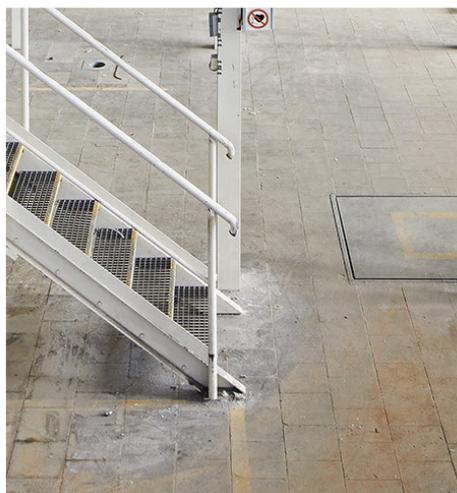
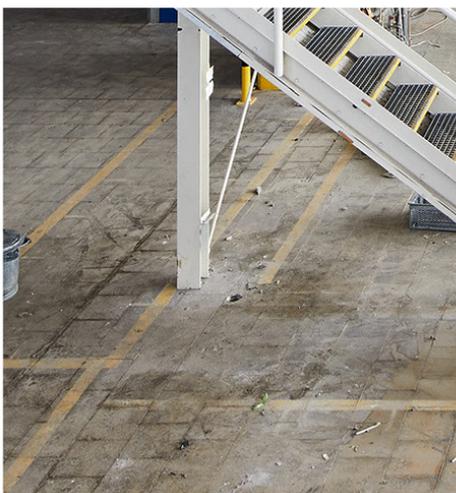
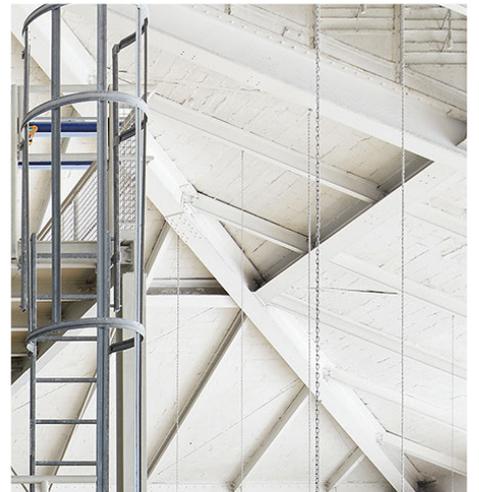
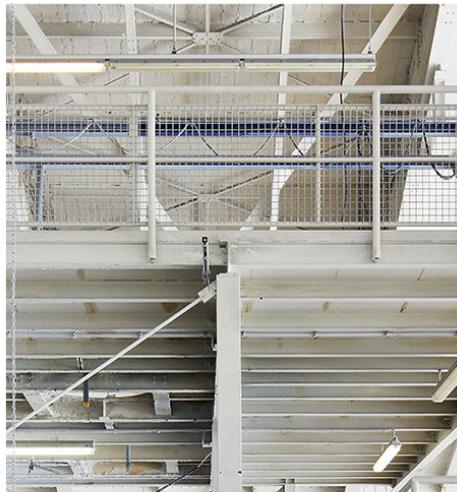
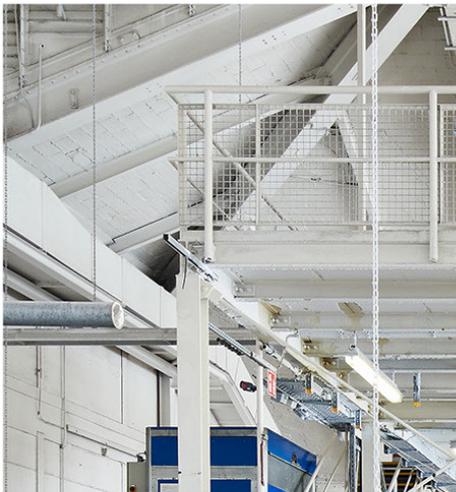
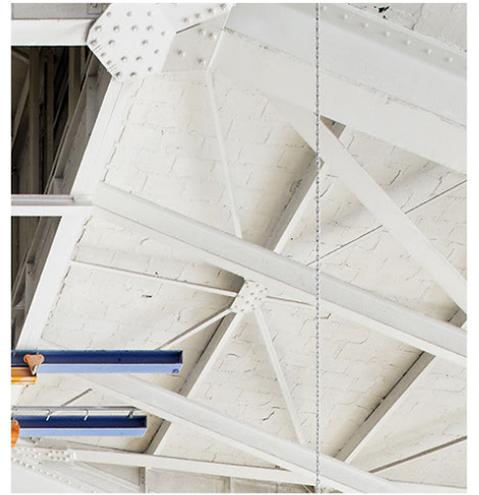


