Growing significance of real estate shares on the stock

Harald Egger

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Real estate has been in high demand from investors for a while. The keen interest in “concrete gold” has also moved the shares of real estate companies into the limelight of investors.

Listed companies that are affiliated with the real estate business also benefit from this trend. Now for the first time since the introduction of the Global Industry Classification Standard (GICS) in 1999, this structure may be subject to change. This standard lays down the classification of companies into industry groups. The leading index providers, S&P Dow Jones and MSCI Inc., decided to add another group to the existing ten, i.e. real estate, as of 1 September 2016. This is supposed to take into account the growing relevance of the real estate sector and the rising interest shown by investors. While real estate shares have been part of the MSCI World index at a weighting of 3%, they were classified as financials. Now they will form a separate industry group.

Separate index group

Until 31 August 2016 the financial sector will retain a weighting of 19%, i.e. the highest one, in the global MSCI universe. 3% are real estate shares, which will be carved out from the financial sector on 1 September 2016 to form their own group. This step, taken by the index providers, makes sense. Real estate shares have little to do with the performance of bank shares, insurance companies, or asset management companies. Whereas many banks and insurance companies are highly cyclical, real estate shares are the epitome of stability. So far the significance of real estate shares, as part of the powerful financial sector, has been marginal, but this is about to change drastically. Investors, who wish to pursue a sector-neutral allocation, will now have to have a closer look at real estate shares.

Higher significance of real estate shares

The index providers explain their step with the increasing significance of the real estate sector worldwide. Of course they are also reacting to the pressure of the investment community, which has demanded this step for a while.

Valuation justified by growth

We believe that the creation of the new sector will shift the investors’ focus to real estate shares. The shares of listed real estate companies are currently traded at a dividend yield of 3.8%. This percentage is clearly above the average of 2.7% of all companies represented in the MSCI indices. In terms of the valuation metrics, real estate shares are more expensive than banks or insurance companies. However, given the stable business of most of the companies, we regard this valuation as justified. ERSTE-SPARINVEST recognised the importance of real estate shares as early as in 2001 and manages tow funds:

ESPA STOCK EUROPE-PROPERTY
ESPA STOCK ASIA PACIFIC PROPERTY

Both funds have outperformed both the financial index and the MSCI World index in the past five years (please see the chart below).

Chances and risks

Investors of the fund have to be aware of the fact that this is no real estate, but a real estate share. This means that the shares in the fund may be subject to price fluctuation, and capital losses are possible. The value of the shares can also be burdened by exchange rate fluctuations. On the upside, the investor has the chance of an above-average dividend yield.

Source: Datastream, data as of 1 September 2016

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Projections and forecasting is no reliable indicator for future developments.

Warning notices pursuant to the Austrian Investment Fund Act of 2011

ESPA STOCK EUROPE-PROPERTY may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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Harald Egger, Chief Analyst and Crypto Asset Specialist. He has worked at Erste Asset Management since 2001. Previously he worked for four years as a fund manager and analyst for AXA Investment Management in London. He headed the equity segment within Erste Asset Management and was CIO until April 2013. He has been employed in the finance industry since 1992. Harald Egger has a Master in Statistics from University of Vienna and a Master degree in Digital Currencies from University Nikosia.