REITWAY GLOBAL
Redefining Investment in Listed Property

REITWAY REVIEW – EDITION 19

For the quarter ended 31 December 2017

MARKET COMMENTARY – 4Q17

The global bond market did not go quietly into the New Year!

A few swift moves during the last two weeks of 2017 pushed the 10-year Treasury yields through key levels to the highest since March. The yield curve, which had been relentlessly flattening, steepened the most since September 2016, while market-implied inflation rates reached an eight-month high as U.S. tax cuts were on the brink of becoming law.

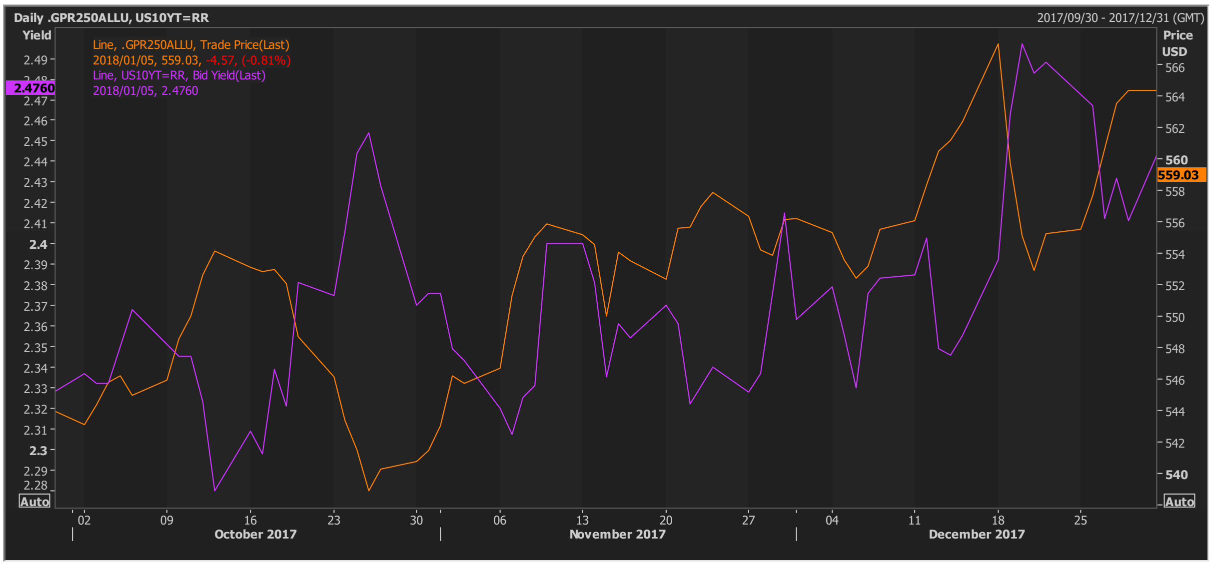
The added fiscal stimulus could accelerate growth and spur inflation, easing bond traders' scepticism that the Fed will follow through on its tightening projections in 2018. The market-implied annual inflation rate for the next decade reached about 1.95 percent on December 20th, the highest since April.

The pain was inflicted on fixed-income investors worldwide. Ten-year German yields lurched higher by seven basis points on 19 December 2017 and climbed an additional four basis points the day thereafter. Considering they started the week at 0.3 percent, the move is all the more dramatic.

The brightest outcome for property is the successful absorption of a steepening and normalising yield curve. If economies are growing then rates must reflect that inflationary movement. The key is to ensure we are exposed – at the right price – to real estate which is enjoying rising rents and development gains alongside the inevitable rise in the cost of funding.

