

# EUROPEAN PROPERTY PERFORMANCE MONITOR

Fourth Quarter 2020

## IN A NUTSHELL

- \_ Quarterly asset-level total returns for European core real estate, as measured by the MSCI Pan-European Quarterly Property Fund Index (PEPFI), improved further to 2.8% in the fourth quarter of 2020.
- \_ The stark differences in performance between sectors continued towards the end of the year, with industrial property remaining a clear outperformer but retail seeing a fourth consecutive quarter of negative returns.
- \_ The Core European markets of Germany, Sweden and the Netherlands registered the strongest annual performance by country. While annual returns in the United Kingdom remained firmly negative, quarter-on-quarter returns turned significantly positive, suggesting a turnaround in U.K. fortunes.

## Private Real Estate Performance

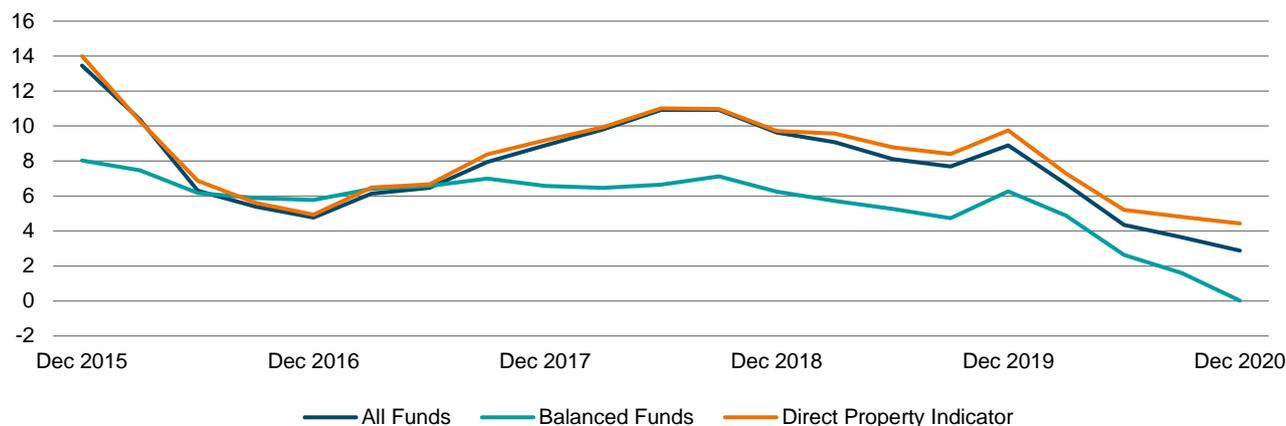
- \_ At first glance, year-on-year data would suggest a further deterioration in European real estate performance over the third and fourth quarters of 2020. Fund-level total returns for the MSCI Pan-European Quarterly Property Fund Index dropped to just 2.9% year-on-year in December, while the Balanced Funds subset saw annual returns cut to zero.
- \_ However, quarterly performance figures are telling a different story. Having dipped briefly into negative territory during the second quarter, quarterly total returns for the All Funds index returned to comfortably positive ground during the second half of the year.
- \_ The retail and hotel sectors remained by far the worst-affected parts of the market during the second half of 2020. Asset-level total returns over the whole year were -7.6% and -10.8%, respectively, with both sectors seeing further value declines during the second half. Residential property continued to gain in value between June and December, but it was the industrial sector that saw the strongest gains, with values appreciating by 6.5% over the same period. In a multi asset context, equities outperformed in the fourth quarter, but real estate total returns remained ahead of bonds.

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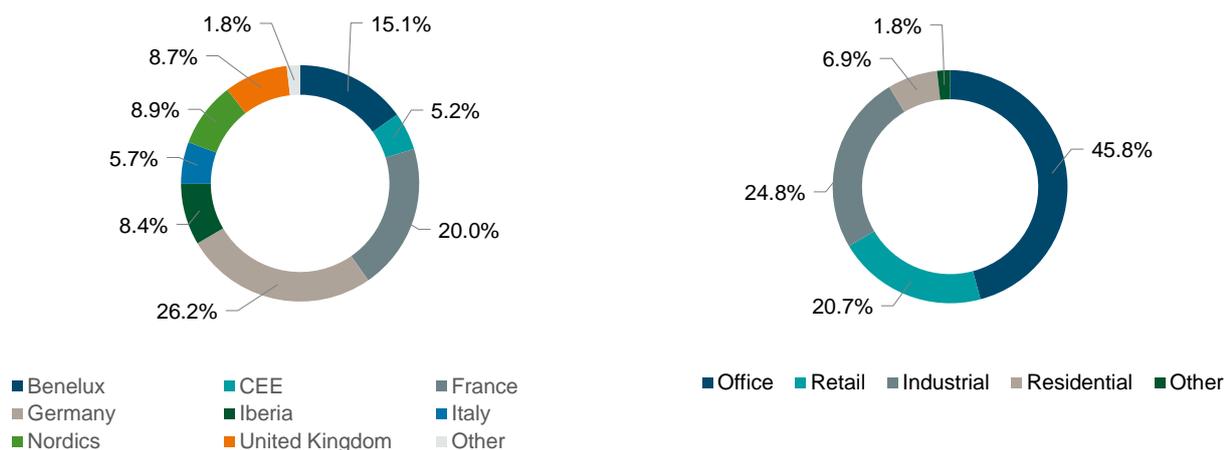
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## EUROPEAN PRIVATE REAL ESTATE TOTAL RETURNS (% Y-O-Y)



Source: MSCI, as of 31 Dec 2020. 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 31 December 2020.

