ReitsMarket

Research Report Q1 2018

Global Trends

US tax cuts

With over $670bn of market capitalization, US listed REITs and ROECs represent over 57% of the global developed listed market[1]. Although lower US tax rates will directly impact the broad equity markets, the impact on REITs is more muted as they already have a tax efficient corporate structure.

Valuation

Discounts to NAV have widened in 1Q, and REIT's now screen relatively cheaper than equity, with a dividend yield premium of 170 bps and lower multiples.

Interest rates

REITs as high-yield instruments are perceived to be sensitive to interest rate changes, although evidence shows that they typically recover in the higher rate environment due to higher GDP/inflation. We believe that anticipated rate rises for 2018/19 globally are priced in.

Liquidity

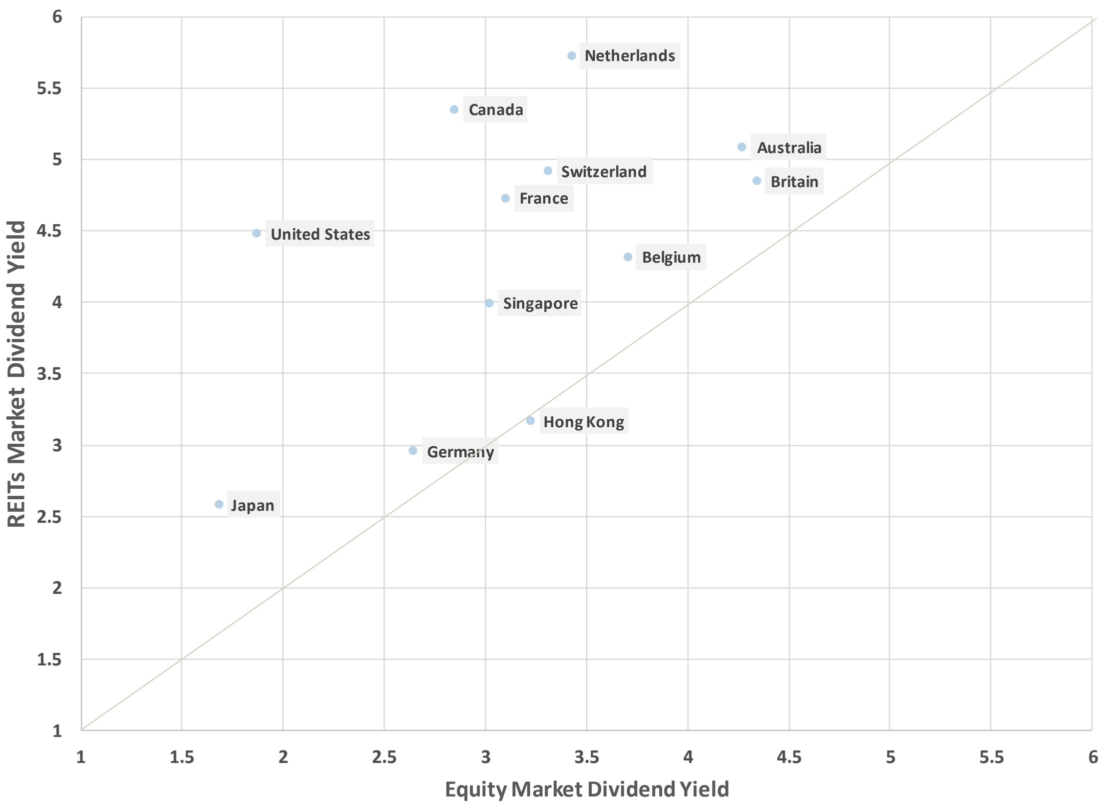
Global REIT's market capitalization exceeds $2,100bn, and average daily liquidity among the top 300 stocks is US$5m per day.

[1] Source: Dow Jones

REITs Valuation

- **REITs** are priced **below** the underlying real estate assets**.**
- We estimate the average discount to NAV be at 10% globally.
- Dividend yield **is now** above 4% globally.