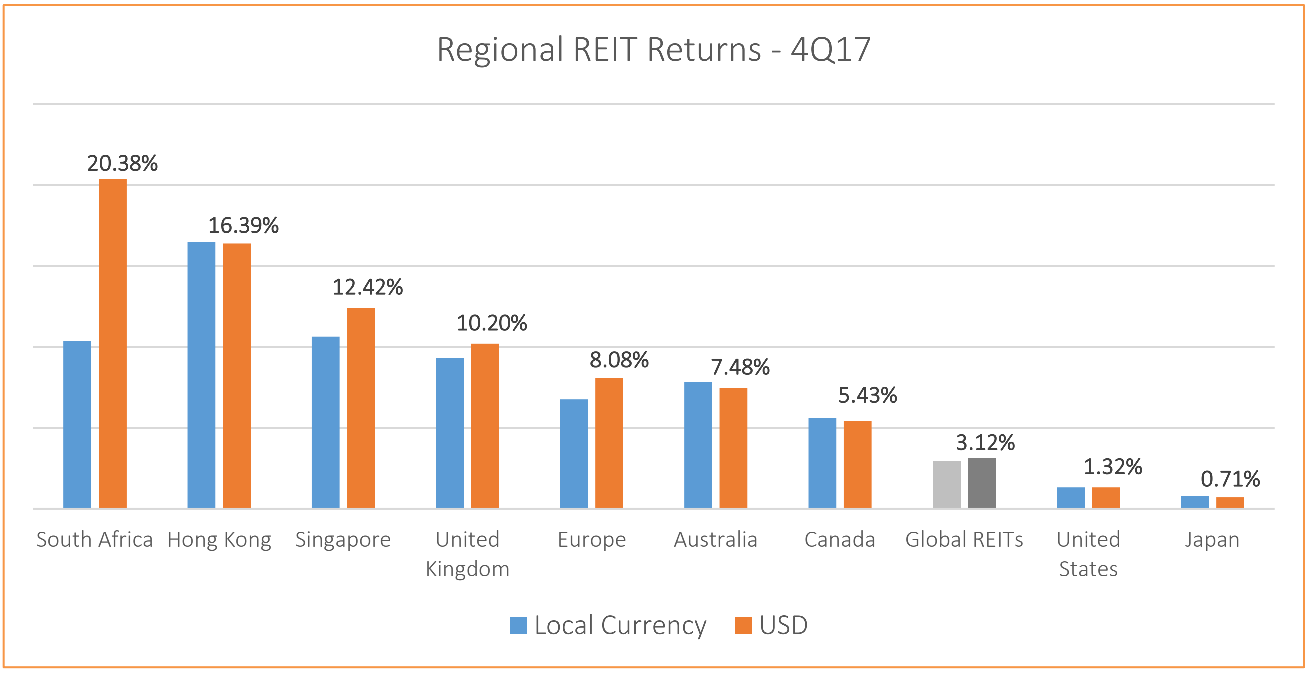
Global real estate securities, as measured by the GPR 250 REIT World Index, produced a total return of 3.12% in U.S. dollars during the fourth quarter of 2017. US 10-year bond yields began the quarter at 2.33%, fell 5 bps to a quarterly low of 2.28% before rising 16 bps to close the quarter at 2.44%.

The chart below reflecting the GPR 250 REIT World Index (orange) versus the US 10-year bond yield (purple) highlights the movements over this period.



Source: Thomson Reuters EIKON

The diagram below reflects the total return for the respective regional REIT markets in 4Q17.



Source: Global Property Research, Reitway calculations

Highlights

South Africa

Three of the five GPR 250 REIT South Africa constituents posted double digit returns over the fourth quarter. This, coupled with the Ramaphosa rally in the South African Rand, boosted the USD-denominated returns of SA-REITS.

Hong Kong

Operating fundamentals for retail and office landlords continued to improve at a steady pace, bolstered by improving economic sentiment in China. The market has also seen several high-valued transactions of listed entities selling noncore office and retail assets in the private market.

United States

REITs showed a wide divergence in returns over the fourth quarter. Regional malls advanced by (+10.26%) while Health care REITs contracted by (-5.26%). The 4Q outperformance was due to both shareholder activist interest and buying, an unsolicited bid for GGP Inc., and an encouraging rebound in sales results in the retail industry. Health care REITs dipped on the prospect of higher interest rates and deteriorating results for several of the sector's prominent tenants.

Japan

Japan was the weakest performing market reflecting uninspiring quarterly earnings results, geopolitical tensions involving North Korea and reflation hopes in trouble. We remain positive on developers given attractive valuations and solid fundamentals.

PORTFOLIO PERFORMANCE REVIEW– 4Q17

The Reitway BCI Global Property Fund outperformed its benchmark by 3.74% during the fourth quarter of 2017.

Stock selection in the US, Japan, UK and Canada were important contributors to relative performance.

In the US, stock selection in the specialized and single-family rental sectors boosted results. The funds underweight in the health care sector benefitted performance while our lower representation in retail detracted from our relative returns during Q4.

From an allocation point of view, the portfolio benefitted from higher exposure to UK and German real estate while lower representation towards the Hong Kong and Singapore REIT market modestly detracted from results. Reitway's office and self-storage exposure in the UK also paid off in Q4.

The performance table below highlights our performance against our peer group over the last 5 years.

We continue to deliver good relative returns and we retained the number one spot over a rolling three and five-year period.