# Listed Real Estate Report

# No. 1 Spring 2024



AVENTOS

# THE PROPERTY STOCK AND EQUITIES MARKET AT A GLANCE

During the period under review (September-March), stock markets were characterised by soaring share prices. Important indices such as the S&P 500 and the German DAX rose by more than 20% and in some cases reached new record highs. In contrast, the news situation on the (illiquid) property markets continued to be dominated by devaluations and insolvencies, some of which were material in size.

Listed property companies and REITs were once again at the centre of these two poles. They have been able to make up some of their price declines since the interest rate turnaround, but have not fully reached their previous highs. At the end of March 2024, the indices in this segment rose 15% compared to end of September 2023 in North America and 18% in Europe (FTSE EPRA/Nareit North America respectively Developed Europe).

However, not all subsectors and companies in the listed real estate segment have developed at the same pace. Office properties of lower quality or in poorer locations are generally among the underperformers. The thesis of 'bifurcation' in the performance of secondary quality properties compared to high-quality, central and ESG-compliant office space continues to play out. The tendency to hold back demand for larger spaces as well as home office trends are leading to uncertainty in the valuation of office properties. An ambivalent picture is emerging for flex office offerings. While 'flexibility' is very popular on the demand side, landlords are facing challenging price dynamics in the current interest rate environment due to shorter lease terms, smaller tenant profiles and rebound potential after years of interest rate-driven boom.

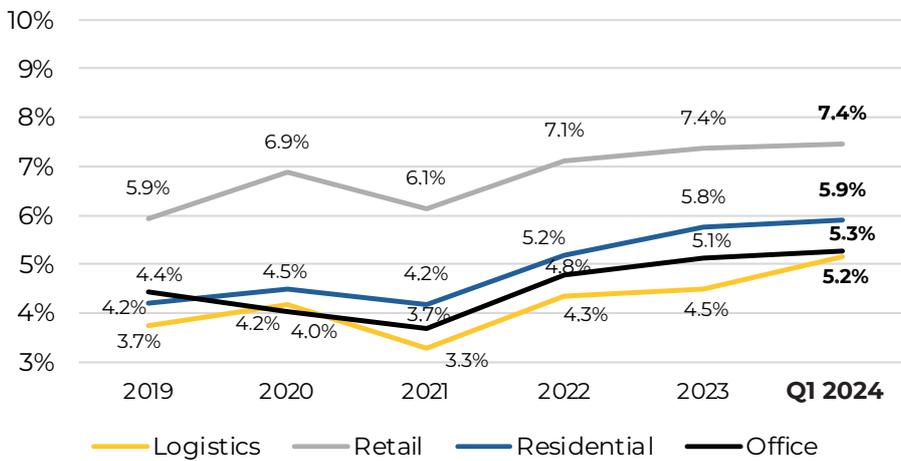
In contrast, the data centre sector is clearly on the winning side. As our Listed Real Estate Report shows, listed data centre providers recorded a positive development in the period under review. The expected long-term excess demand resulting from the capacity expansions of the major internet companies suggests that the environment will remain favourable. We see potential in the residential sector, as the gap between supply and demand in Germany is now significant and, in view of the sharp rise in interest rates, rental housing is also becoming increasingly relevant in the USA. Landlords of single-family homes ('single-family rental REITs') and manufactured housing ('manufactured housing REITs') in particular could benefit from these developments.

