Dec 28 2016 at 12:15 AM Updated Dec 28 2016 at 12:15 AM

Your guide to shares in 2017: agriculture, property, banks

Property

Rising rates in the US and increasing bond yields will weigh on the listed property sector in 2017. At the same time, sell-offs across the sector may generate buying opportunities. And stronger property markets, especially Sydney's CBD office towers, will be favourable for landlords such as Mirvac and Dexus Property Group.

The ageing population will be another strong theme, making retirement players such as Aveo Group attractive.

Investors in listed property have become accustomed in recent years to outperformance. That theme was knocked askew in the second half of 2015, when bond yields finally began rising in anticipation of looming rate rises in the US.

Real estate investments trusts (REITs) correlate strongly with the bond yield curve. As bond prices fall, yields rise and property stocks become less attractive. At the same time rising commodity prices and the Trump rally pulled money out of property.

That pressure turned 2016 into a tale of two halves for Australian REITs. Total returns in the first half of calendar 2016 were 16.3 per cent from the key REIT index. As the new year approached, investors were looking at -3.9 per cent for the second half. The sector is trading on a dividend yield of 4.6 per cent.

In mid-December, the US Federal Reserve tightened monetary policy and flagged three more three interest rate rises in 2017. In response, Australian property stocks fell harder than the broader market.

Therein lies the dilemma for REIT investors heading into 2017: the sector's been good for them for so long but is it finally over?

Atchison Consulting's Ken Atchison is optimistic, albeit with a considerable dose of caution.

The sector has been oversold, he says, adding that the spread between REIT yields and bond yields has widened again.

That makes 2017 a buying opportunity.

"The fear of interest rate increases will emerge regularly in the market and you will get the sell-off," he says.

"It is definitely a market to buy on weakness. The REIT market will be very focused on what is going on in the bond market. There will be volatility and in that environment it offers attraction."

Atchison favours office landlords, particularly those such as Mirvac and Dexus exposed to the Sydney market where residential conversions and stock withdrawals for the metro rail project are pushing rents up.

He is less keen on pure-play residential developers as the housing marking peaks. Nor does he expect much growth from the retail landlords, such as Scentre Group, the owner of Westfield malls in Australia, and Vicinity Centres.

More appealing is Westfield Corporation, which controls malls in the US and Europe, In a capital-constrained world, the property trust is well placed to fund further development from its own balance sheet, Atchison adds.

Morningstar's Tony Sherlock is more wary of the REIT sector as the low-interest rate tailwind of the last two years dissipates.

"The upside tends to be gradual, the downside tend to be fast. Lower leverage is the way to go," he says.

Within the sector, Sherlock singles out retirement living operators such as Aveo. They have Australia's ageing demographic on their side.