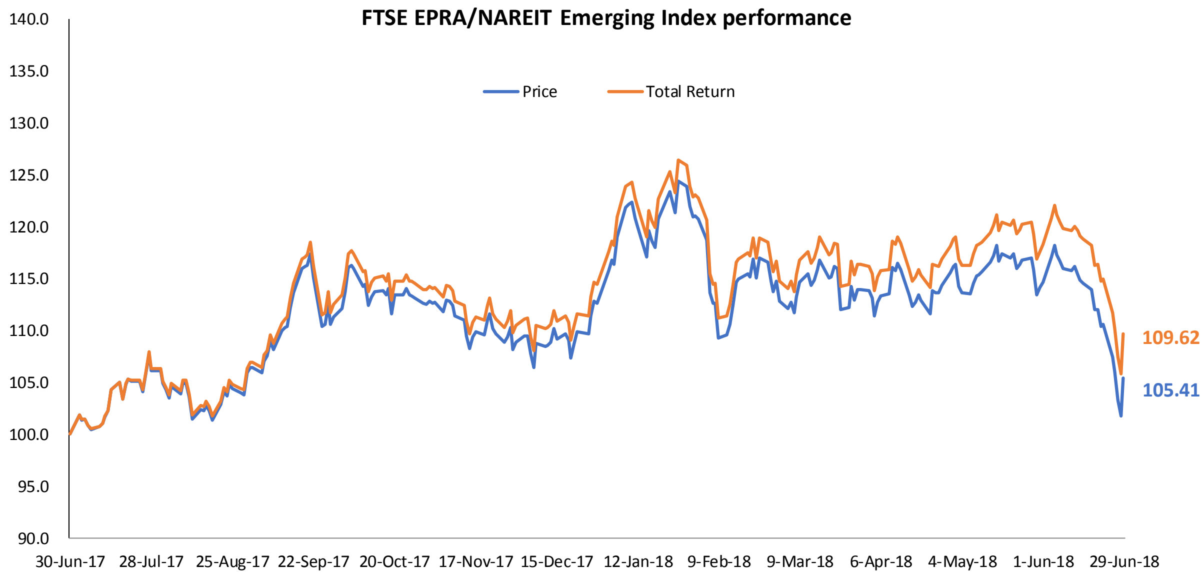
H1 - 2018

FTSE EPRA/NAREIT
Global Real Estate Index Series

August 2018

I. Executive Summary

The FTSE EPRA/NAREIT (FEN) Emerging Index showed a total return of 33.83% in EUR in 2017 compared to the Global Index (1.02%) and the Developed Index (-2.13%). In 2018 the emerging markets have lost momentum and turned into negative returns, although remain positive on a 1-year rolling window. In this report, we look at the size and performance figures of the main emerging listed real estate markets, as well as comment on the key drivers and changes observed during the first half of the year. Finally, we present a short explanation of the main effects of the reclassification in our index series of Poland from Emerging to Developed market and Kuwait from Unclassified to Emerging market, both effective as of Sep/2018.



Source: EPRA.

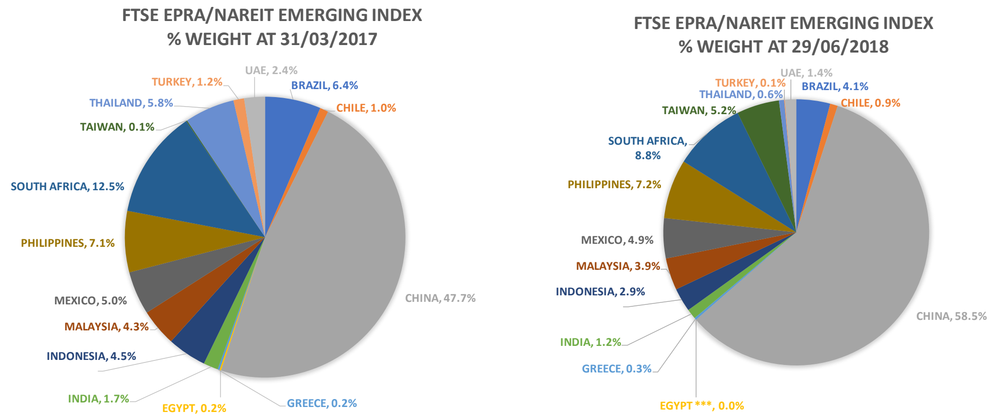
II. Emerging Markets Index size

The FEN Emerging Index has experienced a steady growth over the last years. As H1-2018 the total FF Market Cap of the index reached EUR 153,036 Million (FEN Developed Index: EUR 1,263.8 Billion and FEN Global Index: EUR 1,416.8 Billion) which implies a change of +9.01% compared to the date when we started publishing our Emerging Markets Report (Mar/2017) and +13.3% against Jun/2015. In the same way, during the last five years the average size per company grew significantly, standing now at EUR 1,122 Million in FF Market Cap compared to EUR 689 Million in Jun/2013, equivalent to an annual growth rate of 10.24%.

