

Market Analysis



Word count:

CONTENTS

1.0 Executive Summary 2

2:0

10:0 References 17



Country Case:

Executive sumary



Country Case:

Fund aim/ strategy

Investment strategy

Risk measurement

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RUSSIA

KAZAKHSTAN

MONGOLIA

CHINA

IRAN

INDIA

VIETNAM

INDONESIA

AUSTRALIA

NEW ZEALAND

NORTH
PACIFIC
OCEAN

INDIAN
OCEAN

SOUTHERN OCEAN

Country Case:



Overview

Situated in the most southern part of Africa, South Africa has 1,739 miles of coastline, five neighboring countries; Namibia, Botswana, Zimbabwe, Mozambique and eSwatini as well as surrounding Lesotho, an enclaved country (worldatlas, 2019). South Africa has three capital cities: Cape Town; the legislative capital, Bloemfontein; the judicial capital and Pretoria; the administrative capital which is also often referred to as the main capital city (Rosenberg, 2019).

KEY FACTS

- 3 capital cities: Cape Town, Bloemfontein and Pretoria
- No restriction on foreigners owning property
- Population of 58,079,426
- Population density of 48 people per Km²
- Median age is 26.3 years old

(worldometers, 2019)



Overview



Project Brief

5,000 word guide

Due: September 1st

Portfolio already has:

- Class A offices
- Dominant shopping centres

Aim:

- Take on more risk through non-core locations and assets

Objective:

- Take advantage of emerging dynamic sectors
- Generate more income
- Invest this coming year

Task:

- Show how risk measured
- Show how opportunities are measured
- Give recommendations for:
 - Locations to invest in
 - Sectors to invest in

Outcomes:

Part A:

Countries

1. Pick two countries of my choice
2. Provide brief analysis of recent performance/ trends of prime assets (office/ retail) in core locations – this will be used to benchmark and compare for later analysis

Part B:

Identify investment opportunities in:

1. Non-prime assets in core locations
2. Prime assets in secondary locations
3. Alternative real estate investment sectors

Part C:

Analysis should consider:

1. Secondary assets (office and retail) in core locations
2. Good quality assets (office and retail) in two secondary cities for each country (4 assets in total)
3. Two from the list below of alternative real estate investment opportunities (these must be the same two for both countries):
 - **Leisure:**
(bars, restaurants, cinemas, theme parks, theatres, gyms, bowling alleys, spas and sport facilities)
 - **Hotels:**
(budget or luxury)
 - **Institutional grade residential**
(build to rent BTR and senior housing)
 - **Student accommodation**
 - **Healthcare**

Part D:

1. Interpret risk for the sector/ location
2. Interpret opportunities for the sector/ location
3. Analyse the fundamentals (**market drivers**) underlying the markers AND real estate types
4. Support analysis with price information
5. If analysis says it is not worth taking on the risk in the countries it is IMPORTANT to argue the case well and say why it is better to stick to core
6. Highlight sectors that have the potential to become mainstream investor sectors in the near future (client will appreciate non-conventional recommendations)

Assessment criteria:

- Evidence of research

- Evidence of understanding market fundamentals and assessment of opportunities and risks

- **Comparative analysis**
- **Clarity of argument**
- **use section summaries**
- **SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for comparing investment strategies**
- **tables etc.**
- **Convincing, well-developed professional recommendations**

Canada

South Africa

Seychelles

Saudi Arabia

- Chosen countries as variation in GDP world ranking according to (World Population Review, 2019)
 - Canada = 10
 - South Africa = 36
 - Saudi Arabia = 20

How to manage risk in real estate investment (Parsley, 2018)

- **Larger mega-themes (things not related to economic cycles)**
 - Student houses
 - PRS (private rental sector)
 - BTR (build to rent)
 - Micro living
 - Co-working concept
- Long term income
 - Hotels
 - Student accommodation
- Industrial sector has been improving over the past 12 months
 - Investors think they will see future rental growth
 - Yields have fallen
- Bulk good stores are still doing well such as lidl and aldi

