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Reitway Global positive on 2019

A lower global growth trajectory and a more benign interest-rate environment are contributing to a more positive outlook for global listed real estate this year, according to Garreth Elston, CIO of Reitway Global, which focuses on global listed property.

"Research conducted over the past two decades consistently demonstrates that listed real estate can act as a return enhancer with superior risk-adjusted returns for investment portfolios," he said. "Despite this strong performance over robust time periods, REITs remain generally under-utilised as a diversification tool and most allocators, portfolio managers and individual investors remain underexposed."

Elston notes that, in US dollar terms, REITs have provided the best annual returns over 15 years out of eight primary asset classes.

Reitway Global focuses solely on listed real estate, investing into listed real estate operating companies (REOCs) and also via real estate investment trusts (REITs), which own and manage portfolios of real estate properties and/or mortgages.

Its global property portfolios are domiciled in South Africa, Australia and Malta – and denominated in various currencies, with total assets under management of around R1 billion.

In South Africa, the Reitway BCI Global Property Fund offers seamless exposure to a portfolio of distribution-producing global real estate securities. The rand-denominated collective investment scheme invests in REITs and property-related securities via the asset swap mechanism. It is approved by the Financial Services Conduct Authority and has assets under management of R649 million.

The fund has returned a net annualised 15.95% since inception in 2012. It added a net 3.91% last year and is 16.49% higher so far this year to the end of May.

In addition, Reitway Global manages the Prime Reitway Leveraged Global Property Retail Hedge Feeder Fund – an FSCA-approved leveraged version of the Reitway Global master portfolio – which includes 30% gearing aimed at producing additional upside. The fund was launched in November 2017, and currently has assets under management of R38 million.

The fund retraced by 11.9% last year and has gained a net 17.13% so far this year to the end of May.

In time, Reitway Global would like to launch a second hedge fund product, taking a long/short approach.

While Reitway Global invests in securities that are largely located in the developed markets of North America, Europe, Australia and Asia, the funds do not exclude exposure to developing economies where compelling investment opportunities present themselves.

It notes that the global listed property sector has an increasing market capitalisation, helped by a growing number of countries adopting the REIT structure. In addition, there are now 22 recognised sub-sectors which in themselves are substantial, liquid and can exhibit significantly uncorrelated fundamental and market price behaviour.

Funds are managed in a benchmark-agnostic manner, which means the team is able to take advantage of disparate property cycles in different countries and sub-sectors. Reitway also uses a GARP approach – or growth at a reasonable price – investing in REITs that offer the best cashflow growth prospects, at a reasonable price. A crucial component of this discipline is allocating capital to these REITs when they are trading at relatively attractive valuations.

Reitway's process starts with a house view, whereby the team sets weekly guidelines by region, currency and sector, before screening 500 stocks to generate ideas. Secondary research is based on a fundamental approach, examining 100 high-conviction targets, before establishing a primary research list of over 50 names.

The portfolios typically comprise 30-50 stocks, with positions sized at 1-10% of the book, increasing the diversification during more volatile periods in the market.

Currently around half the portfolios are invested in the US, with a geographic spread that includes Asia (about 10% across Hong Kong, Japan and elsewhere) as well as the EU (about 17%), and lesser allocations to Canada, Australia, central and eastern Europe and Sweden.

As CIO, Elston takes the lead on European and Asian research and portfolio construction, bringing 14 years' asset management experience, with an MBA, MA and BCom.

He is assisted by portfolio manager Martin Botha, a CFA charterholder with a BCom (Honours) and six years' experience, who focuses on REIT research in the US, Canada, South America, as well as modelling and performance attribution.

Assistant portfolio manager Marius du Preez, a chartered accountant with a BCompt (Hons), helps with European/Asian research as well as modelling, portfolio administration, trade execution and cash management.

CEO Greg Rawlins heads the operations and distribution team, which includes Nikki Visser, Constance Cloete and Deon Harmse.

The team focuses on liquid companies, with market capitalisations typically above US$1 billion. Elston adds that REITs offer a great deal of diversification – given that they can offer both long-term and short-term leases, and also that they offer exposure across sectors, ranging from office blocks to cell-phone towers, data services, logistics and timber.

"Our research shows that after a rise in interest rates, REITs outperform general equity. Our portfolio is responsive to changing economic conditions," notes Elston. "A more benign interest-rate environment will take noise out of the sector. In general, as rates go down, we look for longer lease terms to add to the portfolio, which offer safer, stable income streams, while we look for shorter more flexible-term leases as rates go up."

The portfolios comprise core holdings, which are not actively traded, as well as building blocks that provide the alpha component, typically in specialised sectors.

Sector wise, Elston expects pressure to remain on the global retail sector with ongoing tailwinds for logistics and warehousing. In addition, risks remain from the US and China trade dispute, while the ongoing Brexit saga continues to impact the pound and its UK holdings. Given this backdrop, the portfolio is focusing on resilience for 2019, while identifying opportunities in mispriced sectors (especially data centres).

The bulk of exposure is currently in the US, which has a globally diversified REIT market and is economically resilient despite current noise in the market, with healthcare and data centre investments performing well during this period. Elsewhere, the team also likes German residential listed companies, as well as central and eastern Europe, notably Poland, and Sweden.

"At the moment we are allocating to global property which is displaying better performance and lower risk than the South African real estate market," says Elston. "We don't see comparative value in the local market right now. It looks cheap, but our view is that it is a value trap. In the past two years we have seen empty buildings and overhanging developments. We need lower rates to stimulate economic growth."

"That said, our research shows that including global property exposure in South African balanced portfolios replicates the results obtained in international studies, and therefore has the potential to improve investor outcomes with lower volatility." ©