The Emerging Index usually shows a significant turnover in terms of number of constituents, as the presence of many developers increases the index exposure to short-term property cycles while more volatile currencies can play a key role on assessing the eligibility in terms of size and liquidity. Nowadays the index counts 143 constituents from 14 different countries. During the first half of 2018 there were 8 additions and 11 deletions of the index, with the most significant change being related with the deletion of Global Logistics Properties (China, Non-REIT, Rental), one of the biggest logistic property companies in the world representing EUR 6,136 Million in FF market cap, on the 5th of January after having been acquired by Nesta Investment Holdings.

Traditionally, China, South Africa and Philippines have been the countries with the biggest share of the index. In addition, the modest performance of markets like Brazil, Malaysia and Indonesia helped to increase the weight of the Asian giant who now represents 58.5% of the index compared to 47.7% in Mar/2017. Likewise, the deletion of Emaar Misr for Development (Egypt, Non-REIT, Non-Rental), the only Egyptian constituent as of May/2018, implied a less significant participation of the EMEA region in the Emerging Index.

FTSE EPRA/NAREIT Emerging Index: Weights by country



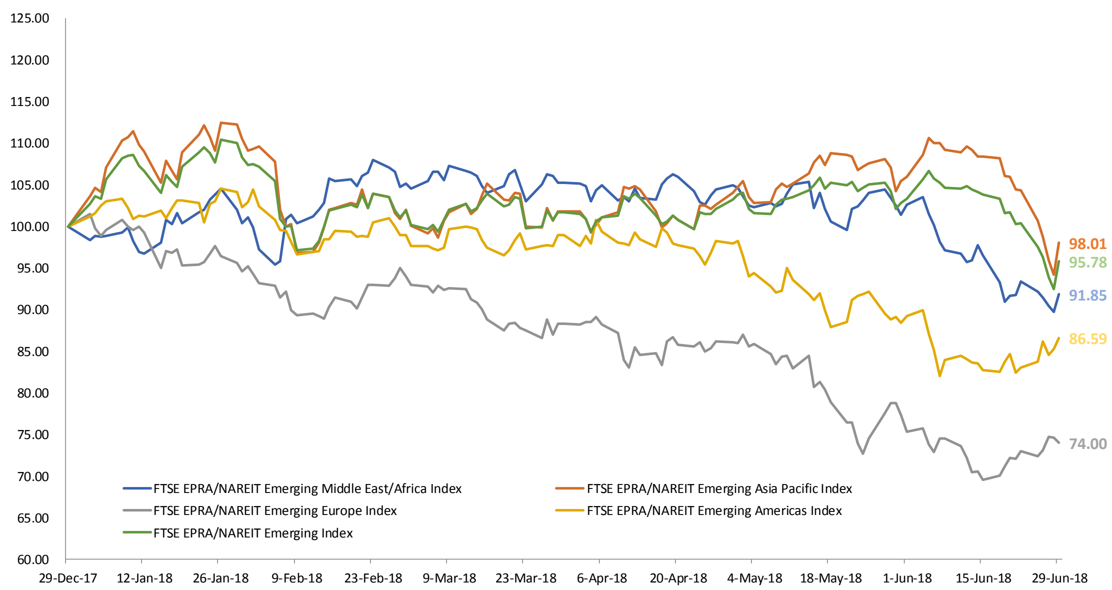
Source: EPRA.

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

III. Comparative performance

During the first six months of 2018 the FEN Emerging Index lost -4.22%, an underperformance of 7.06% compared to the FEN Global Index. All the regions exhibited a negative return, Emerging Americas: -13.41%, Emerging EMEA: -9.90% Emerging Asia-Pacific: -1.99%. These results were in line with a negative performance of most of the equity markets in emerging countries around the world.

