a.s.r. real assets investment partners and a.s.r. asset management

The added value of actively managed listed real estate in investment portfolios

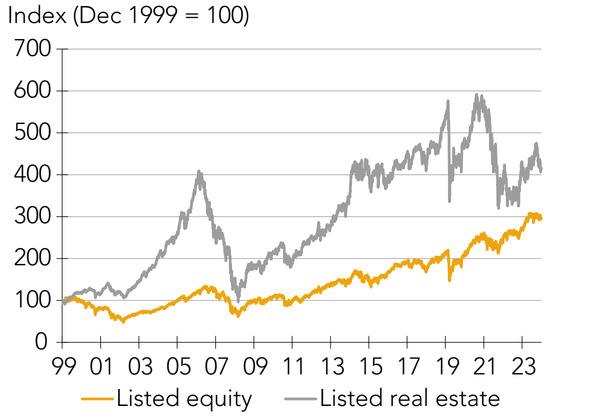
With upcoming changes in the pension landscape driven by the Wet toekomst pensioenen ('Wtp'), many Dutch pension funds and insurers face various challenges. This includes setting up matching and return portfolios, with ideas currently being widely shared in the market, including ideas by a.s.r. asset management. At a.s.r. real assets investment partners we focus on real assets and the investment portfolio strategies for (Dutch) pension funds and insurers in the Wtp era. In this article, we will discuss the added value of listed real estate, for example, in a return portfolio in the Wtp era.

In our previous article on listed real estate, the central theme was "listed real estate is also real estate." In this article, we will approach this statement from a different angle, namely by refining the statement "listed real estate is just like regular listed equity". We will also discuss the ways in which we believe listed real estate can be best implemented. While the Dutch Authority of Financial Markers ('AFM') and some investors advocate for "passive management, unless," in this article, we will explain why we believe actively managed listed real estate fits well in an investment portfolio.

Listed real estate has its own characteristics

One of the biggest challenges for institutional investors is diversifying the investment portfolio. There is already consensus on the diversifying value of non-listed real estate compared to listed equity ('stocks'), bonds, private equity, infrastructure, and natural capital. It could be argued that the diversifying value of real estate diminishes when it is listed. Listed real estate shares, like regular stocks, have a daily trading price, leading to volatility. This volatility is higher than that of regular stocks, but over the long term, the returns of listed real estate are also higher. Overall, the risk-return ratio of listed real estate is comparable to that of regular stocks (Chart 1). Overall, the risk-return ratio of listed real estate is comparable to that of regular stocks (Table 1)[1].

Chart 1: Listed real estate has a higher return and volatility compared to listed equity



Source: Bloomberg, calculations a.s.r. asset management
Remarks: Based on monthly data. Listed real estate = EPRA Europe Developed total return index. Listed equities = MSCI Europe total return index. Returns in EUR.

Table 1: The risk-return ratio of listed real estate is comparable to listed equity

	Listed equity	Listed real estate
Yearly returns	5.5%	6.3%
Volatility	17%	23%
Sharpe Ratio	0.18	0.17

Source: Bloomberg, calculations a.s.r. asset management
Remarks: Based on monthly data. 2000-2024. Listed real estate = EPRA Europe Developed total return index. Listed equities = MSCI Europe total return index. For the risk-free rate the 10Y German Bund Yield was used.

A long-term investment horizon is self-evident for us. Therefore, it is important to discuss the diversifying value that listed real estate can have in an investment portfolio, especially in the long term. Recently, a.s.r. asset management conducted an analysis of European listed real estate. The findings are presented in the continuation of this article.

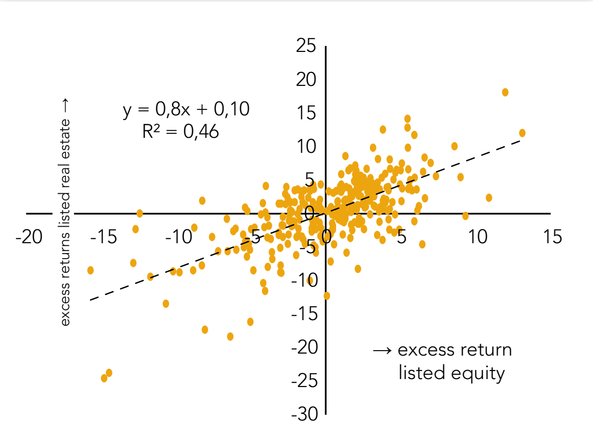
1 In this article, we focus primarily on European listed real estate.

