



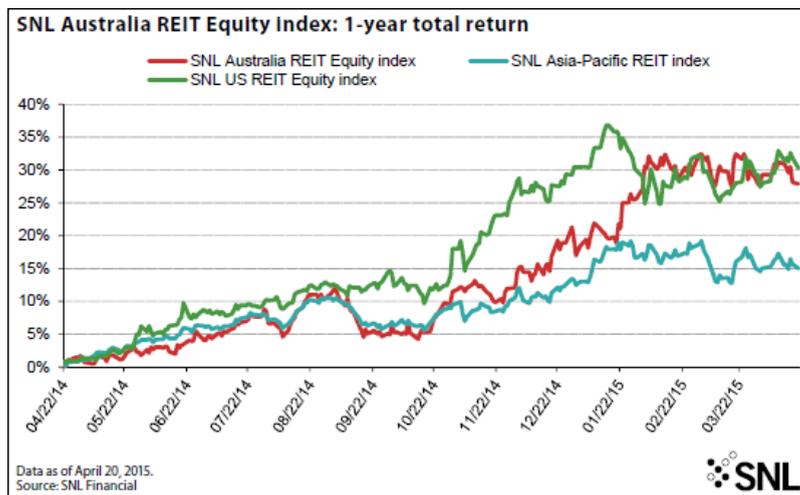
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Australian REITs outperforming Asia-Pacific REIT sector

By Abby Reyes and Megan Zhao

Australian REIT total returns have steadily climbed over the past year to the top those of all SNL-covered Asia-Pacific regions.

The sector posted a one-year total return of 27.89% as of April 20, outperforming the broader Asia-Pacific REIT sector and all country-specific SNL REIT indexes in the Asia-Pacific region. The SNL Australia REIT index, however, was trading behind the SNL US REIT Equity index by 2.36 percentage points on a total return basis.

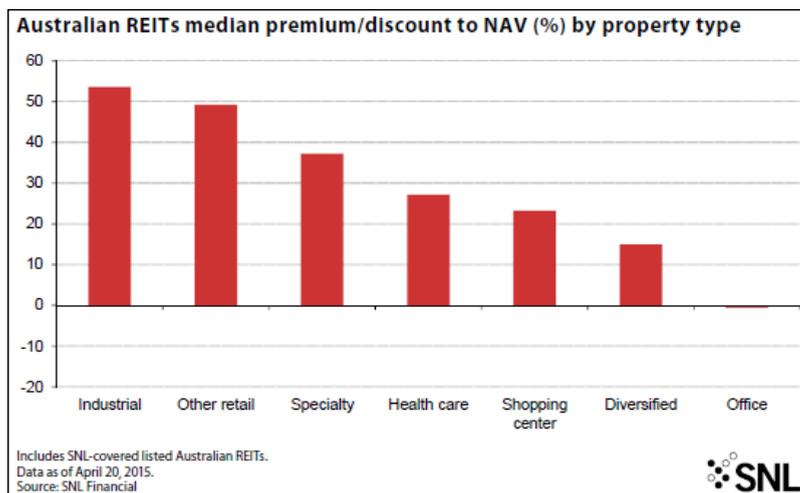


The factors driving A-REITs' strong performance primarily include a falling interest rate environment, record low bond yields and the sector's fair value. Winston Sammut, managing director at Folkestone Maxim Asset Management Ltd, told SNL. Although most A-REITs are now trading above the companies' respective NAV, the sector's prospects still look strong.

Sammut said that there is plenty of capital ready to support valuations, including the inflow of Asian money into Australia searching for high-quality assets. Meanwhile, other factors are also making the sector attractive, he added. For instance, Australia's official cash rate, at a 50-year low of 2.25%, is likely to be reduced further at the next Reserve Bank Board meeting.

"On a relative basis, the income stream that's being derived from the trusts is making investors put more money into the sector," Sammut said.

He noted that if the U.S. Federal Reserve raises interest rates, it could potentially trigger tighter monetary policies in the Asia-Pacific region and increase REITs' interest expenses, but he expects the A-REIT rally to maintain steam for the rest of 2015.



