jlp asset management

Monthly Commentary

April 30, 2021

JLP MONTHLY COMMENTARY
APRIL 2021

MONTHLY HIGHLIGHTS AND CURRENT EVENTS AFFECTING REITS

Following the trend from the previous month, we continue to see an important recovery in the listed real estate markets during the month of April, as the vaccination rates increase, and economies start to open again. We do still see listed real estate lagging behind other asset classes since COVID; and many listed real estate assets continue to trade at significant NAV discounts, generating investment opportunities with an important margin of safety for active managers.

In the private market, we continue to see huge amounts of capital seeking investments in the sector, translating into transactions with high valuations and significant premiums as compared to what we see in the stock markets. This scenario reinforces the very unique and opportune moment in time to allocate resources to this asset class via listed real estate, favoring active management with concentrated, unrestricted portfolios managed by a very experienced team.

US

- While much of the country is vaccinated (56% of the total US population over the age of 18 have received at least one dose), many cities remain effectively locked down. However, this appears soon to change as New York's Mayor announced that government workers are to return to their desks in early May and the city will be fully open for business by July 1.
- Expect office rents to be under pressure as occupancy levels remain low in the Gateway cities, but leasing agents are reporting more interest in extending leases at current low rates while other tenants are struggling to determine their future requirements as the need for more open space offsets the potentially lower occupancy rates due to work from home policies. The major banks and financial institutions like Blackrock and JPMorgan have determined that working at the office is superior to WFH and their demands for a return to the office have coincided with the pace of vaccination. As an investor in the sector, we have been impressed by the high rate of rental collections at close to 100%, or pre-pandemic levels.
- Office building demand, even in the Gateway markets, remains strong for buildings that can accommodate a more flexible workspace. WeWork is back in business after restructuring and other flex space offerors are experiencing robust demand. Major office landlords have used the opportunity of the WeWork IPO setback and Knotel bankruptcies to develop their own alternatives.
- The major news for the property sector overall has been the surge in lumber prices (up 460% since the low of early May 2020), and the scarcity of labor due in part to government payment programs. These cost items have raised the specter of rampant inflation, but the data that emerged during the quarter has been relatively benign and the 10-year Treasury ended the month at 1.62%, 10bps below where it started.
- With the rise in vaccination rates, we are becoming more optimistic about the prospects for retail in general and malls in particular. Still early days, but this may now be the time to favor retail, especially those offering more unique products. As we have seen in Asia, when the shoppers go out, the higher end retailers have prospered.
- While the reporting by REITs is not fully completed, the vast majority are reporting improving conditions and barring any major economic or COVID-type setbacks, we would expect a full recovery by the second half. This is starting to get priced in, especially for some of the retail REITs despite having many of their tenants still operating under some level of COVID restrictions. Hotel companies are benefiting from domestic travel and are reporting solid improvement in rates and occupancies.

Europe

- London's office market has experienced strong demand for owning the buildings, if not for renting space, and this time, it was a local buyer – Rothesay Life, the UK government's largest pension provider. UK REIT Landsec sold the building at a 3% yield and purchase price of GBP $600 million (GBP1,846/sq ft), higher than anticipated.
- The Continent remains largely on lockdown, although there were positive developments on the vaccine front and improving economic data that suggest a second half recovery – and a good reason to invest in the more battered property sector as the shops start to open and office workers return.
- The German Constitutional Court ruled that the Berlin rent-freeze was unconstitutional as was widely expected and the residential company share prices responded accordingly. This may ultimately help to alleviate the severe shortage of supply, but not in the near term given strong demand for housing that has not abated.
- There are some pockets of liquidity returning to the retail market with Hammerson announcing the sale of its retail parks portfolio to Brookfield and Unibail announcing the sale of two European shopping malls through complex structures.

JLP MONTHLY COMMENTARY
APRIL 2021

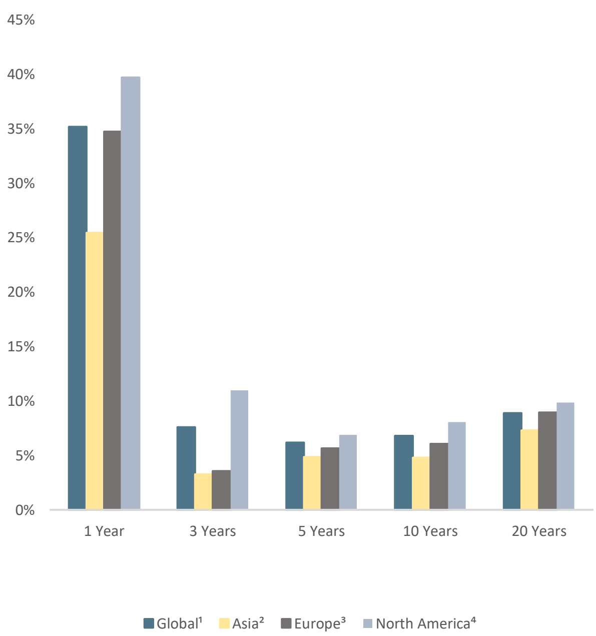
MONTHLY HIGHLIGHTS AND CURRENT EVENTS AFFECTING REITS

