

"August 2020 Reporting Season: Yielding to the pressure"

The listed property securities have confirmed their distributions for the period ending 30 June 2020 (apart from GPT Group, which will confirm distributions as part of its results on 10 August). While Australian REITs have traditionally been known for their relatively stable distribution yields, the impact of COVID-19 has put much of this at risk. Rental income, particularly amongst retail landlords, has become uncertain since the onset of the pandemic. Distributions for the 12 month period to 30 June 2020 have been impacted wildly – some property securities have been able to deliver on their prior guidance, whereas shopping centre landlords such as Scentre Group (ASX: SCG) and Vicinity Centres (ASX: VCX) have cancelled their distributions for the six-month period.

We expect a lot of questions will be raised during the August 2020 reporting season. A lot of this will be on the impact on rental income and consequently on earnings, and expectations for the next reporting period. Some of the things to look out for, include:

- Whether earnings have been sufficient to support the June 2020 distributions, or whether management have had to dip into capital reserves in order to pay distributions;
- Whether management has set aside any provisions for post-30 June 2020 events. That is, have distributions been withheld. There is also the potential for further valuation declines and how managers are addressing these issues;
- We expect earnings will continue to remain uncertain in the COVID-19 environment. As such, we expect little, if any, guidance will be provided by management for the FY21 period.
- We will be looking to what commentary is provided on trading conditions of tenants, what rent waivers and deferrals have been negotiated, as well as what rental terms have been agreed on any new or renewing leases.

Earnings Expectations

As a result of COVID-19, all the listed A-REITs announced the withdrawal of earnings guidance for the June 2020 period. Only a handful of A-REITs have since come back to market with indications of where their earnings for June 2020 are likely to be. These include:

- **Centuria Industrial REIT (ASX: CIP)** revised its guidance for Funds From Operations (FFO) to 18.9 – 19.3 cents per security for FY20 (from 19.6 – 19.9 cents per security previously). The FY19 result was FFO of 19.3 cents per security.
- **Charter Hall Long WALE REIT (ASX: CLW)** confirmed Operating Earnings Per Security of 28.3 cents per security. This represents a 5.2% increase on the FY19 result of 26.9 cents per security.
- **National Storage REIT (ASX: NSR)** revised guidance of Earnings Per Security to 8.2 – 8.7 cents, down from previous guidance of 10.0 cents per security. The FY19 result was 9.6 cents per security.
- **APN Convenience Retail REIT (ASX: AQR)** revised down earnings guidance for FFO to 21.5 – 21.8 cents per security. Previous guidance was 22.3 – 22.5 cents per security.

It is encouraging to see both CIP and CLW have been able to deliver on earnings guidances for the FY20 year, and we note that both have also delivered on their distribution guidances. We also note that both CIP and NSR have undertaken equity raisings, which would have contributed to the lower guidance by NSR.

For the remainder of the A-REITs, we expect to see a noticeable weakness in earnings from the Retail Sector, followed by some weakness in the Office Sector and, to a lesser degree, some weakness in the Industrial Sector.

One of the key things we will look for in the results is how the various A-REITs have negotiated rent renewals and new leases, including any reductions in face rents and level of incentives to tenants. We will also be interested to see how the A-REITs treat rent deferrals – and whether any A-REITs have paid distributions out of rental income that has been deferred but not yet collected.

Valuations

Early indications suggest that revaluations are likely to be the most severe for the Retail Sector, with portfolio revaluations of -2.9% to -11.3% already announced. The Office Sector appears to be impacted by a lesser extent with portfolio revaluations of -1.1% to -4.9% announced so far. The Industrial Sector continues to remain strong, with revaluations of +0.7% to +1.3% announced, reflecting the high demand for logistics during COVID-19. Below is a summary of the key valuation guidances by A-REITs to date.

Retail

- **SCA Property Group (ASX: SCP)** – Expects portfolio valuation to decline by 2.9% (or \$94.6M) since December 2019. The average portfolio capitalisation rate is expected to increase by 5bps to 6.51% (from 6.46% at December 2019)
- **Vicinity Centres (ASX: VCX)** – Expects portfolio valuation to decline by 11.3% (or \$1.79B) since December 2019. The average portfolio capitalisation rate is expected to increase by 21 bps to 5.47% (from 5.26% at December 2019)
- **Stockland (ASX: SGP)** – Expects retail portfolio valuations to reduce by around 10% since December 2019.
- **Unibail-Rodamco-Westfield (ASX: URW)** – Announced results on 30 July 2020, which included a revaluation of its global shopping centres by -5.2% on a like for like basis. URW does not own any shopping centres in Australia/New Zealand as these assets are owned by Scentre Group (ASX: SCG)

Office

- **Australian Unity Office Fund (ASX: AOF)** – Expects the office portfolio valuation to reduce by 4.9% (or \$34.6M) as a result of revaluations as at 30 June 2020. After taking into account a valuation increase for the property at Valentine Avenue, Parramatta NSW due to development approval (+\$16.3M), Core Property estimates total portfolio valuations to decline by 2.7% (or \$18.3M) since December 2019.
- **Centuria Office REIT (ASX: COF)** – Expects valuations to decline by 1.1% (or \$21.9M) since December 2019. The portfolio weighted average capitalisation is expected to be “broadly unchanged”.
- **Dexus (ASX: DXS)** – Expects the office portfolio valuation to decline by 1.5%. Capitalisation rates are expected to reduce by 1bps to 4.97% (from 4.98% at December 2019).

