Coronavirus and the state of global property securities markets

First Sentier Investors

Global Property Securities

For professional use only | April 2020

The ongoing global outbreak of the Coronavirus (COVID-19) pandemic has seen an extensive sell off permeate financial markets as investors grapple with concerns around how the drastic government and central bank responses to the outbreak will augur for global economic growth. The dramatic sell off in equities across the board has included property securities markets.

Global REITs, as measured by the FTSE EPRA/NAREIT Developed Index, have fallen -26.7% in USD terms in the March quarter. In terms of key regional markets, in the year to date US REITs fell -29.0% (USD), Developed European Property Securities (EUR) fell -25.8%, Australian (AUD) fell -34.4%, Hong Kong Property Securities (USD) fell -19.5% and Japanese REITs (YEN) fell-25.3%.

While there is a high degree of uncertainty around how COVID-19 will impact the real economy over the medium to long term, the virus outbreak has material near term implications for real estate markets.

Sectors likely to struggle

The tourism industry has been significantly impacted by the outbreak, with both international and domestic travel being severely depressed due to widespread travel restrictions put in place by governments. As a result of these measures, Hotels are likely to incur operating losses until the tourism industry picks up again.

Property sectors that are exposed to large congregations of visitors - such as retail - are also exposed to material near-term risks, due to reduced visitation and expenditure driven by government enforced 'lock-downs' and social distancing measures.

Social real estate sectors including childcare, aged care facilities and student housing, are also at risk of rising vacancies due to the outbreak.

Sectors to show resilience

While office buildings, self-storage facilities and residential apartments are not immune to the impacts of COVID-19, these sectors are likely to be very resilient.

Hospitals, data centres and logistical warehouses are all expected to be material beneficiaries of the pandemic.

Whilst the situation of the outbreak is continually evolving, we believe that many securities in the listed property sector have been materially oversold, as the extent of the re-pricing does not currently consider the long economic lives of many of these assets.

The major focus of the team has been to position the strategy* with the greatest emphasis being on balance sheet strength and refinancing risk over the next 3 years. The strategy has a debt to total assets ratio of 30%, an interest coverage ratio of 7.6x and low refinancing risk over the next 3 years.

Index return data is sourced from Factset.

All indices are FTSE EPRA/NAREIT except for the Australian index which is ASX200 AREITs.

*Strategy refers to the Colonial First State Wholesale Global Property Securities Fund ARSN 108 688 77