- Key issues for managing risk:
 - Focus on centres where people:
 - Work
 - Play
 - Live
 - Learn
 - Capital preservation
 - Pre-let 25% to make sure there's income
 - Real time reporting to help preserve capital and maximise returns

Risk

- Value at Risk (VaR)
- Beta
- Standard deviation
- Systematic risk management
 - Associated with the market
 - Mitigated through hedging

Project

- Market analysis
 - Why invest in these countries
 - Ease of doing business.

Investment philosophy

- Diversification
 - Different continents
 - Investing globally can hedge against currency risks
 - Prospectively improve overall returns
 - One G7 country (Canada)
 - Saudi Arabia
 - Mongolia (14th fastest GDP growth)
 - Active management to improve investment outcomes

Country selection process

- Based on growth prospects
- Long term investments (held for at least 5 years)
- Diverse portfolio to minimise risk

http://cbre.vo.llnwd.net/grgservices/secure/2019%20CBRE%20POOC_Q9bx.pdf?e=1562945116&h=3e972b3d64247a3b2e51214eca4bffe0

selecting a country

- Could do china and pick hema saving retail
- Seoul
-

SAUDI ARABIA NOTES

(Majdalani, 2019)

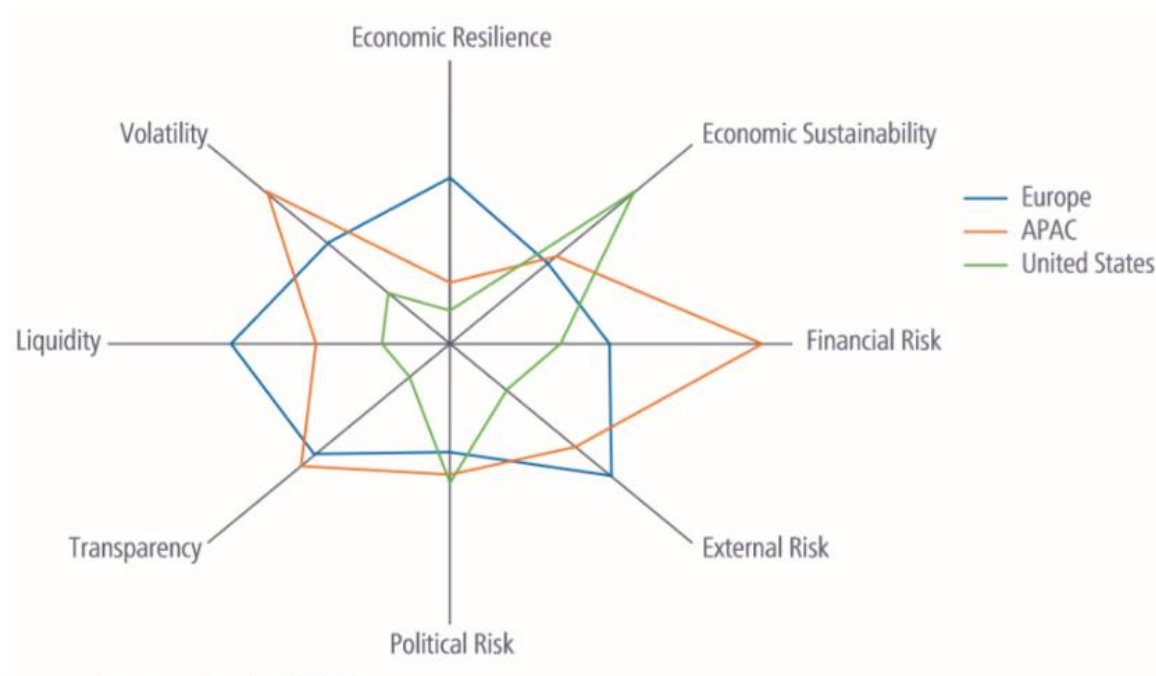
- GDP is set to continue rising
- Average growth of 2.2% GDP in the next five years
- Lack of high quality stock therefore key office schemes continue to out perform the market
- Hospitality market its forecasted to increase in popularity
- Rental trends have decreased

