

<https://blog.en.erste-am.com/growing-significance-of-real-estate-shares-on-the-stock/>

Growing significance of real estate shares on the stock

Harald Egger



© © Fotolia.de

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 two 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](#)

Source: Datastream, data as of 1 September 2016

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.

ESPA STOCK ASIA PACIFIC 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.

Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website www.erste-am.com under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depository bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



Harald Egger

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.