

Reitway Global Property Fund

- › The GPR 250 REIT Index delivered 3.3% in US dollar terms in June
- › The outperforming sectors were regional malls (7.7%), specialty (6.8%) and healthcare (6.4%)
- › Once interest rates stabilise, with the expected peak at the end of the year, history reveals that real estate tends to outperform during these periods.

June 2023

Market Commentary

During June equity markets threw a party as the Nikkei 225 boasted the highest returns at +7.5%, the S&P 500 grew +6.5%, the Euro Stoxx 50 grew +4.3% and the Hang Seng grew +3.7% with all returns in local currencies.

Strength for the month was driven by a range of factors including the Fed pausing hikes at the latest meeting, rally in Japanese tech stocks and lower headline inflation in Europe. Fortunately, real estate cracked an invite but was not quite the life of the party as the GPR 250 REIT World Index (USD) delivered on the lower end of the spectrum at +3.3%.

In the GPR 250 REIT World Index, the outperforming sector for the month were regional malls as they contributed +7.7% in gains with specialty (+6.8%) and healthcare (+6.4%) receiving silver and bronze medals. Lodging and Resorts (-3.2%) continue to disappoint and the investor-favoured, industrial sector had a month to forget, returning -1.5% as a result of a broad-based decline across the US, Europe and Asia.

France had their month in the sun as the top performing geography with a +8.2% return. Mall giants Unibail-Rodamco-Westfield (URW) and Klepierre (LI) delivered +15.1% and +9.8% respectively after a few sell-side analysts upgraded their recommendations on URW during June.

URW walked away from their Westfield San Francisco Centre, handing the shopping centre over to lenders. The mall had been struggling to recover as foot traffic, retail sales and occupancies remained at ~43% below their pre-pandemic levels while the rest of the US portfolio had seen strong recoveries across these metrics in 2022 and into 2023. Although this appears to add to the CRE concerns, San Francisco in particular has struggled to bring back tourists as well as workers since the pandemic.

Across the channel, the UK did not celebrate with their neighbours as the market was heavily weighed down by a surprise hike of 50bps which led to a return of -4.8%.

Prologis (PLD) entered into a purchase agreement with Blackstone over a portfolio of 14 million square feet for \$3.1bn. The portfolio expands their presence across several markets

including California, Dallas, New York, and South Florida and presents potential upside to investors as existing leases rollover into higher market rentals. The deal bolsters relationships with existing customers and presents opportunities to develop relationships with acquired customers.

The US office sector knocked it out of the park in June. The largest performance contributors in the US were Vornado (VNO), SL Green (SLG), Empire State (ESRT) and Boston Properties (BXP) delivering monthly returns of +33.8%, +31.1%, 22.0% and +20.4% respectively. A large component of this growth across the sector was driven by a sales transaction executed by SLG, where they sold their 50% stake in 245 Park Avenue for \$2bn. The sale showed slight optimism in values for quality office assets in great locations, especially in a market such as New York, and led to a rally in peer share prices.

The Fed has chosen to keep interest rates unchanged but indicated that borrowing costs may still need to rise by 50bps by the end of the year. The decision to hold rates steady was intended to mitigate the pace of price increases while minimizing harm to the job market. Fed Chair Jerome Powell expressed optimism about the economy's resilience and job market performance while emphasizing the process to lower inflation will take time.

China experienced another disappointing month. Both industrial output and retail sales data for May missed their targets. Retail sales were forecasted to come in at +13.6% but only reached +12.7% while industrial output grew +3.5% falling just short of expectations of +3.6%.

Weak data and the loss of momentum seen at the start of Q2 led to the PBOC cutting key interest rates in an attempt to revive demand. In spite of this it is suspected that more stimulus will be provided by the government to combat the deflationary risks, record youth unemployment and weakening global demand in the country.

Real estate fundamentals continue to hold strong, however balance sheets will continue to be tested as interest rates are expected to edge higher and hit their peak towards the end of the year. **Listed REITs are in a more favourable position** than the private market, but **stock selection will remain critical** to weather the next few months. **Once interest rates stabilise**, history reveals that **real estate tends to outperform during these periods**.

If you would like to set up time to speak to us or for more information on any of [our funds](#) please contact oliviatt@reitwayglobal.com / 082 676 6115 or laurend@reitwayglobal.com / 060 587 5086

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