Global property securities market total returns (%)

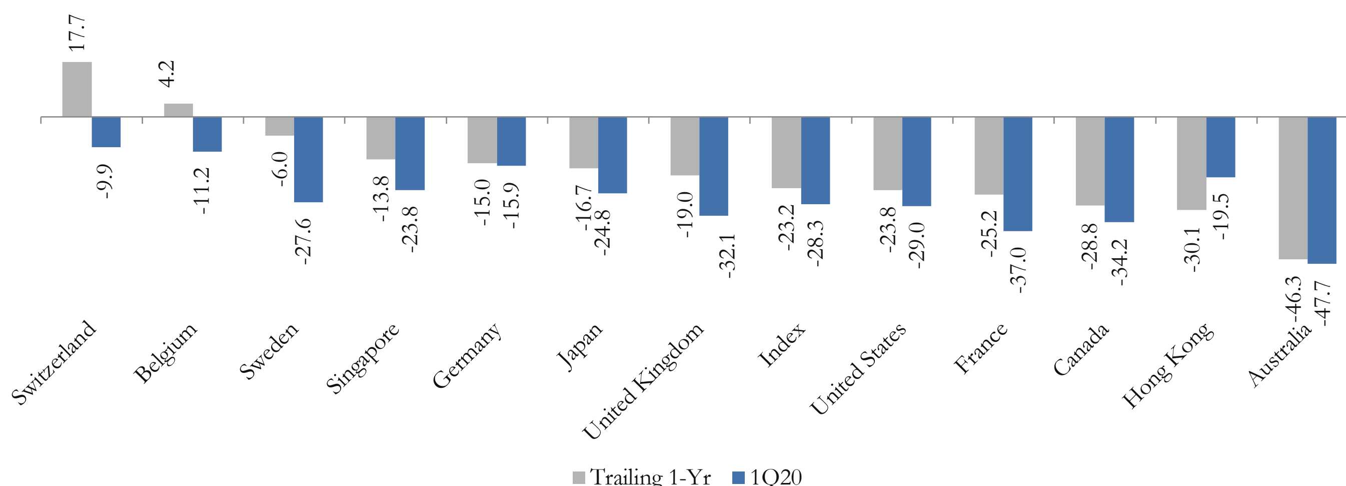
	1Q20	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	-28.3	-23.2
Asia-Pacific	-26.8	-25.2
Europe	-27.4	-17.2
North America	-29.3	-24.1
FTSE All World Developed Index	-21.0	-10.0

Sources: Bloomberg, FTSE EPRA/NAREIT, and FactSet in USD.

Unprecedented! The COVID-19 (coronavirus) pandemic that effectively shut down economies across the globe weighed heavily on nearly all asset classes during the First Quarter, despite herculean fiscal and monetary policy steps taken to help offset the historic economic drag expected to result in the coming year. The dispersion of returns was narrow between the regions in the Index, as shelter-in-place (SIP) mandates were instituted in most countries to slow the rate of infection. Yet underlying performance was more reflective of how COVID-19 might affect fundamentals, with a tenants' ability/willingness to pay upcoming rent seemingly the biggest driver of returns. In particular, the more pandemic-resistant sectors (data centers, logistics, self-storage) outperformed those more directly and negatively affected by the shutdowns (retail, hotels). Indeed, employee furloughs, reduced compensation, line of credit drawdowns, withdrawn guidance and dividend reductions were prevalent among this latter group given the downward pressure on cash flows. **It is often said that *real estate houses the economy*, which underpins the lagging performance of property securities as global growth came to a screeching halt. Yet the downbeat returns seem to imply that property owners will absorb the entirety of pain associated with the shutdowns (rent forgiveness for all) despite tenants' legal obligations to pay rent, even in pandemic. Rather, the more likely outcome will include shared pain among all parties (rent forgiveness for some), which suggests property securities may be uniquely positioned to outperform if cash flows end up better than these downtrodden expectations.**

Performance by Country (% in USD)

FTSE EPRA/NAREIT Developed Index



Sources: FTSE EPRA/NAREIT and FactSet in USD for countries representing at least 1.0% of Index weight.

