



Investment Perspectives

Issue 4
March 2015

Key Points

What is the second fastest growing demographic in the US?

Which of the G20 nations have the greatest population growth?

Is there greater opportunity in US or European aged care?

Charts inside, commentary minimal. Enjoy.

Demographics Matter

Our preferred “macro” approach

We think “macro investing” is hard, really hard. It’s not that we do not understand the macro-economic landscape, we do. It’s because of our understanding that we believe it is very difficult to make investment decisions based on macro-economic forecasts – so much is reliant on human (policy) decisions, which at times can be irrational.

We know some macro invest very successfully. It’s just not us.

One of the benefits of long term (non-index) investing is we can avoid the noise and concentrate on the long-term fundamentals. In the long-term demographics matter.

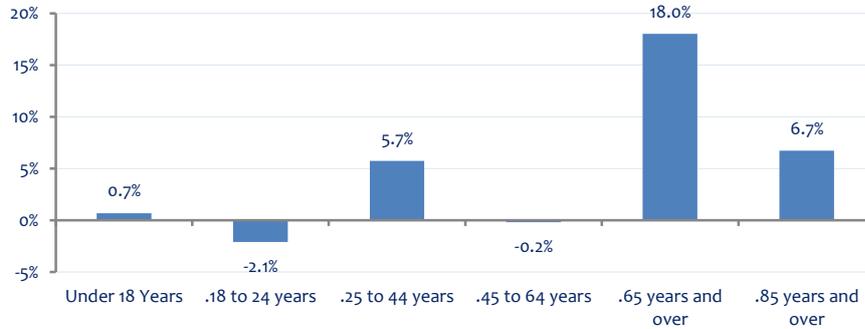
While some may consider demographics “macro investing”, it is an area unlikely to be affected by any decision made by Janet, Glenn or Mario. In that respect, we see it as a low risk form of macro investing.

In this issue of *Perspectives*, we focus on a number of interesting charts with an emphasis on the demographics in Quay’s targeted markets, while trying to keep the commentary to a minimum (less reading!). Hopefully, readers who also follow our fund updates and strategy will see some parallels in our stock selection and country exposure.



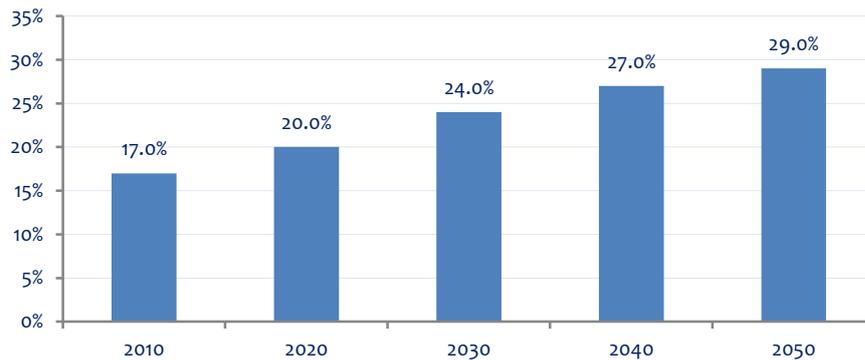
The fastest growing demographic in the US and Europe are the +65 aged cohort, with obvious implications for aged care and health. In the 1990's, this demographic (boomers) were responsible for discretionary retail spend, malls being the beneficiary. Future spending from this demographic is likely to be far less discretionary.

