
*05 May 2021*

# PROSPECTS AND STRATEGIES
# INTERNATIONAL REAL ESTATE

**International real estate goes toe to toe with equities. Vaccination campaigns offer new perspectives. Economic stimulus packages also benefit real estate.**

**Key points**

- **International real estate goes toe to toe with equities**
- **Vaccination campaigns offer new perspectives**
- **The long-term effects of the pandemic on international real estate markets should be kept in perspective**
- **Economic stimulus packages also benefit real estate**
- **Attractive returns in the Eurozone and emerging markets**

## International real estate goes toe to toe with equities

At the beginning of the year, international real estate still seemed to us to clearly be one of the best asset classes in terms of risk/return ratios, especially when compared to the risk/return profiles of equities and bonds. We felt that arbitrage and repositioning opportunities in the medium term were still particularly attractive for international securitised real estate, which had not yet benefited, like equity markets, from the more positive macroeconomic outlook for 2021.

In the vast majority of countries, securitised real estate was still suffering from negative sentiment among investors still concerned about the medium-term risks that the pandemic posed to the stability of rental payments and therefore also to the expected returns on real estate investments.

The past quarter proved to be very favourable for international real estate investments, which could finally benefit from the improved economic outlook. The EPRA Nareit International Property Index rose by +5.6%, outperforming international equities (+4.9%). The US (+9.6%) and emerging markets (+9%) benefited more than other markets from renewed investor interest. In the UK, the trend remained positive (+3.1%) in spite of the country's withdrawal from the EU. Europe, on the other hand, saw REIT prices temporarily weaken by -3%.

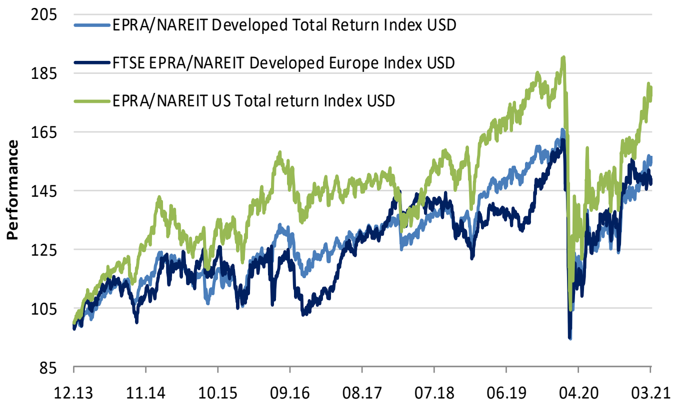
## Vaccination campaigns offer new perspectives

International securitised real estate is therefore finally benefiting from a certain normalisation of the outlook and of the risks initially likely excessively associated with the pandemic. Investors are gradually reassessing these risks, which are now perceived in a less negative light. The success of the vaccination campaigns is clearly a key short-term factor in this ongoing process. The two Western countries that have shown an effective start to their vaccination campaigns are indeed those whose real estate markets have exhibited the strongest growth. The lead taken by the US and the UK in this respect has therefore largely contributed to the outperformance of their securitised real estate markets during the quarter. In contrast, Europe clearly lags behind both in terms of economic activity and vaccinations.

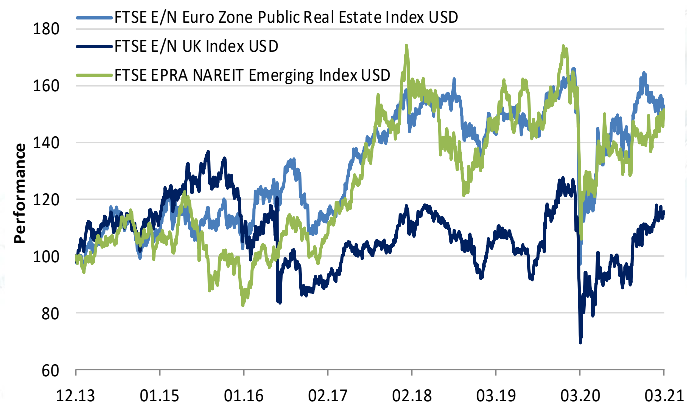
The slow pace of vaccination campaigns in Europe is not helping the European real estate market, whose prospects for recovery are being delayed by this factor.

In emerging markets, and particularly in China, this is less of a factor, probably because of how the health crisis was dealt with there. The vaccination campaign in China was not carried out in the same systematic way as in the US and the UK because of the level of control over the pandemic achieved thanks to the government's health measures.

