REIT VIEW - GLOBAL

Second Quarter 2020

Global property securities market total returns (%)

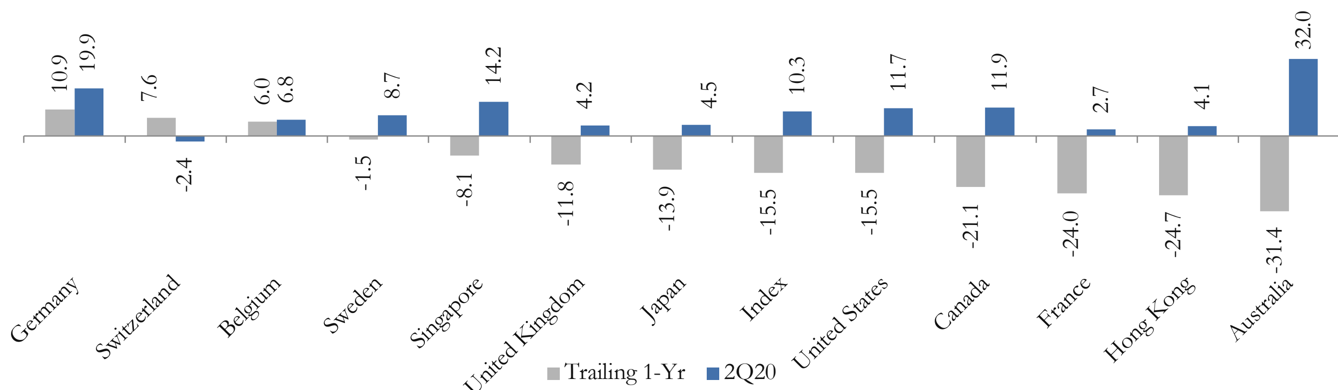
	2Q20	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	10.3	-15.5
Asia-Pacific	8.6	-19.4
Europe	8.5	-8.0
North America	11.7	-15.8
FTSE All World Developed Index	19.4	3.3

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

Risk On (and on!), as Wall Street maintains social distance from Main Street. The COVID-19 (coronavirus) pandemic has led to extraordinary loss of lives and livelihoods during its quick sprint across the globe, with nearly a half million confirmed deaths during the Second Quarter alone. Job losses mounted as businesses shuttered, most dramatically in the US where the unemployment rate spiked from 4.4% in March to 14.7% in April and has since improved to 11.1% in June as cities slowly re-opened. Despite unknowns regarding the ultimate depth, breadth and duration of the virus' damage to global economies, property securities boarded the "risk-on" equities train and delivered a historically robust quarterly return as expectations of a sharp recovery seemed increasingly likely. The recent International Monetary Fund (IMF) World Economic Outlook projections support this view, with global GDP expected to fall 4.9% in 2020 (with a greater decline in the first half of 2020) to up 5.4% in 2021, including -8.0% to 4.5% in the US, -10.2% to 6.0% in Europe, -10.2% to 6.3% in the UK and -5.8% to 2.4% in Japan, to name a few. **Yet the outlook for financial assets and property securities is still uncertain, as the global pandemic is far from over with infections rising in re-opened regions and localized shutdowns becoming the norm. It is often said that *real estate houses the economy*, an accurate depiction but unfortunate moniker when economists use the Great Depression as a guidepost for current conditions in the US. The silver lining is that listed property companies have prepped for a looming recession during the historically long/10+ year economic recovery leading into the pandemic, selling the weakest assets and reducing leverage. Nearly all property securities are expected to survive (vs. the sharp increase in virus-inflicted corporate bankruptcies) and many are poised to play investment offense if/when distress surfaces in today's global recession.**

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 (57.1 % of Index)	2Q20 Total Return		
	North America	U.S.	Canada
Index Weight	57.1%	54.2%	2.9%
Local Currency (LC)	11.5	11.7	7.1
USD	11.7	11.7	11.9

Sources: FTSE EPRA/NAREIT and FactSet.

