AMP Listed Property Trusts

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 A-REIT Accumulation Index on a rolling 12-month basis. The portfolio predominantly invests in property (and property related) securities.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Property and infrastructure
Suggested minimum investment timeframe	5 years
Relative risk rating	Very High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Listed Property and Infrastructure	100
Cash	0

Actual Allocation	%
Australian Shares	2.94
Listed Property and Infrastructure	95.02
Cash	2.04

Sector Allocation	%
Diversified REITs	37.18
Industrial REITs	29.89
Retail REITs	15.92
Office REITs	5.39
Specialised REITs	3.85
Residential REITs	2.88
Cash	2.04
Health Care REITs	1.56
Real Estate Development	1.31

Top Holdings	%
Goodman Group	28.80
Scentre Group	10.45
Stockland	9.70
Mirvac Group	9.44
Charter Hall Group	8.19
Dexus	5.39
GPT Group/The	3.97
Ingenia Communities Group	2.88
Shopping Centres Australasia P	2.85
National Storage REIT	2.57

Region Allocation	%
Australasia	97.96
Cash	2.04

Fund Performance

The Fund delivered a positive return but underperformed the ASX 200 A-REIT total return index over the quarter.
At an overall sector level, the Fund's overweight allocation to the office REITS and real estate development sectors were the largest contributors to relative returns; whilst the retail, diversified, and specialised REITs sectors were the largest detractors. From a sector asset allocation perspective, office REITs and real estate development were the largest contributors to relative returns; whilst retail, specialised, and health care REITs were the largest detractors. In terms of stock selection, industrial REITs was the largest contributors to relative return; whilst diversified and specialised REITS were the largest detractors.
At an individual stock level, the top three contributors to relative return were from an underweight position in the CPT Group, and overweight positions in Charter Hall Group and Lifestyle Communities; whilst the bottom three contributors were from overweight positions in HomeCo Daily Needs REIT, Stockland, and Abacus Property Group.

Market Review

The Australian listed real estate market made a lack-lustre start to the year, declining in January and underperforming the broader Australian share market. Optimism about further economic stimulus in the US and robust Australian economic data set a 'risk on' tone, which boosted the broader share market, but dampened the more defensive listed real estate market. A three-day lockdown in Brisbane, to contain an outbreak of a more contagious strain of COVID-19, and ongoing border closures also put pressure on the listed real estate market. Australian 10-year bond yields rose 0.16% to 1.13% over the period.
The retail segment continued to suffer due to additional lockdowns and the accelerated trend towards online shopping. Retail sales rose 7.1% in November, supported by the re-opening of the Victorian economy, new product releases, and the largely online 'Black Friday' sales. Online sales increased 68.0% in November, compared to the same period a year ago. According to S&P Global Ratings, retail tenants are increasingly requesting 'turnover-style' rent agreements which exclude online sales. However, landlords are resisting, arguing that a retailer's physical presence helps drive online sales and a growing portion of online sales are fulfilled, collected, or returned to stores. However, risks remain that landlords of lower-quality shopping centres could succumb to tenant demands, precipitating negative property revaluations and disrupting the predictability of their operating income.
Retail landlords with exposure to cinemas recoiled from news that Warner Bros. Entertainment will premier all 17 of its 2021 film releases on its streaming service HBO Max and in cinemas simultaneously. Scentre Group has around 5.8% exposure to cinemas by gross leasable area, and Vicinity Centres receives around 13% of its rent from 'other retail' which includes cinemas, travel agents, auto accessories, lotteries and other entertainment.
Retail landlords with assets in central business district locations have come under additional pressure due to ongoing working from home and border closures. Vicinity Centres reported a combined asset valuation decline of 4.0% over the six months to December 2020, mainly driven by lower income assumptions but also some capitalisation rate expansion. Valuations of central business district assets declined 8.6%, while neighbourhood assets declined just 1.0%. In addition, footfall in central business district assets in December was just 63.3% compared to the same period a year ago, while footfall in other locations was 88.4%.
The office segment has been most influenced by ongoing working from home. According to Jones Lang LaSalle, over Q4 2020 significant levels of office space became available, over and above space leased in Sydney and Melbourne, capping the worst year on record. In addition, the vacancy rate in Sydney of 11.9% is around 8.2% higher than its cyclical low and the vacancy rate in Melbourne of 13.2% is around 9.8% higher than its cyclical low. Effective rents declined and capitalisation rates remain historically depressed.
On the flip side, the residential segment continued to benefit from people seeking more space and taking advantage of stimulus available. Home loan approvals, excluding refinancing, increased 23.7% in November compared to a year ago, with owner-occupier loans particularly strong. Owner occupier construction loans increased by a staggering 94% compared to a year ago and according to the Housing Industry Association, new home sales increased by 91.8% in December. This can be attributed to the Federal Government's HomeBuilder programme, as households finalised contracts to build before the end of year deadline to gain access the grant.
In other positive news for the residential segment, only 2.8% of housing loans by value have deferred repayments in November, down from 11% in May. Victoria had the highest level in November as it was adversely impacted by lockdowns until late-October.
The industrial segment continued to thrive as demand for online services increased. Centuria Industrial REIT reported a portfolio valuation increase of 6.3% to December 2020, compared to previous book values. It generated the increase through a combination of leasing success and capitalisation rate compression.

Stockland is taking advantage of industrial strength by entering into a partnership with JP Morgan Asset Management to establish and manage a portfolio of industrial and logistics assets with a target value of A$1 billion. The portfolio will be seeded with two properties Stockland recently agreed to acquire, as well as several other assets from its existing holdings.

US private equity group Blackstone has released details of the sale of its A$3.5 billion Australian logistics property portfolio. The portfolio reportedly generates A$150 million of annual income when fully leased, has 1.35 million square metres of gross leasable area and a weighted average lease expiry of 6.8 years across nine industrial estates. Over half the portfolio is located in Melbourne and 77% is on the eastern seaboard, with the remainder in Perth and Adelaide. The company is running a dual-track process, as it is also considering floating the portfolio as a real estate investment trust on the Australian Stock Exchange.

National Storage REIT provided a strong operations update, with record occupancy growth over the five months to the end of November 2020, continued improvement in revenue per available square metre and significant acquisitions and developments. It also indicated that its full-year 2021 earnings per share would be at the upper end of its guidance.

According to Jones Lang LaSalle, overseas investors will continue buying commercial real estate assets in Australia in 2021, with half of those surveyed planning to increase their exposure. The pandemic shook up commercial property and while investors were willing to pay higher prices for modern, good-quality industrial and logistics assets with long covenants, they shifted away from retail assets. Many investors expanded into alternative assets, such as childcare, healthcare and data centres.

Outlook

Australian listed real estate will likely continue to be subject to near-term volatility, which is affecting all markets, due to the impact of extensive COVID-19 containment measures on economic activity. Foot traffic and consumer confidence will likely improve as the economy moves towards a greater semblance of normalcy, supporting the retail segment. The federal government's HomeBuilder scheme will buttress the residential segment. The office segment should be resilient as office leases are generally long term; however, this could be disrupted as businesses choose to embrace technology for their requirements going forward, allowing staff to increasingly work from home. The industrial segment should remain robust, especially properties exposed to the increases in online shopping and data usage.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1326AU
Flexible Lifetime - Allocated Pension	AMP0611AU
Flexible Lifetime - Term Pension	AMP0903AU
SignatureSuper - Allocated Pension	AMP1134AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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