

# REITWAY REVIEW – EDITION 13

30 June 2016

## MARKET COMMENTARY – 2Q16

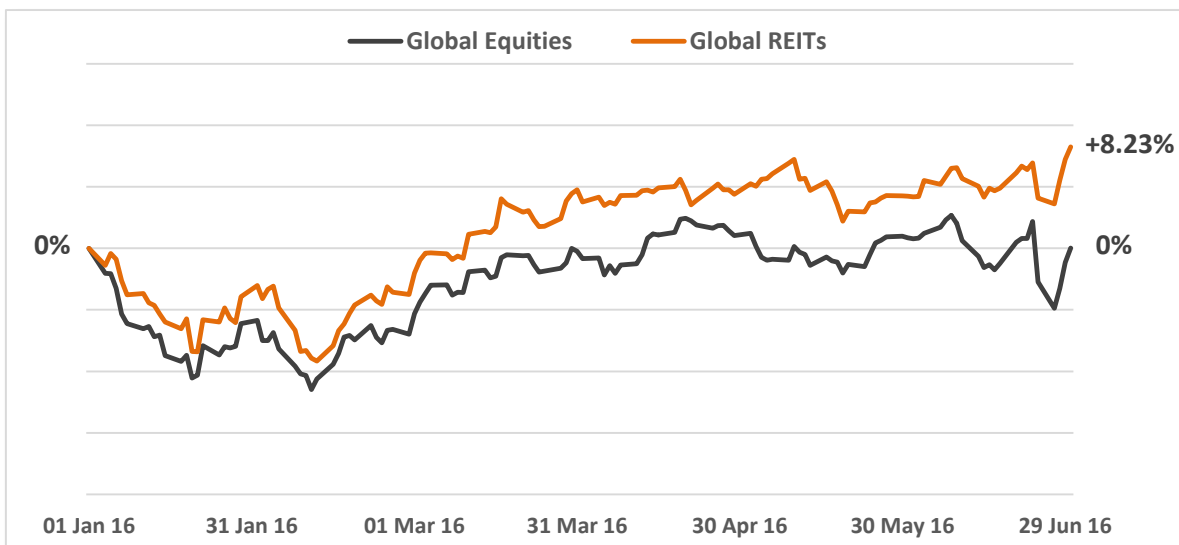
*“It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.”*

- Mark Twain

This quote by American satirist Mark Twain is an accurate description of financial markets’ fluctuating fortunes during the 2nd quarter. After an early year sell-off, markets rebounded to 2016 highs by mid-June, as traders followed the bookies that placed the likelihood of Brexit at only 30%.

Complacency turned to bust as Brexit became reality on the 24th of June. British Independence Day (Global REITs -4%; Global Equities -6%) was followed by central bank pep-talk and this resulted in markets whiplashing back to pre-Brexit levels by the end of the quarter.

### Performance of Global REITs and Global Equities: 1 January to 30 June 2016



Source: Datastream.

### Divergence in REIT markets

UK REITs ‘Brexitied’ along with sterling and collapsed 14% during the quarter. London-focused REITs have been friendless since the vote, with the possibility of 100 000 finance jobs relocating to Europe removing the equivalent of 20 Gherkins (the iconic building in London’s financial heartland). **This 20 Gherkin demand shock will feed into a planned development pipeline of 50 new Gherkins and could result in a substantial oversupply of office space in the UK’s capital.**

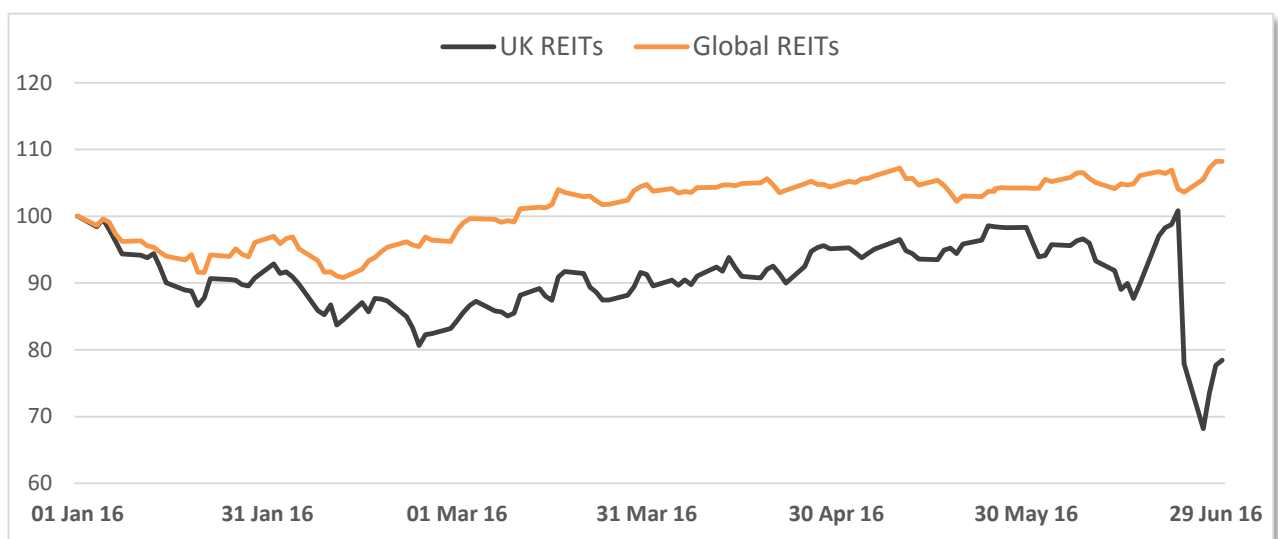
European property (-4.5%) held-up better than we anticipated, but declining bond yields caused the other REIT markets (US, Hong Kong, Canada) to rally which is now seen as being less risky.

