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Monthly Real Estate Monitor – August 2021

This month at a glance

Positive returns all around with large caps (+4%) outperforming small (+1%) and the storage sector (+10%) seeing the biggest change in sentiment and monthly performance. There were more analyst downgrades than upgrades and the sector relative declined marginally. The key momentum indicator - the 10m Moving average remains in positive territory. High yield (Value) outperformed low yield (growth) although in terms of NAV the reverse was true. High LTVs reversed recent performance and outperformed LTVS due to the positive overall sentiment towards the sector. For a full explanation of the calculation and methodology for the indicators, see "Rationale and Methodology" document on the Centre website. *All data is sourced from Bloomberg unless specified otherwise.*

Equity indicators

Sentiment		Factor Analysis		Valuation		Market Structure	
Analyst recommendation	↓	Small vs Large	↓	Discount to NAV	↑	Systemic risk	↓
Sector Relative	↑	Value vs Growth	↑	Dividend Yield	↑	Demand M&A	↑
Sector Absolute	→	High vs low LTV	↑				

We focus on two factors in particular -the most significant changes to analyst recommendations and the asset preferences in terms of performance. This month saw big upgrades in the UK (British Land, London & Metric, and Capital & Counties) with a resultant boost to performance. The main downgrades were marginal, mainly to companies with an already high rating. In terms of sectors, yet again Storage, Sheds and Infra were the leaders, with Travel in negative territory.

Analyst recommendations – Equity tables - upgrades & downgrades

Largest upgrades				Largest downgrades			
Name	Score change	1m return	Rating	Name	Score change	1m return	Rating
M.R.M.	2.0	2%	5.0	UK Commercial Property REIT	-1.0	-1%	3.0
Cofinimmo	0.3	3%	4.6	Shurguard Self Storage	-0.5	13%	4.0
British Land	0.2	6%	3.2	Demire Real Estate	-0.4	3%	3.3
London Metric	0.2	6%	3.8	Kojamo	-0.4	1%	4.1
Capital & Counties	0.1	4%	3.3	Alstria Office	-0.4	-6%	3.3

Source: Bayes Business School, Bloomberg

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Factor analysis

With increasing numbers of fund managers using factor analysis, we are seeking to identify the key performance drivers each month. This month it was high yield (value) that outperformed the benchmarks, with size a positive contributor.

Value - yield	1 month return	Volatility	Size	1 month return	Volatility
High Yield (upper quart)	4%	24%	Large	4%	28%
Low Yield (lower quart)	3%	26%	Medium	2%	25%
EPRA (FF-market cap weight)	3%	16%	Small	1%	29%
Bayes Benchmark (equal weight)	2%	32%	Micro	0%	47%

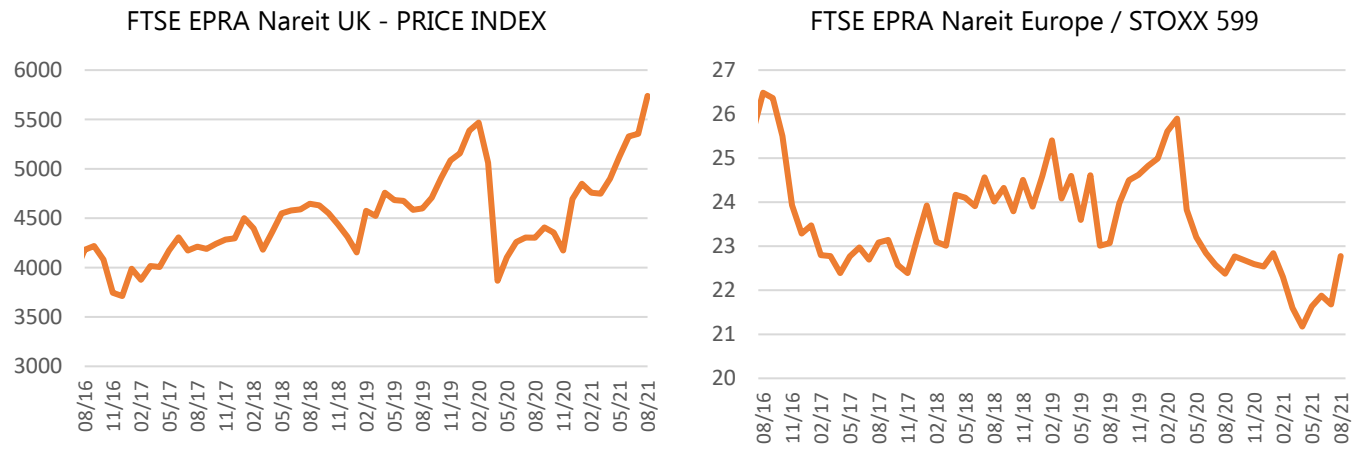
Value - NAV	1 month return	Volatility	Leverage	1 month return	Volatility
Discount (lower quart)	2%	30%	Watch	2%	35%
Premium (upper quart)	5%	43%	High	3%	27%
			Average	3%	29%
			Low	1%	38%

