Rothschild & Co
Asset Management

Listed Real Estate: 2024 review and 2025 outlook

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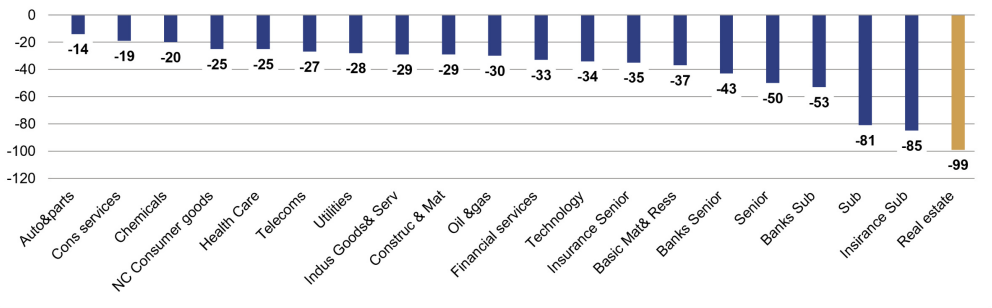
The sector's correlation with interest rates was maintained in 2024, apart from during the summer break, when good publications from listed real estate companies helped to focus investors' attention on fundamentals. The resurgence of uncertainty about the outlook for growth and inflation following the re-election of Donald Trump in the final quarter had a negative impact on the annual performance of property companies. **On the fixed income markets, however, the picture was very different**, with real estate benefiting from the biggest reductions in spread[1] of any sector, reflecting investors' enthusiasm for real estate debt.

Spreads against govies in 2024



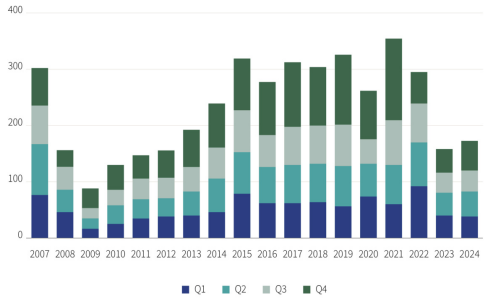
Source : Rothschild & Co Asset Management, February 2025.
Investment Grade bonds (debt securities issued by companies or governments rated between AAA and BBB- by Standard & Poor's) in euros and corporate bonds.

Why such a divergence of appreciation on both sides?

Debt holders have focused on improving property fundamentals, with most markets having bottomed out in 2024. Transaction volumes are still recovering, but the rebuilding of the risk premium and strong demand for the best assets have begun to bring buyers back:

Transaction volumes in Europe

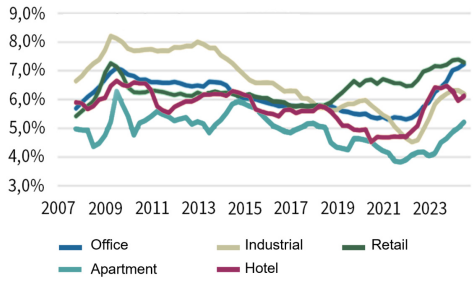
In billions of euros



Source : Morgan Stanley, February 2025.

Transaction yields in Europe by sector

Average over last 12 months

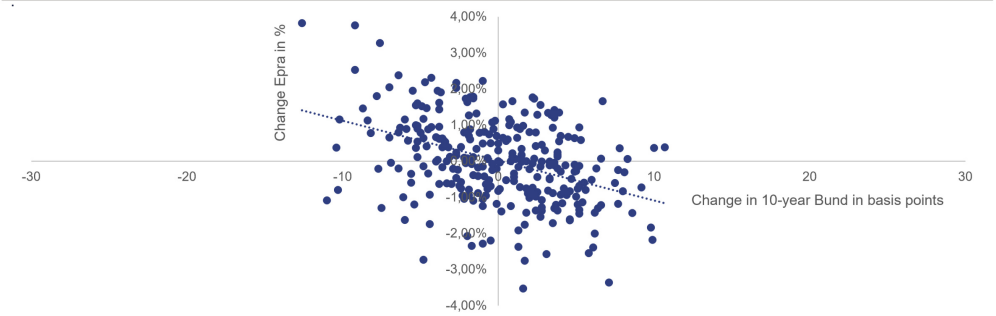


Source : Morgan Stanley, February 2025.

