Antares Listed Property Fund

Real income: prime time for listed real estate

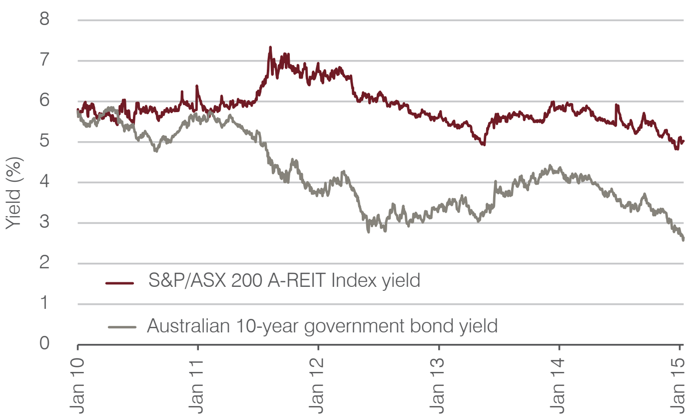
Australia's Real Estate Investment Trusts (REITs) have come back into favour in recent years as investors have sought high yielding investments in a low interest rate environment.

REITs can provide investors with a liquid, diversified income stream that should grow over time. But the daily pricing that provides the high liquidity brings with it greater short-term pricing volatility. Investors also need to be prepared to conduct regular due diligence on the underlying quality and risk levels of the investments.

INCOME YIELDS OVER TIME

A study of Australian REITs actual income yield over time shows it has consistently delivered an attractive income yield to investors. In terms of more recent history, the forecast income yield for Australian REITs has traded at a premium to bond yields over most of the past five years (chart 1).

CHART 1: A-REIT forecast yield vs Australian 10-year government bond yield: 2010-2015



Source: Bloomberg

So in a market of low bond yields and a low cash rate, REITs have been able to provide a higher income yield, which has been a pleasing outcome for investors. While yield is clearly an important consideration for income-focused investors, there are a number of extra factors investors should consider:

- **Diversification –** a key attraction of REITs is they are accessible to all investors. Their listed structure means that even small investors can own a piece of iconic Australian real estate assets such as Chadstone Shopping Centre in Melbourne or Bondi Junction in Sydney. Additionally, Australian REITs are well diversified across sectors (eg retail and commercial) and stocks.
- **Liquidity –** REITs are one of the few forms of property investments that enjoy a high level of liquidity owing to their listed structure. Investors can therefore sell a REIT investment and receive the proceeds in three days while typically incurring only low transaction costs, ie brokerage.
- **Volatility –** the trade-off to having high liquidity is the volatility that comes with the daily pricing of REITs. Investors should note, though, that this volatility does not result from the underlying properties owned by the REIT being re-valued every day – it is simply a result of changes in the price that investors are willing to pay for the REITs on a daily basis. Investor's views on the price can be driven by many factors including the economic environment.

Table 1 gives a snapshot of some of the important considerations when looking at REITs as well as two of the other popular forms of property investment.

TABLE 1: Different forms of property investment

	Accessibility for retail investors	Level of investor control over underlying property	Volatility of returns	Diversification benefits vs bonds and equities	Liquidity
Direct property	Low	High	Low	High	Low
Unlisted property funds	High	Low	Low	High	Low - Moderate
REITs	High	Low	Moderate	Moderate - High	High

DUE DILIGENCE

Any investment – be it shares, bonds or property – needs regular monitoring to ensure that it continues to meet an investor's objectives. REITs are no different.

Once investors have become comfortable in Australian REITs as a source of income, there needs to be an ongoing level of due diligence regarding the state of the investment. In particular, investors need to be confident that the REITs remain sound remain sound in terms of their balance sheets and management teams, and that the income being generated is sustainable in nature. This was certainly not the case immediately prior to the onset of the GFC in late 2007. Thankfully the REITs have subsequently repaired and gone back to basics in terms of the rent collecting models pioneered by some of the original Listed Property Trusts in the 1990's.

For more information contact your financial adviser or visit antarescapital.com.au

a partner of:
nabassetmanagement