The strongest REITs respectively stocks from the investment universe we monitor over the past six months were the Swedish commercial property company Nyfosa (+82%) and the US retail specialist Macerich (+62%), while Kennedy-Wilson Holdings and the Finnish shopping mall specialist Citycon suffered the biggest losses. In addition, there were again isolated takeovers and portfolio transactions during the period, although transaction activity must still be described as very subdued. The largest deal was the takeover of the North American net lease REIT Spirit Realty Capital by Realty Income Corporation announced in October 2023 with a transaction value of around €9.3bn, closely followed by the takeover of Apartment Income REIT by Blackstone at the beginning of April (shortly after the end of our reporting period) at €9.2bn.

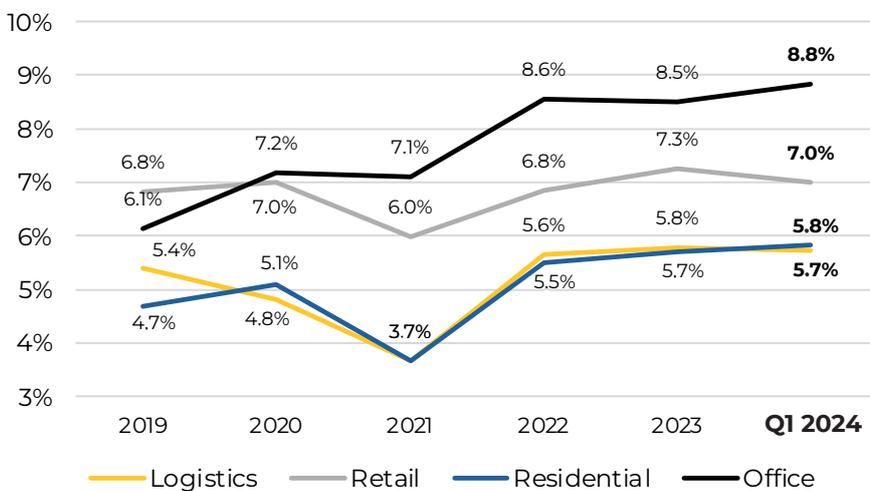
### IMPLIED CAP RATES

The 'implied cap rate' is the ratio of the net operating income (NOI) of a listed property company respectively REIT to the enterprise value of the company (market capitalisation plus debt less cash and cash equivalents). The implied cap rate is therefore the equivalent of the cap rate (central on the direct property market). In contrast to the direct market, where property transactions are used to determine cap rates, property shares are valued daily as a distilled assessment of all active market participants. Rising implied cap rates can be due to rising operating income (NOI) as well as falling stock prices - or both. Implied cap rates in conjunction with a company's growth prospects are a key indicator for us in assessing the market situation and the valuation of individual companies and sectors.

#### EUROPE



#### NORTH AMERICA



Source: ACM; Fiscal years 2019–2023, 2024 per 03/31/2024.

What implications can be drawn from the development of implied cap rates of the individual sectors? Some messages can be gleaned from the development.

