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Real Estate Research Centre^{GO}

Monthly Real Estate Monitor – October 2021

This month at a glance

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

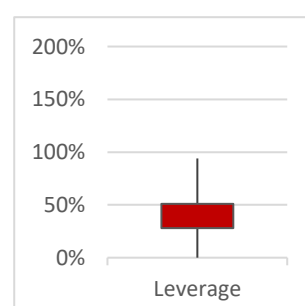
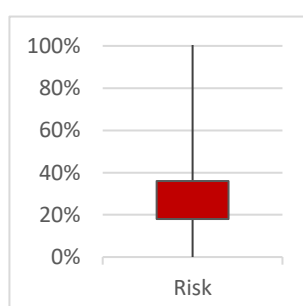
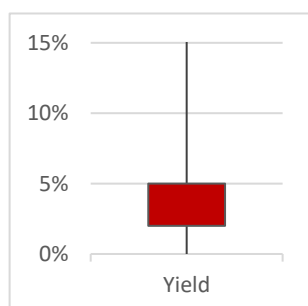
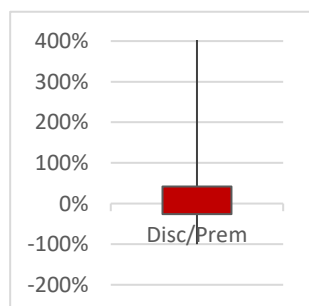
Factor analysis

Following September's decline October saw a strong bounce back with the EPRA Index +4.1%. This was a generic rather than stock specific rise, led by the larger cap stocks (+3.1%) vs +1.2% for small cap stocks. As a result our Equal Weighted benchmark of >300 stocks underperformed market cap weighted indices. In terms of factors there were contrasting signals with both higher yield and those at a premium outperforming. Once again storage (9.8%) was the best performer, followed by Healthcare, while the usually stable residential sector delivered a negative return of -1.2%. Higher leveraged firms delivered a negative return of -1.1%. 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.

Value - yield	1 month return	Volatility	Size	1 month return	Volatility
High Div Yield (upper quart)	3.3%	26.7%	Large	3.1%	27.2%
Low Div Yield (lower quart)	1.7%	26.9%	Medium	2.5%	25.6%
EPRA (FF-market cap weight)	4.1%	14.8%	Small	1.2%	29.2%
Bayes Benchmark (Equal weight)	1.1%	30.6%	Micro	-2.3%	41.2%

Value - NAV	1 month return	Volatility	Leverage	1 month return	Volatility
Discount (lower quart)	-3.6%	45.3%	Watch (upper quart)	-1.1%	33.6%
Premium (upper quart)	3.3%	21.3%	Low (lower quart)	1.4%	34.2%

Monthly benchmark: Min, max, lower and upper quartiles



Equity indicators

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 upgrades to two Swedish companies,,Dio and Castellum, while in Germany there two downgrades, with EyeMaxx particularly badly hit, although Deutsche REIT performed strongly despite the downgrades and still has an overall rating of 4.6 out of 5. .

Analyst recommendations – Equity tables - upgrades & downgrades

Largest upgrades				Largest downgrades			
Name	Score change	1m return	Rating	Name	Score change	1m return	Rating
Dios Fastigheter	0.7	16.5%	3.7	Borgestad ASA	-2.0	-4.4%	3.0
Retail Estates	0.4	7.3%	3.8	EyeMaxx Re AG	-1.0	-69.2%	3.0
Nexity	0.4	-1.2%	4.3	Adler Group SA	-0.7	-21.0%	3.7
Renta Corp Re	0.3	5.9%	4.3	Secure Income REIT	-0.7	-1.2%	4.3
Castellum AB	0.3	4.9%	3.8	Deutsche Ind REIT AG	-0.4	30.8%	4.6