US population growth by Cohort
2015-2020



Source: US 2011 Census, Quay Real Estate Advisors

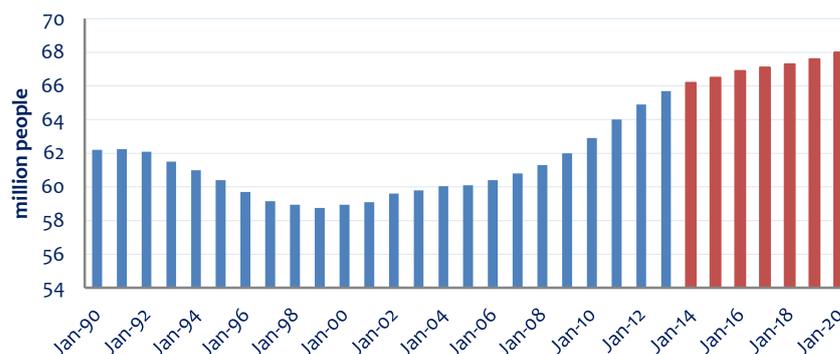
Europe: % population +65



Source: UN world population Prospects, Quay Real Estate Advisors

Opportunities also exist beyond aged care. Echo-boomers, born 1980-95, are an emerging demographic. In the USA they number approximately 80m, compared to 77m boomers. Over 60% of this age group chooses to rent and this is expected to grow significantly over the next 5 years.

US population aged 20-34

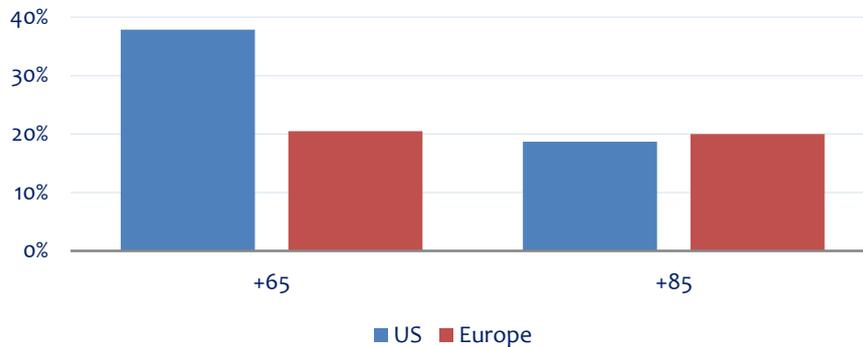


Source: Camden Property Trust



Interestingly, an aging demographic offers greater growth in the US compared to Europe. Not sure why – perhaps a legacy of war?

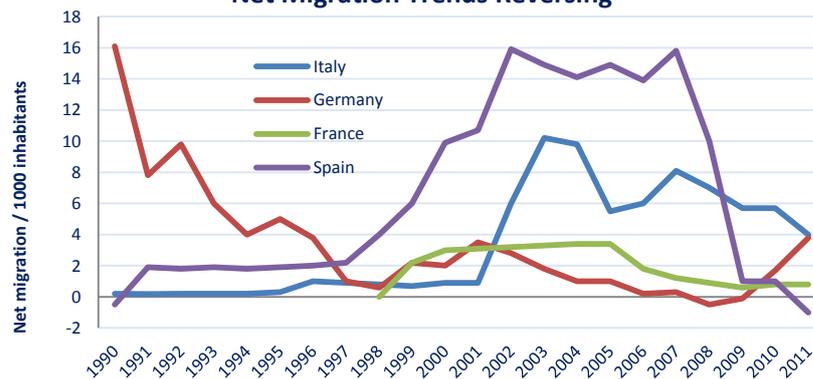
Population cohort growth 2015-2025



Source: UN world population Prospects, US 2011 Census, Quay Real Estate Advisors

Meanwhile, deep and protracted recessions in peripheral European Countries have reversed the long-term net migration between countries as people seek better employment prospects.

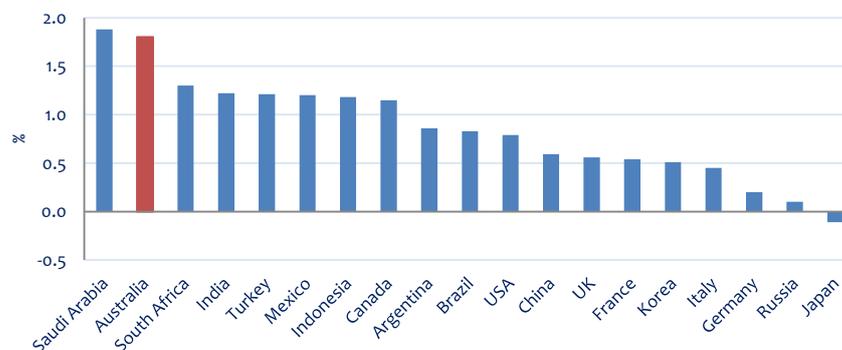
Net Migration Trends Reversing



Source: Eurostat

Back home, Australia is currently recording the second fastest population growth of the G20 nations, with important implications for “real growth” and therefore real estate capitalisation rates.