Listed real estate companies have continued or even completed their debt reduction programmes, and **some are already repositioning themselves for a new growth cycle**. The liquidity/financing risk has therefore been considerably reduced, and with it bond yields. **On the equity markets**, risk assessment continued to be guided by the trend in long-term yields, despite the brightening after the half-yearly results.

The sector's high correlation with 10-year yields since 2021 (the start of monetary policy tightening) translated into a valuation sensitivity of around +/- 1.1% for a movement of 10 basis points[2] in 2024, i.e. a fall in valuations of around 3.3% for a rise in the bund of 30 basis points[2] , more or less summing up the year 2024 (rise in the bund of 30 bp and fall in the eurozone IEIF of 3.9% excluding dividends)[2].

Daily change in the sector as a function of the 10-year Bund yield



Source : Bloomberg, Rothschild & Co Asset Management, from 31/12/2023 to 28/01/2025.

The FTSE EPRA/NAREIT Developed Europe Index, is a Market Capitalization-Weighted Index consisting of the most heavily traded real estate stocks in Europe. It is designed to reflect the stock performance of companies engaged in specific aspects of the European Real Estate Business as perceived by institutional investors. It has a base date of 31 December 1999 and a base of 1000.

Medium-term outlook

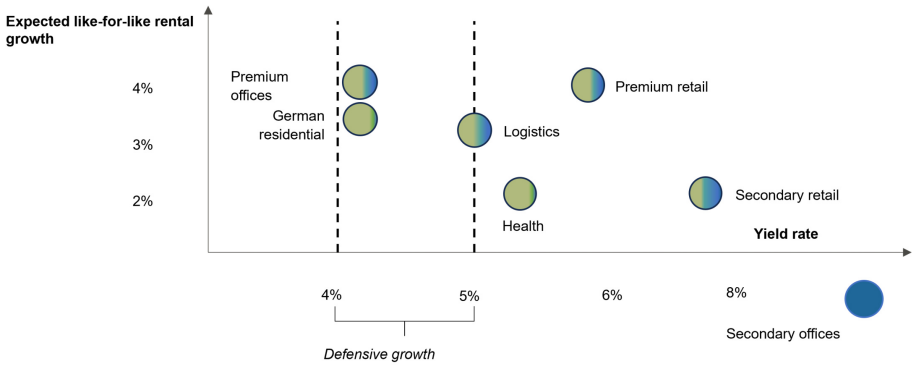
It will of course remain dependent on the direction of interest rates. A moderate rise (<30bp) would have little impact on the direct listed real estate market, but would curb the reappraisal of property companies until an inflection point is reached. A significant rise (of 50 to 100 bp) without any inflationary counterpart would cause a 'double dip '[3] in property valuations. The good news, apart from the fact that this scenario remains unlikely given the deteriorating economic situation in Europe and inflation returning close to the European Central Bank's target, is that **the current level of discount already anticipates this scenario**.

Indeed, a 30% discount on net assets corresponds to a 15% discount on gross assets, the equivalent of an implicit average yield of 5.5% (i.e. 70 basis points higher than the appraised yield)[4].

The fall in refinancing costs seen on the bond markets will also enable property companies to return to earnings growth more quickly than expected, as the rise in interest costs will no longer absorb all the growth in rental income. This factor, combined with the sector's already high dividend yield (5.2%)[2] , is an additional incentive.

Which real estate markets to choose?

Our 2025 analysis grid



Source : Rothschild & Co Asset Management, February 2025.

