



1 December 2023
Volume 1209

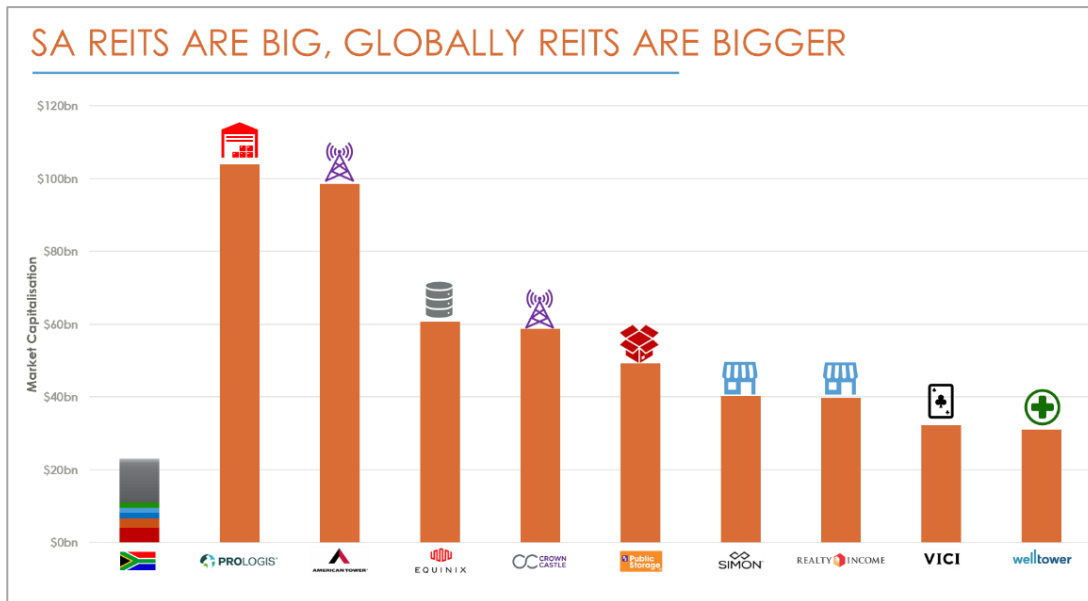
Unlocking Opportunities: Delving into Global Listed Real Estate

Author: Olivia Teek, Business Development Manager, Reitway Global

Investing in global listed real estate offers a myriad of opportunities for those who dive below the surface. This article will discuss a few key insights that might be flying under the radar for many investors, shedding light on the factors that make this sector the likely underdog.

Before delving into the specific insights that reveal certain opportunities within the Global Listed Real Estate space, it's important to establish context by comparing the local and global real estate landscapes.

Globally, there are 28 Real Estate Investment Trust (REIT) sectors and subsectors, with the largest REIT in the world being four times larger than the entire South African listed space. This vast global landscape sets the stage for exploring unique opportunities and considerations within the realm of listed real estate.



Economically Relevant Real Estate: Beyond Office Buildings and Malls

Contrary to misconceptions, global real estate isn't a mere assortment of redundant office buildings and derelict malls. It encompasses economically significant real estate, focusing on sectors experiencing notable trends. One such sector is necessity-oriented shopping centres in certain U.S. regions, benefitting from low supply and the lowest vacancy rates in 15 years.

Among the sectors capitalising on long-term demand trends is **residential** real estate in the U.S., particularly in the realm of affordable housing where there is a notable undersupply. Additionally, **healthcare** real estate is thriving, catering to an ageing demographic with a growing need for medical office buildings, life science facilities, and senior housing properties.

Infrastructure real estate, which includes **data centres and cell towers**, is experiencing robust growth due to the ongoing digitisation of the economy. The increasing demand for Artificial Intelligence (AI) further contributes to the limitless demand for these assets.

Lastly (but by no means least), **logistics** real estate is in high demand, extending beyond e-commerce to encompass the reorganisation of supply chains and onshoring initiatives.

