

Trump REITurns: How the new president will impact listed U.S. property

By David Kruth,
Portfolio Manager

Since 2016, U.S. industrial policy has been focused on mid to high-end manufacturing and a 'reshoring' bias. This remains the case. Previous administrations established bipartisan initiatives, including attractive incentives and subsidies, to return semiconductor, automotive and battery production to American soil. As its original architects, the incoming Trump administration is unlikely to change course.

Paired with the growth of e-commerce, demand for high-quality industrial space has therefore increased. More recently, however, large numbers of newly built industrial buildings in the States have come into the market giving tenants ample choice. Together with concerns over new and higher tariffs, tenants are taking longer before renting new space.

There is less concern over the booming datacentre sector. With widespread applications and geopolitical implications, maintaining U.S. leadership in artificial intelligence (AI) remains a strategic government priority.

AI's energy consumption and rapid adoption, however, is placing pressure on infrastructure, in transmission and overall capacity.

In 2024, the Dexus Global REIT Fund produced growth of 990% and distributions of 4.57% for a total return of 14.46%.

With a 68% weighting to the U.S. market and a new presidential term imminent, it's time to examine the potential impacts of the new administration. It would be convenient to believe that political considerations are remote from investment decisions. Unfortunately, this is rarely so, with the incoming Trump administration a case in point.

Whilst Trump's first presidential term was chaotic, the new administration's policies could significantly reshape the U.S. investing landscape. With 68% of the Dexus Global REIT Fund allocated to the U.S., it's time to take a look at the potential impacts.

For investors in the sector—the Dexus Global REIT Fund has an 11% exposure to datacentres—this is good news. Demand for power and the difficulty of adding new supply has already greatly benefited existing owners.

We expect this to continue, with the fund positioned in global developers of AI datacentres like Digital Realty Trust (NYSE:DLR) which leased more in Q3 2024 than all of 2023 (\$460 million USD). Indeed, our overweight position in datacentres made a valuable contribution to the Fund's 14.46% total return in 2024¹.



Source: Digital Realty quarterly results, DXAM

1. Past performance is not an indicator of future performance

The eventual impacts of the new administration's proposed deportation policies are less clear, although shares in private prisons have soared as investors anticipate a surge in demand for detention facilities. As with the proposed wall in Trump's first term, mass deportations might be more a rhetorical ambit than real policy. A Trump phone call with Mexican President Sheinbaum suggests the proposed 25% tariff on Mexican imports might be more an example of the former rather than the latter.

Should substantial tariffs and deportations eventuate, labour shortages and cost increases, especially in labour-intensive sectors like construction, hospitality and healthcare, are likely. This is not of great concern for the Fund's portfolio position in seniors' housing, a unique REIT sub-sector unavailable in Australia.

The 2020 Census revealed that one-in-six Americans was 65 or older. Consequently, we remain firmly positioned in seniors housing as it benefits from a V-shaped recovery. Pent-up demand is pushing occupancies to all-time highs while costs for contract labour have normalised. Due to decade lows in building, future cost pressures will likely be offset by higher room pricing and dwindling availability. Wage growth, rising home prices and high mortgage rates should also bolster demand for multifamily housing, especially in Sunbelt markets where jobs and population growth are strongest.

High-barrier coastal markets epitomised by AvalonBay Communities (NYSE:AVB) (see Global REITs: Leaning into the recovery phase – Part 2) remain attractive. In these areas, new building is limited, although growth may be tempered by other housing initiatives and the possible return of higher inflation.

Changes to tax policy are plausible. The new administration is likely to extend previous tax cuts and introduce new tax exemptions on social security, overtime pay and tip income.

This should result in additional consumer spending, boosting the retail, hotels and gaming sectors. Retailer demand is such that occupancy rates among traditional sectors are near record highs. Beneficial tax changes could push it higher yet, although increased tariffs, should they eventuate, might offset their impact.

The Fund is therefore well positioned, favouring high quality grocer-anchored and lifestyle centres which enjoy strong foot traffic and retailer demand. In the office sector, the newly established Department of Government Efficiency (DOGE) aims to reduce deficits and boost growth through deregulation, spending cuts and slashing bureaucracy, although not being a government department may hamper the achievement of these objectives.

