

# Property Sector Wrap

## January 2019

A review of listed and unlisted property funds activity for January 2019

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The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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## Property Sector Wrap – January 2019

In this month's report we review the latest trends in the retail industry and the outlook of this changing market. We also run through our usual monthly review of the listed and unlisted property sectors.

**Population growth continues to underpin a positive outlook for consumer spending.** According to ABS, population is forecast to grow over 1.4% p.a. over the next decade in comparison to the average of advanced economies at just 0.3% p.a. Furthermore, the retail market is also driven by favourable demographics with the largest group of population growth to come from the ages 38-43. This will support the long-term retail spending with the ages of 44-55 being the peak spending age.

**Retail spending continues to grow above inflation levels.** Latest data from the ABS shows that in the 12 months to December 2018 total retail spending increased by 3% across Australia. Over the last 10 years retail spending has typically increased by between 2% – 6% per annum.

**Despite this, retail sentiment remains weak due to store closures, weaker department store sales and the rise of e-commerce.** The number of transactions valued above \$100M has reduced with the majority of completed transactions resulting in the asset movement from listed AREITs to unlisted institutional investors. Retail centre owners continue to face net income headwinds driven by rental reversions and negative lease spreads. Furthermore, retail turnover growth has dropped from its 5.7% high in November 2014 to 2.9% in November 2018. With a drop-in house prices and global economic uncertainty underpinning weaker consumer confidence, the retail market is expected to result in stagnated retail turnover growth.

**A clear trend to remix tenants in retail centres has emerged.** Across all centres, there has been a strong focus on reallocating tenants from fashion outlets to more food and services based centres. There are expectations that this portfolio remixing will continue, especially with the rise of e-commerce trend. This is evident by the sales leakage to digital channels in the 12 months to September reaching 8.9% of total retail spending (\$21B). Centre owners are expected to continue to deploy capital into driving consumer engagement and retailer interest via innovative and creative developments. Large scale developments have been scaled back for these projects which have resulted in an increase in refurbishments and leasing extensions, albeit at wider lease spreads.

The challenging retail environment has impacted the returns across listed and unlisted property funds with retail exposures. Listed REITs with a focus on convenience based food and services (SCA Property Group, Charter Hall Retail REIT) have tended to outperform broad based centres with higher apparel and department stores (Scentre Group, Vicinity Centres).

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### Recent Reports:

- [Haben Cleveland Shopping Centre Trust](#)  
A top performing neighbourhood shopping centre with development upside targeting 6.8% distributions.
- [Westlawn Property Trust](#)  
A diversified property trust in the growth region of northern NSW and south east QLD with development upside.

## Market Data

### Index Performance

Indices Total Return Performance

Index	Oct-18	Nov-18	Dec-18	Jan-19	% Movement			
					1 Month	3 Month	1 Year	Calendar YTD
All Ordinaries	5,913	5,749	5,709	5,937	<b>4.0%</b>	0.4%	-3.4%	4.0%
S&P/ASX 200	5,830	5,667	5,646	5,865	<b>3.9%</b>	0.6%	-2.9%	3.9%
S&P/ASX 200 Accumulation	60,108	58,780	58,710	60,981	<b>3.9%</b>	1.5%	1.4%	3.9%
A-REIT 200 Accumulation	47,971	47,758	48,566	51,562	<b>6.2%</b>	7.5%	13.0%	6.2%
A-REIT 300 Accumulation	47,814	47,684	48,510	51,400	<b>6.0%</b>	7.5%	13.1%	6.0%

Source: IRESS, as at 31 January 2019

The listed Australian property indices outperformed in January with the S&P A-REIT 200 Accumulation Index increasing 6.2%, compared to the roader S&P/ASX 200 Accumulation index which grew 3.9%. The Australian 10 Year Bond declined by 8 bps to 2.2408% and the US 10 Year Bond Yield compressed 5bps to 2.6288%.

