

# Indexing Listed Property Stocks in New Zealand

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Publicly traded property stocks allow investors to gain exposure to real estate, an illiquid asset class, without sacrificing the liquidity benefits of listed equities. Property stocks also typically offer higher yields than the broad equity market, may serve as an effective inflation hedge and may help diversify a portfolio due to their generally low correlations to stocks and bonds.

S&P Dow Jones Indices and NZX Limited jointly launched the [S&P/NZX Real Estate Select](#) in November 2015 to serve as an investable benchmark for real estate companies listed on the NZX. The index includes the largest, most liquid property companies included in the [S&P/NZX All Index](#). To reduce single stock concentration, the index employs a stock cap of 17.5%, applied semiannually.

Total returns and volatility of New Zealand equities, as measured by the [S&P/NZX 50 Index](#), and property stocks, as measured by the S&P/NZX Real Estate Select, were relatively similar over the longer term (see Exhibit 1). This is somewhat surprising, given that global property stocks have historically had higher volatility than the broader global equity market. As expected, investment grade bond returns were more modest, but much less volatile than equities and property stocks.

**Exhibit 1: Comparative Asset Class Performance Characteristics**

Period	S&P/NZX 50 Index	S&P/NZX Composite Investment Grade Bond Index	S&P/NZX Real Estate Select	S&P Global 1200
<b>Annualized Return (%)</b>				
1-Year	4.9	-2.3	-2.0	14.0
3-Year	0.9	-4.1	0.4	12.1
5-Year	6.2	0.2	5.5	9.5
10-Year	10.3	2.5	8.2	9.8
15-Year	8.9	4.0	8.3	8.1
Since July 2006	7.4	4.2	7.1	7.7
<b>Risk (Standard Deviation, %)</b>				
3-Year	11.4	4.7	11.6	17.5
5-Year	12.9	4.4	14.6	17.9
10-Year	10.9	3.5	11.6	14.4
15-Year	11.2	3.6	11.3	16.7
Since July 2006	11.6	3.4	11.6	16.2
<b>Risk-Adjusted Return</b>				
3-Year	0.08	-0.88	0.03	0.69
5-Year	0.48	0.04	0.38	0.53
10-Year	0.94	0.70	0.71	0.68
15-Year	0.80	1.12	0.74	0.49
Since July 2006	0.64	1.23	0.61	0.47

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2023. Risk is defined as the standard deviation of monthly total returns. The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

As shown in Exhibit 2, the S&P/NZX Real Estate Select historically had relatively low correlations to both the S&P/NZX 50 Index and the [S&P/NZX Composite Investment Grade Bond Index](#).

**Exhibit 2: Historical Asset Class Correlations**

Correlation	S&P/NZX 50 Index	S&P/NZX Composite Investment Grade Bond Index	S&P/NZX Real Estate Select	S&P Global 1200
<b>S&amp;P/NZX 50 Index</b>	1	-	-	-
<b>S&amp;P/NZX Composite Investment Grade Bond Index</b>	0.09	1	-	-
<b>S&amp;P/NZX Real Estate Select</b>	0.62	0.18	1	-
<b>S&amp;P Global 1200</b>	0.66	-0.09	0.43	1

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2023. Correlations based on 204 monthly total returns. The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibits 3 and 4 illustrate the potential diversification benefits of adding a listed property allocation to a stylized equity or equity/bond portfolio. For example, a hypothetical 80%/20% combination of the S&P/NZX 50 Index and S&P/NZX Real Estate Select resulted in a reduction in volatility of over 70 bps compared with a 100% position in the S&P/NZX 50 Index. This reduction was driven by the relatively low correlation between the indices.

### Exhibit 3: Combining New Zealand Stocks and Listed Property

Index	Total Return (%)	Risk (%)	Return/Risk
S&P/NZX 50 Index	7.40	11.64	0.64
S&P/NZX Real Estate Select	7.09	11.59	0.61
80% Stocks/20% Property	7.43	10.91	0.68

The 80% Stocks/20% Property portfolio is a hypothetical portfolio.

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2023. All figures are annualized. Risk is defined as the annualized standard deviation of monthly total returns. The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Similarly, adding a 10% listed property allocation to the equity portion of a 60% S&P/NZX 50 Index and 40% S&P/NZX Composite Investment Grade Bond Index portfolio resulted in a further reduction in volatility and higher risk-adjusted return over this period.

