

# EUROPE PROPERTY PERFORMANCE MONITOR

## Second Quarter 2021

### IN A NUTSHELL

- \_ The MSCI Pan-European Quarterly Property Fund Index (PEPFI) recorded its strongest quarterly performance for six years during the second quarter of 2021. Fund-level returns for the All Funds index rose to 9.6% year-on year, while the Balanced Funds subset improved to 5.0% over the same period.
- \_ The significant divide in performance continued between and within sectors. Once again, the industrial sector was a significant outperformer, with the distribution segment seeing quarterly asset-level returns of 6.0%. Hotel and retail property continues to bring up the rear, although within the retail sector, retail warehouses have proven to be among the better-performing assets.
- \_ At the country level, performance improved in almost every market during the second quarter, with Belgium, the Czech Republic, Sweden and Italy all recording quarterly total returns above 5.0%.

## Private Real Estate Performance<sup>1</sup>

- \_ European real estate continued on its path to recovery in the second quarter of 2021. After a notable dip last year, the MSCI Pan-European Quarterly Property Fund Index recorded half-yearly returns of 5.7% between January and June this year – the best performance in the first six months of a year since 2015.
- \_ Total returns within the All Funds index continue to be supported by the overweight industrial sector, which remains a clear outperformer. However, the Balanced Funds subset, which excludes sector-specific funds, also recorded a significant jump in performance, with a quarterly return of 2.3% and a half-yearly return of 3.4%.
- \_ Most countries are now recording total returns ahead of their long-term averages. Sweden has been a standout performer over the past 12 months, with year-on-year returns reaching 19.6%, the highest of any market since the middle of the last decade. The Netherlands also continues to impress, along with Germany and the United Kingdom.
- \_ Equities were once again the best performer in a multi asset context, although real estate put in a solid performance to remain comfortably ahead of bonds.

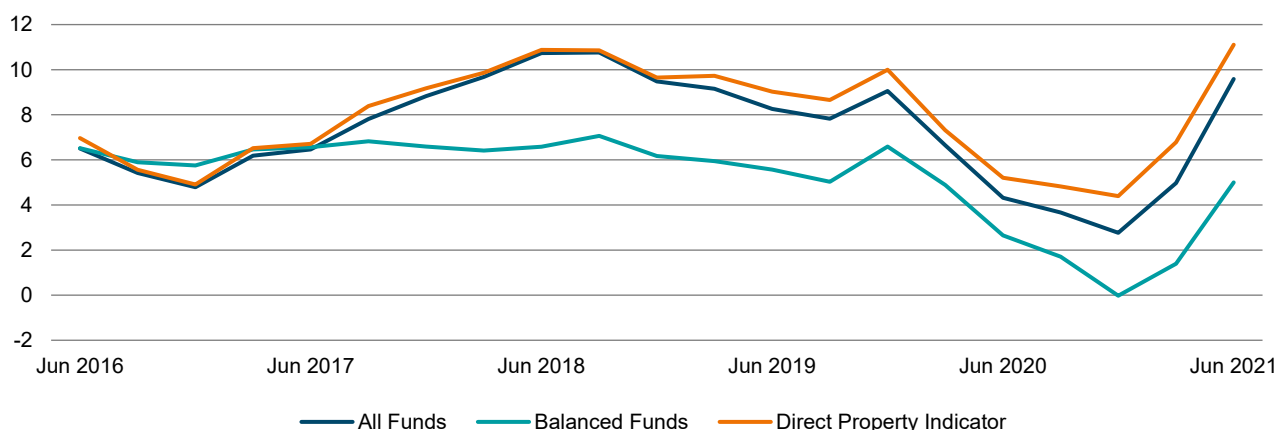
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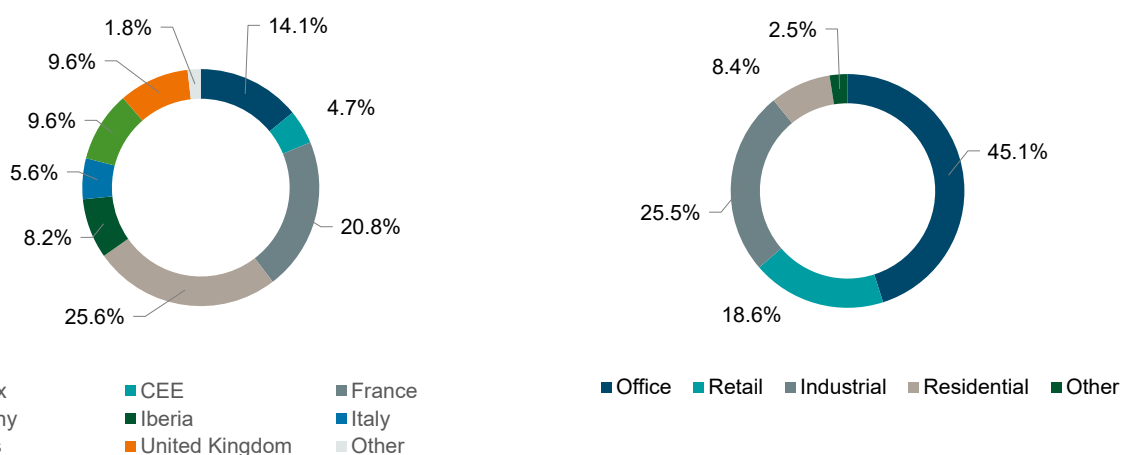
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### EUROPEAN PRIVATE REAL ESTATE TOTAL RETURNS (% Y-O-Y)