Still, long-term employment reductions, especially around Washington D.C., are likely. DOGE claims Federal agencies are using just 12% of their D.C. office space. Meanwhile, Sunbelt office leads the country in utilisation, occupancy and leasing while premium office faces shortages due to strong job growth and return to office policies.

This is similar to Australia and elsewhere, where high quality office space is performing far better than lower grade properties. We believe conservatively geared REITs like Cousins Properties (NYSE:CUZ), with newly built and highly amenitised urban Sunbelt office, can play offense while many others are stuck with higher vacancies and refinancing worries.

Whatever the new administration decides, we consider that the Dexus Global REIT Fund is well positioned to deal with it. Whilst the imposition of import tariffs and a possible trade war are possibilities, we are vigilant to the risks and awake to the opportunities.

Our core positioning, based on strong fundamentals and enduring trends, offers a sound foundation: AI demand is such that datacentres will continue to prosper; manufacturing and e-commerce will need more logistics space; aging boomers will need more retirement options; and U.S. families need affordable housing. That stands us in good stead.

Leveraging their strong balance sheets, resilient and well-managed global REIT portfolios are leaning into the recovery phase of the current market cycle. No matter what policies the new U.S. administration adopts, the prospects for future rent increases and attractive ongoing performance are in place.

Invest in GREITs

Focusing on sustainable growth, regular returns and lower-than-market volatility, the Dexus Global REIT Fund (DXGRF) is an actively managed property securities fund investing in a diversified portfolio of Real Estate Investment Trusts listed in North America, Europe and Asia Pacific.

Visit dexus.com



Important note: This ("Material") has been prepared by Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) ("DXAM"), the responsible entity and issuer of the financial products of Dexus Global REIT mentioned in this Material. DXAM is a wholly owned subsidiary of Dexus (ASX: DXS). Information in this Material is current as at [20/12/22] (unless otherwise indicated), is for general information purposes only, does not constitute financial product advice and does not purport to contain all information necessary for making an investment decision. It is provided on the basis that the recipient will be responsible for assessing their own financial situation, investment objectives and particular needs. Before you receive any financial service from us (including deciding to acquire or to continue to hold a product in any fund mentioned in this Material), investors should read the relevant product disclosure statement ("PDS"), financial services guide ("FSG") and target market determination ("TMD") in full, and seek independent legal, tax and financial advice. The PDS, FSG and TMD (hard copy or electronic copy) are available from DXAM, Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000, by visiting <https://www.dexus.com/investor-centre>, by emailing investorservices@dexus.com or by phoning 1800 996 456. The PDS contains important information about risks, costs and fees (including fees payable to DXAM for managing the fund). Any investment is subject to investment risk, including possible delays in repayment and loss of income and principal invested, and there is no guarantee on the performance of the fund or the return of any capital. This Material does not constitute an offer, invitation, solicitation or recommendation to subscribe for, purchase or sell any financial product, and does not form the basis of any contract or commitment. This Material must not be reproduced or used by any person without DXAM's prior written consent. This Material is not intended for distribution or use in any jurisdiction where it would be contrary to applicable laws, regulations or directives.

Any forward-looking statements, opinions and estimates (including statements of intent) in this Material are based on estimates and assumptions related to future business, economic, market, political, social and other conditions that are inherently subject to significant uncertainties, risks and contingencies, and the assumptions may change at any time without notice. Actual results may differ materially from those predicted or implied by any forward-looking statements for a range of reasons. Past performance is not an indication of future performance. The forward-looking statements only speak as at the date of this Material, and except as required by law, DXAM disclaims any duty to update them to reflect new developments. Except as required by law, no representation, assurance, guarantee or warranty, express or implied, is made as to the fairness, authenticity, validity, suitability, reliability, accuracy, completeness or correctness of any information, statement, estimate or opinion, or as to the reasonableness of any assumption, in this Material. By reading or viewing this Material and to the fullest extent permitted by law, the recipient releases Dexus, DXAM, their affiliates, and all of their directors, officers, employees, representatives and advisers from any and all direct, indirect and consequential losses, damages, costs, expenses and liabilities of any kind ("Losses") arising in connection with any recipient or person acting on or relying on anything contained in or omitted from this Material or any other written or oral information, statement, estimate or opinion, whether or not the Losses arise in connection with any negligence or default of Dexus, DXAM or their affiliates, or otherwise. Dexus, DXAM and/or their affiliates may have an interest in the financial products, and may earn fees as a result of transactions, mentioned in this Material.