Core Property
Fund Research & Ratings
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# Property Sector Wrap

## September 2018

A review of listed and unlisted property funds activity for September 2018

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# About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

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 – September 2018

In this month's report we review some of the recent takeover offers from major overseas fund managers looking to increase their exposure to Australian commercial properties. We also run through our usual monthly review of the listed and unlisted property sectors.

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**Recent takeover plays from international fund managers**

Through September/October 2018 there has been an increase in takeover plays in the listed A-REIT sector. The following is a summary of three major takeover offers by overseas fund managers looking to establish a significant presence in the Australian commercial property market. The offers come from US, Canadian and Asian based fund managers and highlight the growing international presence of fund managers in Australia. Core Property expects these new entrants to undertake further acquisitions over coming years as they seek to build their Australian investments.

**Oxford Properties (Canada) looks at Australian CBD office assets**

Oxford Properties represents the real estate investment arm of Canadian pension fund, the Ontario Municipal Employees Retirement System (OMERS). With over US$50 billion in assets under management, Oxford signaled its intention to be a significant player in the Australian commercial property market after engaging in a bidding war with US private equity giant Blackstone Group to acquire Investa Office Fund (ASX: IOF). Blackstone made the first two offers before Oxford entered the game. A bidding war ensued, however after Oxford secured a 19.95% interest, Blackstone stepped back, paving the way for Oxford to acquire the Fund for around $3.4 billion. Revaluations of the assets during this time meant that the Oxford is set to acquire the portfolio at a mere 2% premium to net tangible assets.

**Starwood Capital (US) looks at office assets**

US fund manager Starwood Capital Group has also been looking to Australia for a portfolio of commercial office assets. Starwood has over US$60 billion in assets under management and is known for its association with Starwood Hotels, which merged with Marriott Hotels. The US fund manager has also set its sights on building a significant presence in the Australian office market with its takeover offer for the Australian Unity Office Fund (ASX: AOF) in October 2018. Starwood had the Fund in its sights since March 2018 when it made its first offer which was rejected by the Fund. Two further offers were made in May and July, before the fourth offer was considered by Australian Unity. The offer was 21 percent higher than the initial offer and represents a 10% premium to net tangible assets. Whilst Starwood Capital has held assets in Australia previously, the acquisition of the Australian Unity Office Fund will add $0.6 billion in assets to Starwood's portfolio.

**ESR (Asia) looks at industrial assets**

e-Shang Redwood (ESR) is a pan-Asian logistics player backed by Warburg Pincus and has been circling the Australian market since late 2017 when it acquired strategic stakes in Propertylink Group (ASX: PLG) and Centuria Capital Group (ASX: CNI). In July 2018 it made its first full acquisition in Australia when it acquired the Commercial & Industrial Property portfolio for $100 million. ESR latest target, Propertylink Group, provides a significant platform for ESR to be a leading Australian logistics player, with a portfolio of $0.8 billion of industrial assets and $1.0 billion in assets under management. Propertylink itself also had a takeover offer for Centuria Industrial REIT (ASX: CIP) which has been put on the sidelines as a result of ESR's bid. For its efforts, ESR is set to acquire Propertylink at a 15% premium to net tangible assets.

**Recent Reports by Core Property:**

- MPG Regional Cities Property Trust
  A diversified regional property fund with social infrastructure/ government tenancies, targeting 7.0%+ distributions.
- HS Consortium 382-386 Burwood Rd Hawthorn Development Trust
  Residential development in Hawthorn Vic, targeting 15% p.a. returns in 18 months.
- APN Nowra Property Fund
  Large formal regional retail site with Woolworths guarantee targeting 7.8%+ distributions.
- Wingate Income Trust No.1
  A fund providing investors with an opportunity to participate in Wingate's proprietary secured debt investments.
- Sumner Capital 117 Harrington Street Trust
  A heritage office building in the heart of the Sydney CBD targeting average distributions of 6.2% over 5 years.

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The three transactions all came to a head during September/October and highlight the attractiveness of these Australian assets for international investors. We expect the appetite for good quality Australian assets will continue to spur interest from international fund managers through 2019.

The following table is a summary of the offers made for these funds.