By sector, industrial A-REITs had the highest median premium to NAV, at 53.6%, as of April 20. [Goodman Group](#) traded at the highest premium to NAV, at 85.1%, as of April 20. In a Feb. 12 [investor presentation](#), the company identified asset recycling as a "key feature" across all its markets, with the disposition of "[A]\$1.1 billion of investment properties across the group and managed funds" in the second half of the year. Also, growth in asset valuation provided "ongoing opportunities to rotate assets and recycle capital into development activities," which the company said drove higher returns for investors.

Office was the only A-REIT sector trading at a median discount to NAV as of April 20, at 0.54%. In a [property update](#) released in February, M3 Property Group said the Australia CBD office markets reflected unequal growth, but nationally saw an increasing vacancy rate, rising to 11.2% in January 2015 from 10.7% in July 2014.

On a company basis, shopping center REIT [Westfield Corp. Ltd.](#) traded at the highest premium to NAV, at 158.3%, as of April 20. During the company's 2014 [earnings call](#) Feb. 24, CEO Steven Lowy said that the portfolio's performance remained strong, as it had seen robust retail trading conditions driven by an improvement in consumer confidence, according to a transcript of the call. Most of Westfield's assets are in the U.S.

Analysts with Evans and Partners Pty. Ltd also highlighted the favorable characteristics of the U.S. market in a Feb. 26 research report. "The defensive USD exposure and stronger fundamentals/growth in the US compared to Australia have driven [Westfield's] strong share price performance," the analysts said. Among SNL-covered listed A-REITs, only Westfield had a double-digit FactSet mean EPS long-term growth estimate as of April 20, at 19.9%.

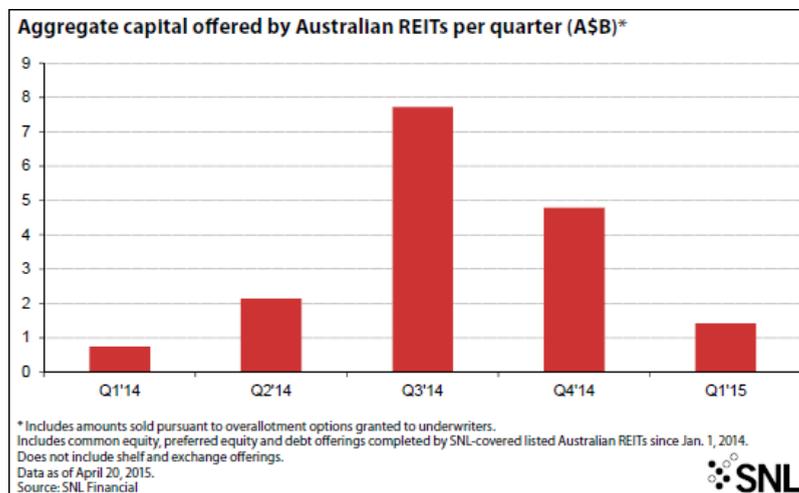
Company name (trading symbol-exchange)	Property type	Market capitalization (AS\$M)	Dividend yield (%)	1-year total return (%)	FactSet mean EPS long-term growth (%)	Premium/discount to NAV (%)*	2014 Debt/book capitalization (%)
Westfield Corp. Ltd. (WFD-ASX)	Shopping center	19,970.44	1.65	36.01 [^]	19.86	158.33	41.25
Scentre Group (SCG-ASX)	Shopping center	19,865.37	3.05	20.69 [^]	4.3	23.03	44.85
Goodman Group (GMG-ASX)	Industrial	11,096.72	3.39	34.18	5.21	85.09	25.75
Stockland (SGP-ASX)	Diversified	10,639.15	5.32	26.46	6.88	9.47	27.31
GPT Group (GPT-ASX)	Diversified	8,194.64	4.60	26.53	4.96	10.02	28.17
Novion Property Group (NVN-ASX)	Shopping center	7,662.26	5.51	34.29	1.77	23.27	32.25
Mirvac Group (MGR-ASX)	Diversified	7,358.26	4.57	18.71	5.11	19.88	30.56
DEXUS Property Group (DXS-ASX)	Diversified	6,863.93	5.03	20.69	4.07	0.80	32.63
Federation Centres (FDC-ASX)	Shopping center	4,282.92	5.40	33.93	3.21	1.01	26.80
Investa Office Fund (IOF-ASX)	Office	2,339.52	4.93	21.49	2.84	13.73	32.03
Cromwell Property Group (CMW-ASX)	Diversified	1,934.86	7.00	22.62	2.09	52.74	46.57
BWP Trust (BWP-ASX)	Other retail	1,984.97	5.03	33.46	3.96	49.28	25.48
Charter Hall Group (CHC-ASX)	Diversified	1,850.61	4.54	32.18	6.28	95.08	0.00
Growthpoint Properties Australia (GOZ-ASX)	Diversified	1,735.53	6.46	35.65	1.33	41.20	42.78
Charter Hall Retail REIT (CQR-ASX)	Shopping center	1,641.17	6.26	25.81	5.52	28.53	36.79
Abacus Property Group (ABP-ASX)	Diversified	1,582.07	5.93	23.87	NA	20.17	33.05
Shopping Centres Australasia Property Group (SCP-ASX)	Shopping center	1,445.60	5.28	29.78	3.3	29.27	33.46
GDI Property Group (GDI-ASX)	Office	518.75	7.30	12.50	NA	-0.54	23.73
Carindale Property Trust (CDP-ASX)	Shopping center	478.10	4.82	24.25	NA	-4.74	29.14
Hotel Property Investments (HPI-ASX)	Specialty	393.02	6.21	38.98	5.2	37.24	46.10
Arena REIT (ARF-ASX)	Health care	378.91	5.87	53.38	NA	47.35	34.38
Ingenia Communities Group (INA-ASX)	Health care	339.84	3.37	-18.77	NA	6.94	57.01
Astro Japan Ppty Tr (AJA-ASX)	Diversified	334.52	4.41	41.13	2.66	-14.14	0.00
GPT Metro Office Fund (GMF-ASX)	Office	274.34	NA	10.26 [^]	NA	NA	NA
Australian Industrial REIT (ANI-ASX)	Industrial	228.20	7.08	27.57	NA	22.16	34.76
360 Capital Office Fund (TOF-ASX)	Office	154.62	8.06	14.57 [^]	NA	-1.40	34.05
Aspen Group (APZ-ASX)	Diversified	143.18	6.72	-1.16	NA	-15.67	12.95

