

Reversion to the mean, moving away from the lean

AMSTERDAM, 30 May 2012 - In the past four years, the cumulative weight of European property stocks in global listed property sector (as represented in the GPR 250 Index) has plummeted from 21% to a mere 14%. Global Property Research decided to carry out research to gain more insight into the cause of such a sizeable shift. The weight is determined by FFMC (the free float market capitalization). The main factors affecting the FFMC include i) inclusions in and exclusions from the index ii) price performance and iii) new equity issues. The main conclusion of the study is that the decline in the relative weight of Europe is largely the consequence of a cyclical shift in the global listed property market, hence in relative terms, Europe significantly underperformed over the period in question. The relatively few equity issues in Europe (as compared to the US) relates to the decline as well as the practice of discounted equity issues limiting access to equity markets. A reversion to the mean could however result in a re-establishment of Europe as an important component of the benchmark. The results of the investigation are shown in Table 1.

Modest impact of inclusions and exclusions on Europe

The research focuses on the period from 1 January 2008 to 31 December 2011. During this period the number of European stocks included in the GPR 250 Index declined significantly from 70 to 54. This decrease is largely due to the exclusion of less liquid stocks. The result is a slight reduction of FFMC by 6%, not statistically significant. Likewise, a decline was seen in the number of property stocks listed in Asia and Oceania, reducing their FFMC by 15% and 6% respectively. In the meantime, we see a growing number of property stocks from Africa and the Americas included in the GPR 250 Index. This impacts the representation of the Americas by 7%. Arguably, share price declines have been an important factor in the extent of the exclusions of European stocks as mentioned above.

Lack of new companies listed in Europe

Other determinants of the European FFMC in the global index have been IPOs, secondary placements and rights issues. IPOs in Europe are worryingly of a smaller nature than in the Americas, Asia and Oceania. It is striking that 25 of the 28 IPOs have taken place in the Americas and Asia. Considerably more capital has been raised in the Americas from new investors in secondary placements. In four years the Americas has raised EUR 52bn compared to a mere EUR 6bn in Europe. Europe does fare better than the other continents in terms of rights issues: an amount of EUR 9bn in capital has been raised from existing investors. The practice of issuing equity with pre-emptive rights results in a discounted equity issue impacting earnings fundamentals and the share price. As such, the practice of rights issues themselves could be seen as an important hurdle for the presence of Europe in the global benchmark.

Decline of Europe in global benchmark mainly driven by price performance

The declining weight of Europe has been shown to be a consequence of the relatively steep falls in the share prices of European property stocks that realized a -41% absolute performance in the period 1 January 2008 to 31 December 2011. The relative underperformance of Europe was exacerbated by the positive price returns seen in property stocks in the Americas (generating a positive return of 2% on an absolute basis). We calculate that 60 percentage points of the decline from 21% to 14% was attributed to the relative underperformance of share prices. The relative performance in Europe was largely affected by the credit crisis and after that the sovereign debt risks. As such, low interest rates have not impacted direct and indirect property

valuations in the same way that they have in the US. A solution to this would lead to the re-establishment of the importance of Europe in the global benchmark.

We can conclude that the negative returns generated in Europe, with a concomitant positive mood in the Americas, are the causes of the falling weight of Europe, Asia and Oceania. In short, the cyclical volatility of the global property market has had the greatest impact on the European continent.

Feel free to contact us should you have any questions or comments.

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Table 1 - GPR 250 Index

	Europe		Africa		America		Asia		Oceania	
	FFMC	weight	FFMC	weight	FFMC	weight	FFMC	weight	FFMC	weight
12/31/2007	93.379*	20.8%	1.782	0.4%	158.194	35.3%	138.707	30.9%	56.491	12.6%
12/31/2011	69.865	13.6%	6.473	1.3%	283.575	55.1%	109.748	21.3%	44.955	8.7%
Difference	-23.514	-25.2%	4.691	263.2%	125.081	79.3%	-28.959	-20.9%	-11.536	-20.4%
<i>Changes in factors</i>										
Δ Inclusions/exclusions	-18		5		13		-23		-5	
IPOs**	2		0		13		12		1	
Secondary placements	58		3		266		46		38	
Rights issues	29		1		3		10		17	
<i>Changes in FFMC</i>										
Price return	-38.555	60.4%	110	2.3%	3.645	2.9%	-38.398	41.7%	-28.091	54.9%
In-/exclusion	-5.139	8.1%	3.001	64.0%	7.749	6.2%	-22.122	24.0%	-3.267	6.4%
IPOs	201	0.3%	-	0.0%	7.681	5.9%	7.649	8.3%	5.958	11.6%
Secondary placements	6.574	10.3%	312	6.7%	52.461	41.9%	8.457	9.2%	5.380	10.5%
Rights Issues	8.857	13.9%	128	2.7%	127	0.1%	3.668	4.0%	6.115	12.0%
Other***	4.548	7.1%	1.14	24.3%	53.718	43.0%	11.787	12.8%	2.369	4.6%
	-23.514	100%	4.691	100%	125.081	100%	-28.959	100%	-11.536	100%

Values in red represent a negative impact on the FFMC

* Absolute values are in euro millions

** This includes only IPOs of listed property stocks that are included in the GPR 250 Index

*** Free float changes, share buybacks, unannounced secondary offerings and stock dividends