FINANCIAL REVIEW

US recovery bodes well for global REITs

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John Snowden says investing in a global fund gives investors access to a far more diversified portfolio than investing in the highly concentrated Australian market. **Photo: Tamara Voninski**

Larry Schlesinger

Australian-based global property securities funds received a shot in the arm after Westfield Group announced it might pursue a listing in the United States or Britain – or both – for its proposed international mall business, Westfield Corporation.

The revelation that Australia's largest listed property group saw good value in overseas real estate investment trust (REIT) markets like the US – the world's largest property securities market worth about $US600 billion – added impetus to the view of fund managers and analysts that global property markets are beginning to recover after the devastation wrought by the 2008 global financial crisis.

Global property security funds are the only realistic way for Australian retail investors to gain a well-diversified slice of the global REIT market, which covers markets in more than 30 countries spread across North America, Asia and Europe.

Most global funds allocate between 40 per cent and 60 per cent of their investor capital to listed entities in the US market, with the remainder allocated to smaller markets such as Australia, Japan, Singapore, Britain and Hong Kong.

On offer

Australian-based global property securities funds

Company	Name of fund (all hedged)	Fund size	Top investment locations	Minimum investment	Mgmt fee (p.a)	5 yr return (net p.a)
UBS	Clarion Global Property	$132.6m	US, Japan, Europe, UK	$20,000	0.90%	13.76%
Ironbark	RREEF Global (ex-Aust) Property	$217.6m	US, Europe, UK, Asia	$20,000	1.13%	13.52%
Colonial First State	Wholesale Global Property	$765.0m	US, Hong Kong, Australia, Japan	$5,000	1.03%	6.23%^
Equity Trustees	EQT SGH LaSalle Global Listed Property	$147.4m	US, Europe, Australia, Hong Kong	$20,000	1.10%	12.60%
Principal Global Investors	Principal Global Property	$298.2m	Americas, Asia Pacific, Europe/Middle East/Africa	$500,000**	1.00%	15.00%
Vanguard	International Property Securities Index	$786.6m	North America, Europe, Japan, UK	$5,000	0.43%	15.87%
AMP Capital	Global Property	$474.6m	North America, Asia, Europe	$30,000	1.29%	14.99%

**wholesale ^before fees and expenses

SOURCE: AFRRESEARCH

Funds are generally well diversified across different property sectors and most are hedged to the Australian dollar.

UBS, BT, Colonial First State, AMP Capital, Vanguard and Ironbark all offer managed funds that invest in a portfolio of global REITs. Minimum retail investments start from as little as $5000 up to $50,000, with average returns over the past five years between 6 per cent and 15 per cent.

Strong income growth from property

Mike Acton, director of research at AEW Capital Management, which manages BT's global REIT capability, says a "fundamental recovery" is afoot in US real estate markets, mirroring a broader economic revival.

"The recovery is well under way in the multi-family residential market, but only beginning in office, retail and logistic sectors," says Acton, who is based in Boston.

"We expect fairly strong income growth [generated from property] over the next three to five years, and dividend growth to outperform underlying cash flow growth."

Acton says it is hard to make a similar argument for Europe, but says markets like Spain and Greece are "getting better, though from a very bad position".

He said the fast-growing Singapore REIT market was very well positioned given its status as a regional financial services hub, but was a "longer term investment story".

In October US-based fund manager Resource Real Estate (RRE) launched RRE Global Property Securities (Australia), a new fund seeking to raise between $200 million and $300 million over the next two years from Australian institutional investors, led by former UBS real estate fund management veterans Scott Crowe and John Snowden.

Snowden says investing in a global fund gives investors access to a far more diversified portfolio than investing in the highly concentrated Australian market, where five stocks make up 80 per cent of A-REITs by market capitalisation.

"Investing domestically means you only get exposure to a small part of the potential REIT universe. In a global fund, there is much less concentration and a much greater opportunity set," he adds.

Better opportunities in developed markets

Snowden says global funds provide the ability to invest in "high-quality real estate assets in the best-performing economies anywhere in the world".

"We would estimate that, short of another GFC, our portfolio will return between 12 and 15 per cent over the coming year," he adds.

"In North America we would be overweight in retail shopping malls and multi-family apartments. In Asia we would be overweight in commercial real estate landlords but underweight in Hong Kong and Singapore residential developers. We like western European retail [groups like Corio] and selective London-based property investment and development groups like Derwent London."

Snowden says the fund is wary of most emerging market opportunities at this point in the property cycle. "We see many of the stocks in the faster-recovering developed markets as representing superior quality and value compared with their emerging market brethren," he says. "However, there are some emerging REIT markets that represent medium to long-term value."

Atchison Consultants managing director Ken Atchison agrees that investing in the global REIT market could be an attractive diversification play for Australian investors.

It also provides the opportunity to benefit from periods when future global market conditions are better than they are in Australia. "The overseas REIT market is not as attractive as the A-REIT market, but sufficiently attractive for a diversification play," he adds.

Atchison says investing in global REITs gives Australian investors the opportunity to gain exposure to sectors that don't exist locally, such as multi-unit residential markets, healthcare, hotels and serviced apartments REITs. "It's a much wider investment opportunity. Some of these investments are just not available here," he adds.

Why most international funds hold key US mall group

Most Australian-based global property securities funds are heavily weighted to the United States REIT market and hold a significant stake in mall operator Simon Property Group.

With a market capitalisation in excess of $93 billion, Simon is about the same size as the entire A-REIT market combined.

Many analysts consider it a good bellwether of how the US property market and economy is tracking. Simon owns or has interests in 325 retail real estate properties in North America, as well as mall investments in Asia and Europe.

For the first nine months of 2013, it reported funds from operations growth of 11.9 per cent and raised its earnings guidance for the full financial year.

"Simon's equivalent in Australia would be Westfield," said John Snowden of RRE Global Property Securities (Australia).

"They have the retail tenants, turnover exposure and property development arm which reflect different aspects of the US economy and property cycle. It's a pretty good barometer for the US economy as a whole."

"As a fund manager, we like Simon. It represents the key quality metric indicators we look for in terms of management, assets and business model and we believe we're buying their stock at an attractive price."

James Maydew, AMP Capital's deputy head of global listed real estate, says having the US as the largest component of a global real estate portfolio is a positive, given the improving macro data coming out of the US.

This is "translating into demand from tenants and rental growth, flowing through to increases in share price and dividends".

"Healthy forecast dividend increases of 6 to 7 per cent for US REITs in 2013 are supported by healthy earnings growth, which is expected to average about 8 per cent," adds Maydew.

"With dividend payout ratios near their historic lows, dividend increases should remain healthy over the next few years."