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



Source: EPRA.

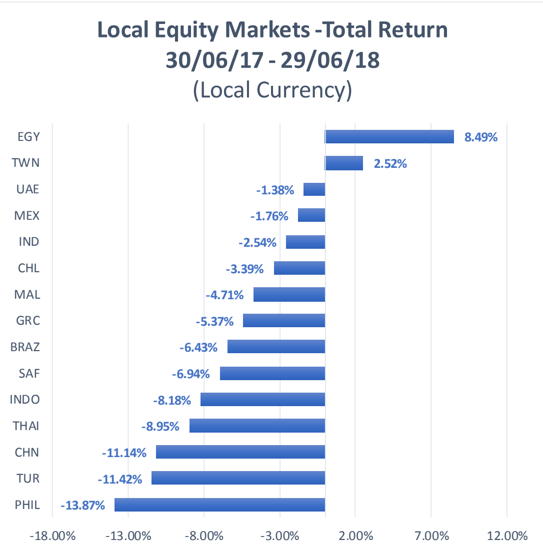
Emerging Markets: Equity markets vs Listed RE and currency effects

Country	(1) 6M RETURN FROM DIVIDENDS	(2) PRICE RETURN EPRA EMERGING INDEX	(1) + (2) TOTAL RETURN EPRA EMERGING INDEX (EUR)	% WEIGHT EPRA EMERGING INDEX	DIV. YIELD (y/y) at 30/12/17	CURRENCY PERFORMANCE VS EUR **	CURRENCY EFFECT ON THE INDEX	TOTAL RETURN Equity Market* (Local Currency)
BRAZIL	1.0%	-29.9%	-28.9%	4.1%	2.0%	-12.78%	-0.5%	-6.4%
CHILE	1.7%	-6.6%	-4.9%	0.9%	1.7%	-2.93%	0.0%	-3.4%
CHINA	2.3%	1.0%	3.3%	58.5%	3.2%	2.34%	1.4%	-11.1%
EGYPT ***	0.0%	19.9%	19.9%	0.0%	0.0%	2.17%	0.0%	8.5%
GREECE	4.0%	-6.5%	-2.6%	0.3%	2.1%	0.00%	0.0%	-5.4%
INDIA	0.3%	-25.4%	-25.1%	1.2%	0.6%	-4.37%	-0.1%	-2.5%
INDONESIA	0.8%	-15.4%	-14.5%	2.9%	2.0%	-2.70%	-0.1%	-8.2%
MALAYSIA	2.0%	-16.3%	-14.4%	3.9%	3.8%	2.95%	0.1%	-4.7%
MEXICO	4.0%	0.5%	4.5%	4.9%	7.9%	2.32%	0.1%	-1.8%
PHILIPPINES	0.8%	-13.7%	-12.9%	7.2%	1.0%	-3.95%	-0.3%	-13.9%
SOUTH AFRICA	3.3%	-13.4%	-10.1%	8.8%	7.4%	-7.65%	-0.7%	-6.9%
TAIWAN	0.0%	2.5%	2.5%	5.2%	9.8%	0.38%	0.0%	-9.0%
THAILAND	1.8%	-14.7%	-13.0%	0.6%	2.3%	1.16%	0.0%	-11.4%
TURKEY	4.4%	-37.1%	-32.7%	0.1%	3.3%	-17.48%	0.0%	2.5%
UAE	2.8%	2.0%	4.9%	1.4%	2.8%	2.76%	0.0%	-1.4%
FTSE EPRA/NAREIT Emerging Index	**2.2%**	**-6.4%**	**-4.2%**	**100.0%**	**3.5%**		**0.01%**	
Emerging: Weighted Average								**-9.53%**

*Equity markets are represented by the Thomson-Reuters TR Index for each country.
**Currency performance for China combines HKD, SGD and CHN.
***Data as 15/06/18 since last constituent was deleted on the next trading date.

Source: EPRA. Data as 29/Jun/18.

The FEN Emerging Index is based in EUR, making currency fluctuations relevant for the overall index performance. Although in 2017 some emerging countries experienced a slight appreciation of their currencies, in the first half of 2018 most of them depreciated against the euro, with Turkey and Brazil being the strongest cases with -17.48% and -12.78% respectively. The 17 currencies included in the emerging index showed an average depreciation of -2.52% against the euro during the same period. As a result, the country-level indexes in EUR were highly affected by the local currency performance. However, the substantial diversification of the FEN Emerging Index made the currency effect irrelevant (0.01%) in the total return result.