This diversification within the real estate universe allows for a strategic focus on liquid, relevant assets that align with the trajectory of growing economic trends globally.

Solid REIT Fundamentals: A Prerequisite for Success

The foundation of global listed real estate success lies in robust REIT fundamentals. Strong underlying property fundamentals hinge on demand/supply dynamics and landlord pricing power.

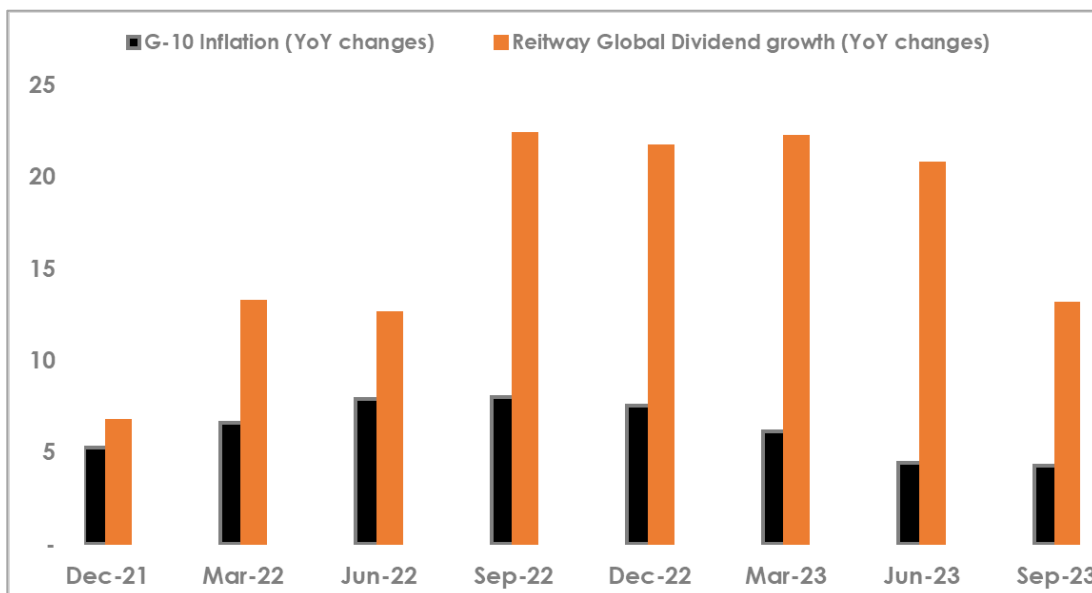
Despite pockets of weakness, such as the South African and U.S. office spaces, REIT fund managers can navigate these pockets of operational weakness, ensuring portfolio resilience. Areas experiencing robust secular demand, like senior housing and single-family homes in the U.S., present opportunities where demand outstrips supply, supporting healthy rent growth and ultimately leading to inflation beating returns.

The robust total return exhibited by global REITs plays a pivotal role in fostering dividend growth that surpasses the impact of inflation. As these investment vehicles showcase resilience and sustained growth potential, they generate a consistent income stream for investors.

The total return, comprising both capital appreciation and dividend yield, serves as a catalyst for outperforming inflationary pressures. By strategically managing their portfolios and capitalising on markets with strong demand and limited supply, REITs can not only weather economic fluctuations but also thrive in environments marked by inflation.

The ability of REITs to augment dividends over time is a testament to their capacity to generate income that can outpace the erosive effects of inflation, providing investors with a hedge against the diminishing purchasing power of their returns.

Below is an example of the growth surplus provided by global listed property compared to the G-10 inflation numbers on a quarterly basis, showcasing the ability to provide outsized real returns.

