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Real Estate Monitor | H1 2023

H1 2023 at a glance

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	↓				

Factor analysis

After a small recovery in Q4 2022, H12023 saw another tsunami of bad news for the sector as inflation refused to come down and Central Banks continued their single blunt instrument approach of raising interest ates to combat inflationary pressures. The expectation in Q4 2022 was that inflation and thus interest rates would have peaked by Summer 2023. This proved to be unduly optimistic, and the anticipated peak has now been pushed out a further six months. Given its perceived interest rate sensitivity it was unsurprising that for H1 2023, the EPRA Index showed a negative 7.6% total return which compared to a positive 18.1% return from European equities. This was marginally below the equal weighted return from our 270 stock universe of – 7.0%. In Q4 2022 it was the largest stocks that took the brunt of the sell off but in H1 2023 it was the smaller and mid-sized stocks, particularly those with office and residential exposure.

H1 2023 equity performance results

Value – Yield & PTB	H1 return	Volatility	Size (Market Cap.)	H1 return	Volatility
High Div. Yield (upper quart)	-6.3%	33.2%	Large	-3.0%	33.5%
Low Div. Yield (lower quart)	-7.0%	35.4%	Medium	-7.2%	32.9%
Discount (lower quart)	-13.9%	56.0%	Small	-6.2%	31.3%
Premium (upper quart)	-1.8%	25.5%	Micro	-11.5%	57.7%
ESG	**H1 return**	**Volatility**	**Leverage & Benchmarks**	**H1 return**	**Volatility**
Low Sustainability	-3.9%	35.2%	Watch (upper quart)	-13.7%	46.2%
High Sustainability	-5.3%	39.3%	Low (lower quart)	-2.5%	42.5%
Low Governance	-7.2%	41.9%	EPRA (FF-MCap weight)	-7.6%	14.8%
High Governance	-10.0%	36.3%	Bayes Benchmark (Equal weight)	-7.0%	38.8%

Source: Bayes Business School, Bloomberg

Another 6-month performance to forget for the European listed sector. The key momentum Index (10m Moving Average) that we use remains on a negative trend, as does the sector relative. Mixed total return signals from Income based Value and Growth factors as there was similar performance between the high and low yielding stocks (-6.3% and -7% respectively) but higher rated growth stocks trading at a premium to NAV (-1.8%) significantly outperformed those trading at a discount (-13.9%). Positive ESG factors were not a material contributor to performance in H1 2023. Given the focus. Given the focus on interest rates in the first half it was not surprising that highly geared stocks (-14%) underperformed lowly geared stocks (-2.5%).

Equity indicators H1 2023

The balance of analyst recommendations is starting to turn and whilst in Q4 2022 they were marginally negative, for H1 2023 they were marginally positive with 24 upgrades and 22 downgrades suggesting that the results season for December and March year end companies was in line with expectations with mark downs close to analysts estimates and no material changes to forecast values overall. That said, the full impact of higher interest rates on both earnings (and thus dividends for REITs) and capital values in 23/4 and 24/5 remains to be seen. Transaction volumes in the direct market remain low in and the hope is that this picks up in H2 2023, with the current bid offer spread between sellers and buyers narrowing as the year-end approaches. The anticipated reduction in discounts did not occur as NAV reductions were matched by share price falls. According to EPRA over the first half of 2023 discounts actually widened from -31% to -35% whilst for Europe-ex UK they declined marginally from -45% to -43% reflecting the fact that generalist investors see no need to immediately rush back into the sector given the macro backdrop.

Analyst recommendations – Equity tables - upgrades & downgrades

Largest upgrades				Largest downgrades			
Name	Score change	Q2 return	Rating	Name	Score change	Q2 return	Rating
CATENA AB	0.5	-2.7%	5.0	DIC ASSET AG	-0.8	-26.5%	3.1
LONDONMETRIC PROPERTY PLC	0.4	1.7%	4.0	DEMIRE DT MTS REAL ESTATE AG	-0.7	-21.2%	2.7
PANDOX AB	0.4	4.2%	4.6	AEDIFICA	-0.4	-16.0%	4.2
NEINOR HOMES SA	0.4	12.8%	3.4	PLATZER FASTIGHETER HOLD-B	-0.4	-6.5%	4.6
EUROCOMMERCIAL PROPERTIES NV	0.3	1.1%	3.7	VASTNED RETAIL NV	-0.3	-2.1%	2.3

