

MARKET  
RESEARCH

# Global Listed Real Estate

## Emerging Markets

FTSE EPRA Nareit Global Real Estate Index Series

November  
2022

## I. Executive Summary

In this report we look at the size and performance of the emerging listed real estate markets, as well as at the key drivers and changes observed from the beginning of 2022 until August 2022. Afterwards, we get a further insight into Saudi Arabia’s success story, following the introduction of a REIT regime. Finally, we will focus on the evolution and growth potential of the Emerging markets during the last decade. Although, Greece is in the scope of the report, the country has no constituents in the FTSE EPRA Nareit Emerging Markets index (FEN EM Index) as of September 2021. In addition, Russia is no longer classified as an Emerging market country as it has been downgraded to “unclassified” status as a result of the war in Ukraine. The challenging times for the global economy, namely rising inflation and subsequent interest rate hikes, consumer spending slowdown, the energy crisis and a potential recession, has also affected the Emerging markets.

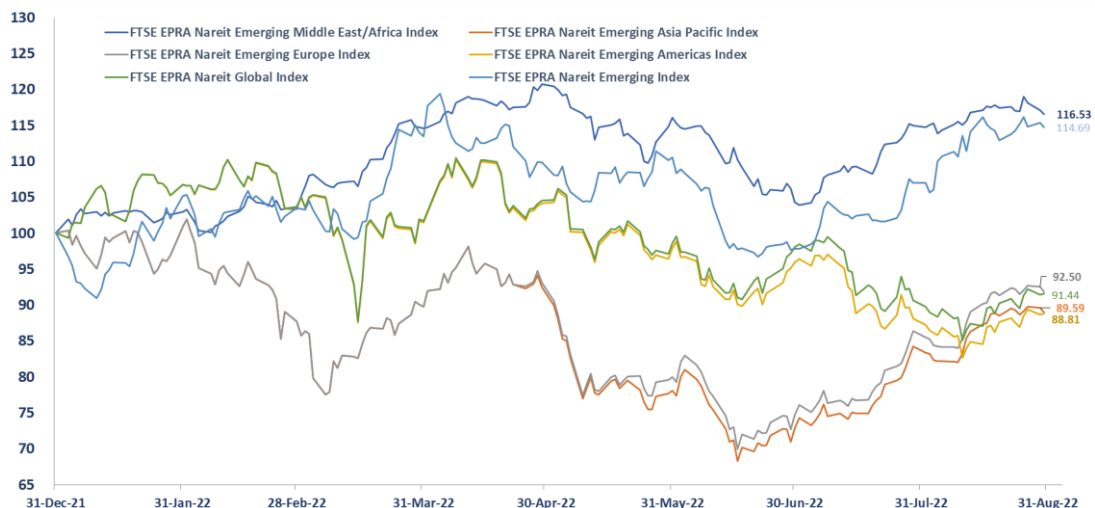
The FEN EM Index recorded a negative performance of 3.13% year to date total return (henceforth referred to as “YTD TR”) in comparison to the - 2.95% YTD TR achieved last year in August.

**FTSE EPRA NAREIT Emerging Markets Index: Sectors**



Source: EPRA

**FTSE EPRA Nareit Emerging Markets Index: Countries**



Source: EPRA

The Emerging Asia Pacific index accounts for 70.4% of the FEN EM Index, 3.8% lower than one year ago but it still prevails over other regions. Following Asia, the FEN Emerging EMEA Index continues to gain weight in the FEN EM Index., the EMEA region represented 17.3% of the FEN EM Index across nine countries (as of August 2022). The region’s YTD TR at the end of August 2022 amounted to 9.07% with the top performing sub index - Turkey (128.7%) and the bottom one - the Czech Republic Index (-17.2%). Lastly, the FEN Emerging Americas Index represent 12.1% of the FEN EM Index which includes three countries: Brazil, Chile and Mexico. The Emerging Americas Index had YTD TR of 4.25% at the end of August 2022.

