

# Property Sector Wrap

## February 2019

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

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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 – February 2019

In this month’s report we review how our stock picks have performed and updated the list to take into account recent price movements. We also run through our usual monthly review of the listed and unlisted property sectors.

### Core Property’s Key Picks – ASX listed property securities

Our key picks are based on what we consider to be attractive distribution yields combined with reasonable valuation metrics using price to NTA multiples. Below we review our key picks since they were announced in February 2019 and updated our picks going forward.

### So, how have our picks performance so far?

We are happy to report our key picks have delivered an average 23.48% p.a. (annualised) total return to date, outperforming key indices during the same period - All Ordinaries (+5.9%) and the S&P/ASX200 Accumulation Index (+11.1%). The picks however, underperformed the S&P/ASX 200 A-REIT Accumulation Index (+26.0%). The following table shows how our picks have performed since 23 March 2018.

Code	Name	Price 23 Mar 2018	Price 22 Mar 2019	Price Gain	Total Return % p.a. (incl. distns)
CIP	Centuria Industrial REIT	\$2.53	\$3.05	20.6%	28.0%
CMA	Centuria Metropolitan REIT	\$2.30	\$2.52	9.6%	17.4%
CQR	Charter Hall Retail	\$3.84	\$4.67	21.6%	29.0%
GDF	GARDA Diversified Property	\$1.15	\$1.34	16.5%	24.3%
AQR	APN Conv Retail REIT	\$2.70	\$3.00	11.1%	18.7%
<b>Average (unweighted)</b>				<b>15.9%</b>	<b>23.48%</b>
All Ordinaries		5,929.0	6280.9		5.9%
S&P/ASX 200 Accumulation Index		58,697.3	65,234.9		11.1%
S&P/ASX 200 A-REIT 200 Accumulation Index		43,862.5	55,281.5		26.0%

Source: IRESS, Core Property

### So, what are our new picks?

With the outlook of the retail industry facing headwinds amidst the rise in e-commerce, we have removed the following from our key picks – Charter Hall Retail (ASX: CQR). Since being added to our list, CQR has returned a price gain of 21.6%. Due to the price gains, it is yielding ~6.2% for FY19 and it is trading at a 10.7% premium to its NTA.

We have not added any new securities and our updated key picks continue to show good yields and pricing as shown below:

Code	Name	Price 22 Mar 2019	Prem/ Disc to NTA	FY19 Yield %
CIP	Centuria Industrial REIT	\$3.05	14.7%	6.03%
CMA	Centuria Metropolitan REIT	\$2.52	2.0%	6.98%
GDF	GARDA Diversified Property Fund	\$1.34	2.3%	6.72%
AQR	APN Convenience Retail REIT	\$3.00	1.7%	6.97%

Source: Core Property

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### Recent Reports:

- [GDI Property Group \(ASX: GDI\): Initiation of Coverage](#)
- [Centuria Industrial REIT \(ASX: CIP\): Initiation of Coverage](#)
- [Centuria Metropolitan REIT \(ASX: CMA\): Results 1H19](#)
- [GARDA Diversified Property Fund \(ASX: GDF\): Results 1H19](#)
- [GDI Property Group \(ASX: GDI\): Results 1H19](#)
- [Australian Unity Office Fund \(ASX: AOF\): Results 1H19](#)
- [Reporting Season February 2019 Week 1](#)
- [Reporting Season February 2019 Week 2](#)
- [Reporting Season February 2019 Week 3](#)
- [APN Regional Property Fund](#)

## Market Data

### Index Performance

Indices Total Return Performance

Index	Nov-18	Dec-18	Jan-19	Feb-19	% Movement			
					1 Month	3 Month	1 Year	Calendar YTD
All Ordinaries	5,749	5,709	5,937	6,253	<b>5.3%</b>	8.8%	2.2%	9.5%
S&P/ASX 200	5,667	5,646	5,865	6,169	<b>5.2%</b>	8.9%	2.5%	9.3%
S&P/ASX 200 Accumulation	58,780	58,710	60,981	64,627	<b>6.0%</b>	9.9%	7.1%	10.1%
A-REIT 200 Accumulation	47,758	48,566	51,562	52,467	<b>1.8%</b>	9.9%	18.9%	8.0%
A-REIT 300 Accumulation	47,684	48,510	51,400	52,324	<b>1.8%</b>	9.7%	18.9%	7.9%

Source: IRESS, as at 28 February 2019

The listed Australian property indices underperformed in February with the S&P A-REIT 200 Accumulation index increasing 1.8%, compared to the broader S&P/ASX 200 Accumulation index which grew 6.0%. The Australian 10-year Bond compressed 14 bps to 2.10% and the US 10-year Bond Yield increased by 9 bps to 2.72%.