The characteristics of listed real estate compared to listed equity

The returns of European listed real estate seem to move with European stocks, with a CAPM (Capital Asset Pricing Model) beta of 0.8, which is statistically significant (Chart 1). A beta of 1 would indicate that real estate returns move 1-to-1 with the broad stock market returns. Listed real estate moves with the stock market but not 1-to-1.

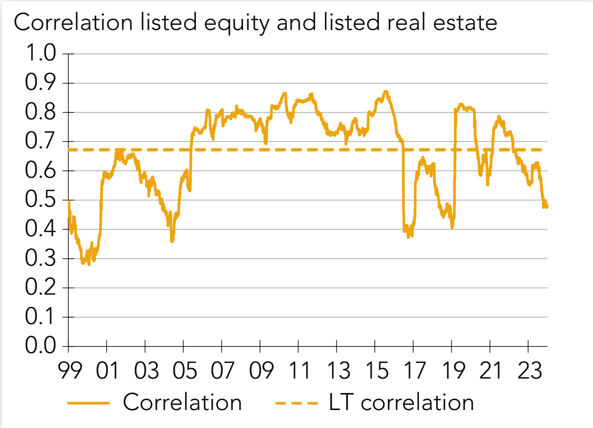
The long-term correlation of returns between stocks and real estate is 0.7 (Chart 2). Generally, as long as the correlation between two investment categories is less than 1, there is an opportunity for diversification. However, the correlation of returns between stocks and listed real estate fluctuates, and listed real estate is a subcategory within listed equity. Therefore, expectations about the diversifying value of listed real estate compared to stocks should not be too high.

Chart 2: Listed real estate returns do not move 1-on-1 with listed equity returns



Source: Bloomberg, calculations a.s.r. asset management
Remarks: 1999 – 2024 data. Listed real estate = EPRA Europe Developed total return index. Listed equities = MSCI Europe total return index. Returns in EUR.

Chart 3: The correlation between listed real estate and listed equity has its highs-and-lows but is not 1.



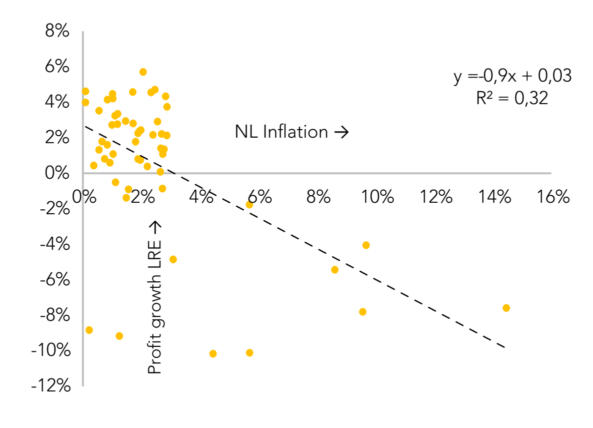
Source: Bloomberg, calculations a.s.r. asset management
Remarks: 1999 – 2024 data. Correlation is based on 12 month progressive horizon. Listed real estate = EPRA Europe Developed total return index. Listed equities = MSCI Europe total return index. Returns in EUR.

Listed real estate seems to protect reasonably well against (Dutch) inflation. The profits of listed real estate companies move with inflation. However, a simple comparison of inflation with the profits of listed real estate does not show this. At first glance, there even seems to be a negative relationship between the profit growth of listed real estate and inflation (Chart 4).

