Reitway Global Property Fund

- The GPR 250 was down -4.91% for the month.
- The portfolio returned a negative result for the first time in six months with -5.69% for October.
- The Global REIT market took a dip with some possible policy changes anticipated to negatively affect REIT returns.

Marius du Preez, October 2024

Market Commentary

The portfolio returned a negative result for the first time in six months with -5.69% for October. The benchmark (GPR 250 REIT Index) outperformed the portfolio although it was also down -4.91%. The month was dominated by the anticipation of the elections in the United States and the Global REIT market took a dip with some possible policy changes anticipated to negatively affect REIT returns. There was building speculation that Trump would achieve the desired result and that he and Elon Musk are aligned with objectives of amongst others growth in the US and the market seemed to follow the securities in these sectors which could gain most with Trump getting back into the hot seat.

Another force driving the REIT market down was the US 10 Year which picked itself up from 3.80% at the start of the month and continued to climb to 4.28% at the end of the month. This 12.6% increase could possibly be ascribed to uncertainty in the market, but many factors play a role. In general, the 10 Year would rise if there were a falling demand for this asset, which would mean that investors are preferring more risky assets based on the economic landscape. Thus, as investors started rotating to this riskier asset classes such as Technology, the 10-year yield was pushed up and REITs took a knock, finding it harder to compete with this lower risk asset at higher yields.

The global REIT market saw no individual area or country delivering a positive return for the month. Three of the main regions in Canada, Spain and the United Kingdom were all down around the 12% mark for the month. Canada was driven down by specifically the Apartment constituents; Spain by the Diversified constituent and the UK was hit across the board. The US was the most resilient region as could possibly be expected by its size and diversity in sectors, only being down -3.47% for the month. 2 Sectors to highlight in the US that did take some pain was the Industrial sector (-10.02%) and the Self-Storage sector (-9.67%).

The best performing holdings in the portfolio was Digital Realty (DLR +10.13%), Welltower (WELL +5.35%) and Macerich (MAC +5.17%). DLR is a Data Centre REIT and released its 3Q24 results on 24 October which the market reacted very favourably to, pushing its share price up for the day by 10.8%. The REIT inked roughly 190MW of new leases during the quarter, which upon commencement will generate more than $520m in annualized GAAP rent. The bulk of these lease was for hyperscalers and that should be a stable and significant source of rental going forward. Another highlight to mention was their cash re-leasing spreads which increased 15%. There is arguably no better sector than Data Centres in the REIT world now when you look at long term growth opportunities. Welltower and US Healthcare as a sector had a strong month and was an outstanding sector across the REIT universe, delivering +2.69% for October.

The worst performing stocks was the Canadian apartment names in Boardwalk REIT (BEI -18.06%) and Canadian Apartments (CAR -16.65%). This sector in Canada took a knock from news coming out that the Canadian government is planning to pause population growth by implementing a new immigration plan. The new plan includes controlled targets for temporary residents, specifically international students and foreign workers, as well as permanent residents. Canada's temporary population should decline by 445k people per year in 2025 and 2026 based on the new plan. This was obviously not positive for Apartments with a limitation placed on demand in the future.

Industrial was by far the worst performing sector (-10.02%) and this pulled down the index considerably due to its size (16.64%). UK Industrial was down -13.89%, US Industrial -9.99% and Singapore Industrial -8.52%. Rexford Industrial (REXR) was the worst individual name of the lot, down -14.75%. There has been a lot of news on this sector on oversupply coming onto the market that has served as an impediment for investors to support this sector. Prologis, the biggest REIT in the world and roughly 8.37% of the Index was down -10.56% for October.

The IMF projected a global growth rate of 3.2% for 2024-2025 in their World Economic Outlook report. The report also noted that the balance of risks is tilted to the downside, and that fiscal policy needs to be sustainable to rebuild fiscal buffers. Central banks have commenced with the interest rate cutting cycle. There was no interest rate decision for the US nor the BOE in October however, but the next one in early November is expected to be a 25bp cut by each. The ECB did cut interest rates by 25bps on 17 October and BoC cut rates on 23 October by 50bps. Interest rates generally have started moving in and towards the lower end of the various target ranges of central banks.

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.

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