Source: Bayes Business School, Bloomberg

Subsector analysis H1 2023

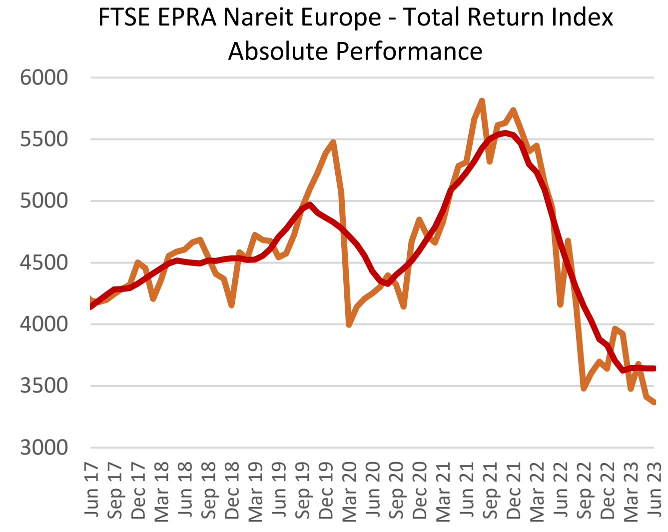
The further falls in H1 2023 were not particularly sector focussed, but it is worth noting that quasi Infra stocks (-15%) were the worst performing sector with Resi (-10%) and the beleaguered Workspaces/Office sector (-9%) both underperforming the free float market capitalisation weighted and equal weighted Indices. The only sector to be in the black was the Travel Sector (+5%) which has quite different early cycle performance drivers and is far less sensitive to capital valuation shifts.

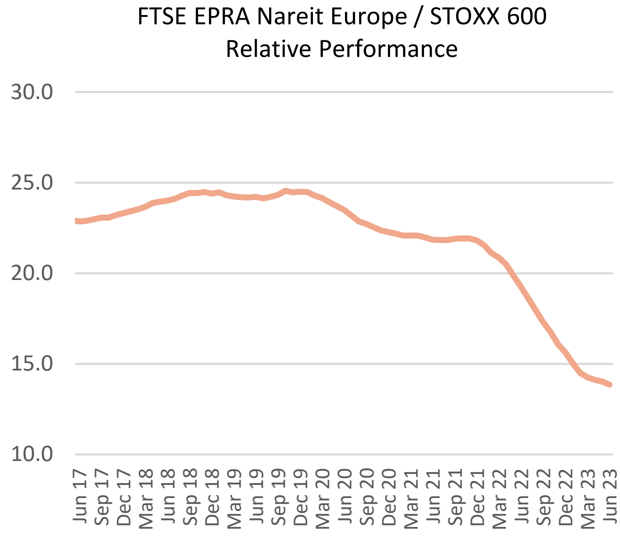
Looking ahead it is also worth noting that although upgrades are marginally ahead of downgrades the overall analyst opinion is not particularly strong. These scores are ranked 1 (Strong Sell) to 5 (Strong Buy) and reflect the consensus unweighted analyst opinion. Storage is the only sector with a reasonably positive outlook overall (4.0) whilst Offices (2.1) and Diverse (2.0) are particularly underwhelming in conviction. Looking at the sector discounts which reflect anticipated performance Storage is best at -1% followed by Logistics at 14% whilst Offices, Retail (both 43%) and Residential (-53%) currently have the lowest valuations (Source: EPRA)

Style	Factor	Yield	LTV	Analyst Opinion	2023	Volatility
1	Cities	3.6%	22.4%	3.1	-4.3%	26.2%
2	Diverse	5.7%	39.1%	2.0	-9.3%	40.0%
3	Meds	6.3%	36.5%	3.7	-6.3%	27.8%
4	Resi	5.0%	38.5%	2.7	-10.0%	42.3%
5	Sheds	4.7%	37.2%	2.9	-3.0%	56.2%
6	Shops	7.0%	66.8%	2.9	-0.3%	27.3%
7	Infra	5.6%	22.9%	3.5	-14.6%	38.0%
8	Workspace	3.8%	35.6%	2.1	-9.0%	38.7%
9	Storage	3.2%	21.6%	4.0	-4.5%	32.7%
10	Travel	4.7%	46.2%	2.0	5.1%	42.8%
	Bayes Benchmark	5.5%	42.1%		-7.0%	38.8%