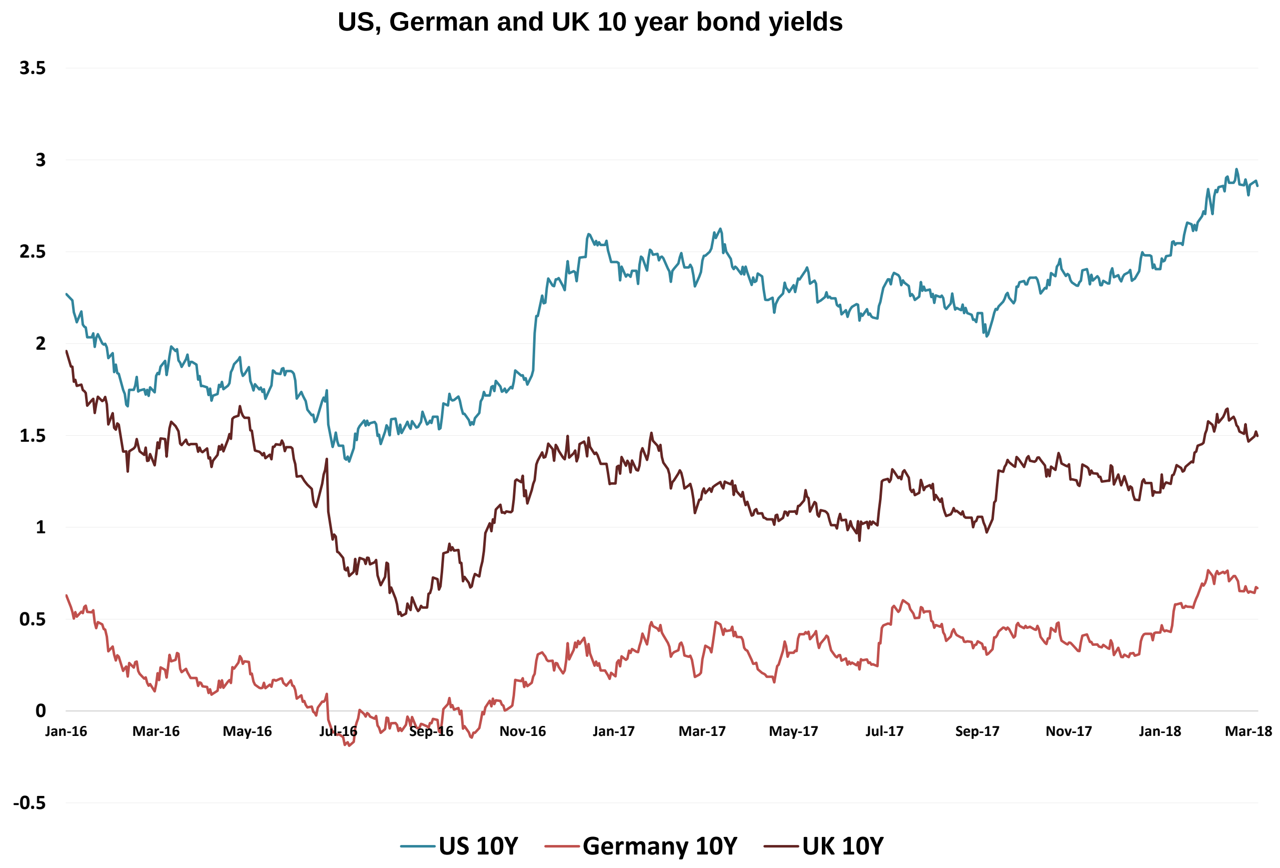
Diverse main regional markets starting 2018 (gross, trailing 12 months)