At its February 2019 meeting the RBA held the cash rate at 1.50%, the same level it has been since August 2016.

### Market Data

Month Ending	Nov18	Dec18	Jan19	Feb19
AUS 10 Year Bond Rate	2.5911	2.3208	2.2408	2.1035
US 10 Year Bond Rate	2.9924	2.6836	2.6288	2.7159
RBA Cash Rate	1.50	1.50	1.50	1.50
A-REIT Yield	4.68	5.08	4.78	4.72
AUDUSD	0.73	0.70	0.73	0.78

Source: IRESS, as at 28 February 2019

### Bond Yields & Spreads

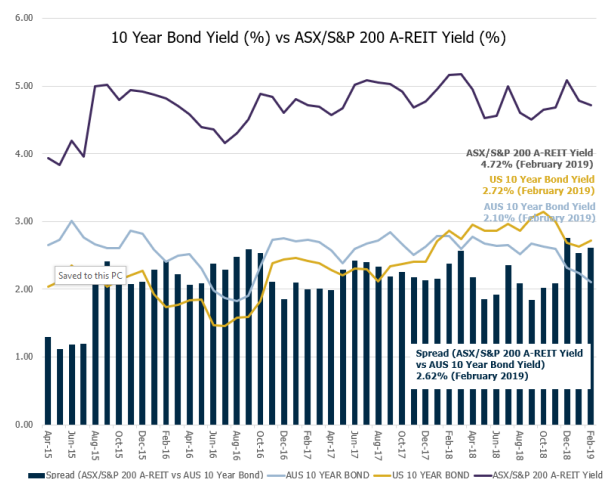
The yield on the Australian government 10-year bond finished the month at 2.10%, while the trailing distribution yield on A-REITs finished at 4.72%.

As a result, the spread between the two finished at 2.62%.

The correlation between the Australian government 10-year bond and the ASX/S&P200 A-REIT Yield (monthly) for the past 2 years is 0.243.

In the US, the Federal Open Market committee (FOMC) have held their view for interest rates to gradually increase. Interest rates continue to remain at 2.5%.

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



Source: IRESS

## Listed A-REITs

Top 5 Monthly Total Return – February 2019

	Code	Name	Month Total Return
1	BWF	Blackwall Limited	9.8%
2	CHC	Charter hall Group	9.5%
3	CRR	Convenience Retail REIT	8.2%
4	MGR	Mirvac Group	8.0%
5	GMG	Goodman Group	7.7%