Indices EPRA Nareit - USA, Europe, Monde (en USD)




Indice EPRA Nareit - Eurozone, Royaume-Uni, Emergents (en USD)




The renewed interest in emerging real estate is more directly related to the economic recovery that has already taken place and to the normalisation of activity since April 2020. In the case of China in particular, the economic recovery is concrete and is also partly based on a recovery in real estate. Demand for construction remains solid, and demand for housing and commercial space also remains strong.

### The long-term effects of the pandemic on international real estate markets should be kept in perspective

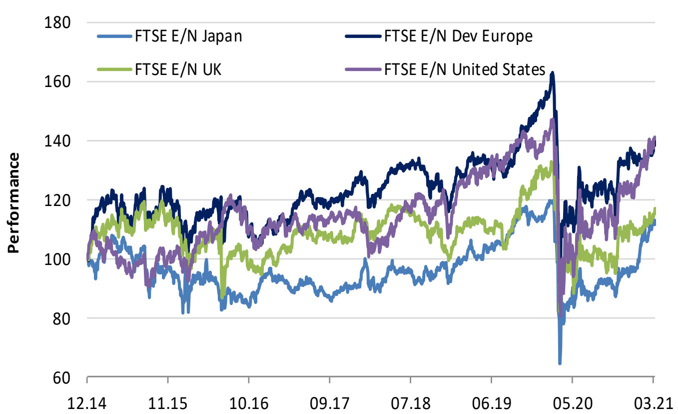
The pandemic will not have as large and lasting an impact on real estate markets as is sometimes imagined in relation to the growth in teleworking, which intensified in 2020. Certainly we expect a lasting impact on businesses from the forced teleworking experience that marked the fight against the pandemic. Many companies were undoubtedly seduced by this new form of collaboration and work organisation, and a very large number of employees appreciated the freedom in their personal organisation brought about by this new form of work. It is therefore likely that employee workspaces will be viewed differently by companies in the future. The development needs for commercial and office space will certainly be affected, probably lowering the prospects for new construction in the coming years.

In terms of residential property, this trend is likely to have a more positive impact on the layout of private dwellings. The need for an extra room, for example, will certainly be essential for the sustainability of teleworking in a comfortable setting. Without this, it is also likely that employees themselves will prefer the comfort of their professional workspace to the constraints of trying to organise a permanent workspace within their private living space. The development of telework will not be so simple and will affect a much smaller proportion of employees than was the case during the forced periods of lockdown. Therefore, while it is likely that demand for office space will weaken, we believe that the outlook for international real estate will not be impacted in 2021 as dramatically as the March 2020 share prices suggested.

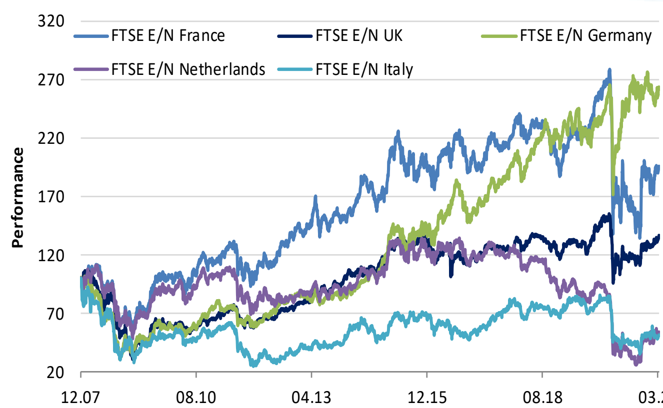
### Economic stimulus packages also benefit real estate

Global growth is expected to exceed +6% in 2021. The economic stimulus packages that will support this extraordinary growth include specific components dedicated to the energy transition and infrastructure development, but overall they will also have a favourable impact on construction and on the various real estate markets. An increase in demand is expected to accompany this new growth and mitigate the risks of a reduction in rented space in the office sector linked to the development of teleworking. A solid economic recovery will also have a positive impact on expectations regarding the sustainability of revenues and rents to be collected by landlords. Current fears of vacancies or non-payment of rents are probably exaggerated in this new context.

Marchés immobiliers en monnaies locales




Marchés immobiliers européens en monnaies locales



Furthermore, in physical property markets, we have already noticed an increase in concrete demand, which has led to price increases. In the US in particular, the government support measures implemented to counter the negative effects of the pandemic have already had positive effects that will affect the physical property

Increased demand for real estate, positive wealth effects for households, low interest rates, reinvestment of savings and improved job security are already supporting real estate. Securitised real estate remains unfairly penalised by overly pessimistic expectations that do not yet take into account the positive impact of these factors.

### Attractive returns in the Eurozone and emerging markets

In terms of asset allocation, international securitised real estate has historically outperformed bonds and the dividend yield of equities. Today, this yield differential is particularly positive and in favour of real estate in both cases. The overall yield for international securitised real estate is estimated at 3.59% for 2021 and 3.84% for 2022.