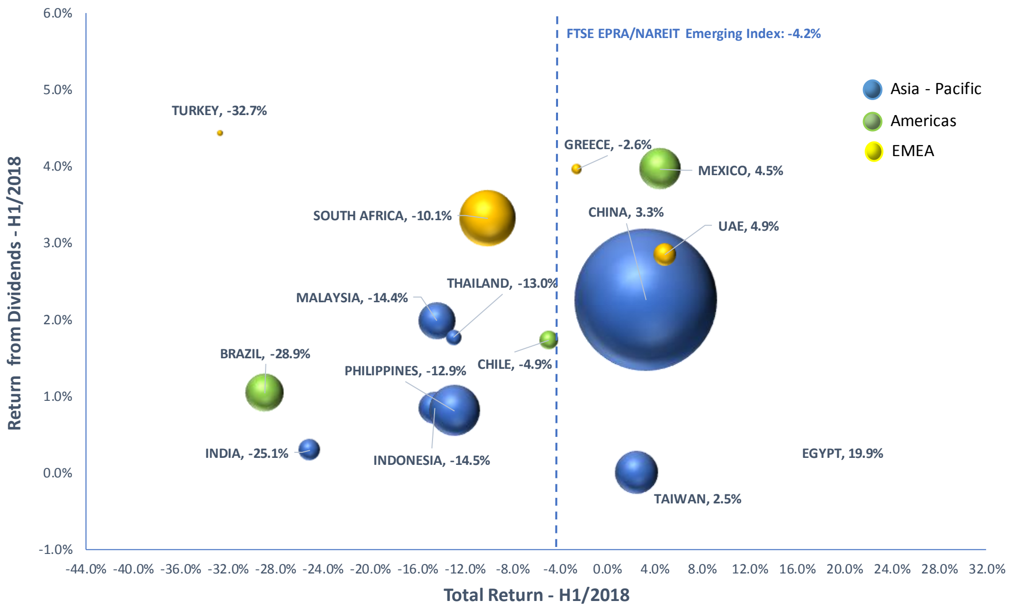
Source: Eikon – Thomson Reuters.

The negative performance of the listed real estate in 2018 has been strongly influenced by the local equity markets (on average equity markets in emerging countries declined -9.53% in local currency) and a less positive sentiment around the future performance of the emerging economies. Concerns around the political stability in countries like Turkey and South Africa and the possibility of a trade conflict between the US and China have affected the performance of both REITs and REOCs. In addition, many investors decided to reduce their exposure to materialise some returns from 2017 and get a higher exposure to developed markets where the economic perspective appears more favourable. According to *Think Advisor* and based on data provided by Bank of America Merrill Lynch, during the week ended in June 20th, the emerging equity markets suffered the biggest outflow since 2016 (USD 5.1 Billion). [1]

Dividends played a substantial role in the emerging markets performance. In countries where REITs represent a significant portion of the total listed real estate like Mexico and Greece, the return

[1] *Emerging Markets: More downside to come.* www.thinkadvisor.com. June 25th, 2018.

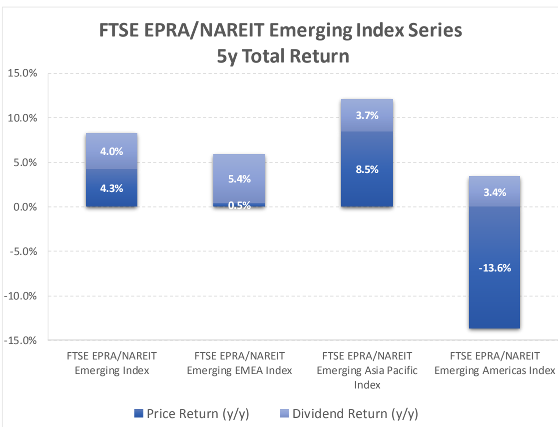
from dividends exceeds 3% and helped the country-level index to outperform or reduce the difference against the total return by the FEN Global Index. Nevertheless, the price return remains the most significant reason of negative performance in countries with high weights in the Emerging Index (Brazil, Philippines and South Africa). This is a common fact across emerging countries where the real estate market is mainly focused on property development and highly sensitive to prices of land and certain imported products, while developed markets are characterised by a higher proportion of property owners focused on managing and leasing properties. Compared to Q1-2017, the return dispersion is much higher in 2018 (Max-Min: 52.6% in H1/18 and 41.9% in Q1/17) making evident the presence of more volatile returns at the end of the upward trend. Finally, China remains steady with most returns coming from dividends, providing some stability to the index as it represents more than 50% of the total weight.