North American property securities posted total return of 11.7% in the Second Quarter, which follows -29.3% previously. Returns were positive in nearly all property sectors with value/cyclicals leading the pack, despite the onset of a steep pandemic-induced recession and absence of a therapeutic for COVID-19. The IMF forecast for 2020 US GDP growth is -8.0%, down from the 2.0% pre-pandemic projection at the start of the year as businesses shuttered and shelter-in-place (SIP) mandates were instituted to slow the rate of infection.

US REITs trailed the S&P 500 during the quarter (11.7% vs. 20.5%), though notably the broader equities market was boosted by a handful of companies benefiting from SIP orders. US REITs have benefited from secular growth in non-traditional properties and sectors riding e-commerce coattails (e.g., data centers, industrial), with COVID-19 turbocharging these trends. Yet US REIT exposure to the secular/pandemic/tech winners pales in comparison to the broader equities market, which helps explains some of the total return shortfall; the five largest stocks in the S&P 500 represent ~20% of the index and all ended the quarter at/near all-time highs, including Microsoft (29.4%), Apple (43.8%), Amazon (41.5%), Alphabet (22.0%) and Facebook (36.1%).

Retail was the top performer, including Factory Outlets (49.2%), Local Retail (26.2%) and Regional Retail (20.3%). Stores and shopping centers began re-opening towards the end of June, following the closure of non-essential businesses in mid-March, boosting sentiment for retail property. Yet cash rent collectability remains a key concern as tenants most vulnerable to the aftermath of COVID-19 struggle to pay contractual rents after several months of little/no sales. The viability of movie theaters, gyms and restaurants, outsized space takers with no obvious replacement tenants, is particularly shaky given social distancing imperatives. Store closures for 2020 are tracking ~55% higher than in 2019, which ended the year at nearly 10,000, with bankruptcy filings also ~50% more than a year ago. Simon Property Group (24.6%) is attempting to terminate its pre-coronavirus deal to acquire Taubman Centers (-9.8%), likely on the more downtrodden outlook for malls. Rents follow sales, which suggests cash flows are poised to falter, and the sector-leading performance may prove unsustainable given the souring fundamental outlook.

Storage was the bottom performer during the quarter (-1.7%). Self-storage has fared better than other sectors in past recessions given the "Four D's" that drive demand…death, divorce, disaster and dislocation, with all boxes checked since the onset of COVID-19. Yet self-storage is also facing a multi-year increase in new supply, pressuring asking rents lower, while also getting left in the "risk on" dust during the quarter given the sectors' defensive characteristics.

Office also lagged (4.7%), as the outlook for densely populated cities dimmed with the virus. Empire State Realty Trust was the bottom performer of all REITs (-20.7%), given its outsized investment in Manhattan office and loss of observation revenue. Yet the outlook for office demand overall remains murky, following work from home success for many companies with employee surveys indicating a majority would prefer a modicum of remote work even post-coronavirus. De-densification may not fully offset reduced space needs, particularly as several large companies have announced plans to permanently go fully/partially remote, with urban warriors increasingly seeking suburban pastures.

Canadian property securities were up 11.9%, which follows -34.2% previously. GDP growth in Canada fell a historic 11.6% in April, which follows -7.5% in March, as COVID-19 and plunging global oil demand took an outsized toll on the Canadian economy. The IMF forecast for 2020 GDP growth is -8.4%, worse than the -8.0% projection for all advanced economies. The Canadian REITs have generally followed familiar trends, with industrial leading (Summit Industrial Income REIT 36.6%) and office lagging (Dream Office REIT -7.0%).

Asia-Pacific (24.8% of Index)	2Q20 Total Return				
	Asia-Pacific	Japan	Hong Kong	Singapore	Australia
Index Weight	24.8%	11.5%	6.4%	3.4%	3.2%
Local Currency (LC)	6.3	4.5	4.1	9.2	17.3
USD	8.6	4.5	4.1	14.2	32.0

Sources: FTSE EPRA/NAREIT and FactSet.

