Long or short, Mark G. Roberts?

The Head of Real Estate Strategy and Research considers immediate and longer-term investment issues

Could global non-listed real estate continue to outperform?
LONG According to MSCI, global non-listed ungeared property generated a total return of 9.9% in 2014. With real interest rates likely to stay low in historical terms, total returns are likely to remain ahead of their longer-term average of 7.5%. U.S. returns are benefiting from higher GDP growth while European returns are gaining from declining unemployment, rising tenant demand and limited new construction. Australia, South Korea and Japan are likely to enjoy above-average performance but decelerating economic growth poses a threat to Chinese property markets. Hong Kong and Singapore office markets have pricing risk.

Are U.S. listed real-estate returns likely to prove as attractive?
SHORT Listed real-estate investment trusts (REITs) utilize a higher degree of gearing which can increase the volatility of returns relative to the non-listed market. Between 1993 and 2014 there were 13 periods during which U.S. interest rates (as defined by the Treasury yield) were rising. During those periods, the S&P 500 Index rose by an average of 10% while U.S. REITs increased by an average of 2.8% and the Barclays Aggregate U.S. Bond Index declined by 2.7%. In the year that followed a rate increase, however, REITs' returns averaged 16%, higher than the S&P 500 Index's average total return of 9.7% and the Barclays Aggregate U.S. Bond Index's 9.6% return. The implication is that, in the near term, U.S. REITs may prove volatile.

But won't dividend yields help offset this?
LONG Higher dividend yields can serve to offset this volatility. REITs currently provide a very attractive dividend yield of 3.87% which exceeds both the S&P 500 Index dividend yield of 1.97% and the 10-year U.S.-Treasury yield of 2.42%.[1] This higher dividend yield can dampen downside risk and underpin future outperformance. In addition, we estimate U.S. REITs are trading at a 10% discount to their net asset value.

Is sustainability going to play an increasing role in property investment?
LONG After the advent of the internet in the mid-1990s, landlords quickly learned that the provision of internet access was not an option to gain competitive advantage. Instead it was a required amenity necessary to avoid building obsolescence. Today, some of the same things can be said of sustainable building practices. Tenants, regulators and investors alike cite the benefits of sustainable building practices. Lower energy costs, more efficient use of water resources and the need to avoid overbuilding in lower-density areas will likely make sustainable practices commonplace and of continuing importance to investors.

More broadly, will technology have an impact on long-term infrastructure investing?
LONG Yes – consider, for example, the interaction between climate-change policies in Europe and energy-storage, energy-efficiency and zero-emission technologies. Smart-grid systems will help boost the share of renewable energy capacity, by creating a more efficient energy network, aligning more closely peak demand and production. Although at an early stage, energy storage has a positive long-term outlook to address the problems of grid bottlenecks and intermittent renewable power, with implications for infrastructure investment.

LONG represents a positive answer
SHORT represents a negative answer

[1] All dividend yields are quoted as of 7/10/15.

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