

## ⬇️⬆️ TOP STORY FOR THE WEEK 17 Aug - 21 Aug 2020 AREITs earnings yield update – July 2020

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Australian real estate investment trusts (AREITs), as represented by the S&P/ASX 200 REITs Index, returned 0.6% in the month ending 30 July 2020. The AREIT index has marginally outperformed the S&P/ASX 200 return of 0.5% over the month.

Over the 12 months to July 2020, AREITs posted a total return of -22.8% (12.9% lower than the S&P/ASX 200 return of -9.9%). AREITs have not yet fully recovered from the large fall in March of 35.5%.

### Sector Performance

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

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

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
<b>Total Return</b>	0.6	6.1	-25.5	-22.8	2.2	3.4
<b>Volatility</b>				41.1	24.8	20.8

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

The restrictions arising from the pandemic continue to have a substantial impact on the medium-to-long term performance of the AREIT sector. Over the 3 years and 5 years to the end of June, the sector produced total returns of 2.0% and 4.4% per annum respectively.

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

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

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
<b>Income Return</b>	1.3	1.3	1.9	4.0	4.7	4.8
<b>Volatility</b>				1.9	2.1	2.0

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

Sector returns in July were led by Industrial AREITs with 13.5%, followed by Diversified AREITs with -1.9%, Retail AREITs with -5.4% and Office AREITs with -6.6%. The returns from Office AREITs reflected concerns over continued “work from home” restrictions, while Industrial AREITs continue to remain resilient to the second COVID-19 lockdown.

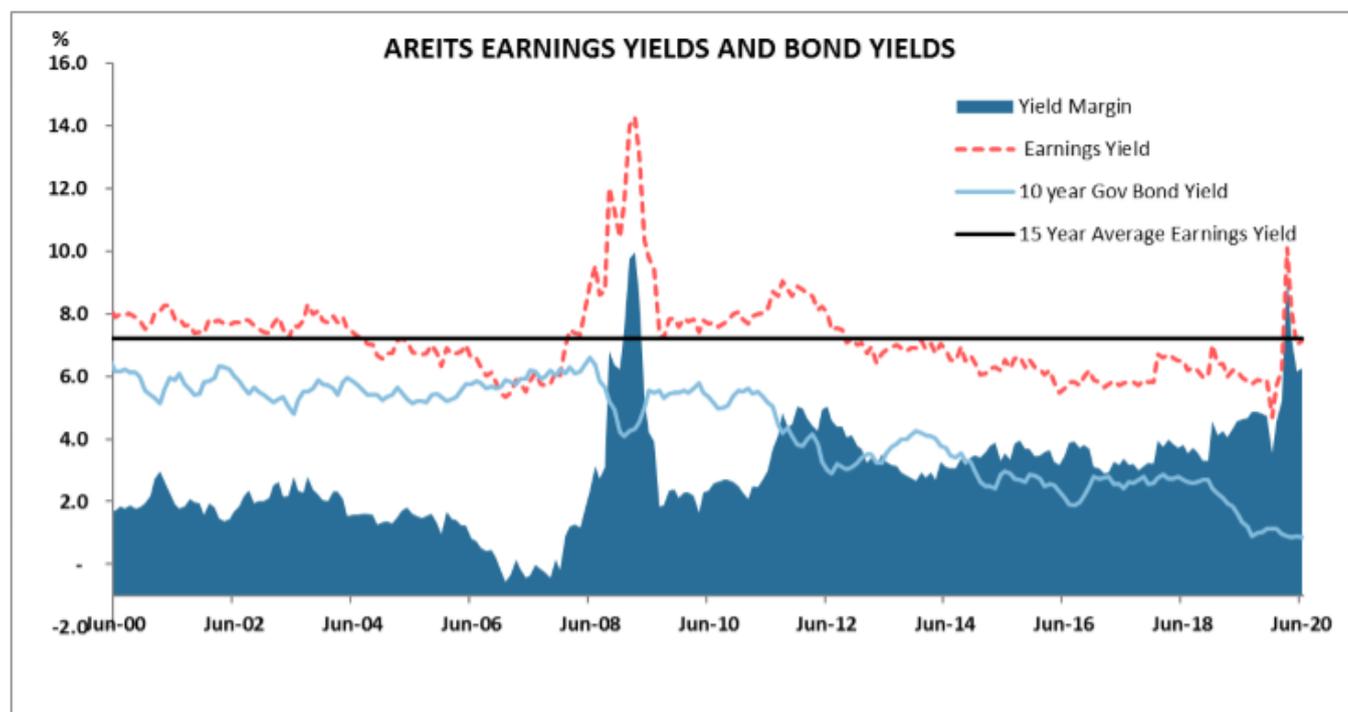
The income component of the total return was 4.0% for the 12-month period to July 2020. The annual volatility of income returns was 1.9%, which is low when compared with other asset classes.

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The AREIT sector was trading at an earnings yield of approximately 7.10%, which was significantly higher than yields of both cash and Commonwealth Government bonds. Australian 10-year government bond yields finished July at 0.82%. The spread of the earnings yield over the Government bond yield remained largely unchanged from June at 6.28%.

The 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

Industrial AREITs rose 13.5% in July and have remained resilient throughout COVID-19, as demand for warehouses and distribution centres continued to rise on the back of increased online shopping.

The Goodman Group, the largest industrial AREIT in Australia, beat profit expectations for the year to June despite the pandemic. Its largest client, Amazon, has ridden the surge in online spending, leading to further demand for warehouse space. Goodman Group’s asset portfolio experienced a \$2.9 billion increase in value to \$51.6 billion in the 2019/2020 financial year. According to the company, growth in e-commerce has risen 25%-30% in the quarter to June and it expects growth in online sales to continue.

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The BWP Trust, the owner of 75 retail warehouses, experienced a 24.4% increase in net profit in 2019/2020. The company has managed to maintain full occupancy and still receives 99% of rent payments. Its largest client Bunnings, has been well positioned in the pandemic, moving to online sales and 'drive and collect'. The pandemic has seen a lift in home renovations, which is only good news for Bunnings and the BWP Trust. 88% of BWP's income comes from Bunnings.

Supermarkets are also contributing to demand for industrial space. Coles and Woolworths have announced they would lease additional warehouse and distribution centre space in Melbourne and Sydney. Traditionally, supermarkets have not been large users of industrial space. However, this has changed with the implementation of pandemic restrictions which increased demand for grocery deliveries. According to JLL, the vacancy rate for industrial property is 5.3%.

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