Talking Points

Key Characteristics of Australian and Global Listed Property

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In this Talking Point we discuss the relative investment merits of global and Australian listed property, looking at four key considerations – income levels, fundamentals, currency, and diversification. Although AREITs generally produce higher income, currently have more attractive fundamentals, and are not as susceptible to currency issues as their global counterparts, global listed property offers superior diversification at the sector level.

Income Levels

Income is a major determinant of the decision to invest in listed property. This is where Australian REITs have traditionally had the edge over their global counterparts. The yield at the time of writing of around six percent was very attractive to investors when compared to bond yields at record lows. The six percent yield from AREITs was also higher than the other major listed property regions. Heavy price falls in Continental Europe and the United Kingdom have potentially artificially increased the headline yield on offer, making it more vulnerable, while yields from US and Asian REITs have typically over time been meaningfully lower than those from Australian REITs.

Fundamentals

The fundamentals also look more attractive for Australian rather than global listed property. The AREIT sector has been reconstructed in light of some painful lessons learned during the global financial crisis. Balance sheets have been repaired, gearing reduced, trusts have sold non-core assets, and are again focusing on traditional rent-gathering activities. There have been a number of buybacks over the past two years as companies looked to take advantage of the sector trading at a discount to net asset value.

Figure 2 over shows the differing regions' recent overall premiums or discounts to net asset value at 31 October 2012. The graph shows that the global average was a discount of about five percent, slightly below the 10-year average. Australia was trading at virtual fair value, having substantially closed the discount over the early part of 2012, driven by the strong performance of the sector. The discounts to net asset value in both Continental Europe and the United Kingdom have narrowed considerably, particularly in Europe, where there are some tenuous signs of improving fundamentals. The large premium seen in the United States has also narrowed back to two percent, putting it below its 10-year average. As the premium moved back to fair value, this has started to pique the interest of some institutional investors which had previously considered the sector expensive.

Global listed property is more susceptible to currency shocks than the Australian trusts. Major movements in the value of the $A therefore have significant implications for fund managers' ability to provide income distributions.

Global listed property as an asset class offers greater diversification at the underlying sector level than Australian listed property, as Table 1 over shows. This highlights one of the major structural limitations of the Australian asset class, and strengthens the case for the argument that the most effective way to invest in listed property is with a global listed property fund manager with a flexible mandate which includes the ability to invest in AREITs. The decision should also be made on the basis of investor need. If high and regular income is the priority, this makes the case for greater AREIT exposure. M

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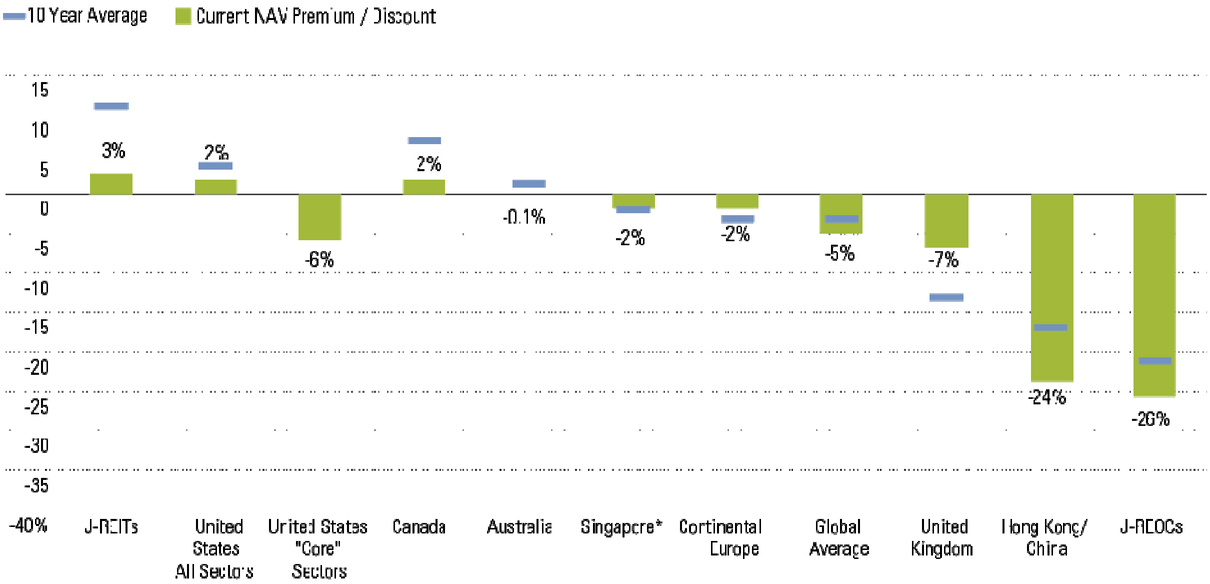
Figure 1: Global Listed Property – Net Asset Value Premiums/Discounts by Region at 31 October 2012



Source: CBRE Clarion

Table 1: Global and Australian Listed Property Indices – Sector Weightings at 31 October 2012

Sector	Global Listed Property Index Weight %	Australian Listed Property Index Weight %
Retail	27.20	52.30
Diversified	26.80	33.8
Office	23.10	5.70
Industrial	6.10	8.20
Residential	13.50	0.0
Hotel/Leisure	3.30	0.0

Source: Vanguard