



Long or short, Mark G. Roberts?

The Head of Real Estate Strategy and Research looks at global sectoral trends.

Are commercial real-estate fundamentals generally still attractive?

LONG Across the globe, we currently see a positive spread between long and short interest rates, implying that a recession – with its obvious negative implications for tenant demand and rents – is not likely. In addition, outside of a few markets, the amount of new construction remains low. As a result, vacancy rates are declining and rent levels are increasing, likely leading to higher earnings growth. We continue to favor a pro-cyclical investment strategy targeted at offices and logistics, areas which typically perform well as economic growth increases.

But is caution advisable on specific markets?

LONG In the United States, the decline in oil prices is expected to have knock-on effects for certain property sectors in Houston. In the United Kingdom, the regions are in an upwards market cycle and we prefer these markets over central London, where the increase in new construction against a background of higher base rates could lead to lower relative returns. Finally, pricing appears aggressive in Singapore and vacancy rates are expected to increase which could create downside risks for capital values.

Would listed real estate be resilient to an abrupt rise in interest rates?

SHORT Listed real estate may appear interestingly valued compared to the broader equity market or Treasury yields. U.S. REITs (real estate investment trusts) are also currently trading at a discount of around 2% to the underlying net asset value (NAV) of property held by these companies. (Over the long term, they typically trade at a 5% premium.) When stock valuations become disconnected like this from the private market, we typically see increased share buy-backs and higher levels of mergers-and-acquisitions activity, providing a catalyst for prices to move higher. Still, we are mindful of the impact that a sudden upwards move in interest rates could have on the asset class. U.S. REITs would probably move on par with the S&P 500 index if there was only a 25-basis-point rise in rates – but a larger unexpected rise would likely lead to underperformance.

Will governments continue to support infrastructure investment?

LONG Each dollar spent by governments on infrastructure can translate into much greater gains in GDP and employment. However, budget constraints are limiting public investment, and governments have started putting greater emphasis on attracting private capital in infrastructure. We see this trend continuing, with governments “crowding in” private-sector investment, through improving regulatory frameworks and public-private-partnership structures. This is likely to create further opportunities for institutional investors seeking long-dated, inflation-hedged income streams and portfolio diversification.

Do you have a positive outlook for listed infrastructure?

LONG We recently completed a top-down analysis on listed infrastructure as well as real-estate securities and how they have performed in different economic environments, with a focus on GDP and interest-rate levels relative to their average. This suggests that, in the current environment, global listed infrastructure securities would perform broadly in line with the MSCI World Index for equities if there was a 25-basis-point rise in the major developed economies’ interest rates. For the upcoming year, we expect global listed infrastructure securities to generate total returns in the range of 7%.

LONG represents a positive answer

SHORT represents a negative answer

Past performance is not indicative of future returns.

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