SMAM Japan News Letter

13 June 2014

REIT Markets Rose Globally in May

Key points:

- May REIT markets rose globally thanks to attractive yields enhanced by declining government bond yields.
- Major currencies slightly weakened against the Japanese yen, except the Canadian dollar.
- We believe REIT markets to remain solid on the back of economic growths in the Asia region, possibly long-lasting low interest rate policies in the US and hopes for additional monetary stimuli in Europe.

Global REIT markets rose on lower government bond yields, etc.

REIT markets in May rose globally on a local currency basis as higher yields on REITs were preferred on the back of declining government bond yields everywhere. Meanwhile, forex markets saw major currencies other than Canadian dollars depreciated against the Japanese yen on lower interest rates in the US and Europe and reduced expectations for the Bank of Japan's additional quantitative easing. On a Japanese yen basis, REITs staged a second consecutive monthly gain in every region due to a nominal rise in each local market.

%MoM for Major Regions/Nations

	%MoM		%MoM
Global	+2.5%		
N. America	+1.8%	UK	+3.7%
US	+1.8%	Oceania	+0.1%
Canada	+1.9%	Australia	+0.1%
Europe	+5.3%	Asia	+5.3%
Belgium	+3.0%	Singapore	+4.6%
Netherlands	+5.5%	Japan	+5.1%
France	+6.3%	Hong Kong	+6.4%

Notes: %MoM of GPR Global High Income REIT Index
Source: GPR, SMAM

Reviews on each major market

The North American market rose 1.8% MoM, the European jumped +5.3% and the Oceanian gained +0.1%, all on a Japanese yen basis. The US and European markets attracted buyers as yields on 10-year government bonds declined. Especially, the latter showed a strong rally thanks to widened yield spreads between REITs and 10-year government bonds after the ECB signaled additional monetary easing. The Oceania's rise remained marginal, partly affected by Australia's announcement of austerity budgets for the new fiscal year starting from July.

The Asian market shot up 5.3% MoM as Hong Kong (+6.4%), Singapore (+4.6%) and Japan (+5.1%) all rallied strongly. Hong Kong's big jump was partly triggered by an announcement of an asset sale at 38% more than its book value by Link REIT whose market cap accounts for more than 50% of the whole local market. The Singapore market rose on largely strong financial results from REIT firms. In Japan, REITs were focused as bottoming-out of rents become more apparent thanks to consistently improved vacancy rates and hopes that central Tokyo property markets would be increasingly active due partly to a media report speculating a potential sale of a large building nearby the Tokyo Station. The Asia region as a whole appears to have attracted investors because of not only high yields but growth potentials of the markets. The region's markets soared 10.8% in the past 3 months, significantly outperforming +6.7% for the global market, namely with Hong Kong up 13.5% and Singapore rising 12.8% in the same period.

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Market outlook

We believe REIT markets will keep tracking firm uptrends in Asia due to stronger economic growths as well as in developed nations, both of which have been largely showing improved economic data. This is based on our views that yields on developed market government bonds will remain low in the near future as the ECB implemented additional measures including negative rates and signaled further accommodative actions and as the FRB's zero-interest policies appear to last longer than previously expected.

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