Reasons to invest globally

(Bhalsod, 2018)

- Benefits of going global:
 - Risk reduction
 - Return enhancement
- The 4 main benefits of adopting a global approach
 - Diversification of macro and property market risk
 - Improve risk-adjusted returns allowing targeting of an income return
 - Opportunity to target strategic timing of international property cycles
 - Access to a large and more diverse opportunity set
 - 1) look at what the portfolio already has and question if it has liquidity risks/ economic stability risk/ economic resilience/ economic stability/ financial risk/ external risk/ political risk/ transparency/ liquidity/ volatility

Figure 2: Average macro and property market risk across regions



Source: Aviva Investors April 2018

Concordance in Global office Market cycles

(Alexy Akimov, 2014)

- D'Arcy et al., 1997 shows the importance of economic fundamentals in determination of both retail and capital values
- **Conner & Liany (2005) shows** the average correlation between US stock market and foreign markets is 0.7. the average US GDP is only 0.19 ; therefore fund manager should diversify globally
- **Harding & Pagan (2006) the measure used BBQ method**

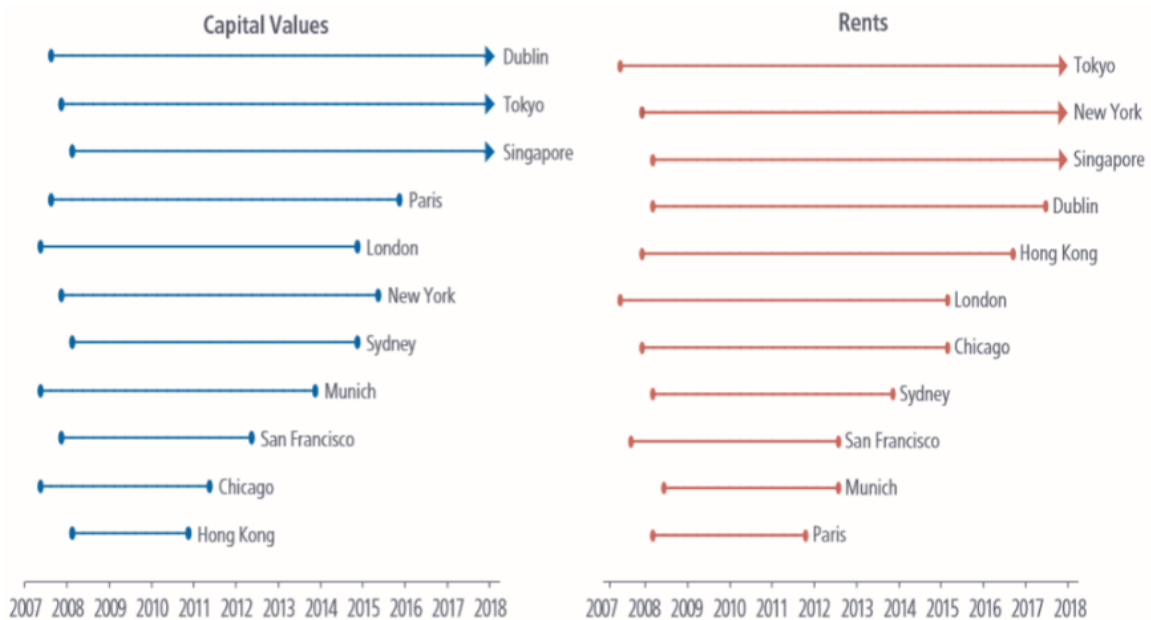
Country Case:

