



# FIRST HALF 2021

## AREIT REPORTING SEASON WRAP

MARCH 2021

**APN** | Property Group

# Solid reporting season overshadowed by bonds/inflation

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## 1H21 Reporting Season

- Solid reporting season overshadowed by bonds/inflation
- C-19 impacts diminishing, sustainable economic recovery supportive for AREITs

## Retail

- Rent collection up (circa 90% vs. 60% in Jun20)
- Performance deviation by centre type/retail category

## Office

- Leasing recovery after lockdown but occupancy weaker
- Incentives rising with rents expected to decline further

## Industrial

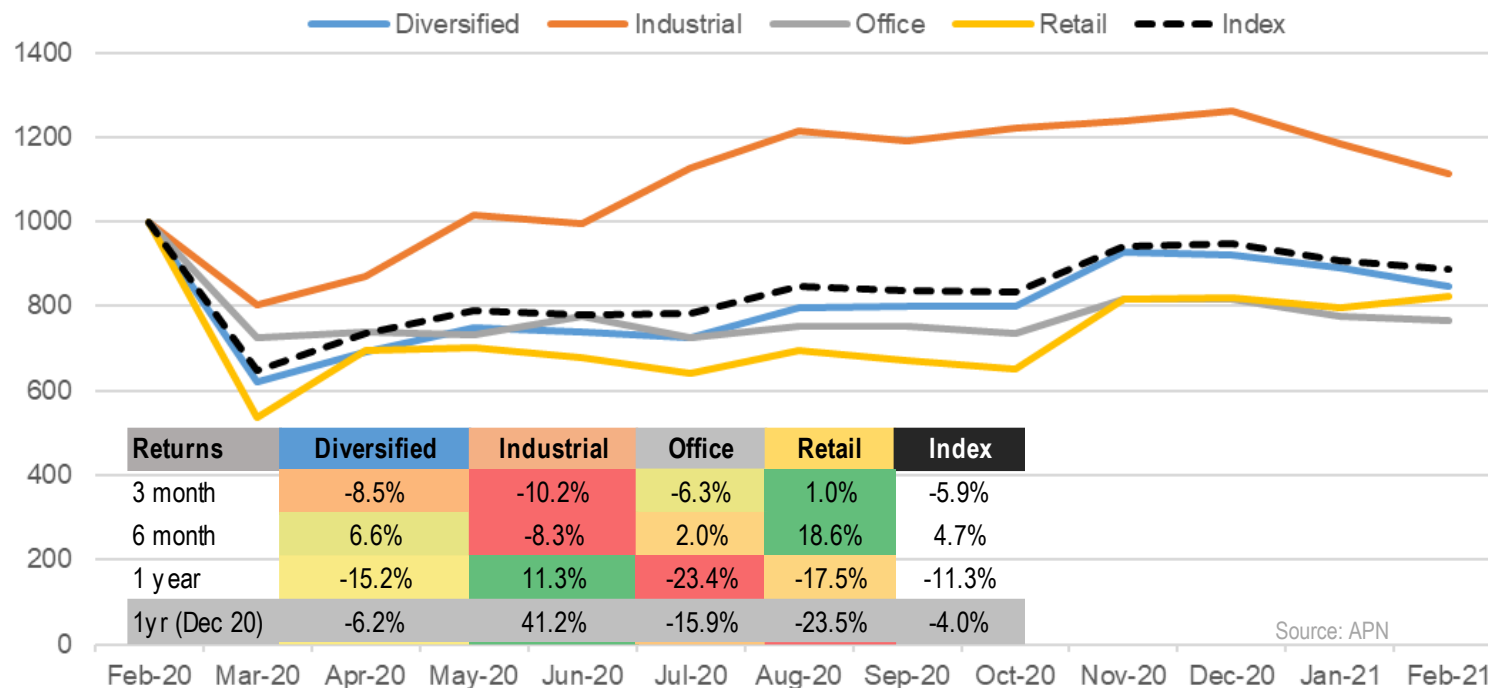
- Structural trends driving operational/portfolio metrics
- C-19 tailwinds may taper as shift to ecommerce slows

## Residential

- Demand pull forward from stimulus, grants & low rates
- Underlying demand driving price growth (2020 catch-up)

# Performance drivers: AREIT sub-sector stark divergence moderating?

AREIT-300 Sub-Sector Performance - 1yr to Feb 21



- Sector performance divergence moderating (Industrial Dec 20 +41%; Feb 21 +11%)
- **Industrial** main driver of index returns indicating value in other sectors as C-19 recovery gains momentum
- **Office** showing signs of C-19 pressure after a long upcycle (notably Sydney & Melbourne)
- **Retail** severe C-19 impact in 2020 unwinding. Non-discretionary landlords facing fewer headwinds

