



Access the opportunities.



The proper(ty) allocation

Research Paper | August 2024

Introduction

Most Australian portfolios do not have exposure to international property securities. While most Australian investors have exposure to local property securities for their regular income and potential capital growth, it's unlikely they've considered property beyond our shores.

The rationale for an allocation to international property for investors is compelling.

Savvy investors are also looking beyond Australian shores and starting to include international Real Estate Investment Trusts (REITs) as a way to diversify.

A key benefit of including international REITs in a diversified portfolio, as this paper will show, is that while additional risk is incurred, the historical risk adjusted returns over the past five years have been higher. A portfolio of international REITs also provides investors with important diversification benefits.

International REITs offer opportunities
not available on Australian shores.

Benefits of international REITs

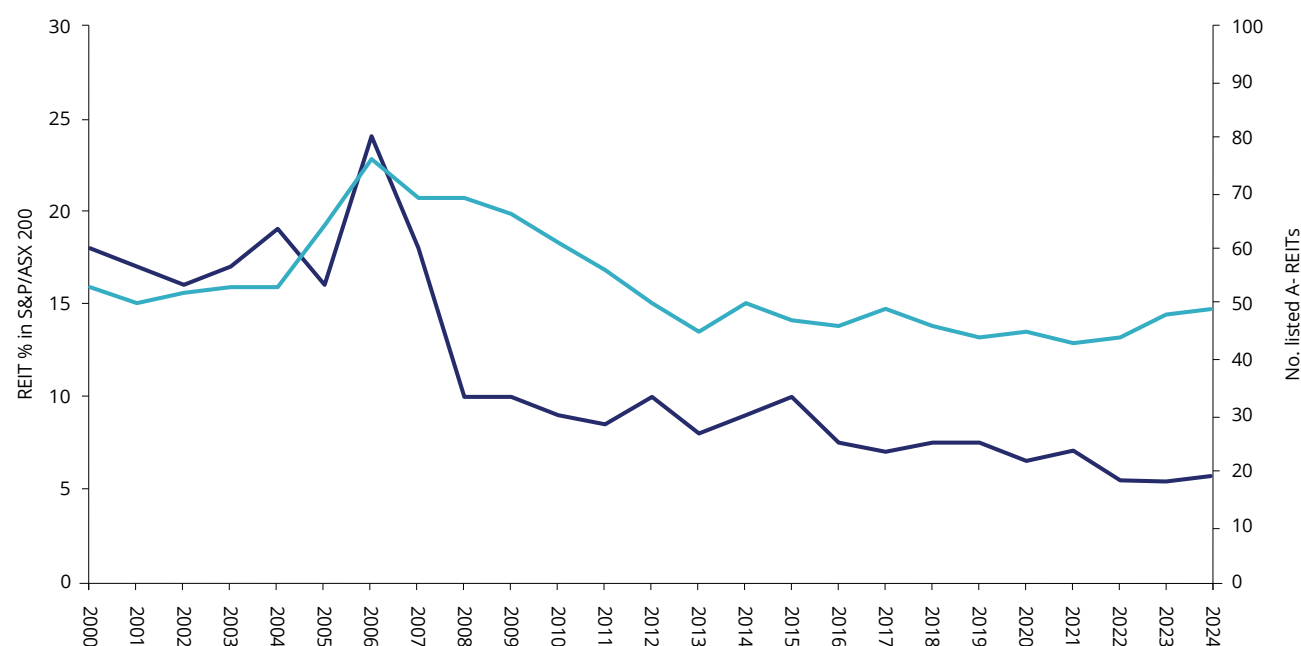
A key benefit of REITs is the defensive income streams they can provide. Property assets typically earn reliable income from rent, which provides a regular income stream to investors, even during an economic downturn. Additionally, rents can be linked to inflation, which is important because it means income increases with the costs of living.

Diversification – sectors and exposures beyond Australia

Australia was one of the pioneers of listed real estate investing. General Property Trust was the first Australian Listed Property Trust (LPT) in 1971. LPT's were subsequently renamed REITs in line with international practice.

