VIEWPOINT

FOUR QUADRANTS

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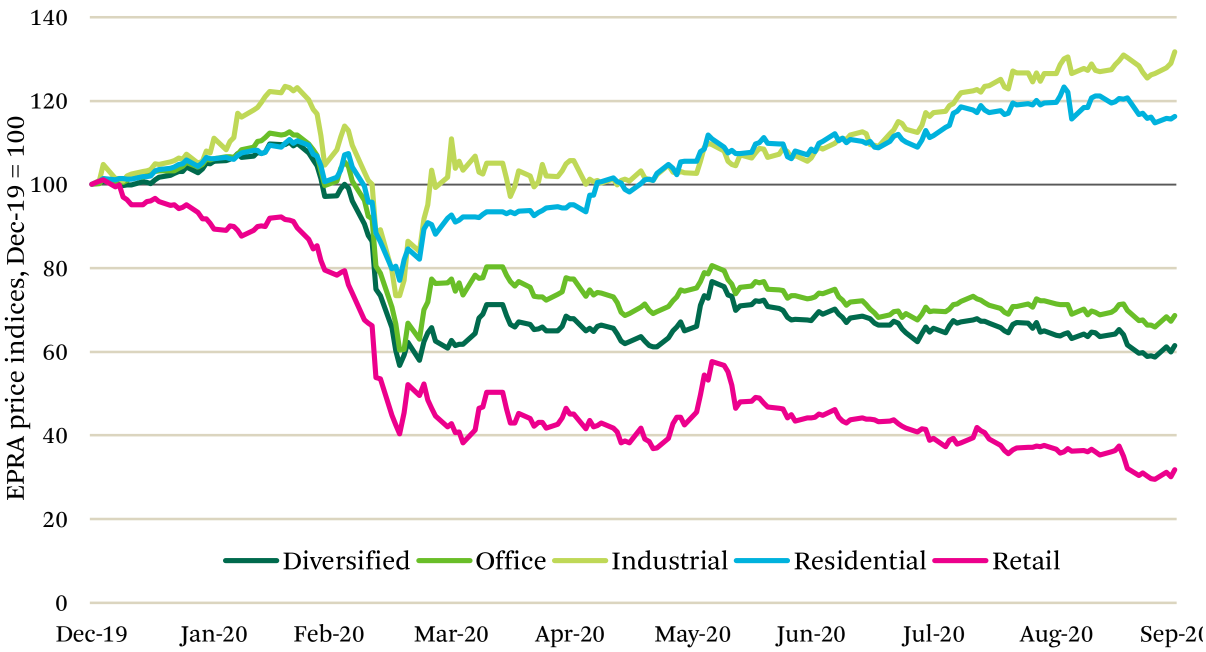
Public Equity

European public equities have continued to give market watchers much to talk about over the last few months, but in contrast to the initial response to the onset of COVID-19 – where there was a good degree of similarity in movement across sectors – the last few months have seen significant differentiation, as Figures 1 and 2 show, reverting in many ways to the pattern observed in the first couple of months of the year.

Figure 1: European REIT performance, 2020



Source: EPRA

Figure 2: European REIT performance, % change in price index, selected periods in 2020