* The premium or discount to NAV is calculated using NAV-per-share values as reported by REITs or NAV-per-share estimates collected by SNL.
[^] Total return is since inception.
 Data as of April 20, 2015.
 Source: SNL Financial

As the A-REIT sector gains strength, M&A activity is on the rise. [Scentre Group](#) [debuted](#) in June 2014, formed through the merger of Westfield Group's Australian and New Zealand shopping business and Westfield Retail Trust, after the [approval](#) of Westfield Group's A\$70 billion restructuring plan. [Frasers Centrepoint Ltd.](#) [closed](#) on its takeover bid for [Australand Property Group](#) on Sept. 4, 2014, after [securing](#) more than 50% aggregate interest to make its A\$2.6 billion takeover offer for Australand unconditional.

In February, two shopping center giants — [Federation Centres](#) and [Novion Property Group](#) — [announced](#) a merger. More than A\$22 billion managed assets will be combined in the merger, and the merged company is poised to be the second-biggest owner and manager of shopping centers in the country.

Sammut told SNL that low bond yields, which helped A-REITs lessen borrowing costs and boosted earnings, also served as a catalyst for more M&A activity in the sector.



Capital raising was slow during the first quarter of 2015 for A-REITs. SNL-covered listed Australian equity REITs raised a total of A\$1.72 billion year-to-date through April 20, the lowest amount of the past five quarters. According to a report from BDO Australia, the sector's capital raising is "in line with fewer buy side acquisitions for A-REITs, suggesting a reduced need to raise capital to fund transactions." The analysts said that in the first quarter of 2015, A-REITs have turned into net sellers, highlighting the amount of acquisition stock available and suggesting that the sector may be selling properties as valuation targets are reached.

There is less attraction for A-REITs in asset acquisition amid white hot competition, Ken Atchison, managing director of Atchison Consultants, told SNL. Many A-REITs hesitate to buy additional assets as it is difficult to get yield margin that is accretive on equity, he said. Instead, they have turned to focus more on corporate activities such as M&A and IPOs.