Since the beginning of the century, the proportion of the S&P/ASX 200 represented by REITs has fallen to below 6%, down from a peak of 24% in 2006 as illustrated in Chart 1. One of the major reasons for the decline of the sector hasn't been poor returns, but rather a number of corporate actions, mergers and acquisitions. In 2006 there were a record 76 listed A-REITs, today there are 49. A number of A-REITs have been sold to offshore investors, a number have merged while others have been restructured. For example, Westfield and its various entities have experienced several corporate actions consolidating, spinning off and finally being taken over by Unibail Rodamco for \$32 billion (the Australian shopping centres branded as Westfield and held by Scentre were not acquired by Unibail). Investa was bought by funds managed by JP Morgan for \$6.6 billion and Multiplex became part of Brookfield, a US Listed company for \$7.3 billion. You can see the impact of these changes to the Australian REIT market in Chart 1. With local opportunities shrinking, it's time for Australian investors to consider diversifying offshore.

Chart 1: A-REIT's diminishing importance on ASX



Source: Factset, ASX, VanEck, 2000 to 2024.

Today, Australia accounts for just 6% of the developed world's REIT opportunity by market capitalisation. While the US remains the largest listed real estate market, the opportunity is increasingly becoming global. Today, nearly 40 countries offer REITs, according to Nareit, the worldwide group representing REITs and publicly traded real estate companies.¹

For those investors holding A-REITs, the Australian market is dominated by a few big trusts, where the top 10 A-REITs accounted for over 87.5% of the S&P/ASX 200 A-REIT Index as at June 2024. That contrasts with listed property assets offshore. The benchmark for the international listed property market for Australian investors, the FTSE EPRA Nareit Developed ex Australia Rental Index (International REIT Index), is well diversified, with the top 10 stocks accounting for just 36% of the index. The International REIT Index has a 16% exposure to retail REITs, a 11% exposure to healthcare property trusts, 3% to hotel and resorts, 5% to specialised REITs such as data centres and 17% in residential property trusts². Some of these sectors are not readily available in Australia. Therefore, investing offshore can broaden investors' property opportunities and increase diversification.

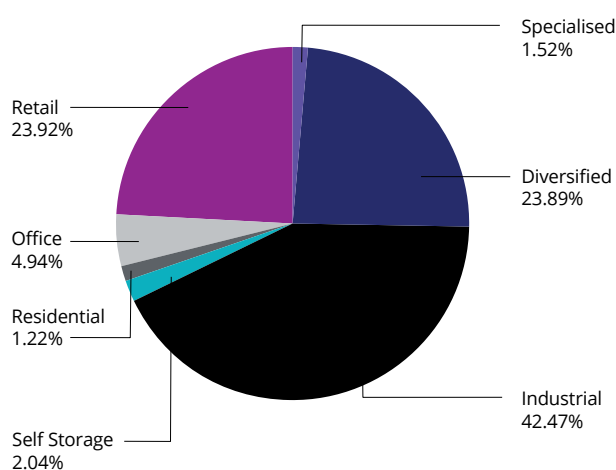
Table 1: Breakdown of Australian REITs compared to international REITs

	S&P/ASX 200 A-REIT Index	FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged
Number of securities	21	316
Weight of largest constituent	41.7%	7.2%
Weight of top 10	87.5%	36.0%
Countries	2*	21

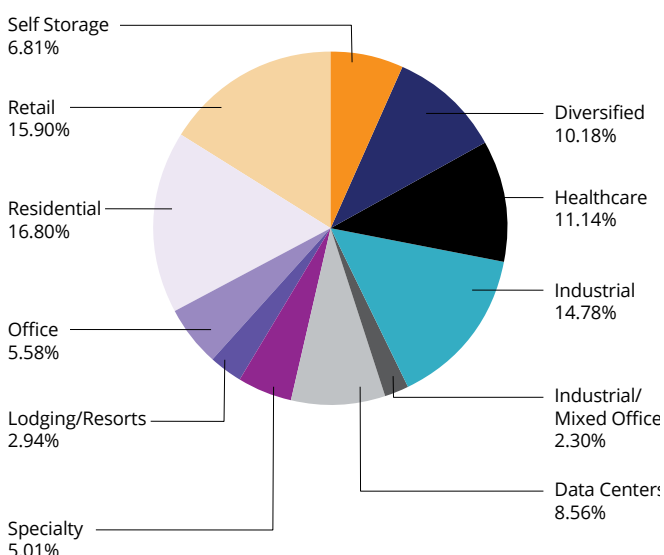
Source: FTSE, S&P, Bloomberg. As at 30 June 2024. *Australia and France due to Unibail Rodamco cross-list.