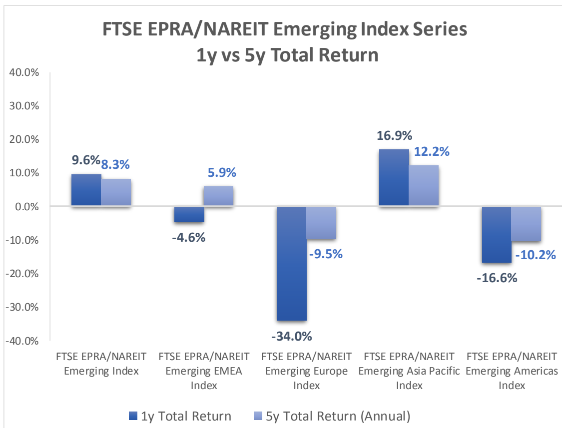


Source: EPRA.

Finally, the annual figures for the FEN Emerging Index show a 1-year total return of 9.6%% as 29th of June 2018, and the 5-years figure reached 8.3% a.a, where more than 50% of it came from prices (4.3%) while annual dividend return for the 5 years was 4.0%.

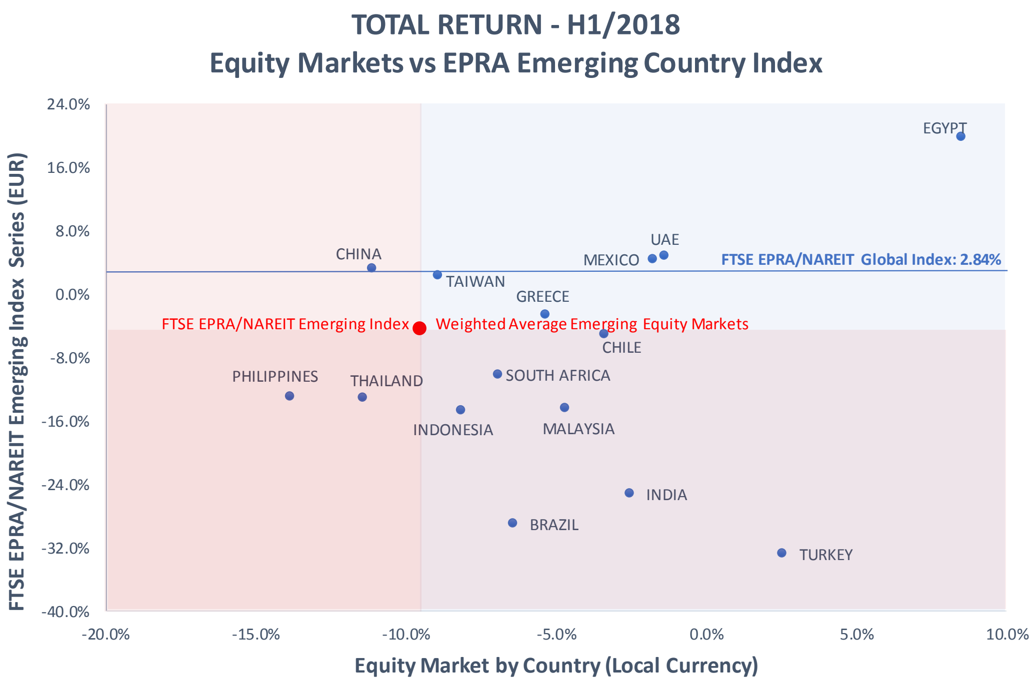
Comparative Long-Term returns





Source: EPRA.

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



Source: EPRA and Thomson Reuters.

Brazil

During the first half of the year, the FEN Brazil Total Return Index (EUR) showed a return of -28.91% (-29.9% Price return). This negative performance was influenced by both the currency weakness and global negative environment for emerging markets as well as some country-specific issues. Emerging countries' currencies have been losing value against the USD mainly thanks to the increasing interest rates in the US and the investors' fears of a growing trend of protectionism around the world that would affect the global trade, in particular for commodities and primary goods. In addition, Brazil is facing a significant political uncertainty towards the presidential elections in October and some unpopular reforms that have affected the business sentiment for both investors and costumers. The financial markets were strongly affected by the biggest truckers' strike in decades and an increasing inflation (4.4% y/y) that might force the central bank to increase its main interest rate before the end of the year, currently at 6.5%, just after a drop of 775 bps between Q3-2017 and Q2-2018. Similarly, property markets seem to start bottoming out, yet there is still not a positive forecast for the rest of the year. Residential developers and retail property owners were the most affected.