Summary of recent takeover offers by major overseas fund managers

| Bidder | Target | Date | Offer Price per security | NTA | Premium to NTA |
|---|---|---|---|---|---|
| Blackstone | Investa Office Fund | 28 May 2018 | $5.25 | $4.95 | 6% |
| Blackstone | Investa Office Fund | 27 Aug 2018 | $5.45 | $4.95 | 10% |
| Oxford Properties | Investa Office Fund | 4 Sept 2018 | $5.50 | $5.47 | 1% |
| Blackstone | Investa Office Fund | 10 Sept 2018 | $5.52 | $5.47 | 1% |
| Oxford Properties | Investa Office Fund | 13 Sept 2018 | $5.60 | $5.47 | 2% |
| Starwood Capital | Australian Unity Office Fund | 29 Mar 2018 | $2.43 | $2.31 | 5% |
| Starwood Capital | Australian Unity Office Fund | 17 May 2018 | $2.56 | $2.31 | 11% |
| Starwood Capital | Australian Unity Office Fund | July 2018 | $2.72 | $2.31 | 18% |
| Starwood Capital | Australian Unity Office Fund | 8 Oct 2018 | $2.95 | $2.67 | 10% |
| ESR | Propertylink | 21 Sept 2018 | $1.15 | $1.04 | 11% |
| ESR | Propertylink | 16 Oct 2018 | $1.20 | $1.04 | 15% |

Source: Company announcements, Core Property

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# Market Data

## Index Performance

Indices Total Return Performance

| Index | Jun-18 | Jul-18 | Aug-18 | Sep-18 | % Movement | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | **1 Month** | 3 Month | 1 Year | Calendar YTD |
| All Ordinaries | 6,290 | 6,369 | 6,428 | 6,326 | **-1.6%** | 0.6% | 10.1% | 2.6% |
| S&P/ASX 200 | 6,195 | 6,278 | 6,319 | 6,208 | **-1.8%** | 0.2% | 9.3% | 2.3% |
| S&P/ASX 200 Accumulation | 63,015 | 63,871 | 64,796 | 63,979 | **-1.3%** | 1.5% | 14.0% | 5.9% |
| A-REIT 200 Accumulation | 48,605 | 49,000 | 50,402 | 49,511 | **-1.8%** | 1.9% | 13.2% | 4.9% |
| A-REIT 300 Accumulation | 48,392 | 48,752 | 50,128 | 49,352 | **-1.5%** | 2.0% | 13.2% | 5.1% |

Source: IRESS, as at 30 September 2018

The listed Australia property indices underperformed in September with the S&P A-REIT 200 Accumulation Index down 1.8%, compared to the broader S&P/ASX 200 Accumulation index which was down only 1.3%. The weak performance by the property sector was largely impacted by an increase in bond yields, with the Australian 10 Year Bond yield rising 15.1bps to 2.6708% and the US 10 Year Bond yield rising 19.9bps to 3.0587%.

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

Market Data

| Month Ending | Jun18 | Jul18 | Aug18 | Sep18 |
|---|---|---|---|---|
| AUS 10 Year Bond Rate | 2.6370 | 2.6484 | 2.5202 | 2.6708 |
| US 10 Year Bond Rate | 2.8650 | 2.9621 | 2.8594 | 3.0587 |
| RBA Cash Rate | 1.50 | 1.50 | 1.50 | 1.50 |
| A-REIT Yield | 4.56 | 5.00 | 4.61 | 4.51 |
| AUDUSD | 0.7407 | 0.7429 | 0.7192 | 0.7846 |

Source: IRESS, as at 30 September 2018

## Bond Yields & Spreads

The yield on Australian government 10-year bonds finished the month at 2.6708%, while the trailing distribution yield on A-REITs finished at 4.51%.