Source: MSCI, as of June 30, 2021. Past performance is not indicative of future returns. It is not possible to invest directly in an index.

### BALANCED FUNDS INDEX ASSET ALLOCATION (% OF GAV)



Source: MSCI. As of June 30, 2021.

### RECENT PERFORMANCE TRENDS

	Quarterly		Annual	
	2021 Q2	2021 Q1	2021 Q2	2020 Q4
Private Real Estate - Fund Level	3.5%	2.1%	9.6%	2.8%
Private Real Estate - Asset Level	3.7%	2.5%	11.1%	4.4%
Equities	6.8%	8.6%	30.3%	-2.2%
Bonds	-0.4%	-1.9%	0.3%	4.0%
Listed Real Estate	10.0%	-0.4%	24.8%	-9.8%
Euro Area 10-Year Govt. Bond <sup>1</sup>	0.2%	0.0%	0.2%	-0.2%
Euro Area 12-Month LIBOR <sup>1</sup>	-0.5%	-0.5%	-0.5%	-0.5%
EU CPI	1.5%	0.9%	2.2%	0.2%

Sources: MSCI, Macrobond, Markit iBoxx. As of June 30, 2021. Private real estate: MSCI Pan-European Quarterly Property Fund Index; Equities: STOXX All Europe Total Market; Bonds: iBoxx € Overall; Listed Real Estate: FTSE EPRA/NAREIT Europe. Past performance is not indicative of future returns.

<sup>1</sup> Figures represent annual yield

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## MSCI Pan-European Quarterly Property Fund Index (PEPFI) Performance by Sector and Region

- For the third consecutive quarter, capital value growth contributed the lion's share of quarterly total return. On an annual basis, asset-level income returns dropped below 4.0% for the first time, while capital values were 6.9% higher than a year ago.
- However, not all sectors are seeing rising valuations. Hotel values slipped back again, having recovered a portion of previous losses in the first quarter. Retail also remains under pressure, with shopping centres continuing to bear the brunt. While the pace of retail value decline slowed in the second quarter, the total fall since the third quarter of 2018 now stands at -15.6%. Over the same period, residential and office values are up by more than 9% and industrial values have grown by almost 27%.
- By market, the Nordics, CEE and Benelux regions were the top performers in the second quarter. The highest quarterly returns were found in Belgium and the Czech Republic, both of which recorded asset-level total returns of more than 7.0%, with Sweden close behind on 6.2%.
- The composition of the index continues to evolve. Having hit an all-time low of 14% by capital value last year, the retail sector lost further ground, accounting for just 12.5% of the index at the mid-year point this year. Some of this decline comes from retail properties dropping out of the index altogether, but diverging valuations by sector have also played a significant role.
- Meanwhile, industrial gained further share in the index, while the residential sector now makes up almost 6% by value, having been virtually unrepresented as recently as three years ago.

