Rothschild & Co
Asset Management



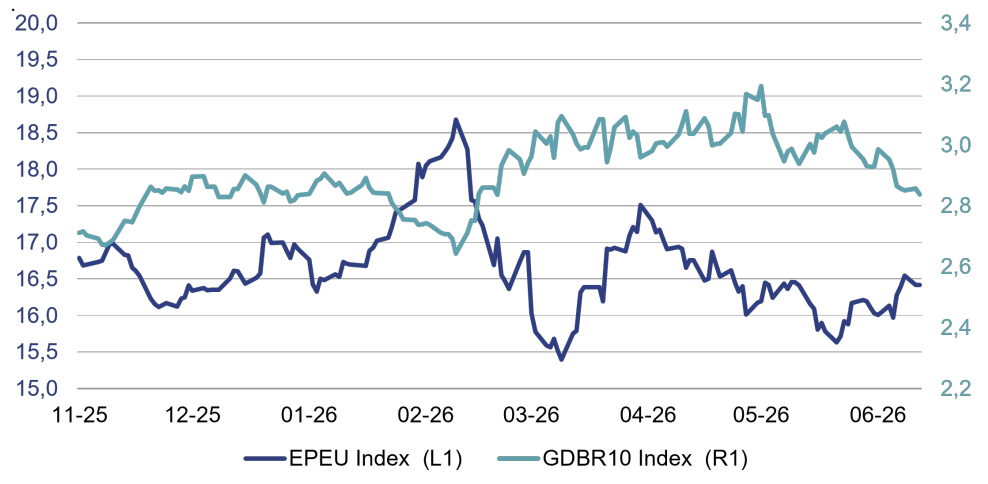
Listed property: a first semester highly “Interest-Rate-Dependent”



Paul Reuge
European Equities Portfolio Manager

The sector’s performance has, on average, remained closely linked to movements in interest rates. The first two months were thus driven by falling long-term rates, which particularly bolstered the performance of ‘long-duration’ assets such as residential property, before the trend reversed following the conflict in the Middle East.

A sector that remains highly sensitive to changes in interest rates

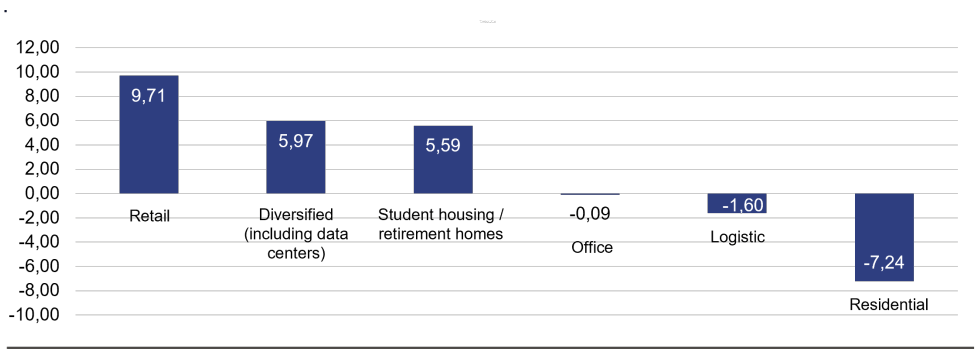


Source : Bloomberg, Rothschild & Co Asset Management, June 2026

The rise in the German 10-year bond yield of around 40 basis points between 27 February and the start of June (prior to the announcement of the memorandum of understanding) led to a stock market correction in the sector of just over 10%[1]. This corresponds to an adjustment of 2% to 3% in equity for a 10 basis point movement in long-term rates, a

reaction consistent with the average yield on property portfolios of 5.5% and the debt levels of property companies (EPRA LTV below 45%). By sector, the differences are significant, reflecting varying degrees of sensitivity depending on the level of rental yields. In this respect, retail properties have fared well, unlike residential properties, which continue to suffer from a limited risk premium.

Performance by sector since the beginning of the year

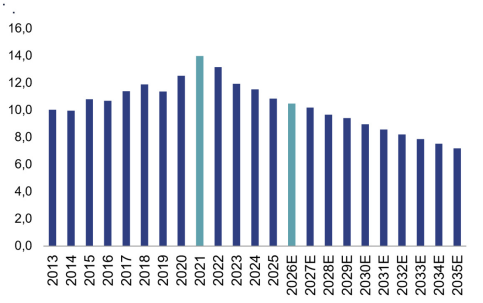


Source : Bloomberg, Rothschild & Co Asset Management June 2026

Since the interest rate shock of 2021, the balance sheet strength of the sector has improved, despite a fragile investment market and a 15% decline in the average value of assets[1].

