jlp asset management

Monthly Commentary

May 31, 2021

JLP MONTHLY COMMENTARY

MAY 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 May, 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.

- Office markets in the US gateway cities, NY and SF, remain under pressure from tenants seeking concessions and more flexible terms. Investor demand for office buildings, however, remains firm as they look through the current environment to the time when things are more "normal". The major investment banks and financial services companies are pushing employees back to the office – with a combination of threats and rewards.
- WFH – work from home – remains a conundrum for both employees and employers and it looks like this will be the case throughout the year as companies experiment with different configurations/compensation levels.
- The US is going mask-less and the rebound in restaurants and shopping centers is expected to be substantial – and the data shows the trend is underway. The real challenge for operators is to secure sufficient staff to handle demand.
- Singapore has shut down again on a very small number of cases but worries about variants of Covid from India. While the degree of lockdown is much less than in the past, it has caused some disruption in the previously surging retail/restaurant sectors.
- Luxury goods are reportedly "flying off the shelves" in many Asian markets as consumers deploy their "stuck at home" capital. Despite seeing net losses in 2020, landlords and retail tenants in China saw a V-shape recovery in mall sales and foot traffic in the second half of the year, showing indications that consumer confidence hasn't waned. JLP's Jim Rehlaender discusses the market and potential upsides with The Wall Street Journal. Read more here.
- Retail rents in the US have tumbled 30-40% and have reached levels where it now makes sense for tenants to consider opening stores. The types of tenants that are having success, however, are well-positioned vis a vis e-commerce and have unique offerings like a combination bookstore/restaurant and an automat-style dumpling shop[1]. With the repricing of retail space, the landlords have a chance of attracting new tenants – if the landlords themselves remain viable.
- Singapore's wealth management industry is attracting a surge of mainly Chinese/Taiwan family offices as the island nation cements its position as the Switzerland of Asia. High end residences, luxury goods and $1 million dollar cars are in high demand. Meanwhile, the public market pricing for real estate remains at historically high discounts to NAV which can only be partially explained by the public markets overreaction to the latest lockdown.

[1] "Chinese Shoppers, Stuck in China, Revive Local Malls" WSJ 05/26/2021 https://www.wsj.com/articles/chinese-shoppers-stuck-in-china-revive-local-malls-11621944001

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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.

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