Source: IRESS, Total Return includes distributions

Bottom 5 Monthly Total Return – February 2019

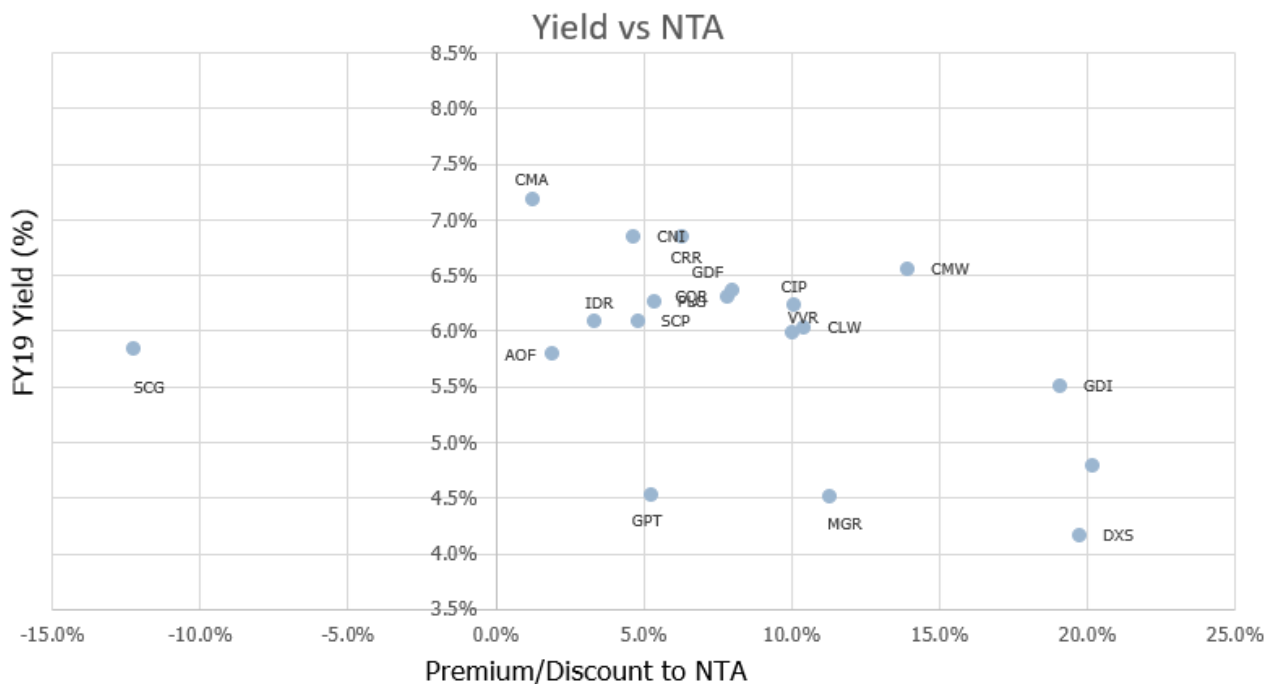
	Code	Name	Month Total Return
1	SGP	Stockland	-8.6%
2	VCX	Vicinity Centres	-6.1%
3	SCP	SCA Property Group	-5.1%
4	NSR	National Storage	-1.9%
5	CDP	Carindale Property	-1.8%

Source: IRESS, Total Return includes distributions

The top performing property security in February was Blackwall Limited (ASX: BWF) which grew 9.8%

The worst performing security in February was Stockland (ASX: SGP) which decreased 8.6%.

Yield vs Premium/Discount to NTA



Note: **CHC** is trading on a 4.0% yield and Price/NTA premium of 130.4%.  
**GMG** is trading on a 2.3% yield and a Price/NTA premium of 175.9%.

Source: Core Property, company announcements, IRESS

## Unlisted Property Funds

During February 2019, unlisted property funds recorded numerous assets being placed on the market of close to \$750M. The largest proposed asset sale is a 50% stake in the Zenith, an A-grade office complex of twin 21 level towers in Chatswood NSW for over \$400M.

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

### Activity

- **The Centuria Zenith Fund** is looking to sell its sole asset, a 50% stake in the Zenith, an iconic A-grade office complex of twin 21 level towers in Chatswood NSW with expectations of over \$400M. The property was purchased in 2016 for \$279M, with the Fund owning 50% and BlackRock owning the other 50%.
- **Oxford Properties** (Canada) has commenced a sell down of several non-core assets that it acquired as part of its takeover of the Investa Office Fund. Oxford intends to sell 66 St Georges Terrace, Perth for \$72.0M to **Corval**, representing a 10.8% premium to the properties book value of \$65.0M.
- **Charter Hall Prime Office Fund** has acquired the freehold title acquisition of GIC's Chifley Tower in Sydney NSW for \$98.5M. GIC are also looking to sell a 50% interest in the leasehold title of the tower for \$900M, which was placed on the market in late 2018.
- **M/Group** has purchased Pialba Place Shopping Centre, Hervey Bay QLD for \$36M from private owner Vinta Group. The sub regional shopping centre is to be acquired on a yield of 8% following a \$22M raising via a company managed investment fund.
- **The Charter Hall Direct Sydney Olympic Park Fund** has placed 7 Murray Rose Avenue on the market with expectations of around \$50M. Charter Hall took over the fund as part of its acquisition of Folkestone in August 2018. The A-grade building, located at Sydney Olympic Park, is anchored by Australian headquarters of French electrical systems multinational Thales group. The asset enjoys a WALE of 12.14 years.
- **Charter Hall Direct Diversified Consumer Staples Fund** has sold a warehouse located in Melbourne's north for \$4M. The 2,179 sqm Campbellfield property which is currently leased to the salami maker Primo was sold on a yield of 6.6 per cent.
- **Charter Hall Office Trust's** current development of the \$200M office tower at Wesley Place will become the new home for the Australian Federal Police Victorian State Office. The 22-storey office tower located at 140 Lonsdale Street will consist of 16,500 sqm of office space.
- **GPT Wholesale Office Fund** has exercised its pre-emptive rights to buy the remaining half share of 2 Southbank Boulevard. Co-owners Frasers property Australia has moved to divest their stake for \$342M. The acquisition by GPT, which has been approved by the board implies a 5 per cent yield.

