SQM RESEARCH

Opportunities and Pitfalls with the A-REIT Market

Disclaimer

In compiling this document, SQM Research has relied upon information supplied by several external sources.

While SQM Research believes all the information in this document is correct at the time of publication, it does not warrant its accuracy nor completeness.

Any republication of the information for commercial purposes is strictly prohibited, unless express prior permission has been granted by SQM Research.

The data and projections should be used as a guide only and should not be relied upon in making investment decisions. This presentation does not constitute advice of any kind and is for advisers only.

This presentation is confidential in nature.

A Reminder..

In October 2008, the S&P/ASX A-REIT Index suffered its largest collapse in the history of Australian listed property trusts.

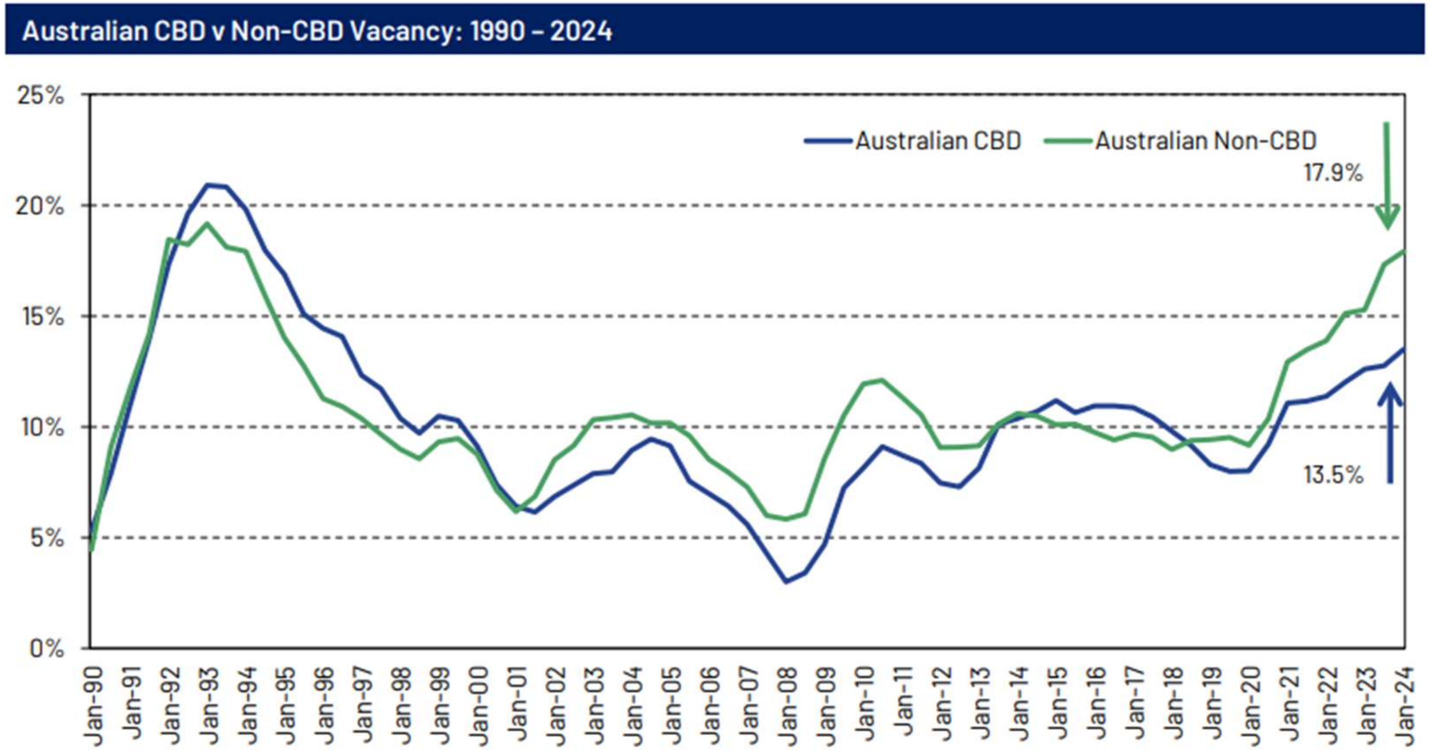
From peak to trough, the Index crashed by 75%, easily eclipsing the crash of the wider S&P/ASX 200 equities index and making it one of the very largest falls anywhere in the world at that time.

This was a tumultuous moment for Australian listed property trusts. At one stage, the market was pricing in that over 2/3rds of the index could end in liquidation. The market affectively gave zero value to Funds management businesses within this sector.

Well known REITS such as Centro and Valad disappeared. Others barley scraped through such as Goodman Group.

