

# Reitway Global Property Fund

- › The GPR 250 REIT World Index endured a challenging period, relinquishing -5.0% of its value.
- › All sectors in the GPR 250 REIT world index saw declines. The top-performing sector was Specialty, returning -0.6%.
- › Focusing on solid company earnings and guidance will help us weather the storms and navigate the ever-changing landscape of the global economy.

*James Tucker, October 2023*

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## Market Commentary

October proved to be a month to forget for investors as the GPR 250 REIT World Index endured a challenging period, relinquishing -5.0% of its value. Earnings season played a pivotal role in shaping these dynamics, as companies reported their financial results and provided insights into the overall health of the real estate market.

Geopolitical tensions initiated in the month overshadowed many markets leading to weak market returns despite certain sectors and geographies displaying strengthening fundamentals.

All sectors in the GPR 250 REIT world saw declines, with the top-performing sectors being Specialty (-0.6%), led by companies across various specialisations like EPR Properties (Entertainment REIT), Digital Realty (Data Centre REIT), and Gaming and Leisure Properties (Gaming REIT).

Regional Malls (-1.2%) and Shopping Centers (-1.6%) were the next best sectors due to stronger operating fundamentals and robust leasing activity, boosting overall sector sentiment during earnings season.

Conversely, the worst-performing sectors included Self-Storage (-10.9%), impacted by larger-than-expected declines in move-in rents; Industrial (-8.1%), experiencing decreased near-term demand and occupancy rates; and Office (-7.3%), particularly in U.S. REITs, facing challenges in the leasing environment, leading to sector-wide pressure.

In terms of geography, the top-performing regions in October included South Africa, which saw a relatively modest decline of -1.3%, with a strong finish due to a strengthening rand and a decrease in the South African 10-Year bond yield. Following closely were Spain (-1.8%) and France (-2.1%). On the other hand, the worst-performing regions included Canada, with a significant -10.0% decline, driven by major companies receiving analyst downgrades following recent earnings releases, tailed closely by Mexico (-9.3%).

Australia (-8.6%) underperformed primarily due to concerns about potential interest rate hikes, prompted by stronger-than-expected CPI data.

Healthpeak (PEAK) and Physicians Realty Trust (DOC) have announced an all-stock merger, resulting in a combined enterprise value of \$20 billion. DOC shareholders will receive 0.674 shares

of PEAK for each DOC share, with no premium offered by PEAK. The new entity will be led by PEAK's CEO and CFO, with DOC's CEO as Vice Chair of the Board.

The deal aims to achieve cost efficiencies through corporate overhead and market-level synergies, particularly by reducing third-party management fees for medical office properties. The deal is viewed as less advantageous for legacy DOC shareholders who are not receiving a premium for their shares, leading to questions about why DOC did not explore other avenues to maximize shareholder value, possibly by selling to a buyer willing to pay closer to NAV for its portfolio.

Realty Income (O) and Spirit Realty (SRC) have unveiled a \$9.3 billion all-stock merger, with the deal expanding O's portfolio by 15% and offers SRC shareholders a 15% premium to their unaffected share price, representing an attractive opportunity for SRC investors.

The combined entity will boast an enterprise value of approximately ~\$63 billion, with existing Realty Income shareholders owning an 87% stake, which implies significant scale and diversification benefits. Shares weakened following the announcement however, despite some market reservations, the merger holds the potential for long-term value creation and strategic advantages.

Several industrial real estate transactions have taken place recently across Europe, signalling continued activity in this sector despite a challenging macroeconomic environment. Sagax acquired a French portfolio of 47 light industrial properties for SEK 930 million, offering a 7.5% yield. Tritax Big Box sold an 850k sq ft warehouse in Corby for approximately £100 million at a 4.5% yield. KKR acquired its first French logistics assets for €140 million, yielding around 5.3%.

Sagax also acquired ten properties across Spain and France for SEK 425 million, reflecting a gross yield of approximately 6.1%. These transactions highlight the resilience of the industrial real estate market and the appeal of logistics properties to various investors, including private equity firms like KKR and traditional real estate players like Sagax.

The 10-year U.S. Treasury yield experienced a significant surge in October 2023, briefly exceeding the 5% mark, a level not seen since July 2007. This increase in yields was primarily driven by solid economic data and strong U.S. retail sales for the month, which reinforced the possibility of the Federal Reserve maintaining higher interest rates for an extended period.

Federal Reserve Chairman Jerome Powell's comments left the door open to additional rate hikes, while other Fed officials suggested that the tightening cycle might be coming to an end. Geopolitical tensions in the Middle East, especially the conflict in Israel and Gaza, further contributed to dampened investor risk appetite. As a result, stock markets, particularly the Nasdaq, experienced losses, and the rise in yields had an impact on various financial markets, including the bond market and the U.S. dollar.

In the tumultuous month of October 2023, geopolitical tensions added to the mix, contributing to overall uncertainty and market fluctuations. Despite the short-term challenges and market

volatility, it is essential to maintain **a long-term, high-conviction approach** in our investment strategy.

**Focusing on solid company earnings** and guidance **will help us weather the storms** and navigate the ever-changing landscape of the global economy.

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

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