# Retail is not dead

## 2020 Retail AREIT Cash Collection Rates & Yields

Stock	Centre type	Jun %	Dec %	Yield %
SCG	Mall/CBD	48%	93%	4.9%
VCX	Mall/CBD	38%	65%	5.4%
GPT	Mall/CBD	36%	95%	5.0%
SGP	Sub-Regional	51%	87%	5.7%
SCP	Convenience	77%	99%	5.0%
CQR	Convenience	84%	98%	6.2%
AVN	Large format	87%	98%	5.8%

Source: Companies/APN

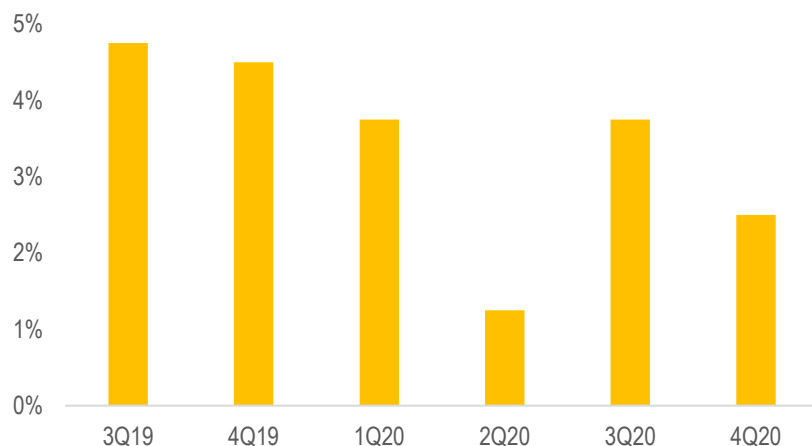
- Key focus is rent collection - reached never-before-seen levels. Strong rebound
- Discretionary spending recovery to continue but some categories will lag
- Transactional evidence supportive for smaller convenience/large format retail (LFR) assets; larger malls minimal investor appetite

**Fund position:** non-discretionary skew, higher income & cashflow security of convenience/LFR still preferred. Quality mall management teams may drive better than expected outcomes.

# Improved activity and utilisation in an evolving office sector

## Leasing activity across AREIT portfolios bounced back towards the end of 2020

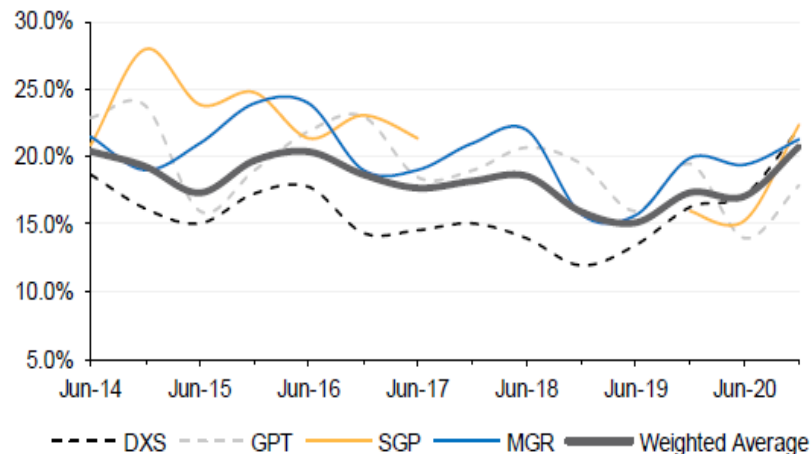
Ave. Office Portfolio NLA Leased (%)



Source: Macquarie, APN PG

## Tenants requiring greater inducement to enter into leases, placing pressure on effective rents

Average incentive (%)



