

Q&A



ANSWERS

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How do you see the current market environment for Reits and property companies globally?

In the US, there is significant variation across regions and sectors. Occupancy rates in more cyclical areas, such as industrials, are falling, while the multi-family and office sectors are stable.

Despite the crisis engulfing the eurozone, the picture across European property markets is mixed. Demand for German residential property and all sectors in Switzerland remains high. In Sweden, the office and retail space is reasonable. However, city markets such as Paris, Brussels and Amsterdam are facing some headwinds. The UK is mixed, with London in relatively good health, although we anticipate job losses in the financial sector will have a negative effect.

In the Asian market, China has been hit by concerns about oversupply in residential property and by government tightening measures to deflate a possible housing bubble.

In Hong Kong and Singapore, there is a more positive backdrop, with economies showing relative stability and unemployment remaining low. However, demand is slowing in the office segment, which will negatively impact rental levels in the future, although the high-end retail market is still very strong.

Retail is your highest sector allocation on the global and Asian funds. What is the thinking behind this?

Some of the Reits we have bought in the retail sector are growing income at 3% to 4% a year. In spite of market conditions, people are still spending money in shops, particularly in those located in strong catchment areas and with quality tenant mix.

With offices, the picture depends more on the region. Many of the so-called gateway cities in the US are doing quite well, while outside of these key cities we often see major oversupply issues. In Asia Pacific, as a whole, offices have performed relatively strongly, although Japan has been struggling.

Can you give examples of your favoured stocks and explain what attributes are making them particularly attractive?

First, there must be a compelling reason to own a stock. Second, we look at whether it is in the type of market we want to access.

We are particularly positive about the prospects for Simon Property in the US and Mirvac Group in Australia. Simon Property is a large company in our investment universe, so it is not surprising it features prominently in our portfolio. It has a high-quality mall and premium outlet portfolio and continues to find positive redevelopment opportunities. Mirvac has exposure to residential development, commercial and office development

and stable income from an office and retail portfolio. The balance sheet is very defensive which is a positive characteristic in the current environment and valuations are attractive.

What are the strengths and attractions of the Asian Reit market?

Asian Reits have the benefit of a more secure income stream and a higher dividend than non-Reit property companies in that region. They are particularly attractive to income-seeking investors as they distribute close to 100% of their earnings, while real-estate developers direct a proportion of their earnings to fund capital intensive development operations.

In Singapore, S-Reits are yielding 6.7%, compared to Singapore property companies' average of 1.8%. In Hong Kong, HK-Reits yield 5.2% compared to 3.4% for the average local property company share. A key attraction for the region is to do with expectations of high growth, supported by lower unemployment relative to the developed world and favourable demographics.

What is your outlook for global Reit markets in the coming years and how is that influencing your portfolios?

Global property securities have been through some turbulent times recently. Not all markets have lived up to expectations. However, since the global financial crisis the Reits sector as a whole has become much more focused, while the 'wilder' business models built on debt and spurious ideas have now disappeared.

Yields on global property securities generally offer good improvement on the level of income investors can get from fixed interest instruments in today's low-interest rate environment. The liquidity of the listed global property securities market removes one disadvantage of owning real property; the difficulty in trading it.

With the long-term outlook remaining positive, investors continue to be attracted by the lower volatility of global property securities relative to the broader equity markets.

How have you been playing recent volatility? Have falls in listed property shares created major buying opportunities?

We believe listed property markets are close to pricing in a global recession and, after significant falls, some companies are trading at attractive valuations. We remain cautious due to the uncertain economic backdrop, which is undermining rental growth in property markets. The banking sector is reluctant to offer finance and real-estate markets are generally sluggish. However, on the positive side, development pipelines are limited and in some markets rents are increasing, although they are likely to be contained in future as real estate usually lags the real economy.