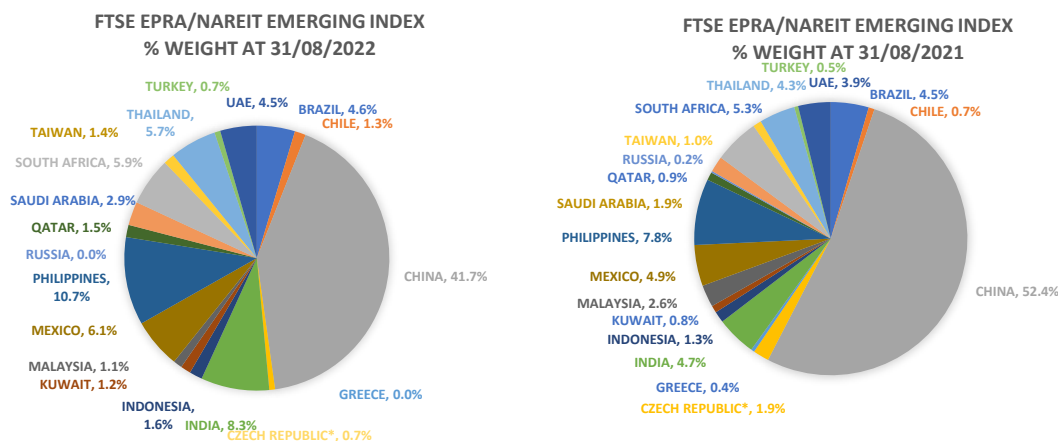
## II. FEN Emerging Markets Index size and composition

The FEN EM index as of August 2022 comprises of 125 constituents with a free float market cap of EUR 128,519 billion. The Emerging Asia/Pacific index counts 65 constituents (free float market cap EUR 90,490 billion) while the Emerging EMEA Index has 33 constituents (free float market cap of EUR 22,541 billion). Finally, the Emerging Americas Index consists of 27 constituents and a free float market cap amounting to EUR 27,325 billion.

The free float market cap of the FEN China EM index stood at EUR 53 billion at the end of August 2022, a decrease of over EUR 21,893 billion (y-o-y). This could be explained by the China property crisis, which has affected the constituents of China EM Index/Region. At a company level, “China Resources Land” from China continues to be the largest company in the FEN EM Index with a free float market cap of EUR 11.24 billion at the end of August 2022. *Aldar Properties PJSC* (UAE) is the leading company in EMEA region with a free float market cap of EUR 4,625 billion and the Mexican *Fibra Uno Administracion S.A. de C.V* tops the Americas region with a market cap amounting to EUR 3,087 billion as of August 2022. In terms of number of constituents, the FEN EM Index has 125 constituents, compared to 152 during the same period one year ago.

The emerging markets have a total estimated CRE (Commercial Real Estate) value of EUR 9.9 trillion (Global: EUR 34.9 trillion). The total listed real estate sector in the emerging markets is around EUR 971 billion (Global: EUR 3.7 trillion). Mexico has now the largest REIT market within the emerging markets with an estimated value of EUR 17.5 billion (EPRA, Total Markets Table 2022-Q2 (as of 30 June 2022).

*FTSE EPRA NAREIT Emerging Markets Index: Weights by country*



Source: EPRA

China remained the leader of the FEN EM Index s by weight with share of 41.7%, despite a decline of 10.7%. India (4.7% to 8.3%), Thailand (4.3% to 5.7%) and Philippines (7.8% to 10.7%) notably increased their share in the FEN EM Index over the last year.

### III. Comparative performance

In terms of comparative performance of the FEN EM Index constituents, it is important to bear in mind that the currency used for the whole FEN Global Real Estate Index series is Euro. This means that fluctuations of local currencies plays a crucial role in the Index performance, especially in the FEN EM Index, where volatility could be stronger than in developed markets (DM) due to less diversified economies and restrictive regulations.

The total currency effect in the FEN EM Index amounted to +8.11% YTD August 2022, compared to +2.47% during the same period in 2021. In the FEN EM Index, 17 of the 18 currencies showed an appreciation against the euro, YTD August 2022. The Turkish lira was the only currency that has depreciated against the euro (-21.15% respectively), continuing to be in a downward spiral. On the other hand, the Brazilian real showed the best currency effect, an appreciation of 17.75% against the euro, as commodity prices continued to rise since the beginning of the year.