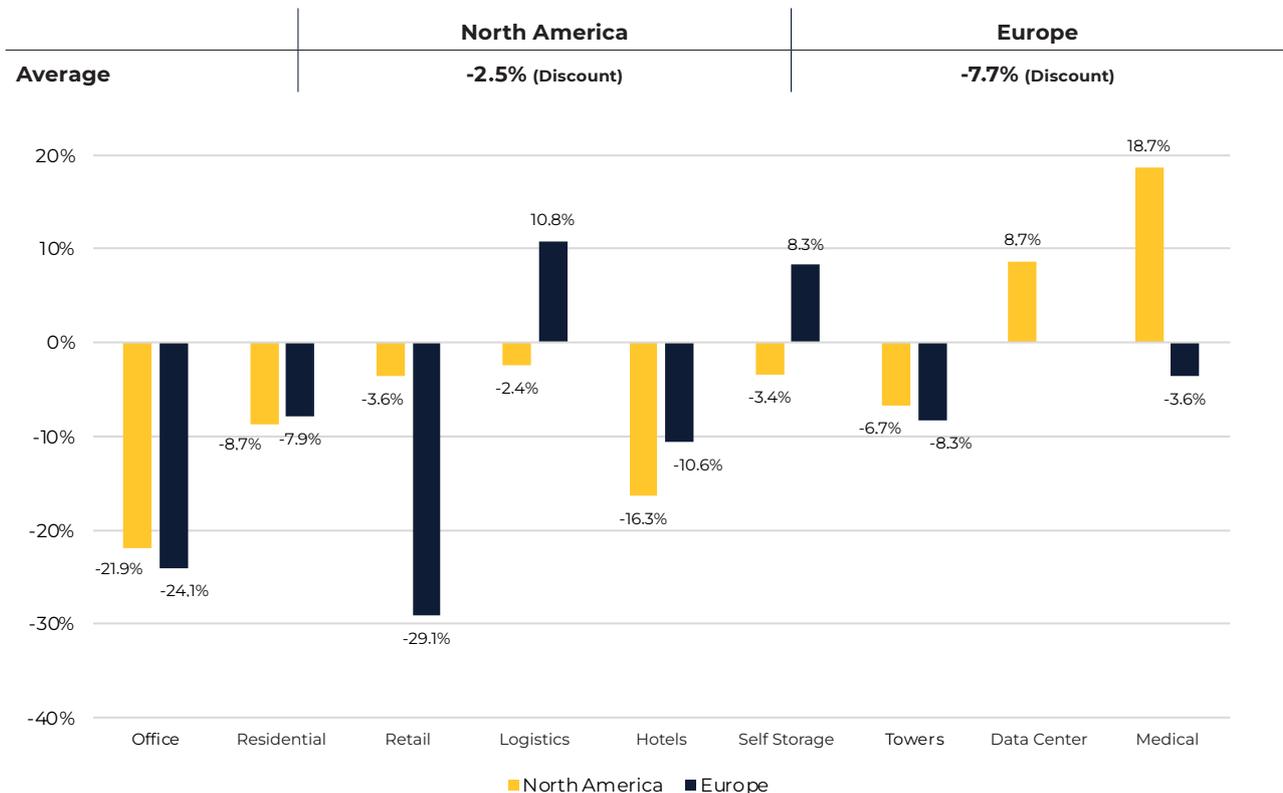
Key messages:

- In principle, all sectors are already reflecting the changed interest rate environment on both sides of the Atlantic, which was predominantly reflected in the price declines from 2022.
- Listed office property companies in Europe are significantly more expensive at 5.3% than in North America at 8.8%. Apart from the generally higher level of interest rates and yields in the US dollar area compared to the eurozone, this is probably due to stronger home office trends in the USA, among other things.
- Sectors with relatively low yield spreads to the traditional bond market have not been able to fully 'defend' these lower spreads: Implied cap rates in the European logistics sector, for example, have risen more sharply than for offices.

### NAV-SPREAD

The NAV spread expresses the difference between the market capitalisation of the company in question on the stock exchange and the net asset value (NAV), i.e. the valuation of the property portfolio and any other assets less debt. If the NAV is greater than the market capitalisation, there is a NAV discount and the share is comparatively cheap on the stock exchange - access via the stock exchange would therefore be cheaper than the hypothetical direct purchase of the entire property portfolio. Conversely, if the market capitalisation is greater than the NAV, there is a NAV premium.

At the end of the first quarter, the average NAV spread weighted by market capitalisation in North America and Europe was:



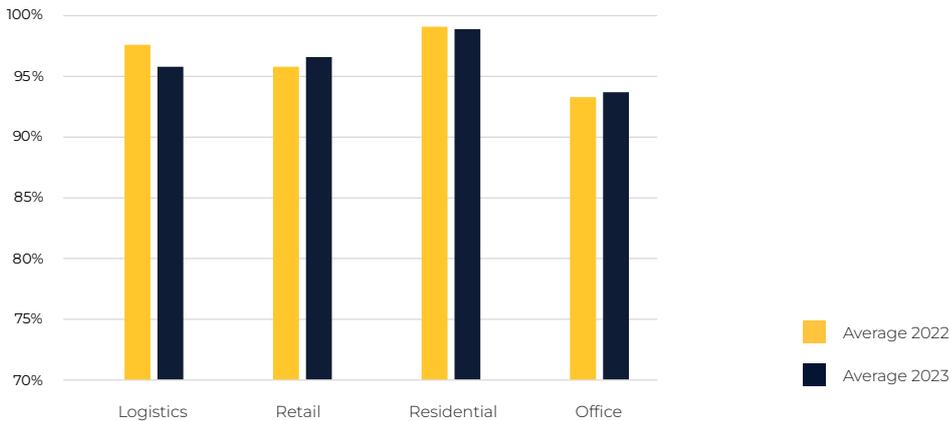
Source: Own illustration based on data from S&P Capital IQ Pro.

