



Income plus growth: Global REITs offer the best of both worlds

The search for yield is a perennial one. But in this environment, with rates at record lows, investors could be well rewarded to broaden their field of view. Whilst most focus on Australia's familiar real estate investment trusts (REITs) landscape, attractive and growing income streams are a little easier to find offshore.

In the global REIT sector, businesses with exposure to e-commerce, mobile tower and data centre sectors are stand-out investments and I'll shortly be introducing three opportunities to you.

At about 3.30% (GPR 250 REITs Index), some might consider the yields from global REITs low in absolute terms. And yet, they are almost double the available yield on global equities at circa 1.65% (MSCI World Index). But what gets us really excited is the prospect of a competitive yield plus attractive growth.

This is not a departure from APN's long-standing 'property for income' philosophy where we seek out attractive, regular, and growing income distributions from commercial real estate. This was the driver behind the launch of the APN Global REIT Income Fund in April 2020.

But the pandemic has changed the opportunity set. While lockdown restrictions placed retail malls under pressure and working-from-home heralded renewed calls for greater flexibility in the office market, the opportunities in global REIT portfolios exposed two major trends that take us to the heart of the opportunity.

1. More warehouse space to support online retail growth and supply chain resilience

The pandemic has accelerated the need for more warehouse and distribution space, especially in North America where the consumer shift to online was already ahead of most countries. Through the second quarter of

2019, a Digital Commerce 360 analysis of U.S. Department of Commerce data estimated online retail penetration at 14.5%. The latest figures suggest this has since increased to 18.6%.

The upshot? The pandemic has pulled forward future demand by several years and almost certainly bought a new audience of shoppers online. Supply chain resilience and efficiency in getting online shoppers what they ordered fast has made fulfillment a key battleground for logistics operators and retailers.

This is excellent news for Industrial REITs around the globe but especially in North America, where the growth trend is most pronounced. Warehouse premises will benefit from the acceleration in demand and landlords are likely to enjoy higher rents over time. We expect Industrial REITs to have close to the highest levels of earnings and dividend growth across the wide range of property sectors.

One North American opportunity we found for the APN Global REIT Income Fund is Industrial Logistics Properties Trust (ILPT). It features an attractive portfolio of high-quality logistics premises and a well-covered distribution yield of 5.20%. Comparative REITs in Australia don't get near this kind of figure.

Even among the global REIT universe, ILPT offers an additional 1.90% distribution yield. With our focus on high quality yield, ILPT's lease covenant strength is really appealing. About 15% of all rental income derives from tenants like Amazon and FedEx.

2. The digital economy is driving the fourth industrial revolution

The fourth industrial revolution, driven by data, is now well underway. Instead of physical goods, the movement of ones and zeros travelling across networks of optical fibre, data centres and mobile phone towers is providing income investors with some fantastic opportunities.

Two positions in the APN Global REIT Income Fund - American Tower Corporation (AMT) and Equinix (EQIX), offering exposure to global portfolios of mobile towers and data centres – are set to capitalise on this trend. This revolution is only just getting started and mobile phone towers and data centres are central to it.

A mobile phone tower usually supports multiple tenants. Tower space and portions of the land underneath it is leased out to tenants, who cover the costs to install additional antennas. 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 more data that is consumed, the better businesses data centre REITs and mobile tower REITs become. For investors in APN's Global REIT Income Fund, this is an excellent opportunity to invest in asset classes simply unavailable in Australia.

Historically, because of their growth rates, dividend yields in this sector 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 is but one of the reasons why we're so excited about them.

Over the next three years, yields in this sector are expected to grow by an average of 11.2% a year. The price of a higher, growing future yield is a lower current yield as tower and data centre REITs 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 APN Global REIT Income Fund delivers access to income returns from a world of commercial property, available to investors through an actively managed portfolio of global property REITs.

Focused on the developed markets of North America, Europe and Asia Pacific, where local fundamentals and accelerating structural trends are strongest, the Fund offers great prospects for sustained rental growth, attractive yields and long-term value creation through REITs like American Tower Corporation, Equinix and Industrial Logistics Properties Trust.

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APN Real Estate Securities

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APN Real Estate Securities became part of Dexu (ASX: DXS) in August 2021. Dexu is one of Australia's leading fully integrated real estate groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

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