Performance of the largest constituents: BR Malls Participacoes (-23.8%, Retail), Multiplan Empreendimentos Imobiliarios (-18.82%, Retail) and MRV Engenharia e Participacoes (-15.28%, Residential).

China

Contrary to the main trend observed in most of the other emerging markets, the Chinese listed real estate market remained relatively stable with a small appreciation which has proceeded to generate positive returns mainly based on dividends. The FEN China Index showed a total return of 3.27% (-0.88% from prices and 4.15% from dividends). The Chinese monetary policy and additional measures and regulations have been effective on the process of de-levering the economy, in particular, the small financial institutions. At the same time, the increasing appetite for class-A shares as they become more accessible to international investors has guided the domestic market to equilibrate the balance and maintain stability. The inflation remains close to 2% (1.9% y/y in April) and appears to be under control and the GDP is expected to exceed 7% by the end of the year (currently at 6.7%). Finally, property markets show modest but positive expectations, mainly boosted by the public investment in which the housing prices could rise approximately 1% to 2% after a gain of 5.3% in 2017.

Performance of the largest constituents: Country Garden Holdings (-0.88%, Residential), China Overseas Land & Investment Ltd. (4.57%, Residential), China Resources Land Ltd (18.77%, Residential) and Sunac China Holdings (-13.6%, Diversified).

India

In the second quarter of 2018, India observed a decrease in home sales by around 18% compared to the same quarter in 2017. Furthermore, the total return for H1-2018 was -25.1%. The main reason for these negative numbers are the oversupply in the industry as well as the increase in debt burden, inflationary pressures, and the high fiscal deficit of India. However, India is expected to be the top destination for the investors in Asia-Pacific as it has the highest growth in the GDP around the globe. On top of that, it has introduced a bundle of new economic legislations such as the Goods and Services Tax (GST) and the Real Estate Regulation and Development Act to reform the economy which will further stabilize and rebalance the market in the medium to long term course. Taking a look at DLF, the biggest real estate company in the country, the firm is adopting a new strategy and focusing on highly diversified retail properties and actively building new shopping and entertainment spaces all over India. In addition, it expands its business in the office sector, with good results thanks to the high demand by IT and e-commerce companies. Th latest report shows an increase of 66.11% in its net profit for the year ended at March 31, 2018 besides a decline of 26.50% in the annual total income.

Performance of the largest constituents: DLF (-26.74%, Diversified), Oberoi Realty (-0.38%, Diversified), Prestige Estates (-15.12%, Diversified).

Turkey

In the H1-2018, Turkey's TR index has decreased by 32.7%. This massive decrease has been the direct result of the depreciation of the Turkish Lira against Euro by 17.48%. Turkey is facing an increasing inflation rate by around 12% and slowing GDP growth by 4.2% compared to 7.4% of 2017. The main reasons for these outcomes is the political turmoil and the rifts between Turkey on the one hand and on the other hand the west-Gulf countries- namely, UAE and Saudi Arabia. Moreover, conflicts between Turkey's president and the central bank and other sectors of the financial industry have shook the economy and led to a distrust in the Turkish economy and Turkish Lira. However, the recent constitutional referendum and the promises by the incumbent President Erdogan, might revert the Turkish economy to the right trajectory. Despite these developments, Turkey was one of the best countries in the world to invest in during the last decade due to the booming of its economy.

Performance of the largest constituents: Emlak Konut (-21.51%, Residential), Torunlar REIC (-16.52%, Diversified), Is Gayrimenkul Yatirim Ortak (-21.69%, Diversified).

South Africa

The South Africa total return index decreased by 10.1% in H1-2018. The main reason for this decrease is the depreciation of the local currency (Rand) by 7.65% against the Euro. The lack of economic growth, increasing oil prices and public deficit, as well as the political instability that occurred in 2017, guided Moody's and Fitch to reduce the country's sovereign credit rating from BBB- to BB+, in so doing losing its investment grade category with significant repercussions in 2018. However, the crisis seems to be bottoming out, with rising consumer confidence and positive indications made by several analysts for South Africa's economic growth in the coming years, as they look optimistically for the promising economic and political reforms by the new president Ramphosa, which will affect the whole economy including the real estate sector.