North America (56.5 % of Index)	1Q20 Total Return		
	North America	U.S.	Canada
Index Weight	56.5%	53.8%	2.7%
Local Currency (LC)	-28.9	-29.0	-27.8
USD	-29.3	-29.0	-34.2

Sources: FTSE EPRA/NAREIT and FactSet.

North America posted a negative total return during the First Quarter, slightly lagging the Index. The US took historic steps to offset the economic collapse poised to result from the spread of COVID-19. The Federal Reserve announced unlimited quantitative easing and cut its benchmark rate to zero, while lawmakers passed a record $2.2 trillion fiscal stimulus package to help families and businesses survive the shutdown. Yet GDP growth is expected to fall off a cliff, with odds of recession rising as it remains unclear when and how economies can re-open in the absence of an effective treatment.

US REITs trailed the S&P 500 during the First Quarter (-29.0% vs. -19.6%), as SIP orders took an outsized toll on commercial properties. While not alone, US REITs were in the bullseye of investor selling as travel bans weighed heavily on hotel revenue per available room (RevPAR, a measure of performance, down 80% the last week of March) and SIP orders kept workers busy at home (compelling flex office tenants to end leases, pushing WeWork and its peers to withhold rent while also raising questions regarding future demand as remote work proves successful). Moratoriums were also ordered on evictions and rent increases for apartment owners while the mandated closure of non-essential stores, dine-in restaurants and enclosed shopping centers dragged bricks & mortar retail sales to zero overnight. Business interruption insurance and "force majeure" lease clauses (unforeseeable circumstances, which would free the tenant from its obligations) do not typically cover viruses or pandemics. As such, the collectability of upcoming cash rent was uncertain, based on a tenant's inability or unwillingness to pay, with expectations of free/reduced rent dragging share prices for nearly all REITs lower given the negative implications for cash flows.

The Industrial-Mixed property sector was the top performer (+6.2%) as data center REITs have been largely unaffected by SIP orders and could benefit from increasing demand going forward. Digital Realty Trust was a top performer in the Index (+17.0%), following its transformative acquisition of European peer Interxion during the quarter; only mall owner Taubman Centers came out ahead (+36.6%) following a merger agreement with Simon Property Group. Nearly all data center REITs posted positive returns, as pre-coronavirus secular tailwinds gained speed in the SIP world (remote work, on-line learning, streaming, e-commerce).

Retail continued its secular decline during the First Quarter, worsened by the mass closures of non-essential stores and shopping centers, including Factory Outlets (-65.3%), Regional Retail (-59.4%) and Local Retail (-49.3%). Retail fell deeper into its hole as an estimated 630,000 "non-essential" locations were forced to close, more than 50% of total floorspace. Regency Centers disclosed that 42% of annual base rent falls in the "essential" bucket (grocery/drug, medical, banks, pets, other), despite its high-quality, grocery-anchored portfolio. Several national retailers indicated they would suspend or defer April rent (Cheesecake Factory, Nike, Subway and more), while Taubman Centers indicated that "All Tenants will be expected to meet their Lease obligations" given their obligations, despite its mall closures. Landlords are working with tenants (deferrals/payment plans) as the failure of successful retailers is in nobody's best interest. Yet the bottom line for retail owners is that cash rent will be impaired/delayed as stores remain closed.

Canadian REIT returns were similarly weak, with currency dragging USD returns lower. The Canadian economy got off to a slow start in 2020 with GDP growth of 0.1% in January from 1.5% in 2019. Growth is poised to worsen given the double impact of COVID-19 and plummeting oil prices (largest quarterly % decline on record given the Russia-Saudi oil price war, on top of plunging demand as people SIP), which could tilt the country into recession despite massive effort on the fiscal and monetary stimulus fronts.

