



Listed Real Estate: There's still time to buy into the sector's rerating!

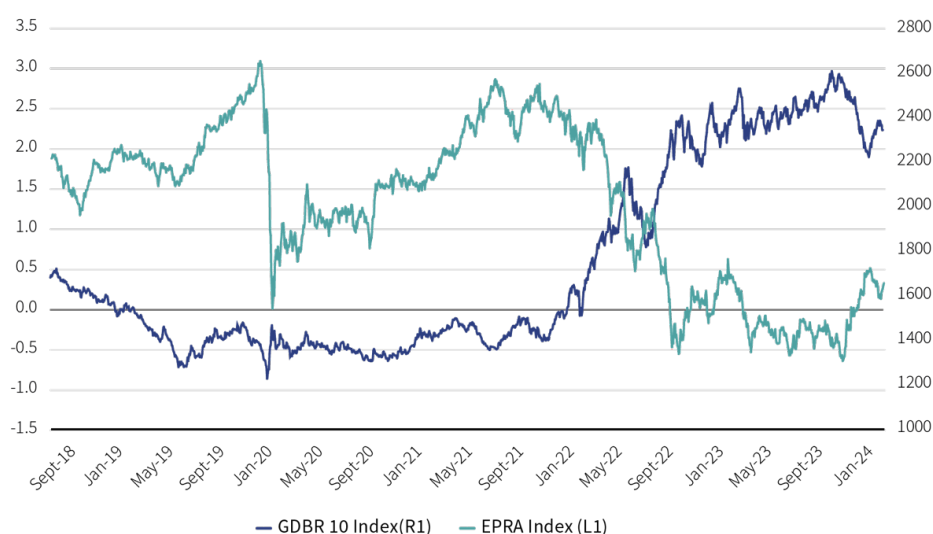


Paul Reuge
European Equities Portfolio
Manager

Late 2023 featured a rerating of real estate companies, as the pivot in monetary tightening came into view. As 2024 begins, the entire sector, as well as long-term rates are in a wait-and-see stance.

Sector volatility is being stoked by uncertainty over exactly when initial rate cuts will occur and how there will be in all. However, correlation with interest rates, which has been high since the start of monetary tightening, is likely to gradually fade – barring an additional, substantial cut, but that would be unrealistic, given the outlook for a soft landing – and to give way to fundamentals:

Trends in interest rates and the property sector in the euro zone

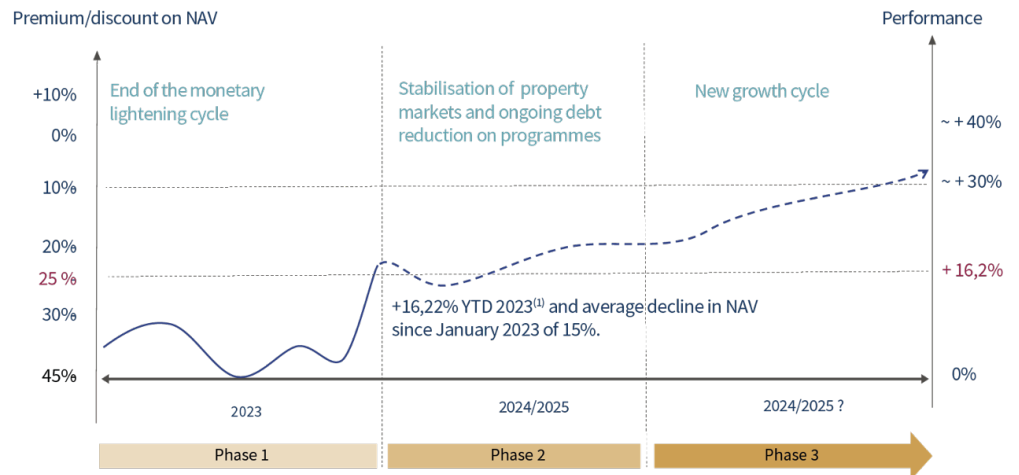


In other words, listed real estate prices will continue to be driven up as the impact of easier financial conditions gradually spreads to property markets, thus driving up risk premiums (i.e. the gap between property yields and long-term rates) and bringing back buyers. Private real estates prices can probably be expected to bottom out in the second half of 2024 or first half of 2025. As usual, the equity markets will price this in beforehand (see our November 2023 sector update, “[Liquidity crisis and price adjustments, what's the current state of real estate markets?](#)”).

Moreover, the wall of debt is going to benefit from the fall of interest rates and the improvement of the investment market. The cost of financing has already fallen significantly in the fourth quarter of 2023, from 5.5% in October in the case of Carmila (BBB, €500m) to 4.1% in early December for Unibail (BBB+, €750m)², even before interest rates pulled back in December³.

What level of rerating can we expect?

Listed real estate companies are still trading at an especially high discount of about 30% of their estimated end-2024 net asset value, even after pulling back from their peaks by an average 15%⁴. While there is still a little additional depreciation to come, a return to the 10% historical average discount will be driven mainly by an **upward adjustment in share prices**.