However, the dividend yield on securitised real estate investments varies greatly among different investment segments. The lowest yielding market among developed markets is currently the UK's. The average yield in the UK is just over 3% in 2021 and could reach 3.45% in 2022. By European comparison, the average yield for 2021 would be 4.56% and 4.89% for 2022 in the euro zone. US securitised real estate, after its strong rise in Q1, now only offers an expected average yield for 2021 of 3.35%, though it is still at 3.53% for 2022.

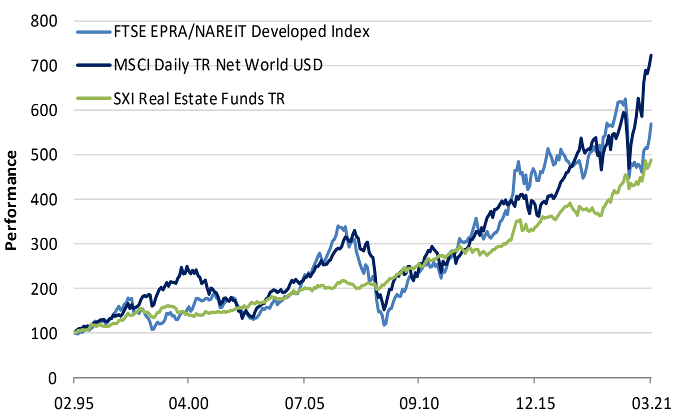
In the developed Asian markets, the expected yield is 3.69% for 2021 and 3.95% for 2022, significantly higher than in Japan where real estate yields are +2.6% and 2.8%, respectively.

Thus, the euro zone clearly has the best returns among developed markets.

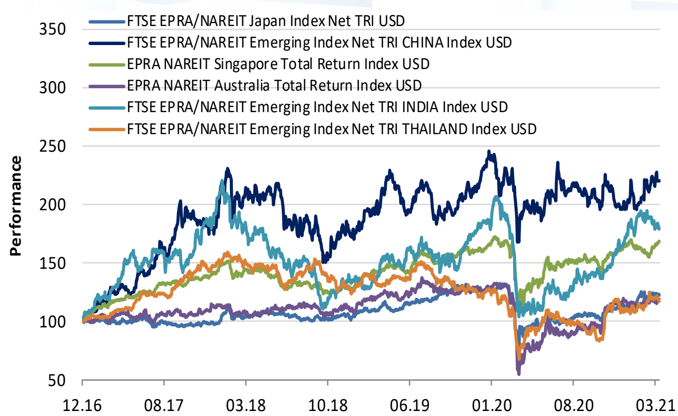
Outside of developed markets, emerging market REITs offer significantly higher yields. They approach 5.1% for 2021 and 5.79% for 2022. China leads the way in emerging market opportunities with strong fundamentals and a yield of 6.29% for 2021 and 7.1% for 2022.

International securitised real estate therefore still offers particularly attractive returns at the beginning of Q2 and is well worth considering. Diversification into listed real estate investments still seems particularly appropriate in the current environment.

**Performance long terme : immobilier international, immobilier suisse (CHF) et actions internationales (base 100)**




**Évolution des marchés immobiliers (USD)**



## Asset reallocation and flow of funds to securitised real estate

International securitised real estate was clearly a victim of the asset reallocation process in H2 2020 towards risky investments such as equities, for which the earnings outlook in the economic recovery phase seemed more constructive and predictable. This asset class was also not yet benefitting from inflows of funds from the bond markets at a time when the trend in interest rates remained negative.

The rise in equity markets now puts them in a relatively uncomfortable position in terms of risk/return ratios due to particularly high PEs. The rise in long-term rates also raises new questions about the sometimes extreme valuations of growth stocks. In the bond markets, the new upward trend in dollar and pound sterling rates weakens the outlook and suggests some sell-off.

In this unfavourable environment for both asset classes, securitised real estate investments are likely to look particularly attractive from a relative perspective. We believe that the flow of funds into securitised real estate should increase to capture higher yield opportunities and real prospects for capital gains.

## Real estate strategy favouring the euro zone and emerging markets

At current price levels, we maintain our positive outlook for international securitised real estate and suggest maintaining an overweight investment policy and tactical allocation.

Real estate investment returns will not be as affected by the Covid-19 crisis, and the global economic recovery is making the asset class more attractive. An improved investment climate and reduced uncertainty will support the shift of funds out of bonds and into securitised real estate.

In terms of tactical positioning, we favour a diversified regional allocation, overweight the euro zone, Asia, emerging markets and China.

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