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AREITs earnings yield update – June 2021

Melbourne, Australia 27 July 2021.

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Australian real estate investment trusts (AREITs), as represented by the S&P/ASX 200 AREIT Index, returned 5.5% in the month ending 30 June 2021. The AREIT index outperformed the S&P/ASX 200 return of 2.3% over the month.

Over the 12 months to June 2021, AREITs posted a total return of 33.2%, outperforming the S&P/ASX 200 return of 27.8%. Recovery from the depths of falls in 2020 prompted by the pandemic is reflected in this performance.

Sector Performance

Table 1 below shows the performance of AREITs for various periods ending 30 June 2021.

Table 2 – S&P/ASX 200 AREIT Accumulation Index Performance: Income Returns (30 June 2021)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Income Return	1.5	1.4	2.1	3.7	4.2	4.5
Volatility				1.8	2.1	2.0

Source: S&P/ASX 200 AREIT Accumulation Index (2021)

Over the 3 years and 5 years to the end of June, the sector produced total returns of 7.7% and 5.8% per annum respectively.

Sector returns in June were led by Industrial AREITs with 9.4% and Diversified AREITs with 5.6%, followed by Office AREITs with 3.8% and Retail AREITs with 2.6%. Returns were strong across all sectors.

Table 2 below shows the income performance of AREITs for various periods ending 30 June 2021.

Table 1 – S&P/ASX 200 AREIT Accumulation Index Performance: Total Returns (30 June 2021)

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Total Return	5.5	10.5	9.9	33.2	7.7	5.8
Volatility				21.1	28.5	22.7

Source: S&P/ASX 200 AREIT Accumulation Index (2021)

The income component of the total return was 3.7% for the 12-month period to June 2021. Annual volatility of income returns was 1.8%, which is low when compared with other asset classes.

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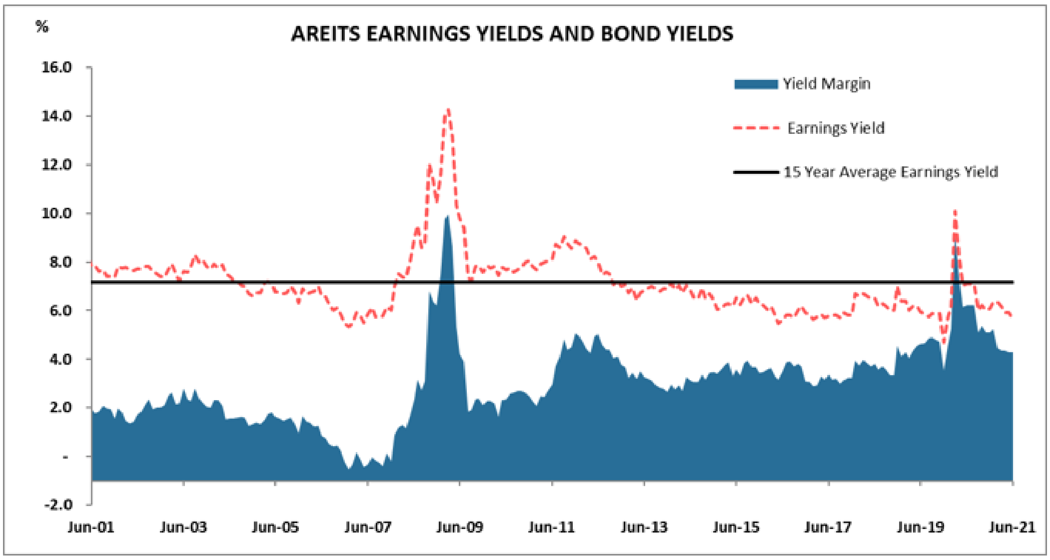
Chart 1– AREITS Earnings Yields Compared to Bond Yields



Source: RBA, UBS (2021)

MARKET REVIEW

Hotels have suffered significantly with repeated lockdowns and borders closed to international and domestic tourists. Last year, at the height of the pandemic, the national hotel occupancy rate fell to an historical low of 25%. Unsurprisingly, hotel investment volumes dropped over 2020 to well below the average, as buyers and sellers become cautious to the intense uncertainty.

The pandemic has dampened the construction of new hotels. According to CBRE, over 7,000 new hotel rooms in Melbourne were set to have been constructed in the next 5 – 10 years. This number has fallen to 4,900. However, Melbourne is still likely to see an over-supply given the current market conditions. In comparison, Sydney is set to construct only 2,000 new hotel rooms.

Last year, the value of hotel sales dropped from $2.5 billion in 2019 to $600 million in 2020, which is a significant fall in activity. However, CBRE expects hotel sales volumes to return to pre-COVID levels by 2025.

Listed ASX company, Event Hospitality & Entertainment, owner of Rydges and Atura hotels, suggests a 10%-15% decline in value has taken place across its hotel portfolio during 2020. In the 6 months to December 2019, the average occupancy across its hotels was 83%. Over the 6 months to December 2020, the average occupancy rate sat at 43%.

Event recently put its four-star Rydges Bankstown hotel up for sale. It is expected to be sold for $25-$30 million. Hotel property assets are just one example where COVID-19 has taken its toll.

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