This apparent negative relationship is caused by the 'short-term interest rate effect'. When inflation rises, the European Central Bank (ECB) typically raises the policy rate. Higher policy rates generally have a negative effect on the revaluations of real estate investments. Negative revaluations are reflected in the reported profit figures of listed real estate companies[2]. This short-term interest rate effect obscures the actual relationship between inflation and real estate. European listed real estate shares on the other hand also react relatively strong to short-term interest rates (Chart 5).

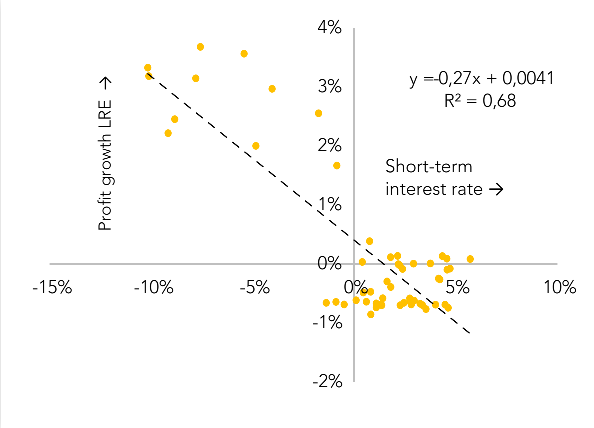
2 The ECB responds to eurozone inflation, not Dutch inflation, but the two are related. Therefore, it can be assumed that the ECB raises its policy rate during periods of rising Dutch inflation.

Chart 4: At first glance, the relationship between inflation and profit growth of listed real estate appears to be negative



Source: Bloomberg, calculations by a.s.r. asset management
Remarks: 2000 – 2024 Data. The proxy for profit is the q-o-q difference (in %) of the 5 year moving average of the EPRA Europe ex-UK index EBIT. Inflation is the average y-o-y Dutch inflation per quarter.

Chart 5: But that is because listed real estate reacts strongly to short-term interest rates



Source: Bloomberg, calculations by a.s.r. asset management
Remarks: 2000 – 2024 Data. The proxy for profit is the q-o-q difference (in %) of the 5 year moving average of the EPRA Europe ex-UK index EBIT. Inflation is the average y-o-y Dutch inflation per quarter. Short-term interest rate is the return on 1Y German Bund.

When correcting for the short-term interest rate, the profits of real estate companies do indeed seem to move with Dutch inflation. For every 1% inflation, the profits of listed real estate companies grow by 0.44% (Table 2). Interestingly, this 'inflation passthrough' of listed real estate is higher than that of regular stocks (Table 3). Listed real estate seems to protect better against Dutch inflation than regular stocks.

Table 2: Profits of listed real estate companies move with inflation…

Explanatory variable: Profit growth European listed real estate

Regression Statistics					
Multiple R		0.9			
R Square		0.8			
Adjusted R Square		0.7			
Standard Error		0.0			
Observations		54			
ANOVA					
	df	SS	MS	F	Significance F
Regression	4	0.1	0.0	39.1	0.0
Residual	49	0.0	0.0		
Total	**53**	**0.1**			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	0.0	0.0	2.0	0.1	
real gdp eurozone	-0.8	0.3	-2.7	0.0	
Inflation NL lag1	0.4	0.2	2.5	0.0	
1Y Bund yield	-3.5	0.4	-9.5	0.0	
Corona dummy	0.0	0.0	-2.8	0.0	

Source: Bloomberg, calculations by a.s.r. asset management
Remarks: 2011 – 2024 Data. Listed real estate = EPRA Europe Ex-UK index, Inflation = Dutch inflation y-o-y with a 1 year lag. Real estate rents are indexed with a 1 year lag.

Table 3: …the same goes for listed equity, but to a lesser extent

Explanatory variable: Profit growth European listed equity

Regression Statistics					
Multiple R		0.8			
R Square		0.6			
Adjusted R Square		0.6			
Standard Error		0.0			
Observations		54			
ANOVA					
	df	SS	MS	F	Significance F
Regression	3	0.0	0.0	27.0	0.0
Residual	50	0.0	0.0		
Total	**53**	**0.0**			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	0.0	0.0	-4.9	0.0	
real gdp eurozone	3.0	0.5	5.8	0.0	
Inflation NL	0.2	0.0	4.6	0.0	
1Y Bund yield	0.5	0.1	4.9	0.0	
Corona dummy	0.0	0.0	-2.8	0.0	

Source: Bloomberg, calculations by a.s.r. asset management
Remarks: Data loopt van 2011-2024. Remarks: 2011 – 2024 Data. Listed equity = MSCI Europe index.

