

⬇️⬆️ ⬆️⬆️ TOP STORY FOR THE WEEK 14 Dec - 18 Dec 2020 AREITs earnings yield update – November 2020

Melbourne, Australia 21 Dec 2020.

Australian real estate investment trusts (AREITs), as represented by the S&P/ASX 200 REITs Index, returned 13.2% in the month ending 30 November 2020. The AREIT index has outperformed the S&P/ASX 200 return of 10.2% over the month.

Over the 12 months to November 2020, AREITs posted a total return of -9.2%, which is 6.8% lower than the S&P/ASX 200 return of -2.0%. AREITs have not yet fully recovered from the 35.5% fall in March.

Sector Performance

Table 1 below shows the performance of AREITs for various periods ending 30 November 2020.

Table 1 – S&P/ASX 200 AREIT Accumulation Index Performance: Total Returns (30 November 2020)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Total Return	13.2	11.1	19.0	-9.2	5.4	7.7
Volatility				44.3	26.1	21.6

Source: S&P/ASX 200 AREIT Accumulation Index (2020)

The easing of COVID-19 restrictions has had a positive impact on the performance of AREITs for month of November. Over the 3 years and 5 years to the end of November, the sector produced total returns of 5.4% and 7.7% per annum respectively.

Sector returns in November were led by Retail AREITs with 25.5%, followed by Diversified AREITs with 16.1%, Office AREITs with 10.8% and Industrial AREITs with 1.6%. High returns from Retail AREITs reflected the easing of COVID-19 restrictions in Victoria. While Office AREITs saw a significant rise on the back of workers returning to the office.

Table 2 below shows the income performance of AREITs for various periods ending 30 November 2020.

Table 2 – S&P/ASX 200 AREIT Accumulation Index Performance: Income Returns (30 November 2020)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Income Return	0.0	0.1	1.6	3.8	4.5	4.7
Volatility				1.9	2.0	2.0

Source: S&P/ASX 200 AREIT Accumulation Index (2020)

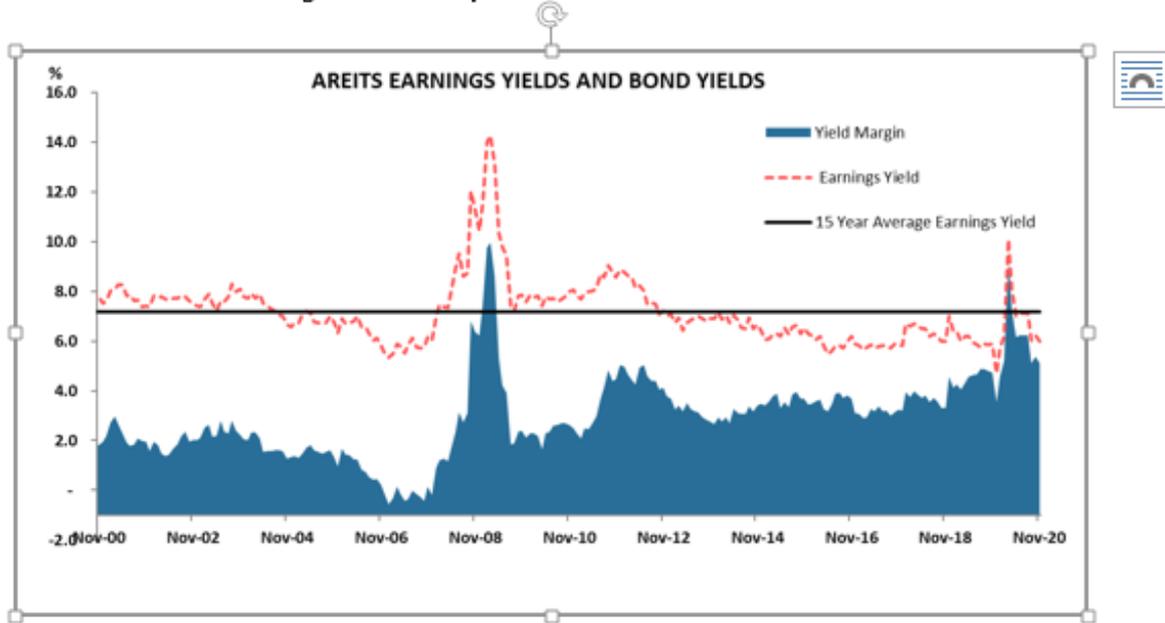
The income component of the total return was 3.8% for the 12-month period to November 2020. Annual volatility of income returns was 1.9%, which is low when compared with other asset classes. AREITs were trading at an earnings yield of approximately 6.0% which was significantly higher than yields of both cash and Commonwealth Government bonds. Australian 10-year government bond yields finished November at 0.90%. The spread of the earnings yield over the Government bond yield remained steady at 5.1%.

