T.RowePrice®
INVEST WITH CONFIDENCE

UK REAL ESTATE: AMID UNCERTAINTIES, LONGER-TERM PROSPECTS STILL ATTRACTIVE

JULY 2016

Nina Jones
Portfolio Manager, Global Real Estate Equity

For investors in UK real estate stocks, the Brexit vote has greatly increased short-term uncertainties. However, we see reasons to be optimistic about longer-term prospects—especially in London—and believe the market sell-off that immediately followed the referendum has created attractive buying opportunities in some high-quality companies.

While the market may have overreacted to the Brexit vote initially, there are some real short-term concerns. These include a higher risk of a recession in both the UK and continental Europe, which will likely put additional downward pressure on real estate stocks in both markets. In addition, we expect companies to delay decisions related to the size of their London office footprints. This will likely hurt the ability of office landlords to increase rents and may also manifest itself in lower property values. Additionally, there is a risk that some jobs could be relocated outside the UK.

Headlines about several large UK commercial real estate funds halting investor withdrawals added to the negative market environment in the days following the vote. However, it is worth noting that the troubles these funds faced were related more to how they were structured than to the long-term health of the real estate market. The funds involved invest directly in real estate. To satisfy investor redemptions, these funds must physically sell off buildings in order to raise cash liquidity. By contrast, funds that invest solely in publicly listed real estate securities, including ours, are a liquid alternative that do not face the same degree of liquidation pressures.

In the year leading up to the referendum, we trimmed our allocation to the UK market, reflecting our view that increasing office supply, specifically in London, could outpace demand in the short term and create a more challenging operating environment for office landlords.

However, the initial market reaction following the vote pushed some real estate stocks down more than 30% (over 40% in U.S. dollar terms[1]), leaving share prices out of line with longer-term valuations. Responding to this opportunity, we added to some of our high-conviction holdings in companies that we believe own excellent, well-located office buildings in London's West End but that had fallen significantly on the news of the vote. These companies have solid balance sheets and strong management teams and, thus, should be relative outperformers over the longer run, in our view. The sell-off created an opportunity to increase our positions at a steep discount.

The post-Brexit environment could provide some additional benefits for real estate investors. Given the uncertainty in the UK, we believe it is likely that many planned real estate developments will be delayed or abandoned, improving the London office supply picture. A weakened British pound also should make UK real estate investments more attractive to foreign buyers armed with relatively stronger currencies,

[1] Bloomberg

providing some downside support to real estate prices.

Brexit changes the landscape of the UK economy in the short term, and we will take a cautious, thoughtful approach as we look for investment opportunities. But London remains one of the world's great cities, and we believe high-quality, well-located real estate assets there will continue to be in demand over the long term.

Important Information

This material, including any statements, information, data and content contained within it and any materials, information, images, links, graphics or recording provided in conjunction with this material are being furnished by T. Rowe Price for general informational purposes only. The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price. The material does not constitute a distribution, an offer, an invitation, recommendation or solicitation to sell or buy any securities in any jurisdiction. The material has not been reviewed by any regulatory authority in any jurisdiction. The material does not constitute advice of any nature and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. Past performance is not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The views contained herein are as of July 2016 and may have changed since that time.

Australia—Issued in Australia by T. Rowe Price International Ltd. (ABN 84 104 852 191), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. T. Rowe Price International Ltd. is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides in Australia. T. Rowe Price International Ltd. is authorised and regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. For Wholesale Clients only.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA—Issued in the European Economic Area by T. Rowe Price International Ltd., 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Japan—Issued in Japan by T. Rowe Price International Ltd., Tokyo Branch (KLFB Registration No. 445 (Financial Instruments Service Provider), JIAA Membership No. 011-01162), located at GranTokyo South Tower 7F, 9-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6607. This material is intended for use by Professional Investors only and may not be disseminated without the prior approval of T. Rowe Price International Ltd., Tokyo Branch.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH ("TRPSWISS"), Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

USA (public)— Issued in the USA by T. Rowe Price Associates, Inc., and by T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, MD, 21202.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc. in the United States, European Union, and other countries. This material is intended for use only in select countries.

2016-GL-4442 07/16