

The view from

Global Property Equities



Global Property Equities Outlook 2012

2011 was a year two halves, with widely differing regional performance and a sharp reversal in risk appetite in July. The global index was up 6% by the end of June, but lost 11% in the second half, ending the year with a negative 5.8% total return, in line with general equities.



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In the first half Europe was the star performer, up 17%, led by the UK, but then succumbed to Euro-anxiety and fell by 25% to finish 12% down. Asia (excluding Australia) was down in every quarter of the year, losing 25% in total. In the end North America was the clear winner with a total return of 8.2%.¹

It was also a year in which exchange rates played a major role: the “safety trade” in the second half saw the US dollar appreciate against all major currencies except the yen, and against the euro in particular (by 12%).

The news in 2012 will be dominated by: the US economy and election; the bail-out of Southern Europe; and residential prices in China.

The positive performance of North American REITs last year was not by any means solely due to their perceived safety. They showed positive earnings growth, raised their dividends by 16% and still only pay out 49% of their available cashflow. They are currently² trading approximately at net asset value, at a cashflow multiple (17x) in line with their long-term average and have shown in recent months that they can access capital markets for both equity and debt.

For North American REITs we estimate that annual dividend growth of 12.5% is achievable from now until the end of 2015. Even if there is no growth in cashflow, the average dividend pay-out ratio would only reach 70%.

In Asia, excluding Australia and Japan, the Chinese economy and efforts to engineer a soft landing for the housing market will determine the performance of property stocks. Developers are out of fashion as take-up and prices are stagnant or falling across the region, and the more secure REITs in Singapore and Hong Kong tend to get tarred with the same brush.

Australia has bucked the Asian trend with a negative total return of only 2% for the past year. Stable economic and property fundamentals, combined with a 6.5% dividend yield from AREITs and modest earnings growth, should provide a solid base on which they can rebuild their reputations after the madness of the previous cycle.

Stability is also the watchword in Japan, where the developers are looking cheap on an historic basis and the REITs offer an attractive 5.8% dividend yield. Tokyo's office vacancy rate is likely to peak this year, and condo prices are expected to show continued modest growth.

¹ All performance numbers refer to the respective FTSE EPRA/NAREIT total return indices in US\$.

² All data as at 4 January 2012.

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The economic backdrop in Europe will make it hard for property stocks to generate much enthusiasm, but it is important to look beyond generalities. In the retail sector, we expect the larger shopping centres with modern concepts to attract greater market share and maintain rental values. London will continue to stand out, even in an Olympic year, in terms of retail trade, residential prices and investment values. Stocks are trading at an average discount to NAV of 20% and a dividend yield of 5%, reflecting - in our view - an overly pessimistic expectations.

The challenges facing property markets are well rehearsed and, as suggested, priced in. However, investors appear to be overlooking a number of positive factors: a lack of new supply in all but a few markets; proven access, especially among larger companies, to new debt; solid balance sheets; and very attractive, growing dividend yields.

When buyers return to the equity markets, there is every chance that these virtues will be recognised. In the meantime, we will continue to favour North American REITs at the expense of Asian developers.

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