

New Zealand Equity Monthly March 2022

Focus on Australian REITs, which offer scale, liquidity and variety

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Australian REIT sector offers scale and liquidity

This month we focus on Australian Real Estate Investment Trusts (A-REITs), which are larger and more liquid relative to their New Zealand peers. One of the sector's benefits over its New Zealand counterpart is its simple numerical advantage: Australia boasts 34 REITs, which is three times the number of REITs in New Zealand. The size advantage found in Australia is even more pronounced in terms of market capitalisation, for which the A-REIT sector is 13 times larger than its New Zealand equivalent. Furthermore, the sector's average daily turnover, which is an important measure of liquidity, is almost 40 times that of New Zealand's sector. Greater liquidity is a key consideration when choosing a stock given that it allows an investor to enter or exit a position quickly. This is particularly important at times of market stress.

Wide variety of A-REITs provides choice to investors

Another key benefit of Australia's REIT sector is the variety it provides. The A-REIT sector provides a broad range of choices and offers investors a wider range of property sector market exposures that extend beyond the traditional office, retail and industrial areas. A number of A-REITs offer exposure to more specialised sectors including storage, residential, build-to-rent and social infrastructure. In addition, some A-REITs are focused on sub-sectors of traditional asset classes. Examples of these include REITs that purely own non-CBD offices (offices not located in central business districts) as well as those that specialise in "daily needs retail" properties such as supermarkets and pharmacies.

Names range from service station owners to property funds managers

The Australian sector's diversity is illustrated by the wide range of types of A-REITs. As an example, Waypoint REIT is a fuel and convenience retail property owner with 433 service stations across Australia, all of which are branded under the Shell or Liberty fuel brands. In contrast, Charter Hall REIT operates as a property funds manager rather than as a traditional REIT. Instead of simply collecting rent, this type of REIT manages assets on behalf of investors and charges fees for doing so—much like an asset management firm. Charter Hall has about AUD 80 billion in AUM and approximately 70% of its investors are large institutional investors such as offshore superannuation funds. Another example that differs from the previous two is Centuria Industrial REIT, which is Australia's largest purely industrial REIT. Centuria's AUD 4 billion portfolio covers 84 assets that are spread out across Australia.

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