EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

REPORT

Building a Stronger Europe

Stock Exchange Listed Property Companies

July 2018

TABLE OF CONTENTS

Foreword

Real estate plays a crucial role in all aspects of our everyday lives. Property companies serve businesses and society by actively developing, managing, maintaining and improving the built environment, where we all live, work, shop and relax.

Listed real estate companies are the guardians of many of the highest quality assets in our cities, providing stable and strong long-term performance to investors and especially pension funds through reliable dividends, contributing to the retirement of millions of people. The liquid nature of listed property companies facilitates also the 'democratisation' of real estate - by providing the opportunity for individual investors to participate alongside larger investors, in otherwise inaccessible investment opportunities.

The sector is governed by a robust regulatory framework of EU legislation, national parliamentary supervision and local financial markets regulators. In addition, most companies are internally managed by professionals who are directly accountable to the shareholders by way of reporting and performance metrics, supported by the EPRA Best Practices Recommendations for financial and sustainability reporting.

The listed sector is responsive to the dynamics of the market, which was notably seen with the emergence of green and social bonds as a potential alternative source of financing real estate, with leading listed property companies guiding the way in this developing market.

These companies are already seeking to measure their wider impact and contribution to society at an asset and corporate level. They strive to incorporate the best possible standards in terms of construction, efficiency, sustainability and wellness as part of their normal business, while at the same time trying to engage with the broader community through their developments and corporate initiatives.

Aside from transforming the physical environment in which we lead our daily lives, the listed property sector is an important catalyst for job creation, since it feeds so many other parts of the economy. A recent study conducted by PwC for EPRA shows that Europe's listed property companies are the catalyst for almost 1 million jobs in the EU.

When you gather it all together, it becomes clear why our sector should be strongly represented in EU policymaking. This report highlights the huge opportunity for governments and EU legislators to take proactive steps to deliver policies to grow the European listed property sector. In turn, this should streamline the broader real estate industry to deliver its full potential and build a stronger Europe.

Finally, I would like to thank the public affairs team for leading the effort in the preparation of this report, and to extend a special thank you to all the EPRA departments for contributing to this project.

Dominique Moerenhout

EPRA CEO

1 Property: foundation for the economy

The built environment - the space and infrastructure that provides for the needs of businesses, families, hospitals, schools and leisure activities - is fundamental to Europe's well-being by catering to its economic and social needs[1]. The commercial property sector is directly responsible for providing this essential service to businesses and citizens.

European commercial property industry:

- Directly added €329 billion to the European Union's economy*, representing about 2.5% of the total economy;
- Provides jobs for 3.7 million people - more than in the banking sector and more than the combined size of the European automotive industry and telecommunications sector;
- Invests €252 billion each year in building, refurbishment and development; with infrastructure and housing, this represents 62% of all capital investment in the EU;
- Around 40% of all European commercial property is office space let to businesses, which frees up capital and enables them to lease new space as they grow.

* Source: EPRA/INREV Report:

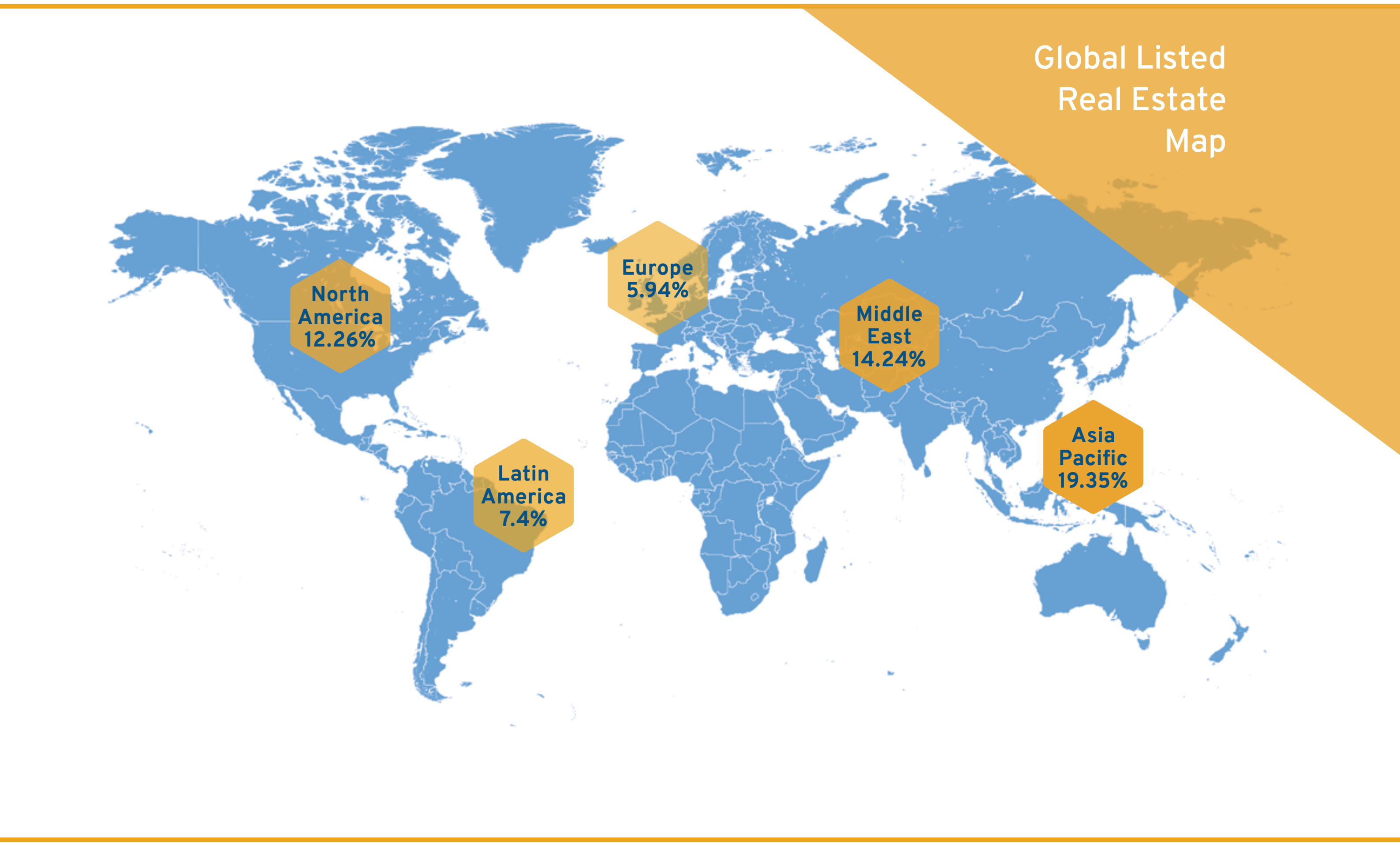
Real Estate Real Economy 2016, data from 2015

Property is a very capital-intensive business and the private sector will always be needed to play an essential role in delivering long-term capital investment and expertise to meet Europe's real estate and infrastructure needs. This report explains how publicly listed property companies perform a leading role in delivering the property sector's contribution to the real economy. They are long-term players in the largest, most innovative and ambitious projects. They are at the forefront of efforts to improve the environmental performance of Europe's built environment and, as publicly-owned companies, they operate within a framework which is transparent, accountable and well regulated.

It is nevertheless crucial to note that the European listed property sector is small relative to the other major developed global regions. Only 5.94% of its investible commercial real estate is held within the publicly quoted sector in Europe compared to 12.26% in the North America and 19.35% in Asia-Pacific[2].

[1] Read more in the EPRA/INREV Report: Real Estate Real Economy 2016
[2] More in EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018

Figure 1: Global listed real estate map (see also Figure 15 - Chapter 12)
Developed and emerging markets as per FTSE classification as of March 2018
Source: EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018