Source: Bayes Business School, Bloomberg

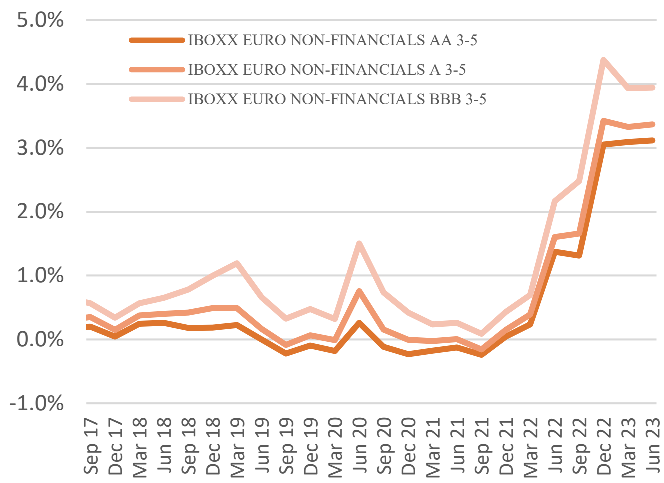
Figure 1. Equity indices

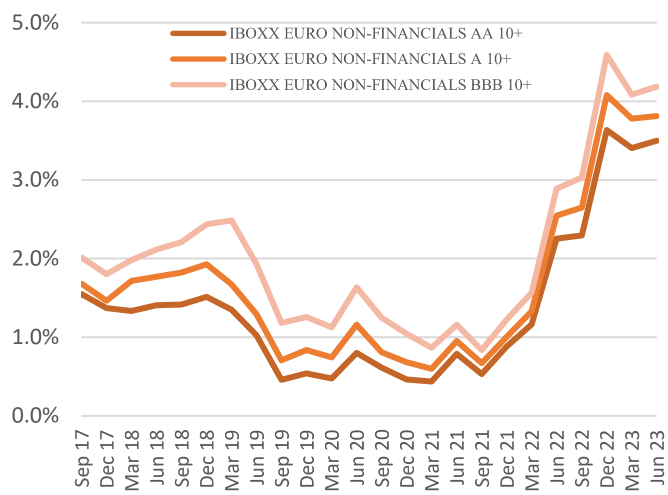




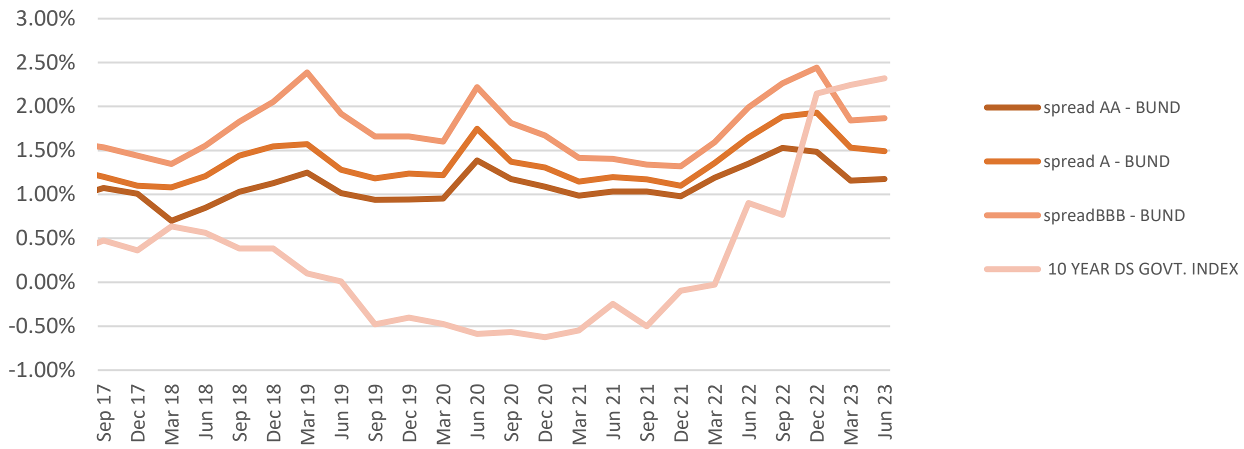
Source: Bayes Business School, Thomson Reuters Datastream

