

# Watch Real Estate for First Signs That Passive Investing Has Grown Too Big

By [Rachel Evans](#)

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- ▶ Index funds own increasingly large portions of some companies
- ▶ Eight of 10 stocks most popular with indexes focus on property

The future of passive investing is facing one of its biggest tests yet. And surprisingly the challenge is coming from a handful of relatively obscure real-estate companies.

Funds that track indexes are coming increasingly close to owning a majority of shares in eight property owners and managers, according to a [report](#) from Bloomberg Intelligence. Real estate stands out in a wider market where just 16 percent of stocks are held by passive investors. That makes these companies potential bellwethers for the impact of benchmark tracking as the funds grow.

Ticker	Name	ETF Ownership %	Passive Ownership %	GICS Sector
<b>SKT</b>	Tanger Factory Outlet Centers Inc	31.5	46.85	Real Estate
<b>MDP</b>	Meredith Corp	29.56	40.49	Comm Serv
<b>WPG</b>	Washington Prime Group Inc	23.62	39.16	Real Estate
<b>RPT</b>	Ramco-Gershenson Properties Trust	22.64	38.18	Real Estate
<b>PEI</b>	Pennsylvania Real Estate Investment	22.57	37.9	Real Estate
<b>CBL</b>	CBL & Associates Properties Inc	21.77	37.65	Real Estate
<b>ABM</b>	ABM Industries Inc	25.86	37.54	Industrials
<b>KRG</b>	Kite Realty Group Trust	21.19	37.26	Real Estate
<b>UBA</b>	Urstadt Biddle Properties Inc	21.38	37.01	Real Estate
<b>CHSP</b>	Chesapeake Lodging Trust	21.08	36.84	Real Estate

Note: Russell 3000 Index

Bloomberg

These stocks have the largest share of passive ownership. *Source: Bloomberg Intelligence*

“For firms with high passive ownership, you have lower reaction to company-specific news,” said [Itzhak Ben-David](#), a finance professor at Ohio State University who’s studied the topic. “When everybody pulls money

out of the market or gets into the market, the tide lifts all boats.”

Identifying the potential dangers within passive investing vehicles -- particularly exchange-traded funds -- has been a Wall Street parlor game for years, not least among displaced stock pickers. Various described by active managers as being akin to Marxism or financial weapons of mass destruction, indexed funds are poised for another year of inflows as actively managed products hemorrhage cash, data compiled by Bloomberg show.

## Tippling Point?

But with the number of U.S. indexes far outstripping stocks, anxiety is mounting over whether passive funds - which buy the stocks in their benchmarks regardless of news, earnings or other fundamentals - artificially inflate share prices, fueling bubbles.

Societe Generale SA last month argued small caps, dividend shares and gold miners were particularly at risk of market selloffs due to their outsized ownership by passive investors. Goldman Sachs Group Inc., meanwhile, suggested in a report last year that stocks with a larger exposure to passive funds could trade more on cross-asset flows and macro views than their own fundamentals.

Tanger Factory Outlet Centers Inc., which owns and operates out-of-town retail parks, could be the first stock to test passive's tipping point. Indexed funds own 46.9 percent of the real estate investment trust, which has a market capitalization of \$2 billion, the data show.

Based in Greensboro, North Carolina, Tanger may seem like a strange yardstick for the future of investing, but its diverse appeal has made it a stock to watch. It's owned by dividend strategies, funds that buy mid-cap or small-cap companies, and investors in real estate or REITs.

Of course, as Ben-David points out, it's hard to know how this stock or any other would behave without passive owners. Bloomberg Intelligence also found little correlation between Tanger's stock price and flows into the largest fund that owns it. In fact, greater passive ownership could have a positive impact, according to Eric Balchunas, a senior ETF analyst who co-authored the report.

“Passive funds' growing stock-market ownership hasn't had any unusual effects on share prices so far, and their focus on ESG issues could be viewed as complementary to active managers that mostly chase profits,” he wrote, referring to funds that target environmental, social and governance concerns.

## In this article

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SKT  
**TANGER FACTORY**  
22.39 USD ▲ +0.59 +2.71%

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GLE  
**SOC GENERALE SA**  
32.63 EUR ▲ +0.26 +0.80%

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