Reitway Global Property Fund

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- The leader was lodging/resorts, delivering 1.97%.
- The Commercial Real Estate (CRE) finance council continued to find improving sentiment among real estate professionals in the latest quarterly survey.

Hubert Weyers

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Market Commentary

Where August was back to rangebound, September was a blues that came very close to the market dropping the whiskey. The GPR 250 REIT Index produced -6.62% (USD), testing the 2023 low last seen amid the SVB banking turmoil.

The laggard of the sector pack was free standing retail, delivering -10.43%, while the leader, lodging/resorts, delivered 1.97%.

Of the continents in the GPR 250 REIT Index, Asia performed the best with -1.9%. Japan's ultra easy monetary policy and inflation asset was a contributor in a world where the *higher for longer* rhetoric in the west weighed on markets. Oceania was the worst performing continent, delivering -8.1%.

The Commercial Real Estate (CRE) finance council continued to find improving sentiment among real estate professionals in the latest quarterly survey. 58% of respondents expressed a negative sector view, down from 67% in the second quarter, and 83% in the first quarter. Said sentiment had been sparked by improvements in capital and transaction markets.

Pressure points found were liquidity, sustained higher rates, and evolving CRE fundamentals, with the office and multifamily sectors front and centre. A Bloomberg survey supported the office pessimism, with ~66% of respondents believing office prices will only start to recover after a severe collapse.

We at Reitway are underweight the office sector due to its operational challenges and banks hellbent on delivering office loans from their books. The mass uncertainty about the future of the sector has us happily sitting on the sideline for now. Although we have seen a short rebound in some geographies, stemming from a of handful of transactions, we still see more headwinds and devaluations on the cards in the future.

On ESG matters, a swathe of green regulation alterations hit the western world, from the US to Europe.

California governor, Newsom, is set to sign a new emissions disclosure law that will require all companies with more than $1bn in revenue to disclose all three scopes of greenhouse gas emissions, ramping up the costs and potential ramifications for companies.

UK Prime Minister, Sunak, communicated plans to delay or pull back some of the more aggressive regulations around real estate. One of the focus areas is to defer Energy Performance Certificate minimums for several more years, which would save landlords a substantial amount in fines and onerous green capex.

The US 10 year found a couple of fellow travellers on its way to screeching highs. Among them were the German 10 year, moving from 2.46% to 2.93% and ending at 2.84%; levels not seen in over 12 years. The Italian 10 year was also in the mix, moving from 4.13% to 4.82% to reach over a decade high. And then there was the bellwether of the group, the US 10 year, jumping from 4.23% to 4.61% as the sun starts to peer through the dawn of the term premium, brought on by an indefinite build in federal debt and other structural forces at work.

In the central banking sphere, the Fed held its policy rate between 5.25% and 5.50%, leaving another rate hike on the table for this year and less cuts in 2024. The Bank of England took a breather, keeping rates at 5.25% and alluding to rates now being sufficiently restrictive. The ECB surprised the markets by hiking all three of its policy rates by 25 bps. Markets shrugged off the move on conveyance of the ECB's rate hiking cycle also now nearing its end. Although with a single mandate of price stability, growth seems to weigh heavily on the ECB's mind.

As some relief comes through on various inflation components, oil continues its headlong foray into central bankers' headquarters with the blessing of major producers Russia and Saudi Arabia, committing to cutting a combined 1.3 million barrels a day; a move expected to bleed into global stockpiles. West Texas Intermediate futures climbed from $83.63 a barrel to $93.68, ending the month at $90.79. Brent crude futures was in lockstep with WTI; following the price pattern $86.86; $96.55; $95.31 for the month.

In a transitioning environment, which brings uncertainty, we reiterate our preference for hybrid companies (possessing both offensive and defensive characteristics) with structural tailwinds that provide a layer of economic insulation.

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

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