It is worth recalling that the Chinese constituents have exposure to three different currencies (see the table below): the Hong Kong dollar, the Singapore dollar and the Chinese CNY. In total, the weight of these three currencies on the FEN EM Index amounts to 34.7% which can be decomposed in the following way: 39.1% from the HKD, -4.4% from the SGD and 0.0% from the CNY. As a consequence, the fluctuations of the Hong

Country *	YTD August 2022 RETURN FROM DIVIDENDS	YTD August 2022 PRICE RETURN EPRA EMERGING INDEX	YTD August 2022 TOTAL RETURN EPRA EMERGING INDEX	% WEIGHT EPRA EMERGING INDEX	DIV. YIELD (y/y) at 31/08/2022	CURRENCY PERFORMANCE VS EUR *	CURRENCY EFFECT ON THE INDEX	YTD TR Equity Market ***(Local Currency)
BRAZIL	2.1%	17.0%	19.1%	4.6%	5.0%	17.75%	0.8%	5.0%
CHILE	3.1%	19.5%	22.6%	1.3%	2.6%	7.36%	0.1%	30.1%
CHINA	3.3%	-19.2%	-15.9%	41.7%	8.4%	11.29%	3.9%	-11.5%
CZECH REPUBLIC	3.6%	-20.8%	-17.2%	0.7%	1.2%	0.00%	0.0%	-3.1%
GREECE				0.0%				-2.3%
INDIA	2.4%	8.4%	10.8%	8.3%	2.5%	5.48%	0.5%	2.7%
INDONESIA	1.3%	-3.0%	-1.7%	1.6%	0.9%	7.92%	0.1%	12.2%
KUWAIT	1.9%	23.0%	24.9%	1.2%	0.7%	9.91%	0.1%	9.3%
MALAYSIA	1.8%	1.0%	2.8%	1.1%	3.2%	5.01%	0.1%	-5.2%
MEXICO	6.6%	8.9%	15.5%	6.1%	5.9%	13.10%	0.8%	-11.2%
PHILIPPINES	0.6%	-4.5%	-3.9%	10.7%	0.7%	2.62%	0.3%	-7.2%
QATAR	6.4%	36.1%	42.5%	1.5%	4.1%	11.56%	0.2%	12.5%
RUSSIA				0.0%				-100.0%
SAUDI ARABIA	5.5%	5.9%	11.4%	2.9%	5.3%	11.47%	0.3%	8.7%
SOUTH AFRICA	3.9%	-8.1%	-4.2%	5.9%	8.7%	5.57%	0.3%	-8.1%
TAIWAN	0.0%	7.6%	7.6%	1.4%	4.3%	2.72%	0.0%	-17.9%
THAILAND	3.2%	15.5%	18.6%	5.7%	2.6%	3.48%	0.2%	3.7%
TURKEY	3.9%	124.7%	128.7%	0.7%	0.6%	-21.15%	-0.2%	76.9%
UAE	3.2%	34.4%	37.6%	4.5%	2.9%	11.58%	0.5%	20.1%
<b>FTSE EPRA/NAREIT Emerging Index</b>	<b>3.14%</b>	<b>-6.28%</b>	<b>-3.13%</b>	<b>99.8%</b>	<b>5.85%</b>		<b>8.11%</b>	
<b>Emerging: Weighted Average</b>								<b>-3.80%</b>

Kong dollar have a significant impact on the FEN EM Index.

#### *Emerging Markets: Equity Markets vs Listed Real Estate and Currency Effects (YTD August 2022)*

\*Currency performance for China combines HKD, SGD and CHN. For India, it combines SGD and INR. For Indonesia, it combines SGD and IDR