(1) IEIF EURO Eurozone Index net dividends reinvested at 31 December 2023

How R-co Thematic Real Estate's portfolio is positioned

In light of the above, **the portfolio's main allocation is still the German residential sector**, which remains excessively underrated (trading at a 45% discount)⁴ and whose rental fundamentals are excellent, as they are driven by strong indexation and the collapse in new housing stock after developer setbacks (exacerbating the already severe housing shortage). Moreover, the sector offers an attractive defensive profile in the event that the economy was to turn down more severely than expected.

The portfolio's second largest exposure is retail property (trading at a 30% discount)⁵, which has achieved a remarkable post-Covid-19 recovery. Moreover, rising interest rates have actually benefited shopping centres by evicting unprofitable e-commerce models (whose development had come at a very low cost of capital) and in promoting omni-channel brands (i.e., both brick-and-mortar and online). Some brick-and-mortar brands, which had been distressed for several years and kept on life-support by "whatever it takes", have also paid the price of higher interest rates leading to cascading bankruptcies (Camaieu, San Marina, Pimkie etc.). However, landlords were quickly able to rent out those locations, demonstrating the quality of their assets, and were able to continue renewing their commercial offering (with a significant decline in exposure to the clothing sector). All this has kept occupancy rates at about 95%³. Moreover, the adjustment in asset values, which got off to an early start (in 2018) has limited interest-rate sensitivity, unlike other asset classes (logistics, for example).

While the post-Covid catching-up effect is likely to fade in 2024, consumption should get a boost from the increase in real household wages. A marked slowdown in the economy, however, would be bad news. Nevertheless, the sector's valuation is still undemanding (9x cashflows⁶ vs. an average of 15x)⁷.

And, lastly, 15% of the portfolio is exposed to office companies possessing prime properties (in which higher rents limits the impact of capitalisation rate decompression)

that are mostly invulnerable to remote-working. 11% of the portfolio is invested in logistics, 8% in undervalued multisector companies, and 6% in retirement home operators⁶.

The effects of the end of monetary tightening will gradually spread to real estate markets and help bring buyers back. Valuations will most likely bottom out in 2024 for buildings whose rental situations still looks good. As usual, the markets will price this in beforehand, thus shrinking the discount towards its historical average.

It is therefore in the interest of investors having a medium- / long-term investment horizon to grab the current entry points caused by inflationary disruptions (note that the US consumer price index has fallen almost straight down, from 9.1% in June 2022 to 3.1% as of the end of January 2024(2)) and/or by a less strong than expected economic slowdown, in order to take on exposure to the sector in the unlikely event that these factors do not cause an official shift in central bank pivots.

Completed writing on **16 February 2024**

Weitere Infos zu den Fonds

R-co Thematic Real Estate



Sehen Sie sich dieses Dokument auf unserer Website an



(1) Source: Bloomberg on 31/01/2024

(2) Source: Companies, February 2024

(3) Source : Sociétés on 31/01/2024. This does not represent an investment recommendation or investment advice from Rothschild & Co Asset Management.

(4) Source: Sociétés and Bloomberg, 31 January 2024

(5) Source: Rothschild & Co and Bloomberg, 31 January 2024

Risk SRI : 5/7

The synthetic risk indicator makes it possible to assess the level of risk of this product compared to others. It indicates the probability for this product to record losses in the event of market movements or our inability to pay you. We have classified this product in risk class 5 out of 7, which is a medium to high risk class and mainly reflects its positioning on the French real estate and European property company stock market of shares of French companies. In other words, the potential losses linked to the future results of the product are between medium and high and, if market conditions were to deteriorate, our ability to pay you would likely be affected. The risk indicator assumes that you hold the product for 5 years; if you don't, the actual risk may be very different, and you may get less in return. Other important risk factors not adequately taken into account by the indicator: credit risk, impact of techniques such as derivatives. This product does not provide market protection or a capital guarantee, you could lose all or part of your investment. For more information on the risks, please refer to the prospectus of the UCI. Main risks: risk of capital loss, discretionary management risk, market risk, sector risk, risk linked to extra-financial criteria (ESG), sustainability risk, credit risk, interest rate risk, currency risk, risk linked to the use of derivatives. Before any investment, it is imperative to carefully read the PRIIPS DIC and the prospectus of the UCI, and more particularly its section relating to risks available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

Disclaimer

Advertising communication. The information, comments and analyses in this document are provided for information purposes only and should not be construed as an investment or tax advice, or as an investment recommendation from Rothschild & Co Asset Management. The information/opinions/data mentioned in this document considered legitimate and correct on the day of publication, in accordance with the economic and financial environment in place at that date, are subject to change at any time.

Although this document has been prepared with the greatest care from sources that Rothschild & Co Asset Management believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to information accuracy or completeness, which are indicative only and are subject to change without notice. Rothschild & Co Asset Management has not independently verified the information contained in this document and cannot be held responsible for any errors, omissions or interpretations of the information contained in this document. This analysis is only valid at the time of writing of this report.

