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## Quarterly Real Estate Monitor | Q2 2022

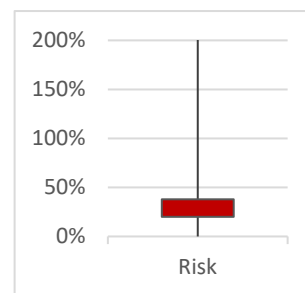
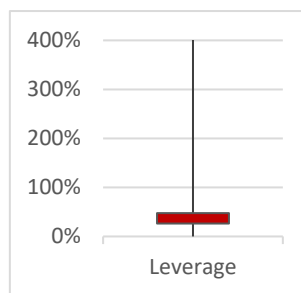
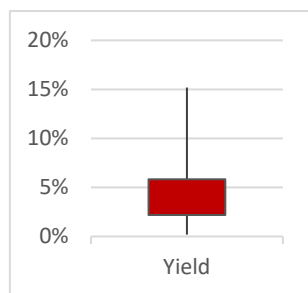
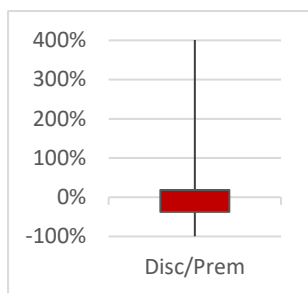
### This Quarter at a glance

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

The 2<sup>nd</sup> Quarter performance from real estate equities was poor, in the face of the increasingly strong headwinds of the worsening energy crisis, armed conflict in Ukraine, and rising interest rates. Real estate was perceived to be more vulnerable than other sectors, with the EPRA Index losing 24% compared to a fall of 10% for European equities. The key driver of this underperformance was the significant decline in the heavily weighted German and Swedish stocks, after several years of strong gains. As an example, Vonovia, by far the largest stock in the Index was down 27%. In contrast our Equal weighted Index was down 10%. As a result of this underperformance it is worth noting that the key momentum indicator we use (10m MA) is now negative. As usual at times of market sell off's it was the most liquid and largest stocks that performed worst. We saw the largest stocks off 16.5% compared to a decline of only 5.7% in the smaller stocks. The picture for Value and Growth was mixed, with high yield (value) outperforming low yield (growth) but large discount (value) underperforming premia (growth). Given investor concerns about the trend in interest rates it is no surprise that lower leverage stocks outperformed those with higher gearing. The underperformance of larger stocks (which typically have higher sustainability ratings) meant that ESG credentials were not a driver of performance this quarter.

Value – Yield & PTB	Q2 return	Volatility	Size (Market Cap.)	Q2 return	Volatility
High Div Yield (upper quart)	-10.9%	24.8%	Large	-16.5%	29.6%
Low Div Yield (lower quart)	-13.2%	27.4%	Medium	-11.3%	27.9%
Discount (lower quart)	-16.2%	42.4%	Small	-5.7%	25.0%
Premium (upper quart)	-10.5%	23.6%	Micro	-8.7%	47.9%
ESG	Q2 return	Volatility	Leverage & Benchmarks	Q2 return	Volatility
High Sustainability	-21.2%	32.0%	Watch (upper quart)	-14.5%	30.4%
High Governance	-19.0%	32.4%	Low (lower quart)	-8.3%	35.7%
Low Sustainability	-11.7%	28.2%	EPRA (FF-MCap weight)	-23.8%	14.8%
Low Governance	-20.8%	38.1%	Bayes Benchmark (Equal weight)	-10.5%	32.4%



## Quarterly benchmark: Min, max, lower and upper quartiles

### Equity indicators

The worsening outlook for real estate values was reflected in the fact that there were only 13 upgrades to recommendations this quarter compared to 24 downgrades. Corporate activity continued apace with the merger of CapCo and Shaftesbury and the take out of Deutsche Euroshop. Given the significant dry powder available for deployment in the sector we would expect current favourable pricing in the public markets to attract interest once a plateau for interest rates is reached and volatility reduces to allow transaction underwriting to occur.