Source: Bayes Business School, Bloomberg

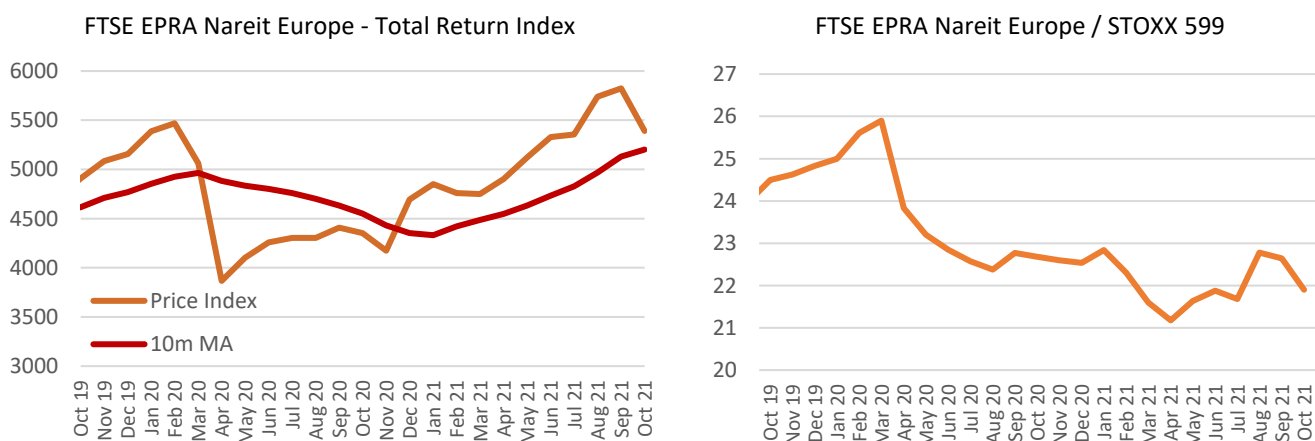
Subsector analysis

Three sectors are now trading at a discount, the travel sector is still not showing much recovery. Also, Cities as a sector are now at a slight discount and delivering a negative return of -0.5%. Best performers in terms of return are the storage and meds sectors.

Style	Factor	Yield	LTV	Analyst Opinion	1m Perf	Volatility
1	Cities	1.8%	25.0%	2.9	-0.5%	26.7%
2	Diverse	3.9%	38.8%	1.8	1.5%	31.7%
3	Meds	3.3%	34.9%	4.7	5.4%	22.2%
4	Resi	3.3%	41.2%	2.5	-1.2%	28.3%
5	Sheds	2.9%	38.5%	3.0	1.0%	34.6%
6	Shops	4.8%	39.5%	2.3	1.0%	30.0%
7	Infra	1.0%	19.8%	4.7	-0.1%	46.8%
8	Workspace	3.8%	35.7%	2.4	1.8%	27.4%
9	Storage	2.0%	24.5%	3.9	9.8%	23.7%
10	Travel	1.7%	49.0%	1.6	1.1%	33.8%
Bayes Benchmark			38.5%		1.1%	30.6%

Source: Bayes Business School, Bloomberg

Figure 1. Equity indices



Source: Bayes Business School, Thomson Reuters Datastream

M&A announcements

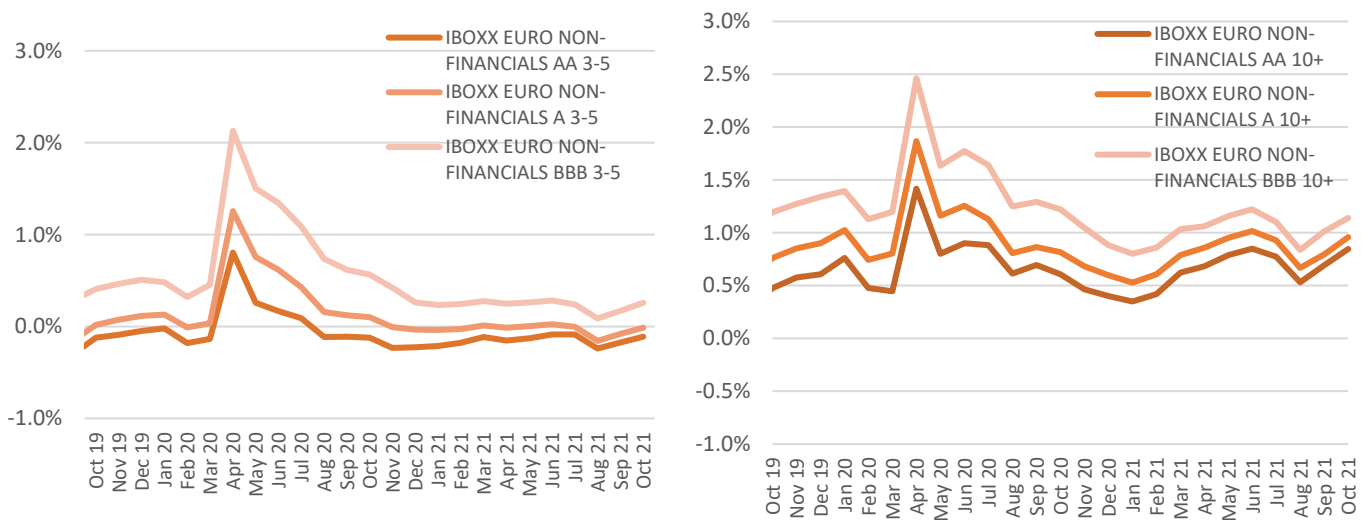
Announce Date	Target Name	Acquirer Name	Total Value (€ million)	Payment Type	Deal Status
26/10/2021	Deutsche Ind REIT AG	CTP NV	636.36	Cash or Stock	Pending
20/10/2021	TLG Immobilien AG	Aroundtown SA	696.79	Cash	Pending
18/10/2021	Atrium European Re Ltd	Gazit-Globe Ltd	352.37	Cash	Pending
12/10/2021	Entra ASA	Fastighets AB Balder	5783.53	Cash	Pending