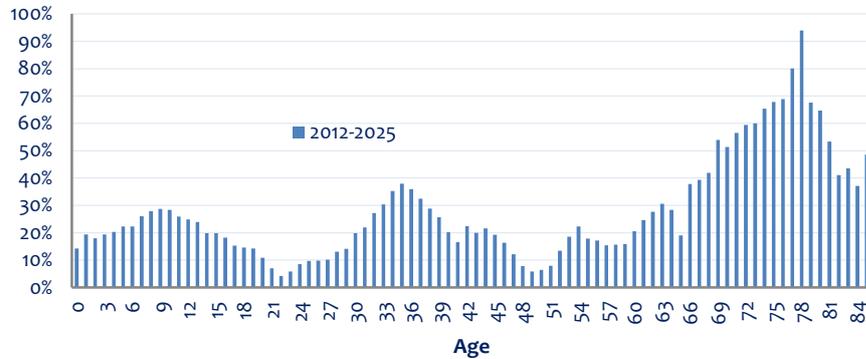
G20: population growth (%) by Country



Source: Worldometers, world population growth, ABS, quay Real Estate

Like most developed counties, Australia also faces the challenges of an aging demographic. Combined with strong population growth fueled by migration, the growth in this cohort is expected to be significant, and lasting.

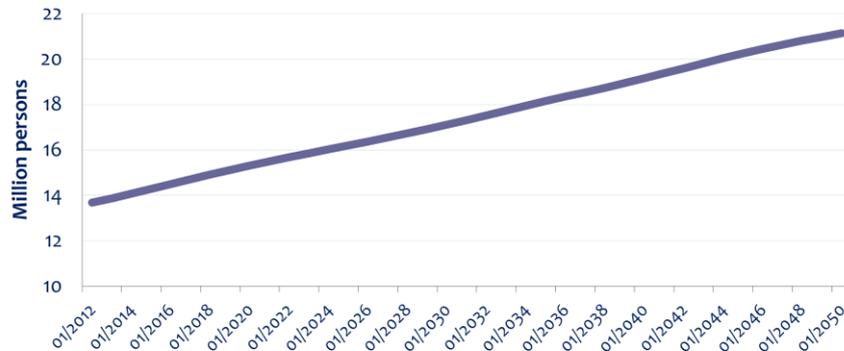
Australia: population growth by age



Source: ABS population projections (series B), Quay Real Estate Advisors

Like the US, there is also an underlying demographic which offers significant long term growth – again with implications for real estate cap rates, land values, and rental growth. The age cohort of 21-65 will buy houses, occupy office buildings, and frequent (the best) malls and will grow at 1.2% per annum for the foreseeable future.

Australia: Population growth (21-65)



Source: ABS population projections (series B), Quay Real Estate Advisors

Concluding thoughts

Population shifts and growth are important for real estate investment. Along with productivity, a growing population leads to real growth in rents, sales and cashflows, and supports lower capitalisation rates compared to low population growth cohorts / countries.

In addition, population growth encourages real estate values to track replication cost over time (since assets constantly need replication), which provides investors with a natural hedge against inflation.

At Quay, we predominately focus on developed markets. However, within those markets there are “emerging” markets with very strong demographic tailwinds. Health and Aged care, German housing, Australian (fortress) Retail, and US multifamily are some clear choices. Importantly, these “emerging market” opportunities exist within known developed markets, which offer economic, political and social stability. Long term growth, with as little risk as possible.



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