A-REIT SURVEY 2020

A YEAR LIKE NO OTHER

FINDINGS FROM BDO'S 26TH ANNUAL SURVEY OF AUSTRALIAN REAL ESTATE INVESTMENT TRUSTS

IDEAS | PEOPLE | TRUST

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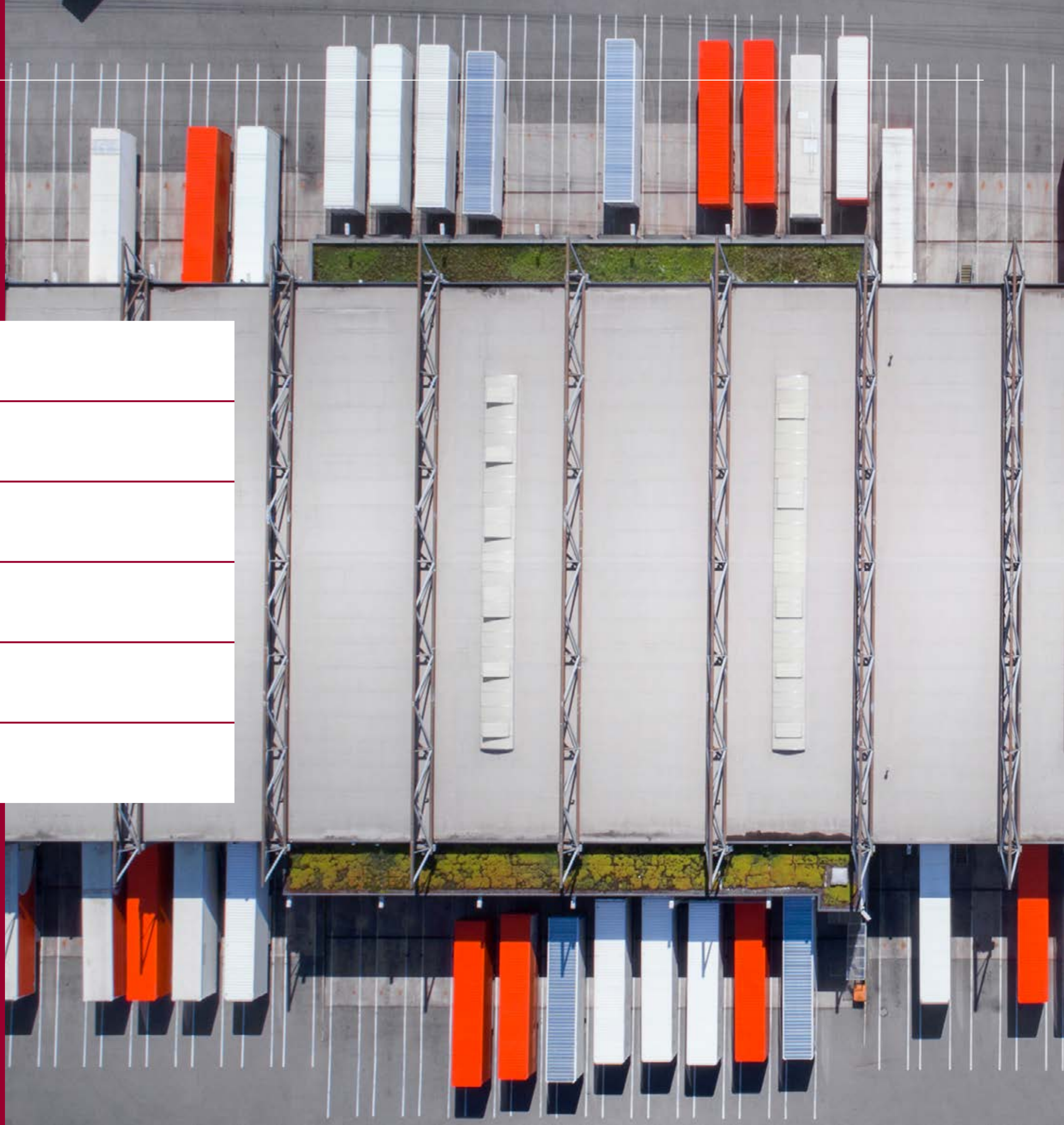


WELCOME TO BDO AUSTRALIA'S 26TH ANNUAL SURVEY OF AUSTRALIAN REAL ESTATE INVESTMENT TRUSTS

A year like no other. The fallout of the COVID-19 pandemic on the local economy has impacted on the yearly results of the Australian Real Estate Investment Trusts (A-REITs).