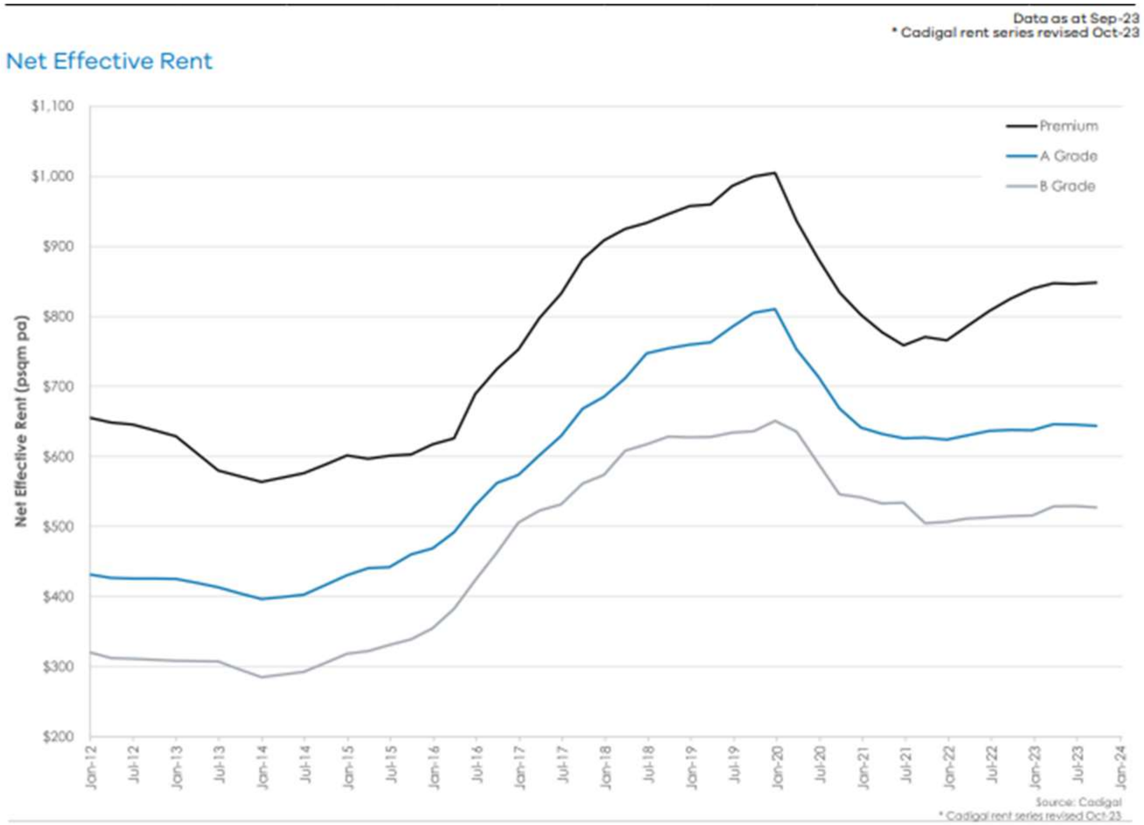
Eventually there was a recovery, but not before most investors were diluted to the nines…

Australian Office Rental Vacancy Rates at 27 year highs



Both the Australian CBD and Non-CBD vacancy rates increased over the six months to January 2024

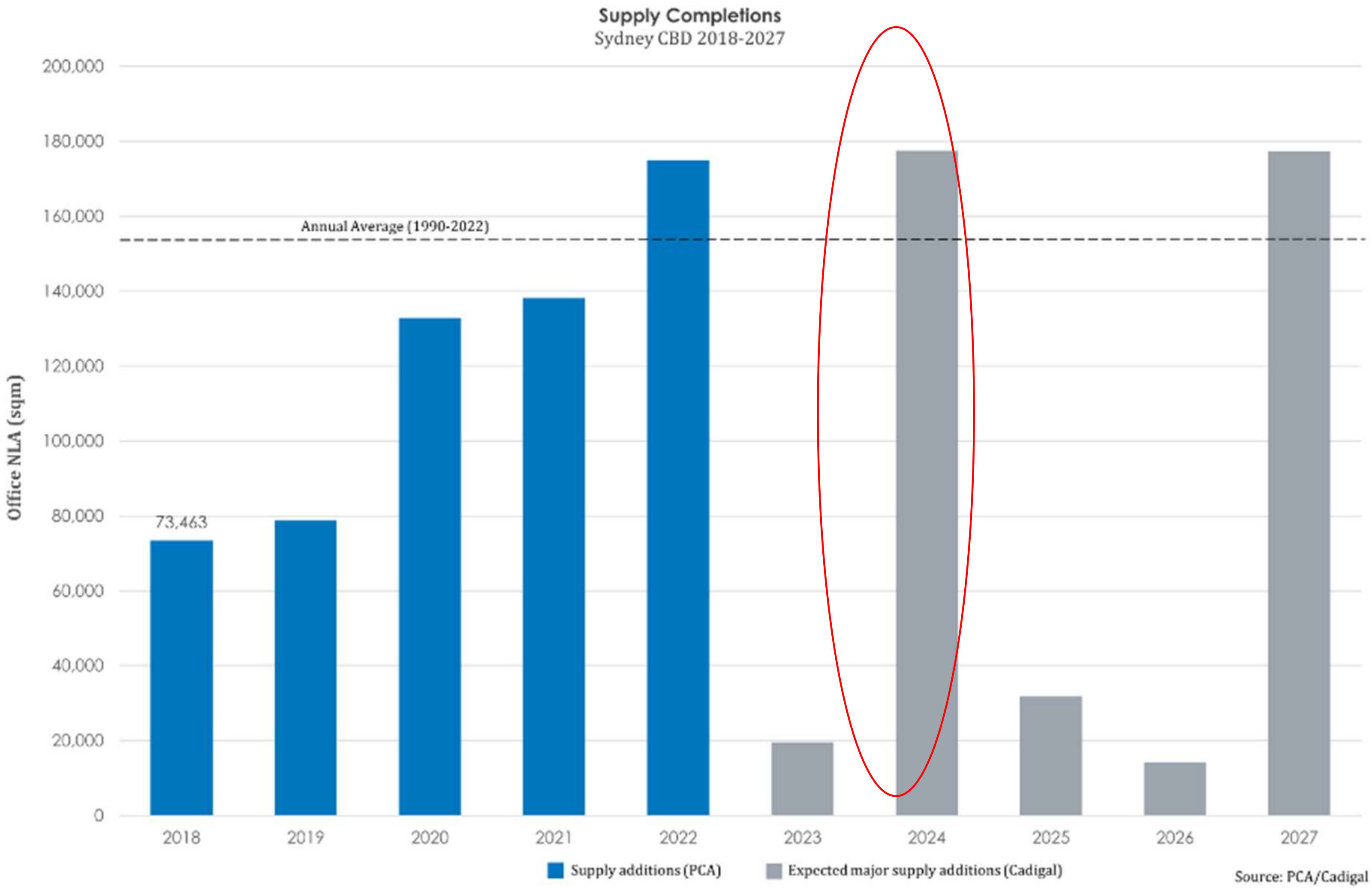
National Office rents very likely to soften over 2024



After a brief recovery in late 2022, Office rents have stalled once more.

