Australian Real Estate Investment Trusts (A-REITs)

A-REITs are a unitised portfolio of property assets, listed on the Australian stock exchange. In Australia, such investment structures were known as listed property trusts prior to March 2008 but were renamed to be more consistent with international terms.

What are the benefits of investing in A-REITs?

1. Capital Growth

Over the long term A-REITs are generally expected to produce higher returns than fixed interest investments and cash.

2. Risk and income

In terms of risk, A-REITs are expected to be less volatile than share investments. This is because A-REITs provide a high degree of their total return as income, whereas most equities provide the bulk of their return as capital growth. Traditionally income returns are less volatile than capital growth returns, particularly in a sector such as property where income has a reasonable level of predictability in terms of leasing contracts held.

3. Diversification

In a portfolio sense the addition of A-REITs to an investor's portfolio provides diversification, with the potential to reduce the riskiness or volatility of the portfolio without significantly reducing returns.

4. ASX Requirements

A-REITs are listed on the ASX and as a result must conform to the rules of disclosure and other such ASX requirements such as increased transparency and accountability.

5. Non-residential alternative

Unitising the assets in A-REITs allows the retail market (mums and dads) to access the returns from the non-residential markets e.g. shopping malls and office blocks etc.

What are some of the disadvantages of investing in A-REITs?

1. Interest rates

The risk of capital loss in a rising interest rate environment.

2. Market risks

There is a risk to performance if there is a sustained downturn in the Australian share market.

3. Sector Risk

Factors which may affect the value of A-REITs include the cyclical nature of real estate values, over supply and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in the appeal of properties to tenants, the level of gearing in the property market, and other real estate capital market influences.

4. Volatility

In terms of risk, A-REITs are expected to be more volatile than fixed interest and cash.

What are Australian Real Estate Investment Trusts (A-REITs)?

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A-REIT property assets tend to be diversified across regions, lease lengths and tenants types. Some A-REITs specialise in particular sectors, and usually fall into one of the following categories:

- Industrial trusts invest in warehouses, factories, and industrial parks, (e.g. Goodman Group)
- Office trusts include medium to large scale office buildings in and around major cities, (e.g. Investa Office Fund)
- Hotel and leisure trusts invest in hotels, cinemas and theme parks, (e.g. Hotel Property Investments)
- Retail trust invest in shopping centres and similar assets, (e.g. Westfield Corporation and Scentre Group)
- Diversified trusts invest in a mixture of industrial, offices, hotels and retail property, (e.g. Charter Hall Group and Mirvac Group)

The S&P/ASX 200 A-REIT Index (XPJ) contains the largest 19 listed REITs by market capitalisation. REITs are treated almost as a separate asset class to equity, and are often managed on a separate basis. The S&P/ASX 200 A-REIT Index represents 8% of the Australian share market (S&P/ASX 200 Index). There are a number of ways you can access A-REITS. These include direct shares, exchange traded products, actively managed unlisted funds or an index managed unlisted fund.

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