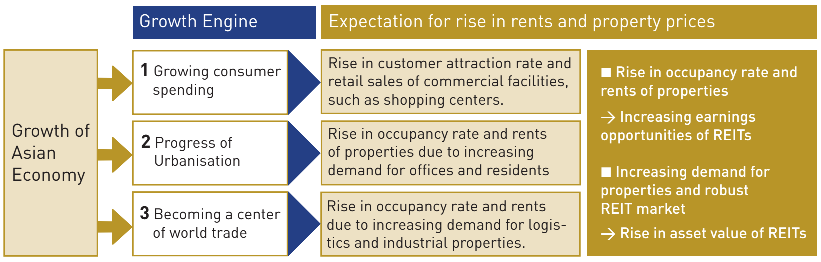
Opportunities in Asia Pacific REITS

Amid the COVID-19 pandemic, the Asia Pacific region is proving to be resilient for investors looking to capitalise on its structural growth. Real estate investment trusts (REITs) remain in favourable territory protected by relatively high yields and stable dividends. Their relative stability and the higher visibility of dividends in the REIT sector has helped them outperform the overall market during periods of rate cuts and slow economic growth. As economies and trade continues to recover we believe the region's real estate investment trusts will prove alluring to investors seeking an income generating alternative asset class.

Increasing earnings opportunities of REITs lead by economic growth



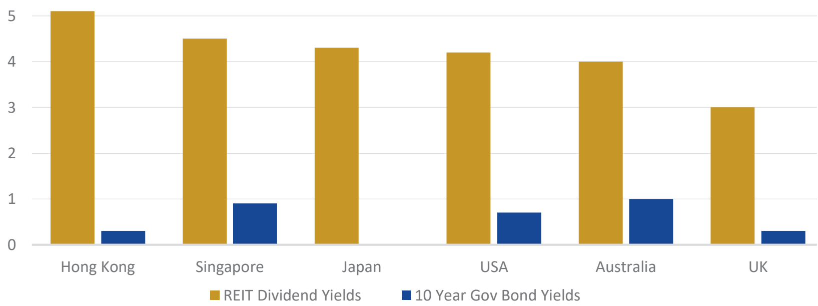
Source: SMDAM, 30 September 2020

Despite the disruption to global supply chains, the Asia Pacific region is set to retain its position as the primary driver of global economic growth. Asia's economic growth strengthens demand for modern and high-quality commercial real estate across various sectors.

If we look at the trend growth rate in consumption and trade in the region, this is driving the demand for third party logistics services and distribution networks, reinforcing the need for industrial and logistic space. This is further augmented by the growth in ecommerce, aided by the widespread rollout of 5G across Asia. Together, these structural and economic shifts create an environment for continued strong occupier demand, reducing the risk of vacancies and boosting the prospects for rental growth over the medium term.

In an era of global macroeconomic turbulence, REITs could provide a sanctuary for portfolio diversification and income stability. They are excellent assets from a total return perspective. They are able to endure volatility because they are exposed to the more resilient domestic consumption and logistics sectors, which are seeing a multi-year structural growth in demand. Pockets of value can be unveiled even in these troubled economic times. Such as the rise of e-commerce, for example, is generally positive for logistics REITS, as distributors need warehousing space to store their merchandise.

S&P REIT Index v 10 year government bond yields



Source: SMDAM, Factset, S&P REIT Index as at 31 August 2020

Attractive Dividend Yields

With global monetary easing and falling interest rates, REITs still offer more attractive absolute dividend yields and yield spreads compared with 10-year government bond yields, which are expected to remain low due to central banks in the region adopting an accommodative monetary stance. With falling dividend yields and low interest rates, REITs remain an alluring income-generating alternative asset class.

Diversification

Examining the attributes of Asian real estate securities in the round, they provide a combination of high yield, long term diversification from both equities and bonds, and superior risk management attributes. Add to this the social and economic dynamism in the region which is supportive of the property sector over the long-term - these are all strong incentives for investors to consider Asian real estate as part of an allocation to a well-diversified multi-asset portfolio.

Sustainability coming to the fore

Looking ahead, the trend in environmental, social and governance investing has been increasingly important post-COVID-19 not just in the global context, but also in the Asia Pacific region. Asian real estate corporations and portfolio managers have been conspicuously focussing their attention on sustainability as government pension funds, sovereign wealth funds and institutional investors increasingly commit to integrating ESG practices in their investment processes. It is becoming progressively clear that more efficient and sustainable buildings are seeing greater demand from tenants and investors. Additionally, with many governments looking to drive a 'green recovery' after the pandemic, active real estate owners investing in creating sustainable buildings and improving existing assets may prove a key pillar of the global economic recovery effort.

Based on the Global Real Estate Sustainability Benchmark (GRESB) survey, the regional average GRESB score for Asia improved from 66 in 2018 to 73 in 2019, highlighting the increasing commitments by real estate companies and funds to sustainability. Australia and New Zealand continue to lead the pack, with greater focus on social sustainability such as tenant well-being and environmental sustainability specifically on achieving zero carbon emissions.

Conclusion

As Asia's real estate market matures, it is no longer an ocean of unchartered waters. It has earned itself a place at the table to be considered a key component in a diversified global multi-asset portfolio. Investment in Asia Pacific real estate has the potential to provide strong diversification benefits and long-term, sustainable income-driven returns, backed by economic growth.