yieldreport %

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AREITs earnings yield update – September 2021

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Australian real estate investment trusts (AREITs), as represented by the S&P/ASX 200 AREIT Index, returned -2.2% in the month ending 30 September 2021. AREITs underperformed the S&P/ASX 200 return of -1.9% over the month.

Over the 12 months to September 2021, AREITs posted a total return of 29.8%, underperforming the S&P/ASX 200 return of 30.6%. 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 September 2021.

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

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Income Return	0.1	0.6	2.1	4.1	4.2	4.5
Volatility				2.2	2.0	2.0

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

Over the 3 years and 5 years to the end of September, the sector produced total returns of 8.6% and 7.1% per annum respectively. Sector returns in September were led by Retail AREITs at 1.8%, followed by Office AREITs at -0.1%, Diversified AREITs at -2.0% and Industrial AREITs with -6.2%.

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

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

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Total Return	-2.2	4.2	15.1	29.8	8.6	7.1
Volatility				28.4	29.9	23.1

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

The income component of the total return was 4.1% for the 12-month period to September 2021. Annual volatility of income returns was 2.2%, which is low when compared with other asset classes.

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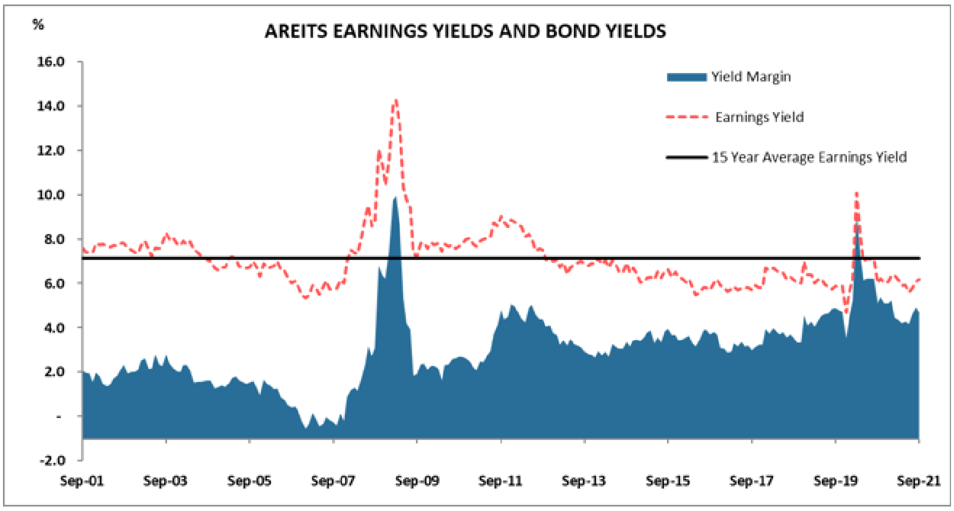
AREITs were trading at an earnings yield of approximately 6.2%, significantly higher than yields of both cash and Commonwealth Government bonds. The spread of the earnings yield over the 10-year government bond yield fell marginally to 4.7%.

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 (2021)

MARKET REVIEW

Residential property prices in Australia have risen by 19.5% in the year to September 2021. NSW is the leading state with an increase of 23.6%. House prices which have increased 22.7% have significantly outperformed unit prices which increased by 10.4%. These increases have occurred despite the collapse in immigration including temporary visa holders being visitors and overseas students.

Primary drivers of the increases in prices have been government policies. Fiscal stimulus has flowed into significant increases in personal savings rates. Easing credit restrictions by APRA and very low interest rates and quantitative easing by the RBA policy has resulted in a flow of personal savings into residential property investment. Statements from the RBA that low interest rates will remain until 2024 have supported this investment flow.

Transactions in houses are 25% above trend, indicating the extent of buoyancy in the market. A result of this level of residential price rises is a lowering of affordability. A market slowdown requires more than stretched affordability. It requires policy tightening through higher interest rates and macro-prudential policy tightening. Some tightening of policy from APRA is occurring but it is limited. The current expectation of the RBA is that the cash rate will be kept low for several more years. Another requirement is excess supply. With restrained migration and a strong supply of new units, high-density housing may experience oversupply.

Beneficiaries of the activity in residential property include the listed property groups with significant residential property developments such as Mirvac and Stockland. Stockland has reported an 8% increase in residential property sales. Mirvac reported stronger growth, with residential pre-sales of $1.3 billion in the September 2021 quarter, up 41% over the September quarter 2020.

Mirvac has provided guidance of 3% growth in distributions. Stockland has stated current market conditions remain challenging with ongoing lockdowns. With no listed companies which own portfolios of residential property, the only participation for investors in listed companies is through residential developers.

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