		EUROPE						ASIA PACIFIC				US
		France (4)	Germany (7)	UK (6)	Nordics (4)	Other Core Europe (7)	Peripheral Europe (8)	Australia (4)	Japan (3)	Other Developed Asia (3)	China (3)	United States (11)
EUROPE	France (4)	0.57										
	Germany (7)	0.42	0.62									
	UK (6)	0.15	0.03	0.54								
	Nordics (4)	0.38	0.17	0.31	0.51							
	Other Core Europe (7)	0.48	0.37	0.13	0.41	0.46						
	Peripheral Europe (8)	0.40	0.35	0.16	0.35	0.39	0.36					
ASIA PACIFIC	Australia (4)	0.32	0.08	0.18	0.56	0.37	0.31	0.49				
	Japan (3)	0.49	0.44	0.40	0.66	0.58	0.70	0.64	0.89			
	Other Developed Asia (3)	0.23	0.08	0.22	0.23	0.09	0.23	0.28	0.26	0.41		
	China (3)	0.36	0.14	0.04	0.23	0.08	0.08	0.19	-0.10	0.37	0.33	
US	United States (11)	0.38	0.14	0.21	0.54	0.32	0.36	0.51	0.58	0.25	0.25	0.63

Source: Aviva Investors, PMA April 2018

Country Case:

Figure 6: Time taken to return to nominal pre-GFC capital values and rents

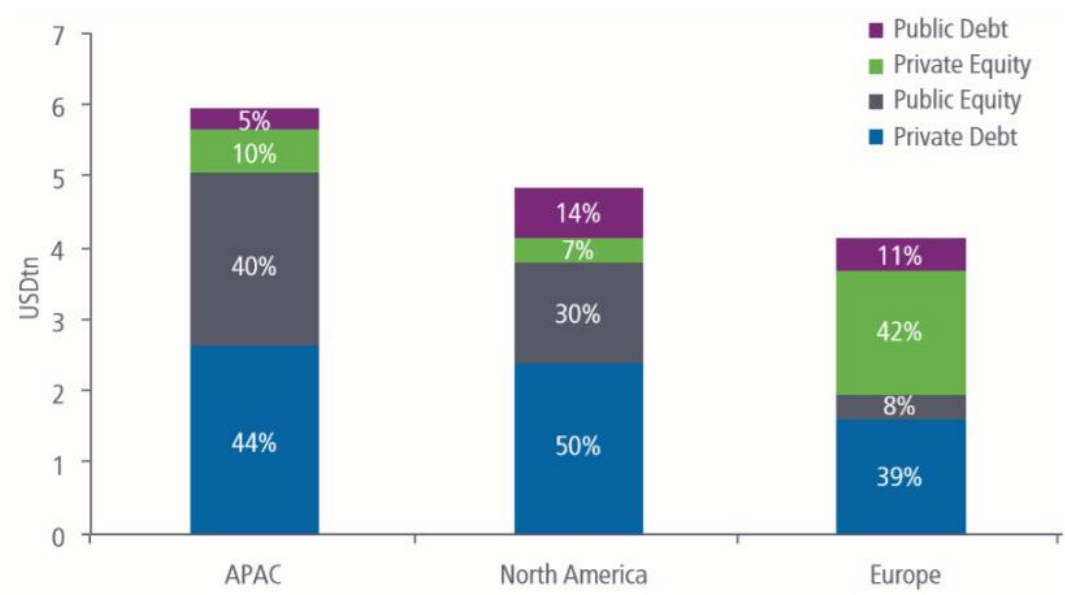


Source: Aviva Investors, PMA April 2018

- I think the aim is we want:
 - Two countries that show concordance
 - Diversified via continent
 - Different economic cycles
 - One developing world country as “it is expected that they will experience a much faster growth in investable stock that mature markets”
 - Look for the JLL transparency scores
 - Look to invest using different types of capital
 - Cyclical approach through active management
 - Four quadrant approach
 - Further diversification via
 - Size of building costs of buildings