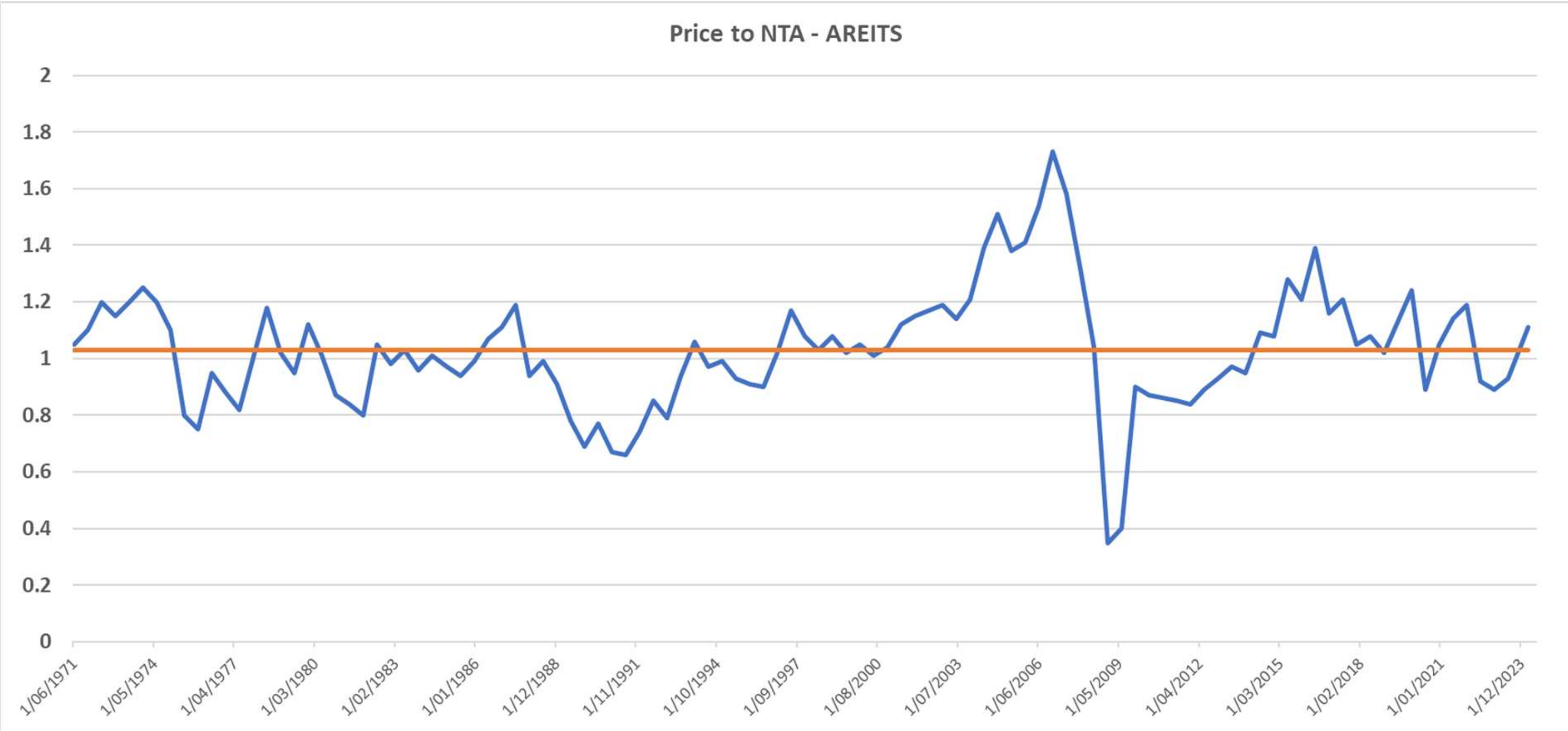
CBD incentives on prime office have lifted to above 30% and in some sub central districts such as North Sydney, incentive are now running at 37%.

Forward supply this year is looking negative



Especially in the face of already high vacancy rates.

REIT market prices trading somewhat at NTA



AREITS currently trading at 1.11 to a 1.00 NTA

Long term average = 1.03

High = 1.73 (Dec 2006)

Low = 0.35 (Dec 2008)

This assumes an unweighted look through on the index.

However, there are REITs currently priced well below NTA..

S&P ASX 200 A-REIT Consitutents (March 2024)