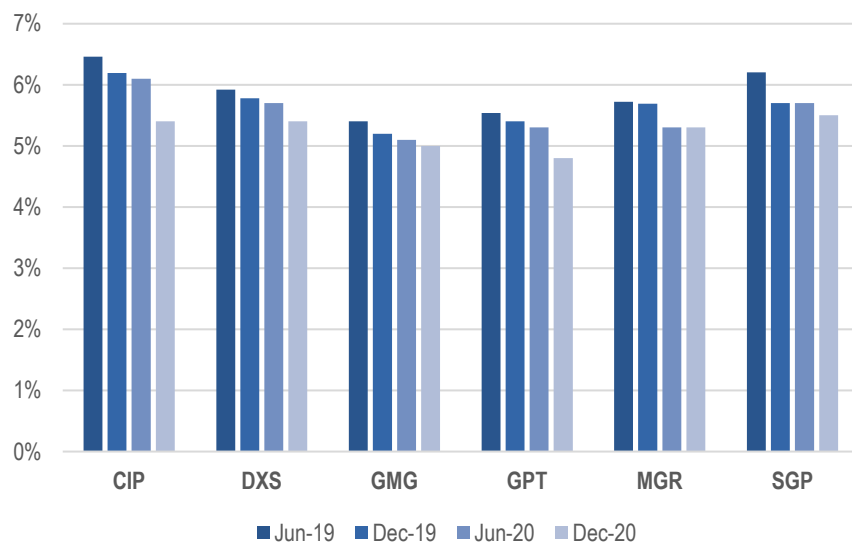
Source: Macquarie

- Implications of C-19 continue to impact office markets
- HY21 AREIT results indicated improved office leasing activity, but higher vacancy and incentives
- How tenants use office space will evolve to include more flexibility and remote working
- Portfolios offering accessible, fit-for-purpose space that is affordable and appealing to cost-conscious corporates will likely perform relatively well

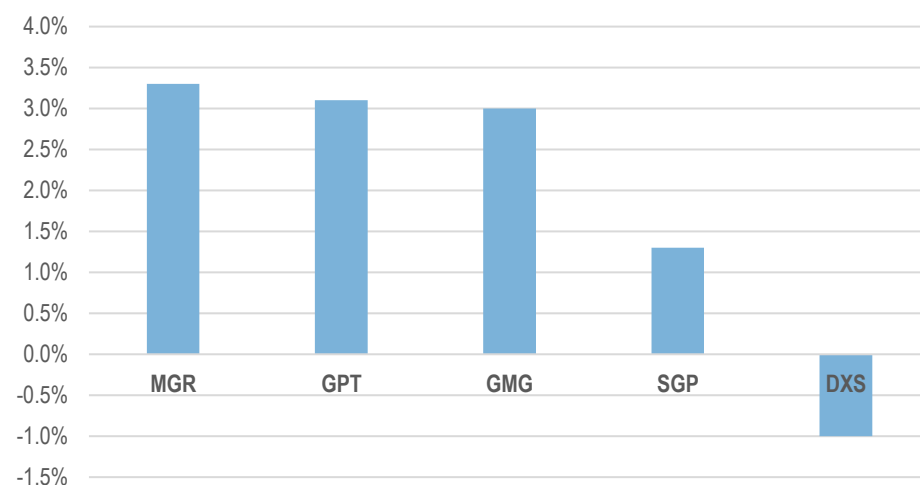
**Fund Position:** preference for metro over CBD

# Industrial: Building on its foundations

## Compressing Cap Rates



## NOI Growth



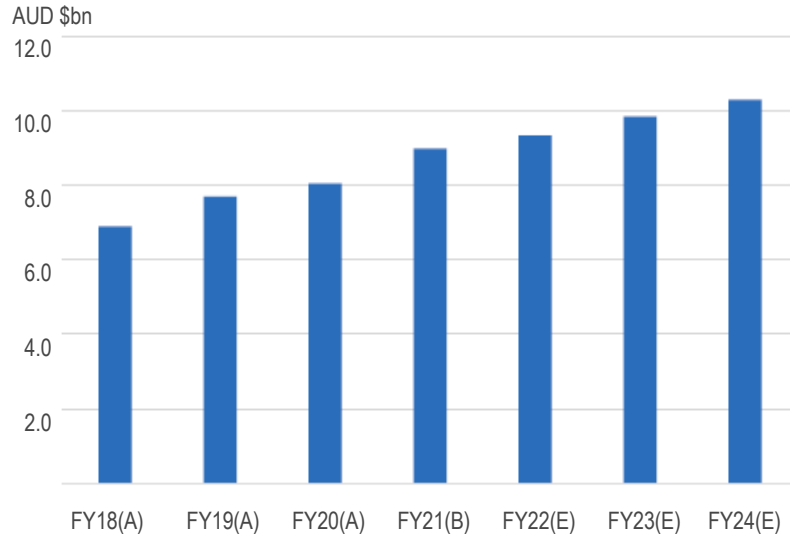
Source: Companies/APN

- Increasing values driven by increased capital allocation and structural tailwinds
- Record high take-up in 2020 at ~3million sqm
- Vacancy rates falling across Australia
- NOI growth above other core sectors