Source: Reitsmarket

Interest Rates

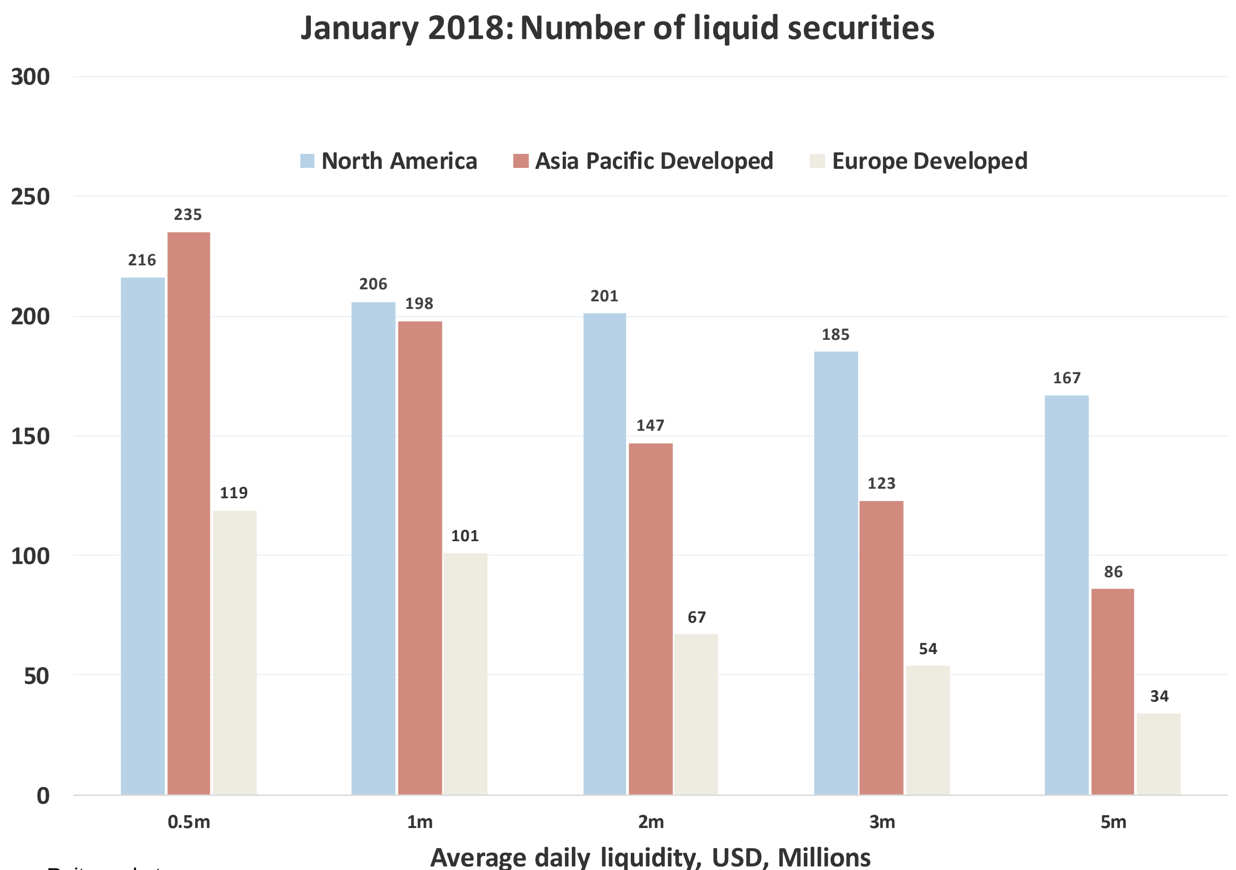
- **REITs and Government bonds** historically show an inverse correlation.
- **Fed funds rate** expected to reach 2.5% by the end of 2018.



