RF Corval Property Fund

Market Insights | March 2025

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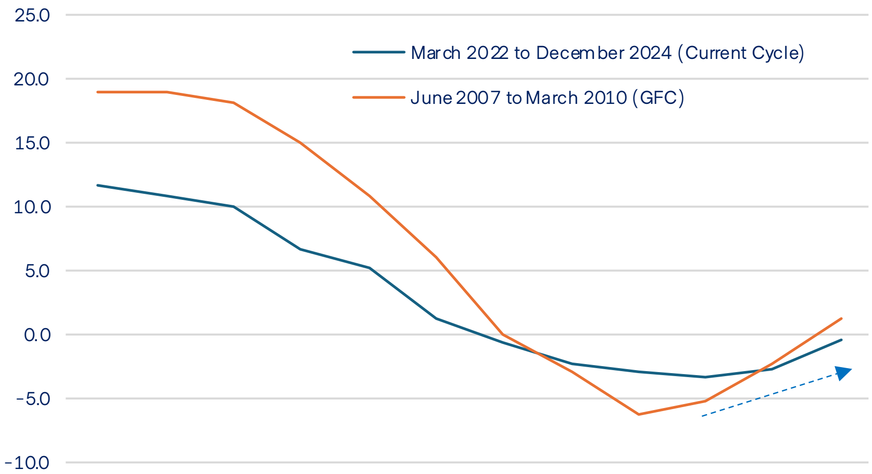
Market Update

Real Estate Performance

In December 2024, MSCI's Australian real estate index returned -0.5%, making it six consecutive periods of negative total return or the commercial property market since June 2023, however, more importantly, as per the chart below it is clear to see we have reached a turning point. Valuation losses have slowed and given the interest rate cutting cycle has commenced, the points of interest from here will be (1) where interest rates will settle, (2) the pace of this cutting cycle and (3) what does this mean for real estate?

Direct Property Cycle Comparisons | Rolling Annual Returns on Quarterly Rests



The current cycle has been more prolonged than the GFC in the downturn phase and RF Corval expects the recovery to also take longer.

2025 and 2026 are expected to yield attractive buying opportunities. Transaction volumes picked up in 2024 and continue to do so into 2025, providing much needed liquidity and price discovery.

Source: MSCI Real Estate

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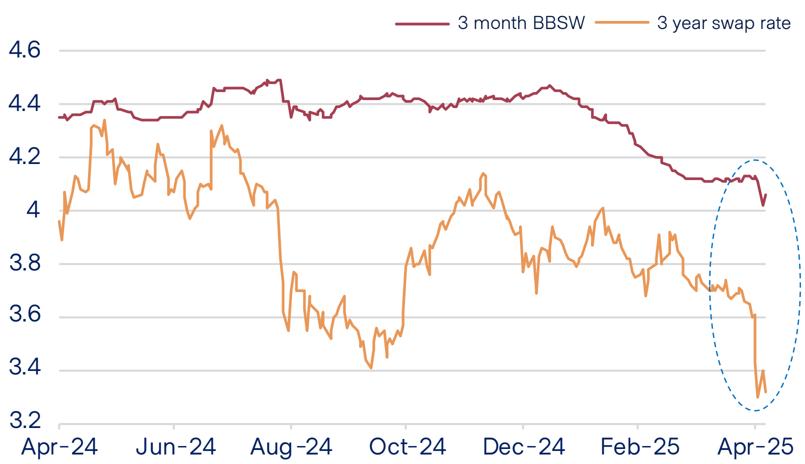
While reductions in asset values are never welcomed, the flipside is the reemergence of value looking forward. Higher yields act to reset the market and provide a more attractive entry point for investors, generating the prospect of higher returns. This is clearly illustrated when we assess historic market cycles and the performance achieved after pricing is reset in the aftermath of interest rate hiking cycles. The period immediately after the conclusion of rate hike cycle ending in 1994, 2000 and 2010 was in each case a very attractive time to buy, achieving well above average returns over the following five years.

Interest Rates & Tarriff Wars

February's rate cut to 4.1% signaled a turning point in monetary policy and although the RBA commentary at the point was relatively hawkish, the market consensus at the time suggested two more cuts in 2025. Inflation was down to 2.4% in December and comfortably in the target band of 2-3% albeit assisted by energy rebates. Broadly, the underlying data indicates that pressures are easing significantly, which opens the door to further cuts. Rate cuts are generally supportive of real estate investing as:

1. Yields look more attractive on a relative basis
2. Liquidity is enhanced as debt becomes more affordable (see chart below); and
3. Transaction volumes increase, led by increased investor confidence

Last 12 Months Interest Rate Movement | 3 Month BBSW vs 3 year Swap Rate



Rates have declined since the February 2025 rate cut and recent developments in US trade policy have driven rates further down.

The knock-on effect for debt pricing provides the opportunity to improve cashflows for property investors. This can bring further liquidity to the market via increased confidence and transactional activity.

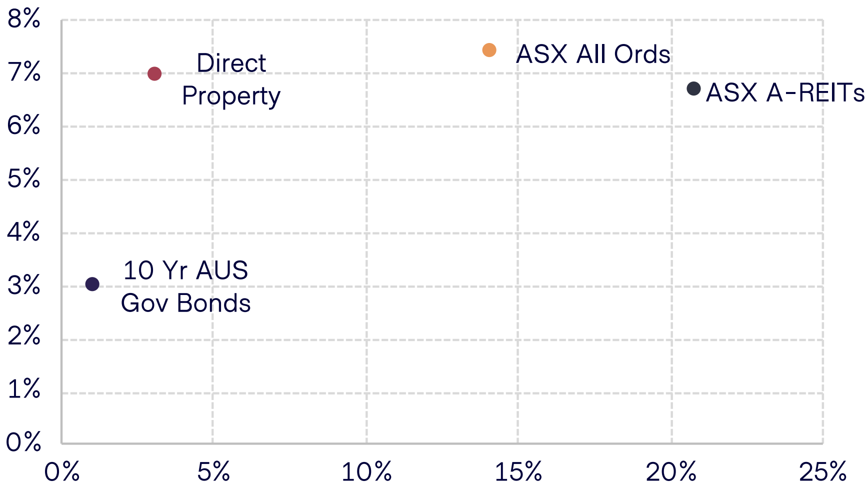
Source: RBA, NAB Market Solutions

Market Update

The sharp fall in 3-year swap rates in recent weeks are a direct result of US President Donald Trump announcing a sweeping set of tariffs and countries such as China, Mexico and Canada responding in kind. The immediate effect has been significant financial market volatility, with a more long-term concern relating to slow economic growth in China and US, particularly that the ultimate consequence could be a recession in these countries and the likely flow-on recession on domestic shores.

It is likely that any worsening of the trade situation would put neutral to downward pressure on interest rates because the risk of slower global growth outweighs the risk of higher inflation. While uncertainty has increased and there has been a clear reaction in listed markets, real estate does not react with the same level of volatility. RF Corval maintains a view of broad-based improvement in real estate on the back of lower interest rates and broadly improving domestic factors such as retail sales, employment growth and consumption.

10 Year Annualised Return vs 10 Year Volatility
March 2015 to March 2025*



10 year analysis shows that unleveraged direct property can deliver share market like returns for much lower volatility

Whilst recent geopolitical risks pose broad based economic risks, history shows that a patient allocation to real estate can provide a relative safe-haven for a portion of investor's portfolio (noting that there is a liquidity trade-off for this benefit.

Source: MSCI, RBA, S&P
*Analysis is from Dec 2014 to Dec 2024 due to data availability

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