Global REITs had a strong first half of 2016, outperforming global equities in the first and second quarters. REIT prices are reflecting a stable positive environment in which rental income is growing at a decent clip. Bond yields are as low as they have ever been and the coming quarter will see the much anticipated reclassification of REITs into its own GICS sector<sup>1</sup>.

<sup>1</sup>To read further about REITS' GICS reclassification, please follow this link to our website:

<http://www.reitwayglobal.com/component/k2/new-gics-sector-a-tailwind-for-listed-property.html>

### UK versus Global REITs: Year-to-date



As at 30 June '16. Sources: Datastream. Global Property Research

## PORTFOLIO PERFORMANCE – 2016

### Performance in rand-terms:

Reitway BCI Global Property Fund vs Benchmark (ZAR)					
	2Q16	1yr	3yrs	4yrs	Since Inception
Reitway BCI Global Property Fund	6.4%	37.9%	21.6%	27.2%	26.2%
GPR 250 REIT Index	4.6%	44.3%	26.5%	28.2%	28.7%
<b>Relative</b>	<b>1.8%</b>	<b>-6.4%</b>	<b>-4.9%</b>	<b>-1.0</b>	<b>-2.5%</b>

Net of fees total returns as at 30 June 2016. All returns greater than one year are annualised. Sources: MoneyMate, GPR.

Performance in USD-terms:

Reitway BCI Global Property Fund vs Benchmark (USD)					
	2Q16	1yr	3yrs	4yrs	Since Inception
Reitway BCI Global Property Fund	6.8%	14.3%	6.8%	9.9%	9.5%
GPR 250 REIT Index	5.0%	19.6%	11.1%	10.8%	11.6%
<b>Relative</b>	<b>+1.8%</b>	<b>-5.3%</b>	<b>-4.3%</b>	<b>-0.9%</b>	<b>-2.1%</b>

Net of fees total returns as at 30 June 2016. All returns greater than one year are annualised. Sources: MoneyMate, GPR.

The Reitway BCI Global Property Fund produced a total return of 6.8% in USD for the second quarter, thereby outperforming the benchmark by 1.8%. The main reason for our outperformance was exceptional active stock selection in the US, where our top 5 performers all returned more than 10% for the quarter.










As can be expected, the worst absolute performance came from our UK & European holdings, however our stock selection in these areas (only 1% exposure to London Offices) were far superior on a relative basis.

## REIT MARKET OUTLOOK – UNITED KINGDOM

Our previous Investment Report alluded to our cautious near-term stance on UK property, specifically the London Office market. The slump by UK REITs can't solely be blamed on Brexit, but as the UK economy heads for a recession, pricing power will likely shift from landlords to tenants in London.

Our research partners Green Street Advisors expects London to experience sizeable finance job losses (15% of the total finance workforce) as international banks relocate to Paris and Frankfurt. Vacancy rates should rise most in the City and this is expected to result in a 10% to 15% decline in spot office rentals. The West End's office fundamentals will not be immune, but should hold up better given modest exposure to financial tenants and a smaller development pipeline.

**Estimated impact of Brexit on UK property sectors:**

UK Property Impact	Demand	Supply	Rent	Yield	Value Impact	Pace of Impact
London Office	↓↓	↓	↓↓	↑	-15% to -20%	
London Residential	↓	↓	↓↓	↑	-10% to -20%	
UK Residential	↓	→	↓	→	0% to -10%	
London Retail	↑	→	→	↓	0% to 10%	
UK Retail	↓	→	↓	↑	-10% to -15%	
Industrial	↓	→	→	→	0% to -5%	
Student Accommodation	→	→	→	→	0%	
Self-Storage	→	→	→	→	0%	
Healthcare	→	→	↑	→	0%	

Source: Green Street Advisors

**Non-traditional property sectors in the UK should hold up well**

Not all is bleak for UK property though, as Brexit is anticipated to have a sharper impact on the London office and residential markets compared to non-traditional sectors like Self-storage, Student Accommodation and Healthcare. Therefore, we opportunistically used the post-Brexit sell-off to add to our positions in Safestore (Self-Storage) and Unite Group Plc (Student Accommodation) as we expect demand for their product to remain sturdy.

*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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