## PROPERTY INDUSTRY KEY FIGURES

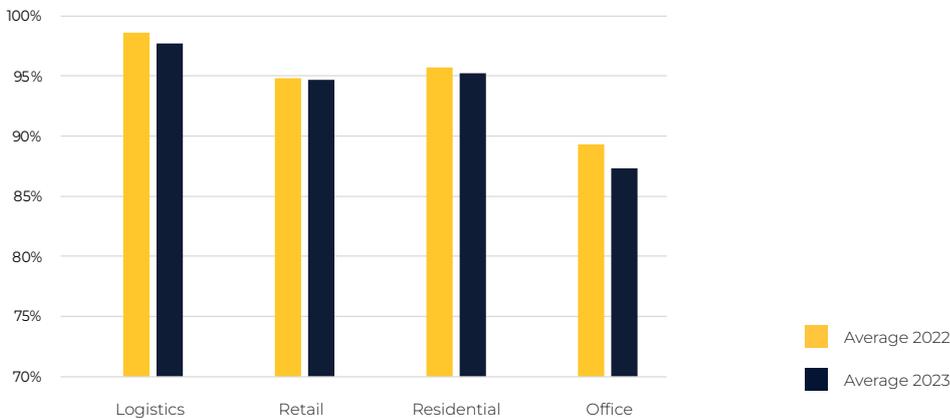
Listed real estate is generally more transparent than alternative types of property investments due to the high regulatory requirements of stock exchange listings. It is therefore worth taking a current look at the most important property industry key figures. It should be borne in mind that these are sometimes based on divergent definitions and methods, which, however, generally only have a limited impact on the overall picture.

### Occupancy rates

#### EUROPE



#### NORTH AMERICA



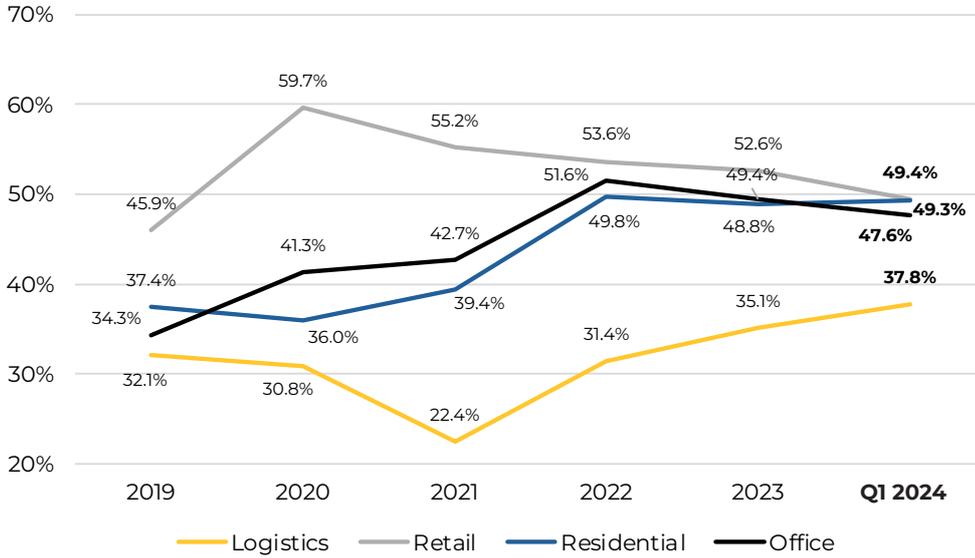
Source: S&P Global Market Intelligence; Fiscal year-end 2022 and 2023.

