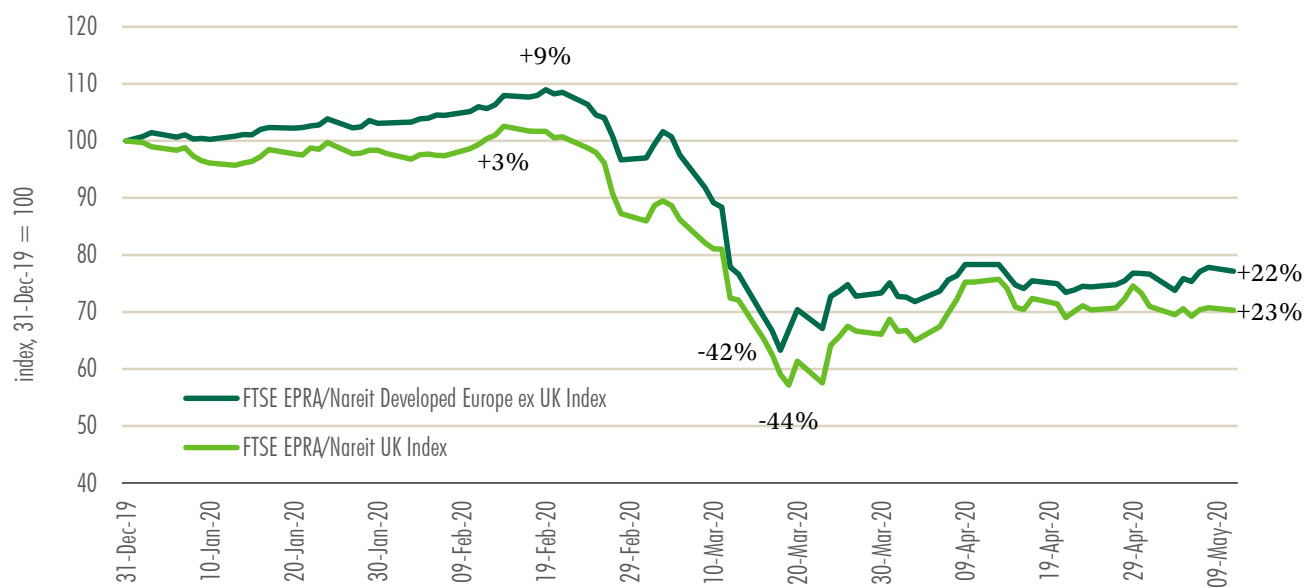


EMEA CAPITAL ADVISORS

Public Equity

Equity markets in general, including REITs, have settled since the beginning of the quarter, with the violent falls and subsequent recoveries giving way to a welcome period of sideways movement. This has left UK and continental European indices trading -30% and -23% below end 2019 levels and -31% and -29% below early February peak levels.

Figure 1 UK and European REIT prices.



Source: EPRA. Figures represent change from previous point, at various peak/trough points, not since Dec-19.

Beneath the headline figures, significant differentiation is plain to see, as investors have identified relative winners and losers from the current crisis. In particular we highlight the following:

- The relative strength of the logistics and self-storage sectors.
- Retail and hospitality (although there are only a few examples of the latter in this sample) have been notable underperformers, as would be expected given widespread closure of assets and the precariousness of many retail tenant finances even before the crisis. High street investors have tended to out-perform shopping centre operators.

- Within the Living sectors, the solidity of residential and healthcare versus the weakness of student; in the latter case there are arguably both short-term concerns given occupancy for this year has fallen and the outlook for next year has weakened given travel restrictions, and longer-term structural ones should a shift towards online learning partially erode the demand base.
- In general, development exposure too has been regarded unfavourably, given difficulties in proceeding with construction, increased uncertainty on exit value and timing, and cashflow concerns.

It is worth remarking that several companies operating in better-performing sectors including logistics (LondonMetric), healthcare (Aedifica and Assura), and self storage (Big Yellow) have completed or are undergoing equity raising, suggesting investor confidence in immediate valuation levels and future prospects in these sectors.

The above patterns are worth bearing in mind when thinking about a trading strategy for months to come on the basis of one's view of the likelihood of various scenarios for the future development of Covid-19. The levels at which the market has settled feel to us commensurate with a fairly consensus base case recovery, one that has no substantial second wave of infection or repeat of the recent disruption to economic activity. [We cover valuation and secondary trading declines in our accompanying Private Equity piece, but a c10-15% marked-to-market fall there on an ungeared basis maps reasonably well to declines here once gearing is factored in]. Those on the bearish side of consensus may well seek solace in those sectors that have proved more resilient so far, while those on the bullish side could look to find value in sectors, markets or individual REITs that they believe could bounce back first when economic activity gathers momentum.

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