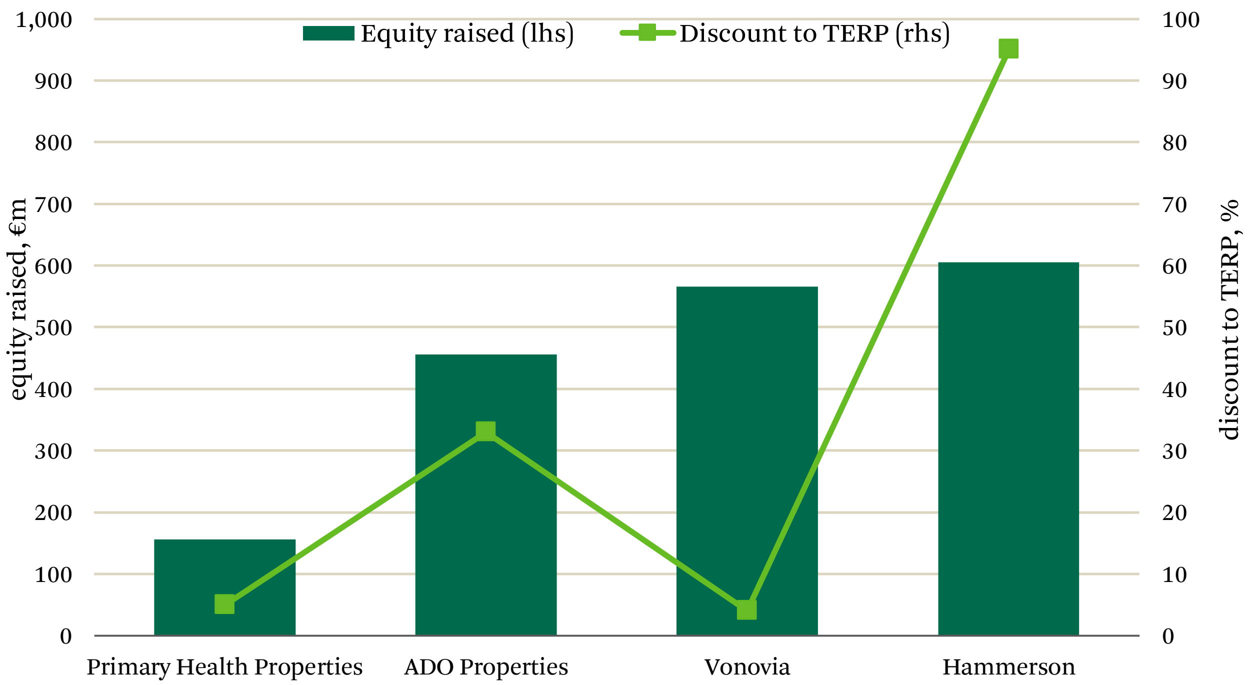
	Diversified	Office	Industrial	Residential	Retail
31-Dec to 21-Feb	10	12	23	10	-10
21-Feb to 18-Mar	-48	-46	-40	-30	-55
18-Mar to 05-Jun	35	34	49	44	43
05-Jun to 30-Sep	-20	-15	20	5	-45
31-Dec to 30-Sep	-39	-31	32	16	-68

Source: EPRA

The (near) four months to the end of Q3 2020 saw a clear split in the performance of industrials (up 20%) and residentials (up 5%) versus retails (down -45%), with offices performing somewhere in the middle (-15%). Over the whole year therefore, industrial and residential price growth has been 32% and 16% respectively, compared to -31% and -68% for office and retail. In truth, this is in many ways no different to the relative performance hierarchy observed for a few years now – although the market has to an extent temporarily fallen out of love with some previously favoured operational sectors (such as hospitality and student accommodation) – and that has been reflected also in the relative performance of real estate investment markets. Although Q3 investment statistics are yet to be finalised, a comparison of the H1 2020 and H1 2019 showed growth in residential and industrial transaction volumes and a decline in office volumes. Similarly, direct market pricing has reflected the above pattern; in Q2, 12 of the primary markets in the 17 Northern and Southern European and Nordics markets saw retail yields rise (by 5-50bps) – for offices only four markets saw yields rise (by 5-10bps) and for industrial three markets saw a fall in yields.

Market preferences and fortunes could further be discerned from the contrasting equity raises seen in Q3, as shown in Figure 3. While residential and healthcare companies Vonovia and Primary Health Properties raised additional capital for growth opportunities at only very slight discounts to prevailing pricing, Hammerson's deeply discounted rights issue to pay down debt betrayed the weaker historic performance of retail. Nevertheless, the cumulative €1.8bn equity raised by European REITs in Q3 represents only a little less than the total raised in the first half of 2020, a further sign that confidence in pricing both current value and future opportunity is returning to the market.

Figure 3: Selected Q3 equity raisings



Source: EPRA

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