### Key findings

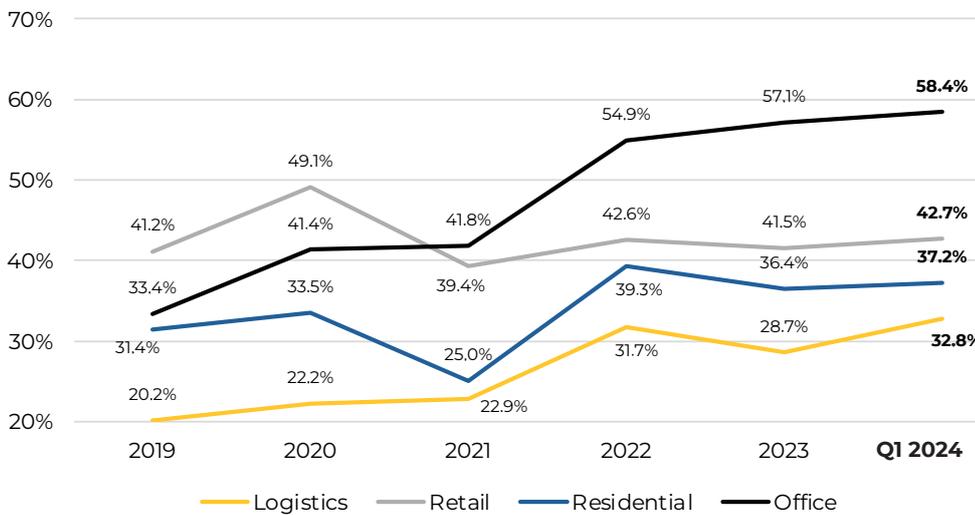
Occupancy rates are generally high in most submarkets (approx. 95%) and have often risen in the past year. One conspicuous exception is the office market in North America, where the occupancy rate has fallen to below 90% in recent years. This trend has also continued over the course of 2023, with a year-end figure of around 87%. As described at the beginning, this is likely to be due, among other things, to stronger home office trends, which in the USA are partly explained by longer commuting times.

## LEVERAGE

### EUROPE



### NORTH AMERICA



Source: ACM; Fiscal years 2019–2023, 2024 per 03/31/2024.

### Key findings

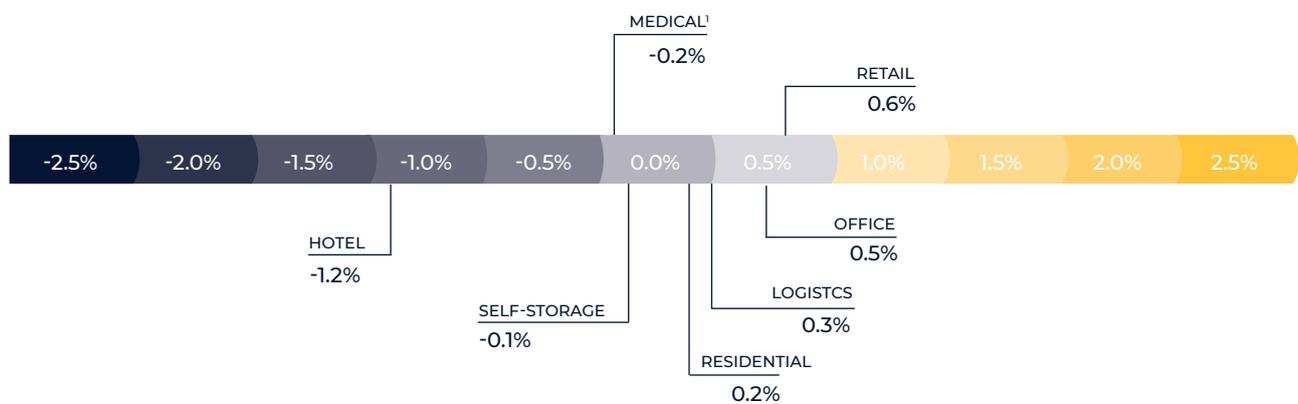
The charts show debt in relation to enterprise value (market capitalisation plus debt less cash and cash equivalents). The sharp rise in some sub-sectors after 2021 is essentially not due to an increase in debt, but to a fall in market capitalisation as a result of lower stock prices. This is particularly noticeable in Europe in the residential sector and in North America in the office sector. The effect can also be seen in the logistics sector, although the level of debt is generally comparatively low here on both sides of the Atlantic.

