

## NEWS

# LOW RATES BOOST GLOBAL PROPERTY SECURITIES

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As a result of improving global economic data, and the low level of global bond yields, we remain positive on the outlook for global listed property. There are currently many real estate investment trusts (Reits) yielding attractive premiums over 10-year Treasuries and we are confident Reit distributions are fairly stable at current levels. What's more, while pooled funds holding properties continue to suffer from a lack of liquidity in the market, property stocks and Reits continue to give investors the confidence of being able to cash in their holdings at the time when they need to.

Incomes, determined by rents and occupancies, remain under threat in some parts of the world. However, particularly in the major global cities, conditions have improved remarkably and provide significant support to the income streams of trusts with quality properties. Property fundamentals are stabilising for high-quality assets in good locations. As such, the portfolio is positioned relatively defensively.

Yields are particularly relevant in today's market conditions. As forecasts for economic growth are wound back, expectations for capital growth are also curtailed. This makes income an increasingly important component of total return. We anticipate it will dominate total returns in the near term. It seems unlikely bond yields are sustainable at their current low levels. Reits are well placed to benefit and global property securities appear fairly priced, with pockets of very attractive valuations.

In Europe, the outlook is mixed. Northern Europe has been more resilient and attractive, while the southern and eastern regions, where economies are vulnerable to a weak outlook and indebtedness, remain under pressure. One of our favoured stocks is Swedish property company Castellum, which has a spread of buildings and tenants, with about 4,400 contracts in 15 Swedish cities. In contrast

with other European countries, Sweden's robust economic growth has helped its property markets.

Castellum's performance catalysts are built around this strong economic outlook, which supports the level of employment and demand for space. Net leasing across the portfolio turned positive recently and the company can improve income materially by continuing to reduce its level of portfolio vacancies. Revenues also benefit from linking tenant rents to an inflation-based index that can add around 1.0%-1.5% to the underlying rent yield in the next 12 months.

Elsewhere in Europe, while we remain cautious on the UK in the near term, its economic indicators seem to be improving, and valuations look attractive. As such, the portfolio keeps its focus on investments in high-quality stocks, with a central London focus.

In the East, China, Hong Kong and Singapore have been affected by policy measures designed to cool the housing market. Hong Kong's measures include a reduction in loan-to-value ratios for new buyers, and a ban preventing speculators from selling their units before developments have been completed.

However, these moves will have a limited effect while liquidity remains high and interest rates low. We remain invested in commercial property Reits, which are unaffected by the policy changes influencing residential demand.

In our view, global property securities should benefit from low interest rates and greater availability of funds, together with a general improvement in the real estate environment. We are seeking investment trusts with good, sustainable dividend yields, and property companies capable of developing their businesses without excessive risk.



Sweden: Robust growth