### RETURNS BY PROPERTY TYPE AND REGION

	Annual Returns							Standard Deviation		Descriptive Statistics			
	1 Year			3 yrs	5 yrs	10 yrs	All <sup>2</sup>	10 yrs	All <sup>2</sup>	Value (bn)	Number	Gearing (% GAV)	
	Total	Income	Capital										
Fund-level Returns											GAV	Funds	
All Funds	9.6%	3.0%	6.5%	7.4%	7.8%	7.1%	5.3%	2.8%	5.5%	€55.2	16	20.8%	
Balanced Funds	5.0%	2.6%	2.4%	4.4%	5.3%	4.4%	2.6%	1.8%	4.9%	€37.8	14	21.8%	
Asset-level Returns											CV	Properties	
Type	Office	6.5%	3.5%	2.8%	7.3%	7.9%	7.0%	6.2%	2.1%	2.8%	€16.6	164	
	Retail	-1.6%	4.0%	-5.4%	-1.4%	1.2%	3.4%	2.7%	2.5%	3.4%	€6.3	139	
	Industrial	20.3%	4.5%	15.2%	14.1%						€23.9	793	
	Residential	5.0%	2.0%	2.9%							€2.9	256	
Country	Belgium	16.0%	4.8%	10.8%	9.0%	8.1%	6.2%	5.6%	3.3%	3.3%	€0.8	25	
	Finland	3.7%	4.1%	-0.4%	4.0%	4.6%	5.3%	5.3%	2.0%	2.0%	€0.9	33	
	France	8.6%	3.8%	4.6%	7.8%	8.8%	8.2%	7.0%	2.2%	3.3%	€9.7	311	
	Germany	13.1%	3.6%	9.2%	11.1%	11.4%	10.2%	7.0%	1.8%	3.2%	€12.6	246	
	Italy	8.8%	3.7%	5.0%	6.3%	7.3%	5.4%	3.9%	3.2%	3.9%	€2.5	77	
	Netherlands	13.0%	4.0%	8.7%	11.6%	11.2%	8.4%	5.3%	2.5%	3.4%	€5.7	149	
	Poland	7.9%	5.1%	2.7%	7.3%	6.7%	7.2%	7.3%	1.9%	1.9%	€2.4	95	
	Spain	6.7%	4.4%	2.2%	5.6%	7.3%	6.5%	4.6%	4.5%	5.1%	€3.0	80	
	Sweden	19.5%	3.6%	15.4%	12.0%	9.3%	10.0%	7.7%	4.8%	7.5%	€2.5	52	
UK	12.7%	3.9%	8.5%	3.3%	3.5%	8.6%	8.6%	7.7%	7.7%	€5.8	88		
<b>All Property</b>	<b>11.1%</b>	<b>4.0%</b>	<b>6.9%</b>	<b>8.4%</b>	<b>8.6%</b>	<b>8.4%</b>	<b>7.1%</b>	<b>2.2%</b>	<b>3.2%</b>	<b>€50.6</b>	<b>1,376</b>		

Source: MSCI Pan-European Quarterly Property Fund Index. As of June 30, 2021. Past performance is not indicative of future returns.

<sup>2</sup> All Funds index returns start in 2004, equivalent to a 17-year calculation. Returns for Balanced Funds index and asset-level indices may start later than 2004.

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## Appendix

### PERFORMANCE OVER THE PAST FIVE YEARS (% Y-o-Y)

	Jun 2017	Jun 2018	Jun 2019	Jun 2020	Jun 2021
Private Real Estate - Fund Level	6.5%	10.7%	8.3%	4.3%	9.6%
Private Real Estate - Asset Level	6.7%	10.9%	9.0%	5.2%	11.1%
Equities	19.0%	3.9%	4.8%	-4.8%	30.3%
Bonds	-2.1%	1.5%	5.6%	1.8%	0.3%
Listed Real Estate	6.1%	9.4%	-1.5%	-6.1%	24.8%
Euro Area 10-Year Govt. Bond <sup>1</sup>	1.0%	1.1%	0.4%	0.2%	0.2%
Euro Area 12-Month LIBOR <sup>1</sup>	-0.2%	-0.2%	-0.3%	-0.2%	-0.5%
EU CPI	1.5%	1.8%	1.6%	0.6%	2.2%

Sources: MSCI, Macrobond, Markit iBoxx. As of June 30, 2021. Private real estate: MSCI Pan-European Quarterly Property Fund Index; Equities: STOXX All Europe Total Market; Bonds: iBoxx € Overall; Listed Real Estate: FTSE EPRA/NAREIT Europe. Past performance is not indicative of future returns.

<sup>1</sup> Figures represent annual yield

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