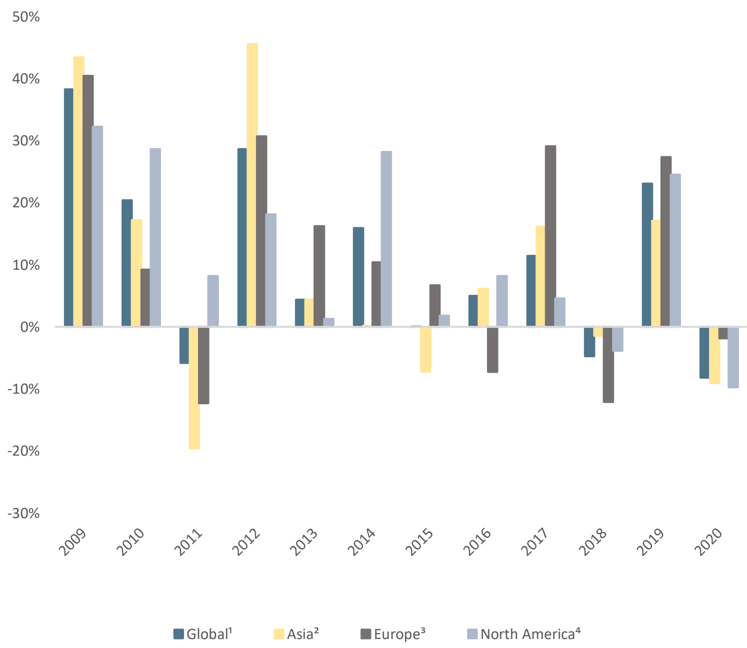
Asia

- Tokyo/Osaka declare a state of emergency which will continue through Golden Week (first week of May), a traditional holiday travel period and the property stocks were affected, although the impact appeared to be short-lived.
- Singapore housing sales are surging as Chinese (Taiwan and Mainlanders) set up remote offices in a safe zone. A number of companies announced a reduction in the need for office space (DBS, Mizuho, and Citigroup), and while this grabbed headline attention, other companies including UBS, HSBC, JPMorgan, Facebook, Alibaba and Bytedance, are expanding operations in the island nation. In addition, there has been a large influx of Chinese family office firms that have more than offset any decline in office demand. We expect rents to rise later this year, especially as the population vaccination rate increase. A further indication of the demand for property was the sale of a land plot by the government for roughly US $900 per buildable square foot (GFA) for a mixed use project, which was well above expectations and attracted substantial interest despite its high price.
- Australia's property markets are opening up as lockdown measures are loosened. In a sign of strong demand for property, Blackstone sold a AU $3.8 billion portfolio to regional industrial player, ESR and Singapore's government fund (GIC). The price was well above the most recent appraisal of AU $3.4 billion.
- Hong Kong's residential market remains strong, especially at the higher price points while office rents are under pressure. An apartment sold during the quarter for HK $126,000/sf (US $16,300) and suggests that there is no shortage of demand for high quality locations despite the political challenges facing the island.

MARKETS OVERVIEW

Global Developed and Regional Indices Historical Performance
04/30/21





[1]FTSE EPRA/NAREIT Developed Index. [2]FTSE EPRA/NAREIT Developed Asia Index. [3]FTSE EPRA/NAREIT Developed Europe Index. [4]FTSE EPRA/NAREIT North America Index. Please refer to Important Disclosures at the end of this presentation.

JLP Asset Management, LLC
450 Park Avenue, Suite 1200
New York, NY 10022
+1 (212) 578-1650
info@jlpasset.com

HOW JLP'S STRATEGY IS POSITIONED

- Actively positioned in a range of sub-sectors we believe will benefit from structural tailwinds arising from government stimulus programs and increased rates of vaccination – and pent-up demand from consumers sitting on record "excess savings".

- Largest exposure in residential sector in the US (manufactured homes, student housing, apartments) have been resilient reporting healthy rent collections and high occupancy despite moves from urban -> suburban living.

