

Mortgages and Real Estate: Is trouble brewing?

DIGITAL ENGAGEMENT TEAM

02 JULY 2023

TRADING MATTERS SERIES: NEWS FOCUS

The summary and impact of a major news event

What caused housing prices to shoot up last year?

A lack of affordable housing is developing into a global housing crisis. Data from IMF reveals that the cost of housing has grown faster than incomes.¹ The higher costs and lower profit margins for builders also reduces incentive to build more homes.^{1,4} In recent years, COVID-19 worsened the housing crisis, as buyers and renters looked for more space during lockdowns. Historically low-interest rates and cheap borrowing, along with government stimulus, have exacerbated the problem.^{1,2}

Why are warning signs flashing now?

Across the globe, housing markets have started to slump from their dizzying heights,² leaving a world economy already dealing with raging inflation problem a new threat to deal with. Global central banks have raised interest rates a record 80 times in the first half of 2022 alone to deal with inflationary pressures,⁷ causing borrowing costs to soar.²



This has caused the once-hot residential property markets to suddenly turn cold, sharply reversing years of surging prices before.² Beyond housing, office property has also struggled from the double whammy of higher rates and lasting effects of the pandemic.³ Bloomberg's index of US office property REITs is lower now than it was 20 years ago, and almost back to the March 2020 pandemic lows.³ Should the property pain continue, ripple effects could deepen an economic slump and cause further damage,¹ especially when leveraged investments come into play.²

Despite divergent monetary policy in China,⁸ a property slump there has also been in the spotlight for some time now. A heavy deleveraging campaign last year in an effort to tame bubbly prices and reduce financial risks is to blame.^{9,10} But now that share prices have been hammered and businesses of major developers hurt, the Chinese authorities are tweaking some rules to try to stabilize the situation.¹⁰ Initiatives have been unleashed to support the ailing sector, from offering home purchase vouchers¹¹ to calling on the banks to support the industry.¹² Yet with real estate and its related sectors accounting for almost a quarter of GDP,¹⁰ the fear is of a big drag on growth this year should the slump continue.⁹

The cycle of higher housing prices



The cycle of higher housing prices

- As central banks around the globe rapidly increase interest rates, borrowing costs start to rise.²
- A growing number of consumers are getting priced out of home ownership. Instead of buying, more of them feel financially compelled to rent, which drives up prices even more.⁴
- Higher rents will make it harder for key inflation metrics to start dropping, as shelter accounts for more than 30% of the CPI.⁴ It also hits inflation expectations,⁴ making inflation even harder to bring down.^{5,6}

United States

Below are some of the largest companies based on Market Cap in the property industry listed in the United States



American Tower Corp [AMT US]

- American Tower's CoreSite unit expands into Atlanta and Orlando, Florida Data Center Markets [08 Jun 2022, MT Newswire]
- American Tower prices US\$2.08B common stock offering [03 Jun 2022, MT Newswire]
- American Tower 2022 Q1 Adjusted Funds From Operations, Revenue Rise [27 Apr 2022, MT Newswire]

Market Cap [USD]	121.81 Billion
Current Price	261.65
Analysts' 12M Target Price	287.47
Upside/Downside from Analyst Consensus [%]	9.87%
Indicated Yield	2.19%



Prologis Inc [PLD US]

- Prologis commits to net zero emissions by 2040 [22 Jun 2022, Dow Jones]
- Global real estate market to reach USD4,630B by 2028 due to lower interest rate, rapid urbanization, and growing population [21 Jun 2022, Yahoo Finance]
- Prologis agrees US\$26B merger with Duke Realty [14 Jun 2022, Reuters]

Market Cap [USD]	90.69 Billion
Current Price	122.59
Analysts' 12M Target Price	169.13
Upside/Downside from Analyst Consensus [%]	37.96%
Indicated Yield	2.58%



Crown Castle International Corp [CCI US]

- Total revenue for the quarter ended 31 Mar 2022 was \$1.74B, up from \$1.48B a year earlier [21 Apr 2022, MT Newswire]
- Crown Castle International said it closed a public offering of US\$750M of 2.9% senior notes due 2027 [05 Mar 2022, MT Newswire]

Market Cap [USD]	75.78 Billion
Current Price	174.99
Analysts' 12M Target Price	196.33
Upside/Downside from Analyst Consensus [%]	12.20%
Indicated Yield	3.36%



Equinix Inc [EQIX US]

- Equinix buys four data centers in Chile [09 May 2022, MT Newswire]
- Sustainability efforts at Equinix And SoftIron [03 May 2022, MarketWatch]
- Equinix enters African market with US\$320M acquisition of MainOne [05 Apr 2022, MT Newswire]

Market Cap [USD]	62.73 Billion
Current Price	689.17
Analysts' 12M Target Price	811.13
Upside/Downside from Analyst Consensus [%]	17.70%
Indicated Yield	1.80%

Hong Kong

Below are some of the largest companies based on Market Cap in the property industry listed in Hong Kong

Sun Hung Kai Properties [16 HK]

