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jlp

asset
management

Monthly
Commentary

August 31, 2021

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JLP MONTHLY COMMENTARY

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MONTHLY HIGHLIGHTS AND CURRENT EVENTS AFFECTING REITS

Covid (mainly Delta variant) continues to impact markets globally with a significant degree of variance, while booster shot may encourage more optimism – expect a stronger fourth quarter for the global economy. In Europe, improving economic data and a surge in the vaccination rate set the scene, with improving conditions in the retail and office segments. In the US, apartments and SFR are experiencing historically high demand and raising rents accordingly, in Asia, China weakness has been reverberating throughout region. All in all, massive amount of debt and equity capital is pushing up commercial property values worldwide and we expect this to continue while the share prices for the public real estate companies have been slow to respond – creating an exploitable value gap and ample investment opportunities for active managers.

MACRO NEWS

- Bond yields initially rose in the month and have fallen back as economic growth rates and inflation and other data are coming in below expectations
- Delta variant having a global impact
 - Enplanements slowing
 - Hotels selling down
 - RTO is being delayed by many companies to Q1 2022
 - Vaccine passport trend
- Booster shot may encourage more optimism – expect a stronger fourth quarter for the global economy
- Singapore experiments with opening up after hitting 80% vaccination target while others are going for zero cases – notably Australia and China
- Logistics issues due to lack of workers may lead to greater inventory retention – and more demand for space

PROPERTY SECTOR

- Massive amount of debt and equity capital is pushing up commercial property values worldwide and we expect this to continue while the share prices for the public real estate companies have been slow to respond – creating an exploitable value gap
 - Institutions forming JVs with public companies to get invested faster in existing portfolios as well as developments
 - M&A activity increasing and we would expect more public companies to become targets for private equity funds
- US – apartments, SFR experiencing historically high demand and raising rents accordingly
 - Industrial/logistics sector remains hot but may be running out of gas given steep valuations
 - Retail – mall traffic improving but only at the better locations. Amazon announced that it will open stores throughout the US which could include taking space in otherwise dead shopping malls – at virtually no rent
 - Office rental market challenging but inquiries rising – office vacancy in New York and San Francisco are the highest in decades while smaller cities and suburbs are booming
 - Healthcare hit by rising virus cases and vacancies
- Asia – China weakness reverberating throughout region
 - Stocks in many markets are trading at or near historically high discounts to NAV (some as high as 50-60%) and starting to attract interest at the end of the quarter
 - Singapore is recovering strongly after hitting 80% vaccination rate and opening up
 - Australia under increased lockdown conditions but the stocks are recovering in anticipation of re-opening
- Europe - Improving economic data and a surge in the vaccination rate (France is now higher than the UK)
 - Retail and office conditions are improving, and the logistics sector remains the top choice among investors – which is really obvious based on their stock charts year-to-date. Looks like a rocket launch



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HOW JLP'S STRATEGY IS POSITIONED

- Reduced holdings in the US and allocated more capital to Asia and EU companies that are trading well-below our valuation targets.
- Still bullish on the residential sector in the US – particularly single family rental, which is fast becoming one of the most popular property types for global investors, have been resilient reporting healthy rent collections and high occupancy despite moves from urban -> suburban living.
- 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. We retained our position in the sector due to long-term growth prospects.
- JLP is seeing opportunities in the healthcare sector, specifically private hospitals, medical office building and bio-technology laboratories which are well positioned to meet demand of the aging population.



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