Source: Reitsmarket

Liquidity

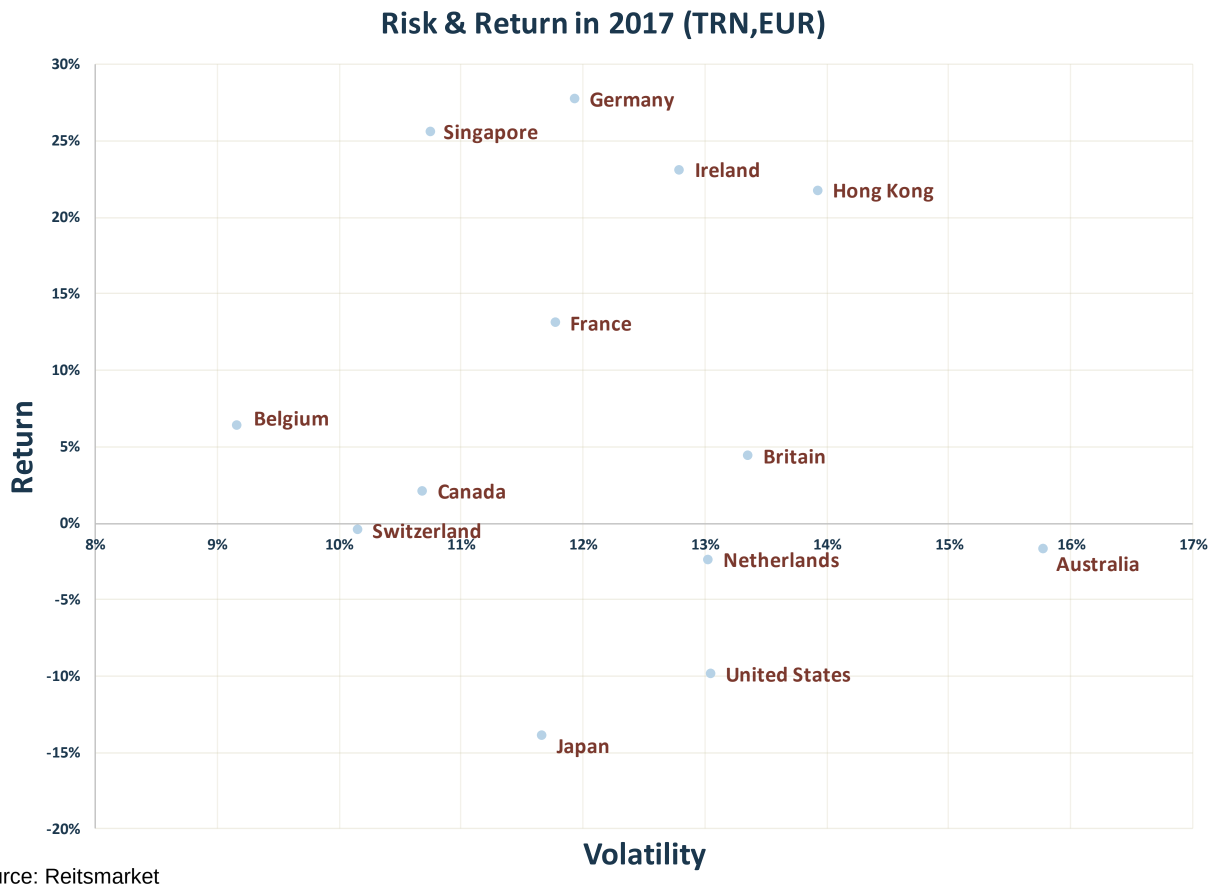
➤ **Liquidity** remains a key factor for our screening process and we show below the number of stocks in each region which meet the criteria.



Source: Reitsmarket

Global Markets Overview 2017

- Two largest REITs markets, US and Japan, 57% and 10% of total market respectively, showed the worse performance of 2017. Global indices suffered despite majority of countries growing or remaining stable.
- Singapore and Hong Kong lead Asia, Germany Ireland and France lead Europe.



Source: Reitsmarket

E-Commerce update : Amazon Go and new Retail

- Amazon's first checkout-free grocery opened in Seattle.
- The shop relies on cameras and sensors to track what shoppers remove from the shelves, and what they put back. Cash registers and checkout lines become superfluous: customers are billed after leaving using a credit card on fil.
- Shopping Centre REITs have suffered large underperformance in 2017 due to the estimated and actual impact of e-commerce.

Image: Amazon

North America

US REITs

US REITs lag behind the broad market in an increasing interest rate environment.

Canada

Canadian REITs market to benefit from positive momentum in all subsectors.