### Analyst recommendations – Equity tables - upgrades & downgrades

Largest upgrades				Largest downgrades			
Name	Score change	Q2 return	Rating	Name	Score change	Q2 return	Rating
ADLER GROUP SA	1.0	-68.7%	5.0	STENDORREN FASTIGHETER AB	-2.0	-44.6%	3.0
INTERVEST OFFICES & WAREHOUS	0.5	-3.1%	4.5	ARGAN	-0.7	-21.1%	3.7
SHAFTESBURY PLC	0.3	-16.5%	3.7	K2A KNAUST & ANDERSSON-B SHR	-0.5	-63.8%	3.5
IMMOFINANZ AG	0.3	-37.0%	3.2	DEUTSCHE EUROSHOP AG	-0.3	32.4%	3.3
SAMHALLSBYGGNADSBOLAGET I NO	0.3	-60.4%	4.3	SUPERMARKET INCOME REIT PLC	-0.3	-6.3%	4.0

Source: Bayes Business School, Bloomberg

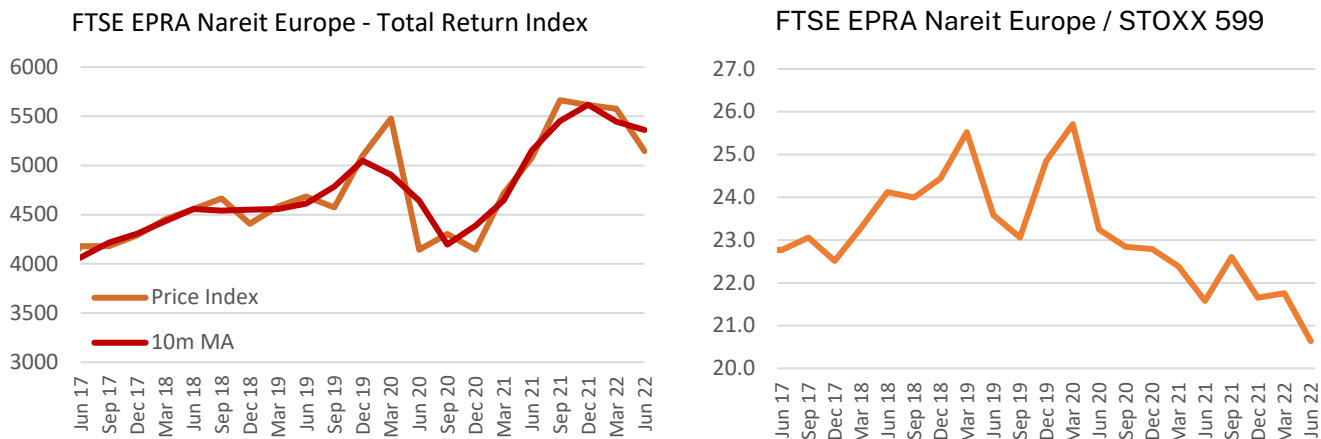
### Subsector analysis

This quarter's decline was broadly sector ambivalent, with the largest stocks with the highest valuations being the most vulnerable. As a result, the historic top performers of Sheds, Storage and Cities suffered most, whilst the unloved shops sector had less to give up and Meds provided some shelter from the storm.

Style	Factor	Yield	LTV	Analyst Opinion	Q2 Perf	Volatility
1	Cities	2.5%	23.5%	3.0	-16.2%	22.2%
2	Diverse	4.5%	37.2%	1.8	-9.2%	32.2%
3	Meds	4.2%	34.6%	4.4	-7.0%	22.4%
4	Resi	4.1%	38.4%	2.5	-13.5%	32.0%
5	Sheds	3.4%	33.9%	3.2	-18.4%	42.5%
6	Shops	5.4%	51.1%	2.4	-6.8%	34.1%
7	Infra	4.4%	23.2%	4.3	-12.9%	33.2%
8	Workspace	3.4%	34.5%	2.2	-11.2%	30.3%
9	Storage	2.5%	23.0%	3.9	-18.1%	27.1%
10	Travel	3.2%	50.5%	1.7	-13.0%	30.4%
Bayes Benchmark		4.3%	38.8%		-10.5%	32.4%