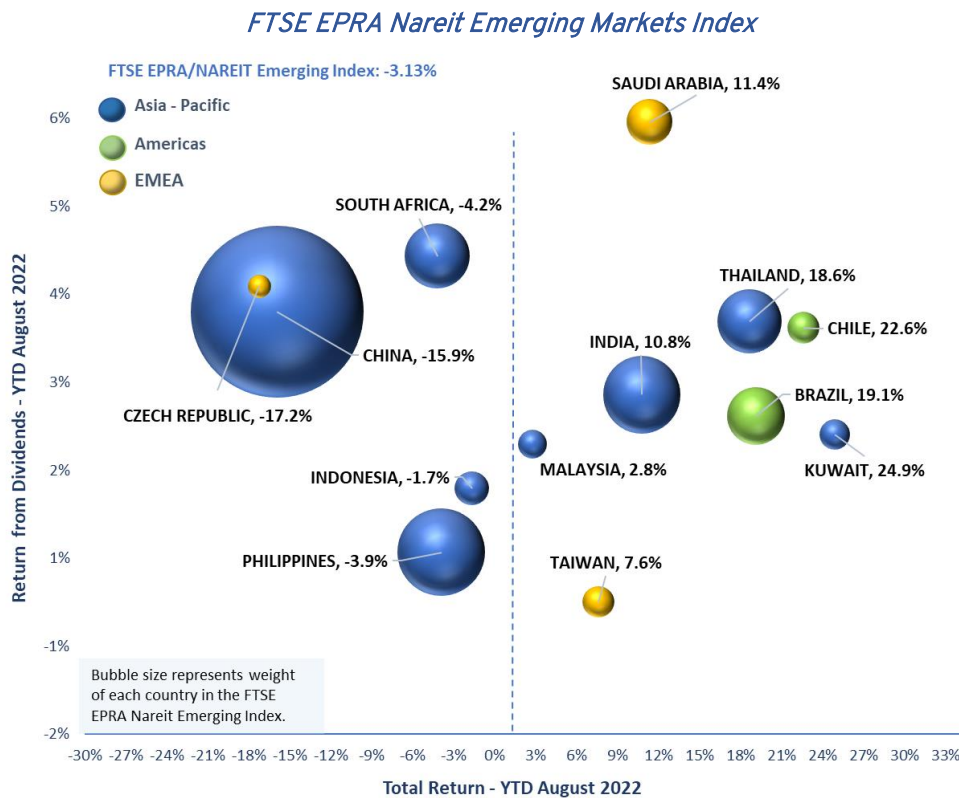
\*\*Equity markets are represented by the Thomson-Reuters TR Index for each country.

\*\*\*Greece has no constituents as of September 2021 and Russia has been downgraded to unclassified.

Source: EPRA (Data as of 31<sup>st</sup> August 2022)

In terms of YTD TR August 2022 in EUR, the top three performers of the FEN EM Index were Turkey (+128.7%), Qatar (+42.5%) and the UAE (+37.6%). Czech Republic was the bottom performer (-17.2%) and China was the second to bottom performer with YTD TR of -17.2%. Turkey's YTD TR improved to 128.7% in EUR, but the total return in the local currency is in fact negative (-6.79%). The Asian region has been hit by the currency effect as the Turkish lira depreciated 21.15% vs. the euro (our Index currency base). Regarding, YTD TR in the local currency, the top three performers were Saudi Arabia (31.7%), UAE (29.74%) and Taiwan (21.96%). Regarding the YTD August 2022 returns from dividends, Mexico had the strongest dividend growth on a country level (+6.6%), only comparable with the one of Qatar (+6.4%). The dividend returns

provided by most of its constituents (that amounted to 3.14%, made the FEN EM Index end the with a -3.13% YTD TR August 2022.



#### IV. Case study: Saudi REITs growth and the path towards index inclusion

Saudi Arabia (SAU), a country with a land area of about 2,150,000 km<sup>2</sup>, is the largest country in Western Asia, the largest economy in the Middle East (18<sup>th</sup> largest in the world) and it will become the world's fastest-growing major economy in 2022. Among the booming drivers we have the increases in its crude output and the high energy prices, and this upturn is spreading beyond the oil industry, especially within the real estate market into the office, residential and hospitality sectors.

**Some relevant background:** For years, the listed property companies in SAU were out of the scope for the FEN Global series given the restrictions for foreign investors that kept the country out of the country classification. The real estate market has seen several major developments in the last decade, where the government played a key role. One of the most significant improvements took place six years ago, thanks to the Capital Market Authority (CAM) initiative, with the implementation of the REIT<sup>1</sup> regime in November 2016 allowing asset managers to list certain public real estate companies on the Tadawul stock exchange in addition to the exchange traded real estate funds. Today, already 13% of total listed real estate companies have REIT status, while the remaining companies (87%) are Non-REITs on Tadawul.

