



Property trust outlook and the rewards of patience

JULY 2017

Over the last financial year the S&P/ASX 300 Property Trust Accumulation Index fell 5.64%¹. APN Property's flagship AREIT Fund did slightly better, producing a total return of - 5.21%². But still, no one likes to see their investment go backwards, right?

Actually, we're not so concerned, although investors jumping at short term shadows might be. It's all a matter of perspective. Investing for long term, secure, lower risk income requires patience and a focus on the long term fundamentals that drive income and risk.

Short term under-performance shouldn't be a concern if the factors driving long term performance remain strong. And they do.

Despite the scary headlines about Amazon's arrival in Australia and purported structural shifts in retail and office property, commercial property investors have much to be thankful for. Let's review each of the factors that will impact long term returns:

Australian commercial property investors enjoy one of the most transparent and secure property markets in the world. The renowned JLL Global Property Transparency Index is the definitive ranking of a country's legal structures, town planning and property information availability. Australia scores highly on all measures, giving investors a high degree of confidence that the numbers on which we base our decisions are reliable and accurate.

Fundamental measures are attractive, too. Occupancy rates across key property sectors and markets are sound, something that the upcoming reporting period will confirm.

Of course, price (rent) is set based on the interplay between demand and supply. Some markets, especially Sydney and Melbourne office space, are seeing spectacular rent growth due to demand exceeding supply, a situation that is unlikely to last.

Retail property, on the other hand, at least if one believes the media headlines, appears to be suffering. The reality is that change is constant in this sector and although there's capacity for modest rental growth in the short term it will probably be lower than the historical trend. This will not last forever, either. On balance, the rent growth outlook remains reasonable.

What about economic growth, the key driver of rental growth over the long term? Well, the Australian economy is still expanding. Positive impacts include a lower Australian dollar that remains a tailwind for exporters and stronger-than-expected resource prices are delivering an unexpected benefit to Federal Government coffers. This is good for everyone.

As for the yield on offer in the sector, falling prices have their compensations. In a low interest rate environment, the current 6.37%³ running yield (as at for APN AREIT Fund should attract genuine long term investors that want a secure, stable income.

Furthermore, we also expect some capital growth (albeit less than in recent years) in the value of the underlying assets held by REITs. Steady rental growth and strong demand from buyers of all asset types supports this trend.

Finally, defensive AREIT structures and the strategies they're employing imply a lower risk outlook. Most AREITs have strong balance sheets (low levels of well managed debt), low levels of active (or risky, non-rental style) earnings and low offshore exposures. That, too, is good for long term prospects.

Where does that leave us? After a period of relatively weak performance from the sector, our conservatively calibrated total return outlook is for around 12-15% over the next 12 months.

The overall message, then, is straightforward: Markets may rise and fall but if you invest for long term, secure income, patience will be rewarded.

- 1 S&P/ASX 300 Property Trust Accumulation Index. As at 30 June 2017.
- 2 Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Past performance is not an indicator of future performance.
- 3 As at 30 June 2017. Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Past performance is not an indicator of future returns.

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APN Property Group

A specialist real estate investment manager

We actively invest in, develop and manage real estate and real estate securities on behalf of institutional and retail investors. APN's approach to real estate investment is based on a 'property for income' philosophy.

Established in 1996, APN's listed on the ASX and manages \$2.4 billion (as at 31 December 2016) of real estate and real estate securities. APN trades on the ASX under the code 'APD'.

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