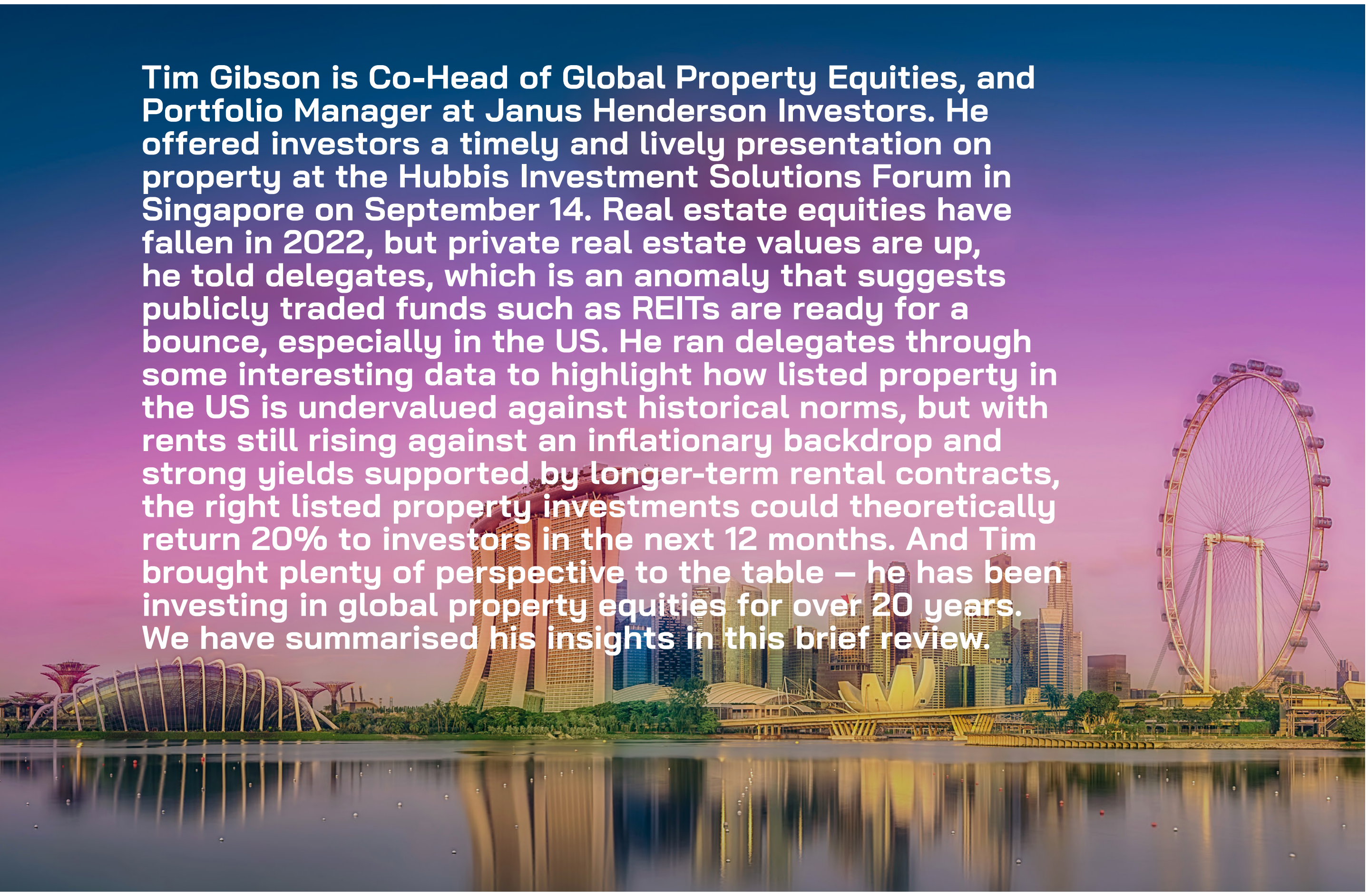
Janus Henderson's Tim Gibson on Opportunities to be Grasped in Listed Real Estate



