yieldreport %

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TOP STORY FOR THE WEEK 25 Jan - 29 Jan 2021

AREITs earnings yield update – December 2020

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Australian real estate investment trusts (AREITs), as represented by the S&P/ASX 200 AREIT Index, returned 0.4% in the month ending 31 December 2020. The AREIT index has marginally underperformed the S&P/ASX 200 return of 1.2% over the month.

Over the 12 months to December 2020, AREITs posted a total return of -4.6%, which is 6.0% lower than the S&P/ASX 200 return of 1.4%. AREITs have rallied in recent months, from their 35.5% fall in March.

Sector Performance

Table 1 below shows the performance of AREITs for various periods ending 31 December 2020.

Table 1 – S&P/ASX 200 AREIT Accumulation Index Performance: Total Returns (31 December 2020)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Total Return	0.4	13.3	21.2	-4.6	5.4	7.0
Volatility				44.0	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 during December. Over the 3 years and 5 years to the end of December, the sector produced total returns of 5.4% and 7.0% per annum respectively.

Sector returns in December were led by Industrial AREITs with 1.9%, followed by Retail AREITs with 0.3%, Office AREITs with 0.0% and Diversified AREITs with -0.5%. The high returns from Industrial AREITs can be attributed to the increase in demand for warehouse space, as shoppers avoided malls and continued to shop online.

Table 2 below shows the income performance of AREITs for various periods ending 31 December 2020.

Table 2 – S&P/ASX 200 AREIT Accumulation Index Performance: Income Returns (31 December 2020)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Income Return	1.3	1.3	1.6	3.5	4.4	4.6
Volatility				1.7	2.0	2.0

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

The income component of the total return was 3.5% for the 12-month period to December 2020. Annual volatility of income returns was 1.7%, which is low when compared with other asset classes.

AREITs were trading at an earnings yield of approximately 6.1% which was significantly higher than yields of both cash and Commonwealth Government bonds. Australian 10-year government bond yields finished December at 0.97%. The spread of the earnings yield over the Government bond yield remained steady at 5.1%.

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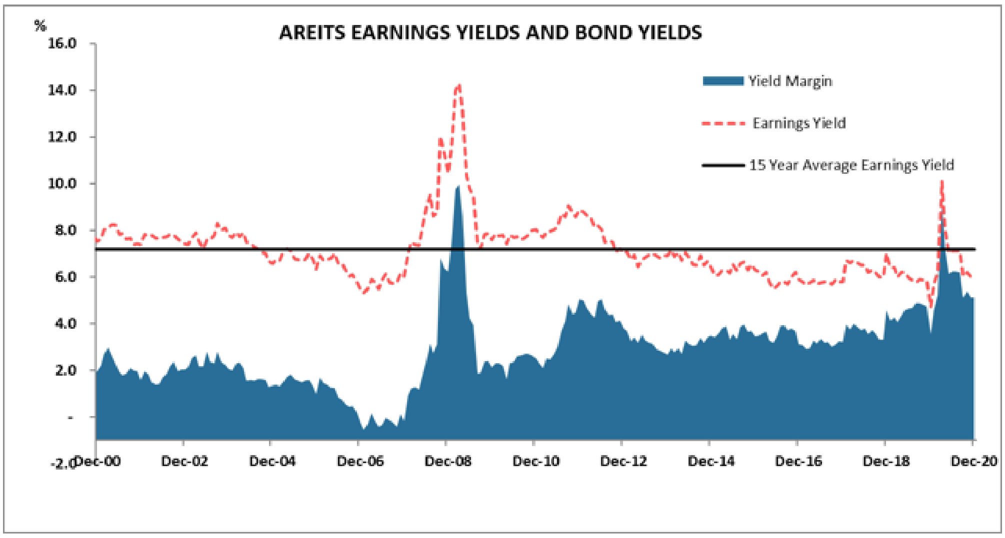
Changes over time of the spread between the earnings yield of AREITs and the 10-year government bond yield are shown in Chart 1.

Chart 1– AREITS Earnings Yields Compared to Bond Yields



Source: RBA, UBS (2020)

Market Review

Despite COVID-19, Australian home prices climbed 3.0% for the year to December 2020, while regional house prices rose 6.9%. According to Tim Lawless, Research Director of CoreLogic, the resilience of house prices has been extraordinary, falling by only 2.1% in the second quarter and by 2.6% in the third quarter of 2020. By the end of the December quarter, the annual rate of increase had returned to positive territory.

In the year to the end of December, Darwin, Canberra and Hobart led price rises in the capital cities, with house prices rising by 9.0%, 7.5% and 6.1% respectively. The two most populous cities, Sydney and Melbourne did not fare as well; Sydney prices rose 2.7% while Melbourne prices fell 1.3% for the year. This resilience can be attributed to the record low cash rate of 0.1% and the Federal Government's HomeBuilder programme, along with the introduction of JobKeeper programme and the rise in JobSeeker payments. The HomeBuilder programme encouraged new house buyers to take advantage of the $25,000 grant, with new house sales up 100% month-on-month in December and up 33% year-on-year. According to the HIA economist Angela Lillicrap, December 2020 was the strongest month for new house sales since March 2001. The Federal Government has since extended the HomeBuilder programme for another 3 months to 31 March 2021. According to the HIA, the HomeBuilder programme will continue to boost house sales into January, but not at the high levels of December.

The increase in residential property buying activity is also being felt by the AREIT, Mirvac, with sales up 40% on the first quarter. Mirvac exchanged contracts on 660 homes in the first quarter of 2020 and as of mid-November, the company had already taken 500 deposits on new homes for the fourth quarter. Stockland, another AREIT experienced net quarterly sales of 1,799, the highest in 3 years, on the back of low interest rates and the HomeBuilder programme. The company expects 1,083 settlements and 3,800 contracts due to settle in FY21. Residential property development accounts for 40% of Mirvac's annual revenue and 22% of Stockland's annual revenue.

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