Performance of the largest constituents: Growthpoint Management Services Pty Ltd (0.15%, Diversified), RDI REIT PLC (2.46%, Diversified), Hyprop Investments Ltd (-9.55%, Retail).

United Arab Emirates

UAE, in the first half of 2018, has shown good results as the total return for the real estate sector increased by 4.9% return compared to -1.4% of the equity market. Although the government of UAE has enacted a new law to start levying VAT of 5% on numerous sectors, including real estate, the sector keeps growing. The recovery of the real estate sector was due to the confidence in the UAE economy, as the GDP is expected to reach 2.5% growth at the end of the year compared to only 0.5% for 2017. Moreover, hosting EXPO 2020 has played a crucial role in these results as UAE has invested huge amounts of money in the real estate industry and infrastructure, like the case of the Al-Maktoum Airport in the south of Dubai. In addition, the opening of Louvre Abu Dhabi, the Middle East's new billion-dollar museum, is expected to further boost the economy and the real estate sector in Abu Dhabi as it will be a tourist-bound location, attracting tourists and investors alike from all around the world, similar to what happened with the Burj Khalifa in Dubai. Having an iconic place represents a strong driver for the real estate sector as people prefer to live or lodge next to this kind of places.

Performance of the largest constituents: Emaar Malls Group (5.16%, Retail), Emaar Development PJSC (-0.59%, Residential), RAK Properties (-1.41%, Diversified).

H1-2018 Performance of the 3 largest constituents by country in EUR and Local Currency

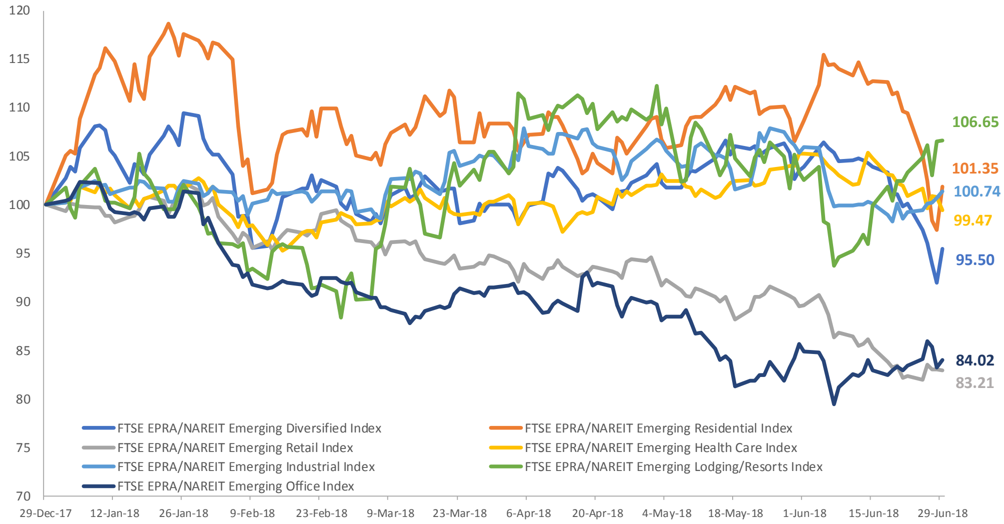
Constituent	Country	Sector	REIT/Non-REIT	Total Return in EUR	Total Return in Local Currency
BR Malls Participacoes	Brazil	Retail	Not-REIT	-33.3%	-23.8%
Multiplan Empreendimentos Imobiliarios	Brazil	Retail	Not-REIT	-28.9%	-18.8%
MRV Engenharia e Participacoes	Brazil	Residential	Not-REIT	-26.3%	-15.3%
Country Garden Holdings	China	Residential	Not-REIT	1.7%	-0.9%
China Overseas Land & Investment Ltd.	China	Residential	Not-REIT	7.0%	4.6%
China Resources Land Ltd	China	Residential	Not-REIT	21.3%	18.8%
DLF	India	Diversified	Not-REIT	-29.7%	-26.7%
Oberoi Realty	India	Diversified	Not-REIT	-4.4%	-0.4%
Prestige Estates	India	Diversified	Not-REIT	-18.5%	-15.1%
Emlak Konut	Turkey	Residential	REIT	-33.5%	-21.5%
Torunlar REIC	Turkey	Diversified	REIT	-29.2%	-16.5%
Is Gayrimenkul Yatirim Ortak	Turkey	Diversified	REIT	-31.4%	-21.7%
Growthpoint Properties Ltd	South Africa	Diversified	REIT	-7.4%	0.2%
RDI REIT PLC	South Africa	Diversified	REIT	-0.9%	6.9%
Hyprop Investments Ltd	South Africa	Retail	REIT	-16.3%	-9.6%
Emaar Malls Group	UAE	Retail	Not-REIT	8.6%	5.2%
Emaar Development PJSC	UAE	Residential	Not-REIT	2.6%	0.6%
RAK Properties	UAE	Diversified	Not-REIT	0.9%	-1.4%

