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Fed rate rise boosts Australian property interest

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Photo: Peter Rae

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Australian property is expected to be a beneficiary of the lower for longer global interest rate environment as investors seek out the stable, safe haven that bricks and mortar offer.

The AREITS are also being targeted as indirect investment vehicles for overseas investors who want stable, higher-yielding returns.

On Thursday, the US Federal Reserve raised its benchmark lending rate a quarter point to 0.75 per cent to 1 per cent and maintained its expectation for two more increases this year, a bounce in oil prices also helped.

Utility and real estate shares led the late-day rally as 10-year Treasury yields fell the most in two months.

Owners of safe haven properties will see some benefit from the US federal reseve interest rate policy

According to Ian Hetherington, national head of capital transactions at Savills, the change in US rates is a good thing, as it demonstrates that the US economy is growing, which is typically positive news for Australia.

Source: http://www.smh.com.au/business/property/fed-rate-rise-boosts-australian-property-interest-20170316-guzc9w.html

"With regard to interest rates, with rentals growing as fast as they are in the major investment markets, the effect of a potential minor increase in domestic rates would not even register," Mr Hetherington said.

The managing director of Folkestone Maxim Asset Management, Winton Sammut said AREITS have outperformed the overall ASX 200 as investors look for the "safe haven" sectors.

"The lower for longer interest rate environment will be positive for the AREITs, as asset managers and owners, and are attractive to investors with their higher yields," Mr Sammut said.

"The market has been calmed by the fact the Federal Reserve has maintained its policy of two more rate rises this year and one next year, so there will be no surprises or change in policy."

Currently the AREITs trade on an average yield of about 6 per cent, compared to the average 3 per cent for 10-year bonds.

Mr Sammut said investors were happy with that positive gap.

Direct property investment is also a beneficiary as it makes Australia an attractive market.

The Australian head of research at CBRE, Stephen McNabb, said the US Fed rate hike is moving in line with expectations although the upward movement in the Australian dollar immediately following the announcement suggests the market was pricing in an expectation for a steeper upward trajectory for US rates.

"While usually, the Australian cycle follows the US rate cycle, low inflation and steady, non-accelerating economic growth in Australia suggest the Reserve Bank of Australia will hold the course on interest rates in Australia this year, despite the direction of movement of rates in the US," Mr McNabb said.

"The potential for a gradual upward movement in inflation back into the RBA's target band, slowing housing construction, steady business investment and slower jobs growth [the latter consistent with a weaker Australian jobs outcome in February] suggests steady rates are the more likely outcome in Australia. As such we haven't changed our assumptions for the Australian commercial property market in 2017."

According to Tom Park, strategy & research, North America, TH Real Estate, interest rates and capitalisation rates are believed to move in lockstep, with higher interest rates quickly translating into higher capitalisation rates and lower property values.

"However, that is not necessarily the case. If interest rates are rising because of stronger economic growth, as is currently the case, real estate demand will also likely be growing," Mr Park said.

"If interest rates are increasing gradually, and are likely to remain at, or below, long-term averages, as is currently expected, real estate would likely be well positioned to benefit in such an environment."

TH Real Estate adds that the relationship between interest rates and property values is complex and likely to depend more on prospects for economic growth and real estate fundamentals, such as Net Operating Income (NOI) growth.

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