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The changing landscape of global REITs



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The new economy

Real estate is a reflection of the economy, how people occupy the space and what kind of space they need. Anticipating those changes and being at the forefront of the change is key in this fast-moving world.

Increasing digitisation and social connectivity impact all aspects of business, society and the economy. They are fundamentally reshaping business models, changing how products are designed, produced and distributed. This in turn affects the way companies communicate with and provide services to their customers. More data needs to be transmitted, stored and analysed.

This transformation of all traditional industries creates a snowball effect on real estate. It affects how and where employees work, shop and live. Office and workplace requirements are shifting towards collaboration and connectivity. Physical retail is being refocused towards brand interaction and consumer experience. These global trends challenge the traditional definition of real estate, change its function and create new types of real estate.

The face of change

While traditional real estate is embracing those trends and adapting as the business models of its tenants evolve, new types of real estate are becoming an integral and critical part of this transformation.

Omni-channel retailing is transforming retail and logistics real estate

With customers shopping 'anytime, anywhere', the role of the retail store is fundamentally changing. The store is becoming a focal point of brand building and face-to-face customer interaction, rather than just a distribution point. At the same time, retailers' focus on improving logistics and fulfilment strategies is transforming industrial and logistics real estate. In addition, the direct 'brand-to-consumer' channel is becoming increasingly important in enabling manufacturers to market and sell products directly to consumers.

Demographic shifts are altering the types of accommodation people live in

Renting is increasingly becoming a favoured lifestyle choice. Millennials, also known as Generation Y or Gen Y, value flexibility. Many equity-rich 'empty nesters' whose children have grown up and left home are also looking for a vibrant urban environment and a sense of community. The market is responding to this demand. Over the last several years, single-family rentals have emerged as a new REIT sector in the US. Purpose-built, single-family homes for rent appeal to younger families who want more space but still value the flexibility of renting. A number of healthcare REITs offer senior serviced residences, bringing amenities-rich rental housing to an older generation of renters.

“Increasing digitisation and social connectivity impact all aspects of business, society and the economy.”

Rapid digitisation creates exponentially more data, transforming the data storage and cell towers sectors

Companies, governments and consumers are handling and consuming more data than ever before. Cloud storage and the rise of 'Big Data' and AI (artificial intelligence) for decision-making require a robust infrastructure for data storage, processing and transmission. Data users require reliable real estate solutions with network connections and technical redundancies. The real estate focus is shifting towards creating connected campuses that combine all the critical data centre, network and cloud connectivity elements in a single, secure environment.

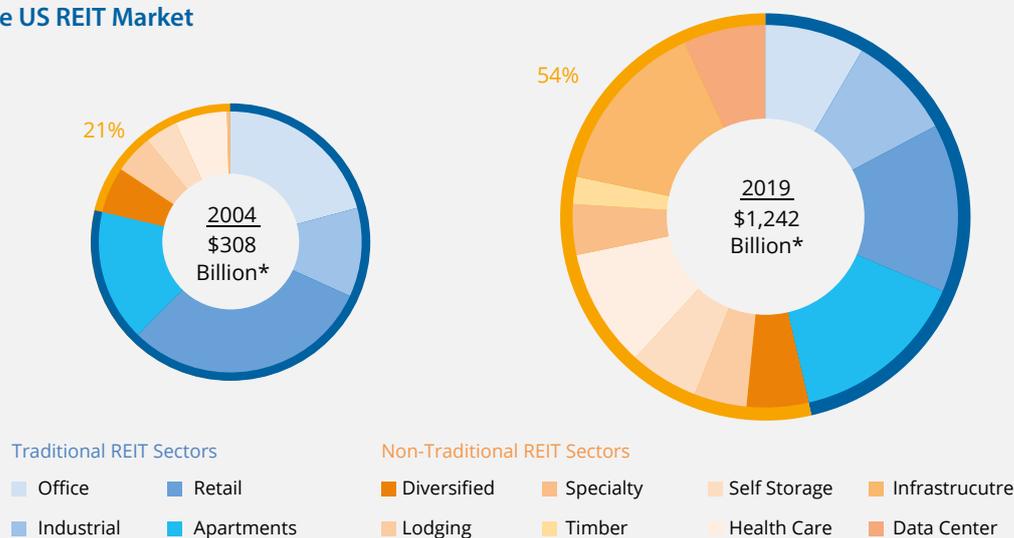
Technology and device evolution lead to the development of advanced applications that, in turn, require higher data consumption. Mobile data traffic is projected to continue growing exponentially as a result of the continuing global 4G network buildout, and 5G rollout in the future. Wireless carriers continue to invest in tower equipment and technology, driving secular demand for towers.

