Standard Life

Update

Standard Life Global Real Estate Fund

November 2020

Fund suspension lifted on 16 November 2020

The suspension on the Standard Life Global Real Estate Fund was lifted on Monday 16 November 2020. This suspension was introduced due to Aberdeen Standard Investments being unable to obtain accurate valuations for the direct properties they hold in this fund. This was due to the significant global market uncertainty caused by COVID-19.

As more certainty has returned to the global property market and property valuations, the suspension has been lifted and customers can now resume dealing in this fund.

Below is an update on the fund and an overview of the global property market from the fund manager, Aberdeen Standard Investments (ASI).

Fund update

As would be expected the pandemic has impacted different sectors to differing degrees. The Fund's industrial assets have been most resilient both in terms of performance and rent collection. The operations at all four of the Fund's industrial assets continued throughout the pandemic.

The office assets have been impacted to differing degrees with some jurisdictions being relatively unscathed throughout the pandemic such as Jersey and Singapore whilst others such as Melbourne have been subjected to a prolonged period of strict lockdown. In a small number of instances we have agreed to defer rent until later in the year or have allowed tenants to pay monthly rather than quarterly in advance.

The Fund's relatively low retail weighting, which is derived through holdings in the Czech Republic and Poland, has been the source of the majority of rent concessions that have been granted to date. However positively these assets remain close to 100% leased, we have not had any tenant insolvencies to date and footfall post lockdown has been highly encouraging.

To date the Fund has collected around 88% of rent due in the second quarter and about 92% for the third quarter.

On the listed side over the last 6 months we have increased exposure to the industrial, residential and infrastructure sectors (initiating positions in industrial companies, ESR Cayman & Segro; SBE Communications a telecommunication infrastructure company and the following residential holdings, American Homes 4 Rent, LEG and TAG). We have reduced exposure to the office and retail sectors (selling out of shopping centre companies Klepierre and Simon Property and office names Boston Properties, Orix & Tokyu Fudosan)

Global property market overview

North America

Industrial and residential sectors should continue to offer stability relative to other parts of the market.

Industrial remains the most resilient sector with the strongest demand for assets. Investors are expected to continue to increase their industrial exposure, which will support further pricing gains. **Apartment** fundamentals remain stable for suburban assets but urban core properties could come under pricing pressure. Investors view the sector as a safe haven however, which should limit the impact on values. **Retail** performance is expected to continue to suffer the most while concerns remain around the outlook for parts of the office sector. Retail returns are expected to be more stable for providers of essential goods such as convenience and grocery-led stores. **Office** sector fundamentals are beginning to deteriorate, particularly for Central Business District assets, where flexible working remains a long-term risk for the sector. Data centres are expected to benefit from strong returns, as demand drivers are robust and yields remain relatively attractive.

Continental Europe

The true condition of the occupier markets continues to be tricky to read across Europe. ASI has observed an increased vacancy rate across certain markets over the past couple of quarters, although workers on furlough have gradually decreased as economies have started to recover. However, the number of new infections is rising, which could lead to extended social distancing measures and potential lockdowns (not necessarily nationwide, but parts of the market). The latest available data shows that office take-up across the major cities of Europe fell another 17% over the second quarter, and is approximately 37% lower compared with the same period in 2019.

Office demand will continue to be subdued over the short term. But with relatively low availability going into the crisis and new stock entering the market over the short- to medium term, ASI believe that vacancy rates will remain at acceptable levels. Some valuation uncertainty clauses still remain in place in Europe. They have, however, gradually been lifted for most markets and segments where comparable evidence has been more prevalent. Valuation methodology is assumed to revert to normal by the end of the year, on the basis that broad lockdowns do not return.

Asia-Pacific

The debate over the future of **offices** continues. On one hand, there are numerous surveys that have shown most employees expect to spend more time working remotely, even after the pandemic. However, there are other surveys that suggest many employers expect their employees to be back working in the office for most days of the week post-crisis.

Still, other surveys find that employees are starting to miss the office because of the social aspect. ASI believes city-specific characteristics will likely play an important role in determining the future of offices. Workers in Tokyo and Seoul, for instance, are finding it hard to work from home, even as more companies have adopted remote working. This has resulted in a surge in users of workstation booths in Tokyo's subway stations and demand for single-day passes at co-working spaces in Seoul. The ASI forecast for the average prime grade A office rent in this region is therefore little changed from the view three months ago.

Retail properties, along with **hotels**, continue to be the biggest casualties of the crisis among the key property sectors across Asia-Pacific. This is especially the case for prime retail assets, given the slowdown in foot traffic as a result of remote working and the absence of tourists. Retailers continue to advocate for more flexible lease agreements, pushing landlords to accept more turnover rents.

Forecasts are offered as opinion from Aberdeen Standard Investments and are not reflective of potential performance. Forecasts are not guaranteed and actual events or results may differ materially.

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