



It's a revolution: income investing in the era of big data

It started in England in the late 18th century when the first factories and mills drew agricultural workers to the towns and cities. Mechanisation demanded efficient transport of goods so waterways and canals, and later railways, were constructed.

A hundred years later electricity, gas and oil replaced steam and the horse and cart and new inventions, from the telephone to cars and planes, transformed daily lives.

The third industrial revolution of the late 1960s and 70s was driven by electronics, the silicon chip and telecommunications. Together, they helped to globalise the world and deliver a standard of living our ancestors could barely imagine.

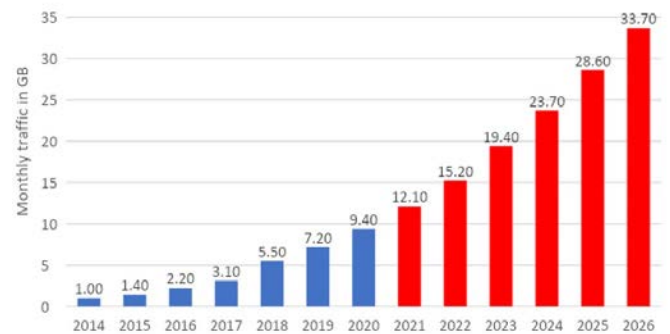
Now the fourth industrial revolution is underway, a fusion of existing technologies that are less visible than in the past but no less consequential.

Instead of physical goods, it is ones and zeros travelling across networks of optical fibre, data centres and mobile phone towers, again transforming our lives.

There are two structural shifts driving this transformation; e-commerce and digitisation (see Welcome to the new roaring 20s). Both are driving mobile data usage, a growing that will receive a massive boost by the roll-out of 5G.

Mobile data limits were once measly and expensive when breached. Now data has become a commodity. As data prices have fallen and new use cases have risen, data consumption has surged, as the chart below shows.

Mobile data traffic per smartphone globally 2014-2026 (in GB/month)



*Mobile data traffic per smartphone (Source: Ericsson Mobility Report 2020)

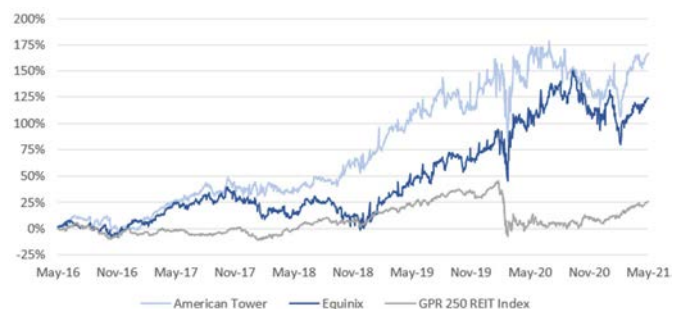
Over the next five years, global data usage is expected to increase more than three-fold, and there's every reason to think its strong growth profile will continue.

Ever increasing areas of our human activity now occur online. With our mobile devices, we can shop, read, communicate, watch, exercise and work. They have become essential tools for the modern world and, in the future, will become more so.

This offers a great opportunity for income investors to invest in real asset classes currently unavailable in Australia that are benefiting from the tremendous growth in data.

Two of the APN Global REIT Income Fund portfolio positions, American Tower (NYSE:AMT) and Equinix (NASDAQ:EQIX), operate in 40 countries and are the largest REITs on the planet¹. Over the past five years they have returned 21.54% and 17.45% per annum respectively, substantially outperforming the global REIT index² by 17.03% and 12.92% per annum.

AMT/EQT vs. GPR250 (5yrs to May 21)



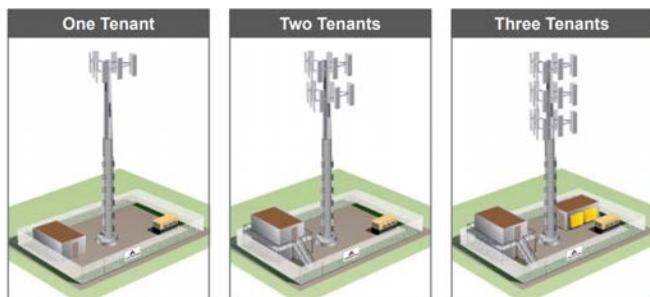
The vast and growing demand for new data centres and mobile towers has driven this performance and with 5G alone underpinning future returns for the telco tower landlords. If you think about how your personal mobile data usage has increased over the last five years, it's not difficult to imagine where it might be 10 years from now.

Recent history points the way. Since 2016, the collective market capitalisation of the five Mobile Phone Tower and US Data Centre REITs in our coverage has increased by 2.6 times. Their combined market value is now more than twice that of the entire Australian REIT market at over A\$325 billion.

For investors wanting to profit from a revolution only just getting started, it's important to appreciate the centrality of mobile phone towers and data centres. This, after all, is where the value is created.

A mobile phone tower typically has the capacity to support multiple tenants. Space on the tower and portions of the land underneath is leased to tenants, who also cover the cost to install additional antennas on a tower.

This is key to understanding the attractions of this model. Once a tower is built, the owner's capital expenditure is limited but revenue can grow in multiples as new tenants come onto the tower.



*Mobile Tower Tenant Structure (Source: American Tower Corp.)

Because 5G uses a higher frequency spectrum that covers shorter distances, its roll-out is driving demand for additional tower space for new 5G equipment for existing tenants who need to maintain the 4G spectrum along with additional demand from new 5G tenants. Demand for new towers is also strong with tenant capital focused on the significant 5G equipment spend rather than owning the towers (note both Optus and Telstra are selling towers to provide capital for their 5G rollout).

For investors, this is a tasty recipe as it accelerates returns from an asset base already largely built and paid for.

From the towers, data is transmitted to data centres where it is stored and processed. This is mission-critical real estate without which the fourth industrial revolution grinds to a halt.

The economics of a data centre are much the same as a mobile phone tower. As data usage increases, Data Centre REITs and Mobile Phone Tower REITs will continue to benefit. For investors in APN's Global REIT Income Fund, this is an excellent opportunity to invest in asset classes simply unavailable in Australia.

There is, however, something every income investor should bear in mind. Historically, dividend yields have lagged more established property types such as retail and office. But Tower and Data Centre REITs have grown their dividends at twice the rate of the overall sector.

This has everything to do with the growth potential in Tower and Data Centre REITs and the reason why we're so excited about them.

Over the next three years, yields in this sector are expected to grow by an average of 7.2% a year³. The price of a higher, growing future yield is a lower current yield as Tower and Data Centre REITs retain capital to invest in growing their asset bases.

For long term income investors, this is an alluring trade-off as it offers the prospect of higher capital growth and higher yields down the track. The ability to deliver outsized earnings and Net Asset Value (NAV) growth make these revolutionary real estate sectors a staple of the APN Global REIT Income Fund portfolio.

At a current running yield of 3.66%⁴, we are committed to deliver a stable and relatively high level of income to investors in the APN Global REIT Income Fund, plus the potential for competitive risk-adjusted capital growth, driven by the fourth industrial revolution.

1. By market capitalisation. As at 31 May 2021
2. GPR 250 REIT Index
3. APNe coverage simple average
4. As at 22 June 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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Established in 1996, APN's listed on the ASX and manages \$2.9 billion (as at 31 December 2020) of real estate and real estate securities. APN trades on the ASX under the code 'APD'.

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