



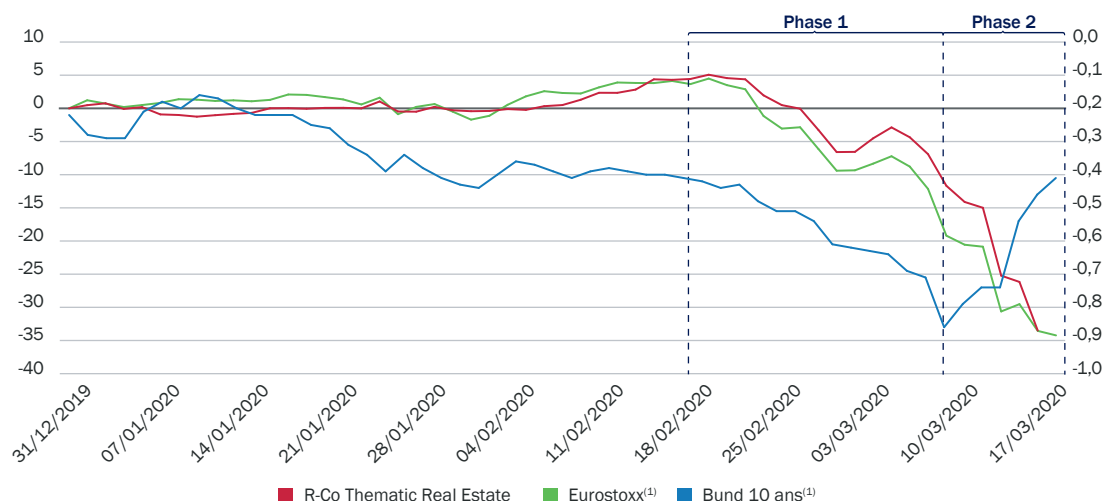
What are the consequences of COVID-19 on listed real estate's market?

After holding up well in the first phase of the market downturn, listed real estate seems to have been subject to “profit taking” in the second phase. This observation seems consistent insofar as investors end up seeking liquidity in the asset classes that have held up best. In addition, the massive stimulus plans announced by the different governments have raised concerns among debt holders about their impact on countries' financial equilibrium. In addition, the ECB's clumsy communication has raised doubts about its desire to avoid a widening of spreads (higher debt cost) for Eurozone members. The Bund's yield thus fell from -0.85% to -0.46% on March 16, which did not help the sector. We can probably expect a subsequent reaction from the ECB to correct the situation, as the rise of the cost of debt in the current context represents a danger for monetary union. *A fortiori*, this should bring back investors to real-estate stocks.



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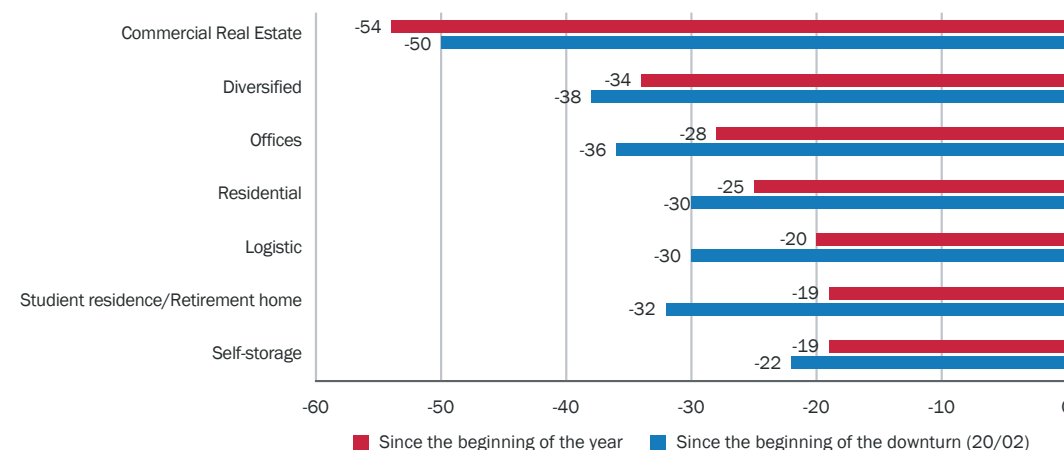
Performance of R-co Thematic Real Estate compared to the Eurostoxx and the 10-year Bund level



Source: Bloomberg, Rothschild & Co Asset Management Europe, 18/03/2020. (1) Comparison Index

As of 17th March 2020, and since the beginning of the year, the performance by sector is as follows:

Performance by asset classes



Source: Bloomberg, Rothschild & Co Asset Management Europe, 18/03/2020.

The result of this correction is a significant valuation gap for real estate assets between the listed and private markets, which could represent particularly attractive entry points over the long term:

	Yield		Deviation	Premium / Discount (%)	Dividend yield (%)
	in stock market	in real estate market			
Commercial real estate	7.3	4.6	2.6	-59	13.7
Office	4.8	3.9	0.9	-30	3.9
Logistic	4.5	4.4	0.1	-8	4.0
Self-storage	4.9	5.9	-1.0	13	3.5
Residential	3.8	3.3	0.4	-22	4.0
Diversified	5.4	4.1	1.3	-29	6.3

Source: Bloomberg, Rothschild & Co Asset Management Europe, 18/03/2020.

The case of commercial property is thus particularly interesting. The current implicit valuation of Unibail Rodamco Westfield's centres is 7.6%, compared with 4.6% in the latest appraisals. This corresponds to a 30% fall in asset value!

Can the current crisis justify such a valuation adjustment?

Not in terms of short-term rents, a total closure of the centres for 4 months for all countries in which the property is invested would only reduce the valuation by 2% (-4% on net assets) and over 6 months by 3% (-6% on net assets). In the longer term, it is difficult to assess the effects on the industry of a recessive shock and a probable acceleration in the change in consumer behaviour, as the containment measures will encourage e-commerce. However, the adjustment in valuations seems excessive to us. In addition, the current dividend yield for 2019 of 20% (10% on the next interim dividend to be paid on 23 March) offers an attractive carry and is in principle secured by the company's available cash of €9 billion.

Against this backdrop, we reduced our positions in certain German residential stocks (Deutsche wohnen and Vonovia, which held up well) to reweight two stocks from the commercial real estate sector.

Completed writing on 18 March 2020

	2020	2019	2018	2017	2016	2015	5 years	1 year volatility
R-co Thematic Real Estate	-6.59%	21.63%	-7.47%	18.86%	4.52%	15.35%	27.63%	11.88%
IEIF Eurozone Net TR	-5.49%	21.45%	-9.88%	16.55%	3.59%	16.43%	20.97%	12.88%

Source: Rothschild & Co Asset Management Europe, 28/02/2020

The figures quoted relate to previous years, past performance is not a reliable indicator of future results



Recommended investment period: 5 years

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