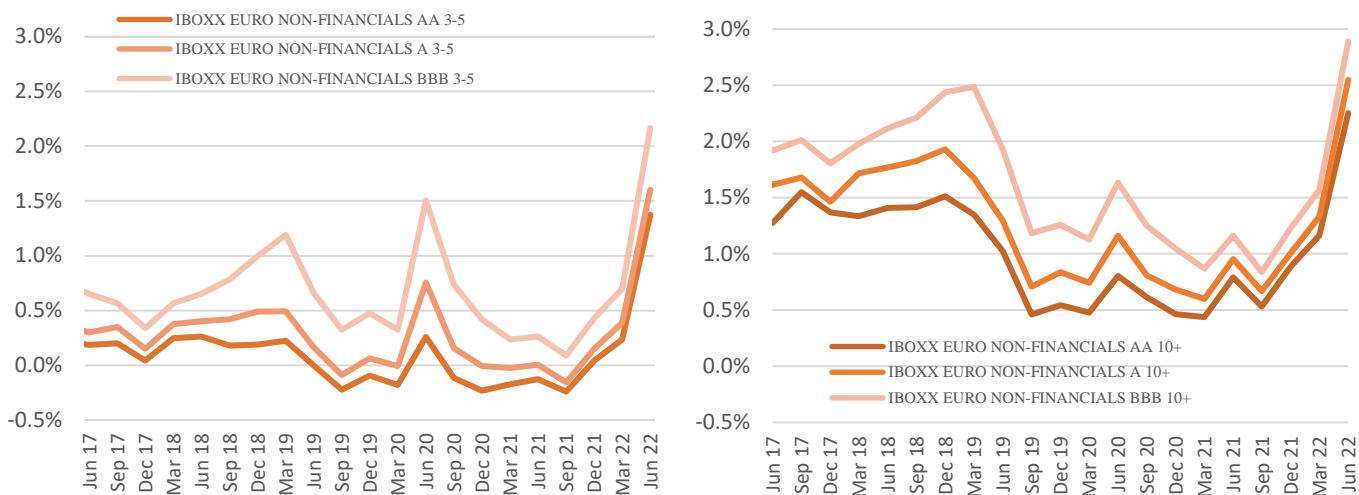
Source: Bayes Business School, Bloomberg