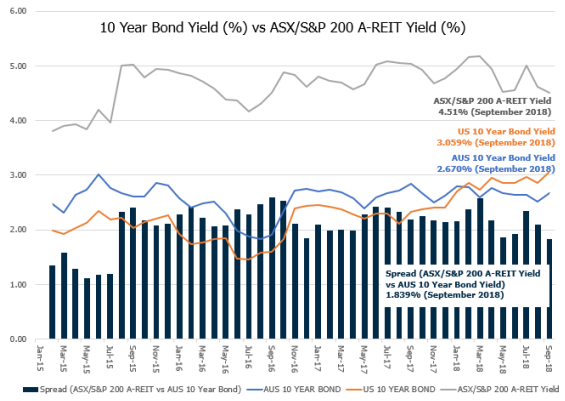
As a result, the spread between the two finished at 1.8%.

Since August 2015, the spread between the two has remained in the range of 1.86% - 2.59%.

The correlation between the Australian government 10-year bonds and the ASX/S&P200 A-REIT Yield (monthly) for the past 2 years is 0.274.

In the US, the Federal Open Market Committee (FOMC) announced on 27 September 2018 that it has increased its interest rate range by 25bps. The FOMC is now targeting a range of 2.00% - 2.25%. The FOMC last increased the range by 25bps each in June and March 2018.

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




Source: IRESS

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# Listed A-REITs

Top 5 Monthly Total Return – September 2018

| | Code | Name | Month Total Return |
|---|---|---|---|
| 1 | CIP | Centuria Industrial REIT | 6.9% |
| 2 | GDI | GDI Property Grp | 6.0% |
| 3 | APD | APN Property Group | 5.7% |
| 4 | APW | Aims Pror Sec Fund | 5.7% |
| 5 | GOZ | Growthpoint Property | 5.1% |

Source: IRESS, Total Return includes distributions

Bottom 5 Monthly Total Return – September 2018

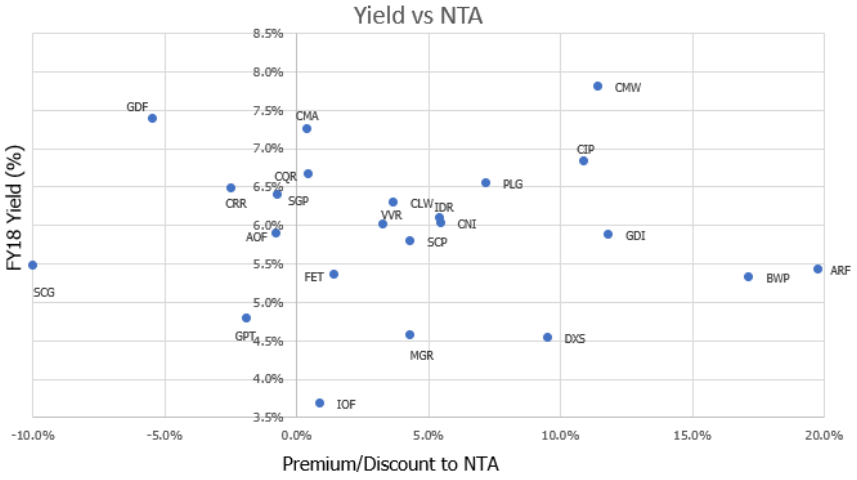
| | Code | Name | Month Total Return |
|---|---|---|---|
| 1 | VCX | Vicinity Centres | -4.0% |
| 2 | NSR | National Storage | -4.0% |
| 3 | SCG | Scentre Group | -3.9% |
| 4 | ABP | Abacus Property Grp. | -3.1% |
| 5 | ERF | Elanoretl Property | -3.1% |

Source: IRESS, Total Return includes distributions

The top performing property security in September was **Centuria Industrial REIT (ASX: CIP)** which increased by 6.9% The increase was driven by a takeover proposal by Propertylink Group (ASX: PLG), which valued CIP at $755M or $3.04 per unit. CIP peaked at $2.99 unit in September after the announcement was made.

The worst performing security in September was **Vicinity Centres (ASX: VCX)** which drifted down 4.0%.

Yield vs Premium/Discount to NTA




Note: **CHC** is trading on a 4.4 yield and Price/NTA premium of 87.4%.
**GMG** is trading on a 2.7% yield and a Price/NTA premium of 123.3%.

Source: Company announcements, IRESS

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# Unlisted Property Funds

During September 2018, the unlisted property funds had major property transactions close to $200M in addition to new funds being established.