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

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

### **AOF: Australian Unity Office Fund**

- 7 February 2019 – AOF has announced half year results for FY19.

### **ARF: Arena REIT**

- 18 February 2019 – ARF has announced the acquisition of a specialist disability accommodation portfolio.
- 19 February 2019 – ARF has announced the resignation of the current CEO and the new appointment.
- 19 February 2019 – ARF has announced half year results for FY19.

### **BWP: BWP Trust**

- 6 February 2019 – BWP has announced half year results for FY19.

### **CDP: Carindale Property**

- 20 February 2019 – CDP has announced half year results for FY19.

### **CHC: Charter Hall Group**

- 22 February 2019 – CHC has announced half year results for FY19.

### **CIP: Centuria Industrial REIT**

- 5 February 2019 – CIP has announced the acquisition of 16-18 Baile Road, Canning Vale, WA.
- 6 February 2019 – CIP has announced half year results for FY19.

### **CLW: Charter Hall Long WALE REIT**

- 8 February 2019 – CLW has announced the lease extension of the Inghams portfolio to 24.6 years.
- 11 February 2019 – CLW has announced half year results for FY19.

### **CMA: Centuria Metropolitan REIT**

- 6 February 2019 – CMA has announced half year results for FY19.

### **CMW: Cromwell Property**

- 28 February 2019 – CMW has announced half year results for FY19.

### **CNI: Centuria Capital Group**

- 13 February 2019 – CNI has announced half year results for FY19.
- 20 February 2019 – CNI has accepted the ESR offer for 19.51% of Propertylink Group.

### **CQR: Charter Hall Retail REIT**

- 20 February 2019 – CQR has announced half year results for FY19.

### **CQE: Charter Hall Education Trust**

- 13 February 2019 – CQE has announced half year results for FY19.

### **CRR: Convenience Retail REIT**

- 11 February 2019 – CRR has the renaming of the Fund to 'APN Convenience Retail REIT'. The new ASX ticker code will be 'AQR'.
- 18 February 2019 – CRR has announced half year results for FY19.
- 18 February 2019 – CRR has announced the re-establishment of the on market buy back.

### **DXS: Dexus**

- 6 February 2019 – DXS has announced half year results for FY19.
- 25 February 2019 – DXS has announced the sale of 11 Talavera Road, Macquarie park.

### **GDF: GARDA Diversified Property Fund**

- 20 February 2019 – GDF has announced half year results for FY19.

### **GMG: Goodman Group**

- 14 February 2019 – GMG has announced half year results for FY19.

### **GPT: GPT Group**

- 11 February 2019 – GPT has announced half year results for FY19.

### **GDI: GDI Property Group**

- 18 February 2019 – GDI has announced half year results for FY19.

### **GOZ: Growthpoint Property**

- 21 February 2019 – GOZ has announced half year results for FY19.

### **IDR: Industria REIT**

- 11 February 2019 – IDR has announced the renaming of the Fund to 'APN Industria REIT'. The new ASX ticker code will be 'ADI'.
- 19 February 2019 – IDR has announced half year results for FY19.

**MGR: Mirvac**

- 7 February 2019 – MGR has announced half year results for FY19.

**PLG: Propertylink**

- 14 February 2019 – PLG has announced the recapitalisation of Propertylink Office partnership III (POP III).
- 20 February 2019 – The ESR Real Estate takeover offer for PLG has been declared unconditional.
- 28 February 2019 – PLG has announced half year results for FY19.

**SCG: Scentre Group**

- 20 February 2019 – SCG has announced full year results for FY18.
- 20 February 2019 – SCG has received a new Fitch A stable credit rating.