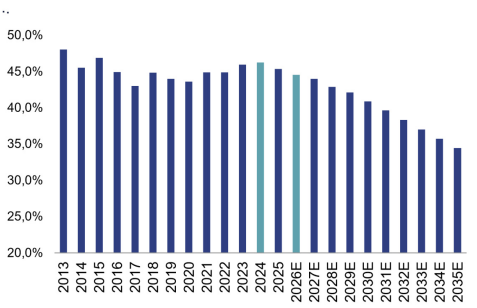
Property companies have thus managed to reduce their debt levels through major disposal programmes (Covivio, for example, has sold €2 billion's worth of assets since 2023, mainly office properties), enabling them to gradually reduce their LTV and net debt-to-EBITDA ratios from 15 to 10 times[1].

Net debt to EBITDA ratio



Sources : Jefferies, June 2026

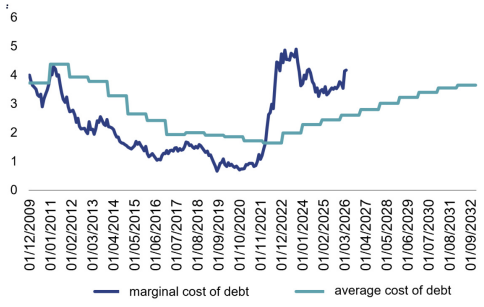
EPRA LTV



Sources : Jefferies, June 2026

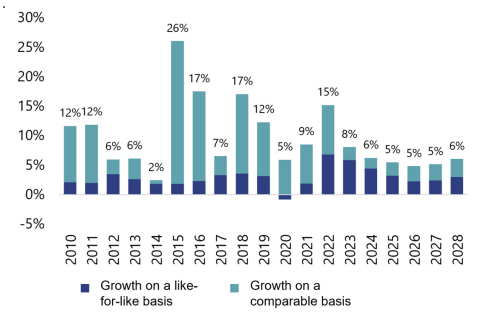
The average cost of debt has risen from 1.6% to 2.5%[1], capturing only part of the repricing in interest rates thanks to the sector's long debt maturities and extensive hedging. Even so, it remains around 100–150 basis points below the current marginal cost of debt[1]. As this gap narrows over time, higher financing costs are likely to absorb a significant portion of future like-for-like rental growth, barring a marked rise in inflation or a further easing of financing conditions. External growth will therefore remain a key driver of differentiation.

Average Cost of Debt and Marginal Cost



Sources : Jefferies, June 2026

Top line growth (market-cap weighted)



Sources : Jefferies, June 2026

Will the prospect of a resolution to the conflict in Iran enable property companies to regain the stock market momentum they enjoyed at the start of the year?

Assuming interest rates return to their pre-conflict levels, the sector would have significant upside potential in the short term. Failing that, a scenario of stable interest rates ('higher for longer') would be enough to ensure the continued gradual recovery of the property investment market. This represents a key milestone for both the valuation of REITs' property portfolios—whose asset values continue to be questioned by public market investors—and their ability to embark on a new growth cycle. Investment trends across asset classes are expected to persist, with investors increasingly concentrating on the assets offering the most attractive risk premium/growth profile. Against this backdrop, the portfolio evolved during the first half of the year along several strategic lines. First, we maintained a significant allocation to sectors less dependent on interest rates, such as retail, followed by an increase in diversification strategies (including data centres) by +4% and a similar increase in logistics. Residential property was slightly increased following the downturn after the outbreak of the conflict in the Middle East (+1.4%)[1]. Conversely, the office allocation was reduced by 6%[5] in response to a challenging market backdrop, shaped by both long-term headwinds—such as the rise of AI, hybrid working patterns and the broader economic environment—and near-term pressures, including increasing vacancy rates, even in central business districts. In addition, management teams have remained cautious in their capital allocation decisions, with share buyback programs either non-existent or insufficient. We are, however, maintaining an allocation to the best assets. At the same time, the healthcare sector has been reduced marginally and the self-storage sector by 1.5% due to the uncertainties weighing on the business[5]. As of the end of June, the portfolio maintained an attractive gross divided yield of 5.4% and an average discount to net assets of 26%[5].

Meer informatie over de fondsen

R-co Thematic Real Estate

Bekijk dit document op onze website

[1] Source: Bloomberg, 19 June 2026.
[2] Source: Covivio, June 2026.
[3] Loan-to-value ratio.
[4] Higher for longer.
[5] Source: Rothschild & Co Asset Management, 31 May 2026.

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Meer informatie op: www.am.eu.rothschildandco.com

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

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