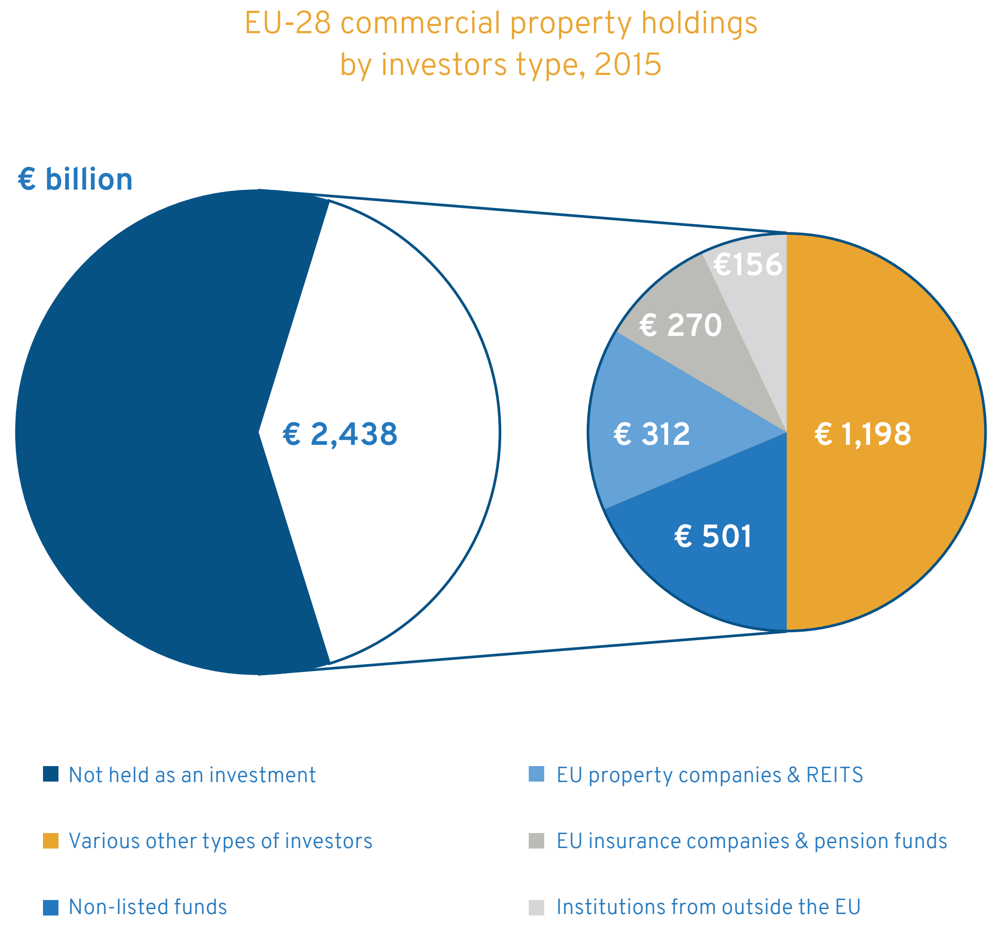


This sub-optimal situation puts Europe at a distinct disadvantage, particularly at a time when long-term investment into real estate and infrastructure is critical for delivering economic growth. The European Commission's action plan on developing a Capital Markets Union (CMU) was an important step forward. The plan contains a number of steps for a gradual building of the CMU, intended to be completed by 2019. Addressing the listed property sector should also be reflected in the CMU initiative.

2 Listed property companies

Listed property companies (including 'REITs'[3]) are important players in Europe's commercial property sector. Around half of Europe's commercial property is owner-occupied, the remainder is owned and operated by various types of investor – mainly listed property companies, private property companies, non-listed funds and institutions. Listed property companies uniquely contribute to the making of healthy and vibrant property markets (see Figure 2).

Figure 2: Investment and management in the built environment
Source: EPRA/INREV report *Real Estate Real Economy 2016*



[3] Listed REITs can be defined as "publicly listed property investment companies that own, operate, develop and manage real estate assets for obtaining returns from rental income and capital appreciation. REITs obtain a special 'tax-transparent/tax pass-through' status in return for meeting certain obligations, most importantly high distribution requirements." - EPRA's position on C(C)CTB. EPRA. April 2018. A worldwide definition of a REIT can be found in the OECD 2008 Update to the Model Tax Convention (MTC) approved on 18th July 2008 by the OECD Committee on Fiscal Affairs.

A recent study conducted by PwC for EPRA[4] shows that Europe's listed property companies are the catalyst for almost 1 million jobs in the EU. It includes direct, indirect and induced jobs as well as jobs hosted by retail surfaces.

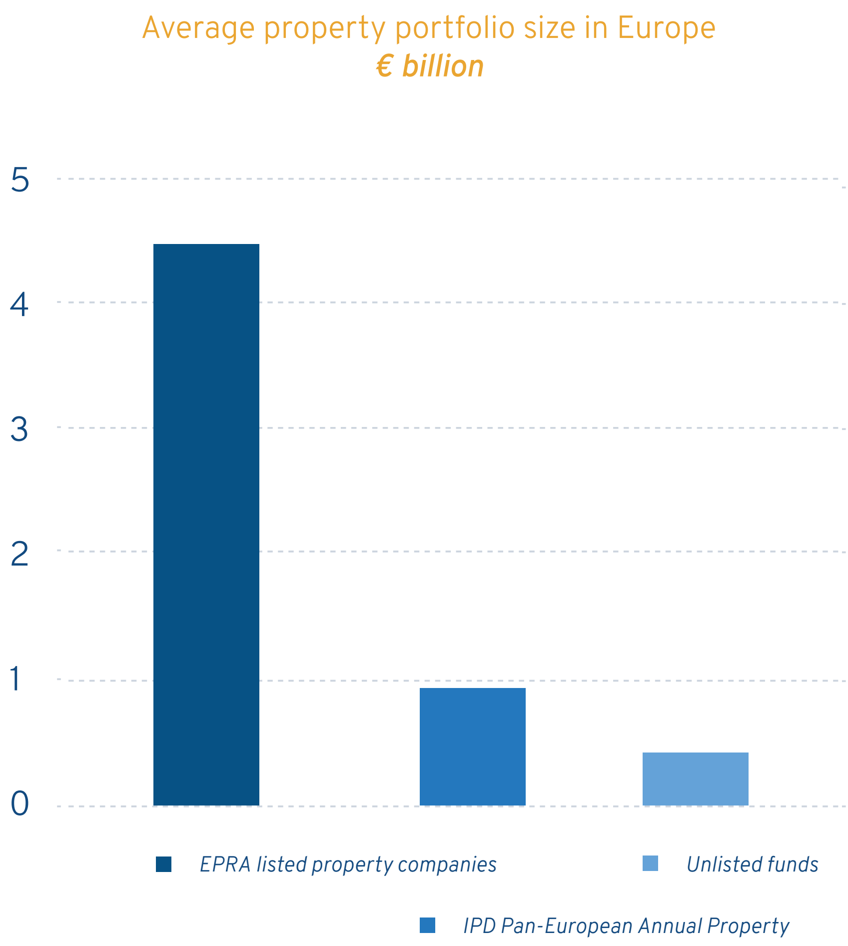
Figure 3: Top 20 largest European listed property companies.
Source: EPRA data by full market capitalisation as at June 19, 2018

Company	Country	Full Mcap (EUR M)	Sector	Exchange
Unibail - Rodamco - Westfield	The Netherlands	25.589,55	Retail	Euronext Amsterdam
Vonovia	Germany	20.720,03	Residential	Xetra
Deutsche Wohnen	Germany	14.229,25	Residential	Xetra
LandSec	United Kingdom	7.683,21	Diversified	London Stock Exchange
British Land Co	United Kingdom	7.592,72	Diversified	London Stock Exchange
SEGRO	United Kingdom	7.585,71	Industrial	London Stock Exchange
Gecina	France	7.397,28	Office	Euronext Paris
Klépierre	France	6.568,29	Retail	Euronext Paris
LEG Immobilien	Germany	5.940,95	Residential	Xetra
Swiss Prime Site	Switzerland	5.546,35	Diversified	SIX Swiss Exchange
Hammerson	United Kingdom	4.822,29	Retail	London Stock Exchange
Aroundtown	Germany	4.507,22	Diversified	Xetra
Merlin Properties Socimi SA	Spain	4.038,81	Diversified	BME Spanish Exchange
Castellum	Sweden	3.754,31	Diversified	NASDAQ Stockholm
Derwent London	United Kingdom	3.476,99	Office	London Stock Exchange
Covivio	France	3.174,39	Diversified	Euronext Paris
PSP Swiss Property	Switzerland	3.087,29	Diversified	SIX Swiss Exchange
Fabege	Sweden	2.692,32	Office	NASDAQ Stockholm
Inmobiliaria Colonial	Spain	2.651,87	Office	BME Spanish Exchange
Tritax Big Box REIT	United Kingdom	2.566,18	Industrial	London Stock Exchange

These property companies are listed on the major stock exchanges throughout the world and are important components of the most widely used country indices such as the British FTSE 100, DAX 30, Dutch AEX 25 and French CAC 40 etc. - just like other industry leaders in other market sectors. The stock exchange listing makes them accessible to all types of shareholders; from the largest pension funds to the 'man on the street', who are thus able to participate as stakeholders in these businesses and access the important diversification benefits of investing in professionally managed commercial real estate.

[4] PwC EPRA Infographics: Listed real estate - a larger contributor to the EU economy, 2017.

Figure 4: Average property portfolio size in Europe.
Source: EPRA (from annual reports); portfolio value in €bn as of July 2017 (updated list of constituents as of September 2017); Index factsheet – Market value, August 2017; INREV data (both open-ended and closed-ended funds).



Listed property companies are delivering and managing property (re)developments on a substantial scale. Their size, professionalism and access to varied sources of finance through the public markets allow them to take responsibility for capital intensive and long-term investments. They own and manage property portfolios on a substantial scale. On average, their portfolios each contain €4.4 million of property, which is 4.5 times bigger than the average investor and 9 times bigger than the average unlisted property fund (see above Figure 4).