New sectors – new opportunities

There have been significant sector changes within real estate and the REIT industry over the last several years which have important implications for investors. Traditional core sectors have seen their share of the REIT index declining, while new sectors, especially data centres and towers, have become an important part of the investment opportunity set (see Chart 1). Digitisation, social connectivity and demographic changes will continue to be the main forces shaping REIT investment opportunities in the medium to long term.

These structural forces are already driving divergent performance among real estate sectors (see Chart 2). The new, growing sectors have outperformed traditional, 'bread-and-butter' real estate over the course of the full economic cycle and they continue to garner investors' favour. Stronger earnings growth also goes hand-in-hand with the ability of non-traditional sectors to grow dividends. We expect some of these sectors to continue delivering higher long-term growth than many traditional property types, allowing real estate investors to benefit from the secular growth trends in the economy.

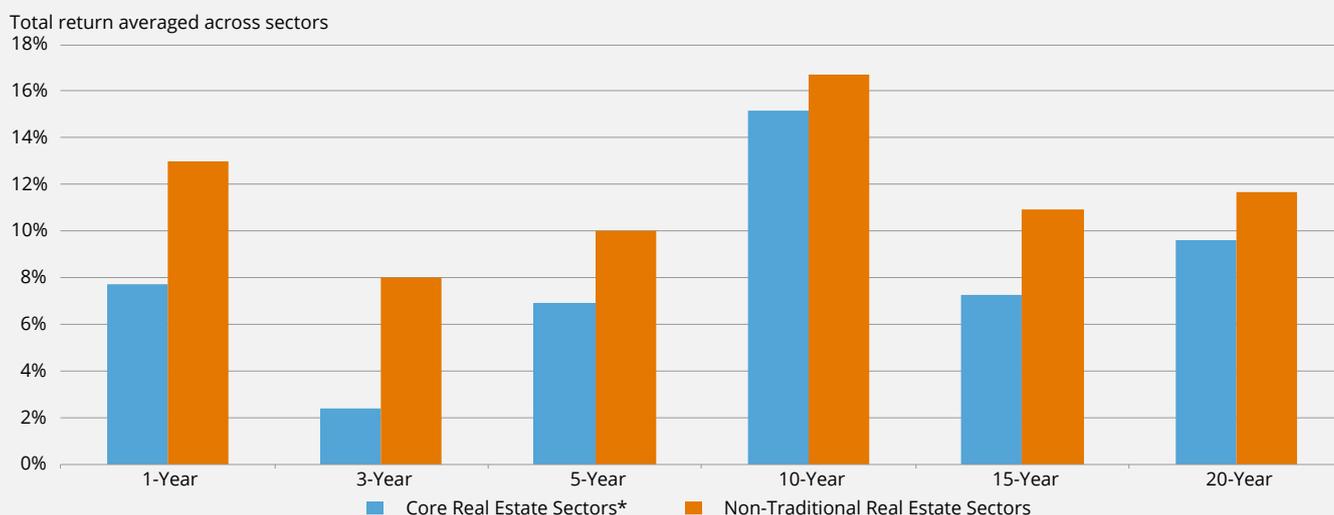
Chart 1
Evolution of the US REIT Market



*market cap

Source: NAREIT, Aberdeen Standard Investments (as of 30th June 2019)

Chart 2
Different can often be better



*Core Real Estate Sectors: Office, Industrial, Retail and Apartments

Source: NAREIT, Aberdeen Standard Investments (as of 30th June 2019)

Important information

Investors should be aware that past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested. We recommend that you seek financial advice prior to making an investment decision.

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