Name	ASX Code	Asset class/Type		Price to FY24 (1st l	FY 24 (1st half) Gear	Market Cap	5 yr Beta	Div yield	Franked	Consensus Dividend outlook
Cromwell Property Group	CMW	Diversified Fund manager	0.7%	**60.4%**	51%	$1.1B	1.03	9.9%	0%	Negative
Abacus	ABP	Office/Self Storage	0.7%	**61.0%**	45%	$1.07B	1.09	7.3%	0%	Stable
Growth Point Properties	GOZ	Office/Industrial/Fund manager	1.2%	**64.0%**	38%	$1.8B	1.05	8.5%	0%	Negative/Stable
Charter Hall Long Wale	CLW	Diversified	1.4%	**73.5%**	42%	$2.7B	0.93	7.1%	0%	Negative/Stable
Dexus	DXS	Office/Fund manager	5.3%	**75.0%**	45%	$8.2B	0.96	6.5%	9%	Negative
Charter Hall Retail	CQR	Neighbourhood/Sub regional retail	1.4%	**78.2%**	35%	$2.1B	0.9	7.1%	0%	Stable
GPT Group	GPT	Industrial/Developer/Fund manager	5.5%	**78.8%**	31%	$8.5B	0.88	5.5%	0%	Stable
Mirvac Group	MGR	Diversified/Developer	5.6%	**84.6%**	38%	$8.6B	0.91	4.8%	0%	Stable/Growing
HomeCo Daily needs	HDN	Neighbourhood retail/Healthcare	1.7%	**88.0%**	34%	$2.7B	0.97	6.4%	0%	Stable/growing
Centuria Industrial Trust	CIP	Industrial	1.4%	**88.4%**	36%	$2.2B	0.86	4.7%	0%	Stable
Waypoint Reit	WPR	Service stations	1.0%	**89.0%**	35%	$1.6B	1.04	6.8%	0%	Stable
Vicinity Centres	VCX	Shopping Centres	6.2%	**89.7%**	31%	$9.5B	0.94	5.7%	0%	Stable
Centuria Capital group	CNI	Diversified Fund manager	0.9%	**93.8%**	40%	$1.4B	0.95	6.2%	8%	Negative/Stable
National Storage	NSR	Self Storage	2.1%	**94.6%**	30%	$3.2B	0.84	4.5%	0%	Stable/Growing
Scentre Group	SCG	AUS/NZ Westfield	11.1%	**95.1%**	42%	$17.1B	1.09	5.1%	15%	Growing
BWP Trust	BWP	Bunnings stores	1.5%	**95.7%**	20%	$2.3B	0.8	5.1%	0%	Stable/growing
Arena REIT	ARF	Early learning/health	0.8%	**103.0%**	25%	$1.2B	0.81	4.8%	0%	Growing
Stockland	SGP	Diversified-residential	7.3%	**111.0%**	43%	$11.2B	0.9	5.6%	0%	Stable
INGENIA Communities Grou	INA	Retirement/Lifestyle, Fund manager	1.4%	**135.0%**	36%	$2.1B	0.81	2.4%	0%	Stable/growing
Charter Hall Group	CHC	Diversified/Developer/Fund manager	1.7%	**205.6%**	21%	$6.2B	0.75	3.4%	45%	Growing
HMC Capital Limited	HMC	Diversified Fund manager	1.6%	**236.0%**	17%	$2.4B	0.79	1.7%	5%	Stable
Goodman Group	GMG	Diversified/Developer/Fund manager	37.1%	**349.1%**	24%	$57.2B	0.76	1.0%	0%	Stable
			Unweighted	1.1	34.4%		0.9	5.5%	3.7%	
			Weighted	1.9	31.7%		0.9	3.8%	3.1%	

