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Global REITS looking cheap, but not in Australia: Heitman's John White

by Larry Schlesinger

Global listed property securities looks "cheap" compared with the "overpriced" private real estate market, according to one of the country's best-known REIT fund managers.

Speaking at a global property forum in Melbourne, John White, head of public real estate securities at Heitman, said it was a "good time allocate to real estate investment trusts (REITs)" even as interest rates and bond yields were rising in the US and in other markets.

"We actually think that REITs are pretty cheap right now and that private markets are pretty overpriced and there's limited value there," he said.

He pointed to the benchmark FTSE Nareit US Real Estate Index, which is trading near a 4 per cent discount to underlying value compared with the longer-term trend of a 2 per cent discount as a good sign of "relative value".

But, he said, this discount was "not equal across all markets" with the US market looking "fair value or slightly expensive" and Australian REITS looking similarly "fully priced".

Rather, he said, investors should look at opportunities in the Asian REIT market, which, excluding Japan, trades at a 27.2 per cent discount to net tangible assets, Japan (10 per cent discount), Europe (5 per cent) and Britain (10 per cent).

"[These discounts to NTA] show there is pretty good opportunity in terms of spreads and prices relative to underlying value," he told the Atchison Consultants Global Property Forum.

Mr White said the general view among investors was to not own REITs when interest rates were rising based on the view there was a negative correlation with the performance of REITs in such cycles.

But, he said, research by Heitman, which has $60 billion of assets under management including $4.5 billion in Australia on behalf of 11 mandates, shows there was in fact a much stronger correlation between falling interest rates and REIT performance, than when rates were rising.

He said the key indicator that REITs would perform well even when interest rates are going up is when the increase was due to rising economic activity and rising inflation rather then because of poor economic performance, when interest rates went up as a means to increase the risk-free premium.

"With US interest rates going up and starting to rise in other markets [on strong economic growth] ... we're actually OK with our positioning on REITs versus the private real estate market," Mr White said.

He said the present level of M&A activity globally and in Australia was evidence that private investors saw value in REITs that the listed market did not see, and forecast more of this to occur, led by the likes of Blackstone and BlackRock, the world's biggest asset managers.