Source: EPRA and Bloomberg.

Sectors

Finally, in terms of the sector-level indexes, the emerging markets have been showing similar trends as those observed in developed countries, where the traditional sectors have underperformed the new alternative ones. During the first half of the year, Retail and Office where the worst performers (-17.04% and -15.98% respectively) whilst Lodging/Resorts, Residential and Industrial showed the best results (6.65%, 1.89% and 1.35%). However, unlike the industrial sector that has been positively driven by the growing demand for logistic properties, the lodging/resorts sector was mainly showing some stabilization after significant drops during the previous quarters. During the last three years the sectors with the best performance are Industrial (9.90%), Diversified (8.88%) and Residential (8.07%).

FTSE EPRA/NAREIT Emerging Index Series: Sectors.



Source: EPRA.

IV. Country reclassifications: Poland and Kuwait

The FEN Global Real Estate Index Series follows the Country Classification determined by FTSE Russell. Under this classification, only companies with assigned nationality to a country considered as either Developed or Emerging (both Advanced and Secondary) are eligible for this index series. As part of its annual review, in September 2017 FTSE Russell announced that Poland will be reclassified as a Developed country (previously Advanced Emerging) and Kuwait will be classified as a Secondary Emerging country (previously Unclassified), both effective as of September 2018. As expressed by FTSE Russell*: Reclassification as a Developed market is the fruit of continuous improvements in Poland's capital markets infrastructure, supported by the country's steady economic progress. The reclassification of Kuwait is in recognition of the recent market enhancements implemented by the Capital Market Authority of Kuwait and Boursa Kuwait.* [2] Poland’s reclassification represents the first movement from Emerging Market to Developed Market status in 9 years (last was South Korea in Sep/2009) whilst Kuwait’s reclassification is in line with the general improvement observed in the Middle East countries, last change was Qatar moving from Frontier to Secondary Emerging Market in Sep/2016. As a result, the FEN Global Real Estate will have the following changes:

[2] The explanatory documents on the reclassification of these two countries under the FTSE Russell Equity Series can be consulted here: Poland and Kuwait.

Poland

- Listed RE companies with assigned nationality to Poland will now be tested for size criteria under the Developed Index series. As a result, in order to be considered eligible, Polish companies must have an investable market capitalization of 0.10% of the FEN Developed EMEA Index. In the same way, companies with investible market capitalization below 0.05% will be deleted from the index. Previously, Polish companies had to pass the 0.30% threshold of the FEN Emerging EMEA Index to be added and 0.15% to be deleted. Currently there are no Polish constituents in the FEN Global Index series.

- Properties in Poland and commercial property development projects will now be considered as exposure to developed markets when assessing the eligibility of listed real estate companies under the EBITDA criteria and their assignment of nationality. For instance, prospective constituents with EBITDA exposure to developed markets under 75%, which previously would be assigned an emerging country nationality, could now be assigned a developed market nationality if the EBITDA exposure to developed markets including Poland stands over 75% of the total EBITDA.

- Residential development in Poland is no longer to be considered as an eligible real estate activity.

Kuwait

- Prospective constituents with assigned nationality to Kuwait now will be eligible for the FEN Emerging Index series. As Mar/2018, FTSE Russell has identified 15 potential eligible companies that could be tested for eligibility to the FEN Emerging Index series in Sep/2018 review.

- Rental properties and property development projects in Kuwait will now be considered eligible when assessing the eligibility of listed real estate companies under the EBITDA criteria and their assignment of nationality.

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