Asia-Pacific (25.1% of Index)	1Q20 Total Return				
	Asia-Pacific	Japan	Hong Kong	Singapore	Australia
Index Weight	25.1%	12.2%	6.8%	3.2%	2.6%
Local Currency (LC)	-25.3	-25.3	-20.0	-19.3	-39.9
USD	-26.8	-24.8	-19.5	-23.8	-47.7

Sources: FTSE EPRA/NAREIT and FactSet.

Asia-Pacific delivered a negative total return during the First Quarter, best among the regions despite Australia whose performance was among the lowest of all countries in the Index. Currency detracted from the USD return, primarily attributable to Australia, New Zealand and Singapore.

Property securities in Japan posted a negative return in the First Quarter, including a modest boost from currency. Quarterly performance was generally driven by how companies might fare in the COVID-19 induced shutdown, despite Japan's Prime Minister (finally) declaring a state of emergency after quarter end. Nippon Prologis REIT and Mitsui Fudosan Logistics Park were top performers (-1.2% and -3.8%), as demand for logistics facilities should be more resilient and could benefit as occupiers seek to improve portfolio quality and locations to better serve their customers. Hotel owners Japan Hotel Reit Investment and Invincible Investment landed at the bottom (-61.1% and -60.6%), as Japan imposed entry bans for foreign nationals who visited any of the >70 COVID-19 infected countries, including the US.

Hong Kong property securities outperformed the region, but still posted a negative return during the quarter. The increasingly violent anti-China protests weighed heavily on property securities in 2019, up 4.6% which was lowest among all countries in the Index (+23.1% overall). As such, property securities in Hong Kong were arguably closer to a "bottom" when COVID-19 began taking its toll on nearly all asset classes in early 2020. Hang Lung Properties Limited was the top performer during the quarter (-7.5%), despite the company's ownership of retail properties in Hong Kong and Mainland China and the need to offer upwards of 50% temporary rent concessions to tenants negatively impacted by COVID-19. Albeit, Hang Lung may be a beneficiary of China emerging from hibernation sooner than other countries in the earlier stages of infections, given its Mainland retail properties. Performance for Wharf Real Estate Investment Company was at the bottom (-32.6%) following disappointing FY2019 results. Tenant sales at the company's high-end retail properties in Harbor City and Times Square were especially bad (-50% and -40% YoY in 4th quarter, vs. overall Hong Kong -22%) given locations in (emptying) tourist destinations and heavier reliance on sales-based rent.

Australia property securities were among the worst performers during the First Quarter, with the USD return pulled significantly lower including currency. The Australian dollar (AUD) has been particularly volatile since mid-2019, a -7.8% drag on USD returns in the First Quarter, which follows +4.2% and -3.9% in the back half of 2019. The AUD is typically among the world's most volatile currencies, highly traded and dependent on the value of commodities and differential interest rates. Yet the AUD is also viewed as a proxy for emerging Asia markets, thus volatility has been exacerbated by the US-China trade dispute in 2019 and plunging oil prices in early 2020. Mall owners were the bottom performers, including Vicinity Centres and Scentre Group (-63.8% and -63.4%), as the country braced itself for the spread of COVID-19 by shutting down nonessential stores. By comparison, Shopping Centres Australasia Property Group was a top relative performer (-26.0%) as its supermarket-anchored centers consist of food, pharmacy/medical and other non-discretionary goods and services; the company indicated that only 0.6% of annual gross property income per month was forced to close.

Property securities in Singapore outperformed the region, following the country's early, swift and significant steps to contain COVID-19. Singapore exhibited similar COVID-19 induced (or exacerbated) trends seen in the other regions. Pure-play data center owner Keppel DC REIT posted a +4.9% return (or +11.1% LC). On the other end was CDL Hospitality Trusts (-51.9%), owner/operator of 18 hotels, 2 resorts and 1 mall located in desirable cities yet essentially shut down by COVID-19.

