

COULD RISING INTEREST RATES GIVE PROPERTY A LIFT?

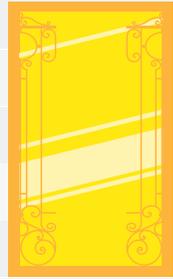
Todd Briddell, chief investment officer at CenterSquare, looks at the opportunities within direct real estate and the historic performance of real-estate securities in an environment of rising interest rates.



Although it may seem counterintuitive, rising interest rates could, in fact, be a boon for listed real-estate securities.

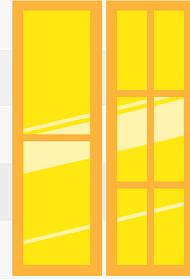
Todd Briddell
CHIEF INVESTMENT OFFICER,
CENTERSQUARE

Focusing exclusively on public, private, global and US real estate, CenterSquare's investment approach includes both a top-down market/country selection and a bottom-up underwriting of properties, companies and management teams.



FLIGHT TO QUALITY

In physical property, the recent financial crisis meant investors favoured 'core' assets in primary markets with secure cashflows.



LOW YIELDS, HIGH COSTS

This has built up capital values; but investors will pay a premium for stable yields. Consequently, 'core' is now expensive compared to other property assets.



RISK TO CAPITAL

As inflation and interest rates rise, owners of these 'core' properties can do little to increase their yield. Investors see the yield as too expensive, so this sector risks substantial capital losses.



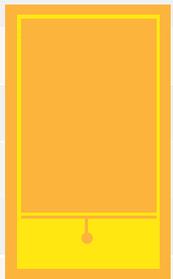
OPPORTUNITIES TO ADD VALUE

The alternative: purchase value-added properties which are overlooked and cheaper. These offer higher margins and better downside protection.



LOW RISK, HIGH VALUE

If you have the capital for redevelopment, value-added properties can be turned into core assets, with a reduced risk profile, which many investors will want to buy.



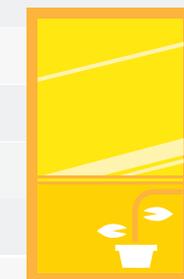
ASSET VALUES HEADING DOWN?

A spike in government bond yields will make debt financing more expensive – and put downward pressure on asset values.



INTEREST RATES & REITs

Rising interest rates can be good for listed property securities. Between 2004-2007 the US Fed funds rate rose 500 bps due to economic growth. REITs did well in absolute terms and outperformed the broader equity market.¹



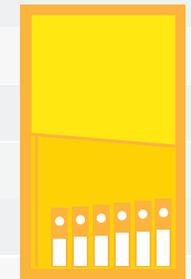
US REITs – HEADING UP?

Fed tapering and higher interest rates will be signs of economic recovery. Rental growth due to increased demand can often outweigh the effect of rising interest rates on real asset values. New growth in the economy could push US REITs higher, despite the traditional link between rates and performance.



TIME TO REFINANCE

If interest rates rise moderately, they will still be low by historical standards. This creates refinancing opportunities for REITs whose assets have seen significant income growth.



RELATIVELY BENIGN OUTLOOK

For 2014, CenterSquare expects low inflation and relatively low interest rates, modest growth and moderate yields. The best strategies are likely those that can generate both yield and total return.

1. Source: Bloomberg, July 2013.