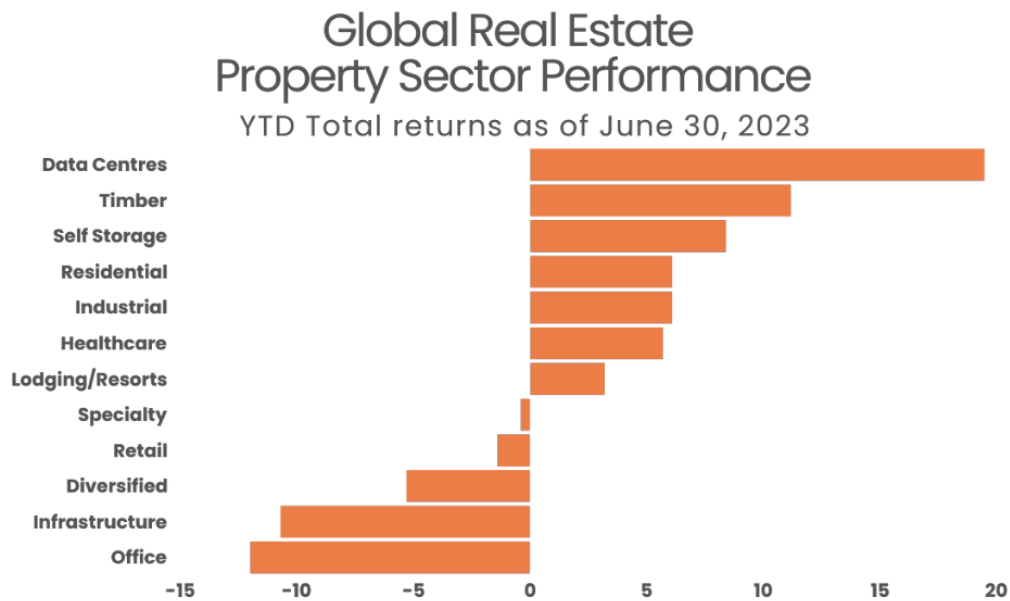


Source: Bloomberg and Reitway Global. As of 30 September 2023.

Rise in Construction Costs: A Supportive Reinforcement

A key strength for the real estate sector is the notable increase in replacement costs. This upward trend, unseen for decades, supports landlords' pricing power by necessitating higher rents for economic returns, thereby underpinning existing landlords' rental dynamics. This increase also curtails development starts, contributing to a decline in supply and reinforcing the pricing power for existing landlords.

The following graph illustrates the transformative impact of pricing power arising from supply/demand dynamics, showcasing notable performance in economically significant sectors.



Source: Nareit Analysis of returns from Factset as of June 30, 2023

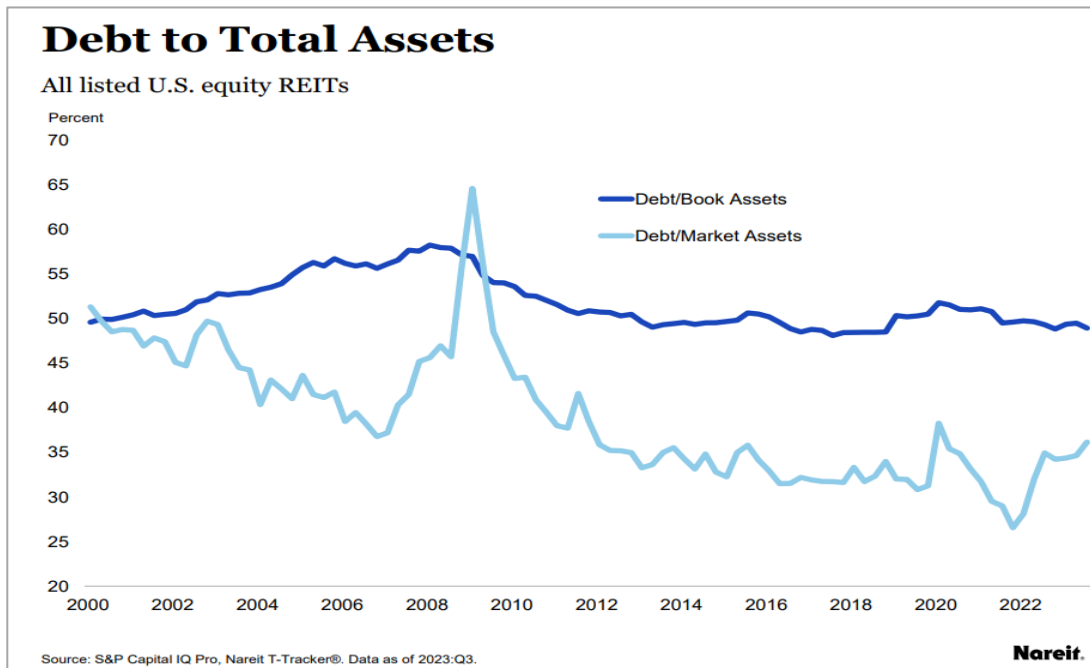
Our deliberate overallocation to most of them has been sustained for an extended period, driven by our discerning investment perspective that recognises their enduring value and robust growth potential.