**Figure 1. Equity indices**

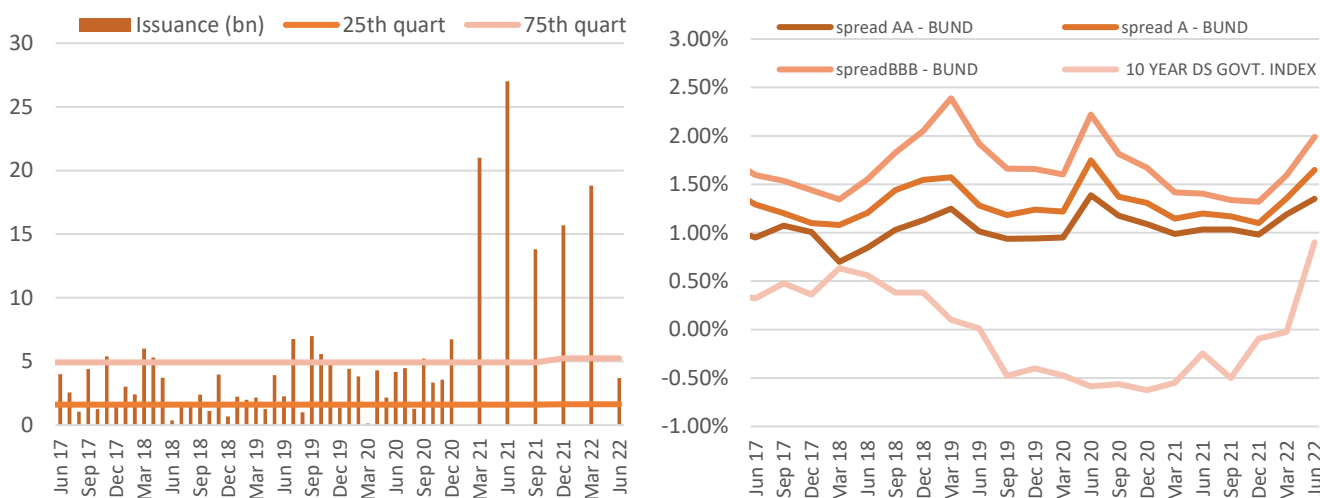


Source: Bayes Business School, Thomson Reuters Datastream

**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

Announce Date	Target Name	Acquirer Name	Total Value (€ million)	Payment Type	Deal Status
25/03/2022	Hibernia REIT plc	Brookfield Asset Management Inc	1364.21	Cash	Pending
02/03/2022	McKay Securities PLC	Workspace Group PLC	508.13	Cash and Stock	Pending
28/04/2022	COIMA RES SpA	Qatar Holding LLC	570.64	Cash	Pending
02/05/2022	S IMMO AG	CPI Property Group SA	2352.6	Cash	Pending
23/05/2022	Deutsche EuroShop AG	Oaktree Capital Management LP,KG Cura Vermoegensverwaltung GmbH	2255.17	Cash	Pending
23/05/2022	Prime Property BG	Pobeda AD/Bulgaria		Cash	Pending
08/06/2022	Sopharma Properties REIT	Sopharma AD/Sofia		Cash	Proposed
16/06/2022	Shaftesbury PLC	Capital & Counties Properties PLC		Stock	Pending

Source: Bayes Business School, Bloomberg

## Debt sentiment

With the continued interest rises since the beginning of 2022, bond market issuance already fell early February, after seeing a record year in 2021. In Q2 total new issuance was €3.7bn compared to €18.8bn in Q1 2022. Those who still issued bonds in March already saw coupon rates 50 – 100bps wider than in January 2022. Vonovia, Germany's largest residential company still raised further debt in March and has since experienced a sharp decline in its stock price due to the higher leverage position and increased costs of debt. The high cost of incremental debt is forcing it to change its business model from a debt-funded acquisition model to a capital-light owner/operator. Others experiencing similar problems.

## New debt issuance (rated bonds)

Issuer	ISIN	Cpn	Maturity	Out. € million	Moody's rating	Trading price	Issue date
Vonovia SE	DE000A3MQS72	2.4%	25/03/2032	850	A3	83.6%	28/03/2022
Castellum Helsinki	XS2461785185	2.0%	24/03/2025	500	Baa2	89.1%	24/03/2022
Vonovia SE	DE000A3MQS56	1.4%	28/01/2026	850	A3	93.3%	28/03/2022
Vonovia SE	DE000A3MQS64	1.9%	28/06/2028	800	A3	88.4%	28/03/2022
Kojamo Oyj	XS2463711643	2.0%	31/03/2026	300	Baa2	90.0%	31/03/2022

Source: Bayes Business School, Bloomberg

If asset values also come under stress, then companies will be off-loading assets. Further access to equity remains constrained because most are already trading at a discount to net asset values. Highly levered companies relying on asset sales to deleverage and which have short-term maturities to address are most at risk of credit quality erosion. Some might be able to offset some value decline by through index linked rental increases, however these will only happen if tenant accept to actually pay these new rents.

Related documents:

[Bayes Monthly Monitor Methodology](#)

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

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

## Debt market performance

Upcoming maturities from Peach Property and Atrium European Real Estate are trading at large discounts.

