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Trusts Look To Global Debt Markets

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The Australian real estate investment trust sector has shunned the traditional banking sector and moved to shore up balance sheets through the global debt markets, with forecasts there is about $68.3 billion of available debt lines in the market.

According to brokers, there is about $53.2 billion already drawn down, implying about $15.1 billion of undrawn debt capacity.

By having this capacity, if there is another market crisis, such as a GFC-style meltdown, the banks have limited leverage over the AREITs in terms of forcing them to sell assets and/or raise, dilutive equity.

Peter Zuk, an analyst at broking firm Shaw & Partners, said worth highlighting is that bank debt represents only 32 per cent of drawn debt across the sector, emphasising the continued focus on diversified funding sources, particularly for the large AREITs.

"Importantly, close to 50 per cent of debt expires in 2022 financial year or beyond, highlighting relatively low short-term refinance risk across the sector," Mr Zuk said.

"This liquidity is pre any additional cash at bank. We would not be surprised if some of the larger, lesser geared AREITs start trying to either squeeze line fees lower or extend bank debt lines at the same margin but for a longer duration."

Mr Zuk said after the GFC AREITs have become less and less reliant on bank debt at the larger end of town and have increasingly diversified debt funding sources into the bond market - domestically and offshore.

Goodman has been one of the active AREITS in the debt market as part of its financial risk management (FRM), which is designed to deliver competitive debts costs, a natural currency hedge and diversified sources of sustainable funding for the group.

After changes to the FRM policy and credit rating agency upgrades, Goodman took advantage of the positive market conditions in the September quarter and undertook a significant liability management program, which included $1.8 billion in new bonds issued, including $US850 million 10.5 and 20-year.

Goodman chief executive Greg Goodman said together these initiatives delivered a lower cost of funding and longer-dated debt with the weighted average cost of debt decreasing.

"The group achieved a weighted average expiry of 11.6 years on the new bonds, and increased the overall average weighted debt maturity from 3.6 years to 7.1 years," Mr Goodman said.

"Collectively these initiatives lowered leverage and boosted liquidity to $3.2 billion at year end. Goodman's capital management strategy provides flexibility and allows the group to take advantage of long-term growth opportunities as they arise."

Goodman recently bought a 2.3ha industrial site in Banksmeadow, in Sydney's south, for $25.2 million. The cleared industrial land is at the southern side of the Corish Circle in the industrial precinct of Port Botany, 12 kilometres from the CBD.

Other AREITS Dexus, GPT, Mirvac Stockland and Vicinity, are all sitting on between $800 million to $1 billion of undrawn capacity, while Scentre and Westfield have between $2.8 billion to $4 billion of undrawn capacity. This comes as the AREIT sector is looking at ending an improved year.

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According to Winston Sammut, managing director of Folkestone Maxim Asset Management, the diversified AREIT sub-sector posted the highest return for the month of 4.4 per cent, followed by the office and specialised AREIT sub-sectors at 2.5 per cent, industrial at 1.8 per cent and retail at 1 per cent.

"In the absence of corporate activity, we are forecasting a total return range of 7 per cent to 9 per cent for the AREIT sector for the 2018 financial year," Mr Sammut said. "Should mergers and acquisition activity become a feature, returns in excess of 10 per cent could possibly be achieved."

Mr Sammut said the fund continues to favour AREITs with exposure to the social infrastructure property sub-sectors.

Over the 12 months to October 2017, the Maxim AREIT Securities Fund returned 12.55 per cent.