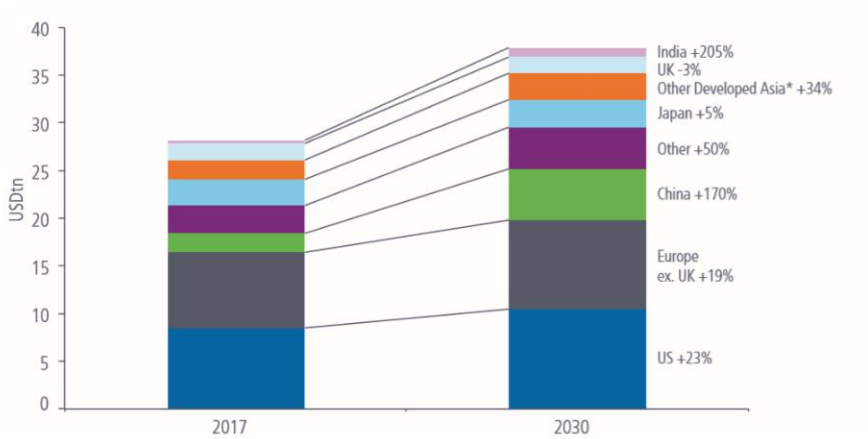
Country Case:

Figure 9: Value of invested commercial real estate by four quadrants, 2016



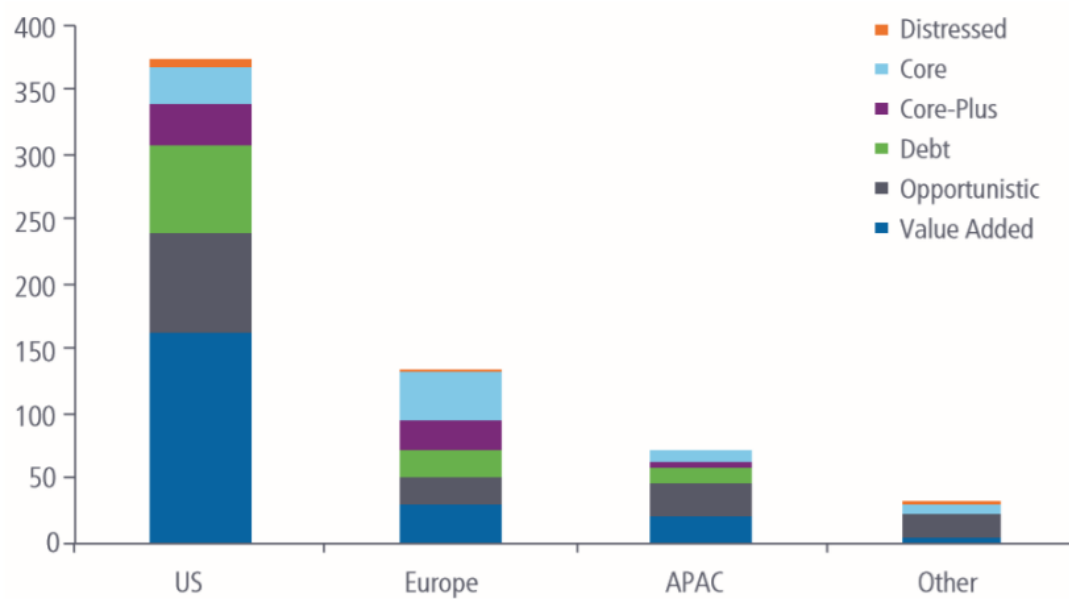
Source: Cushman & Wakefield, Money into Property April 2018

Figure 7: Commercial real estate investable market size estimates and growth, 2017- 30



Source: Aviva Investors. *South Korea, Taiwan, Hong Kong, Singapore, Australia, New Zealand April 2018