But yet the milestone event in the equity markets and thus in the *FEN Global RE Index*, was the reclassification of Saudi Arabia from a “Non-Classified” market to a “Secondary Emerging” market<sup>2</sup> within the *FTSE Country Classification* guide. A unique process among index providers designed to be transparent and research-driven. The start point was back in September 2017, when FTSE Russell engaged on behalf of international investors with local stakeholders in Saudi Arabia regarding their concerns to promote the

<sup>1</sup> [https://cma.org.sa/RulesRegulations/Consulting/Documents/REIT\\_en.pdf](https://cma.org.sa/RulesRegulations/Consulting/Documents/REIT_en.pdf)

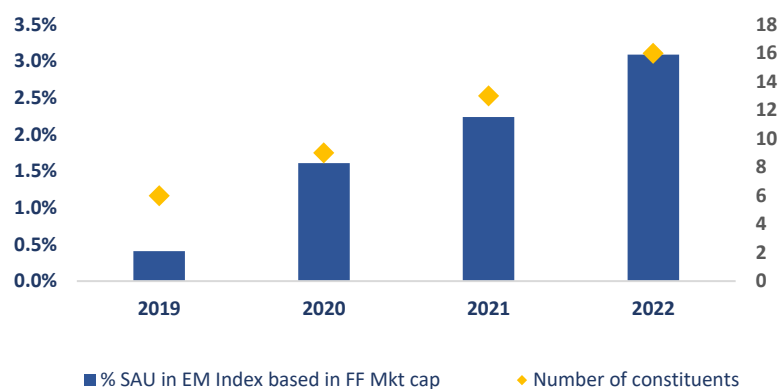
<sup>2</sup> Reclassification within the *FTSE Global Equity Index Series* (GEIS). Full doc: <https://content.ftserussell.com/sites/default/files/research/saudi-arabia-reclassification-final.pdf>

country from a Frontier market to an Emerging Market. It was an important decision, as the reclassification of the country as Emerging, will ease foreign investor access to its capital markets and also improve its corporate transparency and governance. Less than 1 year later, the country was reclassified and in March 2019 Saudi Arabia was officially considered an Emerging market in FTSE GEIS. Consequently the Kingdom expanded and diversified the opportunity set for both passive and active investors, and it also gave access to a large, dynamic economy within the emerging-market universe.

Right after that, the Tadawul stock exchange took a very active role within the listed real estate market. The institution approached EPRA to deeply understand the FEN Global Real Estate Index Ground Rules in order to educate the real estate community within Saudi Arabia. After going through all the details of the index requirements, the results were visible since a very early stage. Just as an example, in June 2020 (Q2-2020 FEN Index Review), 16 of the SAU listed real estate companies that were within the FEN Global Real Estate Index Series eligible universe failed the “reporting” criteria, and one year later, in December 2021 (Q4-2021 FEN Index Review) that number was reduced to just 4 with a “reporting” fail.

**Evolution of SAU in the FTSE EPRA Nareit Emerging Index:** As a result of the reclassification process of Saudi Arabia as an “Emerging market” in 2018, the first SAU company was added to the FEN Emerging Index in March 2019. Now, 3 years later, in October 2022, thanks to the active intervention of Tadawul Stock Exchange educating the listed real estate companies within Saudi Arabia, the FEN Emerging Index has a total of 16 companies\*. Since then, just one company has been deleted from the index.

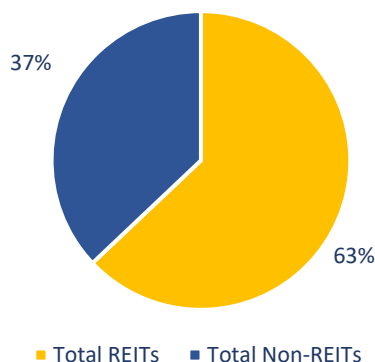
**Evolution of the FTSE EPRA Nareit Saudi Arabia Index\***



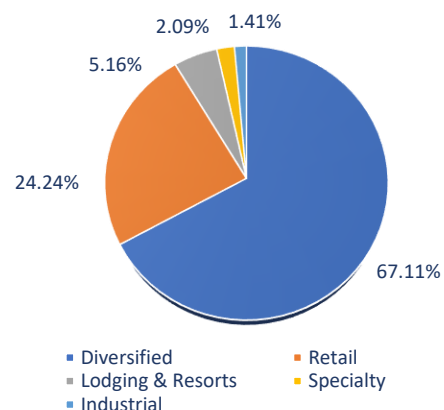
Source: EPRA

Below the current representation of the Saudi Arabia REITs and Non-REITs and its sectors within the FEN Emerging Index by full market cap.

