

# MONTHLY REVIEWS

## REITWAY GLOBAL | MONTHLY COMMENTARY | MAY 2023

June 13 2023

- The GPR 250 REIT Index declined by -4.31% in US dollar terms
- Data centre REITs emerged as the top-performing sector, delivering a notable return of +3.23%, followed by hotel & resort REITs which gained +0.08%
- Our investments are well-positioned to weather financial challenges and take advantage of distressed opportunities

### MARKET COMMENTARY

May started off with JP Morgan making a significant move to acquire First Republic bank valued at \$10.6 billion, with the aim to alleviate concerns surrounding the stability of the banking system. With the collapse of two other US lenders in recent months, the demise of First Republic made it the second largest banking failure in US history.

During the month, the German economy slipped into a recession as a result of high inflation impacting household spending. GDP shrank by -0.3% in the first quarter, following a -0.5% decline in the previous quarter. Germany's heavy dependency on Russia for energy supply was cited as a contributing factor along with household consumption which saw a significant decline of -1.2% quarter on quarter. Government spending also decreased by -4.9%.

Despite these negative figures, there were positive signs in investment, with machinery and equipment investment increasing by +3.2% and construction investment rising by +3.9%. While a recovery is expected in the second quarter, factors such as inflation, weak consumer purchasing power, and a potential slowdown in the U.S. pose challenges to the German economy's path to recovery.

Across the Atlantic, the U.S. House of Representatives reached an agreement to suspend the \$31.4 trillion debt ceiling, avoiding a potential default. The bill, a compromise between President Joe Biden and House Speaker Kevin McCarthy, garnered support from both Democrats and Republicans, despite facing opposition from hard-line conservatives. The agreement includes provisions that generated some opposition from progressive Democrats, such as new work requirements for certain federal anti-poverty programs. While the legislation is expected to result in \$1.5 trillion in savings over a decade, it falls short of the saving targets proposed by Republicans and the deficit reduction goals outlined in Biden's budget. Nonetheless, this agreement is seen as a positive development for the American people and the overall economy.

Economic data released by China indicates that the country's performance is faltering. China's April industrial output grew by 5.6% year-on-year, which was below expectations of a 10.9% increase. Similarly, retail sales grew by 18.4%, falling short of the projected 21.0% growth. The figures reflect a loss of momentum in the economy at the beginning of the second quarter,

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highlighting concerns about both the domestic and export engines of growth. Furthermore, property investment continued to decline, and other indicators such as shrinking imports, factory gate deflation, and weak bank loans further underscored the weak domestic demand.

The GPR 250 REIT Index declined by -4.31% in US dollar terms, erasing the prior months gain. All continents finished in the red, with losses ranging from -2% in Asia to -8.5% for Europe.

Among the geographical regions, Mexico showcased remarkable growth, generating an impressive return of +6.68%. Japan came in second delivering -1.95%. South Africa continue to encounter substantial difficulties as loadshedding and rate hikes persisted during May, experiencing the lowest return of -16.98%. Similarly, Sweden recorded a return of -15.10%.

Data centre REITs emerged as the top-performing sector, delivering a notable return of +3.23%, followed by hotel & resort REITs which gained +0.08%. Conversely, other specialized REITs (companies owing theatres, entertainment themed retail, casinos, restaurants), posted the lowest return of -7.33%, while retail REITs struggled as well, with a return of -5.99%.

During the month of May, Swedish property company SBB (Samhällsbyggnadsbolaget i Norden) continued to face significant challenges as it battled against the pressures of falling property prices, higher interest rates, and tighter bank lending. The company's struggles led credit rating agency Fitch to downgrade SBB to junk status, following a similar move by S&P. As a result, SBB's shares remained heavily impacted, down more than 90 percent from their peak at the end of 2021. To address its financial difficulties, SBB announced an expanded strategic review, considering options such as an outright sale of the entire group or its parts, but ruling out a share issue. The board of directors emphasized that they believe the intrinsic equity value of the business is significantly higher than its current market value and hired JPMorgan and SEB as advisers to assist in exploring potential alternatives.

At Reitway, our investment approach focuses on selecting companies with strong balance sheets and abundant liquidity. This strategy ensures that our investments are well-positioned to weather financial challenges and take advantage of distressed opportunities.

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

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