At its December 2018 meeting the RBA held the cash rate at 1.50%, the same level it has been since August 2016.

### Bond Yields & Spreads

The yield on the Australian government 10-year bond finished the month at 2.24%, while the trailing distribution yield on A-REITs finished at 4.95%.

As a result, the spread between the two finished at 2.71%.

The correlation between the Australian government 10-year bond and the ASX/S&P200 A-REIT Yield (monthly) for the past 2 years is 0.171.

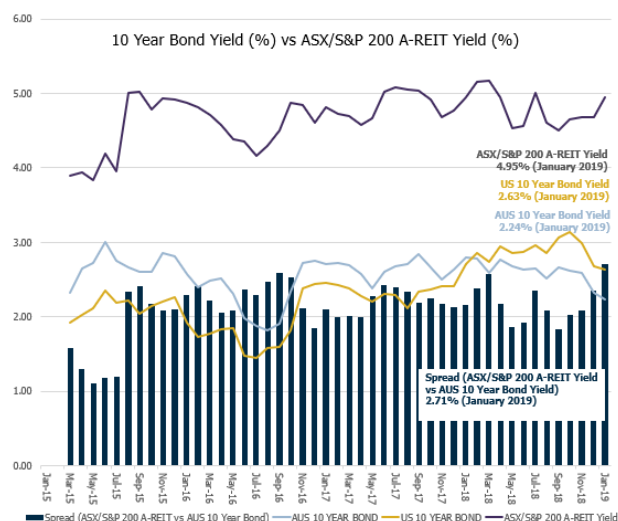
In the US, the Federal Open Market committee (FOMC) have held their view for interest rates to gradually increase. During the month of January, the FOMC held the rate at 2.5%.

### Market Data

Month Ending	Oct18	Nov18	Dec18	Jan19
AUS 10 Year Bond Rate	2.6248	2.5911	2.3208	2.2408
US 10 Year Bond Rate	3.1374	2.9924	2.6836	2.6288
RBA Cash Rate	1.50	1.50	1.50	1.50
A-REIT Yield	4.65	4.68	4.95	4.95
AUDUSD	0.72	0.73	0.70	0.73

Source: IRESS, as at 31 January 2019

### 10 Year Bond Yields vs ASX/S&P 200 A-REIT 200 Yield



Source: IRESS

## Listed A-REITs

Top 5 Monthly Total Return – January 2019

	Code	Name	Month Total Return
1	ABP	Abacus Property Group	12.5%
2	ARF	Arena REIT	11.6%
3	CHC	Charter Hall Group	10.9%
4	GMG	Goodman Group	9.7%
5	GPT	GPT Group	8.6%