**Saudi Arabia REITs vs Non-REIT within the FTSE EPRA Nareit Saudi Arabia Index**



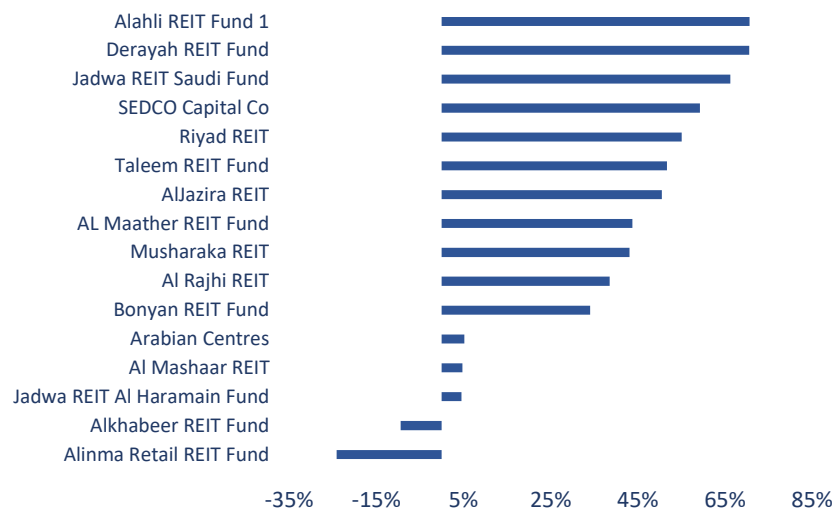
**Sectors within the FTSE EPRA Nareit Saudi Arabia Index**



Source: EPRA

In terms of performance, *the FEN SAU Index* shows a positive 3 year annualised total return of 8.73% as of the end of September 2022, thanks to high real estate prices -specially within the residential sector- and consistent dividend pay-outs. Which is aligned with the latest results published by the *Central Department of Statistics and Information* of Saudi Arabia related to the *Housing Index* in the country that increased from 81.70 points in Q1 2022 to 81.90 points in Q2 2022. Here below the individual 10Y TR in local currency of each of the 16 constituents of the FEN EM Index:

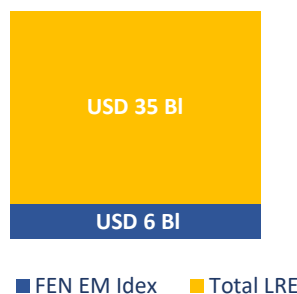
**FTSE EPRA Nareit Saudi Arabia Index constituents 10Y TR  
in local currency as of September 2022**



Source: EPRA

Saudi Arabia Listed Real Estate has a size of USD 35 billion in terms of full market cap comprising 31 companies, from which 16 companies are currently constituents of the FEN EM Index, representing c.19% of the total listed real estate market in Saudi Arabia.

**Size of the LRE in Saudi Arabia and  
presence on the FTSE EPRA Nareit Emerging Index**



Compiled from Total Markets Table 2022-Q2 (as of 30 June 2022).

Although it has been remarkable the increase of Saudi Arabia listed real estate companies within our index, thanks to the effort local authorities of Saudi Arabia, there is still a lot of potential for the *FEN Saudi Arabia Index* to grow, especially for REITs. REITs in the Kingdom have been focusing on expanding their assets as the economy continues to recover. In the past year, REITs have invested in multiple assets across different sectors. The acquisition spree from REITs is indicative of expected demand in the real estate market with easing of restrictions, opening of travel, returning of corporates to offices and in-person attendance at