United States

- Interest rates rise with 10-year Treasury currently at 2.9% with minor impact on REITs.
  - Consensus expectations neutral to positive with a bullish private property market.
  - Further increase of IR may not be absorbed as easily.
- REITs are expected to outperform broad market during a correction phase.
- 2017 Real Estate transaction volumes are 12% lower than in 2016. This trend is expected to continue in 2018.
- According to Knight Frank's Global Cities report, **New York** is the second most attractive city after London with £5.1bn of overseas capital.
- Technology sector is the largest contributor to **Office** leasing industry.
  - Coworking as dominant trend.
  - Vacancy rate at the lowest 12.5%.
- Strong demand in **Industrial** sites with all time high absorption rates.
  - E-commerce, logistics and supply-chain are the main drivers.
- **Retail rents** expected to remain stable with weak market fundamentals.

Canada

- Real Estate transaction volumes increased by 29% in 2017 while in US we observed a decrease of 12%.
- Canada saw its best year for occupancy growth since 2012, reflecting the robust performance of the Canadian economy.
- Occupancy growth limited by lack of **Office** supply in Toronto, Vancouver and Montreal.
  - Financial Services sector was the largest contributor to leasing activity in 2017.
  - Strong demand for offices from technology sector.
  - Unemployment rate at the lowest 5.7% with almost 400,000 new full-time jobs.
  - Toronto accounts for the half for new leasable area construction of Canada.
- Market fundamentals are positive for 2018 with tech sector to lead.
- **Industrial Property** has low vacancy rate of 5% up to 2% depending on region.
  - Increased demand of lease since 2017 which boosts rental growth.
  - The amount of space under construction surpassed 5 million square feet.

Europe

Region	European REITs market expected to further benefit from 2017’s momentum.
United Kingdom	London remains the most attractive city in the world with no direct negative impact from Brexit **so far.**
Germany	Interest rate spike slowly corrects the market after exceptional 2017. Solid economic fundamentals suggest a positive view on further growth.

Europe

- **European Real Estate** sector concluded 2017 with a 22% growth in volume.
  - UK +37%, Germany +9%, France +12%.
  - Netherlands +44%, Italy +17%, Spain +23%.
- **European Office** sector up by 10% in 2017 and expected to grow.
- **European industrial and logistics** dominated the market in 2017 as investment activity hit a record high, increase by 67%.
- **Eurozone** broad equities market expected to grow faster than Europe.
- **Spanish market of Madrid and Barcelona** are attractive with a rental growth.
- **Portugal Retail** sector recovered after crisis.
  - Record transaction volume in 2018, estimated over €1bn (Blackstone sale).
  - High prime yields around 5%, above European average.
- **Dutch Retail** market's rents are expected to stabilize and increase in large cities according to JLL.

United Kingdom

- **Residential Market:** According to the latest Residential Market Survey (www.rics.org[1]), momentum is still soft to start the year.
  - New buyer enquiries and newly agreed sales declined.
  - Lack of new construction coming to market.
  - Prices edge higher at the national level but continue to decline in some parts of the country.
- Despite construction pipeline, **Office** supply satisfies only half of tenant demand.
  - Main demand from Technology, Media and Biotech sectors.
- According to Knight Frank's Global Cities report[2], **London** attracted more overseas capital than any other global city in 2017. Eighty-three per cent of all transactions were from overseas investors, totaling in excess of £14bn. The key buyer group was Greater China, at over 40% of the total.

[1] Royal Institution of Chartered Surveyors
[2] www.properkyweeks.com, 7 February 2018

Germany

- **German REITs** market is worldwide leader with 27% growth in 2017.
- **German Residential Properties** expected to suffer from 10 year bunds rate highest level since 2015.
  - REITs are losing attractiveness.
  - Rates expected to increase further.
- **Office Sector** reached a record volume with 7% yoy increase in 2017.
  - Strong economic activity with high capacity utilization rate.
  - Vacancy rate dropped to 5% from 10% only 5 years ago.
  - New building volume is insufficient to cover strong demand.
  - Rental prices to slightly increase in 2018, after an average +4.8% growth in 2017.