Peer Group comparison

Reitway BCI Global Property Fund vs Peer Group Average (ZAR)					
	1yr	2yrs	3yrs	4yrs	5yrs
Reitway BCI Global Property Fund	2.52%	-4.32%	6.69%	10.63%	13.99%
Peer Group Average	1.04%	-6.01%	4.85%	10.31%	12.87%
Excess Return	*1.48%*	*1.69%*	*1.84%*	*0.32%*	*1.12%*
Peer Group Rank	*4/16*	*4/10*	*1/8*	*2/7*	*1/6*

All periods greater than one year are annualised.
Source: MoneyMate. As at 31/12/2017.

REIT MARKET OUTLOOK

Asia

For the first time in 5 years, Macquarie has a positive outlook for physical prices and rents across all 10 Asian markets under their coverage.

The property sector remains sensitive to interest rate increases, but interest rates in Japan remain near zero with the political attempt to keep the government debt under control. The mainstay Grade A office leasing markets remain steady as limited supply within Tokyo's central business districts still supports steady rent levels with the vacancy rate tracking around 2.5%. Residential property markets also started to see some rebound with the rent level increasing for the first time in 16 months, and the vacancy rate dropping near 6%.

Australia

A-REITs share prices have seen headwinds from a number of factors during 2017. The retail REIT landlords have seen the largest declines due to the anticipation and subsequent announcement of Amazon launching in Australia combined with the reversion of elevated valuations.

Office assets in Sydney and Melbourne are set for very strong rental growth over 2018-2020, but this is already fully reflected in valuations. New supply is scheduled to come to these markets in 2021, which will cause a retracement in rents.

Industrial rent growth will remain solid in 2018+ with vacancy declining and strong demand from e-commerce operations (both online only and traditional retailers). Amazon entrance in Australia is providing a tailwind too.

Canada

Canada’s economic recovery from the oil/resource downturn continued in 2017. Housing prices were up double digits, job creation is on pace for its strongest year since 2006 and most other macroeconomic indicators are on the upswing or steady. Oil prices, the largest question mark entering 2017, were up modestly too.

All this added up to Canada generating its strongest GDP growth since 2011.

Raymond James (RJ) expects fundamentals to remain relatively sound, and marginally improve as we move through 2018. They believe the sector can generate positive returns, even in what is likely to be a rising rate backdrop. They don’t expect multiple compression of consequence, but are favouring NOI/NAV-growers in case the bond market takes the long-end higher and pressures valuations

Europe

We believe the UK economy will continue to experience headwinds. Employment levels may be close to historic highs but the combination of weakening in both consumer confidence and house price growth, coupled with investment indecision as we await news of progress with the European Union, is expected to lead to economic growth that is slower than for the remainder of Europe. Of course, conversely, if negotiations advance well and there are improved levels of certainty for businesses, then this could lead to a sharp improvement in sentiment.

The considered reduction in the ECB's bond buying programme (from €60bn to €30bn) due to commence in January 2018, suggests central bank confidence which is positive for the markets and for real estate. Rents are rising in virtually all major continental European cities as economic growth results in a recovery in employment and spending.

We remain invested in the German residential and European office sectors.

United States

Federal Reserve officials followed through on an expected interest-rate increase in December and raised their forecast for economic growth in 2018, even as they stuck with a projection for three hikes over the next twelve months.

The committee expects the labour market to remain strong, with sustained job creation, ample opportunities for workers and rising wages.

They think total returns in 2018 could run a little better than in 2017. JPM sees earnings growth plus yield, or about 8%, as being the starting point.

REITWAY NEWS

REITWAY GLOBAL TAX-FREE SAVINGS PLAN

It's that time of the year to start thinking about tax planning.

Our Reitway BCI Global Property Fund has been listed as an investment option on various Tax-Free savings Account offerings, including Stanlib and Momentum.

Contact Olivia Teek on 021 551 3688 or oliviat@reitwayglobal.com should you need additional information.

SOUTH AFRICA – PRIME REITWAY LEVERAGED GLOBAL PROPERTY RETAIL HEDGE FEEDER FUND

Our South African domiciled feeder fund has been approved by the FSB and is ready to receive investor contributions. Click here to access the fund.

MALTA – REITWAY LEVERAGED GLOBAL PROPERTY PORTFOLIO (MLT)

Our Malta domiciled feeder fund has been approved by the MFSB and is ready to receive investor contributions in USD, GBP and EUR. Contact Olivia Teek for more information.

Regards,
The REITWAY team

For more information about the performance of our funds and investment methodology, please visit our website at www.reitwayglobal.com.

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