



## Benchmarking and Analysis Through the IPD Global Quarterly Property Fund Index

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### Continued Strong Global Performance

While the equity market slowed and the listed real estate market turned negative during the second quarter, the IPD Global Quarterly Property Fund Index (GPFII) posted another strong quarter with a 3.5% return, or an annualized 13.1% return. These were the second strongest quarterly returns since the financial crisis —the previous one being 4.1% in Q3 2010— and were based on the continued strong performance of the U.S. and a bounce-back in the European markets. The performance of the index has been particularly strong since the end of the financial crisis, with an average annual return of 11.5% over the past five years. Over this time, fund and direct returns have been very similar, unlike the years of the financial crisis when the use of leverage dragged fund level returns well below direct market returns.

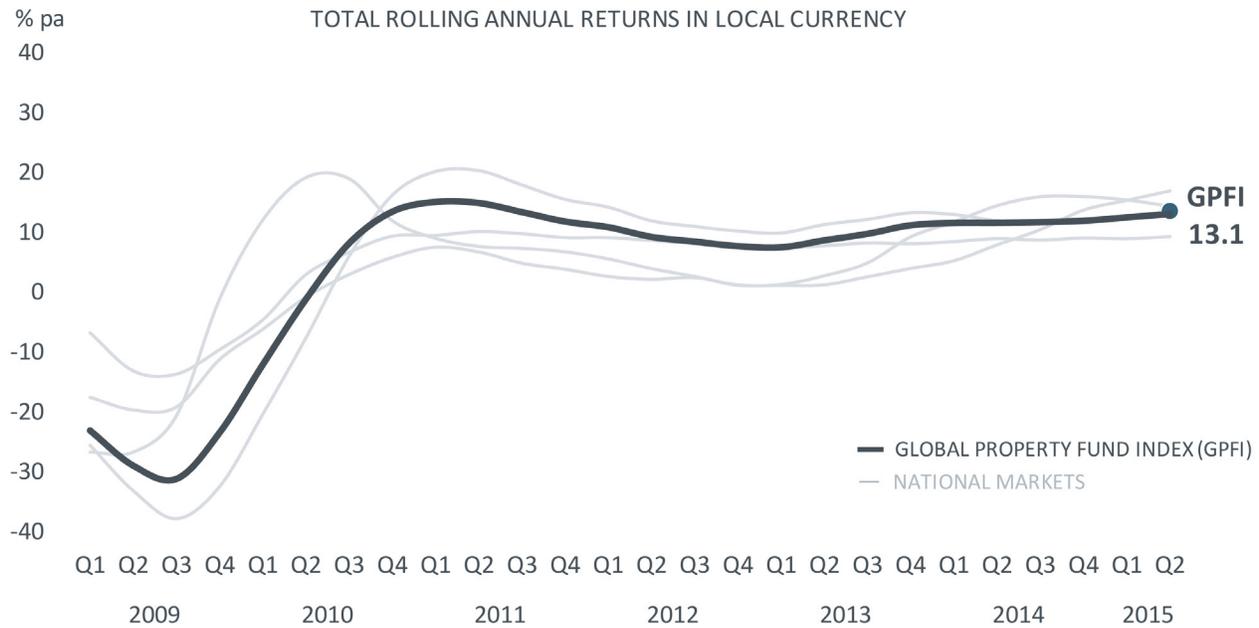
With the U.S. funds representing more than 60% of the index, the robustness of the U.S. recovery since the financial crisis has been a major driver of the strong performance of the GPFII. Over the past five years, the U.S. has exceeded the global average for most quarters with other regions varying in their influence over that time period. Over the past year, the U.K. and the Pan-European funds have outperformed the U.S., while Asia-Pacific funds have recorded the lowest performance, although still showing a relatively healthy 9.3% return.

The relative strength of the European funds is a reversal of much of the 2011-2014 period when they tended to be lower than the global index.

The relatively high leverage levels, especially at a time of strong capital appreciation, helped boost fund level returns in the U.S. over 1, 3 and 5 years, as shown in Exhibit 2. This is also the case for the Pan-European funds over the past year, given the recovery in fundamentals for that market and the high levels of leverage.

TOTAL FUND RETURNS TO JUNE 2015 ACROSS REGIONS

TOTAL ROLLING ANNUAL RETURNS IN LOCAL CURRENCY



Source: MSCI

Exhibit 1: Continued strong performance of GPFI

PROVIDING SOME EXPLANATION FOR RECENT PERFORMANCE DIFFERENCES ACROSS REGIONS



ASIA PACIFIC

	2Q 2014	1 Yr	3 Yr	5 Yr
Net of Fees Fund Return	2.8%	9.3%	8.7%	9.0%
Direct Real Estate Return	2.6%	9.9%	9.3%	9.8%
<b>Spread</b>	<b>0.2%</b>	<b>-0.6%</b>	<b>-0.6%</b>	<b>-0.8%</b>

PAN EUROPE

	2Q 2014	1 Yr	3 Yr	5 Yr
Net of Fees Fund Return	4.6%	17.0%	8.6%	6.9%
Direct Real Estate Return	4.0%	14.8%	8.8%	7.6%
<b>Spread</b>	<b>0.6%</b>	<b>2.2%</b>	<b>-0.2%</b>	<b>-0.7%</b>

NORTH AMERICA

	2Q 2014	1 Yr	3 Yr	5 Yr
Net of Fees Fund Return	3.6%	13.6%	12.3%	13.8%
Direct Real Estate Return	3.1%	12.5%	11.4%	12.5%
<b>Spread</b>	<b>0.5%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>1.3%</b>

UNITED KINGDOM

	2Q 2014	1 Yr	3 Yr	5 Yr
Net of Fees Fund Return	3.2%	14.4%	10.4%	8.6%
Direct Real Estate Return	3.5%	15.6%	11.4%	9.5%
<b>Spread</b>	<b>-0.3%</b>	<b>-1.1%</b>	<b>-1.0%</b>	<b>-0.9%</b>

Source: MSCI

Exhibit 2: Regional fund and direct real estate performance to Q2 2015

Over the longer term and when the years of the financial crisis are included, however, leverage hindered performance in the U.S. In the low leverage markets of U.K. and Asia-Pacific, fund returns have been lower than direct, asset level returns, because of the costs of running the funds and the impact of cash holdings.

As real estate becomes an increasingly global asset class, the development of the GPFI represents an important step in helping the evolution of the industry. Measuring fund performance presents challenges of comparability, consistency and transparency, particularly when investing globally. Although the GPFI is still at its infancy, it's a useful tool on a range of dimensions. First, it helps monitor and compare quarterly real estate performance across global markets at both the asset and fund levels. In addition, it helps managers and investors better understand the reasons for their performance relative to a benchmark, providing insights to improve transparency and facilitating the investment decision process. These insights, which represent significant achievements for the real estate industry, will continue to deepen and increase, as more funds join the index.

#### **Author's Bio**



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Max Arkey works in product management at MSCI Real Estate where he heads up indexes and market information products. These analytics are mission critical to the investment process for 19 of the top 20 largest global asset managers, all the way through to specialized domestic investors.

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