### Exhibit 4: Combining New Zealand Stocks, Bonds and Listed Property

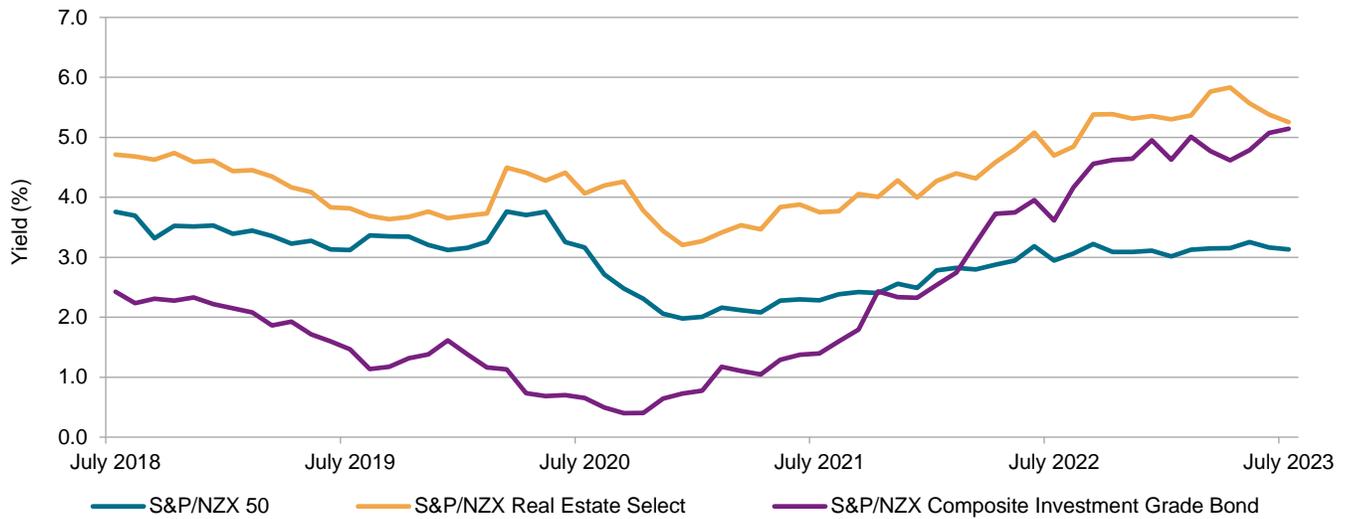
Index	Total Return (%)	Risk (%)	Return/Risk
S&P/NZX 50 Index	7.40	11.64	0.64
S&P/NZX Real Estate Select	7.09	11.59	0.61
S&P/NZX Composite Investment Grade Bond Index	4.22	3.44	1.23
60% Stocks/40% Bonds	6.30	7.24	0.87
50% Stocks/40% Bonds/10% Property	6.30	6.90	0.91

The 60% Stocks/40% Bonds and 50% Stocks/40% Bonds/10% Property portfolios are hypothetical portfolios.

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2023. All figures are annualized. Risk is defined as the annualized standard deviation of monthly total returns. The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

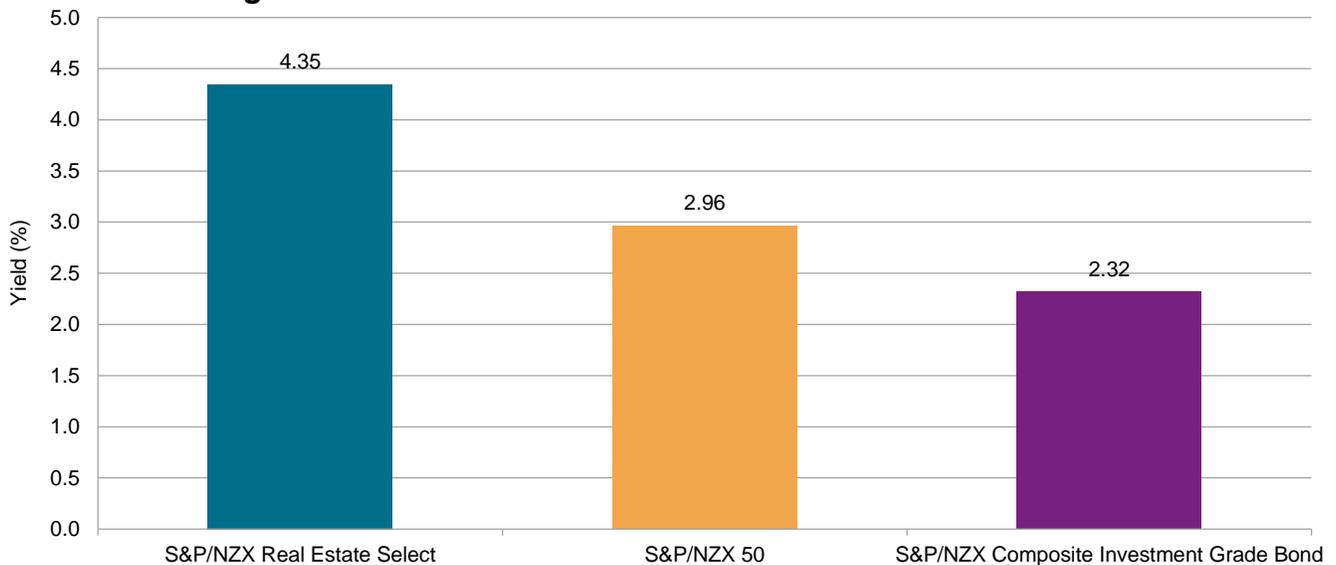
Furthermore, New Zealand property stocks had attractive yields relative to both equities and bonds in recent years, even as bond yields have increased sharply of late (see Exhibits 5 and 6). Although bond yields have recently become competitive with REITs, the average yield of the S&P/NZX Real Estate Select over the past five years exceeded the S&P/NZX 50 Index and S&P/NZX Composite Investment Grade Bond Index by about 140 bps and 200 bps, respectively. It is also important to remember that bonds, unlike REITs, do not offer opportunities for capital appreciation.

### Exhibit 5: Historical Yield



Source: S&P Dow Jones Indices LLC. Data from July 31, 2018, to July 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

### Exhibit 6: Average Yield



Source: S&P Dow Jones Indices LLC. Data from July 31, 2018, to July 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

## Conclusion

In summary, in comparison with New Zealand equities, New Zealand property stocks have historically had similar total returns and relatively high yields, while maintaining comparable levels of volatility. Moreover, their relatively low correlation to both equities and bonds serves to reinforce the potential benefits of including property stocks in a broader portfolio context.

## Performance Disclosure/Back-Tested Data

The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji). Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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