FINANCIAL REVIEW

New A-REITs lose their IPO sparkle

PUBLISHED: 09 Jan 2014 PRINT EDITION: 11 Jan 2014

Larry Schlesinger

Retail investors have shown little appetite for a handful of new property trusts which listed on the Australian Stock Exchange in the final quarter of 2013.

Combined, the five new stocks – offering investment in sheds, pubs, self-storage units and offices – raised more than $1 billion ahead of their floats.

But of the five stocks, only the National Storage REIT, which holds a portfolio of self-storage property, has recorded strong gains in its share price.

Shares in GDI Property, which holds an $800 million portfolio of office property plus a syndication business and was well-supported by institutions with a $310 million book-build, have fallen around 14 per cent since floating at $1.

Pub and bottle shop landlord HPI and APN Property Group's Industria REIT are both down on their listing prices, while the Australian Industrial REIT, which owns logistics properties, has traded around its listing price.

Atchison Consultants managing director Ken Atchison told *AFR Weekend* that to date, performance of the new REITs suggested they may have acquired their assets at a premium. "There's continued demand for property, but it's a yield-driven play, which is why they could get the initial public offerings away," Mr Atchison said.

However, he said the secondary nature of these assets may have played a part in the lack of follow-through from investors post-listing.

"These are not premium or trophy assets, so they're slightly less appealing to the investment market," he said.

Sector records single-digit return

Sentiment about A-REITs may also have been a factor, with the sector under-performing the broader equities market and ending 2013 with a single-digit total return of 7.1 per cent, largely reflecting dividend yield.

"It's not a major bull mark – the fact that they got these REITs away was a positive – but there's not a massive amount of froth in the market," Mr Atchison said.

He said the stronger performance of the National Storage REIT was encouraging. "There's plenty of these REITs in the US, but they're not well known here. The yields are OK [in the high sevens and eights] and it's not massively risky."

Fund manager Andrew Smith of Freehold Investment Management said that when the new REITs came to market, they were priced and sold on yield. "The heavy participation from retail investors validated the yield focus," Mr Smith said.

"However, the value of the underlying assets was below the issue prices of some of these REITs, so post-listing they are trading at or below their net tangible asset levels – which is in line with the sector, apart from Westfield."

Mr Smith said it was "curious" that people were happy to pay full price at IPO. "Some investors may have bought for a short time-frame profit, but when this did not materialise they decided they wanted to sell. Patient investors now have the opportunity to get in at a higher yield."

In the case of the National Storage REIT, Mr Smith said its better performance reflected the fact that it is a different type of trust, with the focus on the operating business rather than the underlying value of the assets.

"It's priced on earnings, not asset value," he said.

"It also reflects household formation trends and the greater demand for self-storage space."

The Australian Financial Review