Chart 2: Sector comparisons of Australian REITs compared to international REITs

S&P/ASX 200 A-REIT Index (%)



FTSE EPRA Nareit Developed ex Australia Rental Index



Source: FactSet, FTSE, 30 June 2024.

1. Investing in REITs: Global Real Estate Investment, Nareit.

2. FTSE, Bloomberg, as at 30 June 2024.

Diversification – low correlation with other asset classes

REITs have been used by investors for their defensive qualities as they achieve a high proportion of their returns from income rather than capital. In addition, listed property has a low correlation of returns with other income-yielding assets such as fixed income investments.

Table 2: Correlation between asset classes

Asset Class	Australian Equities	International Equities	Australian Property	Australian Bonds	Global Bonds (Hedged)	International Property (Hedged)
Australian Equities	1.00					
International Equities	0.64	1.00				
Australian Property	0.83	0.62	1.00			
Australian Bonds	0.25	0.36	0.43	1.00		
Global Bonds (Hedged)	0.36	0.33	0.54	0.81	1.00	
International Property (Hedged)	0.76	0.56	0.81	0.33	0.58	1.00

Source: Morningstar Direct, all returns in Australian dollars. Correlation: 1 July 2014 to 30 June 2024. Results are calculated monthly and assume immediate reinvestment of all dividends. You cannot invest in an index. Past performance is not a reliable indicator of future performance.

Indices used: Cash – RBA target cash rate, Global Bonds – Barclays Global Aggregate Bond Index A\$ Hedged; Australian Bonds – Bloomberg AusBond Composite 0+ years; Australian Property – S&P/ASX 200 A-REIT, International Equities – MSCI World ex Australia Index; Australian Equities – S&P/ASX 200; International Property – FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged.

Brad Case, Director of Economics, Fannie Mae and Senior Vice President, Research and Industry Information for Nareit, has researched residential and commercial real estate markets for more than 25 years. In a recent research paper Case illustrated the correlation of returns of US REITs with the US equities Russell 3000 Index. Case showed that, unlike other sectors, the correlation fell over increasing investment horizons³. REIT returns, Case says, respond to the long real estate market cycle, whereas the broad stock market responds to the much shorter business cycle.