3 Community engagement, social responsibility and tenant focus

Listed property companies are important actors of society, mindful of the long-term interests of communities in which they operate. They are willing to take a role in improving living standards while undertaking business and delivering the shareholders' returns. Urban development, sustainability leadership and social needs awareness demonstrate how critical the built environment is in achieving social objectives and how listed property companies play an important role in achieving these goals.

Neighbourhoods, work environments and social infrastructures are the key to society's development.

A good neighbourhood improves the well-being of residents, strengthens the sense of community spirit and minimises social tension. A good work environment stimulates productivity, improves staff satisfaction and ultimately tenant retention. The promotion of values and ethics helps to respond better to the needs of people and their families housed in social structures.

Over the last years, listed property companies have implemented a tenant focused approach[5]. In addition, they have already started to look beyond and are making targeted investments in projects that benefit entire communities.

Figure 5: Listed property companies – project examples

Community engagement

Some tenants face the challenge of being immigrants, unemployed or handicapped which causes language barriers, need for career advice, lack of understanding of the legal system and financial problems. The *Social Worker Programme*[6] , promoted by Grand City Properties, support tenants in handling job-centres' requests, immigration status, severely handicapped certificates, cost takeover documents, and other administrative practices which require special knowledge. Social workers identify past issues from the communication or interaction between tenant and authority and help the tenants to assert their claims successfully.

In 2012 Landsec established its *Community Employment Programme*[7] to address the social challenge of unemployment in the UK. Graduates of the programme range from army veterans and homeless people to prisoners and ex-offenders. Through partnerships with education establishments and employers, Landsec helps them enter the employment market with core qualifications that matter to businesses.

[5] A study by RealService showed that 43 of the 50 largest listed property companies in 2012 had in place a customer/tenant-oriented approach and related policies.
[6] https://www.grandcityproperty.de/en/social-responsibility
[7] http://www.landsecurities.com/sustainability/jobs-opportunities/activities/community-employment

Social responsibility

Social infrastructure (i.e. healthcare, hospitals, nursery, geriatric centres, prisons, schools) has become the portfolio's main pillar of an increasing number of listed property companies. These companies demonstrate that providing an answer to the social needs of the most vulnerable group of population can walk hand-in-hand with profitability.

This is the case of the largest Belgium REIT Cofinimmo that made social infrastructures its portfolio's main pillar. In 2014 the company delivered the *Leuze-en-Hainaut prison*[8], the first Belgian prison to receive the BREEAM 'Good' label. The project strives for a better human living environment through open architecture, outdoor spaces, child-friendly visiting spaces, sports facilities and working/training spaces.

Another example is represented by AG Real Estate. Due to a major shortfall in resources for school infrastructure development, in 2006 the Flemish government went in search of an alternative way to tackle the problem. This resulted in the launch of *School of Tomorrow*[9], a Public Private Partnership programme between the Flemish government, BNP Paribas Fortis and AG Real Estate. Every 'School of Tomorrow' is a unique project that responds to local communities' needs and to all requirements in terms of sustainability, comfort and flexibility.

Focus on tenants' well being

Real estate companies are well positioned to create long-term value by establishing healthy workplace cultures; this means putting people first and prioritising personal health. Well-being has an impact on workers' productivity, tenants' satisfaction and retention, and ultimately also on profitability. With this in mind, listed property companies began placing people's wellbeing at the heart of their buildings.

Landsec HQ in Victoria, *55 Amsterdam* by Gecina, and *Eminent* by Castellum, *Castellana 81* by Gmp are just a few examples of assets either certified or undergoing the certification process according to the WELL Building Standard[10].

[8] https://www.cofinimmo.com/nous-connaître/notre-patrimoine/partenariats-public-privé
[9] https://www.scholenvanmorgen.be/english
[10] The WELL Building Standard explores how design, operations and behaviours within new and existing buildings, where people live, work, learn and play, can be optimised to promote human health and well-being through strategies that tackle air, water, light, mind, nourishment, fitness and comfort.

Green and social bonds: emerging instruments to finance ESG projects

Green and social bonds have emerged as a potential and promising alternative source of financing long-term value and sustainable real estate. If we look at the European market and consider the 107 companies included in the FTSE/EPRA NAREIT Developed Europe Real Estate Index[11] as a sample of the potential real estate universe in Europe, 10.3%[12] of these companies are currently issuing unmatured green bonds.

Notable property companies like Unibail-Rodamco-Westfield[13], Cofinimmo[14] and Covivio[15] have already issued green bonds, guiding the way for new players in this still developing market. The capital raised from green and social bonds is used to finance existing assets which meet strong and selective criteria in social, environmental and sustainable areas both during the construction and operating phases of eligible assets. Companies use these funds to (re)finance buildings recently delivered or renovated or under redevelopment. This may include projects with environmental goals, i.e. office buildings with an environmental and sustainable BREEAM or BREEAM In-Use certification ("very good" as minimum) or projects with social goals, i.e. healthcare assets used for accommodation for vulnerable or dependent people in need of special care (i.e. geriatrics, psychiatry or care of disabled people).

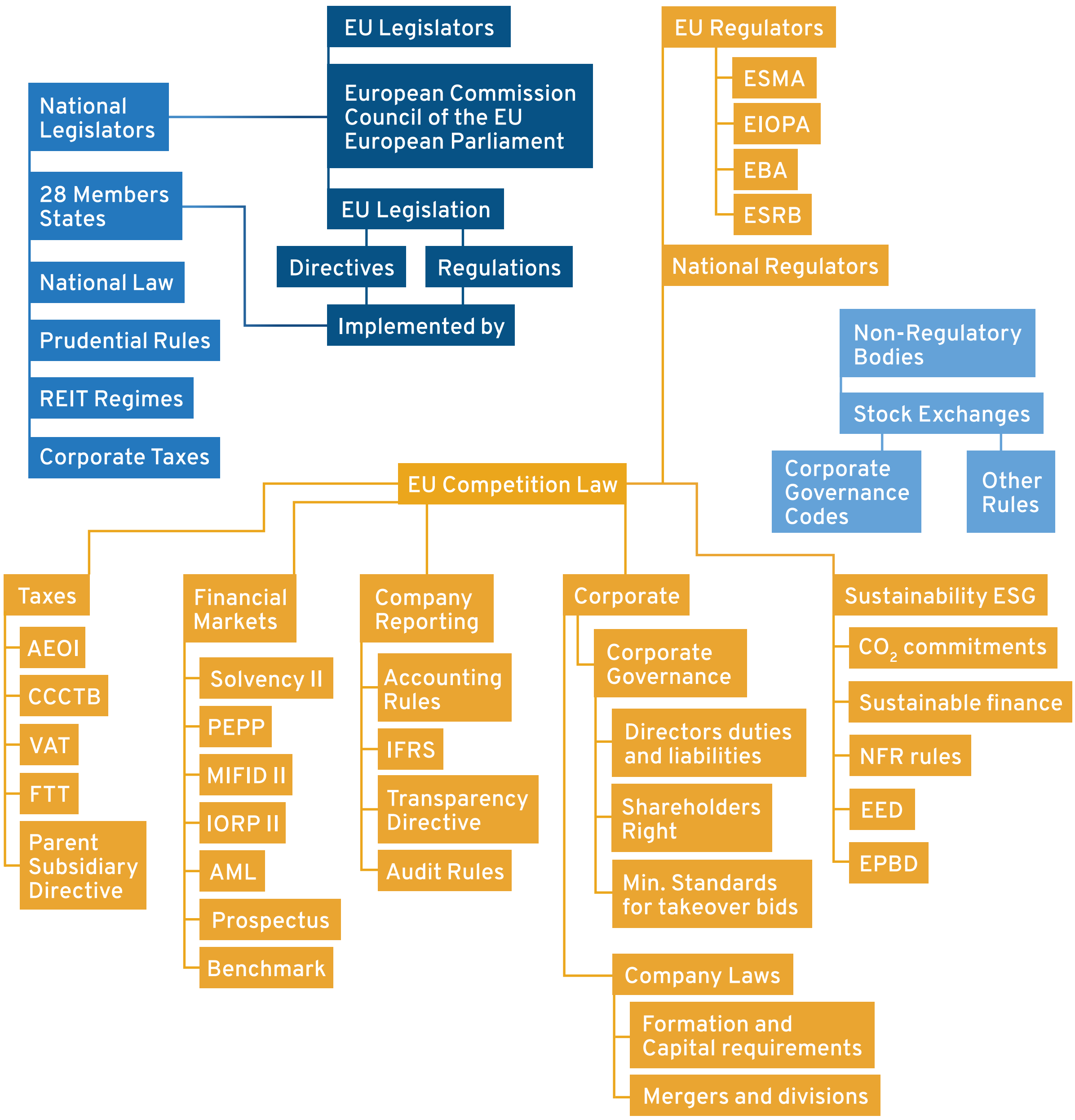
[11] As of 31/12/2017
[12] Sources: Bloomberg and SNL
[13] Unibail-Rodamco-Westfield's Green Bond
[14] Cofinimmo's Green & Social Bond
[15] More information is available at https://www.covivio.eu/en/

4 Regulation of listed property companies

The regulations which apply to publicly quoted companies, for example accounting, audit and EU corporate governance rules, create the framework which governs these companies. This underlies and complements the market-driven discipline and ensures that transparent information is provided to specialised investors and to the general public.