Sound Capital Structures: A Competitive Advantage

The listed real estate sector boasts sound capital structures and one we believe to be a key competitive advantage. With leverage below 30% in most cases, well-structured debt, and diverse access to different debt sources, listed REITs are positioned to capitalise on emerging opportunities. The low leverage and diverse access to capital allow REITs to be opportunistic in acquiring portfolios, presenting a distinct advantage in the current market.

REITs commonly employ leverage to optimise return on equity. Therefore, in periods of high-interest rates, the cost of debt escalates, diminishing the accretive nature of expansion opportunities and potentially impacting distributable earnings as existing debt servicing takes precedence. However, amid the challenges posed by the current interest-rate cycle, there is a visible upside.

Historical trends indicate that listed real estate tends to outperform when the tightening cycle concludes and policies shift toward loosening. This historical perspective highlights the potential for REITs to rebound and deliver favourable returns as the economic environment evolves.



Relative Valuation: An Attractive Proposition

Despite relative underperformance compared to equities in recent years, the global listed real estate sector is at relative lows outside of extraordinary environments like the Global Financial Crisis.

The sector presents an attractive relative value proposition with solid underlying fundamentals and an increasingly favourable demand/supply balance. This attractiveness extends to comparisons with underlying direct real estate, with REITs trading at a 20% discount to underlying net asset values.

As of the latest data, REITs are trading at a noteworthy discount to their 10-year median Price to Funds from Operations (P/FFO), standing at 14.8% below the established median of 17.6. This divergence from historical norms suggests a unique buying opportunity for investors seeking value in the real estate sector. The P/FFO ratio is a crucial metric for evaluating the financial health and valuation of REITs, making this discount a potential indicator of market mispricing.

REITs RELATIVE TO EQUITIES

AS AT 20 NOVEMBER 2023

RELATIVE PRICE RATIO	S&P 500	US REIT INDEX
HISTORIC 10Y MEDIAN	19.7 P/E	17.6 P/FFO
CURRENT	21.76 P/E 10.6%	14.99 P/FFO -14.8%

Sources: NAREIT, Bloomberg – 20 November 2023

In Conclusion: A World of Investment Potential

Global listed real estate, with its economically relevant and high-quality properties, offers a wealth of opportunities often overlooked. The sector's robust fundamentals, sound capital structures, attractive relative valuations, and diverse opportunities make it a compelling choice for investors seeking long-term growth and stability; some might argue even more so right now.

As you navigate your investment portfolio, consider whether you might be overlooking these key insights into global listed real estate - a realm rich with potential.

"Be fearful when others are greedy and greedy when others are fearful."

Warren Buffett

Glacier Research would like to thank Olivia Teek for contributing to this week's *Funds on Friday*.

Olivia Teek
Business Development Manager
Reitway Global

Olivia entered the investment industry with a passion for fostering financial growth and sustainability. Over seven years, she has navigated the intricacies of the sector, gaining valuable insights and knowledge along the way.

As the business development manager at Reitway Global, recognised for her specialisation in global listed real estate and REIT funds, she brings an in-depth understanding of this unique asset class.

Olivia holds an MBA from the University of Stellenbosch and plans to complete her CFP Board exam in 2024.

