Why sheds and beds are hot property

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Believe it or not, sheds and beds are the two places top commercial property investors would put their next dollar. Or, if recent transactions are any guide, their next billion dollars.

Among the 200-plus property leaders gathered in Hong Kong for the annual Asia Pacific Real Estate Association conference, on this at least there was consensus.

Sheds (industrial properties) and beds (homes and apartments for rent) may not have much in common other than a handy rhyme but they are united by a prosperous future.

For evidence, one need only look at recent acquisition activity. In the US, global logistics leader Prologis bought out smaller industrial real estate investment trust (REIT) DCT Industrial Trust in a US$8.4 billion deal at the end of April.

A week later, Blackstone paid US$7.6 billion for industrial landlord Gramercy Property Trust. And in Singapore, the recent merger of ESR REIT and Viva Industrial Trust created the nation's fourth largest industrial REIT.

Competition among US lenders, who are offering discounts and favourable loan terms to developers of high quality industrial properties, reinforces the point. Warehouses are hot property.

You don't need to be Einstein to understand why. Inside the industrial property sector there's a simple rule of thumb; a dollar of retail spending online requires three times the warehouse space of that required by a physical store.

The 'on-demand' economy also means that delivery windows are contracting. Amazon bought Whole Foods, an upmarket supermarket, not just for its strong brand, but also for its 479 locations, essentially mini-warehouses in prosperous neighbourhoods where online spending is growing fast.

REITs that own industrial properties currently make up 16% of the Asian REIT index, a share that has been steadily increasing. At APN we are optimistic about the demand drivers behind industrial property, and it is reflected in the Asian REIT Fund's overweight exposure to this sector.

Beds, on the other hand, is an unfamiliar asset class to Australian property trust investors, but it was a big topic of conversation at the conference.

In the US and Japan, the sector is commonly known as multifamily, or rental housing, and constitutes part of the traditional REIT sector. The driving force behind growing demand for rental housing is the cost of buying. In Australia, we might call it the "smashed avocado on toast dilemma"; the British term it Generation Rent[1].

In Demographia's list of the world's most unaffordable housing, Sydney and Melbourne occupied two of the top five spots[2]. Australian homeownership rates have been declining for the last three decades[3] as a result, although the lack of affordability isn't the only explanation.

According to realestate.com.au's latest Consumer Intentions Study, long-term renting is driven by lifestyle factors rather than price[4]. A US poll commissioned by Realty Mogul shows that home ownership is not the top priority for many Americans either, regardless of their age[5]. The result was identified in a Harvard University report from the Joint Center for Housing Studies, which indicated that the number of families and individuals living in rental accommodation was 30% higher in 2015 than a decade earlier.

The REIT sector is expanding to meet these trends, offering more beds through rental accommodation. In the US, residential REITs have been a growing part of the market with the likes of Equity Residential (NYSE: EQR), Invitation Homes (NYSE: INVH) and Reven Housing REIT (NASDAQ: RVEN).

These aren't piecemeal operators, either. Equity Residential owns nearly 80,000 apartments in US coastal cities and has a market capitalisation of US$24bn. In Japan, the presence of residential REITs is also well established. Advance Residence Investment Management, in which APN's Asian REIT Fund invests, owns over 20,000 apartment units, primarily in Tokyo, and has a market capitalisation of US$3.5bn.

Although Australia's lower housing yields might discourage the development of the sector in the short term, the lack of housing affordability and changing lifestyles is likely to push Australia and other countries in the region in the direction of more developed REIT markets.

Both trends are good news for investors in APN's Asian REIT Fund. In our view, more choice is always a good thing. In markets like Japan the residential REIT market is already well established and growing. The demand for high quality industrial property is also exploding across Asian markets. Both are opportunities the fund is well positioned to take advantage of in coming years.

1 https://www.macmillandictionary.com/buzzword/entries/generation-rent.html
2 https://fcpp.org/wp-content/uploads/dhi2018-fcpp.pdf
3 Grattan Institute 2017
4 https://www.realestate.com.au/news/long-term-renting-now-lifestyle-choice/
5 https://www.realtymogul.com/resource-center

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