Listed real estate is volatile but does not seem to have a fundamentally different risk-return ratio than regular stocks. Although listed real estate moves more with stocks than direct real estate, the correlation between listed real estate and stocks is not 1. It still offers some diversification. Additionally, listed real estate seems to protect better against inflation in the long term than regular stocks, and the relatively stable cash flows of real estate fit well with a long-term investment horizon. Overall, the previous analysis indicates that listed real estate can be an alternative for investors who want access to real estate but do not want or cannot invest in direct real estate.

In the long term, listed real estate should have the same returns as comparable direct real estate, as the underlying assets are part of the same real estate investment market. Additionally, listed real estate can also serve as a supplement to a direct real estate portfolio, for example, as a flexible layer. Through a general European stock index, the allocation to real estate is less than 1%, with less spread across countries and sectors compared to a European listed real estate index (EPRA Developed Europe).

Active vs. Passive Management

This brings us to the question: 'Should listed real estate be managed passively or actively?'

In recent years, the popularity of Exchange Traded Funds (ETFs) has increased significantly for various reasons. Studies suggest that active funds do not outperform their benchmarks in the long term (AFM, 2011). However, the question is whether this should be an indisputable argument for preferring ETFs over active strategies for listed real estate.

Currently, investors often opt for customized ETFs, creating variants of existing indices. For example, ESG variants, exclusions of controversial companies, or regionally adjusted variants of an existing ETF. These are essentially active decisions implemented in a passively market product. The growing demand for customized ETFs could indicate a need for more active investment strategies, albeit with the characteristics of an ETF. If the argument is followed that listed real estate shows similarities with non-listed real estate, it can also be argued that a real estate view can help achieve a positive relative performance. For example, by overweighting a specific real estate sector when its outlook is favorable or underweighting sectors when the outlook is less favorable.

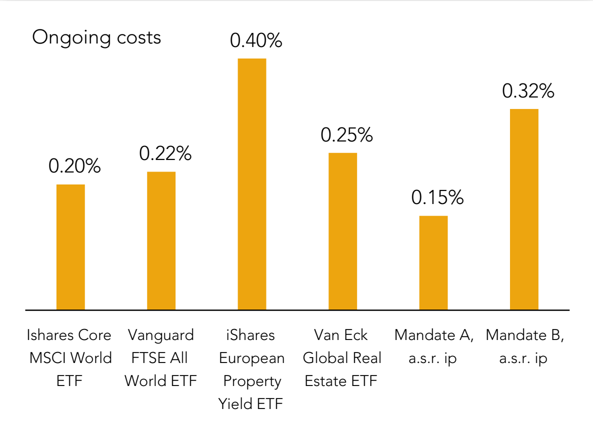
For a.s.r. real assets investment partners, ESG is a reason to prefer active mandates for listed real estate over active funds and passive investment strategies. The biggest advantage of setting up a mandate is that client needs can be better met. An active mandate allows the investor to address specific ESG themes with the management of listed real estate companies (engagement). Additionally, ESG information provision can be more extensive when investing through an actively managed mandate. An active investment strategy also provides the opportunity to respond to ESG developments at the company level to benefit relative performance.

Another challenge for institutional investors is cost management of a multi-asset class investment portfolio. The principle is to keep costs as low as possible to maximize net returns. In the case of listed real estate, the choice is often made for ETFs. We question whether the cost aspect should be an indisputable argument for choosing passive investment solutions for listed real estate. To answer this question, we refer to the principle of cost management: maximizing net returns. When looking at the ongoing costs ('total expense') of the most well-known real estate ETFs[3], we notice that they are not necessarily much lower than the most well-known ETFs for regular stocks (for example MSCI World, see Chart 6) and some active mandates managed for our clients[4].

