Premium property assets without the price tag

Property trusts offer investors access to larger, higher-yielding investment opportunities that would generally be well beyond your reach, at significantly lower price points. If you want access to quality property assets, then A-REITs – Australian Real Estate Investment Trusts – could be the ideal path forward

OFFERING diversified exposure to quality property assets, A-REITs are worth an investor's consideration. There are currently 34 A-REITs trading on the ASX, with total market capitalisation of about $120bn. This represents almost 6% of the total share market's value.

A-REITs are classified according to the types of properties they operate within their portfolios. The largest A-REIT by market capitalisation, Goodman Group, owns, develops and manages industrial property in Australia and globally. Owners of shares in Goodman Group are, as a result, participants in the world's industrial markets.

Industrial property is currently favoured as companies are focusing on modernising logistics and distribution facilities to compete in the online world. This means lots of new and large warehouses. Goodman has ridden this wave of positive sentiment, and its share price has increased by more than 50% in the past 12 months.

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The next-largest A-REIT is Scentre Group, which owns, manages and develops Westfield Shopping Centres in Australia and New Zealand. Scentre Group is classified as a retail A-REIT. Retailers in Australia and New Zealand – and indeed globally – have been doing it tough in recent times, and investors in retail A-REITs have been exposed to these headwinds.

However, the types of properties owned by retail A-REITS vary markedly. Scentre Group is focused on large shopping centres, while others such as Shopping Centres Australasia operate smaller, convenience-focused centres and Aventus Group runs homemaker centres. The retailers trading from these different types of centres perform in different ways, and a savvy investor will take this into account.

Other specialised A-REITs operate exclusively within the in-vogue office sector, as well as in the storage, residential, healthcare, childcare, service station and agricultural land sectors. Investors with a favourable view of these sectors, and of the property owned by a specific trust, can gain direct exposure through the purchase of shares in one or more of these A-REITs.

The final category of A-REITs is diversified trusts, the largest of which is GPT (appropriately, an abbreviation of General Property Trust). GPT owns and manages 64 properties in Australia, comprising 13 shopping centres, 21 office buildings and 30 industrial facilities.

Other examples of large diversified A-REITs are Stockland, which includes residential development within its activities, and the Charter Hall Group.

LISTED VS UNLISTED TRUSTS

» Trusts are generally either listed, when they're traded on a stock market (such as the Australian Securities Exchange), or unlisted, when they're privately held and there is no public market.

» Investors in listed trusts, as outlined in this article, can buy or sell at any time – in the same way as they would trade shares on the stock market. Consequently, unit prices can be volatile and imitate the share market.

» Investors in unlisted trusts are usually locked in for the duration of the trust. The asset in the trust can only be bought or sold within the parameters set out in the trust constitution.

» Some unlisted trusts are open-ended, such as the Newmark Hardware Trust (which currently owns three Bunnings sites). It was recently restructured into an open-ended, unlisted trust to offer a privately held investment with more flexibility.

» There are pros and cons of each form of trust, and individual investors must determine the best fit and strategy for them, depending on their budget, risk profile, investment timeline and goals.

The ability to pick and choose sector and geographic specialisation or diversification is important for A-REIT investors. Equally important is the generally transparent nature of the operations of the A-REITs, with the majority of income generated from large rent rolls.

Of course, with 10-year bond yields below 2% and dividends paid by most A-REITs being in the range of 4–7%, the return premium enjoyed by investors in A-REITs compared to cash, term deposits and bonds is very attractive.

Finally, A-REITs, like all shares, also offer good liquidity and low transaction costs. This is in contrast to the direct ownership of property and, particularly, residential property, when yields, prices and tax changes all pose challenges. YIP