Weekly Analysis

M. Alain Freymond — Partner & CIO

ATTRACTIVE OPPORTUNITIES IN VARIOUS REAL ESTATE SECURITIZATION MARKETS

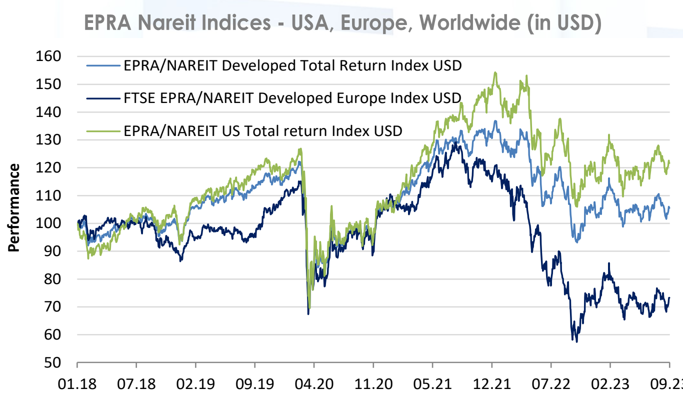
Gradual reduction in uncertainty. Positive impact of falling inflation and the end of the rate-tightening cycle. Attractive valuations of listed real estate indices in Europe and the UK. Relative yields and agios also attractive in Switzerland.

Key points

- Risks discounted, current prices represent real investment opportunities
- A particularly favorable price/net asset ratio for European real estate
- UK securitized real estate also looks close to recovery
- Swiss securitized real estate offers opportunities to be seized
- Attractive absolute and relative returns
- Positive outlook for both forms of investment in Switzerland (funds and companies)

Securitized real estate still affected by persistent uncertainty, but picks up at the end of the month

Unfortunately, the last few months haven't brought much change to investors' still mixed feelings about securitized real estate. Taken as a whole, the listed real estate market was already almost completely stable in the 2nd quarter (+0.04%), following an already rather calm and slightly positive 1st quarter (+0.51%). Over the past two months, real estate indices have recovered to some extent, without yet showing a very solid trend in an economic context rich in events likely to have a positive impact on real estate, such as falling inflation and the probable end of restrictive monetary policies. Regionally, however, we are seeing significant decorrelation and a certain volatility in monthly performances. It took a long time for prices to finally recover, first in the United States, then in Europe and in the emerging markets. These recent rebounds were still affected by interest rate uncertainty and remained volatile. In the United States, a combination of three favorable factors has begun to support a return of investor interest in this asset class and its listed stocks. In fact, it was the alignment of these three factors that enabled real estate values to begin to recover. Falling inflation, a correction in interest rates and hopes that the monetary tightening cycle would soon come to an end provided a favourable environment that pushed prices upwards. On the other hand, in Europe, persistently high inflation despite a clear downward trend, and a monetary policy resolutely geared to the continuation of the tightening cycle, did not yet provide sufficient reasons for investors to favor real estate investments in August, after a marked recovery in July. British property values fell by a further -4.5% in August, after rebounding by +5.1% in July. Overall, securitized real estate indices are continuing their consolidation phase as they await better visibility in their respective regional markets. The uncertainty that is holding back the revaluation of real estate assets is largely due to the problems associated with rising interest rates, increased financing or refinancing costs, and access to credit. In recent weeks, these factors have had a further negative impact on the conditions for assessing risks and opportunities. The recent rebound in financing costs in the US in particular has had a negative impact on risk perception and on current valuations of real estate assets, often pushing REIT and real estate company prices down until recently. However, the end of August seems to present some interesting developments. Indeed, the positive recovery observed for some weeks now could well herald the start of a new upturn in the value of listed real estate companies and REITs, with the probable end of the monetary tightening cycle in the United States.



Sources: Bloomberg, BBGI Group SA