## ACM SECTOR MOMENTUM

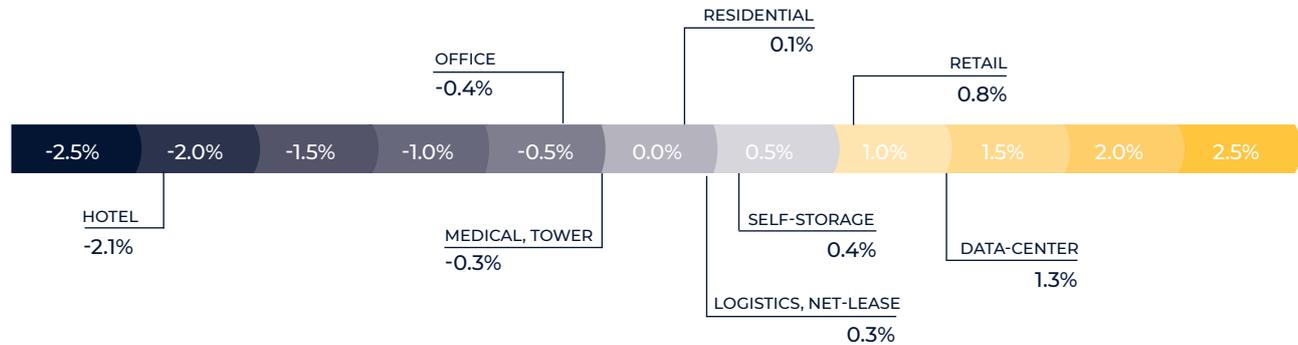
The 'ACM Sector Momentum' indicator compares the current pricing of a sector based on the implied cap rates with the pricing of the overall market and compares the price difference with the historically observed implied cap rates (since 2019). A sector with a negative momentum value is therefore priced relatively low in a historical comparison on the stock exchanges, while a sector with positive momentum is priced relatively highly - always measured against the implied cap rates. Relatively high implied cap rates correspond to relatively low valuations.

The ACM sector momentum at the end of the first quarter of 2024 is as follows for the various sectors:

### EUROPE



### NORTH AMERICA



<sup>1</sup> Definition: Healthcare plus Life Sciences.

#### How is the 'ACM Sector Momentum' indicator created?

1. Calculation of the implied cap rates (median) by sector and year, separately for North America and Europe
2. Calculation of the average implied cap rate of all sectors per year
3. Calculation of the difference between the implied cap rate per sector and year (1) and the average implied cap rate per year (2)
4. Calculation of the average from (3) for the past four years
5. Calculation of the difference between the historical comparison of the sector-specific relative implied cap rates (4) and the current data

## CONCLUSION

The retail sector in particular is currently showing positive momentum on both sides of the Atlantic. In a historical comparison, the shares of corresponding companies are therefore relatively highly valued. In North America, data centres stand out, as they are the only sector with a NAV premium and can therefore currently be described as relatively highly valued, both in relation to the other sectors and to NAVs.

On the other hand, hotels in both Europe and North America are showing the greatest negative momentum. However, a special effect should be noted here: The significant slump in earnings due to the Covid pandemic led to very low implied cap rates in 2020 and 2021. Hotel shares were therefore very expensive 'on paper', which somewhat distorts the historical comparison.

Last but not least, the large difference between office valuations is striking: In North America, valuations are rather low in a historical sector comparison, while in Europe they have the second-highest valuation. One reason for this could be the pricing in of the different effects for Europe and North America mentioned above.

However, the 'ACM Sector Momentum' indicator does not allow any conclusions to be drawn as to whether a sector is valued favourably or expensively in absolute terms or whether it is a good time to enter the market or not. As an indicator, it shows whether a sector has recently tended to become more expensive or less expensive relative to other sectors.

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