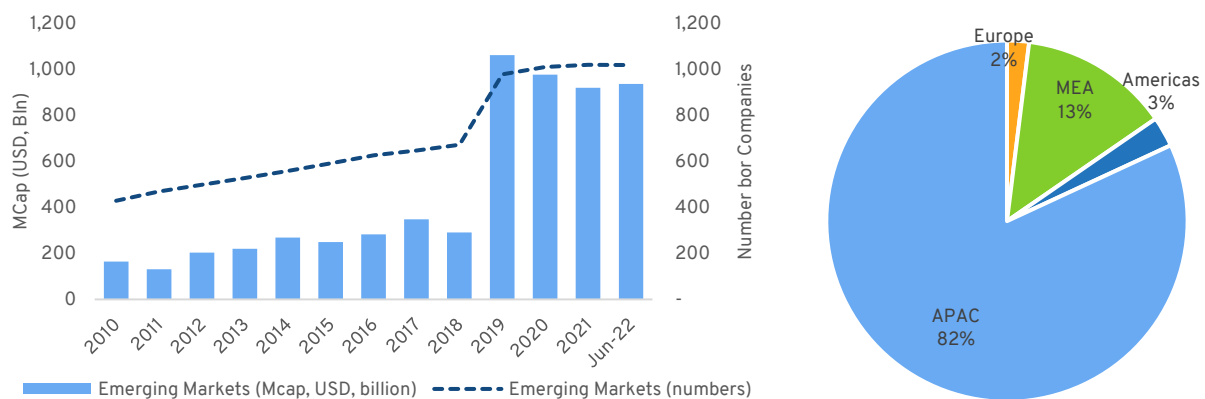
educational institutions. The expansion activities of REITs are supported by capital raisings and it will likely leverage prevailing positive sentiments in the capital markets to raise the funds.

## V. Potential for Growth of the Listed Real Estate industry in Emerging Europe

Total listed real estate market size in emerging markets saw over fourfold increase, from USD 164 billion (428 companies) to USD 935 billion (1,013 companies), between 2010 and H1-2022. The milestone in this increase was eligibility of China A shares, consequently reclassification of Emerging market status in 2019. Similarly, reclassification of Middle Eastern markets (UAE, Qatar, Saudi Arabia) also contributed to growth of emerging markets in the last a couple of years.

As of 30/06/2022, total LRE market size represents 26% of the total global listed real estate. In terms of sub-regions, Emerging Asia represents 82% (USD 758 billion, 760 companies) as the largest sub-region followed by Middle East (13%, USD 124 billion, 195 companies) and Emerging Americas (3%, USD 25 billion, 36 companies). Meanwhile, Emerging Europe has a share of 2% of total emerging markets.

*Global Emerging Markets : Evolution of Listed Real Estate<sup>3</sup>*

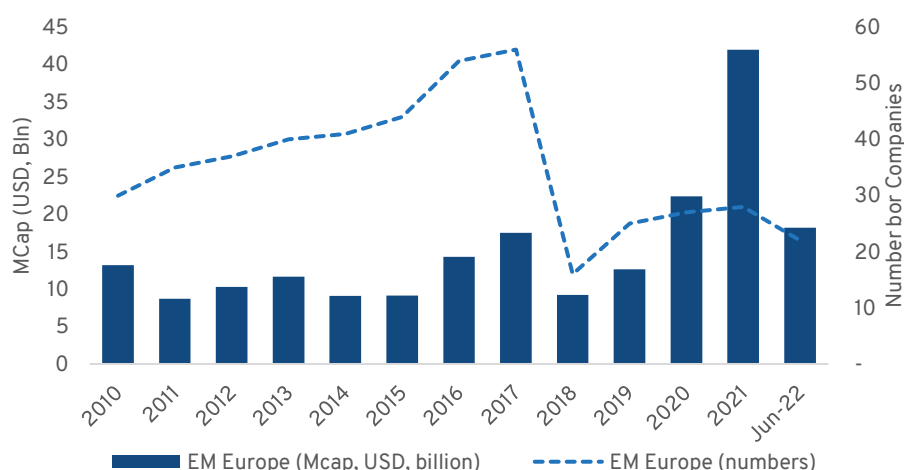


Source: EPRA Research (Total Markets Table reports). Data is compiled from Bloomberg (as of 30/06/2022).