3 In practice, agreements can be made that deviate from the reported ongoing costs.

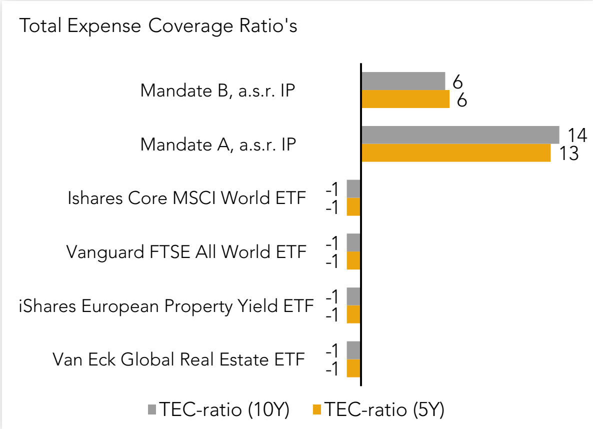
4 Mandates under management of external asset managers.

Chart 6: Ongoing costs of listed real estate ETFs aren't that much lower than listed equity ETFs



Source: Morningstar, a.s.r. real assets investment partners, 2025

Chart 7: A comparison of the 'total expense coverage ratio' of different ETFs



Source: Morningstar, a.s.r. real assets investment partners, 2025

Passive solutions follow the benchmark return, which must then be reduced by the ongoing costs to calculate a net return. An ETF will always show a negative relative performance, albeit limited to a few basis points. With an active solution, the net return can be affected not only by ongoing costs but also by relative performance. Another way to look at costs is by examining the total expense coverage ratio (TEC-ratio), which looks at the ratio between the annualized relative return and the annual ongoing costs (in percentages). At a.s.r. real assets investment partners, we use a TEC-ratio of 1.5 to determine whether an actively managed mandate has added value from a cost perspective. The number 1.5 indicates that the relative result covers the ongoing costs one and a half times.

Since the premise of an ETF is that it achieves the same return as the benchmark, an ETF will always achieve a TEC-ratio of -1. The relative result of an ETF is essentially always equal to the ongoing costs, thus negative. When looking at the long-term TEC-ratios of the mandates under our monitoring and TEC-ratios for ETFs (see Chart 7), we can state that active investing in listed real estate has historically paid off for our clients.

Active Management Requires Proactive Monitoring

We agree with the AFM's conclusion that an active investment strategy should be recommended if it adds value for investors (AFM, 2011). The active investment strategy should be tailored to the needs of the investor.

Following the argument that listed real estate shows similarities with non-listed real estate, we can also state:
- Not every active investment strategy suits every investor;
- Not every asset manager is good at executing an active investment strategy;
- An active investment strategy can vary per asset manager;
- Asset managers cannot excel in all types of active investment strategies.

It is important that the chosen asset manager should be enabled to excel within the agreed guidelines, namely achieving positive relative performance. However, there should also be room for discussions about the execution of an active investment strategy. Using self-developed tools and an own real estate view ('Houseview a.s.r. real assets investment partners'), we aim to proactively monitor investment portfolios and asset managers. We are not solely dependent on the reports provided by an asset manager and when they are provided. This allows a.s.r. real assets investment partners to keep an eye on the investment universe within listed real estate and challenge the manager to best serve the client's interests.

Summary

In summary, we conclude:

- Listed real estate can be an alternative for investors who do not want or cannot invest in direct real estate. Whereby it can also serve flexible layer complementary to direct real estate.
- Although listed real estate moves more with stocks than direct real estate, the correlation between listed real estate and stocks is not 1. It still offers some diversification.
- Listed real estate seems to protect better against inflation in the long term than regular stocks.
- Due to shared characteristics with non-listed real estate, an active investment strategy based on a fundamental real estate vision can be rewarding.
- Active investment strategies for listed real estate can be cheaper than real estate ETFs.
- To arrive at the right active investment strategy, it is crucial that client needs are translated into a strategy, with proactive monitoring of its execution.

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