Subsector analysis

Style	Factor	Disc/Prem	Yield	LTV	Analyst Opinion	1m Perf	Volatility
1	Cities	1.0%	1.0%	26.2%	3.3	3.5%	29.1%
2	Diverse	1.0%	3.3%	40.6%	0.0	0.0%	26.6%
3	Meds	1.4%	3.6%	42.1%	4.7	2.5%	19.8%
4	Resi	1.2%	3.0%	42.6%	3.7	0.8%	24.2%
5	Sheds	1.3%	2.6%	43.4%	4.2	6.2%	23.4%
6	Shops	0.9%	4.8%	43.5%	2.4	0.4%	29.1%
7	Infra	1.2%	2.0%	5.7%	4.0	4.5%	55.6%
8	Workspace	0.9%	3.2%	37.3%	3.1	1.8%	25.5%
9	Storage	2.1%	1.9%	24.8%	4.0	10.0%	23.9%
10	Travel	0.8%	1.6%	51.6%	0.0	-1.6%	35.8%
	Bayes Benchmark		**3.5%**	**40.1%**		**1.9%**	**32.3%**

Source: Bayes Business School, Bloomberg

Figure 1. Equity indices



Source: Bayes Business School, Bloomberg

Related documents:

Bayes Monthly Monitor Methodology
Bayes CRE Lending Report Year-end 2020

M&A announcements

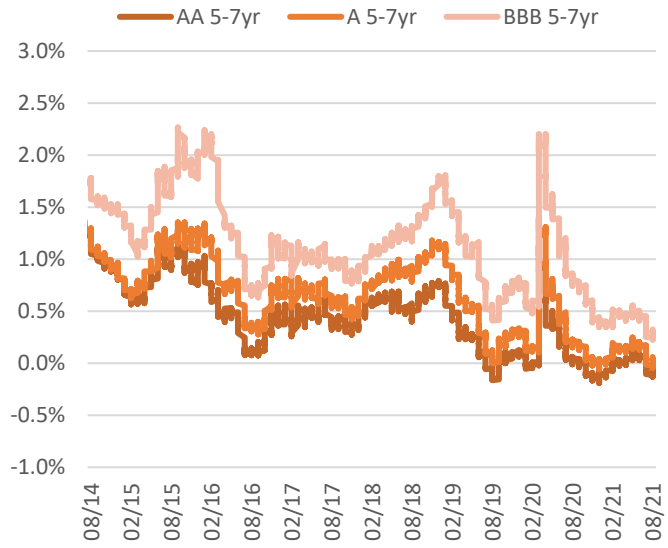
Announce Date	Target Name	Acquirer Name	Total Value$000	Payment Type	Deal Status
01/08/2021	Deutsche Wohnen SE	Vonovia SE	29,366	Cash	Pending
02/08/2021	Kungsleden AB	Castellum AB	5,463	Cash or Stock	Pending
16/07/2021	GCP Student Living	Gemini Jersey JV LP	1,685	Cash	Pending
07/07/2021	Magnolia Bostad AB	F Holmstroemgruppen	581	Cash	Pending