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





Source: Bayes Business School, Thomson Reuters Datastream



Source: Bayes Business School, Thomson Reuters Datastream

M&A announcements H1 2023

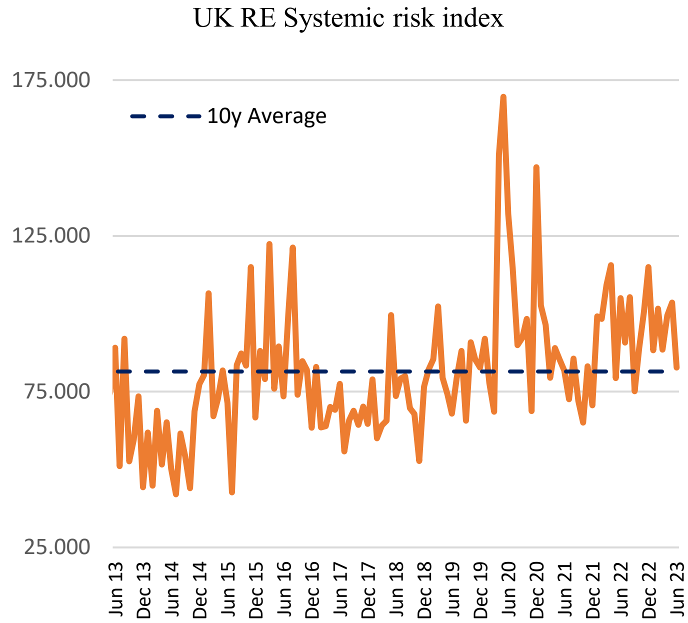
Announce Date	Target Name	Acquirer Name	Total Value (€ million)	Payment Type	Deal Status
04/07/2023	Bockasjo AB	Catena AB	39.21	Cash and Stock	Pending
12/06/2023	Bonava Norge AS	Union Residential Development AS	128.95	Cash	Completed
29/05/2023	Samhallsbyggnadsbolaget i Norden AB	Potential Buyer	6805.9	Undisclosed	Proposed
24/05/2023	CT Property Trust Ltd	LondonMetric Property PLC	294.6	Stock	Pending
19/05/2023	Haya Real Estate SA	Intrum AB	140	Cash	Pending
09/05/2023	Civitas Social Housing PLC	CK Asset Holdings Ltd	820.5	Cash	Pending
27/04/2023	Distrelec Group AG	RS GROUP PLC	364.98	Cash	Completed
03/04/2023	Industrials REIT Ltd	Blackstone Inc	733.82	Cash	Completed
30/03/2023	Wincasa AG	Implenia AG	172.18	Cash	Completed

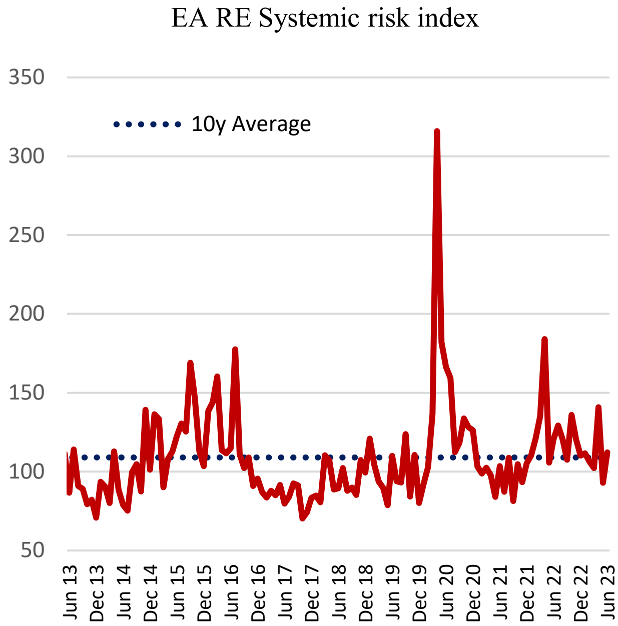
Source: Bayes Business School, Bloomberg

Systemic Risk in the UK and Euro Area Real Estate sectors

The systemic risk index captures the exposure of the financial system to the Real Estate market. In the previous Monitors we presented the distress that the COVID-19 pandemic and the Ukraine-Russia war caused to the European financial markets. In the first half of 2023, systemic risk remains high, above the 10-year average, but considerably lower than the 2020 and 2021 peak values. The UK index declined by 7% compared to H1 2022, whereas the European Union aggregate index is down by 14.3%. The decline in systemic risk can be partially attributed to the consecutive increases in the ECB and BoE interest rates that aim to stabilize prices and stabilize the financial markets. With regards to the real estate market volatility index, the average 2023H1 index declined marginally from 1.4% to 1.2% and 1.3% for the Euro Area and UK companies respectively.

Figure 3. Market indicators





Source: Bayes Business School, Thomson Reuters EIKON Datastream