

Building Targeted Real Estate Portfolios

How Many Assets to Replicate the Market?

New York – December 7, 2017 – MSCI Inc. (NYSE: MSCI), a leading provider of research-based indexes and analytics, today released [Building Targeted Real Estate Portfolios](#), an MSCI Research Insight paper on real estate portfolio construction.

Investors looking to execute on an allocation strategy will often target certain markets. However, the heterogeneity of assets and high asset-specific risk mean that a representative market exposure cannot be built with just one or two assets and it can be hard for investors to know if they are achieving their desired exposures.

Taking the example of a global office investor targeting individual cities, the paper used MSCI asset-level data to simulate the performance of 250,000 hypothetical portfolios of different sizes across 25 global cities from 2012 to 2016. The results are used to evaluate how many assets an investor would have needed in each city in order to give themselves the best chance of achieving their desired exposures.

The paper shows that a representative exposure could have been achieved with a portfolio approaching 10 assets in size. However, the number of assets needed for representative exposure did vary from city to city, depending on the homogeneity of the city sample and the relative importance of individual districts within each market. Volatile markets, such as those experiencing a turning point or rapid capital growth movement, could also have required more assets to achieve market exposure.

Will Robson, Executive Director, MSCI, said: “This paper shows that while investors often like to target high-level economic or demographic trends by buying into certain markets, it can actually be quite difficult to achieve in practice. Without a reasonably large number of investments, it can be hard to know whether you are actually exposed to the trends being targeted. Thus investors need to think carefully about their investment strategies and how they manage their portfolios if they cannot acquire enough assets.”

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For more than 40 years, MSCI’s research-based indexes and analytics have helped the world’s leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 99 of the top 100 largest money managers, according to the most recent P&I ranking.

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