Worried about the recent AREIT sell-off? Don’t be.

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They call them bond proxies, listed stocks that offer security of income and stability in returns in the manner of bonds. AREITs and infrastructure stocks like Sydney Airport and Transurban are typical of the label, although as investors would be all-too-aware, stability, at least in terms of capital growth, hasn’t been in great supply of late.

After murmurings of a lift in U.S. interest rates and an increase in domestic bond yields which followed, the AREIT sector and other bond proxies plummeted. Since reaching its peak in early August, the ASX AREIT sector has declined by about 14%.

The sell off has been counter intuitive with many low risk, high quality portfolios being sold down excessively.

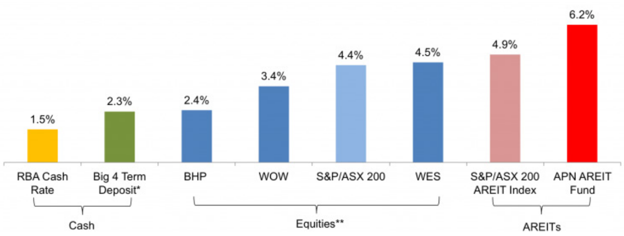
So, what’s going on and what does it mean for AREIT investors?

The first point to appreciate is that this pull-back has taken place without any erosion in the underlying operating fundamentals within these businesses in particular and the sector as a whole. That means the distribution outlook has not fundamentally changed and investors can continue to look forward to the kind of regular income they have come to expect.

The second point is an extension of the first. The price falls in the sector now mean the yield on offer is more attractive. While the price falls get all the attention, there’s now an opportunity for investors seeking long term, stable income, to secure an additional 0.80% in income above the average FY17 distribution yield available from these companies just a few weeks ago.

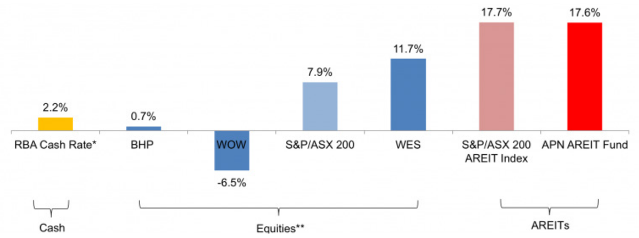
Thirdly, this increase has made AREITs, at least in an income sense, not just nominally but also relatively more attractive. The chart below highlights the current distribution yields available across typical investments within the Australian market. Notice the gap between these traditional options and the APN AREIT Fund, currently yielding 6.33% pa[1]. A fair slice of that gap has been created by recent sector price falls. In our view, especially as the sector has delivered a total return of 17.6% pa over the past three years to 17 October 2016, this is to be welcomed.

Figure 1 Distribution Yield Comparison



Source: Yield Report, Bloomberg, APN Funds Management.
*Average of CBA, ANZ, NAB and ANZ 1yr term deposit rates.
**Bloomberg consensus 1yr forward dividend yield. Data as at 17 October 2016.

3yr Total Return Comparison



Source: RBA, Canstar, IRESS, Bloomberg, APN Funds Management
*Average per annum interest rate. Data as at 30 September 2016.

Finally, income investors should appreciate the relatively high, stable and transparent income available from AREITs compared with some of the largest and most highly rated corporates in the country. Prior to the payment of any dividends to shareholders, blue chips like Wesfarmers, Woolworths and BHP must first make their rental payments to AREIT landlords. That means the level of income return from AREITs is not only materially higher but also more stable and predictable. So, it’s not all bad news. In fact, the AREIT price declines mean genuine income focussed investors in APN’s AREIT Fund can now secure a higher distribution yield derived from contracted, stable rent receipts. That’s a point that gets lost in an 8.2% decline in the past four weeks. For investors seeking a long term income with modest levels of capital growth, the recent pull-back in AREIT prices isn’t something to worry about, it’s an opportunity.

This article has been prepared for general information only and without taking your objectives, financial situation or needs into account. You should consider these matters and read the product disclosure statement (PDS) for the APN AREIT Fund in its entirety before you make an investment decision. The PDS is issued by APN Funds Management Limited ABN 60 080 674 479 (AFSL No. 237500) and contains important information about risks, costs and fees associated with an investment in the Fund. For a copy of the PDS and more details about the APN AREIT Fund its performance, visit our website at www.apngroup.com.au.

1 As at 27 October 2016. 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. Distributions are not guaranteed and past performance is not an indicator of future returns.

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Contact us
APN Property Group Limited

Level 30, 101 Collins Street,
Melbourne, Victoria 3000

Investor Services Hotline 1800 996 456
Adviser Services Hotline 1300 027 636

Email apnpg@apngroup.com.au
Website **apngroup.com.au**