Figure 10: Number of private funds currently being raised based on primary strategy and geographic focus



Source: Preqin, March 2018

Improving real estate performance through global diversification

(Standard, 2019)

- Take advantage of mispricing in core, non-domestic markets
- Indirect for smaller firms
- Direct investment for bigger firms
- **Things to consider:**
 - **Taxes**
 - **Fees**
 - **Currency**
 - **Leverage**
 - **Risk**
- Currency hedging to avoid currency fluctuations
- Diversifying allows access to some sectors that are otherwise not allowed in certain countries as well as strategy opportunities
 - Student accommodation
 - Both $\wedge \vee$ have grown the most in recent years
 - Retirement homes

3. Diversification or Higher absolute returns

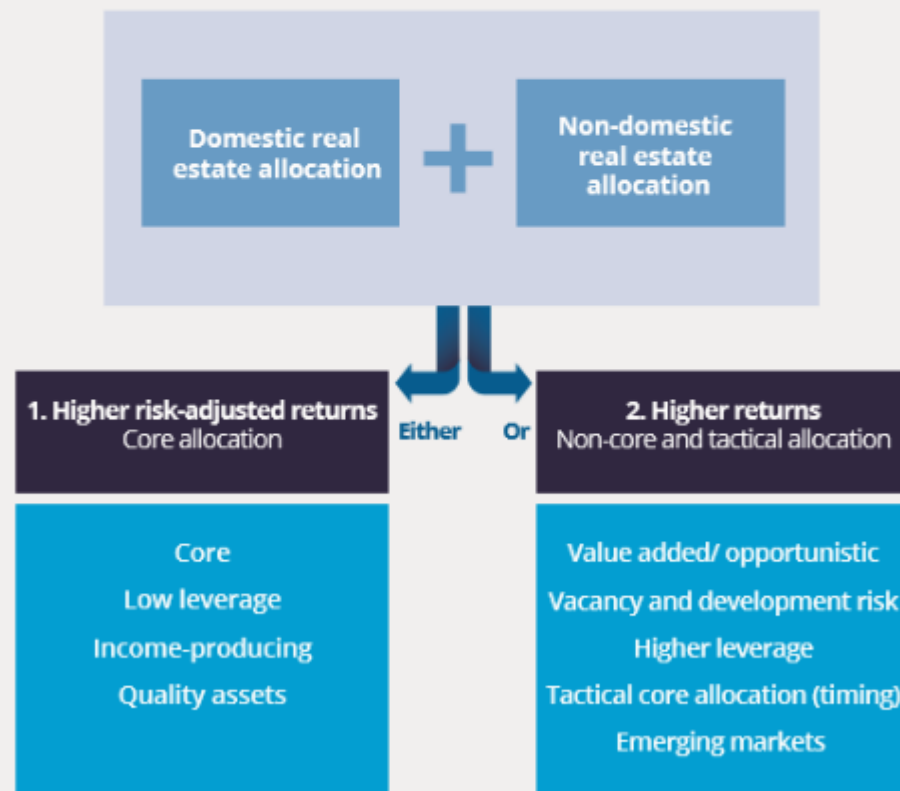
There are two separate return objectives for investors considering an investment outside their domestic market.

a. Diversification and higher risk-adjusted returns
(core-style allocation)

Or

b. High absolute returns (value add/development, leveraged)

Chart 2: Allocation – what are you looking for from real estate?



Source: Aberdeen Standard Investments, February 2019.