Even though listed property companies comply with all rules applicable to publicly quoted companies, the most relevant for them are highlighted in Figure 6.

Figure 6: Regulations applying to listed property companies



5 Discipline through public markets - accountability

> *Like any shares traded on an exchange, this makes them very liquid and transparent. When you buy traded REITs, you know what they own, and you can analyse their track records.*
>
> *Larry Light for Forbes - March 25th 2016*

The transparent and 'liquid' nature of the public stock markets fosters good decision-making, healthy corporate governance, investor confidence and trust. The listed property sector reduces 'information–based contagion' (a key contributor to systemic risk) by reducing the likelihood of opaque market bubbles and subsequent market shocks. EPRA research[16] also found that the listed market generally leads the direct market by about six months, as REIT (Real Estate Investment Trust) liquidity allows for greater pricing transparency and quicker information transfer than less liquid direct markets. Not only do listed property markets lead direct property markets, they also add to the idea that real estate stocks behave like real estate, not general equities, though with better transparency and more liquidity (see more in Chapter 11).

Transparency goes hand-in-hand with the dissemination of good information and enables scrutiny. It enhances the accountability of its managers – the directors and employees of the company - to its investors (shareholders), whereas a lack of such information leaves investors in the dark and flying blind. As part of regulated stock markets, listed property companies provide high levels of disclosure and information. They are not only subject to the daily scrutiny of their shareholders but are also subject to the intense scrutiny of an army of analysts. Around 100 investment organisations with analyst teams monitor the 107 listed property companies in the FTSE EPRA/NAREIT Developed Europe Index[17] and react to management decisions on a regular basis.

In addition, listed property companies are all subject to the new EU rules on statutory audit which requires them to have an internal audit committee that plays a direct role in the appointment and the following mandatory rotation of their auditor. The new EU audit rules thus considerably strengthened requirements on auditors' independence and increased the credibility of the final audited financial statements of all European public interest entities (PIEs), including listed property companies making them subject to the highest governance standards in Europe.

[16] EPRA Research: Listed property predictor for direct property – press release
EPRA/COHEN & STEERS - Listed Property Performance as a predictor of direct real estate performance - March 2009
[17] As of 31 December 2017

6 Transparency of property market data

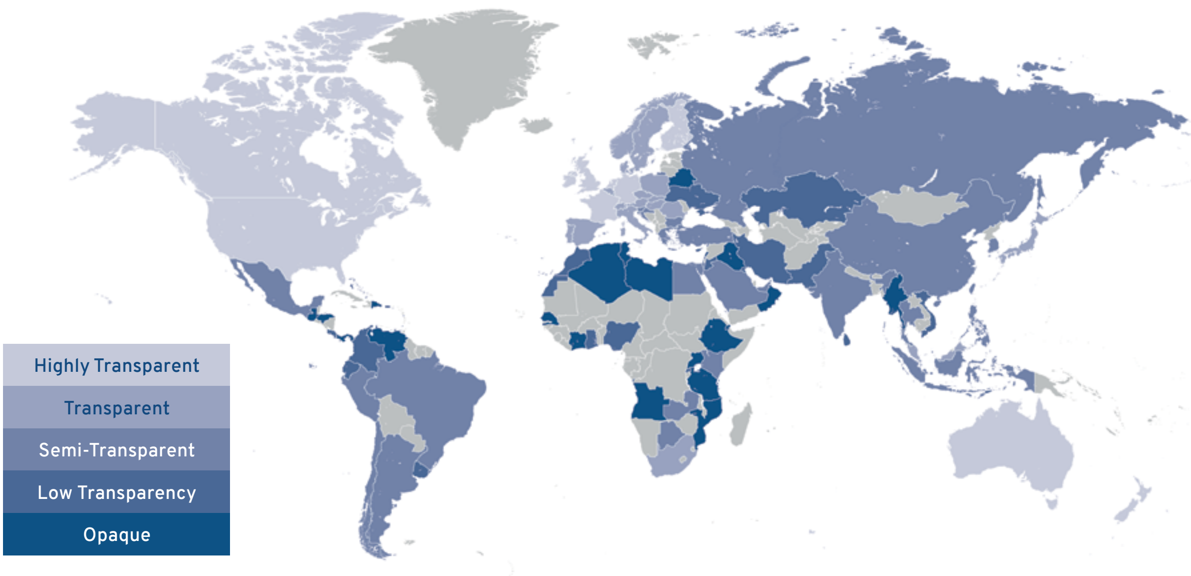
A healthy and sizeable listed property sector improves the overall transparency of a country's real estate market. These are the findings of the recent Jones Lang LaSalle's 2016 Global Real Estate Transparency Index - a unique bi-annual survey covering 109 markets worldwide which aims to help real estate players understand important differences when transacting, owning and operating in foreign markets.

A transparent property market means that good and bad decisions by management are communicated to and assessed by investors, who may then act on them accordingly. In this environment, the standard rises to the highest level, the real estate sector becomes more efficient, the essential service it provides to the economy improves and the quality of the built environment improves. This together has a 'trickle down' effect on the rest of the property sector and broader economy.

High financial reporting and governance standards ensure that information is provided not only to investors but also to the general public. In their 2016 Survey[18], Jones Lang LaSalle measured each country's transparency according to a number of criteria: for example, the availability of data, governance, transaction processes, property rights, the regulatory/legal environment around the world, and data on alternative sectors such as student accommodation, self-storage, and aggregate data on debt and financing conditions. Then, based on a composite score, these countries were ranked from the least ("opaque") to the most ("highly") transparent.

As shown in Figure 7, well-established listed property markets are found in countries with an overall high transparency score.

Figure 7: Worldwide map on transparency[19]
Global Real Estate Transparency Index - *The 2016 survey covers 109 markets worldwide*
Source: JLL. LaSalle Investment Management



[18] http://www.jll.com/greti/Documents/GRETI/Global-Real-Estate-Transparency-Index-2016.pdf
[19] Read in the JLL report, 2016 available at http://www.jll.com/greti/rankings

Such transparency reflects the strong positions the listed property sector holds across the board – unrivalled financial reporting standards, disclosure and corporate governance and the quality of listed property's investment performance indices.

> *Germany's listed property sector contributing to higher transparency*
>
> ***'Core' Continental Europe is gradually catching up with the Anglosphere. Germany (9th) has joined the 'Highly Transparent' group for the first time. Germany has seen advancements across all sub-indices; in particular the 'Governance of Listed Vehicles' has improved due to the country witnessing enormous growth in the listed sector. Added to this is the increasing availability of market fundamental data, which has been driven by successful entrepreneurs who are offering property listing sites and by several new 'prop-tech' companies in the property management, crowdsourcing and data provision sectors.***
>
> *JLL's 2016 Global Real Estate Transparency Index*

Good investment performance indices are part of this culture of disclosure and information within the listed property sector. EPRA's listed property indices cover all Europe's 16 developed countries[20], representing companies that own a tenth of developed Europe's invested real estate. These indices have long pedigreed, on average having a 27-year history. Listed real estate indices are up-to-date and capture market conditions, not being prone to the 1-3 month publication delay and the biases associated with limited transactional evidence in direct property indices.

An additional layer of transparency is brought by sector-specific reporting practices. Acknowledging the importance of reporting practices, EPRA developed their set of best practice recommendations (BPRs – see more in the following chapter) as early as in 2001. The main aim has been to further advance financial transparency of the sector for the benefit of investors to facilitate their investment process.

[20] Note: Listed property companies operate under the EPRA FTSE only in 13 of Europe's 16 developed countries

7 Increasing the comparability in financial reporting

EU law requires listed property companies to publish audited financial statements in accordance with International Financial Reporting Standards (IFRS). This provides a level of assurance on the quality of information provided to shareholders, creditors and other stakeholders in the business.

Investors are often hungry for even more detailed, consistent and sector-specific information to enable them to make more informed decisions with regards to their investments. As shown in Figures 8 and 9, the stock exchange listed property companies have responded to this demand, voluntarily adopting sector specific reporting practices (the EPRA Best Practices Recommendations Guidelines[21], "BPR"), which are developed by EPRA in consultation with the investment community. These BPR go beyond the IFRS requirements and enhance the quality of information provided to investors. Adoption levels of these Key Performance Indicators (KPIs) are at 71% of the total market capitalisation of the companies surveyed by EPRA which disclosed all 6 KPIs in 2016/2017.

