Reitway Global Property Fund

- December was a tough month for REITs, with the GPR 250 end the month down by -7.46%
- The portfolio returned -8.27% for December
- With December being the worst performing month for REITs for the year, it left the fund down -2.84% for 2024

Marius du Preez, December 2024

Market Commentary

The "Santa rally" for REITs was nowhere to be seen in December, more like the Grinch coming to steal it. December was a tough month for REITs with the Index (GPR 250 REIT World Index) retreating by -7.46%. This pushed the YTD return for 2024 down to only a slightly positive end to the year when compared to the start of the year, up 1.61% over 12 months. The fund was also down -8.27% for the month and this move pushed the total return for the year into the negative, -2.84%. December was the worst performing month for Global REITs for the whole year, indicating the current unclear path forward for the REIT market. To be fair, most global equities sold off in December on the back of the Federal Reserve's hawkish-looking interest rate projections for 2025.

To put the month in perspective, we had no holding ending in the green for the month. The S&P 500 was down -2.50% for the month and the Dow Jones Industrial Average lost -5.27% in December. The best performing stock in the portfolio was Vornado Realty Trust (VNO -0.74%), an office REIT listed in the US. It was a standout performer in the sector for the month with many other office names down over 10%. VNO declared their dividend in December but had no specific news driving its resilience for the month. The second-best performer for the month was American Homes 4 Rent (AMH), down only -1.59%. The Apartment sector held up well during the month but slipped on the 17th of December in the lead up to the FOMC rate decision announcement.

The portfolio holdings that let us down the most during December was Iron Mountain (IRM -14.46%), SLG Green (SLG -12.81%) and Boardwalk REIT (BEI -12.23%). IRM is a record management services provider organised as a REIT and is expanding into the Data Centre realm. Their main revenue stream is from their storage business and has locations in 60 countries worldwide with a market cap of $32bn. Ons of the drivers for its inclusion in the portfolio is their Data Centre component of their business. There was no significant company news for IRM in December.

The storage sector (-12.66%) was the worst performing sector for December with most names in the sector significantly red. Over 1 year the sector was relatively flat, but IRM specifically has delivered a noteworthy 50% for 2024. Following that was Industrial (-8.25%), Health Care (-8.20%) and Speciality (-8.18%). The most resilient sectors for the month were Loding/Resorts (-0.48%), Manufactured Homes (-4.13%) and Regional Malls (-5.42%).

The global regions to the east delivered better returns for the month. The best region in the portfolio was Singapore (-3.60%) which was followed by Japan (-4.63%). Other regions in the benchmark to mention that was more resilient was Hong Kong (-2.78%) and India (-1.82%). Australia was the worst performing region (-10.79%) but that was on the back of a good year which still saw them end as one of the best regions for 2024. Canada was down -8.50% and the UK was also down -8.43% in December. In summary, there was just no place to hide for REIT investors in December.

On the 18th of December the US Federal Reserve cut interest rate by another 0.25%, as expected. This was the third consecutive rate cut this year, and it brought borrowing costs down to 4.50%. The so-called dot plot indicates that policymakers are now anticipating only 2 rate cuts in 2025 by the Federal Reserve, totalling 0.50%. This has decreased from the 1.00% projected in the previous quarter. The Fed has revised its GDP growth forecasts upwards for 2024 and 2025 while remaining steady at 2% for 2026. Similarly, PCE inflation projections have been adjusted higher for 2024, 2025 and 2026. On the other hand, unemployment is seen lower this year and in 2025, while the forecast was kept at 4.3% for 2026. There is still a lot of upside risk to the inflation outlook due to recent stronger-than-expected readings on inflation and the potential changes in the trade and immigration policy.

The US Annual PCE inflation accelerated for the second month in a row to 2.4%. It was however below the expected increase of 2.5%. Interesting to note was the average PCE Price Index Annual Change in the United States was 3.29% from 1960 tot 2024, and it reached an all time high of 11.60% in March of 1980 and a record low of 1.47% in July of 2009. PCE Price Index provides a measure of the prices paid for domestic purchases of goods and services while the Consumer Price Index assumes a fixed basket of goods and uses expenditure weights that do not change over time for several years. The Federal Reserve currently uses the PCE data as its main gauge of inflationary data. The unemployment rate in the US for November which was released in December actually rose from 4.1% to 4.2%, in line with expectations.

Several sectors within the REIT (Real Estate Investment Trust) market have shown a modestly positive trend following what appears to have been the peak of the rate hiking cycle. Historically, REITs tend to outperform general equities in the aftermath of such cycles. However, there is an emerging consensus that interest rates may remain elevated for a longer period. Most central banks have initiated rate cuts and inflation readings generally fall within target ranges. Additionally, there exists considerable uncertainty due to various global factors, including a potential resurgence of inflation. Consequently, the precise impact on the global REIT market remains uncertain. Nevertheless, as global REIT market investors, we maintain a cautiously optimistic outlook for 2025.

Fund positioning remains roughly the same (quality, value, structural trend riders, and blend between offensive and defensive). The REIT market now has an increased appetite for risk in an easing cycle starting to unfold with global central banks starting their rate cutting cycles.

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.

Redefining Investment in Listed Property

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

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