Furthermore, given the subjective nature of certain analyses, we draw your attention to the fact that any information, projections, estimates, anticipations, assumptions and/or opinions are not necessarily put into practice by the management teams of Rothschild & Co Asset Management, or its affiliates, who act according to their own convictions. Certain forward-looking statements are prepared on the basis of certain assumptions, which are likely to differ either partially or totally from reality. Any hypothetical estimates are, by their nature, speculative and it is possible that some, if not all, of the assumptions relating to these hypothetical illustrations may not materialise or may differ significantly from current determinations.

R-co Thematic Real Estate is a sub-fund of the French Société d'Investissement à Capital Variable "R-Co", whose registered office is at 29, avenue de Messine - 75008 Paris, registered under number 844 443 390 RCS PARIS. The information does not presume the suitability of the UCI presented to the profile and experience of each individual investor. The information does not presume the suitability of the UCI presented to the profile and experience of each individual investor. Rothschild & Co Asset Management shall not be liable for any decision taken on the basis of or inspired by the information contained in this document. In case of doubt, and before making any investment decision, we recommend that you contact your financial or tax advisor. The Undertaking for Collective Investment (UCI) presented above is organised according to French law and regulated by the French financial markets authority (AMF). Any investment is always subject to risk. Before any investment, please imperatively read the key investor information document (KIID) and prospectus of the UCI carefully, especially its section relating to risks. Each investor must also ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV)/net inventory value (NIV) are available on our website: www.am.eu.rothschildandco.com.

The information presented is not intended to be disseminated and does not constitute in any way an invitation for US nationals or their agents. The units or shares of the UCI presented in this document are not and will not be registered in the United States pursuant to the U.S. Securities Act of 1933 as amended ("Securities Act 1933") or admitted under any law of the United States. These units or shares may neither be offered, sold in or transferred to the United States (including in its territories and possessions), nor directly or indirectly benefit to a "US Person" (within the meaning of Regulation S of the Securities Act of 1933) and equivalent persons (as referred to in the US "HIRE" Act of 18 March 2010 and in the FATCA provisions).

Figures provided relate to previous years. Past performance is not a reliable indicator of future performance and is not constant over time. The value of investments and the income derived from them may vary both upwards and downwards, and is not guaranteed. The value of investments and the income derived from them may vary both upwards and downwards, and is not guaranteed. It is therefore possible that you may not recover the amount originally invested. Exchange rates variation may increase or decrease the value of the investments and the resulting income when the reference currency of the UCI is different from the currency of your country of residence. UCIs whose investment policy is aimed more specifically at specialised markets or sectors (such as emerging markets) are generally more volatile than common and diversified allocation funds. For a volatile mutual fund, the fluctuations may be particularly large, and the value of the investment may therefore fall sharply. The performances presented do not take into account any fees and commissions received on the subscription and redemption of units or shares of the UCI herein. The portfolios, products or securities presented are subject to market fluctuations and no guarantee can be given as to their future development. The tax treatment depends on the individual situation of each investor and may be subject to change.

Rothschild & Co Asset Management, organized under the laws of France, registered with the Trade and Companies Register of Paris RCS Paris 824 540 173. A management company licensed by the Autorité des Marchés Financiers under N° GP 17000014, having its registered office 29, avenue de Messine, 75008 Paris, France.

No part of this document may be reproduced, in whole or in part, without the prior written permission of Rothschild & Co Asset Management, under pain of legal proceedings.

Über den Geschäftsbereich Asset Management von Rothschild & Co

Rothschild & Co Asset Management, eine Tochter der Rothschild & Co Gruppe, ist ein unabhängiger Asset Manager, der institutionellen und semi-institutionellen Investoren Investmentlösungen im UCITs Fondsmantel sowie in Spezialmandaten anbietet. Neben einem aktiv gemanagten High-Conviction Ansatz bieten wir unseren Kunden Zugang zu selektiv ausgewählten Investmentlösungen über unsere OpenArchitecture Plattform. Unser Hauptsitz liegt in Paris mit Büros in 10 weiteren europäischen Ländern. Rothschild & Co Asset Management verfügt über ca 200 Mitarbeiter und mehr als 50 Mrd. Euro verwaltetem Vermögen⁽¹⁾.

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

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

France

29, Avenue de Messine
75008 Paris
+33 1 40 74 40 74

Belgien – Niederlande – Luxemburg

Rue de la Régence 52
1000 Bruxelles
+32 2 627 77 30

Schweiz

Rothschild & Co Bank AG
Rue de la Corraterie 6
1204 Genève
+41 22 818 59 00

Italien

Passaggio Centrale 3
20 123 Milano
+39 02 7244 31

Deutschland – Österreich

Börsenstraße 2 - 4
Frankfurt am Main 60313
+49 69 299 8840

Spanien

Paseo de la Castellana 40 bis
28046 Madrid
+39 02 7244 31