Industrial

- **Dexus (ASX: DXS)** – Expects the industrial portfolio valuation to increase by around 0.7%. Capitalisation rates are expected to reduce by 12bps to 5.66% (from 5.78% at December 2019).
- **Centuria Industrial REIT (ASX: CIP)** – Expects industrial portfolio to increase by 1.3% (or \$21M) since December 2019. Portfolio capitalisation rates are expected to tighten by 14bps to 6.05% (from 6.19% at December 2019)

Diversified & Other

- **Charter Hall Long WALE REIT (ASX: CLW)** – Announced that 45% of the portfolio was revalued during May 2020 with valuations remaining flat since December 2020. An updated valuation will be provided for the June 2020 period.
- **Dexus (ASX: DXS)** – Expects total portfolio valuations to reduce by 1.2% since December 2019, representing a circa \$195M reduction for the portfolio. The average portfolio capitalisation rate tightened by 4bps to 5.05% (from 5.09%).
- **GARDA Property Group (ASX: GDF)** – Expects the portfolio to increase by 2.7% (or \$11.1M), to \$416.2M driven largely from capital deployed into projects and portfolio capital expenditure. Five assets were independently revalued with a 0.7% increase, and the remaining assets will be subject to directors’ valuations at 30 June 2020.
- **Growthpoint (ASX: GOZ)** – Announced that it does not expect the portfolio value at June 2020 to differ materially from its value at December 2019.
- **Mirvac (ASX: MGR)** – Expects its portfolio valuation to decline by 2.8% (or \$306M) since December 2019.
- **Stockland (ASX: SGP)** – Expects its commercial portfolio to be revalued down by around 6%, since December 2019.
- **APN Convenience Retail REIT (AQR)** – Management expects portfolio valuation to increase ~5% during the 6-month period. Capitalisation rates expected to tighten by 33 bps to 6.58% (from 6.91% at December 2019).
- **Arena REIT (ASX: ARF)** – Expects independent portfolio valuations to increase by around \$15m, or 1.8% since December 2019.
- **Waypoint REIT (ASX: WPR)** – Management has announced that independent valuations were undertaken on about one third of the portfolio, with a valuation increase of \$30.1M. The capitalisation rate tightened by 1bps to 5.69% (from 5.70% at December 2019) on these properties. The remaining two thirds of the portfolio will be subject to directors’ valuations.

Distributions

All the A-REITs have either held their distribution guidance or reduced distributions as a result of COVID-19. Some of the key points we note, from the June 2020 distributions are:

- **Eleven A-REITs delivered distribution growth for FY20, despite the weaker conditions of COVID-19** - COF (+1.1%), CIP (+1.6%), BWP (+1.0%), ADI (+1.6%), AQR (+4.3%), ARF (+3.7%), APD (+14.5%), CLW (+5.2%), CMW (+3.4%), CHC (+6.0%) and CNI (+4.9%).
- **Six A-REITs held distributions flat for FY20** – GDI, DXS, CQE, LEP, ABP and GMG.
- **Twelve A-REITs reduced distributions for FY20** – This included two A-REITs (SCG and VCX) which did not pay a distribution at all for the six months to June 2020, as well as ten A-REITs which reduced distributions.
- **One A-REIT (GPT)** will be announcing their June 2020 distribution when results are reported on 10 August 2020.

The following is a summary of distributions for June 2020, as well as equivalent yields at current prices. It should be noted that the yields are based on historical distributions for FY20 and we will be looking to management guidance as to whether these can be maintained in FY21.

