Redefining Investment in Listed Property

Reitway Global Property Fund

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- Industrial held the helm, with a blistering 19% (USD) return delivered for the month
- Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive), with a slight uptick in risk appetite

Hubert Weyers, December 2023

Market Commentary

The market got its Santa Claus rally last month—further cementing the belief in the mythical soft landing. The first half of the month was driven on good volume and robust price returns, while the second half drifted past in limbo on the usual low liquidity with little meaning to price action.

The GPR 250 REIT World index (GPR 250) finally produced what REIT pundits have been calling for on the back of peak rates: asset class outperformance. Despite the market phenomenon known as the "everything rally", the **GPR 250 produced a return that was roughly double** (10.31% USD) **global equity** returns as measured by the S&P Global BMI (5.3% USD). Global bonds was the laggard of the group with the Bloomberg Global Aggregate Index returning 4.16% (USD).

On a geographic basis, it was the Americas and Oceania leading the pack in local currency terms (both producing a return of 10.6%), while Asia shambled after with a lacklustre 2.3%, owing to the index heavy weight Japan that saw no significant developments around the narrative of its monetary cycle as opposed to western economies that is believed to have reached peak rates.

On a sector basis, industrial held the helm, with a blistering 19% (USD) return delivered for the month. This came on the back of Prologis' (the sector bellwether and largest REIT) investor day where encouraging market rent growth guidance of 4-6% was given for the period 2024-2026. Hotels was the worst performing sector, producing 3.1% (USD).

Significant and rapid progress had been made on the call for change at Crown Castle (CCI) by Elliot Investment Management. CCI has built criticism around its low growth fibre business, capex heavy small cells, bloating balance sheet, and "leverage creep" on dividends. This prompted Elliot to launch an activism campaign on CCI.

CCI responded swiftly to Elliot's requests, setting the course to meet five objectives. The objectives are: 1) The retirement of the CEO, 2) changing of company bylaws, 3) strategic review of the fibre/small business, 4) a refreshed board of directors, and 5) new management incentives directed at return on capital. Working through these objectives shows potential to closing the discount between CCI and its peers SBA Communications and American Tower.

Digital Realty continued to capitalize on the AI investment wave, entering a massive $7 billion development joint venture with Blackstone across Frankfurt, Paris, and Northern Virginia, with approximately 500 MW of power capacity.

The development projects will be hyper-scale focused of which Digital will own 20%. This concludes Digital's impressive capital saga of 2023 with north of $10 billion mobilized for investment.

Blackstone, the alternative investments behemoth, announced upon first close of its sixth value-add fund that the time is now to step into Europe's private real estate market. The fund raised €774 million and will be going after properties in Europe's most liquid markets where real estate prices have repriced more swiftly to their intrinsic values than other regions, offering an enticing entry point.

Middle east tensions continued to tighten as an Iranian-backed group, the Houthi rebels, launched attacks via missiles on commercial vessels in the Red Sea. The group specifically targets Israeli linked ships as a means of strongarming officials into sending more aid to their brethren in Gaza. The waterway is responsible for roughly 12% of world trade, disruptions to which could ultimately be inflationary. The biggest risk is still the Strait of Hormuz through which 20% of the world's global energy moves. A wider regional conflict has the potential to disrupt the Hormuz flow and put severe pressure on oil prices.

Although the risks around the monetary and economic cycle have become more balanced, we still exercise caution and do not yet find ourselves in the soft-landing camp. The que for the other shoe to drop is now, and the length of the fall is anyone's guess.

For the Fed, the dynamic remains the same: striking a balance between speed and level, both of which continues to be more luck and art than science. Moreover, at the end points sits the questions of when to start and when to stop that at best will get guestimates, rather than answers.

Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive), **with a slight uptick in risk appetite**.

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