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Monthly Commentary

November 30, 2021

JLP MONTHLY COMMENTARY

NOV 2021

MONTHLY HIGHLIGHTS AND CURRENT EVENTS AFFECTING REITS

For most of the month, the markets were in recovery mode with the potential for re-opening for travel, both domestic and international, and improving retail sales and store visits – and then the Thanksgiving Massacre hit! The omicron variant, combined with some more hawkish commentary from the Fed Chair caused markets to drawdown sharply. In a 48-hour period, the market went from bull to bear, and all markets were affected. While we are concerned about the new variant and the potential for others in the future, we believe the impact on local economies will be mitigated by the increasing rate of vaccination and new treatments as well as a general market fatigue over lockdowns and travel restrictions.

Inflation and rising interest rates dominated the discussion for most of the month as rising employment and supply bottlenecks raised the specter of a return to central bank tightening – or at least a reduction in monetary stimulus. 10-year bond yields rose in most markets and peaked later in the month, but this trend quickly reversed as the fear that the new variant would slow global growth gathered momentum. As for inflation, data continues to emerge that confirms that it is well above historical norms in many markets, but the debate continues as to the duration and sources of inflation.

The real estate sector is highly varied by market but we have noticed there are some general trends that are found in most - if not all - markets:

- Supply of new space for most property types is generally constrained – except for housing supply in China
- Office landlords are more focused on tenant retention and only a few markets are experiencing rental growth
- Industrial landlords continue to benefit from strong demand as ecommerce grows and the global supply chain is under stress – requiring more inventory accumulation – and supply in many markets is already constrained due to local regulations and rising land prices
- Residential markets, especially rental housing, are under high demand as the supply of housing for sale dwindled following the financial crisis and now land prices, commodity prices (lumber, steel, glass) and labor shortages are limiting the increase in housing supply
- Hotels, restaurants and leisure properties remain under pressure due not only to the risk of lockdown but more importantly, securing sufficient staff to operate at full capacity. However, the sector is starting to attract investor interest as the closure of many hotels/restaurants makes the market that much more attractive for the survivors or new players
- Retail landlords are beginning to recover but with very different rent structures and levels than pre-pandemic. Landlords are more willing to offer tenants turnover-based rents and early termination rights than before, reducing the ultimate cost of occupancy
- M&A activity has been strong all year and we would expect this to continue as the massive amount of “dry powder” amassed by large PE firms, insurance companies and sovereign wealth funds are struggling to get the money invested directly – it is easier to buy an already “assembled” property portfolio by taking a public company private, even if it requires paying above market

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MONTHLY HIGHLIGHTS AND CURRENT EVENTS AFFECTING REITS (CONTINUED)

The following is a brief synopsis of market developments that we are seeing during the month:

