

## Portfolio Performance

The global real estate market, as represented by the GPR 250 REIT World Index, delivered 0.17% in US dollar terms during the fourth and final quarter of 2019. Our portfolio outperformed the benchmark due to superior sector and stock selection.

*Key contributors:*

Top 5 Performance Contributors		
	Security name	%
1.	Prologis	0.38
2.	Liberty Property Trust	0.36
3.	Sun Communities	0.30
4.	VGP N.V.	0.27
5.	StorageVault Canada	0.23

Source: Reitway Global, StatPro, Dec 2019

### U.S. stock selection

Stock selection in the apartment, industrial and health care sector boosted the fund's outperformance during the quarter.

New home sales and construction rebounded in recent months, aligning with broader consumer trends. This generally benefited REITs focused on manufactured homes and single-family rentals, adding to the positive backdrop of a healthy job market and rising household formations, which have resulted in robust demand amid a lack of new supply.

Prologis, a global leader in logistics real estate, announced that they will acquire Liberty Property Trust in an all-stock transaction,

valued at approximately \$12.6 billion, including the assumption of debt.

Liberty's logistics assets are highly complementary to Prologis' U.S. portfolio and this acquisition increases their holdings and growth potential in several key markets, like Lehigh Valley, Chicago and Southern California. We believe all the public and private deals demonstrate continued interest in the industrial sector and have benefitted certain REIT assets. Given the ~\$300 billion in real estate private equity dry powder, we expect this trend to continue.

*Key detractors:*

Bottom 5 Performance Contributors		
	Security name	%
1.	CyrusOne Inc	-0.38
2.	Digital Realty Trust	-0.20
3.	CubeSmart	-0.18
4.	Welltower Inc	-0.14
5.	Warehouses de Pauw	-0.13

Source: Reitway Global, StatPro, Dec 2019

### Allocation to data centres

Our overweight position in U.S. data centres detracted from results. Following terrific returns until October, CyrusOne (CONE) shares were negatively impacted during the last two months of 2019 after management noted on its earnings call that the company is "not currently pursuing a sale". This triggered an immediate sell off that forced the Nasdaq to temporarily halt trading. Other data centres like Digital Realty, Coresite and Switch also delivered negative returns during the reporting period.

### | **Low exposure to U.K. REITs**

UK REITs delivered exceptional returns during the fourth quarter, gaining 20.25% in US dollar terms. Even though the fund benefitted from superior sector selection (overweight self-storage and underweight retail) and stock selection in the industrial sector our low exposure to the UK market detracted from our relative returns.

## **Investment Outlook**

We remain positive on the earnings outlook for global real estate securities. Global economic factors remain strong which we believe will continue to support global listed real estate companies.

The pullback of valuations towards the end of Q4 2019 has brought the sector more in line with fair value, and we don't see a large risk of the sector being overvalued. We maintain our belief that most global REITs remain fairly priced and the strength of the real estate market and the appeal of assets with defensive characteristics remains in demand.

### **Asia**

Political violence in Hong Kong did not diminish during the quarter and continued to affect the property market. The impacts have mainly been in the office and high-end retail sectors (in which we are not invested). Daily necessity providers have remained strong, and this has been reflected in the value of Link REIT not being as depressed as other Hong Kong REITs. We are invested in Link REIT. With reporting

season coming up we expect to get a clearer view of the economic impact of the protests in the city.

Japan and Singapore continued to be steady performers, with Singapore in particular looking stronger towards the end of the quarter, but we are getting a little more concerned about growth for office space and the ability to raise rentals in Singapore.

Japan and Singapore both still appear to be benefitting from investor wariness around Hong Kong.

### **Australia**

Despite a heatwave and massive devastation caused by wildfires, Australian REIT performance remained robust for the year. Aided by improved demand for residential properties and three rate cuts, A-REITs performed very well. Residential developers had a strong year, and even retail focussed companies saw an improvement during the last quarter. Industrial and residential demand remains strong, but office demand has continued to taper.

### **Germany**

German residential companies continued their recovery after the price collapse in June due to Berlin's introduction of a 5-year rental cap (Mietendeckel). No further cities have followed Berlin's lead, and the market appears to believe that the risk of contagion was overdone in June's selloff.

The legal challenge is ongoing, but it looks as if the case to overturn the city's ability to introduce the cap is not legal, as only the Federal authorities can do so.

## United Kingdom

The United Kingdom ended 2019 very strongly off the back of an elected Conservative majority government, and more clarity on Brexit. Office REITs had a very positive quarter, but despite improved sentiment retail continued to lag.

The increase in UK stock values has now likely overshoot, and with the reality of Brexit still to be realised we do not expect the UK to continue to gain as strongly in the first quarter of 2020. A rate cut is likely in the first half of the new year which should buoy UK real estate.

## United States

REIT stocks enjoyed a strong year in 2019, recording a 28.7% total return. This was due to a 77 bps drop in the 10-year Treasury yield, largely as-expected fundamentals, and increased interest from generalist fund managers.

Looking ahead, the Fed's dovish stance combined with 3-5% FFO growth and 3-4% dividend yields should combine to produce mid to high single digit total returns for REIT investors. In terms of stock selection within the U.S., we have not made any notable shifts since our September update.

We still prefer residential, industrial and specialized REITs where we see good growth potential.

At the opposite end of the spectrum, 2020 is looking to be another challenging year for the regional mall and self-storage sector

## Reitway News

### Platform Access | Prime Reitway Leveraged Global Property Retail Hedge Feeder Fund

Our South African domiciled leveraged feeder fund is now available on the Momentum Platform.

### Garreth Elston, keynote speaker at the 2019 West Africa Property Investment (WAPI) Summit in Lagos

Garreth spent two days in Lagos at the end of November. On his second day, during his keynote presentation, he addressed the audience on global listed real estate investment, and where Africa stands.

The presentation was very well received.

### Business Breakfast with Garreth Elston | 7 Feb 2020

Reitway Global will be hosting a fund update on the 7th of February, which will be delivered by Garreth Elston, CIO. Join us in discussing the fund and the global property sector, and an opportunity to meet the team.

Contact Olivia Teek at [oliviati@reitwayglobal.com](mailto:oliviati@reitwayglobal.com)

if you would like to join us. Please RSVP by

Thursday, 30 January 2020.

*Regards,*

*The REITWAY team*

For more information about the performance of our funds and our investment methodology, please visit our website at [www.reitwayglobal.com](http://www.reitwayglobal.com)

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