Source: IRESS, Total Return includes distributions

Bottom 5 Monthly Total Return – January 2019

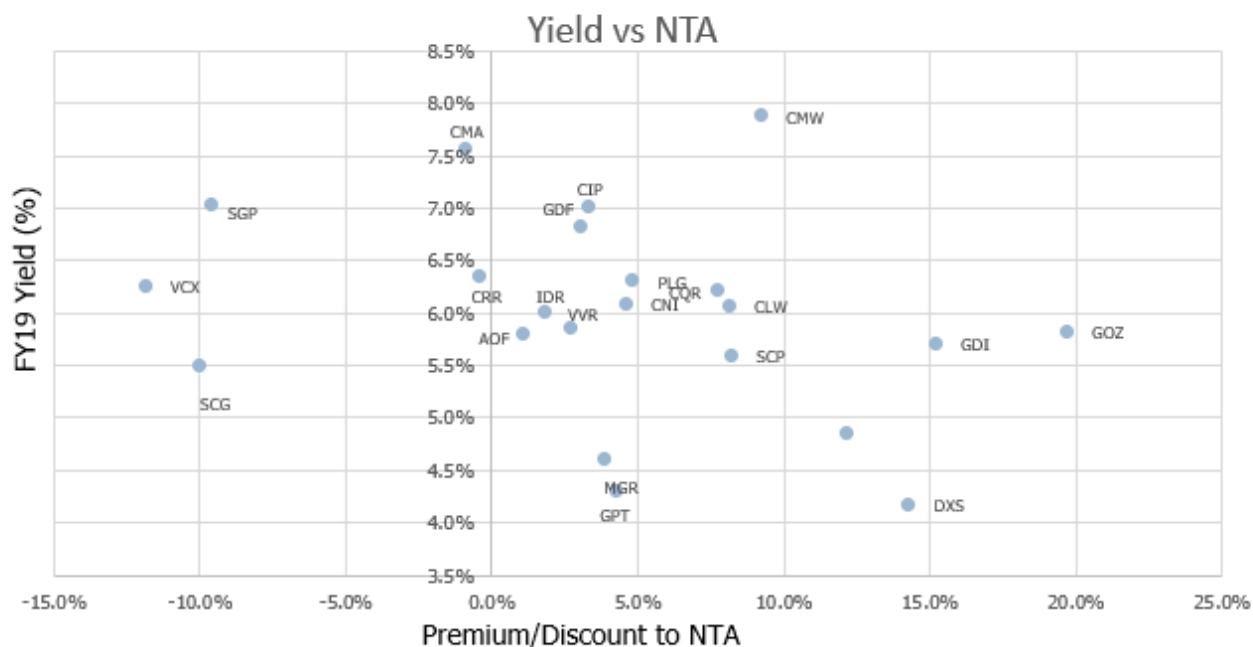
	Code	Name	Month Total Return
1	ERF	Elanor Retail Property Fund	-4.4%
2	BWR	Blackwall Property Trust	-3.3%
3	LEP	ALE Property Group	-2.5%
4	SCP	SCA Property Group	-2.4%
5	APD	APN Property Group	-2.2%

Source: IRESS, Total Return includes distributions

The top performing property security in January was Abacus Property Group (ASX: ABP) which increased by 12.5%.

The worst performing security in January was Elanor Retail Property Fund (ASX: ERF) which was down 4.4%.

Yield vs Premium/Discount to NTA



Note: **CHC** is trading on a 3.9% yield and Price/NTA premium of 115.4%.  
**GMG** is trading on a 2.4% yield and a Price/NTA premium of 151.3%.

Source: Core Property, company announcements, IRESS

## Unlisted Property Funds

During January 2019, unlisted property funds recorded major property transactions of around \$100M. The largest transaction was the settlement of 223-237 Liverpool Road, Ashfield for \$46.0M. The asset was sold by GDI for an \$11.0M premium over the purchase price of \$35.0M in 2015.

The following is a rundown of some key events in unlisted property funds during January 2019.

### Activity

- **Pipeclay Lawson** has acquired 13 Ferndell St, Granville NSW from Centuria Metropolitan REIT (ASX: CMA) for \$24.2M. The property was acquired on a net yield of around 6.2% and is tenanted by Bluescope Steel with the current lease expiring in 2020.
- **Centuria Property Group's Retail Fund** have sold Windsor Marketplace for \$22.6M. It was placed on the market back in August 2018 with expectations of selling for around \$25M. The 5,320 sqm neighbourhood centre is anchored by Woolworths and has a fully leased yield of 6.67%.
- **MPG Funds Management** will acquire the Seacrest Shopping Centre in Geraldton, WA for \$14.8M. The 4,713 sqm regional centre was opened in August 2017 and will be held in the MPG Retail Brands Property Trust. The centre is anchored by Woolworths and will be acquired on a 7.25% passing yield and a weighted average lease expiry of over nine years.
- **The Dexu Unlisted Wholesale Property Fund** is understood to be in due diligence with expectations to the MLC Centre in Sydney. The Fund currently owns 25% of the Centre alongside ASX listed **Dexu (ASX: DXS)** which owns a further 25% and have pre-emptive rights to acquire the remaining 50% stake from co-owner GPT Group.
- **The Charter Hall Prime Office Fund and Charter Hall Direct Office Fund** have jointed acquired 10 Shelley St, Sydney.
- **The Charter Hall Prime Office Fund and Charter Hall Direct PFA Fund** have jointed acquired 12 Shelley St, Sydney
- **Haben Property** has launched the **Haben Number 8 Property Trust** to acquire the Cleveland Shopping Centre in Cleveland QLD. The property is a top performing neighbourhood centre anchored by Coles and Woolworths, with plans by the Manager to expand the site over the next few years to include an ALDI supermarket. The Trust is targeting initial distributions of 6.8%, increasing to 8.3% in five years.
- **AMP Capital Fund** has partnered up with Goodman Group to develop two industrial assets in western Sydney. One site is located at Arnell park and the other in Rosehill.
- **GDI No. 42 Office Trust** has announced the settlement of 223 – 237 Liverpool Road, Ashfield for \$46.0M. The sale represents an \$11.0M premium over the purchase price of \$35.0M in 2015. The settlement allows GDI to return \$0.33 per unit in capital for investors whilst also reducing its Loan To Valuation ratio to below 20%. This extra financial capacity will allow the Manager, GDI Property Group flexibility with 235 Stanley Street when its lease expires in 2020.

