

A-REITs tipped to weather greater volatility

Fallout

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Commercial property will suffer in the short term as business and investor sentiment shakes after the Brexit vote – but in the medium term the sector should benefit from a global interest rates that will certainly be lower for longer.

In the residential sector, high-end homes could be more affected than other sectors, with Melbourne-based The Secret Agent forecasting subdued auction results as high-end participants sit on their hands.



BREXIT2016

Specific investors with an exposure to the UK will take an extra hit.

Westfield Corporation, which has 27 per cent of its assets in the UK, was the worst affected of the leading Australian Real Estate Investment Trusts (REITs) falling 4.8 per cent on Friday – enough for CLSA analyst Sholto Maconochie to call it oversold.

Goodman Group, which has only 11

per cent of its business in the UK, dropped just 1.9 per cent.

Overall the leading property index, the S&P/ASX 200 A-REIT index fell 1.95 per cent on Friday compared with a 3.1 per cent fall on the broader S&P/ASX 200 which reflects the less volatile nature of the real estate sector.

Before the vote, Credit Suisse equities strategist, Hasan Tevfik, had nominated the A-REITs, specifically the domestic-focused Mirvac, Stockland and Scentre, as one of the sectors least affected by a vote to leave.

SG Hiscock' fund manager Grant Berry said Brexit would cause volatility across the markets but that the

A-REITs would hold up better given the defensive characteristics, their domestic focus and the rally in the bond market.

Folkestone Maxim Asset Management's managing director, Winston Sammut, warned that the volatility could last, at the very least, the rest of 2016 because of the uncertainty in the global economy but that lower interest rates would support the A-REITs over the medium to longer term.

Resolution Capital director, Andrew Parsons said that Brexit would have few winners.

"Australia's relative stability will be viewed positively but fears of a slow

down in trade globally will now have to be assuaged," he said.

The national director of research at Cushman & Wakefield, John Sears, said Brexit would be characterised by volatility as critical dates approached rather than GFC style collapse.

The Secret Agent's Paul Osborne, said commercial sales would slow as sophisticated investors assessed the impact on their investments and as credit conditions tightened.

One question is whether the global money will head for Australian stability or take advantage of the collapse of the pound.

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