Table 1: The theoretical impact of adding non-domestic property to a domestic portfolio

Correlation = 0.6	Domestic %	Global %	Combined %
Return	6.0	6.0	6.0
Std Dev.	12.0	8.0	8.0
Return/risk	0.5	0.75	0.75
Weight in combined	7.0	93.0	100.0

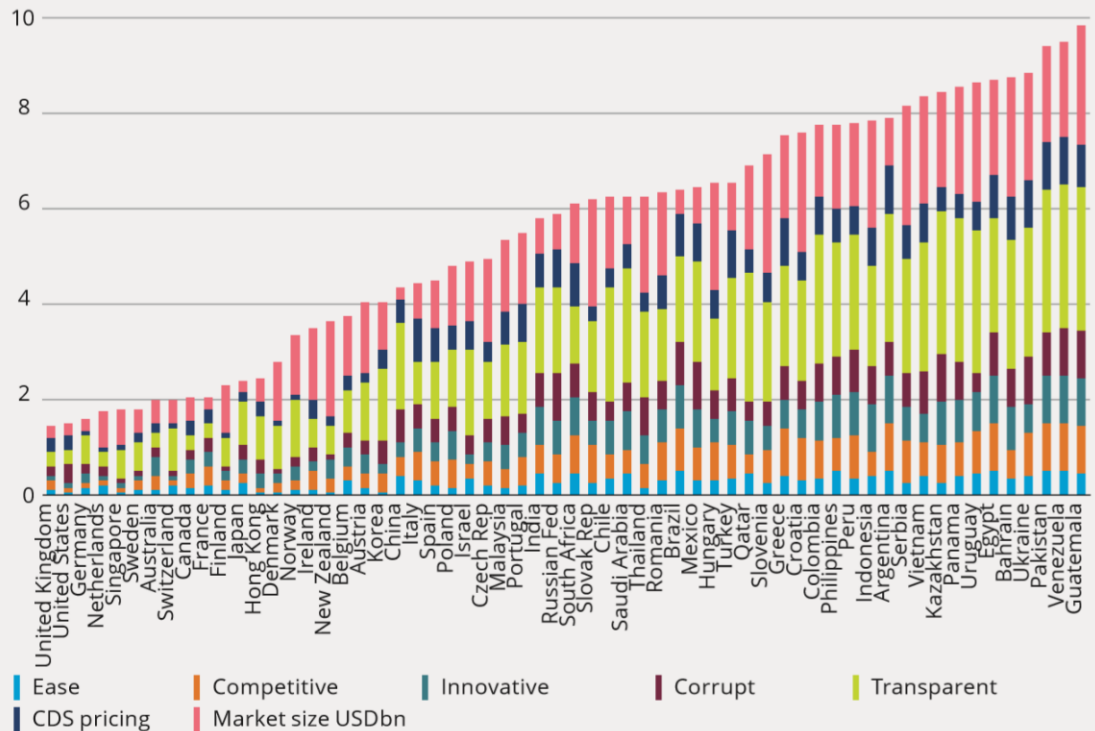
Source: Aberdeen Standard Investments, February 2019.

Assumptions	
Return	Annual return of MSCI Global Annual Property Index and the MSCI UK Annual Property Index
Std. Dev.	Forward looking view on market standard deviation. Domestic = weighted average of country assumptions
Correlation	Average correlation between UK and global real estate indices

-
- **Look for asset specific risks:**
 - Location
 - Sector
 - Tenant
 - Buildings
- Higher unequal lot sizes means higher number of assets to reduce the risk

Country Case:

Chart 8 GREIR (Global Real Estate Implementation Risk) Index



Source: Aberdeen Standard Investments, February 2019

- Look for REITs/ unlisted real estate funds and funds of funds
- <https://www.prsgroup.com/regional-political-risk-index-4/> Asian political risk source
 - Looking at different types of capital investment opportunities
 - Active management
 - Using a developing world country as “it is expected that they will experience a much faster growth in investable stock than mature markets”
 - Size of buildings
 - Use of buildings

Other things considered included

- Taxes

Country Case:

- Fees
- Currency
- Leverage

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SAUDI ARABIA

- Capital city is Riyadh
- Population of 34,151,537
- Population density of 16 per Km²
- Median age is 30.2 years
-
- (meters, 2019)