- Home renting rather than ownership remains in vogue in the US as rising home prices and the lack of affordable housing relative to demand drives potential home buyers to the rental market. Single family rental housing is fast becoming one of the most popular property types for global investors.

- Maintaining exposure to logistics and warehouse companies worldwide given strong tenant demand as third party logistics providers modernize their supply chains.

- Increasing exposure to retail as vaccination rates increase, especially in Asian markets where mall traffic has been strong. Adding selectively to retail in other markets, even the mall sector in the US.

- Invested in modern grade A suburban and city central office buildings globally with some emphasis on buildings in Europe in particular with five floors or less which are benefiting from the potential shift to the WFH phenomenon.

- JLP is seeing opportunities in the healthcare sector, specifically US senior living, private hospitals, medical office building and bio-technology laboratories which are well positioned to meet demand of the aging population.

- Data Centers and Cell Towers peaked in 2020 and are still going strong as populations around the world lay the groundwork for remote work, school and entertainment. After some recent softness, we are adding selectively to these companies.

JLP MONTHLY COMMENTARY

GLOSSARY, RISKS AND OTHER DISCLOSURES

This presentation (the "Presentation") is being furnished by JLP Asset Management, LLC ("JLP") on a confidential basis for informational and discussion purposes only. JLP has provided its assessment of past events and outlook for future events. The views and opinions expressed in this presentation are those of JLP's investment personnel and are based on economic and market conditions at the time they were made. These opinions contain forward-looking statements representing JLP's belief about possible future events. Actual future events may be materially different than the results expected by JLP. As with all investing activities, there is both the potential for investment gain as well as investment loss, including total loss of investment. Past performance is not a guarantee of future results. Certain economic and market information contained herein has been obtained from published, third-party sources believed to be reliable. JLP does not assume any responsibility for the accuracy or completeness of information taken from such sources.

JLP is an investment advisor registered with the United States Securities and Exchange Commission ("SEC"). SEC registration does not imply any level of skill or an endorsement by the SEC of JLP's advisory services. This Presentation has been prepared for informational purposes only and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security. If any such offer of securities is made, it will be made pursuant to a definitive offering document, which is furnished to qualified clients/investors on a confidential basis for their consideration and will contain material information not contained herein.

Investments in real estate securities entail risks that include, but are not limited to: changes in environmental and zoning laws, casualty or condemnation losses, environmental liability, regulatory limitations on rents, decreases in property values, changes in the appeal of neighborhoods as well as fluctuations in the average occupancy and room rates for hotel properties, the financial resources of tenants, changes in interest rates and the availability of debt financing or mortgage funds, various uninsured or uninsurable risks, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses.

Non-U.S. Investments involve additional risks, including, but not limited to: the fluctuation of currency exchange rates, differences between U.S. and foreign securities markets, including potential price volatility and relative illiquidity of some foreign securities markets, differences in accounting auditing and financial reporting standards, economic and political risks, differences in taxation, and less publicly available information.

Indices: Index information (the "Indices") is provided as an illustration for market and economic conditions during similar periods of JLP performance. JLP's recommendations may differ significantly from the securities that comprise the Indices. The Indices are unmanaged and their performance does not reflect management fees, transaction costs, charges and taxes that apply to a mutual fund investment. Comparisons to the Indices have limitations because Indices have volatility and other material characteristics that may differ from the strategy herein, and the Indices should not be relied upon as an accurate comparison. The Indices are unmanaged and their performance does not reflect management fees, transaction costs, charges and taxes that apply to a privately managed account.

The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to track the performance of listed real estate companies and Real Estate Investment Trusts ("REITs") in both Developed and Emerging markets worldwide. The index shown is calculated on a Total Return basis with income/dividends reinvested. For additional information, see www.epra.com/data.

- FTSE EPRA/NAREIT Developed Index (RUGL) is a subset of the FTSE EPRA/NAREIT Global Real Estate Index Series designed to track the performance of listed real estate companies and Real Estate Investment Trusts ("REITs") in Developed markets worldwide.

- FTSE EPRA/NAREIT Developed Asia Index (RUGA) is a subset of the FTSE EPRA/NAREIT Developed Index designed to track listed real estate companies and REITs in Asia.

- FTSE EPRA/NAREIT Developed Europe Index (RUPRA) is a subset of the FTSE EPRA/NAREIT Developed Index designed to track listed real estate companies and REITs in Europe.

- FTSE EPRA/NAREIT North America Index (RUGN) is a subset of the FTSE EPRA/NAREIT Developed Index designed to track listed real estate companies and REITs in North America.

asset management

JLP Asset Management, LLC
450 Park Avenue, Suite 1200
New York, NY 10022
+1 (212) 578-1650
info@jlpasset.com