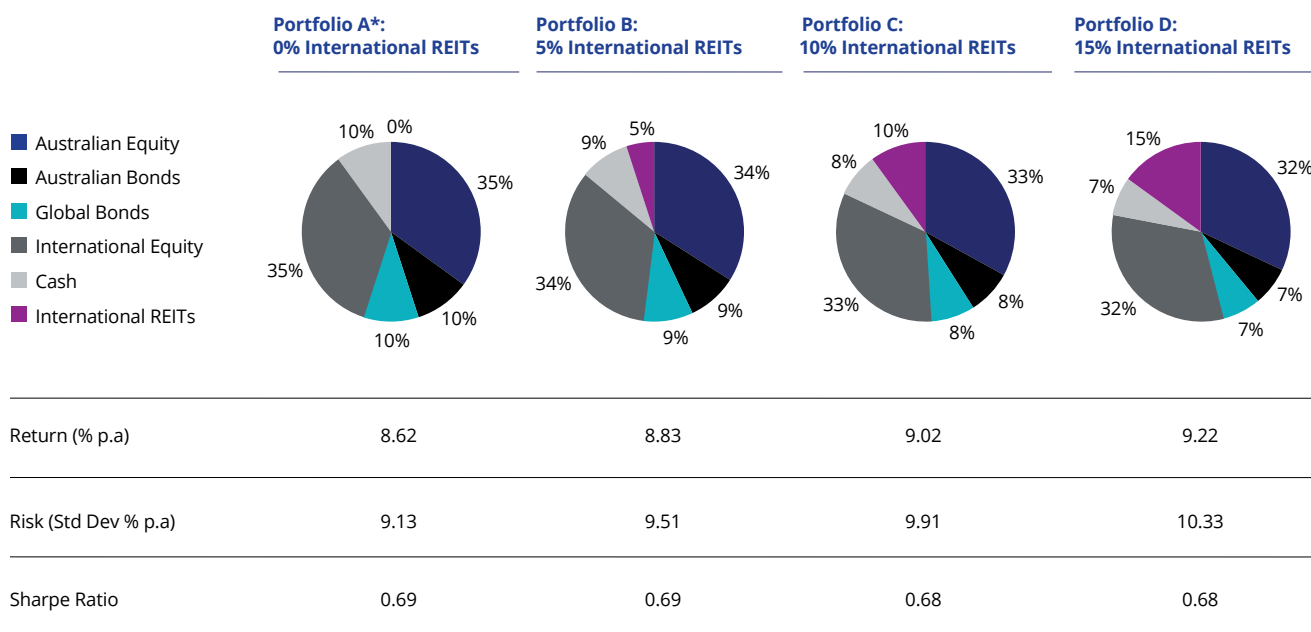
Increased risk-adjusted returns

Case's paper highlighted another very important point, the potential for REITs to provide higher risk-adjusted returns compared to other asset classes. Over the 1998 to 2015 time period which Case analysed, he was able to illustrate that US REITs had higher Sharpe ratios than all other equity asset categories.

The potential application of this research and our correlated findings is that an allocation to international listed real estate assets within a diversified portfolio should help improve its risk adjusted returns. To test this, we have constructed a balanced fund with and without an allocation to international listed REITs. This is based on ASIC's MoneySmart balanced investment option which "invests around 70% in shares or property and the rest in fixed interest and cash". The results can be seen in Chart 3 below.

Our analysis reveals that a portfolio including international REITs historically produced a higher annualised portfolio return than a portfolio without international REITs over the long term, without incurring significant additional risk as measured by standard deviation.

3. Equity Investing in Real Estate Through Public and Private Markets (January 2018).

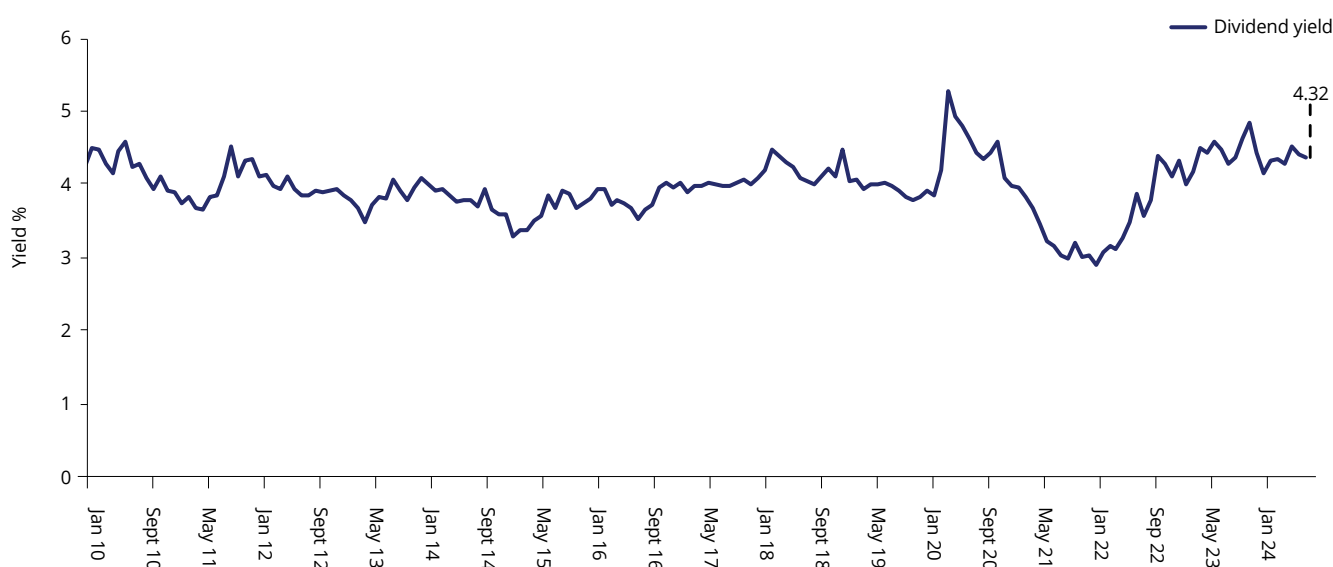
Chart 3: Including international REITs in a balanced portfolio over 15 years increased returns for moderate risk