Asia Pacific & Japan

Region	Property investment volumes reached a new high with 16% year on year growth guided by cyclical recovery in world trade. Export based activity gained momentum ending a decline cycle, helped by Chinese and Indian economy growth.
Singapore	Solid fundamentals with limited supply suggest growth trend. Government measures to play a key role with new Land Sales Programme.
Hong Kong	A bullish market to continue in 2018 fuelled by Chinese economy. Restricted supply in most subsectors contribute to rent increase.
Australia	Largest cities reached new highs with limited supply. Rents in several subsectors show double digit growth.
Japan	Rental levels remain high in major cities as the vacancy rates drop to the lowest values.

Singapore

- Positive view on **Residential Market** with sales prices expected to rise.
- **Government Land Sales Programme** to match demand.
  - Limited land sale with aggressive Chinese developers entering the market.
  - Strong demand for sites by real estate developers for private residential and offices.
- Large deals in **Office** market show demand for development to benefit from rental upturn.
- **Office Rental Values** are expected to grow at least 10% in 2018 after a record growth in 2017.
- **Retailers** are facing a slow decline in both capital value and rental value.
  - Supply pipeline for 2018 is lower than in 2016 and 2017.
  - Retail sales slightly increased with tourist arrivals and offer optimism for new space demand.
- Vacancy rate of **Industrial** dropped at lowest level since 2013.
  - Strong demand from technology and innovation sectors.
  - International investors with interest in business parks strengthen the sector.
  - Limited supply and economic growth forecast a rental growth the coming years.

Hong Kong

- Positive view on **Residential Market** during an expected bullish broad market.
  - Physical real estate bullish market.
  - Government incentives with eventual regulation loosening and inflationary pressure.
  - Current supply lower than demand, growth expected by government supply.
  - Real interest rate expected to remain negative.
- **Logistics** sector is facing new demand with e-commerce boom in China.
- Forecast of rental growth in a low **Office vacancy** environment.
- **Retail** sector slowly recovering after a weak 2017.
  - Cyclical sale increase during holiday season boosted retail sales.
  - Leasing demand remains low, however interest revived by foreign investors.
- Strong demand of **Industrial** space fuelled by China.
  - Rental values expected to grow in a supply constrained market.
  - Government plan to review building policy.

Australia

- Rise of the **10-year bond rate** to 2.8 impacts returns vs broad market.
- **Valuation** is attractive with P/E of 15.7x below broad market and DPS yield of 5%.
- **Supply** in largest Australian cities remains very limited for overall real estate market.
- **Sydney followed by Melbourne** was the region leader in **Office** rent growth as of 2017, trend expected to continue.
- **Retail markets** are stable with very low rental growth recorded.
  - **Amazon** entered the Australian market in Q4 of 2017.
  - **Prime** retailers are growing at a higher rate than secondary.
- **Residential sector** is facing slower demand from both local and offshore investors.
  - Vacancy rate remains high in Sydney and Melbourne.
  - Rents are moderately rising during a strong supply cycle.
- Prices of **Industrial** sites reached the highest peak since 2013.
  - Rental growth to slowly grow in Sydney and to compress in Melbourne.
  - Record number of transaction recorded the last 3 years.

Japan

- Transaction volumes in Japan totaled US$37 billion in 2017, up by 10% year-on-year.
- **Tokyo Office** vacancy rate is at a lowest 2.5% rate and is to decrease in Q1.
  - Scarcity of assets to sale despite strong investor interest.
- New **Office** supply expected to reach peak levels in 2018.
  - Still insufficient to satisfy robust demand.
  - Rents are expected to moderately grow.
- Private consumption is expected to grow 1% in 2018 to support **Retail** sales.
  - Strong demand for new stores from international retailers.
  - With limited vacant space and healthy demand, rental levels are to remain at a peak level.
  - Number of visitors increase by 19% y-o-y, with tourism as strong contributor.
  - Foreign luxury brands open new stores in Tokyo.
- Major new **Industrial** space supply expected in 2018 in Tokyo.
  - Slow industrial production growth with global competition.
  - Geopolitical tension risks to impact industrial production.

