Reitway Global Property Fund

- The GPR 250 produced a return of 1.27% (USD)
- The Reitway Global Property Fund was slightly positive for the month, delivering +0.36%.
- We believe that the market could well turn quickly once some positive inflation data start coming through, so hold on to your seats.

Marius du Preez, June 2024

Market Commentary

The portfolio was slightly positive for the month, delivering +0.36%. This was on the back of a good month in May of +4.09% return. The GPR 250 REIT index was up +1.27% for the month. REITs were down for the first 6 months of the year by -3.29%. Investors are losing their patience with the asset class not performing due to higher interest rates driven by sticky inflation data. We believe that the market could well turn quickly once some positive inflation data start coming through, so hold on to your seats.

We saw the annual inflation rate in the US for May come down by 0.1% to 3.3%, as announced on the 12th of June. It beat the consensus estimate by 0.1% and REIT investors found it a positive reading. The metric used by the Federal Reserve in the US to gauge inflation is PCE (Personal Consumption Expenditure) and it is an indicator of the economy's overall health. Similar to the inflation data release in June, PCE also came down by 0.1% as was expected by the market. The annual PCE inflation rate in the US now sits at 2.6%. Some interesting statistic to note on PCE is that the annual change for the US from 1960 until 2024 was 3.30%, reaching an all time high of 11.60% in 1980 and a record low of -1.47% in 2009. The inflation rate is still above the Fed's target over the long term of 2%.

The story continues for 2024 where most REIT indices are in a similar position to where it was in the beginning of the year. It appears every time a glimmer of hope appears on the horizon a small cloud of negative news or data arrives and covers that optimism. The Fed Funds interest rate was last changed in July 2023, after the hikes started in March 2022. Since the last increase any communications by the Federal Reserve was almost ended with the words "data dependent". To some extent, the increases have worked, but the asset class have been under pressure at interest rates elevated from past levels.

The US carried the REIT market in June, delivering 3.18% in a month where the benchmark return was just 1.27%. All other regions were down for the month, with France (-10.39%), Spain (-7.65%) and Belgium (-7.01%) being the hardest hit. In general, Europe had a torrid month with the surprise of US inflation data and US stocks coming back into flavour.

All markets in the benchmark have been negative of the first half of the year. The worst performer was Singapore (-16.21%) followed by Canada (-12.63%). The best of the pick for the first half was the US (-2.17%) and then the UK (-5.34%). Some of that gains in USD can be attributed to the strengthening of the Greenback compared to most other currencies of this period. Another would be the latest positive inflation data released versus others that might even be in talks of rate hikes.

Overall, the US has been steady and is probably well primed to start ticking up should more positive data come out.

Self-Storage was the best performing sector for the month, especially in the US and Australia. In the UK, Self-Storage was in contrast one of the worst performing sectors in the benchmark. We did not have exposure to UK storage but were also under-exposed to US storage which had an excellent month, delivering +7.31%. The sector reacted positively on 12 June when CPI data was release that was lower than the market expected. That momentum on the positive news carried through to the 25th of June when the sector started giving back some of those gains. The outlook for storage is still fairly bleak with a slow housing market where the sub-sector is even expected to see a mini recession in 2024.

The two main sectors that pulled down the portfolio during June were Specialised and Apartments. Within Specialised the sub-sector of Towers took a hit with Cellnex in Europe being the worst stock in the portfolio (-10.53%) as well as Crown Castle in the US down for the month (-3.18%).

Top Performers:		Bottom Performers:	
Extra Space Storage	+8.46%	Cellnex Telecoms	-10.53%
AvalonBay Communities	+8.26%	Unibail Rodamco Westfield	-9.78%
Equity Residential	+6.63%	Vonovia	-8.44%

Towers is one of our larger overweight sectors and we believe the short-term underperformance will turn around in due course based on solid fundamental drivers such as strong demand and increasing capacity requirements based on AI, population growth and technological development of various regions. In Apartments, German name Vonovia pulled down the sector by coming in with a negative -8.44%. and our underweights to certain benchmark constituents such as Camden Property Trust (CPT) which delivered +7.3% negatively contributed to portfolio performance compared to the benchmark.

The top performing stocks in the portfolio came from the top performing sectors, driven by more sector wide sentiment. AVB (+8.26%) is the largest apartment name in the benchmark and EQR (+6.63%) the third largest. They were in the top three performers in the portfolio for the month of June.

On a relative YoY comparison, rental growth is expected to outperform in coastal markets as observed in quarter 1 of 2024 for the coming quarters. West coast markets saw stronger than seasonal top line rental growth in 1Q as well as accelerating asking rent growth. There were a few transactions in the sector where deals were done at valuations in line with or even above Greenstreet's ascribed values, adding to the market sentiment.

Redefining Investment in Listed Property

Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive), with a slight uptick in risk appetite due to continuing optimism growing in markets awaiting rate cut announcements with the possibility of September seeing the first cut.

We believe real estate fundamentals are still sound and remain steadfast in our belief that the asset class can post meaningful returns relative to stocks and bonds, even against a slower-growth, higher-inflation backdrop.

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 / 082 676 6115 or laurend@reitwayglobal.com / 060 587 5086