Core Property Commentary

31 July 2020

Figure 1: Distributions for June 2020 period

Code	Name	Distributions				30 July 2020	Price
		FY19 Actual	FY20 Forecast (Pre-COVID)	FY20 Actual	% Change (FY20 vs FY19)		Equivalent Yield (based on FY20 distn)
Office							
AOF	Australian Unity Office Fund	\$0.158	\$0.160	\$0.150	-5.1%	\$2.02	7.4%
COF	Centuria Office Fund	\$0.176	\$0.178	\$0.178	1.1%	\$1.905	9.3%
GDI	GDI Property Group	\$0.0775	\$0.0775	\$0.0775	No change	\$1.095	7.1%
Industrial							
CIP	Centuria Industrial REIT	\$0.184	\$0.187	\$0.187	1.6%	\$3.28	5.7%
Retail							
AVN	Aventus	\$0.166	\$0.171	\$0.11915	-28.2%	\$2.09	5.7%
BWP	BWP Trust	\$0.1811	\$0.1829	\$0.1829	1.0%	\$3.92	4.7%
CQR	Charter Hall Retail REIT	\$0.2876	\$0.287 - \$0.302	\$0.2452	-14.7%	\$3.20	7.7%
SCG	Scentre Group ¹	\$0.226	\$0.2328	1H20 = Nil	NA	\$2.02	NA
SCP	SCA Property Group	\$0.147	\$0.151	\$0.125	-15.0%	\$2.19	5.7%
VCX	Vicinity Centres	\$0.159	\$0.15 - \$0.153	\$0.077	-51.6%	\$1.31	5.9% ²
Office & Industrial							
ADI	APN Industria REIT	\$0.17	\$0.175	\$0.17275	1.6%	\$2.48	7.0%
DXS	Dexus	\$0.502	\$0.53	\$0.502	No change	\$8.62	5.8%
GDF	GARDA Property Group	\$0.09	\$0.09	\$0.0855	-5.0%	\$1.02	8.4%
GOZ	Growthpoint	\$0.23	\$0.238	\$0.218	-5.2%	\$3.20	6.8%
Alternate							
AQR	APN Convenience Retail REIT	\$0.209	\$0.218	\$0.218	4.3%	\$3.54	6.2%
ARF	Arena REIT	\$0.135	\$0.143	\$0.140	3.7%	\$2.23	6.3%
CQE	Charter Hall Social Infrastructure	\$0.16	\$0.167	\$0.16	No change	\$2.43	6.6%
LEP	ALE Property	\$0.209	Not provided	\$0.209	No change	\$4.74	4.4%
NSR	National Storage REIT	\$0.096	\$0.10	\$0.081	-15.6%	\$1.875	4.3%
WPR	Waypoint ¹	\$0.1454	\$0.150 - \$0.151	1H20=\$0.0741	NA	\$2.56	5.8%
Diversified							
ABP	Abacus	\$0.185	\$0.1887-\$0.1906	\$0.185	No change	\$2.66	7.0%
APD	APN Property Group	\$0.0275	\$0.0315	\$0.0315	14.5%	\$0.51	6.2%
CLW	Charter Hall Long WALE REIT	\$0.269	\$0.283	\$0.283	5.2%	\$4.68	6.0%
CMW	Cromwell	\$0.0725	\$0.075	\$0.075	3.4%	\$0.89	8.4%
GPT	GPT Group ¹	\$0.2648	\$0.2741	TBA on 10 Aug	NA	\$3.93	NA
MGR	Mirvac	\$0.116	\$0.122	\$0.091	-21.6%	\$2.10	4.3%
SGP	Stockland	\$0.276	\$0.276	\$0.241	-12.7%	\$3.22	7.5%
Fund Managers							
CHC	Charter Hall Group	\$0.337	\$0.3572	\$0.3572	6.0%	\$10.50	3.4%
CNI	Centuria Capital Group	\$0.0925	\$0.097	\$0.097	4.9%	\$1.765	5.5%
GMG	Goodman Group	\$0.30	\$0.30	\$0.30	No change	\$17.01	1.8%

Note 1: GPT, SCG and WPR are for the full year 12 month period to 31 December 2019 (FY19).

Note 2: VCX distribution yield is based on distributions for 1H20 only, as no distribution was paid in 2H20.

Source: ASX prices as at 30 July 2020

A-REITs Reporting Calendar – August 2020

Mon 3 Aug	Tue 4 Aug	Wed 5 Aug	Thu 6 Aug	Fri 7 Aug
Week 1				
	BWP – FY20	COF – FY20 CIP – FY20 LEP – FY20		CLW – FY20
Mon 10 Aug	Tue 11 Aug	Wed 12 Aug	Thu 13 Aug	Fri 14 Aug
Week 2				
GPT – 1H20	CQE – FY20 SCP – FY20	CNI – FY20	GMG – FY20 CQR – FY20 ARF – FY20	
Mon 17 Aug	Tue 18 Aug	Wed 19 Aug	Thu 20 Aug	Fri 21 Aug
Week 3				
ENN – FY20 ERF – FY20 ECF – FY20	AQR – FY20 ABP – FY20	ADI – FY20 DXS – FY20 VCX – FY20	GDF – FY20 GOZ – FY20 WPR – 1H20 MGR – FY20 CHC – FY20 APD – FY20	
Mon 24 Aug	Tue 25 Aug	Wed 26 Aug	Thu 27 Aug	Fri 28 Aug
Week 4				
AOF – FY20 AVN – FY20 GDI – FY20	SGP – FY20 SCG – 1H20	HMC – FY20		
To be advised				
CMW				
NSR				
PWG				

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