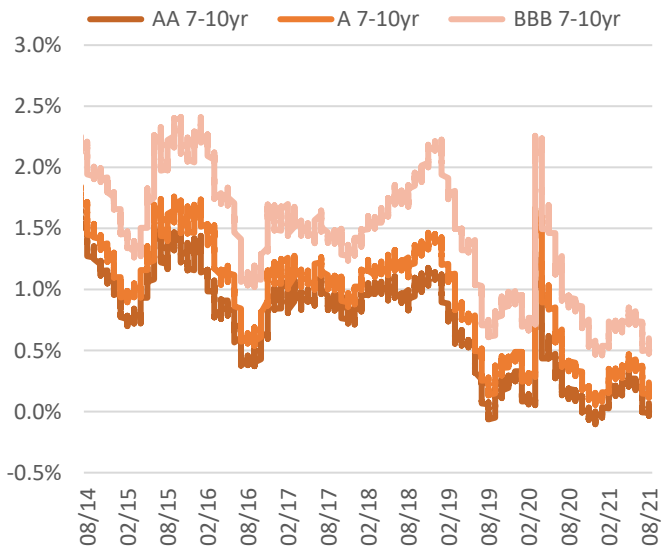
Source: Bayes Business School, Bloomberg

Debt sentiment

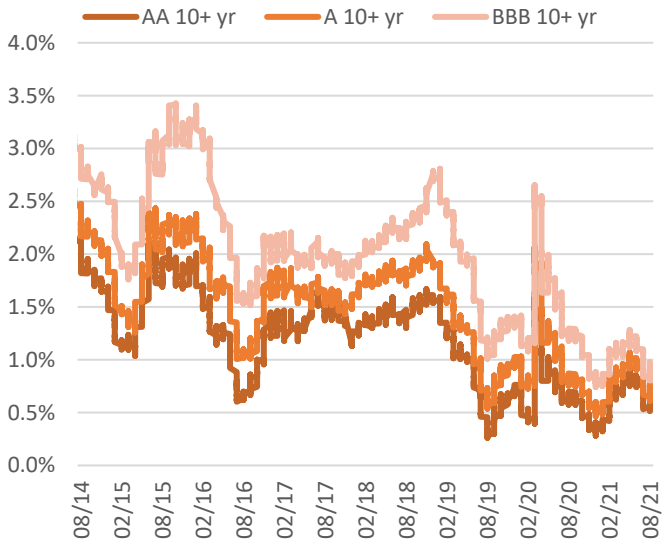
Short term bonds show strongest yield differentials by rating grade, 160bps spread can be found between AA versus BBB. The long-term instruments show a stronger yield pickup signalling market expectations that interest rates will rise in the medium term.

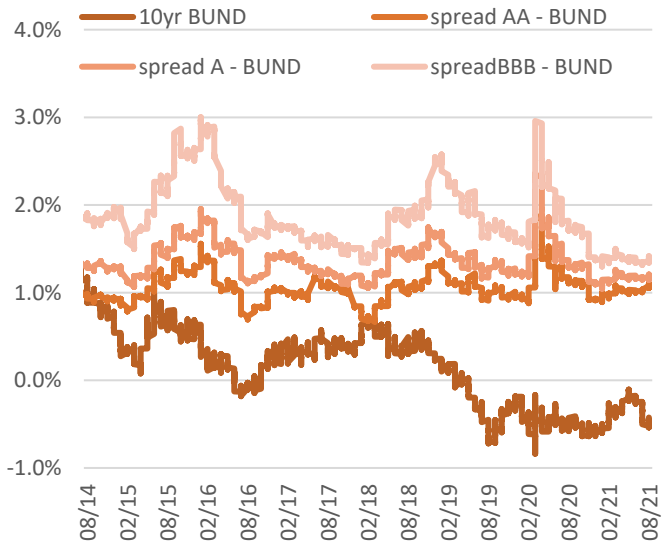
Figure 2. Corporate bond credit curves, IBOXX Euro Non-Financials





Source: Bayes Business School, Bloomberg





Source: Bayes Business School, Bloomberg

New debt issuance

During Q1 €3.4bn of new bonds were issued followed by another €10.6bn in Q2 2021. No bonds were issued during July and August.