Source: Bayes Business School, Bloomberg

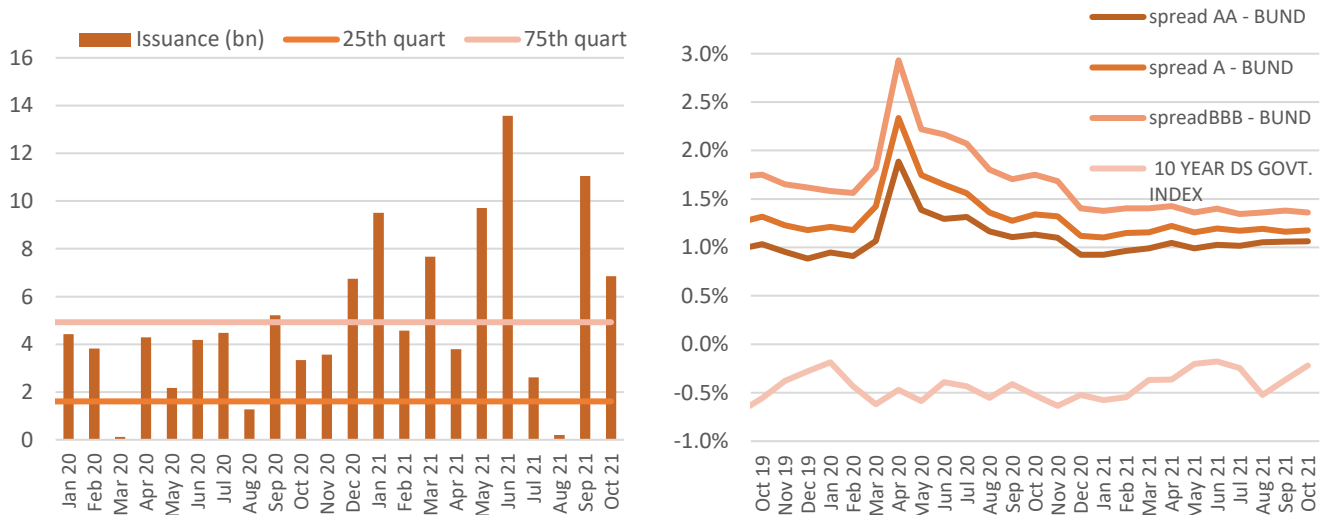
Debt sentiment

Corporate bond yields have widened between September and October by 6-8bps for shorter maturities, however, longer maturities widened by 15 – 18bps, following the German BUND which increased by 15bps. Total bond issuance in October was strong with €6.8bn compared to €3.3bn in 2020 and €5.6bn in 2019.

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



Source: Bayes Business School, Thomson Reuters Datastream



Source: Bayes Business School, Thomson Reuters Datastream

Related documents:

[Bayes Monthly Monitor Methodology](#)

[Bayes CRE Lending Report Year-end 2020](#)

[Bayes CRE Lending Report Mid-Year 2021](#)

New debt issuance (rated bonds)

While October total debt issuance was strong with 23 new bonds (€6.8bn), only two of them were counted as rated bonds. MPT Finance is a real estate investment trust vehicle focused on healthcare properties. The bonds have a relatively short term maturity. American Tower REIT issued another bond of €500million.

