A-REITs set to deliver for yield-hungry investors

Larry Schlesinger*Reporter*

AFR – The Australian Financial Review

Jan 4, 2020 — 12.00am

Investment market veteran Ken Atchison believes only a recession could hurt the generally positive outlook for listed property trusts (A-REITS) in 2020.

"And no one is talking recession," says Atchison, founder of investment advisory firm Atchison Consultants.

With interest rates at record lows and 10-year government bonds returning well under 1.5 per cent, A-REITs will again prove popular with investors chasing higher yields backed by secure rental income from mostly blue-chip tenants.

"The [A-REIT] yield spread to bonds – between 3 and 4 per cent – is still attractive," says Atchison. "So A-REITS [which traded on a dividend yield of 5.3 per cent in 2019] will appeal to investors seeking income."

Highlighting this appetite for yield (and exposure to the underlying property portfolios) are the billions that institutional investors poured into oversubscribed equity raisings by fund managers Dexus, Growthpoint, Centuria, Charter Hall Cromwell and GPT as well as diversified developer Mirvac in 2019.

In 2019, the sector (as judged by the S&P/ASX 200 A-REIT index) delivered a 19.4 per cent total return (with a share price gain of 14 per cent), up from a modest 6. 5 per cent in 2018. Strongest share price growth has come from the likes of Stockland, Charter Hall and Goodman Group with the best-yielding A-REITs including mall landlords Vicinity Centres and Scentre Group (both above 5.5 per cent).

RELATED
Mixed views on iron ore price outlook

Moody's has a "stable" 2020 outlook for A-REITS, which the rating agency says reflects modest net operating income growth expectations of around 3 per cent over the next 12-18 months.

CBD office vacancies would have to rise above 15 per cent or retail sales decline 4 per cent for Moody's to change its outlook to "negative".

"Income growth in the office and industrial segments will be the strongest. Retail will remain challenged, while soft demand constrains residential construction," says Moody's senior analyst Saranga Ranasinghe.

She expects GPT, Mirvac and Dexus, which have the largest exposures to the Sydney and Melbourne office markets (where vacancy rates are at historic lows), to record the highest income growth over the next 12-18 months.

Among the beneficiaries of demand for industrial space, Ranasinghe adds, will be GPT, Dexus, Mirvac, Stockland, Goodman and Charter Hall.

"Performance of retail REITs will vary because of different underlying assets, but low interest rates will help limit property value declines."

Retail trusts likely to perform well in 2020 include owners of destination assets Westfield and Vicinity Centres, and neighbourhood mall owners Shopping Centres Australasia Property Group and Charter Hall Retail REIT.

RELATED

All eyes on TPG-Vodafone in a busy year for telcos

Grant Berry, director and portfolio manager at fund manager SG Hiscock & Company, expects the A-REIT sector to be well supported again in 2020. But he warns of a divergence between "growth" and "value" companies, with the former (driven by earnings from development and funds management) ascribed a "premium" by the market and the latter offering quality, low-risk assets trading at discounts.

Berry sees less value in office A-REITS on the expectation vacancy rates are set to rise and rent conditions likely to moderate.

On the other hand he sees opportunities in the out-of-favour retail property sector after landlords remix their centres to deliver more experienced-based offerings.

"The retail property sub-sector is attractive as historically it has been very defensive and thus a good asset class for late-cycle investing, with the added attraction that it is favourably priced within the A-REIT sector," he says.

Larry Schlesinger writes on real estate, specialising in commercial and residential property. Larry is based in our Melbourne newsroom. Connect with Larry on Twitter. Email Larry at larry.schlesinger@afr.com.au