Europe (18.4% of Index)	1Q20 Total Return								
	Europe	UK	Germany	Sweden	France	Switz.	Belg.	Neth.	Europe (ex UK)
Index Weight	18.4%	4.8%	5.3%	2.0%	1.4%	1.4%	1.2%	0.8%	13.6%
Local Currency (LC)	-24.6	-27.5	-14.0	-23.4	-35.5	-9.9	-9.2	-58.5	-20.1
USD	-27.4	-32.1	-15.9	-27.6	-37.0	-9.9	-11.2	-59.4	-22.2

Sources: FTSE EPRA/NAREIT and FactSet.

Europe posted a negative total return during the First Quarter, slightly besting the Index. Like their peers across the globe, policymakers took emergency monetary and fiscal steps to keep their economies afloat in the face of a global pandemic, particularly as Europe quickly became a hotbed of infections outside of China. Currency was an outsized drag on USD returns, notably the British £/$ exchange rate fell 4.6% as US currency gained from flights to safety as the crisis unfolded.

UK securities underperformed the Index and its European counterparts during the quarter, with significant dispersion among the underlying sectors. Retail property has faced a multi-year decline given the unrelenting rise of internet sales; the UK has among the highest e-commerce penetration rates at over 22%, vs. other European countries at less than 10%. The COVID-19 pandemic quickened the bleed of several retail owners as stores and centers were forced to close, including Hammerson and Intu Properties which suffered historic quarterly share declines (-77.8% and -87.7%) as only ~one-third of rent was received from their shuttered tenants. Retail property owners Capital & Counties Properties and Shaftesbury also lagged (-40.7% and -38.2%), though their smaller sizes and desirable locations (Covent Garden and West End of London) arguably put a "floor" on share prices, as many investors would like to own these irreplaceable properties under more normal conditions. By contrast, owners of the more COVID-19 resilient properties, including industrial and logistics, reported meaningfully higher levels of rent collections for the upcoming quarter (between 70-85%) which led to better relative performance during the quarter. Industrial property owners Segro, Tritax Big Box REIT and Tritax EuroBox posted returns of -18.7%, -28.5% and +20.5%, with EuroBox getting a timely boost from its inclusion in the FTSE EPRA/NAREIT Global Real Estate Index Series. The historically defensive student housing sector proved less resilient against COVID-19, including Unite Group (-40.5%), following campus closures at UK universities in mid-March in a shift to distance learning with the risk that schools may not physically reopen to start the upcoming school year.

German property securities outpaced the Index and most European peers during the First Quarter, despite expectations that COVID-19 will drag the country's already fragile economy into a deep recession. GDP growth in Germany slowed to only 0.6% in 2019, the country's weakest expansion since 2013, with (pre-pandemic) forecasts of continued deceleration in 2020. Trade tensions between the US and China, which are among Germany's largest trade partners, and industry trends towards greener cars (electrical vehicles forecast to top 30% of new car sales by 2025) have negatively affected the export-heavy and gas-powered, auto-reliant country. The repercussions from COVID-19 have worsened this outlook but also separated the essential wheat (residential) from the nonessential chaff (retail), with the country's outsized weighting in the essential sectors contributing to its relative outperformance. In particular, residential property owners LEG Immobilien, Deutsche Wohnen and Vonovia were the top performers (-4.9%, -6.8% and -8.6%) while shopping center owner Deutsche EuroShop fell to the bottom (-61.3%).

Property securities in the Netherlands were especially weak during the First Quarter, worst among all countries in the Index by a wide margin. The Netherlands is primarily comprised of retail property owners, including four of five securities and 92% of the country weighting within the Index. Global diversification did little to stem the bleeding for mall owner Unibail-Rodamco-Westfield (-60.9%), as nonessential stores and shopping centers closed in nearly all its markets, compelling the company to reduce staffing levels, lower executive, senior manager and board compensation, defer capital expenditures, withdraw 2020 guidance and cut its dividend in half.

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