Figure 8: European listed property companies adopting the EPRA BPR[22].
By market cap, % of companies (total Mcap) that disclosed all 6 EPRA KPIs in 2016/2017.

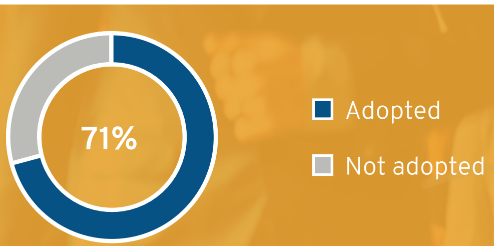


Figure 9: Adoption of sector specific EPRA KPIs[23] (% of companies that disclosed each individual KPI)

	EPRA Earnings (EPS)	EPRA Net Asset Value (NAV)	EPRA NNNAV	EPRA Net Initial Yield	EPRA Vacancy Rate	EPRA Cost Ratios
Rationale	Measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	From IFRS NAV, provides stakeholders with the most relevant information on the fair value of assets and liabilities with a long-term investment strategy.	From EPRA NAV, provides stakeholders with the most relevant information on the current fair value of all assets and liabilities.	A comparable measure for portfolio valuations, which should make it easier for investors to judge for themselves how the valuation of portfolio X compares with portfolio Y.	A "pure" (%) measure of investment property space that is vacant, based on estimated rental value.	A key measure to enable meaningful measurement of the changes in a company's operating costs.
Adoption of all 142 companies assessed by EPRA	87%	96%	76%	68%	73%	57%

[21] See more: EPRA BPR Guidelines
[22] Source: EPRA Annual Report Survey 2016/2017
[23] Source: EPRA Annual Report Survey 2016/2017

8 Taking the lead in sustainability reporting

Global policy debates, new regulatory requirements, society and, most importantly, the voice of the investors are clearly having a significant impact on the transparency of the listed real estate industry. With the recently launched EPRA Sustainability Best Practices Recommendations (sBPR) Guidelines – 3rd edition, the listed sector is now leading the way in terms of sustainability reporting in the real estate investment universe. EPRA members provide not only investors but also all its stakeholders (including tenants and society at large) with material information needed to assess their positive environmental, social and corporate governance impact.

Over the last few years, institutional investors, such as pension funds or insurance companies, have developed a greater appreciation for the value of ESG factors. It all began with an increased focus of investors on the governance aspect which was deemed most relevant to them for many years. However, the trends are now changing with the acceleration of climate change. As a result, environmental and social risks are now high on the agenda in many discussions. Investors are increasingly aware of the impacts that ESG factors as a full package have on both risks and returns of listed property companies.

Since 2011, EPRA has been developing and promoting its set of Sustainability Best Practices Recommendations (sBPR) to provide investors with material, comparable and consistent ESG data. The EPRA sBPR Guidelines[24] were developed in consultation with the investment community and are specifically tailored towards listed property companies.

The latest EPRA sBPR Guidelines (3rd edition) were launched in September 2017 and draw on the Global Reporting Initiative's (GRI) Reporting Standards (2016 edition) and Construction & Real Estate Sector Disclosures (CRESD) which complements the existing and well-established EPRA Financial BPR Guidelines.

The carefully selected set of environmental, social and governance key performance indicators are intended to help listed real estate companies meet growing expectations of investors as well as regulators. The recently adopted European Directive[25] on non-financial information is only the beginning of the policy-makers' efforts to enhance the transparency of companies' ESG performance. EPRA's observations in this regard are that listed property companies go beyond what is currently required by legislation. For example, many EPRA members would not meet the minimum 500 employees' threshold for the EU Directive to apply; nevertheless they do disclose this information on a voluntary basis to remain competitive and to demonstrate that they are working intensively to transform their property portfolio into a more sustainable one.

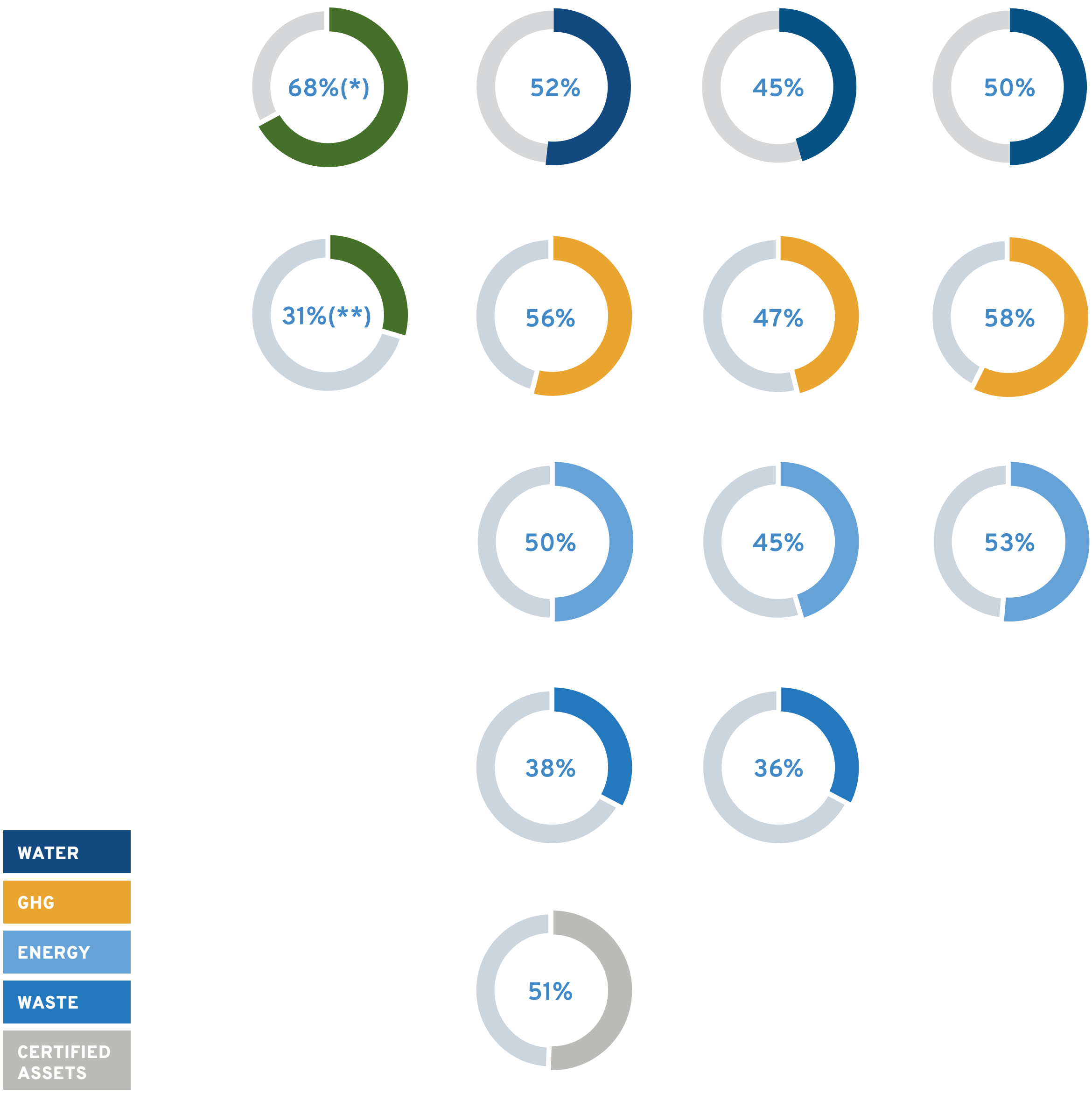
In fact, 68% of the companies which were part of the assessment process for the 2016 EPRA sBPR Awards[26] reported at least one sustainability performance measure, corresponding to 74% of the overall market capitalisation value of the 134 companies assessed in 2017[27]. As part of this process, EPRA has observed that a correlation between the size of listed property company and the quality of sustainability disclosures is decreasing. It clearly shows that the trend is heading towards smaller sized listed property companies with better reporting on non-financial information.

---

[24] See the latest EPRA sBPR Guidelines 2017
[25] EU Directive 2014/95/EU of the European Parliament and of the Council on disclosure of non-financial and diversity information
[26] Year of the latest annual report assessed for the 2017 EPRA sBPR Awards.
[27] In 2017, the total number of companies (FTSE/EPRA NAREIT Index constituents and/or EPRA members) assessed was 134. See 2017 EPRA Award Survey

Figure 10. Environmental reporting standards of EU listed property companies.
Source: 2017 EPRA Award Survey

	Sustainability Reporting	Absolute Measures	Like-for-like	Intensity Measures
EPRA FY 2016 Adoption among FTSE/ EPRA NAREIT Index constituents and/or EPRA Members	Shows the trend towards reporting on sustainability performance of listed real estate companies	Shows the total impact of a company, but also represents the company's exposure to ESG risks.	Shows whether companies are actually reducing their impacts or not over time.	Takes into account the changes in portfolio size and composition and gives a meaningful picture of the consolidated portfolio's performance over time.