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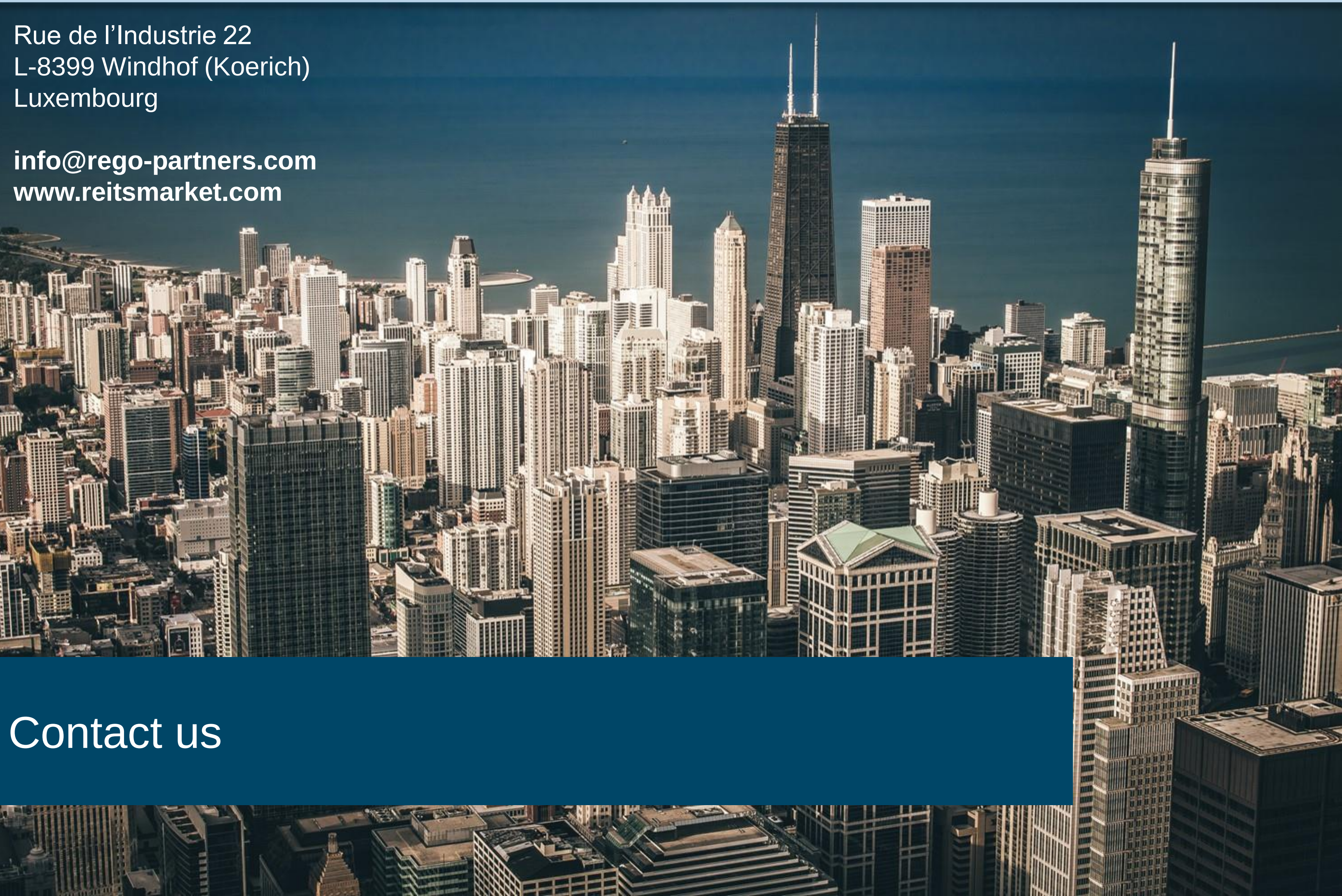

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