- SHKP sells about 90% of last units at Silicon Hill's phase one amid strong buying interest [24 Jun 2022, SCMP]
- Sun Hung Kai plans to build 9,940 flats at Yuen Long's Tam Mei wetlands in one of Hong Kong's biggest mass housing projects [06 May 2022, SCMP]
- Declines in Hong Kong private home prices slowed in Mar 2022 as a COVID wave in the city stabilised and the government foreshadowed an easing of social restrictions [27 Apr 2022, Reuters]

Market Cap [USD]	34.31 Billion
Current Price	92.90
Analysts' 12M Target Price	117.03
Upside/Downside from Analyst Consensus [%]	25.97%
Indicated Yield	5.33%

China Overseas Land & Investment [688 HK]

- Chinese developers rally after PBOC holds lending rates steady [20 Jun 2022, MarketWatch]
- Chinese state-owned property firms are expected to acquire more assets from cash-strapped private developers, as Beijing steps up efforts to stabilise and tighten control over a crisis-hit sector that accounts for a quarter of its economy [25 Jan 2022, Reuters]

Market Cap [USD]	33.34 Billion
Current Price	23.90
Analysts' 12M Target Price	30.11
Upside/Downside from Analyst Consensus [%]	25.97%
Indicated Yield	5.06%

China Resources Land [1109 HK]

- China Resources Land's contracted property sales fell 19% to 20.3 billion yuan in May 2022 from a year earlier [14 Jun 2022, MT Newswires]
- China developers speed up diversification after debt-led growth fuels crisis [19 Apr 2022, Reuters]
- China Resources Land has secured a 23B yuan loan from China Merchants Bank to fund mergers and acquisitions [27 Jan 2022, MT Newswires]

Market Cap [USD]	32.40 Billion
Current Price	35.65
Analysts' 12M Target Price	47.20
Upside/Downside from Analyst Consensus [%]	32.40%
Indicated Yield	4.75%

CK Asset Holdings [1113 HK]

- CK Asset surges most in 10 months on strong results [18 Mar 2022, Reuters]
- CK Asset sells London office block to South Korean pension fund for US\$1.6B [11 Mar 2022, SCMP]

Market Cap [USD]	25.89 Billion
Current Price	55.75
Analysts' 12M Target Price	61.84
Upside/Downside from Analyst Consensus [%]	10.93%
Indicated Yield	3.95%

Singapore

Below are some of the largest companies based on Market Cap in the property industry listed in Singapore

CapitaLand Integrated Comm Trust [CICT SP]

- CICT completed the acquisition of a 50% interest in an integrated development in Sydney, Australia [22 Jun 2022, MT Newswires]
- CICT issued 1,922,490 units at an issue price of SG\$2.2939 each to its manager [19 May 2022, MT Newswires]
- CICT completed the acquisition of 79 Robinson Road, a 29-story Grade A office building in Singapore, from CapitaLand Investment and its partners [28 Apr 2022, MT Newswires]

Market Cap [USD]	10.48 Billion
Current Price	2.19
Analysts' 12M Target Price	2.46
Upside/Downside from Analyst Consensus [%]	12.42%
Indicated Yield	0.34%

Ascendas REIT [AREIT SP]

- Singapore landlords don't fear the global economy. Ascendas REIT has spent just S\$133M so far in 2022 on logistics assets in Chicago, compared with the S\$1.65B it spent on M&A abroad in 2021 [01 Jun 2022, Bloomberg]
- Ascendas REIT's portfolio occupancy climbs to 92.6% in Q1 2022 [MT Newswires]
- Ascendas Reit posts 4.6% rental reversion in 2022 Q1, expects positive low single-digit figure for full year [04 May 2022, The Business Times]

Market Cap [USD]	8.64 Billion
Current Price	2.85
Analysts' 12M Target Price	3.22
Upside/Downside from Analyst Consensus [%]	12.95%
Indicated Yield	5.33%

Mapletree Logistics Trust [MLT SP]

- MLT posts 5% rise in 2022 Q4 distribution per unit to S\$0.02268 [28 Apr 2022, The Business Times]
- MLT completed the acquisition of Baeksa Logistics Centre in Incheon City in South Korea [11 Apr 2022, MT Newswires]
- MLT completes acquisition of remaining China logistics asset in US\$653M deal [04 Apr 2022, MT Newswires]

Market Cap [USD]	5.91 Billion
Current Price	1.71
Analysts' 12M Target Price	1.98
Upside/Downside from Analyst Consensus [%]	15.79%
Indicated Yield	5.31%

City Developments Ltd [CIT SP]

- City Developments' home sales plummeted 41% year-on-year in the 2022 Q1, mainly due to the cooling measures introduced in Dec 2021 that negatively affected the market sentiment [24 May 2022, MT Newswires]
- City Developments to realize significant gains from Tanglin Shopping Centre sale [30 Mar 2022, MT Newswires]

Market Cap [USD]	5.37 Billion
Current Price	8.20
Analysts' 12M Target Price	9.30
Upside/Downside from Analyst Consensus [%]	13.35%
Indicated Yield	0.98%

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