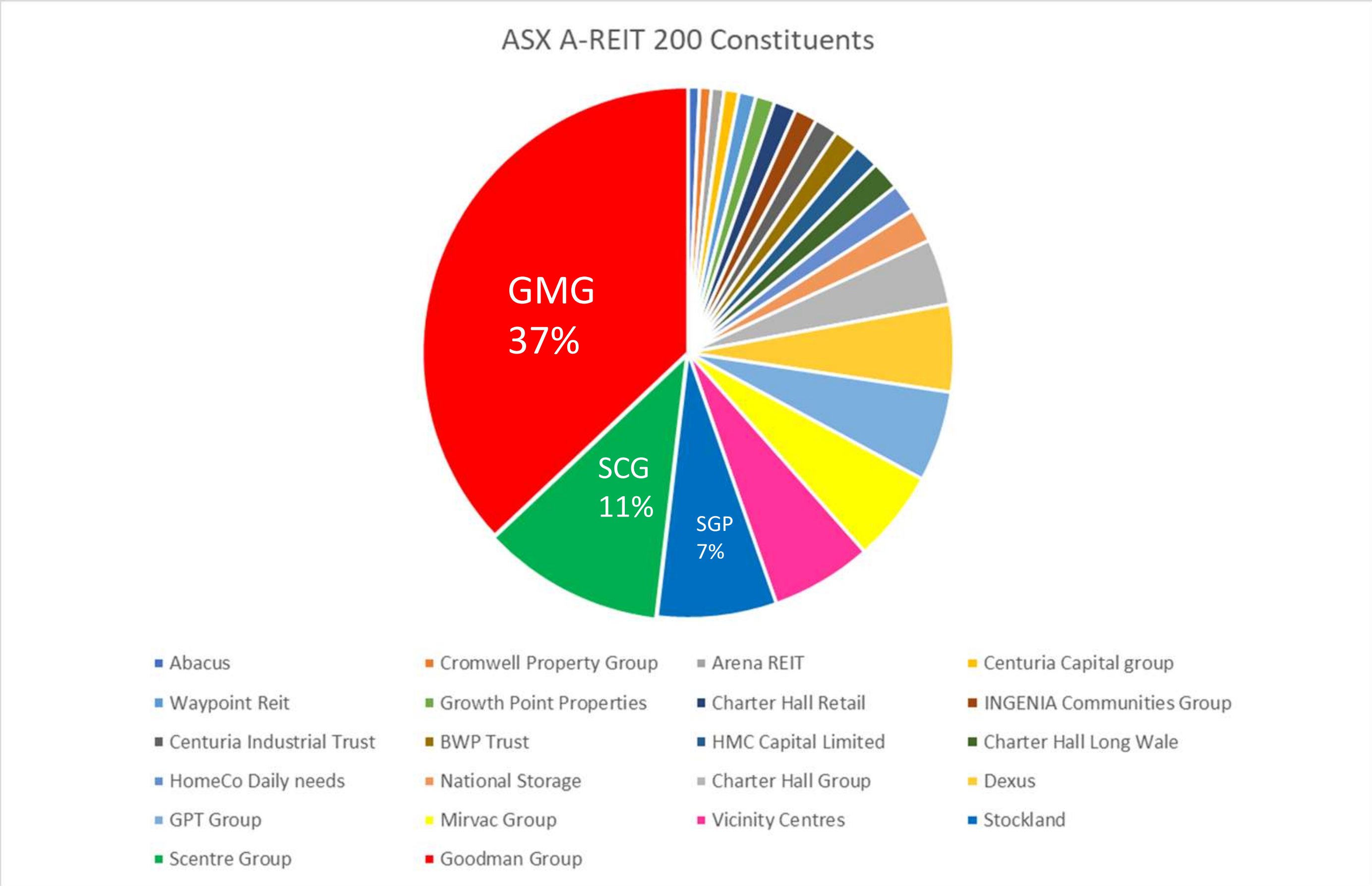
Market Cap taken as at 11 March 2024

FY 24 (1st half) gearing based on total liabiltiies to total assets

Conseses dividend outlook based on broker consensus

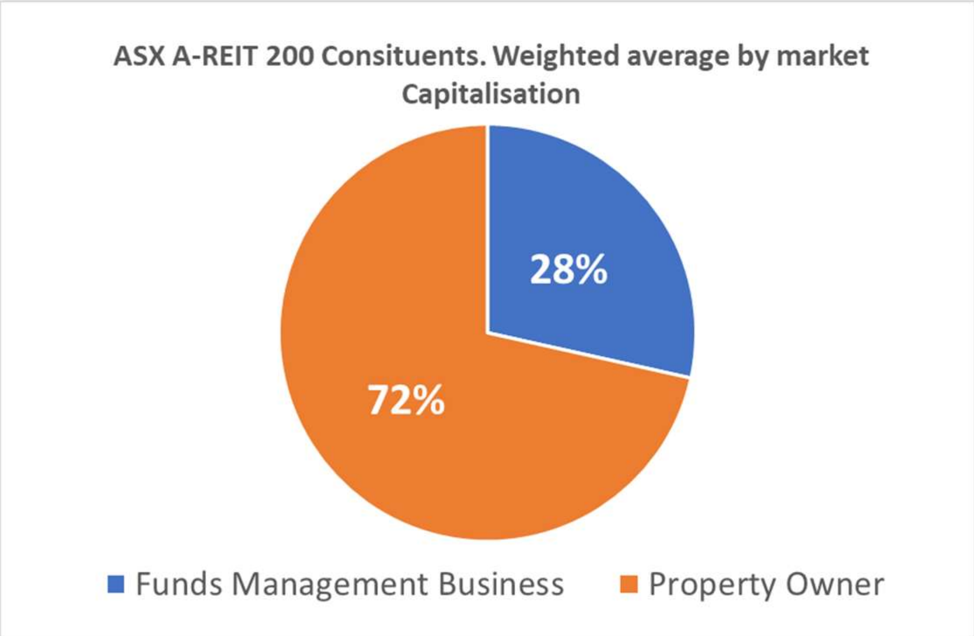
Source: SQM Research Shares Professional

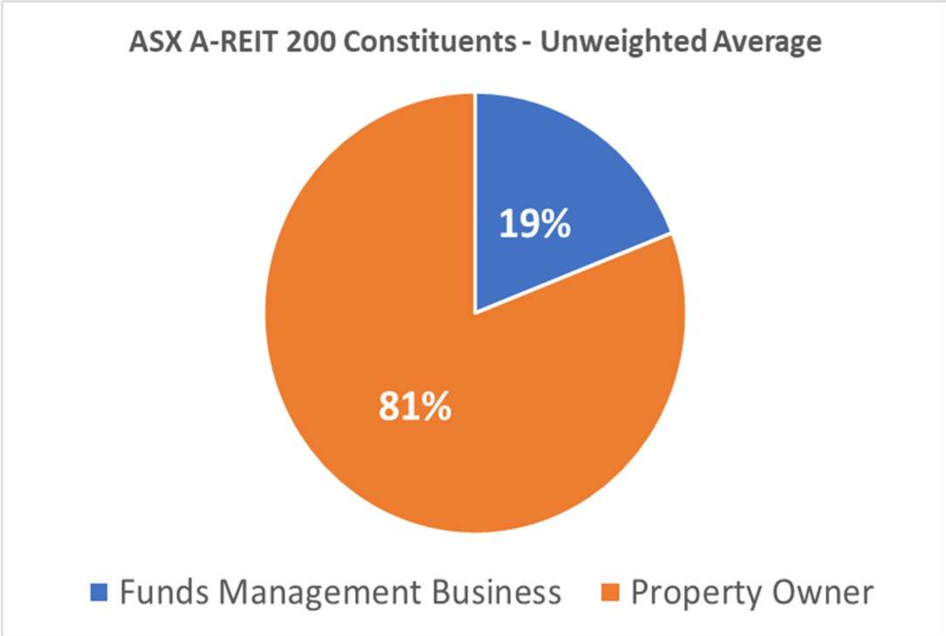
Just what is the ASX/S&P A-REIT 200 Index?



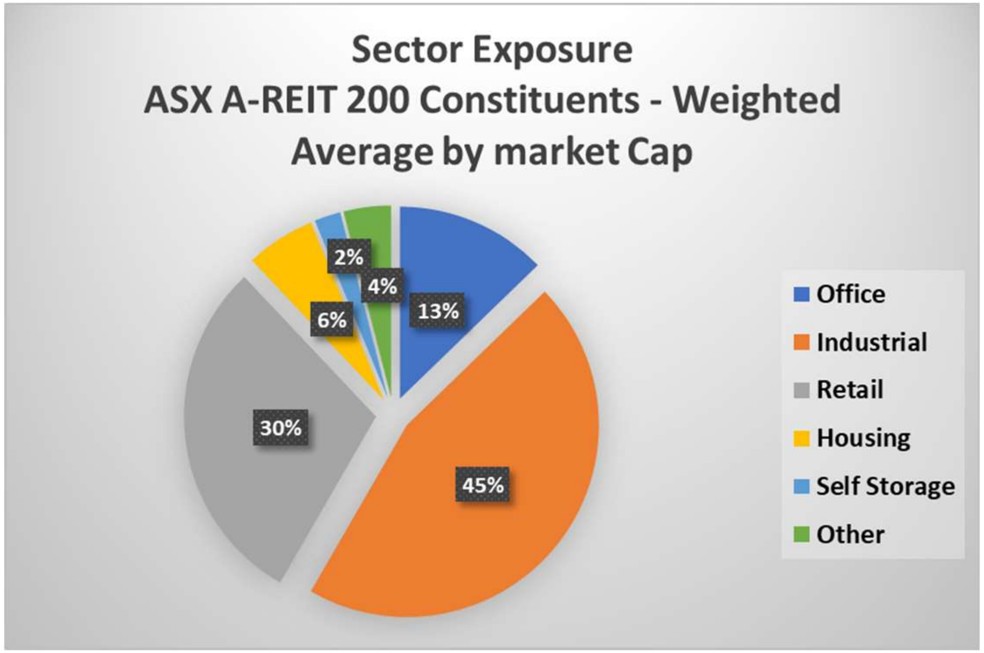
The top three Entities (Goodman Group, Stockland and Scentre Group) make up for 55.5% of the A-REIT Index