Some major events include the Crossroads Homemaker Centre which was placed on the market by the AMP Capital Diversified Property Fund with price expectations of ~$140M.

MPG Funds Management have been active with the launch of two funds, the MPG Regional Cities Property Fund and the MPG BW Port Macquarie Trust.

The following is a rundown of some key events in unlisted property funds during September 2018.

## Activity

- **Charter Hall's Prime Industrial Fund** has teamed with its **Wholesale Core Logistic Partnership,** in a joint venture to acquire the near complete Mainfreight facility at 55 Yarrunga Street, Prestons NSW for $71.6M on a ~5% yield. The property is purpose built for New Zealand-listed logistics group Mainfreight Distribution, which has committed to an 11-year lease term. The premium-grade logistic facility, covering 32,890sqm, is well located in the tightly held southwestern Sydney industrial market.
- **The Barwon Healthcare Property Fund** has announced the acquisition of the Cowes Medical Centre on Phillip Island for $8.8M. The single-level 1,381 sqm medical centre is located 164 Thompson Avenue, Cowes VIC. The property is fully leased and includes a general practice, pharmacy, dental, pathology and radiology services a well as parking for 47 cars.
- **MPG Funds Management** has announced the launch of **MPG Regional Cities Property Fund** a $66.4M regional property fund that will own commercial property in regional hubs like Newcastle, Bendigo, Armidale and Maryborough. MPG is seeking to raise a minimum of $25M from investors for the open-ended fund, which is forecast to deliver a 7% initial annual return.
- **MPG Funds Management** also established the **MPG BW Port Macquarie Trust** to acquire the Bunnings Warehouse at Port Macquarie, NSW for $44.65M on a 5.64% yield. The 18,000 sqm hardware store will sit next to another 2,400 sqm of large format retail space. The seven-year unlisted fund is open to wholesale investors and is forecasting a yield of 5.30% p.a. until completion in the first quarter of 2019 and 6.10% p.a. thereafter, paid quarterly.
- **The AMP Capital Diversified Property Fund** has placed its Crossroads Homemaker Centre in Sydney's south-west on the market, with price expectation of ~$140M. The property is located on the corner of Beech Road and Camden Valley Way, Casula NSW and is about 35km from the Sydney CBD. The 48,400 sqm centre is home to 28 retailers, including anchor tenants Bunnings, The Good Guys, Freedom, Nick Scali and Fantastic Furniture.
- **Abacus Property Group** announced that the Abacus Hospitality Fund (AHF) has divested its final asset, the Novotel Twin Waters Coast in QLD for $88.5M. The transaction is estimated to increase the fund's security price to between 75 to 77c per security. The fund will be wound up and the net capital returned to AHF securityholders.

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# Appendix 1: A-REIT Activity – September 2018

The following is a summary of announcements by the major listed A-REITs during September 2018.

**AJD: Asia Pacific Data Centre Group**

- 4 September 2018 – Supreme Court of NSW dismissed APDC's claim for amendments to the NEXTDC property leases to allow for further access rights.
- 14 September 2018 – Adjourned EGM was held.
- 20 September 2018 – A distribution amount of 2 cpu was announced.

**AOF: Australian Unity Office Fund**

- 21 September 2018 - A distribution amount of 3.95 cpu was announced.

**ARF: Arena REIT**

- 18 September 2018 – A distribution amount of 3.375 cpu was announced.

**BWP: BWP Trust**

- No announcements.

**CDP: Carindale Property**

- No announcements.

**CHC: Charter Hall Group**

- 17 September 2018 – FLK announced the dispatch of the Notice of Meeting and Explanatory Memorandum regarding the CHC acquisition.

**CIP: Centuria Industrial REIT**

- 13 September 2018 – Propertylink Group (ASX: PLG) submitted a non-binding indicative proposal to acquire CIP.
- 19 September 2018 – A distribution of 4.6 cpu was announced.
- 20 September 2018 – Responsible entity of CIP, Centuria Capital Group (ASX: CNI) announced a loss of confidence in the PLG board and is seeking to change it.