**SCP: SCA Property Group**

- 5 February 2019 – SCP has announced full year results for FY18.

**SGP: Stockland**

- 20 February 2019 – SGP has announced half year results for FY19.

**TGP: 360 Capital Group**

- 27 February 2019 – TGP has announced half year results for FY19.

**VCX: Vicinity Centres**

- 4 February 2019 – VCX has announced the resignation of the Chief Financial Officer.
- 15 February 2019 – VCX has announced the appointment of the Chief Operating Officer.
- 15 February 2019 – VCX has announced half year results for FY19.

**VVR: Viva Energy REIT**

- 6 February 2019 – VVR has announced the extension of the alliance with Coles Group Limited to 2029. The alliance was extended under new arrangements.
- 21 February 2019 – VVR has announced full year results for FY18.
- 21 February 2019 – VVR has announced a \$100M institutional equity raising.
- 22 February 2019 – VVR has completed the \$100M institutional placement.



## 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
28 Dec 18	15 Jan 19	AOF	Australian Unity Office Fund	3.95	Qtr	3.9
28 Dec 18	7 Feb 19	ARF	Arena REIT	3.375	Qtr	3.2
28 Dec 18	27 Feb 19	AVN	Aventus Retail Fund	4.14	Qtr	4.07
28 Dec 18	31 Jan 19	CIP	Centuria Industrial REIT	4.6	Qtr	4.85
28 Dec 18	31 Jan 19	CMA	Centuria Metropolitan REIT	4.358	Qtr	4.525
28 Dec 18	14 Feb 19	CLW	Charter Hall Long WALE REIT	6.5	Qtr	6.5
28 Dec 18	15 Feb 19	AQR	APN Convenience Retail REIT	5.225	Qtr	4.88
28 Dec 18	22 Feb 19	CMW	Cromwell Property	1.8125	Qtr	2.085
28 Dec 18	21 Jan 19	CQE	Charter Hall Education Trust	4.0	Qtr	3.775
28 Dec 18	21 Jan 19	GDF	GARDA Diversified Property Fund	2.25	Qtr	2.25
28 Dec 18	8 Feb 19	IDR	Industria REIT	4.25	Qtr	4.1
28 Dec 18	24 Jan 19	TGP	360 Capital Group	1.0	Qtr	0.75
28 Dec 18	4 Feb 19	CNI	Centuria Capital	4.25	HY	4.1
28 Dec 18	28 Feb 19	DXS	Dexus	27.2	HY	23.7
28 Dec 18	1 Mar 19	ERF	Elanor Retail	4.65	HY	5.1507
28 Dec 18	5 Mar 19	LEP	ALE Property Group	10.45	HY	10.35
28 Dec 18	28 Feb 19	MGR	Mirvac Group	5.3	HY	5.0
28 Dec 18	29 Jan 19	SCP	SCA Property Group	7.25	HY	6.8
28 Dec 18	4 Mar 19	VCX	Vicinity Centres	7.95	HY	8.1
28 Dec 18	28 Feb 19	CQR	Charter Hall Retail REIT	14.28	HY	14.0
28 Dec 18	28 Feb 19	GDI	GDI Property Group	3.875	HY	3.875
28 Dec 18	26 Feb 19	GMG	Goodman Group	15.0	HY	13.75
28 Dec 18	28 Feb 19	GOZ	Growthpoint Property	11.4	HY	11.0
28 Dec 18	28 Feb 19	GPT	GPT Group	12.73	HY	12.3
28 Dec 18	1 Mar 19	NSR	National Storage REIT	4.5	HY	4.7
28 Dec 18	31 Jan 19	PLG	Propertylink Group	3.6	HY	3.6
28 Dec 18	28 Feb 19	SGP	Stockland	13.5	HY	13.0
28 Dec 18	22 Feb 19	BWP	BWP Trust	8.93	HY	8.78
28 Dec 18	28 Feb 19	CDP	Carindale Property	18.1	HY	20.1
28 Dec 18	28 Feb 19	CHC	Charter Hall Group	16.5	HY	15.6
28 Jan 19	28 Feb 19	ABP	Abacus Property Group	9.25	HY	9.0
28 Jan 19	28 Feb 19	VVR	Viva Energy REIT	6.82 – 6.92	HY	6.6
13 Feb 19	28 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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