## Appendix 1: A-REIT Activity – January 2019

The following is a summary of announcements by the major listed A-REITs during January 2019.

**AOF: Australian Unity Office Fund**

- 10 January 2019 – AOF has updated the valuation of 4 properties resulting in a combined overall increase of \$0.2M

**ARF: Arena REIT**

- No announcement

**BWP: BWP Trust**

- No announcement

**CDP: Carindale Property**

- No announcement

**CHC: Charter Hall Group**

- No announcement

**CIP: Centuria Industrial REIT**

- No announcement

**CLW: Charter Hall Long WALE REIT**

- No announcement

**CMA: Centuria Metropolitan REIT**

- 7 January 2019 – CMA has announced the sale of the last industrial asset. This divestment finalizes the execution of CMA's strategy to become a pure play office REIT

**CMW: Cromwell Property**

- 18 January 2019 – CMW has announced the extension of the on-market buy-back scheme.

**CNI: Centuria Capital Group**

- No announcement

**CQR: Charter Hall Retail REIT**

- No announcement

**CQE: Charter Hall Education Trust**

- No announcement

**CRR: Convenience Retail REIT**

- No announcement

**DXS: Dexus**

- No announcement

**GDF: GARDA Diversified Property Fund**

- No announcement

**GMG: Goodman Group**

- No announcement

**GPT: GPT Group**

- 16 January 2019 – GPT has announce plans to sell its 50% stake in MLC Centre

**GDI: GDI Property Group**

- No announcement

**GOZ: Growthpoint Property**

- 4 January 2019 – GOZ has announced the expansion of the Woolworths Distribution Centre at Gepps Cross.

**IDR: Industria REIT**

- No announcement

**IOF: Investa Office Fund**

- No announcement

**MGR: Mirvac**

- No announcement

**PLG: Propertylink**

- 24 January 2019 – The takeover bid by ESR Real Estate was extended to Thursday, 28 February 2019.

**SCG: Scentre Group**

- 29 January 2019 – SCG has announced the appointment of Elliot Rusanow to Chief Financial Officer following the retirement of Mark Bloom.

**SCP: SCA Property Group**

- No announcement

**SGP: Stockland**

- No announcement

**TGP: 360 Capital Group**

- No announcement

**VCX: Vicinity Centres**

- 24 January 2019 – VCX has announced revaluations on 38 of 62 directly owned retail properties. The overall portfolio declined in net valuation of \$37M or 0.2%.

**VVR: Viva Energy REIT**

- No announcement



## Appendix 2: A-REIT Distributions

The following is a summary of recent and expected distributions for the listed A-REITs.