Tim Gibson is Co-Head of Global Property Equities, and Portfolio Manager at Janus Henderson Investors. He offered investors a timely and lively presentation on property at the Hubbis Investment Solutions Forum in Singapore on September 14. Real estate equities have fallen in 2022, but private real estate values are up, he told delegates, which is an anomaly that suggests publicly traded funds such as REITs are ready for a bounce, especially in the US. He ran delegates through some interesting data to highlight how listed property in the US is undervalued against historical norms, but with rents still rising against an inflationary backdrop and strong yields supported by longer-term rental contracts, the right listed property investments could theoretically return 20% to investors in the next 12 months. And Tim brought plenty of perspective to the table – he has been investing in global property equities for over 20 years. We have summarised his insights in this brief review.

GET IN TOUCH

[View this presentation On Demand]

[View Tim Gibson's LinkedIn Profile]

[Find out more about Janus Henderson Investors]

Tim Gibson
Janus Henderson Investors

"It's been a dreadful year for everything," he began. "Global property equities have not been spared either." But he explained that the property market exposures as expressed in the FTSE EPRA Nareit Developed TR Index had returned close to 8% per annum since 2002, and that Janus Henderson's approach had outperformed some 80% of the time since 2009.

He said the goal for him and the property investment team of nine in London and Chicago covering holdings of around USD4 billion in total is to deliver consistent and repeatable performance for clients.

He zoomed in on the opportunity, noting that there is today one of the largest disconnects between public and private real estate markets ever seen. He explained that REITs in the US market, which counts for as much as 70% of their own allocations currently, were down about 16% this year, but direct and private property market funds were up about 12% in the US, meaning a close to 30% performance differential for what is essentially the same asset class.

"I would actually argue that REITs have better assets, better management teams and a better structure, so when you look at this 30% performance differential, something is wrong," he stated. "And the answer is actually pretty simple. Direct and private property funds are backward looking, whereas REITs and listed property in general are forward looking, expressing what they think will happen into the future. And that," he said, "opens up the opportunity for arbitrage that exists today."

And he added that it is not only simple to understand, but also simple to act upon. "You can easily shift money from private real estate into public real estate," he stated. "As simple as that by selling private and buying listed property market funds."

Tim also noted that while private funds appear to be less volatile, in reality they are far less liquid and therefore merely appear less volatile. "We consider that judging by historical performance, if you invest in listed real estate trading at discounts like today – around 15% below gross asset values on average across all segments - then you could outperform private real estate by 10% per annum over the next three years. In short, it is an opportunity to make very compelling returns by switching at this point in time."

He offered delegates some further insight into these discounts to gross asset values, reporting that they range from minus 30% for the office sector to very much smaller discounts for Industrial.

He said the key to assessing the relevance of these numbers was to see these discounts relative to historical norms, noting that properties for growth sectors such as life sciences, data management and others had almost never traded at these magnitudes of discounts. "There is a disconnect that represents an opportunity," he said.

Tim then stated that there are the three key elements of return - the dividend yield, the earnings growth and the potential repricing of the multiples. He said that based on those three elements, investors over the next 12 months are more likely to make money in listed property than to lose money.

He reported that Janus Henderson expects about 8% earnings growth for their market over the next year, and a dividend yield of between 3% and 4% and a lower discount to asset values. "Combining these elements," he said, "you get to the roughly 20% return that we expect over the next 12 months. In short, there's money to be made from an absolute return perspective."

And he concluded the talk by also pointing to monthly rent increases of 0.9% in the latest data set. "If you're concerned about inflation, invest in it, and one of the best ways to do that is actually in real estate." And all that, he concluded, adds up to a set of compelling and very real reasons to revisit publicly listed property exposures in private client portfolios. ■

"The answer is actually pretty simple. Direct and private property funds are backward looking, whereas REITs and listed property in general are forward looking, expressing what they think will happen into the future. And that," he said, "opens up the opportunity for arbitrage that exists today."