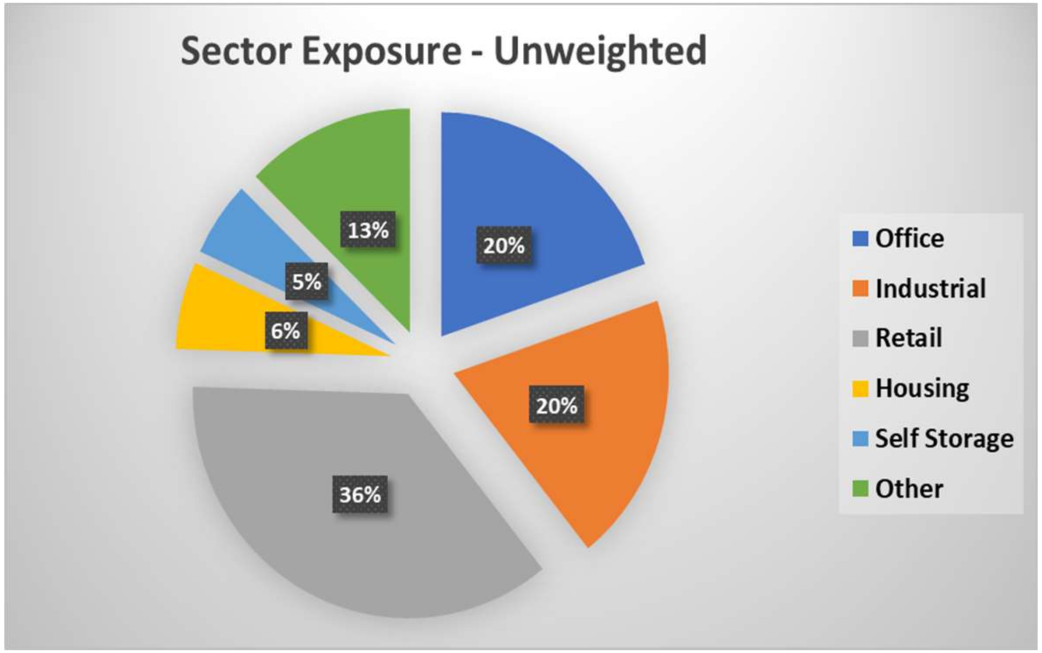
Just what is the ASX/S&P A-REIT 200 Index?





Just what is the ASX/S&P A-REIT 200 Index?