Issuer	ISIN	Cpn	Maturity	Out. € million	Moody's rating	Trading price	Issue date
MPT Finance Corp	XS2390849318	1.0%	15/10/2026	500	Ba1	99.7%	06/10/2021
American Tower Corp	XS2393701953	1.0%	05/10/2030	500	Baa3	98.5%	05/10/2021

Source: Bayes Business School, Bloomberg

Debt market performance

Bond investor can pick up some yield in the lower rated bonds maturing within the next 3-4 years. Moody's has upgraded the rating of Peach Property Finance GmbH on 1 Nov 2021. The company is focused on German residential property. Finnish PHM Group has received its first rating in June 2021 and issued its first bond. The company is investing in the Swedish residential market. This is in line with analyst upgrades for the equity sector.

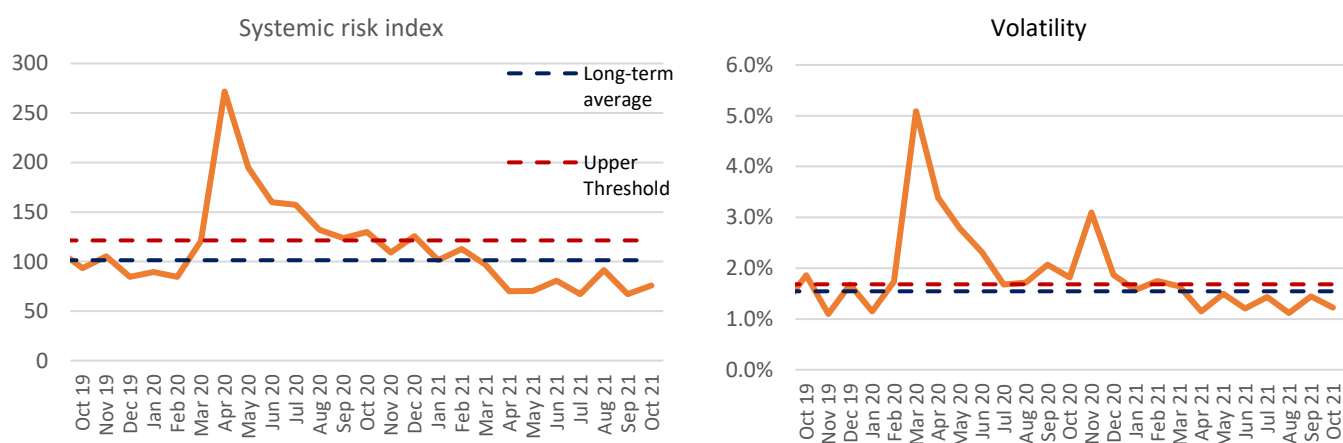
Issuer	ISIN	YTM	Coupon	Maturity	Maturity years	Rating	Benchmark	spread
Codic Intern SA	BE0002635168	4.7%	4.6%	13/03/2024	2.3	Baa3	BBB 3-5	4.4%
MAS Securities	XS2339025277	5.0%	4.3%	19/05/2026	4.5	Ba1	BB 3-5*	4.4%
PHM Group Holding Oy	FI4000507876	4.1%	4.8%	18/06/2026	4.6	B2	BB 3-5*	3.5%
Peach Property	XS2247301794	3.6%	4.4%	15/11/2025	4.0	Ba2	BB 3-5*	2.9%
Peach Property	XS2247302099	3.5%	4.4%	15/11/2025	4.0	Ba2	BB 3-5*	2.9%

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 October 2021, systemic risk remained low, at the same levels as 2021 Q2 and Q3, at 76 points. When the (first) lockdown measures came into force, the index had reached a new peak (April 2020). Since the COVID-19 related uncertainty has been reduced over the last months and the risk level has fallen sharply. Systemic risk declined by 41% compared to a year ago and it is 14.6% lower in comparison the one-year average. The UK Real Estate sector Volatility exhibits a similar pattern. Since April 2021, Real Estate volatility dropped back to pre-pandemic levels. In October 2021, the volatility index declined by 32% compared to 2020.

Figure 3. Market indicators



Source: Bayes Business School, Thomson Reuters Datastream

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