(*) Reporting at least 1kpi. by # of companies, in %
(**) Reporting at least 1kpi verified by third party auditor, by # of companies, in %

9 Raising capital and market stability

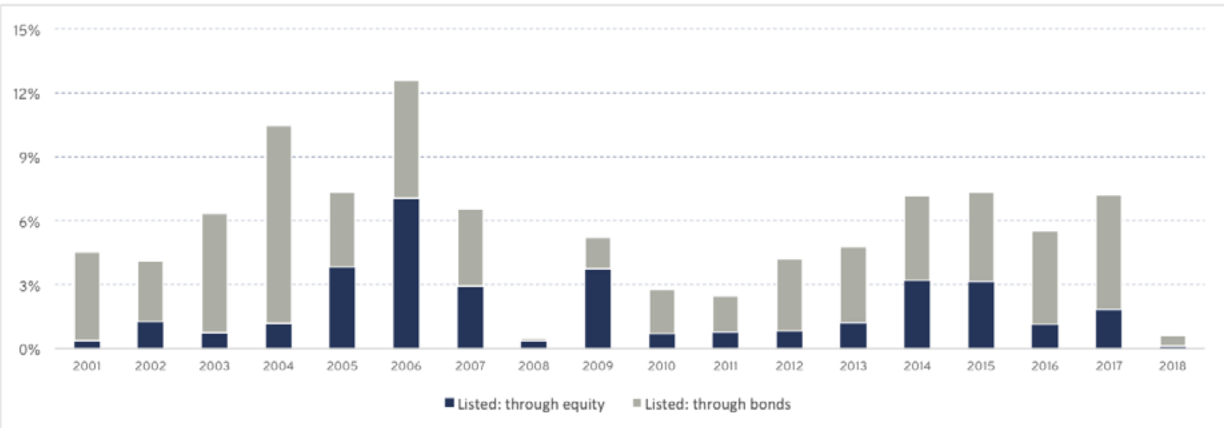
The listed property sector makes a positive contribution to the ongoing stability of real estate markets and the continuous provision of its crucial services to the economy. For example, during the last financial crisis, there were zero bankruptcies within the FTSE EPRA/NAREIT Developed Europe Index. This contrasts with the unlisted sector - where, according to data from Property Funds Research, 22 (almost a fifth) of the 127 closed-ended funds launched in Europe in 2007 were wound up prematurely. Even the open-ended funds were vulnerable at the time, as the experience of German open-ended real estate funds illustrated - a third of them, accounting for approximately €30 billion of property, were either in liquidation or closed for redemption in 2011.

The combination of accessibility and transparency allows listed property companies to attract capital from the widest range of investors, whether through debt or equity capital. This is a crucial attribute during difficult periods in the economic cycle.

Even during the recent economic difficulties, listed property companies continued to raise significant amounts of capital, enabling them to provide an uninterrupted service to Europe's businesses. Access to the public markets is an important feature that allows listed property companies to do this. Over the last 17 years, listed property companies have raised a total of €204 billion, both in equity and bonds [Figure 11].

Raising capital in the listed property sector is more counter-cyclical than in the unlisted funds sector. Management decides when it wishes to raise funds in the market and shareholders are able to buy or sell their investments at any time. This contrasts with many fund structures where, for example, fund managers were subject to a 'wall of money' at the height of the last real estate cycle (creating an unsustainable real estate boom) with mass redemptions during the financial crisis (which forced fund managers into a 'fire sale'), contributing to further instability. Listed property companies were under less pressure to commit capital to over-priced property at the peak of the cycle and can utilise alternative options when property prices fall.

Figure 11: Capital raised by listed property companies
Source: EPRA data as % of average market cap, end of February 2018.



10 Liquidity - the platform for a more dynamic and responsive built environment

The liquidity that the listed sector brings to the otherwise illiquid property market provides the following key benefits:

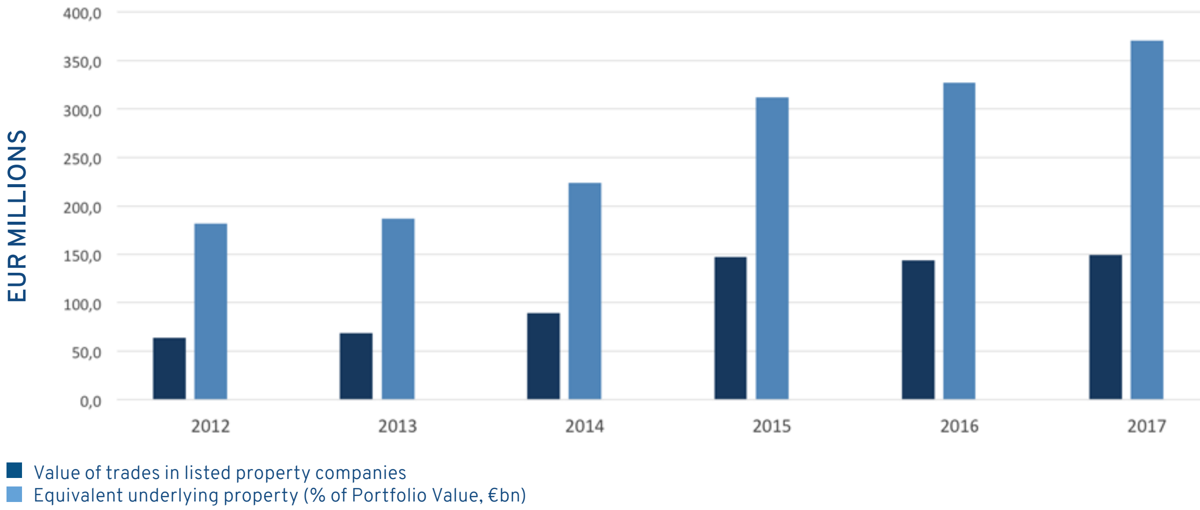
- Enhancing the quality of the built environment as liquidity improves information flow and allows investor scrutiny of good and bad management decisions
- Allowing investors to effectively manage their overall blended real estate exposures – particularly important in stressed market situations
- The democratisation of real estate as the listed sector provides the opportunity for small investors to participate alongside larger investors

Although these companies are perpetual businesses operating and managing long-term assets, the listed market in which they function provides the opportunity for investors to invest over their own time horizon and 'vote with their feet' by buying or selling their shares at any time.

As a consequence, and despite comprising only 5.86% of the total commercial real estate in the EU[28], the listed property sector delivers a much more dynamic trading market then the direct property market due to its liquidity, low transaction costs and accessibility.

Figure 12 below compares (i) the value of property company shares traded against (ii) the underlying value of direct assets effectively 'changing hands' when shares are acquired or sold. It shows that the volume of property effectively transacted in the listed property market is significantly more than the value of property company shares traded.

Figure 12: Trading volumes (€bn) in listed real estate markets, Europe



[28] EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018

The relatively frequent trade in listed property company shares provides much needed liquidity in the otherwise illiquid real estate market. One of the many examples of how significantly liquidity or the lack of it may prove challenging for the non-listed funds sector was the failure of the German open-ended funds sector in 2011 (explained further in chapter 10). Similarly, the same low liquidity in the non-listed property fund industry was shown just recently in the wake of the Brexit vote by a number of funds that were suspended. This represented a value of £ 35 billion of investors' money locked in commercial property funds, and so investors could no longer access their cash held in UK funds. At the same time, most of the funds added a "fair value adjustment", in effect marking down the value of the properties they owned and therefore shrinking investor holdings[29].

In addition to the dynamism of the listed sector evidenced above, it confers other benefits as described below:

Providing a 'pressure valve' for property markets in times of stress

As the financial crisis unfolded, pension funds, banks and other investors looked to reduce their exposure to real estate and the liquidity of the public markets provided those investors with a convenient exit. Whilst this had a negative effect on share prices – which proved to be relatively volatile during this time, without the liquidity and financial transparency provided by publicly traded REITs, the property markets and the economy in general would otherwise undoubtedly have been in a much worse situation.

Enhancing the quality of the built environment

Liquidity in the secondary markets enhances the quality of the underlying built environment. A more efficient, liquid real estate market ensures that invested equity circulates around the system at enhanced rates and which, by default, will ensure that the built environment is renewed more often than historically has been the case. Every transaction in individual shares of listed property companies essentially reflects an individual investor's (whether large or small) assessment of management decisions and actions with respect to their property portfolio, and an assessment of the quality of that underlying portfolio. This high liquidity ensures management is more motivated to respond to issues such as risk of obsolescence, the long environmental performance of buildings, tenant issues, and ultimately provides occupiers with more up-to-date and better quality premises which are more suited to their business practices.

