AMP Australian Property

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To generate long-term returns from investing in property assets and listed securities. This portfolio predominately invests in a range of listed property trusts and cash, and may hold exposures to unlisted property.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Investment Option Overview

Investment category	Property and infrastructure
Suggested investment timeframe	7 years
Relative risk rating	Medium to High
Investment style	Active

Asset Allocation	Benchmark (%)
Listed property & infrastructure	40
Unlisted property & infrastructure	45
Cash	15

Sector Allocation	(%)
Listed property & infrastructure	51.61
Unlisted property & infrastructure	37.44
Cash	10.95

Market Review

Australian listed real estate made a positive return during the period, the S&P/ASX 200 A-REIT Accumulation Index finishing up by 1.86%.

The ongoing strength of the premium end of the retail property market was demonstrated by Scentre Group's acquisition of 50% of the Westfield Eastgardens mall in the affluent Eastern Suburbs of Sydney. The capitalisation rate of 4.25% is as low as that of the Bondi Junction mall, where the income per household level is 11% above that of Westfield Eastgardens' catchment area.

However, the challenge posed by the longer-term trend towards online shopping was reflected in the first half-year 2018 earnings results that were released by The Scentre Group during the period. This showed lease renewal spreads falling to -2.7% and new deal spreads falling to -6.6% as retailers continue to rationalise their estates and attempt to negotiate more advantageous rental contracts with their landlords.

The strength of the Australian office market was illustrated by Colliers International's latest Office Demand Index which showed a 25% increase in demand for space in the second quarter, relative to the first quarter. This strength was further illustrated during the period when Dexus exchanged contracts to acquire 60 Collins Street, Melbourne for A$160.0 million and entered into an agreement to acquire the adjoining 52 Collins Street for A$70.0 million. It intends to build a 35,000 square metre prime grade office space.

Residential prices continue to weaken, especially in the Sydney and Melbourne markets, which saw the steepest gains over recent years. The Sydney market saw a 1.2% fall in the second quarter, while Melbourne fell by 0.8%, meanwhile auction clearance rates remain little above 50% in the two cities. This suggests ongoing price weakness as mortgage interest rates drift upwards, banks under regulatory pressure to tighten lending criteria, Australians remain highly indebted and investment buyers appear to have largely withdrawn from the market.

The quarter had a solid level of investment transaction activity across all the property sectors. Melbourne was the strongest market in terms of tenant demand due, to their relatively strong economy and population growth. Office development pipelines have dwindled, while both retail shopping centres and industrial developments continue to be active.

The office market experienced tighter conditions, with low supply levels. Stronger business conditions and service sector employment growth is driving vacancy rates down across most CBD markets. Melbourne CBD's vacancy rate is now the lowest of the capital cities. Melbourne had the highest effective rental growth for the quarter. Sydney CBD leasing activity was again characterised by the relocation and consolidation trend and the growth in co-working space such as WeWork. The recent momentum in Brisbane CBD leasing market continued into the quarter, with some solid positive net absorption pushing the vacancy rate down. Perth's vacancy rate remained relatively flat.

In retail, the consumer confidence index is showing a declining trend due to the pressure on household budgets. Retail sales growth remains subdued, at around 2.5% p.a. Rental growth still remained elusive across most markets and generally confined to certain areas of Sydney and Melbourne. Transaction volumes (year to-date reported at $4.6b) are on target to exceed last year. Yields are stabilising.

The industrial market remained robust, with strong levels of leasing activity across the east coast markets. The transport, warehousing and postal sector dominated activity, led by Australia Post, with their 50,000 square metre distribution centre in Brisbane. The current global trend is in improving supply chain efficiencies to compete with companies expanding their e-commerce platforms. There are also many businesses consolidating and gaining efficiencies from automation in their premises.

Outlook

A low interest environment and a generally robust macro-economic outlook are likely to continue to support reasonable returns in the Australian commercial listed real estate market. However, companies exposed to the retail market are likely to continue to disappoint as they struggle to adjust to changing consumer habits, changing market dynamics and disruptors entering the market. The residential markets in the east coast capital cities are likely to have peaked as high levels of personal debt, tighter lending standards and the absence of wage growth are expected to keep the market subdued.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0439AU*

* Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

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