Issuer	ISIN	Coupon	Maturity	Outstanding €million	Moody's rating	Trading price	Issue date
CTP NV	XS2356030556	1.3%	21/06/2029	500	Baa3	100.9%	21/06/2021
CTP NV	XS2356029541	0.5%	21/06/2025	500	Baa3	100.4%	21/06/2021
Ascendas	XS2349343090	0.8%	23/06/2028	300	A3	100.9%	23/06/2021
Gecina SA	FR00140049A8	0.9%	30/06/2036	500	A3	102.9%	30/06/2021
LEG Immo SE	DE000A3E5VK1	0.8%	30/06/2031	600	Baa1	101.6%	30/06/2021
Vonovia SE	DE000A3E5MF0	0.0%	16/09/2024	500	A3	100.5%	16/06/2021

Source: Bayes Business School, Bloomberg

Debt market Performance

German property company Demire bonds are trading with largest spread differentials. The bonds are due to mature in 2024. Longer-term bonds with strong performance were Vonovia, CPI Property Group and Unibail-Rodamco.

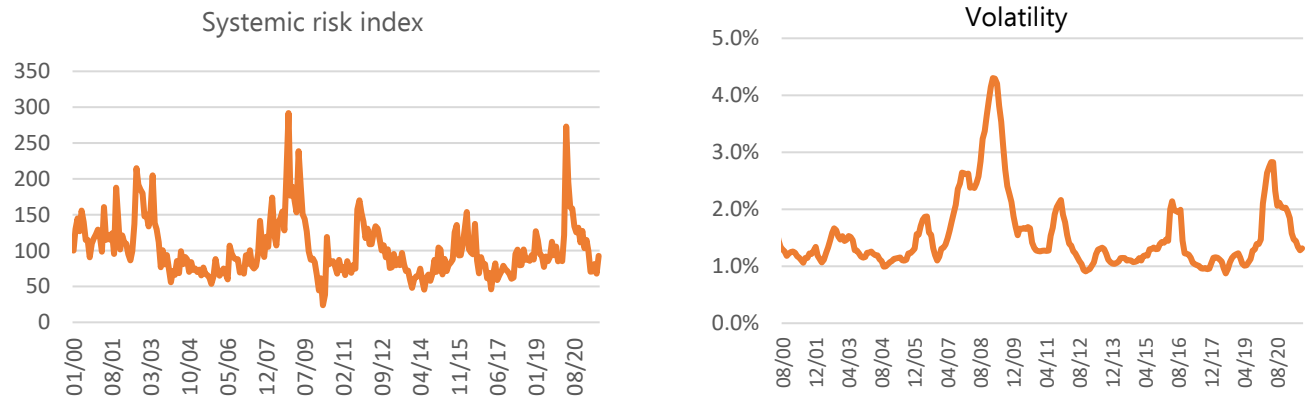
Issuer	ISIN	YTM	Coupon	Maturity	Maturity years	Rating	Benchmark	spread
DEMIRE	XS1416688890	3.1%	1.9%	15/10/2024	3.0	Ba2	BBB 5-7	2.8%
ADLER Group	XS0785624049	2.0%	1.5%	26/07/2024	2.8	Baa2	BBB 5-7	1.8%
Atrium	FR0013266343	1.5%	3.0%	11/09/2025	3.9	Baa3	BBB 5-7	1.3%
Unibail-Rod	XS1081656180	1.9%	2.0%	05/12/2033	12.1	Baa2	BBB 10+	1.1%
Westfield SE CPI Property Group SA	XS0864386825	1.6%	1.5%	27/01/2031	9.3	Baa2	BBB 7-10	1.1%

Source: Bayes Business School, Bloomberg

UK Real Estate sector: Market indicators

The systemic risk index captures the exposure of the UK financial system to the Real Estate market. In August 2021, the index is estimated at 92.6 points, just above the median value of the examined sample period (91.7), but below the upper quantile threshold. The systemic risk remains high, driven by the prolonged period of uncertainty in the commercial real estate market (retail and offices). The historical volatility of the Real Estate portfolio exhibits a similar pattern, and the last observation is estimated at 1.1%.

Figure 3. Market indicators



Source: Bayes Business School, Bloomberg

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