Asia-Pacific property securities posted a total return of 8.6% in the Second Quarter, which follows -26.8% previously. Currency contributed to the USD return, primarily attributable to Singapore and Australia…a reversal from last quarter when both country's LC and currency returns were sizable detractors from the region's performance.

Property securities in Japan were up 4.5%, which follows -24.8% previously. Similar to other regions and following structural/accelerating e-commerce trends, the industrial/logistics REITs were among the strongest performers, including Nippon Prologis REIT (22.8%) and GLP JREIT (28.8%), the latter of which raised JPY 22 billion (US$205 million) to acquire four assets in Tokyo. Demand for logistics facilities should continue to be more resilient, as occupiers improve portfolio quality and locations. The office sector generally lagged, including Nippon Building Fund (-13.7%) and Japan Real Estate Investment Corp. (-12.5%) as vacancy rates increased in Tokyo's central 5 wards.

Hong Kong property securities were up 4.1%, which follows -19.5% previously. Hong Kong continues to face existential headwinds following a since-withdrawn extradition bill that led to sweeping anti-China protests in 2019 and, more recently, China's new national security laws which effectively squash civil liberties for Hong Kongers. Yet several property securities delivered strong returns in the quarter, including retail owners Hang Lung Properties Limited (21.1%) and Wharf Real Estate Investment Company (19.6%) as successful containment of COVID-19 likely put some spending wind back in these deflating sails; Hang Lung given retail properties in Mainland China where normalcy is slowly returning and Wharf given heavier reliance on sales-based rent as sales slowly return.

Australia property securities were up 32.0%, which follows -47.7% previously. The bipolar nature of the Australian dollar continues, a 14.7% contributor which follows -7.8%, 4.2% and -3.9% in prior quarters, driven by the ongoing US-China trade talk and oil, where prices briefly turned negative in April (first time ever) as demand and storage capacity evaporated. Also volatile were the mall owners which were the top performers, including Vicinity Centres (55.4% from -63.8%) and Scentre Group (56.0% from -63.4%) as lockdowns eased and footfall increased. Scentre noted that 92% of its stores were open in June and visits were a not-so-terrible 86% of year ago levels. Diversified owner Stockland also posted head-turning returns (51.7% from -52.3%), as nearly two-thirds of its portfolio is comprised of retail town centres which are proving to be more stable.

Singapore property securities were up 14.2%, which follows -23.8% previously. New measures were enacted in April to help SREITs manage cash flows amid the *challenging operating environment due to COVID-19*, including extending the deadline of taxable income distribution (from 3 to 12 months), raising leverage limits (from 45% to 50%) and deferring interest coverage requirements (to January 2022). Parliament also passed the *COVID-19 (Temporary Measures) Act of 2020* for parties unable to meet obligations due to the pandemic, including temporary relief for tenants unable to pay rent and landlords in repaying secured loans. Singapore property securities reacted especially well to these swift and significant steps, despite the country also following the blunt lockdown playbook used across the globe. Owners of industrial and logistics properties continue to outperform given accelerating secular/e-commerce trends, including Frasers Logistics & Commercial Trust (42.5%), Mapletree Logistics Trust (26.8%) and Mapletree Industrial Trust (23.1%). Mapletree Industrial raised S$350 million of equity in a private placement to fund the proposed acquisition of the remaining 60% interest in 14 data centers located in the US, meaningfully increasing its data center exposure to 39% (from <32%). Performance for residential and office REITs was also solid, as Singapore is poised to benefit from the political turmoil in Hong Kong.

