CATALYST
FUND MANAGERS

GLOBAL LISTED REAL ESTATE REPORT FEBRUARY 2020

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GLOBAL LISTED REAL ESTATE

Our benchmark, the FTSE EPRA/NAREIT Developed Net Rental Index, recorded a net total USD return of -8.28% in February. The best performing listed real estate market was Canada, which recorded a total USD return of -5.08% for the month. The UK recorded the lowest total USD return of -11.76%.

Amid fears of the coronavirus spreading worldwide and the resulting slowdown on global economic growth, we thought it topical to consider the potential influence on the listed property sector. During the month, a risk-off environment and high degree of uncertainty negatively impacted global equity markets and real estate was no exception. The overall economic impact will depend on the extent of the virus spread and the ensuing length and magnitude of disruptions to economic activity.

Various real estate sub-sectors should react differently and to varying extents. The retail sector is anticipated to be one of the hardest hit on the back of reduced consumption as consumers avoid crowded places, including shopping centres and other busy retail locations. The modern darlings of retail, namely restaurants and entertainment venues, together with other discretionary spending destinations are likely to be adversely impacted. Certain retail locations may be temporarily closed, affecting the financial health of retailers and shopping destinations alike. Retailers may be affected by the slowdown in global manufacturing and input costs could begin to rise as retailers attempt to diversify their supply sources, particularly outside of China. All of this could ultimately impact retailer affordability and their ability to pay rents. Rental reductions and concessions could ensue.

Conversely, retailers with solid omnichannel platforms could benefit from an increase in the use of ecommerce as consumers opt for online spending versus purchasing in-store. This may be particularly beneficial for online grocers. Certain types of industrial properties will be impacted from a reduction in manufacturing activity and a disruption to global supply chains. Longer term, urban logistics assets should benefit from a structural increase in ecommerce and the demand for last mile delivery.

The hospitality industry and hotel sector will be burdened by a reduction in travel, both locally and globally, as countries continue to impose travel restrictions and individuals and corporates avoid travel plans. In a similar vein, tourism-related retail will suffer.

Healthcare should react differently depending on the type of asset. Senior housing and skilled nursing will feel the brunt of aging populations being most impacted by the virus, while medical office buildings could benefit from increased use of doctors and medical professionals. Lab space landlords could benefit from a heightened need to find a suitable cure.

Office space could see decreased demand as employees spend more time working from home and avoid social contact in order to limit the spread of the virus. Office properties with sustainability and wellness features (ventilation, air quality and other environmental features) should benefit on a relative basis.

Residential sectors are considered defensive in such an environment for the obvious reason that we all need a place to live and sleep. More affordable housing supplies, such as that of manufactured housing, should be resilient in the event of a downturn and the resulting impact on job and wage growth.

From a general perspective, major leasing decisions and transactional activity are likely to be postponed as landlords and investors wait until more certainty is available. New supply and construction could also be delayed or cancelled.

We consider real estate to possess some positive qualities during such a time. The yield currently priced for the sector remains attractive given the fact that interest rates are likely to remain lower for longer. Real estate assets with long-term leases that provide steady income streams are desirable. The diversification of our global real estate funds, from a tenant; sub-sector; and geographic perspective is appealing from a risk and return perspective. We continue to favor quality assets; strong management teams who will be able to make suitable investment decisions during uncertain times; as well as companies with healthy balance sheets as highly levered companies may come under pressure.

The estimated forward FAD (Funds Available for Distribution) yield for the sector is 4.96%. Relative to corporate bonds the sector looks attractively priced on both implied cap rates and expected total return spreads. Within the real estate universe, more attractively priced opportunities exist in specific real estate sectors and stocks, providing opportunities for astute active managers.

TIFFANY JONES
INVESTMENT ANALYST

GLOBAL LISTED PROPERTY REVIEW

Country	Market Cap USD Million	10 Year Govt Bond Yield	Global Div Historical Yield	Debt % Local Currency
US	883 157	1.09%	3.82%	29.78%
Canada	52 721	1.13%	4.17%	40.59%
Total North America	935 878	1.09%	3.84%	30.34%
UK	76 432	0.44%	3.76%	26.61%
Continental Europe	246 923	-0.40%	3.99%	32.61%
Total Europe	323 356	-0.17%	3.93%	35.84%
Japan	155 392	-0.14%	2.81%	36.23%
Australia	41 203	0.80%	5.87%	31.22%
Hong Kong	59 836	1.42%	4.70%	14.60%
Singapore	50 184	1.38%	4.89%	35.26%
Total Asia	306 615	0.44%	3.86%	32.38%
Total	1 565 848	0.74%	3.86%	31.74%

Region	FEBRUARY 2020 Return % (USD)	FEBRUARY 2020 Return % (Rand)	YTD Return % (USD)	YTD Return % (Rand)
Global Investors Index	-8.28%	-3.63%	-7.31%	4.38%
North America	-8.12%	-3.46%	-6.97%	4.77%
Europe	-8.31%	-3.66%	-8.10%	3.50%
Asia ex Australia	-8.39%	-3.74%	-6.71%	5.07%
Australia	-9.69%	-5.11%	-10.07%	1.28%
SA Listed Property Index	-19.96%	-15.69%	-28.58%	-18.26%

Source: Standard & Poors, UBS Securities, I Net Bridge

INFORMATION SOURCE AND METHODOLOGY

Data:	Bloomberg unless stated otherwise
Calculations:	Catalyst Fund Managers
Clean Price:	Adjusts the closing price for distribution accrued since last distribution date
Rolled yield:	Time weighted current 12 month historic distribution divided by the clean price
Debt %:	These are loan to value numbers.
Date:	All data taken on 2 MARCH 2020
Universe:	Companies included are only those companies that form part of the Catalyst core universe

CATALYST
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IMPORTANT INFORMATION

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