Reitway Global Property Fund

- The GPR 250 was up 6.50% for the month.
- The fund continued its good performance delivering 5.85% in August.
- The general feeling is that REITs will benefit from central banks decreasing interest rates after the tightening cycle.

Marius du Preez, August 2024

Market Commentary

The fund continued its good performance from the previous month by delivering 5.85% in August, slightly below the 6.50% delivered by the Index. This has now been the 4th straight month of positive returns for the fund and accumulates to over 17% for this period. It is thus fair to say that the market has started anticipating a return of the asset class back into favour on the back of global interest rate cuts being seriously on the cards.

The steady decrease in the annual inflation rate did not stop with the July inflation rate data that was released on 14 August. The rate was down 0.1% from 3.0% to 2.9% and was below the 3.0 consensus forecast. This was the 4th consecutive month of rate decreases and is now at the lowest it has been since March 2021. Inflation eased for shelter, transport, apparel and new vehicles. Food inflation was steady at 2.2%, but energy costs rose mainly due to gasoline rising. It seems to be no coincidence that as interest rates are coming down that the asset class is also picking up. PCE (Personal Consumption Expenditure) which is what the US Federal Reserve uses as a gauge of the economy's health remained unchanged in July as the data was release in August.

The best performing holding in the portfolio for the month was Public Storage REIT which delivered +16.15%. It is the largest owner of storage assets in the US and is one of the largest REITs in the world by market cap, sitting at around $62bn. PSA has one of the best balance sheets of all REITs in general and the best one amongst its peers, with net debt-to-EBITDA sitting at 2.7X. It is arguably still under-levered but has taken significant steps in the past few years to take up leverage when at some point in the mid 2010's it was close to zero. The sector has picked up over the last 3 months and PSA specifically might just have been included in an overall asset class rotation by many investors in the market, creating a good rally in its stock price.

We saw good returns for the month from VTR (+14.09%) and BEI (+13.57%). VTR has shown good prospects in growing its senior housing business and the "silver tsunami" of aging demographics has assisted senior housing operators to continue its recovery from the impact of the pandemic.

VTR benefits from slowing supply coming online soon and the sector is defensive and recession resilient. Boardwalk is still benefiting from Western Canada driving solid earnings growth and has met elevated expectations in 2Q24. It again raised its guidance for the next quarter and the manager sees robust fundamentals across its portfolio supporting double-digit earnings growth through 2026. SPNOI growth was +14.2% in the second quarter and accelerated from the 13.5% in the first quarter of 2024.

The 2 cold storage names, COLD (-2.98%) and LINE (-2.96%) were the worst performing holdings in the portfolio and was in our opinion mainly due to the cooling revenue trends of the sector. LINE completed its ~$5bn IPO in July and this was the largest REIT IPO in history and the largest IPO globally since late 2023. The weakening consumer health will impact the sector more adversely than others and average economic occupancy is projected to decline 250-300 bps for both these names in 2024. The sector overall now screens attractively priced.

Global REITs as an asset class did very well in August and only one sector (Lodging and Resorts) delivered a slightly negative return for the month. The best performing sector was Self Storage (+12.75%) followed by Apartments (+8.91%), Health Care (+8.56%) and Regional Malls (+8.23%). Specific inclusions in the Speciality sector also added performance to the fund for the month through Cellnex Telecom (+11.03%) and Uniti Group (+13.54%).

On a regional basis there was no region in the red for the month, thus all contributing to positive returns. The best region in the portfolio was our exposure to Germany (+12.27%) through Vonovia, an apartment REIT. The second-best region was Singapore (+11.79%) through Capitaland Ascendas and then Canada (+10.50%), mainly derived from apartment exposure. The United States which forms the major part of the REIT universe and our portfolio delivered 6.05% for the month in our portfolio.

We are seeing a change in sentiment in the market for the asset class where the general feeling is that REITs will be benefitting from central banks decreasing interest rates after the tightening cycle. Some countries have already started their cutting cycles after bringing inflation under control and in the US specific there are wide talks of even a 50pbs cut by the Federal Reserve in September and a 1.25% cut before year end.

Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive), with a slight uptick in risk appetite due to continuing optimism growing in markets awaiting rate cut announcements with the possibility of September seeing the first cut in the United States.

We believe real estate fundamentals are still sound and remain steadfast in our belief that the asset class can post meaningful returns relative to stocks and bonds, even against a slower-growth, higher-inflation backdrop.

If you would like to set up time to speak to us or for more information on any of our funds please contact oliviat@reitwayglobal.com / 082 676 6115 or laurend@reitwayglobal.com / 060 587 5086