Europe (18.1% of Index)	2Q20 Total Return								
	Europe	UK	Germany	Sweden	France	Switz.	Belg.	Neth.	Europe (ex UK)
Index Weight	18.1%	4.7%	5.7%	2.0%	1.3%	1.3%	1.1%	0.7%	13.4%
Local Currency (LC)	6.2	4.6	17.1	2.2	0.3	-4.4	4.3	0.8	7.5
USD	8.5	4.2	19.9	8.7	2.7	-2.4	6.8	3.1	10.7

Sources: FTSE EPRA/NAREIT and FactSet.

European property securities posted a total return of 8.5% in the Second Quarter, which follows -27.4% previously. Economic growth in Europe is expected to be below average, -10.2%, vs. -8.0% for advanced economics and -4.9% for the world, per IMF forecasts. Yet property returns were strong in the quarter, despite the dreary outlook.

UK property securities were up 4.2%, which follows -32.1% previously. Dispersion of returns was wide with secular themes accelerating and still a key driver of performance. Industrial/logistics were top performers, including Tritax Big Box REIT (30.6%) and LondonMetric Property (20.5%), as e-commerce gains accelerated with lockdowns and consumers spent more on-line. Retail again waded at the bottom of the e-commerce and performance charts, as noted by mall owner Intu Properties falling into administration; shares were suspended, and the CEO stepped down. Growing expectations that employees will continue to work from home in some capacity even post-pandemic weighed heavily on office owners, including Workspace Group (-14.3%) and Derwent London (-14.0%).

German property securities were up 19.9%, which follows -15.9% previously. The German economy was on shaky footing before COVID-19 swept across the globe, given ongoing trade tensions between the country's large trade partners (US and China) and global trends towards greener cars which have negatively affected the export-heavy and gas-powered, auto-reliant country. GDP growth fell 2.2% during the first quarter which follows a 0.1% contraction (recession), with forecasts worsening as COVID-19 more fully takes its toll. The IMF forecast for GDP growth in Germany is -7.8% in 2020, which is historically weak but seemingly better than expected given the 1-2-3 punch of trade-autos-virus. Notably, Germany allowed construction sites and factories to remain open and was also quite effective in containing the virus. Germany should also have less of a virus-inflicted tourism drag, as this sputtering engine represents a smaller part of the economy compared to other destinations across Europe. Residential continues to outperform given its essential status, despite regulatory hurdles (rental caps/freezes), including Vonovia (24.5%) and Deutsche Wohnen (20.4%) which account for nearly two-thirds weight of all German property securities. M&A chatter also added to the sector's performance, including Vonovia eyeing Deutsche Wohnen (again), ADO Properties completing its takeover of Adler Real Estate and seeking control of Germany's largest residential developer Consus Real Estate.

Swedish property securities were up 8.7%, which follows -27.6% previously. Sweden's approach to COVID-19 was in stark contrast to most other countries, essentially allowing the infection to spread by not imposing shutdowns in the hopes of building herd immunity. While the approach to the virus was controversial, less controvertible was the negligible added drag on the country's property securities; year-to-date returns for Sweden are meaningfully lower, but in-line with Europe overall. Dispersion of returns was wide with hotel (Pandox 39.5%) and logistics (Catena 37.6%) leading and office lagging (Hufvudstaden -9.3%, Fabege -7.8%). The Swedish Krona also strengthened against the USD, reversion as the currency weakened sharply when lockdowns outside of Sweden began in mid-March.

Swiss property securities were an outlier at -2.4%, which follows -9.9% previously. Outsized exposure to the more pandemic-risky sectors (office, retail) weighed heavy on performance in Switzerland, despite locations with stickier work forces (Zurich & Geneva vs. Paris & London). PSP Swiss Property, owner of primarily office and retail (63%/16% of rent), underperformed (-6.9%) as the company reduced 2020 guidance as rental income is expected to fall from 2019 levels. Swiss Prime Site, owner of office and retail (45%/26%), also lagged (-5.6%) as the company was compelled to provide rent waivers for small companies and self-employed.

Disclosure:

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