WEEKLY ANALYSIS

Mr. Alain Freymond—Partner & CIO

PROSPECTS AND STRATEGIES
INTERNATIONAL REAL ESTATE

International real estate goes toe to toe with equities. Vaccination campaigns offer new perspectives. Economic stimulus packages also benefit real estate.

Key points

- International real estate goes toe to toe with
- equities
- Vaccination campaigns offer new perspectives
- The long-term effects of the pandemic on international real estate markets should be kept in perspective
- Economic stimulus packages also benefit real estate
- Attractive returns in the Eurozone and emerging markets

International real estate goes toe to toe with equities

At the beginning of the year, international real estate still seemed to us to clearly be one of the best asset classes in terms of risk/return ratios, especially when compared to the risk/return profiles of equities and bonds. We felt that arbitrage and repositioning opportunities in the medium term were still particularly attractive for international securitised real estate, which had not yet benefited, like equity markets, from the more positive macroeconomic outlook for 2021.

In the vast majority of countries, securitised real estate was still suffering from negative sentiment among investors still concerned about the medium-term risks that the pandemic posed to the stability of rental payments and therefore also to the expected returns on real estate investments.

The past quarter proved to be very favourable for international real estate investments, which could finally benefit from the improved economic outlook. The EPRA Nareit International Property Index rose by +5.6%, outperforming international equities (+4.9%).

The US (+9.6%) and emerging markets (+9%) benefited more than other markets from renewed investor interest. In the UK, the trend remained positive (+3.1%) in spite of the country's withdrawal from the EU. Europe, on the other hand, saw REIT prices temporarily weaken by -3%.

Vaccination campaigns offer new perspectives

International securitised real estate is therefore finally benefiting from a certain normalisation of the outlook and of the risks initially likely excessively associated with the pandemic. Investors are gradually reassessing these risks, which are now perceived in a less negative light. The success of the vaccination campaigns is clearly a key short-term factor in this ongoing process. The two Western countries that have shown an effective start to their vaccination campaigns are indeed those whose real estate markets have exhibited the strongest growth. The lead taken by the US and the UK in this respect has therefore largely contributed to the outperformance of their securitised real estate markets during the quarter. In contrast, Europe clearly lags behind both in terms of economic activity and vaccinations.

The slow pace of vaccination campaigns in Europe is not helping the European real estate market, whose prospects for recovery are being delayed by this factor.

In emerging markets, and particularly in China, this is less of a factor, probably because of how the health crisis was dealt with there. The vaccination campaign in China was not carried out in the same systematic way as in the US and the UK because of the level of control over the pandemic achieved thanks to the government's health measures.