The democratisation of real estate investment

Importantly, the liquid nature of listed property companies facilitates the 'democratisation' of real estate - by providing the opportunity for small investors to participate alongside larger investors in otherwise inaccessible investment opportunities.

[29] More at https://www.theguardian.com/money/2016/sep/24/property-funds-back-brexit-vote-closures

11 Investment performance of listed property companies

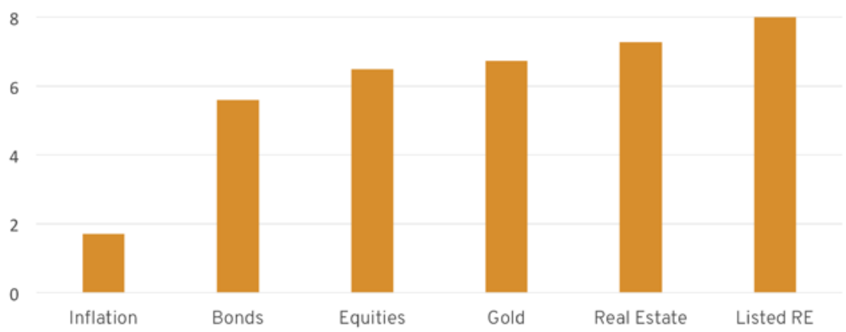
An important characteristic of commercial real estate is its capability to generate a strong and consistent income stream over a long investment timeframe. Studies show that when the holding period of an investment in listed property company increases, the returns investors receive are similar to the returns on the direct real estate market. In other words, investment in the shares of listed property companies provides real estate returns over a medium to long-term time horizon. Similarly, the returns will differ from those of general equities, allowing investors to benefit from the diversification opportunities that real estate offers.

An important characteristic of commercial real estate is its capability to generate a strong and consistent income stream – an attractive investment attribute even in a slow-growth environment.

When managed correctly, real estate can offer a stable source of income and capital appreciation to investors, outperforming inflation over the long term. The quality and efficiency of a building and its management ultimately gets measured by the long-term stable returns it provides its investors, supported by the relationship based on trust with the tenants and these tenants' ability to successfully operate their businesses from these buildings.

As Figure 13 shows, when compared to other asset classes, real estate appears to be able to provide higher income returns as well as capital returns. When compared to other real estate investment vehicles, listed real estate companies have demonstrated better performance as well.

Figure 13: Comparative investment performances (20 years to May 2017).
Annualised total return, %, all Europe.

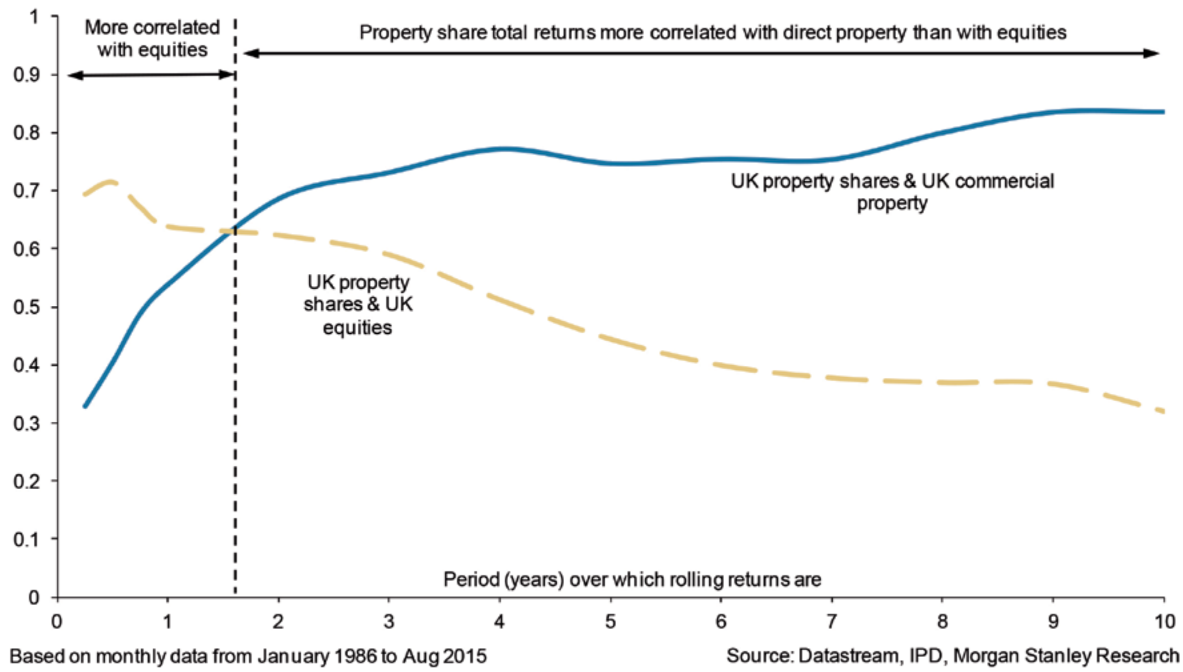


From an investor's perspective, the crucial attribute of listed property companies and REITs is that, over a medium to long term investment horizon, they provide an accessible form of exposure to real estate returns. As shown in Figure 14, the 'tipping point' when listed real estate becomes more real estate-like is approximately 18 months (based on the UK market). The most recent MSCI research[30] has also confirmed this 18-month window — at both company and market levels — for the performance track records of listed real estate to converge ever more closely with those of corresponding directly held assets.

[30] Listed and Private Real Estate: Putting the Pieces Back Together – MSCI Study of the Drivers of European Real Estate Performance in Association with the European Public Real Estate Association, Bert Teuben, Ian Cullen, April 2017

Figure 14: Correlation of total returns of UK property shares with UK commercial property and with UK equities

Source: Datastream, IPD, Morgan Stanley Research at August 2015



As such, they provide all the essential diversification attributes that make real estate such an important alternative investment class for meeting the long-term savings needs of European citizens, but in a form that is accessible to all types of investors.

12 Europe's listed property sector - an opportunity for smart economic growth

Europe houses around 40% of the world's commercial real estate but its listed property market is clearly underdeveloped compared to other developed markets, such as Asia-Pacific and North America. European policy makers therefore have a huge opportunity to improve the contribution that the real estate sector makes in driving the economy towards smart, sustainable and inclusive growth by implementing policies that encourage the expansion of publicly quoted property companies.

The European listed property sector is small compared to other developed and even emerging global regions - see Figure 15. Only 5.86% of its investible commercial real estate is held within the publicly quoted sector in the European Union, compared to 19.35% in Asia Pacific and 12.26% in North America.

Figure 15 - Size of the total real estate market per region
Source: EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018

	Region	Commercial Real Estate (CRE) €bn	Listed RE/Total CRE	Market
1	Asia-Pacific	7.292,3	19.35%	Emerging & Developed
2	Middle East-MEA	726,6	14.24%	Emerging & Developed
3	North America	7.616,4	12.26%	Developed
4	Latin America	1.009,1	7.4%	Emerging
5	Europe	7.145,8	5.94%	Emerging & Developed
6	European Union	6.515,6	5.86%	Emerging & Developed
		Data as of 29/12/2017	Data as of 30/03/2018	

Within Europe, there is also much variation among countries between the relative size of the listed property sector as a percentage of the total underlying real estate - see Figure 20.

Figure 16 - Size of the total real estate market per country in developed Europe
Source: EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018

	Commercial Real Estate (CRE) €bn	Market Capitalisation (REITs and Non-REITs) €bn	Listed RE/ Total CRE %
Austria	148.1	9.9	6.66%
Belgium	176.6	14.0	7.90%
Denmark	116.1	1.7	1.48%
Finland	90.3	2.5	2.77%
France	931.5	76.1	8.17%
Germany	1311.0	87.2	6.65%
Ireland	113.0	2.6	2.33%
Italy	700.9	2.9	0.42%
Luxembourg	22.2	-	0.00%
Netherlands	293.9	4.5	1.52%
Norway	145.3	4.6	3.2%
Portugal	70.2	0.0	0.04%
Spain	465.7	30.2	6.49%
Sweden	192.7	41.4	21.47%
Switzerland	248.4	39.6	15.95%
United Kingdom	1247.6	81.4	6.52%
	Data as of 29/12/2017	Data as of 30/03/2018	

There are many historical reasons for the above differences (whether regulatory, cultural or market-based) which are not the subject of this report. However, the conclusion of this report on the next page emphasises the opportunity offered at both national and EU levels to achieve smart economic growth through growth in these listed property markets.

13 Conclusion

This report has highlighted the unique contributions that listed property companies make to the health, vibrancy, efficiency and accessibility of the European property market:

- The direct contributions that listed property companies make to the economy through the services they provide to European citizens – both in delivering the built environment and as an important source of accessible investment opportunities and
- The role that listed property companies perform in driving up standards and efficiencies in the broader property market which in turn improve the broader property sector's contribution to the economy.