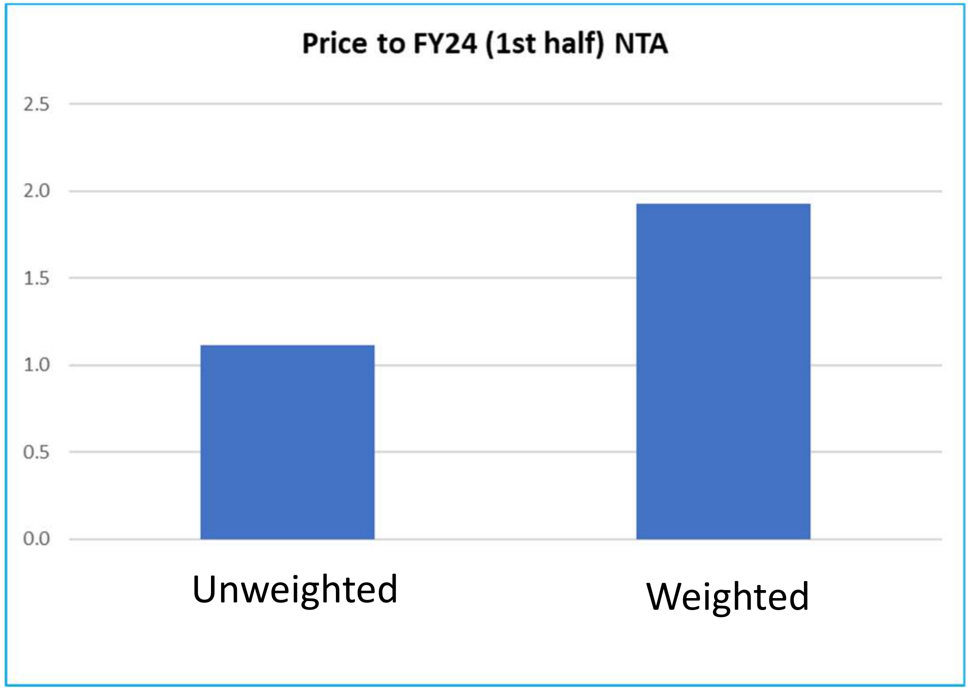
SECTOR EXPOSURE

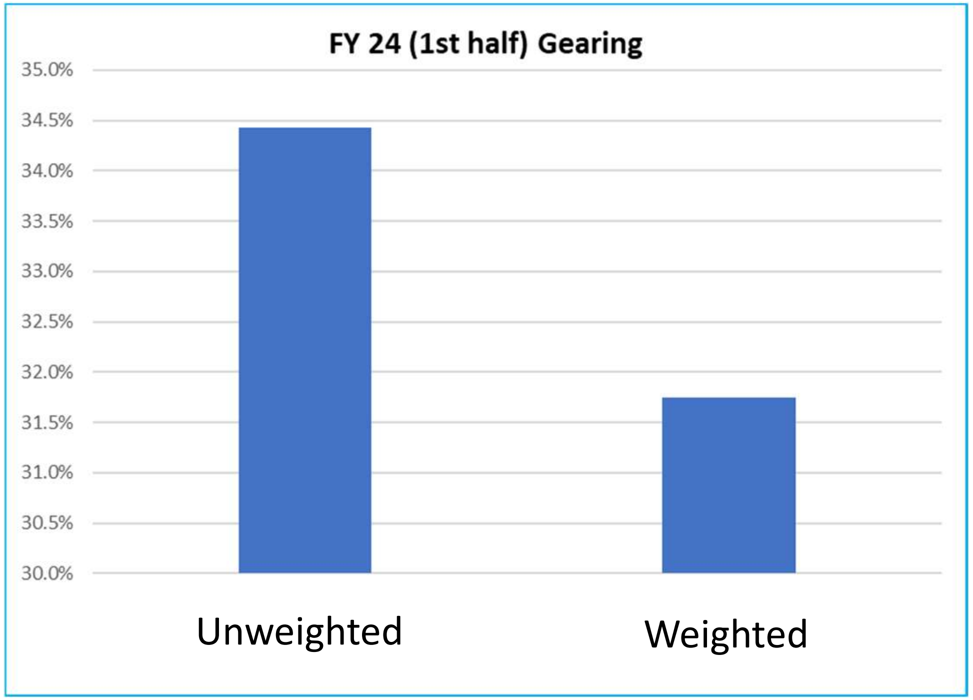
	Weighting		Funds Management Business	Property Owner	Office	Industrial	Retail	Housing	Self Storage	Other	Developer	Established property
Abacus	0.7%		9%	91%	54%	0%	20%	0%	20%	7%	0%	100%
Cromwell Property Gro	0.7%		38%	62%	58%	29%	8%	0%	0%	5%	0%	100%
Arena REIT	0.8%		0%	100%	0%	0%	0%	0%	0%	100%	7%	93%
Centuria Capital group	0.9%		100%	0%	39%	32%	17%	0%	0%	12%	2.50%	97.50%
Waypoint Reit	1.0%		0%	100%	0%	0%	100%	0%	0%	0%	0%	100%
Growth Point Properti	1.2%		3%	97%	64%	36%	0%	0%	0%	0%	0%	100%
Charter Hall Retail	1.4%		0%	100%	0%	0%	100%	0%	0%	0%	0%	100%
INGENIA Communities	1.4%		0%	100%	0%	0%	0%	59%	0%	41%	10%	90%
Centuria Industrial Tru	1.4%		0%	100%	0%	92%	0%	8%	0%	0%	4%	96%
BWP Trust	1.5%		0%	100%	0%	0%	100%	0%	0%	0%	0%	100%
HMC Capital Limited	1.6%		58%	42%	0%	9%	52%	0%	0%	39%	6%	94%
Charter Hall Long Wale	1.7%		0%	100%	18%	20%	21%	0%	0%	41%	0%	100%
HomeCo Daily needs	1.7%		0%	100%	0%	0%	83%	0%	0%	17%	1.50%	98.50%
National Storage	2.1%		0%	100%	0%	0%	0%	0%	100%	0%	3%	97%
Charter Hall Group	4.0%		70%	30%	41%	34%	16%	0%	0%	9%	2%	98%
Dexus	5.3%		73.00%	17.00%	69%	22%	0%	0%	0%	9%	20%	80%
GPT Group	5.5%		8%	92%	34%	27%	39%	0%	0%	0%	6%	94%
Mirvac Group	5.6%		9%	91%	50%	14%	18%	18%	0%	0%	22%	78%
Vicinity Centres	6.2%		0%	100%	0%	0%	100%	0%	0%	0%	4%	96%
Stockland	7.3%		0%	100%	8%	14.00%	24%	54%	0%	0%	50%	50%
Scentre Group	11.1%		0%	100%	0%	0%	100%	0%	0%	0%	2%	98%
Goodman Group	37.1%		50%	50%	0%	100%	0%	0%	0%	0%	25%	75%
		unweighted	**19%**	**81%**	**20%**	**20%**	**36%**	**6%**	**5%**	**13%**	**8%**	**93%**
		Weighted	28.3%	71.1%	12.8%	45.6%	29.6%	5.8%	2.2%	4.0%	16.5%	83.5%

Market Cap taken as at 11 March 2024
Industrial includes data centres
Developer % based on capital employed v balance sheet
Calculated on an attempted look through basis

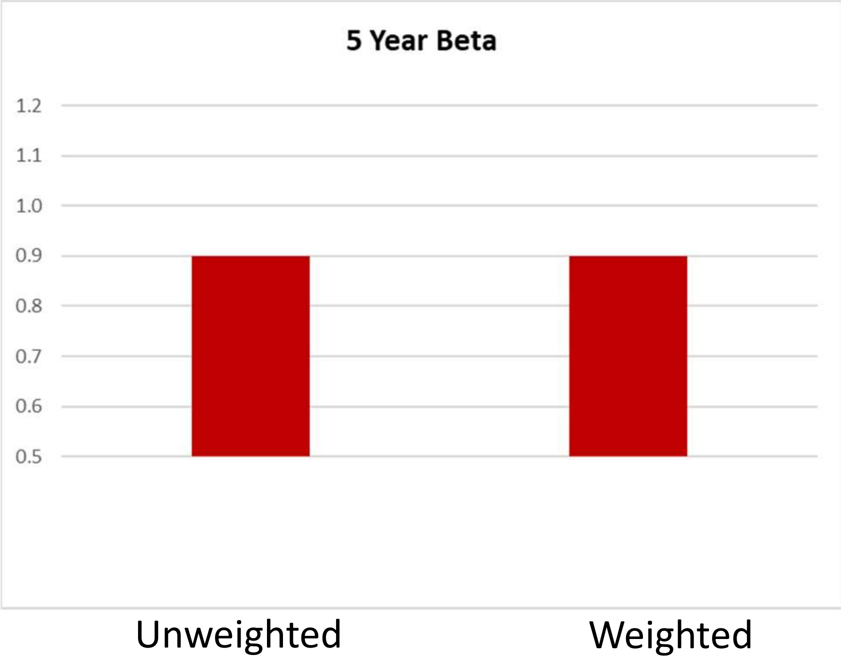
Source: SQM Research Shares Professional