**Fund position:** significant upweight over past year (+9.4%)

# Childcare and Self Storage – the unsung heroes

## Estimated Gov. Funding to Childcare Sector



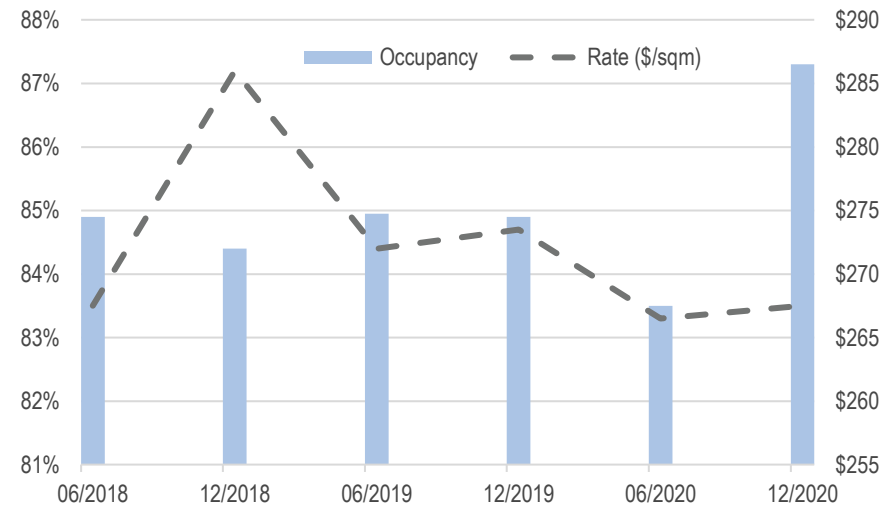
## Childcare

- Targeted government support
- Potential for further subsidies backed by productivity reports from Grattan & KPMG
- Increasing utilization of long day care

**Fund position:** Doubled positioning over 2020

Source: APN, Childcare in Australia, Company data

## Self Storage Occupancy Recovery



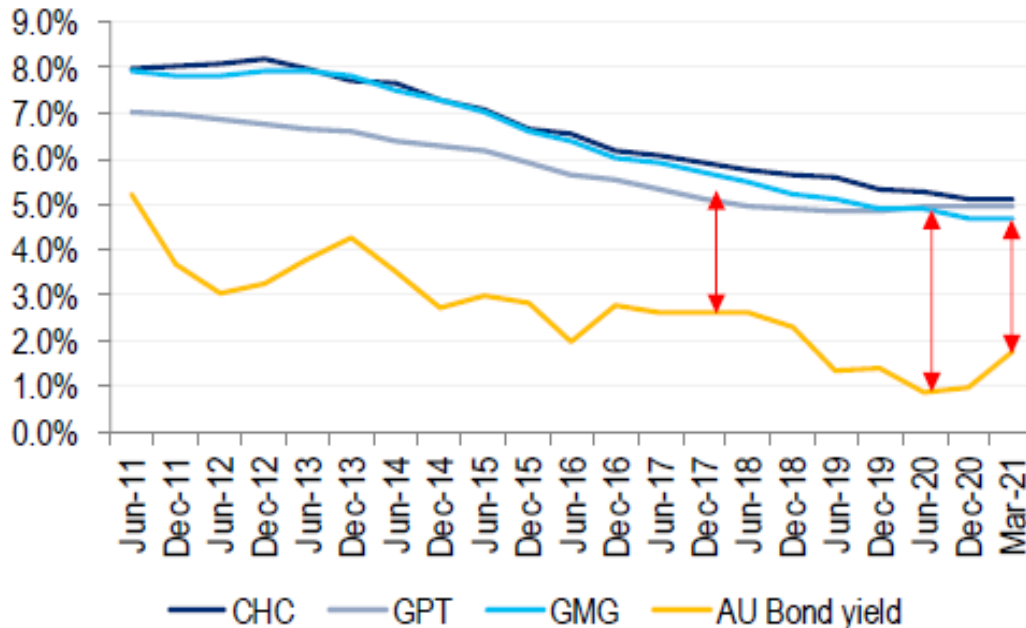
## Self Storage

- Resilient occupancy through COVID
- 99% cash collection throughout
- Valuation upside relative to global peers

**Fund position:** Preference for high occupancy, metro located

# What does inflation and rising bond yields mean for the sector?

## Portfolio Cap Rates and AU 10yr Bond Yield



- Inflation expectations are rising leading to a recent sharp steepening in yield curves.
- Australian households and businesses have capacity to spend
- AREITs have been caught up in the short term volatility
- We're more than comfortable with the inflation-hedging properties of REITs.

At its very core, commercial property is a real asset class with the ability to provide income protection against inflation



## Outlook: AREITs offer outstanding value in a low growth environment

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### Vaccination roll-out & further economic stability

A boost for real estate and positioned to benefit from a sustained recovery through 2021 and beyond, providing an attractive proposition for value/income focused investors.

### Attractive valuations

AREITs offer excellent value, supported by high spread of AREIT yield to bonds and compelling relative valuations.

### Opportunities in specialised REITs

Petrol Stations, Childcare, Storage, Healthcare, Data Centres, offer outstanding value with future growth potential.

### Regular and sustainable income

AREITs positioned to provide relatively high and sustainable monthly income with further distribution growth as trading conditions normalise.

APN | AREIT Fund

6.13%  
pa<sup>1</sup> | Distribution  
Yield

Monthly distributions  
Improving earnings outlook  
Compelling value

1. As at 28 February 2021. 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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