## RECENT PERFORMANCE TRENDS

	Quarterly		Annual	
	2020 Q4	2020 Q3	2020 Q4	2019 Q4
Private Real Estate - Fund Level	2.4%	1.4%	2.9%	8.9%
Private Real Estate - Asset Level	2.8%	1.8%	4.4%	9.7%
Equities	11.7%	0.6%	-2.2%	28.1%
Bonds	1.0%	1.6%	4.0%	6.0%
Listed Real Estate	12.1%	1.7%	-9.8%	29.7%
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%	-0.4%	-0.5%	-0.3%
EU CPI	0.0%	-0.2%	0.2%	1.3%

Sources: MSCI, Macrobond, Markit iBoxx. As of 31 December 2020. 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

- Pan-European annual asset-level income returns continued to fall at the end of 2020, reaching new historical lows. At the same time, annual capital growth remained only marginally positive, although most locations and sectors saw positive quarterly growth in the second half of the year.
- Value growth for industrial and residential properties accelerated in the fourth quarter. Both sectors, along with hotels, have gained in market share within the index over the past 12 months, at the expense of retail, which saw its index weight fall to an all-time low of just 14% by the end of the year.
- However, while retail as a whole continues to be adversely impacted by the combination of short-term disruption from Covid-19 and longer-term structural change, not all parts of the sector are being affected equally. Annual total returns for shopping centres dropped to around -13% over the year, while returns for other types of retail – including retail warehouses – were substantially less negative at around -3%.
- With annual total returns of -5.7%, the United Kingdom continued to lag some way behind Continental Europe in 2020. However, quarterly trends suggest a pick-up in performance, as U.K. values grew by 3.3% in the final quarter. Germany, Sweden and the Netherlands were again among the best-performing countries at year end.

### RETURNS BY PROPERTY TYPE AND REGION

	Annual Returns							Standard Deviation		Descriptive Statistics										
	1 Year			3 years	5 years	10 years	All <sup>2</sup>	10 years	All <sup>2</sup>	Value (bn)	Number	Gearing (% GAV)								
	Total	Income	Capital																	
Fund-level Returns										GAV	Funds									
All Funds	2.9%	3.3%	-0.4%	7.1%	7.0%	6.8%	5.1%	2.7%	5.5%	€49.1	15	21.8%								
Balanced Funds	0.0%	2.9%	-2.8%	4.1%	4.9%	4.3%	2.4%	1.7%	5.0%	€34.0	13	22.3%								
Asset-level Returns										CV	Properties									
Type	Office	3.7%	3.5%	0.1%	7.0%	7.5%	6.8%	6.1%	2.0%	2.8%	€14.7	144								
	Retail	-7.6%	4.0%	-11.2%	-0.8%	1.5%	3.7%	2.7%	2.5%	3.4%	€6.2	129								
	Industrial	10.4%	4.7%	5.4%							€20.8	742								
	Residential	3.5%	2.1%	1.4%							€2.1	116								
Country	Belgium	5.7%	5.0%	0.7%	6.0%	6.9%	5.4%	5.0%	2.7%	2.9%	€0.7	24								
	Finland	-3.1%	4.2%	-7.0%	4.2%	4.8%					€0.7	29								
	France	4.0%	3.8%	0.1%	8.0%	8.8%	8.1%	6.9%	2.1%	3.3%	€8.2	167								
	Germany	8.5%	3.7%	4.6%	10.8%	10.7%	9.9%	6.7%	1.8%	3.2%	€11.3	228								
	Italy	1.1%	3.8%	-2.6%	5.6%	6.6%	4.8%	3.5%	3.0%	3.8%	€2.2	61								
	Netherlands	7.3%	4.1%	3.1%	11.8%	10.7%	7.8%	5.0%	2.4%	3.4%	€5.3	144								
	Poland	2.9%	5.2%	-2.1%	6.9%	6.0%	7.0%	7.0%	1.9%	1.9%	€2.1	89								
	Spain	2.7%	4.5%	-1.7%	5.5%	7.4%	6.2%	4.6%	4.6%	5.2%	€2.7	73								
	Sweden	14.2%	3.8%	10.0%	8.7%	8.1%	9.6%	7.4%	4.7%	7.6%	€2.2	48								
	UK	-5.7%	4.2%	-9.5%	1.8%	0.2%					€4.7	80								
<b>All Property</b>										<b>4.4%</b>	<b>4.1%</b>	<b>0.3%</b>	<b>7.9%</b>	<b>7.6%</b>	<b>8.0%</b>	<b>6.9%</b>	<b>2.2%</b>	<b>3.2%</b>	<b>€44.3</b>	<b>1,151</b>

Source: MSCI Pan-European Quarterly Property Fund Index. As of 31 December 2020. Past performance is not indicative of future returns.

<sup>2</sup> All Funds index returns start in 2004, equivalent to a 16 year calculation. Returns for Balanced Funds index and asset-level indices may start later than 2004.

## Appendix

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

	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
Private Real Estate - Fund Level	4.8%	8.9%	9.6%	8.9%	2.9%
Private Real Estate - Asset Level	4.9%	9.2%	9.7%	9.7%	4.4%
Equities	3.8%	11.2%	-10.4%	28.1%	-2.2%
Bonds	3.3%	0.6%	0.4%	6.0%	4.0%
Listed Real Estate	-4.4%	13.1%	-8.0%	29.7%	-9.8%
Euro Area 10-Year Govt. Bond <sup>1</sup>	1.0%	0.9%	1.1%	0.2%	-0.2%
Euro Area 12-Month LIBOR <sup>1</sup>	-0.1%	-0.2%	-0.2%	-0.3%	-0.5%
EU CPI	0.7%	1.5%	1.9%	1.3%	0.2%

Sources: MSCI, Macrobond, Markit iBoxx. As of 31 December 2020. 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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