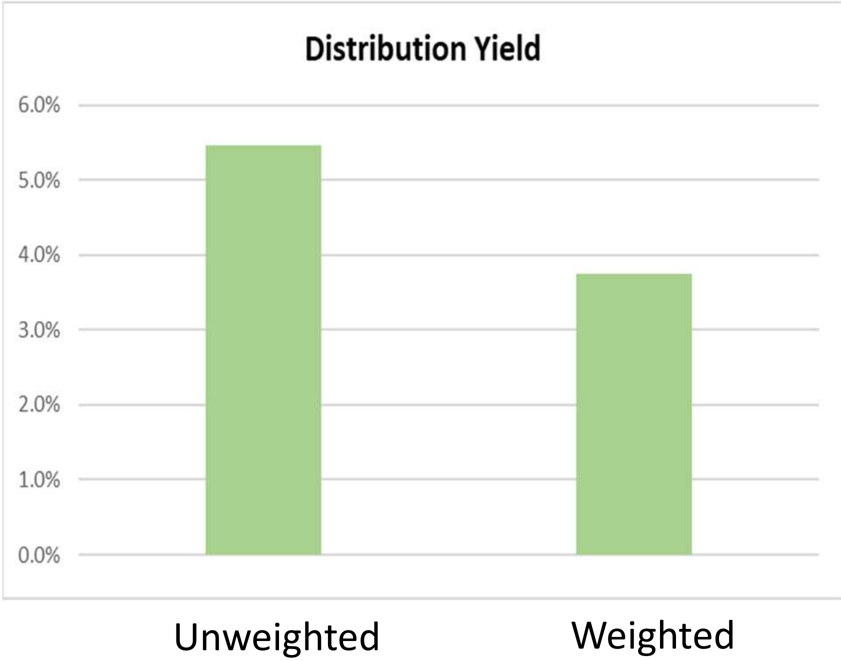
Just what is the ASX/S&P A-REIT 200 Index?





Just what is the ASX/S&P A-REIT 200 Index?

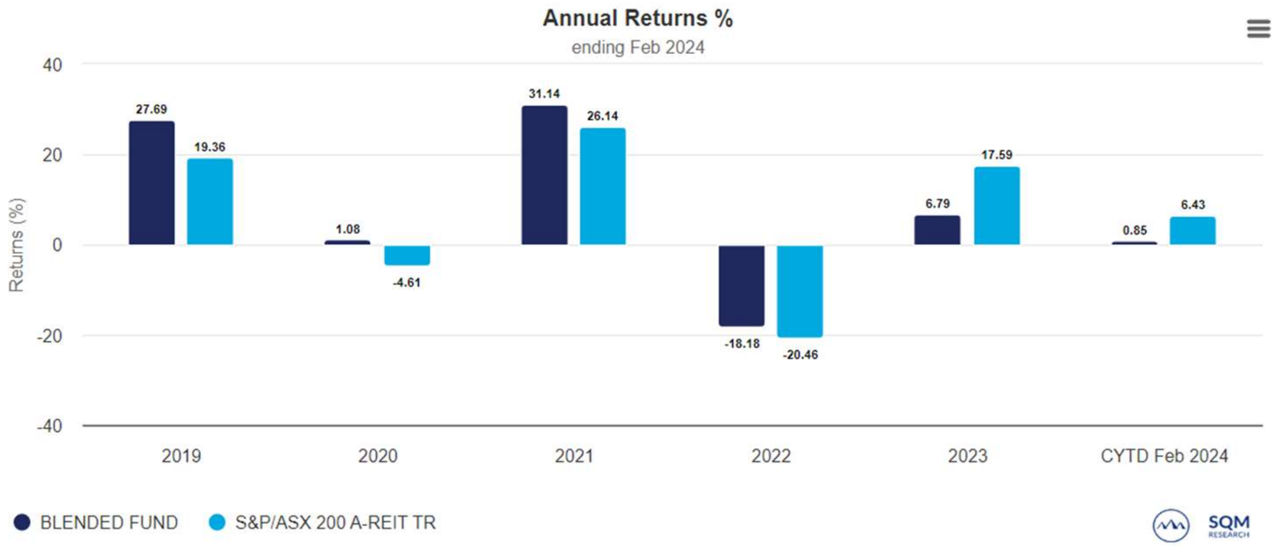




Just what is the ASX/S&P A-REIT 200 Index?

Correlation of Stock to Asset Classes

No	Market	Mar-21 (3 yrs)	Mar-09
1	Aust. Bonds	52.53%	-3.88%
2	Aust. Stocks	84.48%	-11.26%
3	Cash	10.03%	-9.79%
4	Global Stocks	62.86%	-2.44%
5	Global Bond	58.10%	-1.78%



Conclusions

- Office REITs are significantly discounted compared to NTA but we are not quite there yet in terms of the underlying market trough. Watch out for dilutive equity raises!

- When strictly looking at the index itself, it is currently trading nearly 2 times NTA. That is because of the significant premium the top three REITS are trading at, especially GMG.

- The index has higher concentrations towards Industrial and Retail. But at a reduced weighting to Office compared to an even weighting of the constituents.

- The S&P/ASX 200 A-Reit Index is highly concentrated. That makes for some significant risks. Potentially having an exposure more evenly weighted should be considered.

SQM RESEARCH

Research & Data

Thank You

Louis Christopher
Managing Director
louis@sqmresearch.com.au

Matthew Hattersley
General Manager
M: 0414 847 511
matthew@sqmresearch.com.au