**CLW: Charter Hall Long WALE REIT**

- 4 September 2018 - Acquired a $60M portfolio with 15.7-year WALE. This acquisition consists of Club Hotel and First Choice Liquor, Waterford Brisbane for $22M and 4.9% interest in the 16.3-year WALE, Long WALE Investment Partnership (this stake represents $37.7M).
- 18 September 2018 - A distribution amount of 6.4 cpu was announced.

**CMA: Centuria Metropolitan REIT**

- 19 September 2018 – A distribution amount of 4.525 cpu was announced.

**CMW: Cromwell Property**

- 24 September 2018 – A distribution amount of 1.8125 cpu was announced.

**CNI: Centuria Capital Group**

- 20 September 2018 – Announced the lost off confidence in the PLG board and is seeking to change it.

**CQR: Charter Hall Retail REIT**

- 28 September 2018 – Annual report was released.

**CRR: Convenience Retail REIT**

- 20 September 2018 – A distribution amount of 5.225 cpu was announced.
- 26 September 2018 – Announced that a new and third member would enter into its finance syndicate enhancing overall maturity, diversity and flexibility.

**DXS: Dexus**

- 19 September 2018 – Secures prime development site in Melbourne CBD.

**FET: Folkestone Education Trust**

- 21 September 2018 - A distribution amount of 4.0 cpu was announced.

**GDF: GARDA Diversified Property Fund**

- 18 September 2018 – A distribution amount of 2.25 cpu was announced.
- 21 September 2018 – Announced the acquisition of 498 Progress Road, Wacol, Queensland, for $5.9M.

**GMG: Goodman Group**

- 26 September 2018 – Annual report was released.

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**GPT: GPT Group**

- 24 September 2018 – Announced the resignation of the Head of Retail, Vanessa Orth, who is leaving for Sydney Airport Corporation (ASX: SYD).

**GDI: GDI Property Group**

- 24 September 2018 – Annual report was released.

**GOZ: Growthpoint Property**

- No Announcements.

**IDR: Industria REIT**

- 4 September 2018 – Acquired 1 Westpark Drive, Derrimut, Victoria, for $10.575M, reflecting an initial yield of 6.6%.
- 20 September 2018 – A distribution amount of 4.25 cpu was announced.

**IOF: Investa Office Fund**

- 4 September 2018 – Trading Halt due to the acquisition proposal from Oxford Properties Group for a cash price of $5.50 per unit for 100% of IOF shares.
- 6 September 2018 – Announced the conditional price increase under the Blackstone proposal in response to the offer by Oxford Properties Group. The offer increased from $5.3485 to $5.52 per unit.
- 13 September 2018 – Announced a further offer from Oxford Properties Group to acquire 100% of IOF for a cash price of $5.60 per unit.
- 18 September 2018 – Announced that Oxford has entered into a confidentiality deed and will be granted access to due diligence.

**MGR: Mirvac**

- 3 September 2018 – Announced the acquisition of 383 La Trobe St, Melbourne, Victoria for a consideration of $122M. This represents an initial yield of 5.7%.

**PLG: Propertylink**

- 13 September 2018 – Submitted a non-binding and indicative proposal to acquire Centuria Industrial REIT.
- 13 September 2018 – Announced the divestment of 80 Mount St, North Sydney for $71M delivering a 58% return for investors.
- 20 September 2018 – Announces the establishment of a new $350M core-plus and value-add industrial fund with China Merchants Capital.
- 21 September 2018 – Receives a non-binding indicative proposal from ESR Real Estate (Australia) Pty Limited (ESR).

**SCG: Scentre Group**

- No Announcements.

**SCP: SCA Property Group**

- 26 September 2018 – Annual report was released.

**SGP: Stockland**

- 6 September 2018 – Announced a security buy back scheme for up to $350M.
- 21 September 2018 – Released annual report.

**TGP: 360 Capital Group**

- 24 September 2018 – A distribution amount of 1.0 cpu.

**VCX: Vicinity Centres**

- 24 September 2018 – Advises that Ms Michelle Brady has resigned as a Company Secretary and Ms Jacqueline Jovanovski has been appointed to replace her.

**VVR: Viva Energy REIT**

- 25 September 2018 – Received an assessment from the State Revenue Office of Victoria, for an amount approximately $31.2M, payable in October 2018. This is in relation to the transfer of various properties effected by the IPO back in 2016.