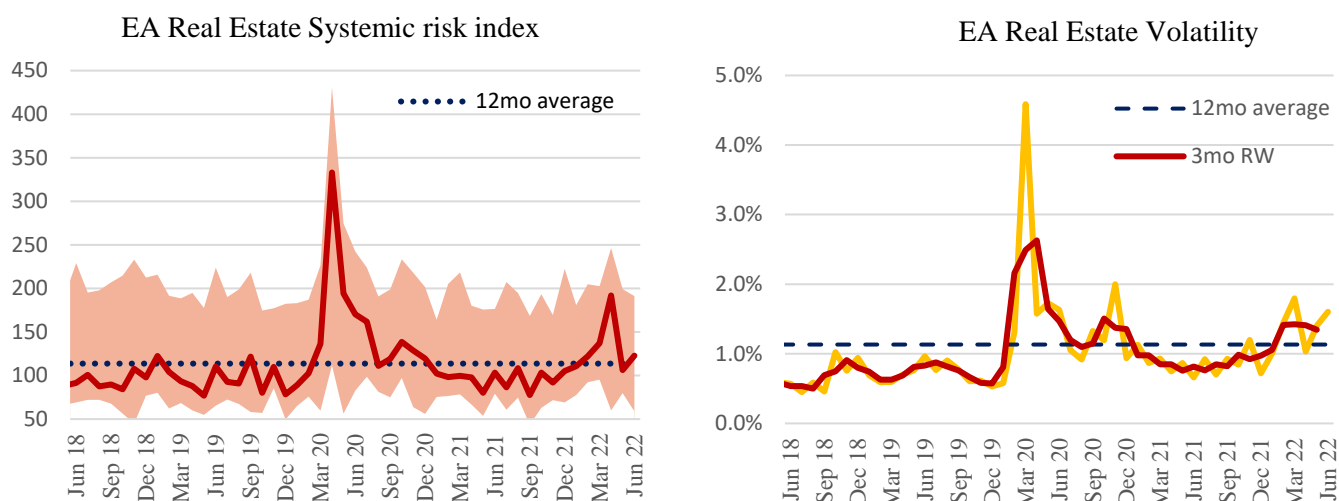
Issuer	ISIN	YTM	Coupon	Maturity	Maturity years	Rating	Benchmark	spread
Peach Property Finance	XS2010038060	29.7%	3.5%	15/02/2023	0.6	Ba2	BB 3-5*	25.3%
Peach Property Finance	XS2010038656	29.3%	3.5%	15/02/2023	0.6	Ba2	BB 3-5*	24.9%
Atrium European Real Estate Ltd	XS1118586244	14.6%	3.6%	17/10/2022	0.3	Ba2	BB 3-5*	10.2%
Peach Property Finance	XS2247302099	14.1%	4.4%	15/11/2025	3.3	Ba2	BB 3-5*	9.7%
Peach Property Finance	XS2247301794	13.5%	4.4%	15/11/2025	3.3	Ba2	BB 3-5*	9.1%
MAS Securities BV	XS2339025277	11.8%	4.3%	19/05/2026	3.8	Ba1	BB 3-5*	7.3%
DEMIRE Deutsche Mittelstand Real Estate	DE000A2YPAK1	10.7%	1.9%	15/10/2024	2.3	Ba3	BB 3-5*	6.2%
CPI Property Group SA	XS2231191748	10.9%	4.9%	02/02/2048	25.6	Ba1	BB 10+*	6.0%
TAG Immobilien AG	DE000A3E46Y9	9.2%	0.6%	27/08/2026	4.1	Baa3	BBB 3-5	5.9%
CPI Property Group SA	XS1982704824	10.5%	4.9%	01/09/2046	24.1	Ba1	BB 10+*	5.5%

Source: Bayes Business School, Bloomberg

## Euro Area real estate sector: Market indicators

The Russia-Ukraine war has caused significant distress in the European financial markets. Real Estate Volatility increased to 1.38% in the first half of 2022, 58% higher compared to 2021 (0.88%). The systemic risk index captures the exposure of the Euro Area financial system to the Real Estate market. In 2022Q2 the index is estimated at 140bps, increased by 13.8% and 49.7% compared to 2022Q1 and 2021Q2 respectively. Real estate systemic risk reached its peak value since 2020 Q2.

### Figure 3. Real Estate systemic risk and volatility



Source: Bayes Business School, Thomson Reuters Datastream

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