Distribution Calendar for A-REITs

Ex-Distn Date	Payable Date	Code	Name	Forecast/Actual distribution	Freq	Prior Distn – pcp (cpu)
11 Oct 18	14 Nov 18	AJD	Asia Pacific Data Centre Group	2.0	Special	NA
27 Sep 18	19 Oct 18	BWF	Blackwall Limited	2.1	HY	1.80
25 Sep 18	17 Oct 18	BWR	Blackwall Property Trust	5.0	HY	6.50
Late Dec 18	Mid Jan 19	AOF	Australian Unity Office Fund	3.95	Qtr	3.9
Late Dec 18	Early Feb 19	ARF	Arena REIT	3.375	Qtr	3.2
Late Dec 18	Late Feb 19	AVN	Aventus Retail Fund	4.14	Qtr	4.07
Late Dec 18	Late Jan 19	CIP	Centuria Industrial REIT	4.6	Qtr	4.85
Late Dec 18	Late Jan 19	CMA	Centuria Metropolitan REIT	4.358	Qtr	4.525
Late Dec 18	Mid Feb 19	CLW	Charter Hall Long WALE REIT	6.5	Qtr	6.5
Late Dec 18	Mid Feb 19	CRR	Convenience Retail REIT	5.225	Qtr	4.88
Late Dec 18	Late Feb 19	CMW	Cromwell Property	1.8125	Qtr	2.085
Late Dec 18	Late Jan 19	CQE	Charter Hall Education Trust	4.0	Qtr	3.775
Late Dec 18	Mid Jan 19	GDF	GARDA Diversified Property Fund	2.25	Qtr	2.25
Late Dec 18	Early Feb 19	IDR	Industria REIT	4.25	Qtr	4.1
Late Dec 18	Late Jan 19	TGP	360 Capital Group	1.0	Qtr	0.75
Late Dec 18	Late Jan 19	CNI	Centuria Capital	4.25	HY	4.1
Late Dec 18	Late Feb 19	DXS	Dexus	27.2	HY	23.7
Late Dec 18	Early Mar 19	ERF	Elanor Retail	4.65	HY	5.1507
Late Dec 18	Early Mar 19	LEP	ALE Property Group	10.45	HY	10.35
Late Dec 18	Late Feb 19	MGR	Mirvac Group	5.3	HY	5.0
Late Dec 18	Late Jan 19	SCP	SCA Property Group	7.25	HY	6.8
Late Dec 18	Late Feb 19	VCX	Vicinity Centres	7.95	HY	8.1
Late Dec 18	Late Feb 19	CQR	Charter Hall Retail REIT	14.28	HY	14.0
Late Dec 18	Late Feb 19	GDI	GDI Property Group	3.875	HY	3.875
Late Dec 18	Late Feb 19	GMG	Goodman Group	15.0	HY	13.75
Late Dec 18	Late Feb 19	GOZ	Growthpoint Property	11.4	HY	11.0
Late Dec 18	Late Feb 19	GPT	GPT Group	12.73	HY	12.3
Late Dec 18	Late Feb 19	NSR	National Storage REIT	4.5	HY	4.7
Late Dec 18	Early Mar 19	PLG	Propertylink Group	3.6	HY	3.6
Late Dec 18	Late Feb 19	SGP	Stockland	13.5	HY	13.0
Late Dec 18	Late Feb 19	BWP	BWP Trust	8.93	HY	8.78
Late Dec 18	Late Feb 19	CDP	Carindale Property	18.1	HY	20.1
Late Dec 18	Late Feb 19	CHC	Charter Hall Group	16.5	HY	15.6
Early Jan 19	Late Feb 19	ABP	Abacus Property Group	9.25	HY	9.0
Late Jan 19	Mid Feb 19	VVR	Viva Energy REIT	6.82 – 6.92	HY	6.6
Early Feb 19	Late Feb 19	SCG	Scentre Group	11.08	HY	10.87
Early Mar 19	Late Apr 19	APD	APN Property Group	TBA	HY	1.25

Source: Core Property, company announcements

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