Furthermore, the report provides evidence to support the logical observations that, due to their unique status, publicly listed property companies:

- Are a catalyst of job creation in Europe
- Play a substantial role in the provision of business and residential accommodation
- Are the leading 'innovators' in delivering and operating the built environment – responding more actively to the needs of tenants, the communities in which they operate and externalities such as the property sector's impact on the environment
- Provide transparent investment opportunities with healthy corporate governance and accountability
- Democratise real estate as the listed sector provides the opportunity for small investors to participate alongside larger investors
- Provide much needed liquidity to an otherwise illiquid market
- Deliver solid long-term and diversified returns to shareholders
- Have a positive effect on the rest of the property sector – in terms of professionalism, transparency, stability, liquidity and the quality of the built environment.

This report identifies an important opportunity for governments and EU legislators to take proactive steps to deliver policies to strengthen the European listed property sector so it can deliver to its full potential and thus build a stronger Europe.

Glossary

Abbreviations

AEOI	Automatic Exchange of Information Directive
AML	Anti-Money Laundering Directive
C(C)CTB	Common (Consolidated) Corporate Tax Base
EBA	European Banking Authority
EED	Energy Efficiency Directive
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
EPBD	European Performance Building Directive
ESRB	European Systemic Risk Board
FTT	Financial Transaction Tax Proposal
IORP II	Institutions for Occupational Retirement Provision Directive II
MiFID II	Markets in Financial Instruments Directive II
NFR	Non-Financial Reporting Directive
PEPP	Pan-European Personal Pension Product
Solvency II	EU Insurance and Reinsurance Directive II
VAT	Value Added Tax Directive

Definitions

European Union	A political and economic union of 28 member states that are located in Europe.
European Commission	An institution of the European Union, responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU.
The Council of the European Union (the Council)	The Council of the EU represents the national governments of member states, and hence its composition is essentially the number of member states though votes are weighted according to the population of each state. As such, it does not sit according to political groups and, rather than conducting most of its work in committees, much of its work is prepared by diplomatic representatives (COREPER). It is part of the essentially bicameral EU legislature (the other legislative body being the European Parliament).
European Parliament	Is the directly elected (every 5 years) parliamentary institution of the European Union (EU). Together with the Council of the European Union and the European Commission, it exercises the legislative function of the EU.
European Council	Comprises of the heads of state or government of the EU member states, along with the President of the European Council and the President of the European Commission.
Directive	Is a legal act of the European Union, which requires member states to achieve a particular result without dictating the means of achieving that result.
Regulation	Is a legal act of the European Union that becomes immediately enforceable as law in all member states simultaneously.
Parent-Subsidiary Directive	Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries in different Member States.
Prospectus	EU rules on the prospectus to be published when securities are offered to the public or admitted to trading.
Benchmark	EU Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.
Market abuse	Rules on criminal sanctions for market abuse in the EU.
Accounting rules	Rules to promote the convergence of accounting standards at a global level and to ensure consistent and comparable financial and non-financial reporting across the EU.
International Financial Reporting Standards	International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB) and they specify exactly how accountants must maintain and report their accounts. IFRS were established to have a common accounting language, so business and accounts can be understood from company to company and country to country.
Transparency Directive	Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
Audit rules	The EU Audit Directive sets out the framework for all statutory audits, strengthens public oversight of the audit profession and improves cooperation between competent authorities in the EU. The Regulation specifies requirements for statutory audits of public interest entities (PIEs), such as listed companies, banks and insurance undertakings.
Corporate governance	EU rules in this area provide protection for shareholders and other parties with a particular interest in companies and make business more efficient and competitive.
Directors' duties and liabilities	Specific rules on the role of directors and board members in corporate governance, ensuring proper management of the company.
Shareholders' Rights Directive	EU rules which bring about more long-term focus in corporate governance and address among others short-termism in the investment universe, insufficient oversight on directors' pay and interaction between companies and shareholders in cross-border situations.
Minimum standards for takeover bids	The 13th Company Law Directive lays down a set of minimum standards for takeover bids, such as the protection of minority shareholders, mandatory bid and equitable price.
Formation and capital requirements	EU rules coordinate national provisions on the formation of public limited liabilities companies, minimum share capital requirements, distributions to shareholders and increases and reductions in capital.
Mergers and divisions	3rd, 6th and 10th Company Law Directives lay down rules concerning domestic and cross-border mergers between public limited liability companies and also a division of public limited liability companies from the same Member State.
CO_2 commitments	The EU's commitments under the Paris Agreement for binding domestic reduction of CO^2 of at least 40% by 2030.
Sustainable finance	EU initiative to develop a comprehensive EU strategy on sustainable finance.

Acronyms

EPRA	European Public Real Estate Association
EU	European Union
INREV	Investors in Non-Listed Real Estate Vehicles
FTSE	Federation for Self-financing Tertiary Education
NAREIT	National Association of Real Estate Investment Trusts
CRE	Commercial Real Estate
REITs	Real Estate Investment Trust
British FTSE 100	British Financial Times Stock Exchange Index
DAX 30	Deutscher Aktienindex 30
Dutch AEX	Dutch Amsterdam Exchange Index
French CAC 40	French Cotation Assistée en Continu 40
IPD	Investment Property Databank
BREEAM	Building Research Establishment Environmental Assessment Method
JLL	Jones Lang LaSalle
IFRS	International Financial Reporting Standards
EPRA BPR	EPRA Best Practices Recommendations
KPI	Key Performance Indicators
EPS	EPRA Earnings
NAV	Net Asset Value
EPRA sBPR	EPRA Sustainability Best Practice Recommendations
ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
CRESD	Construction & Real Estate Sector Disclosure
MSCI	Morgan Stanley Capital International

List of Figures and their sources

Figure 13: Comparative investment performances (20 years to May 2017). Annualised Total return, %. All Europe.
SOURCE: EPRA data. Europe, ECCPEMUY Index. European, JPMGEUTR Index. FTSE All World Developed Europe. IPD Local Total Return; IPDUEUAR Index. FTSE EPRA/NAREIT Developed Europe Index.

Figure 14: Correlation of total returns of UK property shares with UK commercial property and with UK equities
SOURCE: Datastream, IPD. Morgan Stanley Research. As of August 2015

Figure 15: Size of the total real estate market per region
SOURCE: EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018.

Figure 16: Size of the total real estate market per country in Developed Europe
SOURCE: EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018.

Sources

1. *EPRA/INREV Infographic. Real Estate in the Real Economy. EPRA and INREV. 2016.*
2. *EPRA Global Real Estate Total Markets Table - 2018-Q1 March 2018.*
3. *EPRA's position on C(C)CTB. EPRA. April 2018. Taken from:* EPRA CCCTB Position Paper
4. *FTSE EPRA/NAREIT Developed Europe Index. EPRA. December 2017.*
5. *EPRA Members submissions to the 2017 Outstanding Contribution to Society (OCS) Award.*
6. *WELL Building Standard – v1. International WELL Building Standard Institute. More information at:* https://www.wellcertified.com/
7. Listed Property Performance as a predictor of direct real estate performance. *EPRA Research. COHEN & STEERS Capital Management, Inc. March 2009.*
8. 2016 Global Real Estate Transparency Index. *Taking Real Estate Transparency to the Next Level. JLL. 2016.*
9. Global Real Estate Transparency Index. *2016 Rankings. Jones Lang LaSalle. 2016*
10. Best Practices Recommendations Guidelines. *EPRA. November 2016*
11. 2016/2017 EPRA Annual Report Survey. *Right on Target. EPRA and Deloitte. September 2017*
12. Sustainability Best Practices Recommendations Guidelines. *(third version). EPRA. September 2017.*
13. *Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. European Union. October 2014.*
14. 2017 Awards Sustainability Best Practice Recommendations. *Reaching Critical Mass. EPRA and JLL.*
15. *Property funds back in business after Brexit vote closures: The discounting and 'value adjustments' in the wake of the EU referendum are at last over. But at what cost? The Guardian. September 2017.*
16. *Listed and private real estate: Putting the pieces back together. MSCI and EPRA. April 2018.*
17. Listed real estate - a large contributor to the EU economy. Infographics. PwC and EPRA. 2017
18. *Revisiting Solvency II: 'Listed real estate must be treated as direct real estate – an investment case' report. EPRA. October 2015*

About EPRA

WORKING WITH AND FOR OUR MEMBERS

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.
EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 260 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over €450 billion of real estate assets* and 94% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.
EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry.

** European companies only*

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

UK OFFICE
Devonshire House, One Mayfair Place
London W1J 8AJ, UK
T +44 (0)7973 109117

HONG KONG OFFICE
Unit A, 25/F, United Centre,
No. 95 Queensway, Hong Kong
T +852 3158 2685

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