*Portfolio A based on MoneySmart balanced portfolio.

Source: Morningstar Direct, five year performance 1 July 2009 – 30 June 2024. Results are calculated monthly and assume immediate reinvestment of all dividends. The hypothetical performance does not include management costs and expenses and excludes brokerage and bid/offer spreads incurred when investors buy/sell. You cannot invest in an index. Past performance is not a reliable indicator of future performance.

Indices used to approximate investments: Cash – RBA target cash rate; International Bonds – Barclays Global Aggregate Bond Index A\$ Hedged; Australian Bonds – Bloomberg AusBond Composite 0+ years; International Equities – MSCI World ex Australia Index; Australian Equities – S&P/ASX 200; International Property – FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged.

Dividend yield

Chart 4: 12-month trailing dividend yield of REIT Index

Source: FTSE to 30 June 2024. REIT index is - FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged. Results are calculated monthly and assume immediate reinvestment of all dividends and exclude costs of investing in REIT. You cannot invest in an index. Past performance of the REIT Index is not a reliable indicator of future performance of the ETF.

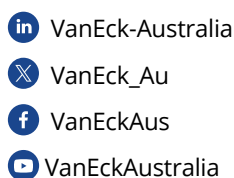
Access the proper(ty) allocation

Traditionally the domain of large institutions, investors of all sizes can access international REITs via managed funds or ASX-listed exchange traded funds (ETFs).

VanEck FTSE International Property (Hedged) ETF (ASX: REIT) is listed on ASX. REIT aims to track the FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged Index by fully replicating it. In a single trade REIT gives investors a portfolio of international REITs providing international diversification and defence. To add appeal to investors, recent changes to Australian tax laws and VanEck's tax expertise allow REIT to pay a smoother flow of dividends each quarter than would have been possible in the past.

Contact us

vaneck.com.au
info@vaneck.com.au
+61 2 8038 3300



Important notice

VanEck Investments Limited (ACN 146 596 116 AFSL 416755) (VanEck) is the issuer and responsible entity of all VanEck exchange traded funds (Funds) trading on the ASX. This information is general in nature and not personal advice, it does not take into account any person's financial objectives, situation or needs. The product disclosure statement (PDS) and the target market determination (TMD) for all Funds are available at vaneck.com.au. You should consider whether or not an investment in any Fund is appropriate for you. Investments in a Fund involve risks associated with financial markets. These risks vary depending on a Fund's investment objective. Refer to the applicable PDS and TMD for more details on risks. Investment returns and capital are not guaranteed.

The Fund is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited or the London Stock Exchange Group companies ('LSEG') (together the 'Licensor Parties') and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged ('Index') upon which the Fund is based, (ii) the figure at which the Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the Fund. None of the Licensor Parties have provided or will provide any financial or investment advice or recommendation in relation to the Reference Index to VanEck or to its clients. The Reference Index is calculated by FTSE or its agent. None of the Licensor Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the Reference Index or (b) under any obligation to advise any person of any error therein. All rights in the Reference Index vest in FTSE. "FTSE®" is a trademark of LSEG and is used by FTSE and VanEck under license.