### *Emerging Europe : Evolution of Listed Real Estate*

<sup>3</sup> FTSE Russell announcements on the equity country classification changes : (2010) UAE was added directly to *Secondary Emerging* from *Unclassified* - 17 Sept 2010. (2015) Morocco was demoted from *Secondary Emerging* to *Frontier* - 19 June 2015. (2016) Greece was demoted from *Developed* to *Advanced Emerging* - 18 March 2016, and Qatar was promoted from *Frontier* to *Secondary Emerging* (effective in two tranches: 50% in September 2016 and 50% in March 2017). (2018) Poland was promoted from *Advanced Emerging* to *Developed* - 21 September 2018, and Kuwait was promoted to *Secondary Emerging* from *Unclassified* (effective in two tranches: 50% effective at the close on 21 September 2018 and 50% at the close on 21 December 2018). (2019) Saudi Arabia was promoted to *Secondary Emerging* from *Unclassified* - 15 March 2019, and China A was reclassified as *Secondary Emerging* from *Unclassified* - 21 June 2019. (2020) Romania was reclassified from *Frontier* to *Secondary Emerging* - 18 September 2020. (2022) Russia was reclassification from *Secondary Emerging* to *Unclassified* market status - 07 March 2022.





Source: EPRA Research (Total Markets Table reports). Data is compiled from Bloomberg (as of 30/06/2022).

Focusing on Emerging Europe, total listed real estate market size grew from USD 13 billion (30 companies) in 2010 to USD 42 billion (28 companies) in 2021. As of June 2022, there is a total of 22 companies with a combined Market cap of USD 18.2 billion. It should be noted that Russia was reclassified as ‘Unclassified’ due to war in Ukraine. As summarized in the footnote, changes in equity market status for countries had an impact on market size which is explained partially, changes in market size apart from ‘*organic growth*’ of the market in terms of increase/decrease in market capitalization. From this perspective, the milestones for Emerging Europe were promotion of Poland as Developed market status (2018) and reclassification of Romania as Emerging market (2020).

As of June 2022, there are only 6 REITs in Emerging Europe; Greece (4 REITs) and Hungary (2 REITs). Even though the exact term REIT does not exist in Greek legislation, Real Estate Investment Companies (REIC) are qualified as REIT by Greek law since 1999. The REIT regime was introduced into the Hungarian legislation in 2011, and 2 companies were converted to REIT in 2018 ([EPRA Global REIT Survey 2022](#)).

	Market Cap (USD, bln)		Number of companies		as of 30/06/2022*	
	2010	Jun-22	2010	Jun-22	REIT	Non-REIT
Czech Republic	0.41	7.29	1	1	-	1
Romania	<i>Frontier</i>	6.31		9	-	9
Greece	<i>Developed</i>	4.23		9	2.67 bln (4)	1.56 bln (5)
Hungary	0.12	0.39	2	3	0.23 bln (2)	0.16 bln (1)
Poland	6.57	<i>Developed</i>	24			
Russia	6.10	<i>Unclassified</i>	3			
<b>Total EM Europe</b>	<b>13.20</b>	<b>18.22</b>	<b>30</b>	<b>22</b>	<b>2.90 bln (6)</b>	<b>15.32 bln (16)</b>

Source: EPRA Research (Total Markets Table reports). Data is compiled from Bloomberg.

(\*) Number of companies are given in the parentheses.

As mentioned in the previous chapter, the eligibility of companies and their real estate activities in the FEN Global series have a significant role in sector growth, in terms of access to capital markets, to improve transparency and data adequacy, as well. Other Emerging European countries, now classified as Frontier, have potential to contribute to growth. Romania is an example which was reclassified as Secondary Emerging market status in 2020, it has 9 listed real estate companies with a market cap of USD 6.3 billion (as of 30/06/2022). A note on the latest update, Iceland became eligible to reclassify ‘Secondary Emerging’ market status as of September 2022.

New REIT regime introduction could be one of the opportunity for sector growth in the emerging countries, especially in the CEE region. Besides, counties classified as Frontier, but have already REIT regimes, like Bulgaria (2004, 2021) and Lithuania (2018, 2013), might offer more opportunities.

Both market status reclassification and REIT regime, support market development with regulations, such as legal form of the companies' requirements for listing (min capital, shareholder profile, etc.), stock exchange and listing requirements, and it ease to access emerging markets translating into allocation to listed real estate companies.

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