[Click here to this week's other latest stories](#)

Disclaimer: YieldReport is independent of any product provider and receives no commissions or fees from any products described herein. The information contained within this report is based on information that YieldReport Pty Ltd (Authorised Representative of Sequoia Asset Management AFSL 341506) believes to be reliable however its accuracy and completeness cannot be guaranteed. This report contains general advice only and is made without consideration of any specific client investment objectives, financial situation or needs. Accordingly, the reader should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Those acting upon such information do so entirely at their own risk. If you are seeking to acquire a specific financial product or security, you should obtain a copy of and consider a Product Disclosure Statement ("PDS") or Prospectus for that product before making any decision. © YieldReport 2020.

Change over time of the spread between the earnings yield of AREITs and the 10-year government bond yield is shown in Chart 1.

Chart 1– AREITs Earnings Yields Compared to Bond Yields



Source: RBA, UBS (2020)

Market Review

Office AREITs have jumped 10.8% for the month of November on the back of easing COVID-19 restrictions. There has been a great deal of uncertainty in the course of the past few months, with some questioning the future viability of office space as an investment. A recent survey conducted by the Australian Financial Review, found that 24 of the 25 largest Australian companies intended to continue work from home (WFH) practices into 2021. However, according to the Property Council of Australia, Sydney's office occupancy is currently at 45%, up from 35% in September, while Melbourne is currently at 13% occupancy, up from 5%. While these figures are trending in the right direction, landlords do not expect material increases until March, where JLL Research expects 90% office occupancy rates nationally.

AMP Capital's chief economist, Shane Oliver, believes the extra required office space for social distancing will be offset by a reduction in overall floor space as more people continue to work from home. Oliver believes vacancies may rise further as leases come up for renewal. This may reduce office rents in the short term as the supply of office space adjusts to lower levels of occupancy. However, Office AREITs surged this month on the back of reduced COVID-19 infections and a potential return to the office for workers. Dexus, which has an office portfolio of \$23 billion and 96% occupancy, projects yields of 5%. Paul Moran of Moran Financial Partners, says in an economy with a cash rate target of 0.10% and 10-year Government bonds with a yield of only 0.90%, Office AREITs such as Dexus with 5% yield will remain attractive to investors. The challenges faced by Office REITs is not isolated to Australia. Globally, there is some level of uncertainty for office space post-coronavirus. LaSalle gave some insights into the future of office space, stating it is unlikely we will see the death of the office. However, office property will likely become a riskier investment post-coronavirus, at least in the short-term.

[Click here to this week's other latest stories](#)

Disclaimer: YieldReport is independent of any product provider and receives no commissions or fees from any products described herein. The information contained within this report is based on information that YieldReport Pty Ltd (Authorised Representative of Sequoia Asset Management AFSL 341506) believes to be reliable however its accuracy and completeness cannot be guaranteed. This report contains general advice only and is made without consideration of any specific client investment objectives, financial situation or needs. Accordingly, the reader should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Those acting upon such information do so entirely at their own risk. If you are seeking to acquire a specific financial product or security, you should obtain a copy of and consider a Product Disclosure Statement ("PDS") or Prospectus for that product before making any decision. © YieldReport 2020.