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# 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) |
|---|---|---|---|---|---|---|
| 27 Sep 18 | 25 Oct 18 | AJD | Asia Pacific Data Centre Group | 2.0 | Qtr | 2.43 |
| 27 Sep 18 | 15 Oct 18 | AOF | Australian Unity Office Fund | 3.95 | Qtr | 3.9 |
| 27 Sep 18 | 8 Nov 18 | ARF | Arena REIT | 3.375 | Qtr | 3.2 |
| 27 Sep 18 | 23 Nov 18 | AVN | Aventus Retail Fund | 4.07 | Qtr | 4.05 |
| 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 |
| 27 Sep 18 | 26 Oct 18 | CIP | Centuria Industrial REIT | 4.6 | Qtr | 4.85 |
| 27 Sep 18 | 26 Oct 18 | CMA | Centuria Metropolitan REIT | 4.525 | Qtr | 4.525 |
| 27 Sep 18 | 14 Nov 18 | CLW | Charter Hall Long WALE REIT | 6.4 | Qtr | 6.5 |
| 27 Sep 18 | 14 Nov 18 | CRR | Convenience Retail REIT | 5.225 | Qtr | 3.25 |
| 27 Sep 18 | 23 Nov 18 | CMW | Cromwell Property | 1.8125 | Qtr | 2.085 |
| 27 Sep 18 | 19 Oct 18 | FET | Folkestone Education Trust | 4.0 | Qtr | 3.775 |
| 27 Sep 18 | 23 Oct 18 | GDF | GARDA Diversified Property Fund | 2.25 | Qtr | 2.25 |
| 27 Sep 18 | 9 Nov 18 | IDR | Industria REIT | 4.25 | Qtr | 4.1 |
| Late Sep 18 | Late Oct 18 | TGP | 360 Capital Group | 1.0 | Qtr | 0.75 |
| | | | | | | |
| Late Dec 18 | Late Jan 19 | CNI | Centuria Capital | TBA | HY | 4.1 |
| Late Dec 18 | Late Feb 19 | DXS | Dexus | TBA | HY | 23.7 |
| Late Dec 18 | Early Mar 19 | ERF | Elanor Retail | TBA | HY | 5.1507 |
| Late Dec 18 | Early Mar 19 | LEP | ALE Property Group | TBA | HY | 10.35 |
| Late Dec 18 | Late Feb 19 | MGR | Mirvac Group | TBA | HY | 5.0 |
| Late Dec 18 | Late Jan 19 | SCP | SCA Property Group | TBA | HY | 6.8 |
| Late Dec 18 | Late Feb 19 | VCX | Vicinity Centres | TBA | HY | 8.1 |
| Late Dec 18 | Late Feb 19 | CQR | Charter Hall Retail REIT | TBA | HY | 14.0 |
| Late Dec 18 | Late Feb 19 | GDI | GDI Property Group | TBA | HY | 3.875 |
| Late Dec 18 | Late Feb 19 | GMG | Goodman Group | TBA | HY | 13.75 |
| Late Dec 18 | Late Feb 19 | GOZ | Growthpoint Property | TBA | HY | 11.0 |
| Late Dec 18 | Late Feb 19 | GPT | GPT Group | 12.73 | HY | 12.3 |
| Late Dec 18 | Late Feb 19 | IOF | Investa Office Fund | TBA | HY | 10.15 |
| Late Dec 18 | Late Feb 19 | NSR | National Storage REIT | TBA | HY | 4.7 |
| Late Dec 18 | Early Mar 19 | PLG | Propertylink Group | TBA | HY | 3.6 |
| Late Dec 18 | Late Feb 19 | SGP | Stockland | TBA | HY | 13.0 |
| Late Dec 18 | Late Feb 19 | BWP | BWP Trust | TBA | HY | 8.78 |
| Late Dec 18 | Late Feb 19 | CDP | Carindale Property | TBA | HY | 20.1 |
| Late Dec 18 | Late Feb 19 | CHC | Charter Hall Group | TBA | HY | 15.6 |
| | | | | | | |
| Early Jan 19 | Late Feb 19 | ABP | Abacus Property Group | TBA | 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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