Sectors with a '**defensive rental growth**' profile, i.e. less sensitive to the economic environment and whose lower yields would benefit from a stabilisation or fall in interest rates (which remains our preferred scenario) should attract investors. These include **prime residential[5] and office property** in central areas where rental supply is very limited. This pocket of investment represents half of R-co Thematic Real Estate's assets[4].

In 2024, after benefiting from the recovery in consumption and footfall post-covid, **shopping centres returned to the hierarchy that existed before the pandemic**, with the largest assets outperforming the smallest. Against a backdrop of sluggish consumption, the best assets outperformed inflation by a wide margin, in contrast to the smallest assets. This trend is set to continue in 2025, with consumption

remaining largely dependent on economic growth, but supported by the very **high savings rate in the eurozone (15.7%)[6] and rising real incomes**. The correction in shopping centre yields (the biggest since 2018) is now enabling listed real estate companies to offer very high dividend yield (around 8%)[2] at still modest valuations. The sector therefore remains attractive, with one-third of the portfolio allocated to it.

Logistics remained popular with investors on the direct listed real estate markets, despite a marked slowdown in rental demand in 2024. This led to a sharp correction on the stock market, with the sector now offering **an attractive entry point in the expectation that demand will stabilise**. We took advantage of this to increase our allocation, which remains limited to less than 10% of the portfolio[4].

Finally, the **healthcare sector** seems to us, in relative terms, to offer the fewest opportunities. Its defensive profile is attractive, but it offers less organic growth than residential property. External growth, which used to be the sector's driving force, is still limited by the discounted value of listed real estate companies. Lastly, the yield on assets of just over 5% is less sensitive than residential property to the current monetary easing, and much lower than retail property.

Conclusion

Macroeconomic uncertainty wiped out the sector's initial re-rating at the end of 2024. Although this uncertainty is still strong with the presidency of Donald Trump, the fact remains that the sector can now rely on solid pillars to once again attract investors on a more sustainable basis:

- **The low point reached in listed real estate market valuations,**
- **A drastic fall in refinancing costs, allowing a return to growth in earnings per share.**

In the meantime, the sector's high yield (>5%)[7] offers a significant carry, especially as distribution is now set to increase. R-co Thematic Real Estate's current positioning on stocks offering a ‘defensive growth’ profile should enable us to take full advantage of the sector's re-rating.

Weitere Infos zu den Fonds

R-co Thematic Real Estate

Sehen Sie sich dieses Dokument auf unserer Website an

[1] Spread: A spread measures the difference, expressed in basis points, between two rates or yields.
[2] Source: Bloomberg, February 2025.
[3] Double dipping: the practice of receiving two incomes from the same source.
[4] Source: Rothschild & Co Asset Management, February 2025.
[5] Prime offices: buildings that meet the latest standards and benefit from a central location.
[6] Eurostat, Q2 2024.
[7] Dividend yield

SRI Risk: 5/7. The synthetic risk indicator helps to assess the risk level of this product in comparison to others. It indicates the likelihood that this product will incur losses due to market movements or our inability to make payments. We have classified this product in risk category 5 out of 7, which is considered a medium-high risk class and primarily reflects its position in the market for shares of French real estate companies and European real estate investment trusts (REITs). In other words, the potential losses related to the future performance of the product are at a medium to high level, and if the market situation worsens, it is likely that our ability to pay could be affected. The risk indicator assumes that you hold the product for 5 years; otherwise, the actual risk may vary significantly, and you could receive less in return. Other important risk factors not adequately reflected by the indicator include the impact of techniques such as derivatives. As this product does not offer protection against market risks or guarantee of capital, you could lose all or part of your investment. For more information on the risks, please refer to the prospectus of the UCITS. Key risks: capital loss risk, discretionary management risk, market risk, sector risk, risk related to non-financial criteria (ESG), sustainability risk, credit risk, interest rate risk, currency risk, and risk associated with the use of derivative instruments. Before making any investment, it is imperative to carefully read the PRIIPS KID and the UCITS prospectus, especially the sections related to risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

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Für weitere Informationen: www.am.eu.rothschildandco.com

(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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