- **US.** During the month, US REITs generally reported strong results, particularly for those property types like hotels and retail that are beginning to benefit from greater mobility and the lack of social interaction. Although we do not yet have all the data, it appears that retail sales will show that consumers are venturing out more for shopping, although not at the rate that prevailed pre-pandemic. The REIT index hit its YTD peak the day before Thanksgiving and fell along with other markets thereafter, resulting in a slight decline for the overall month of 0.70%. As noted previously, the hotel sector share prices are under pressure despite the fact that companies are reporting high room rates and rising occupancies, especially those that are more domestically oriented – "staycations' are becoming the norm as international travel remains restricted. While the data center sector has shown some weakness in share prices in the past several months, the M&A activity changed this with the surprise bid for Coresite by the largest cell tower REIT, American Tower, pushing the share price up over 20% for the month. Another strong performer was Americold, a cold storage REIT that had been weak earlier in the year due to disappointing earnings and concerns about this labor-intensive logistics business. The shopping mall industry is showing signs of recovery as consumers return to the physical stores and e-tailers realize that they need a physical presence to increase their market penetration.
- **ASIA.** With the lockdowns expanding in the Asian markets and the turmoil continuing in the China property sector following the Evergrande restructuring, stocks in Asia that were starting to recover mid-month were hit hardest at month-end. We continue to favor KWG and have added to the position as we expect the survivors of this melee to increase market share and ultimately profitability. At a 70% discount to NAV (based on recent home sales) and a dividend yield of 20% - which may get cut to 15% - we think this is a real bargain and potential double – but not without risk. Despite the strong retail data that we just got on retail sales in HK in October up 12% YOY, the retail sector was hit especially hard at month-end – as was the case in virtually all property markets. Hang Lung, owner of shopping centers and resi properties in HK as well as China declined, approaching the lows at the height of the Covid crisis last year – despite busy shopping centers and a recovering economic environment. Japanese developers had been benefiting from a return to work and expectations for more government stimulus and fewer lockdowns, but this trend was reversed in November – we would expect this to be a short-term phenomenon. After selling out of this market earlier in the year to take profits, we are reviewing a re-entry in developers that are well-positioned for the re-opening trade with office and retail in the better submarkets of Tokyo.
- **UK/EU.** The UK is still struggling with setbacks from the virus and Brexit-related challenges that are affecting economic growth and concerns about a recession hung over this market. The rental residential and storage sectors continue to perform well although there are signs that the office and retail properties are beginning to attract investor interest – just as the EU thought would happen! We are becoming a bit more optimistic on this market after it has repriced and will probably add to the office and even retail sector where the markets are firming. Germany remains under pressure due to rising Covid cases and the real estate sector is also under local market pressure to control residential rents. The only company that was up during the month was Alstria after it agreed to sell out to Brookfield, another example of a large investor seeking an "instant" portfolio and paying full price for it. Sweden has been one of the top performing markets all year as the country has essentially remained open throughout the pandemic. However, the hotel sector has not tracked with this performance and based on our meetings with the management team, the prospects for a recovery are quite promising. As with every other region, the industrial/logistics sector is experiencing rising rents and property values and in some cases, these companies are trading at the highest levels in the world on a multiple and cap rate basis. While this same dynamic exists in the US, the European markets are more supply constrained and anti-development, further enhancing the prospects for rental growth.

Find below global market performance. For more information, please check the disclaimers.

Market Performance as of Nov 30th	1M	3M	6M	YTD	1Y	3Y (A)	5Y (A)
Global Real Estate Index[1]	-2.2%	-2.2%	3.9%	19.5%	23.9%	8.5%	8.1%
US Real Estate Index[2]	-0.7%	1.0%	10.0%	31.5%	36.0%	10.7%	9.1%
Developed Europe Real Estate Index[3]	-2.4%	-7.6%	-1.9%	6.9%	13.5%	8.6%	9.6%
Developed Asia Real Estate Index[4]	-5.5%	-6.5%	-6.8%	1.8%	4.6%	2.6%	4.2%

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HOW JLP'S STRATEGY IS POSITIONED

- Increasing allocation to the Asian markets given their more attractive relative valuations but taking our time given all the noise about the property developers in China.
- We are focusing on retail and gateway city hotels that are beginning to benefit from greater mobility and the lack of social interaction.
- We see that office markets are beginning to firm in many major markets and we are adding positions selectively here.
- Logistical bottlenecks remain the top concern for the markets which currently favors the warehouse/logistics area and rents continue to rise ahead of expectations. We believe we are well-positioned for this in the US and increasing exposure where warranted in other markets.
- Rising concerns about the UK economy may result in a slower emergence from the effects of Covid and we are monitoring this now. Otherwise, demand for property in the UK among global investors remains very strong – which we have found is not yet reflected in property company share prices.
- Europe has built in inflation provisions in their leases, so this is a plus if we have inflation due to rising growth rates.
- We are seeing that Singapore is experiencing rising growth and rents and we are looking to add more office exposure.
- Due to uncertainty surrounding omicron, there may be changes regarding portfolio positioning according to how real estate markets respond to the new Covid variant.

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[1]**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.

[2]**FTSE NAREIT US Real Estate Index Series (RUUS)** is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space across the US economy. The index series provides investors with exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets. The index shown is calculated on a Total Return basis with income/dividends reinvested. The returns shown for periods longer than one year are annualized. The source for the FTSE NAREIT US Real Estate Index Series is FTSE. For additional information see www.ftse.com.

[3]**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.

[4]**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.

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