Folkestone

MEDIA ANNOUNCEMENT
26 February 2015

FOLKESTONE EXPECTS REAL ESTATE TO PROVIDE ATTRACTIVE RETURNS IN 2015

Folkestone (ASX: FLK) held its semi-annual Real Estate Outlook Seminar in Sydney this afternoon.

Mr Greg Paramor, Managing Director of Folkestone, spoke on the outlook for the residential and non-residential real estate markets and Winston Sammut, Managing Director of the Folkestone Maxim A-REIT Securities Fund, spoke on the outlook for the A-REIT market.

Mr Paramor said “The Australian economy is facing a number of head winds as we enter 2015 and therefore is expected to grow below long term averages. Whilst consumer spending is improving and residential construction and prices are rising, consumer confidence remains weak. Business confidence and investment is also weak.”

“Australian bond yields have fallen to historical lows. The RBA cut the cash rate by 25 basis points to 2.25 per cent in February concluding that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. The financial markets are expecting the RBA to make further cuts to interest rates in the coming months.”

“As a result, investors seeking yield will continue to reallocate from cash and term deposits into higher yielding assets including real estate. Demand for both residential and non-residential assets should continue and competition for both income generating and development assets will remain high.”

According to the PCA/IPD Property Index, non-residential property has generated a total annual return of 10.6% in 2014, and Folkestone expects a similar return in 2015 as investor demand continues to underpin capital values.

Mr Paramor warned however, that investors need to be cognisant that they do not "over pay" for assets in a market being driven by capital hunting for yield. The market runs the risk that if the disconnect between capital market and real estate market fundamentals widens, the price some investors pay for assets may overshoot the underlying fundamentals.

In relation to the residential sector Mr Paramor said ”the housing boom has not been uniform across Australia. Whilst Sydney has been the stand-out performer with prices up 13% in the year to January 2015, price growth across the rest of Australia’s major cities was between -0.3% in Canberra and 7.0% in Melbourne.”

Mr Paramor said “there is no doubt the Sydney median house price has risen to levels that make it difficult for first-home buyers to enter the market, but we should remember that the average annual growth in Sydney house prices has only risen by an average of 4.5% per annum over the past 10 years. Sydney is now paying for a gross undersupply of accommodation as a result of poor government planning and high government levies which have restricted the release of land and pushed up land prices."

"Low interest rates are certainly driving the investor market, with investors taking over owner-occupiers as the largest borrowers of finance in the December quarter. We expect investors will continue to invest in the residential sector in 2015 but in doing so, they need to ensure that they do their homework. There are certain markets such as inner Melbourne and inner Brisbane where an oversupply is looming. The recent APRA announcement around investment lending may go some way to restricting the availability of finance to investors. Overall we are expecting another solid year of housing market conditions and further capital gains, albeit at a more sustainable rate that what we have seen over 2014."

Mr Winston Sammut said "Notwithstanding Australia's weak economic outlook, the A-REIT sector is expected to continue to be well supported due to the low interest rate environment currently in place and the prospect for the cash rate to move lower."

"Despite the strong performance of A-REITs in 2014, we expect A-REITs to continue to provide investors with an attractive alternative to general equities in the year head. The current spread between A-REIT dividend yields and 10 year bonds is circa 220 basis points, well above the long-term average of 80 basis points.

"We also expect continued strong inflows into A-REITs from global investors given the lower Australian dollar and the relative yield premium. A-REITs currently trade on a yield premium of 200 basis points to US REITs and 300 basis points to Singaporean REITs."

Mr Sammut warned that the key downside risk to the sector is interest rates. With interest rates at historical lows, if investors begin to expect interest rates to rise, we would expect the A-REIT to come under pressure as investor's transition out of the sector.

Mr Sammut said "We are of the view that the year ahead will be one for stock pickers. How each of the A-REITs manage their real estate portfolios to drive earnings in a low growth environment and implement their capital management strategies will be critical to their performance. Investors should continue to focus on A-REITs that maintain a strict acquisition discipline and take advantage of the competition for assets by selling underperforming assets. A-REITs should also avoid the temptation to lever up while debt costs remain low".

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About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with $870 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while its on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au