This survey tracks the dynamic listed Australian property industry by ranking the S&P/ASX 200 A-REIT Index trusts based on key financial and investment indicators over the 2020 financial year.

Traditionally, as an asset class, A-REITs provide investors and the financial market with ready access to a unique investment option with underlying fundamentals that all investors seek - liquidity, stable yields, potential for capital growth and diversification of asset types. Investors can gain access to A-REITs by either purchasing them directly via the ASX or through diversified property funds.

However, the financial impacts from COVID-19 have made it challenging for some A-REITs to deliver their usual strong performance. It's certainly a case of not all A-REITs being created equal, with the impacts varying across the three main market sectors: retail; office; and industrial.

1. WHAT EFFECT WILL THE WORK-FROM-HOME MOVEMENT HAVE ON OFFICES?

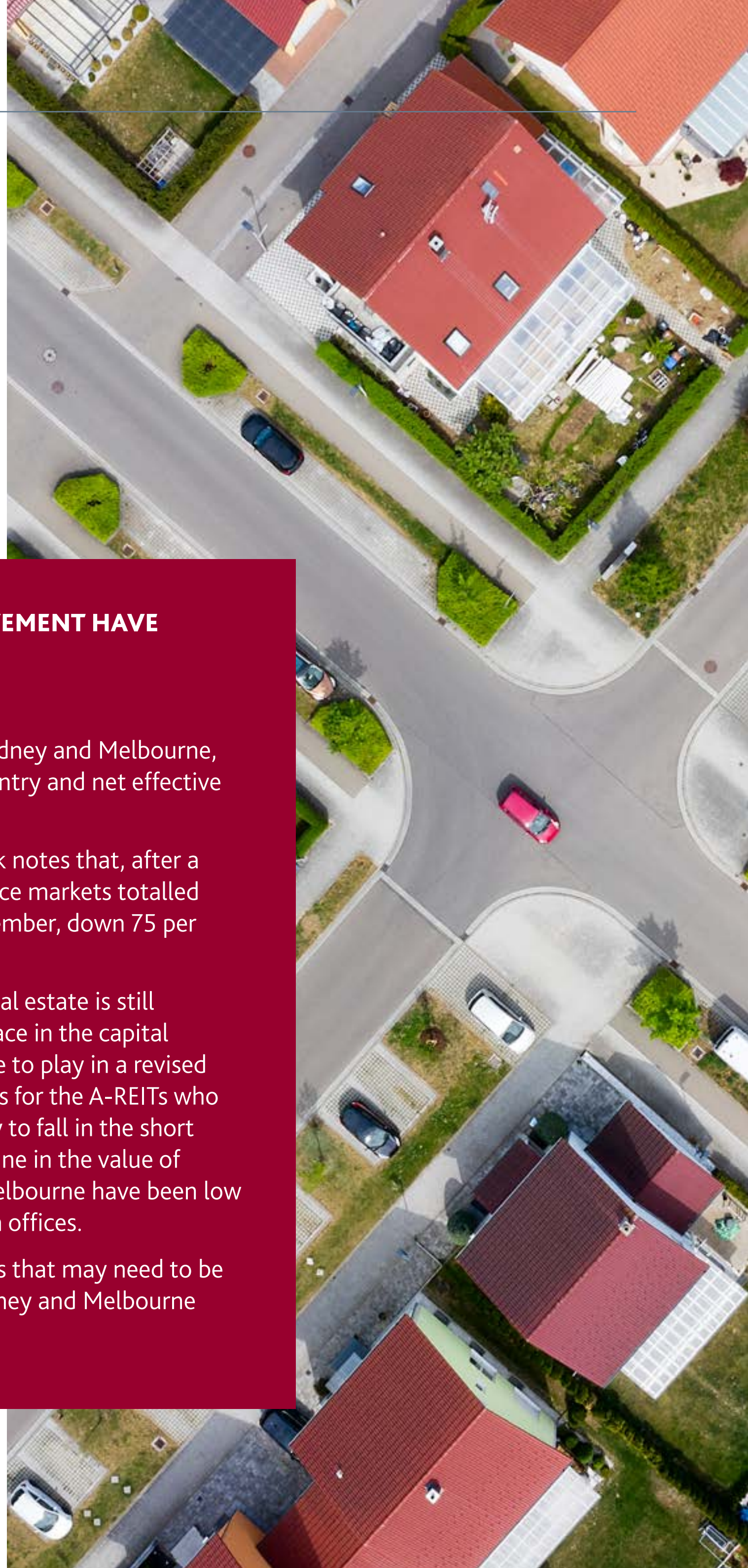
Shares in the average office REIT have declined.

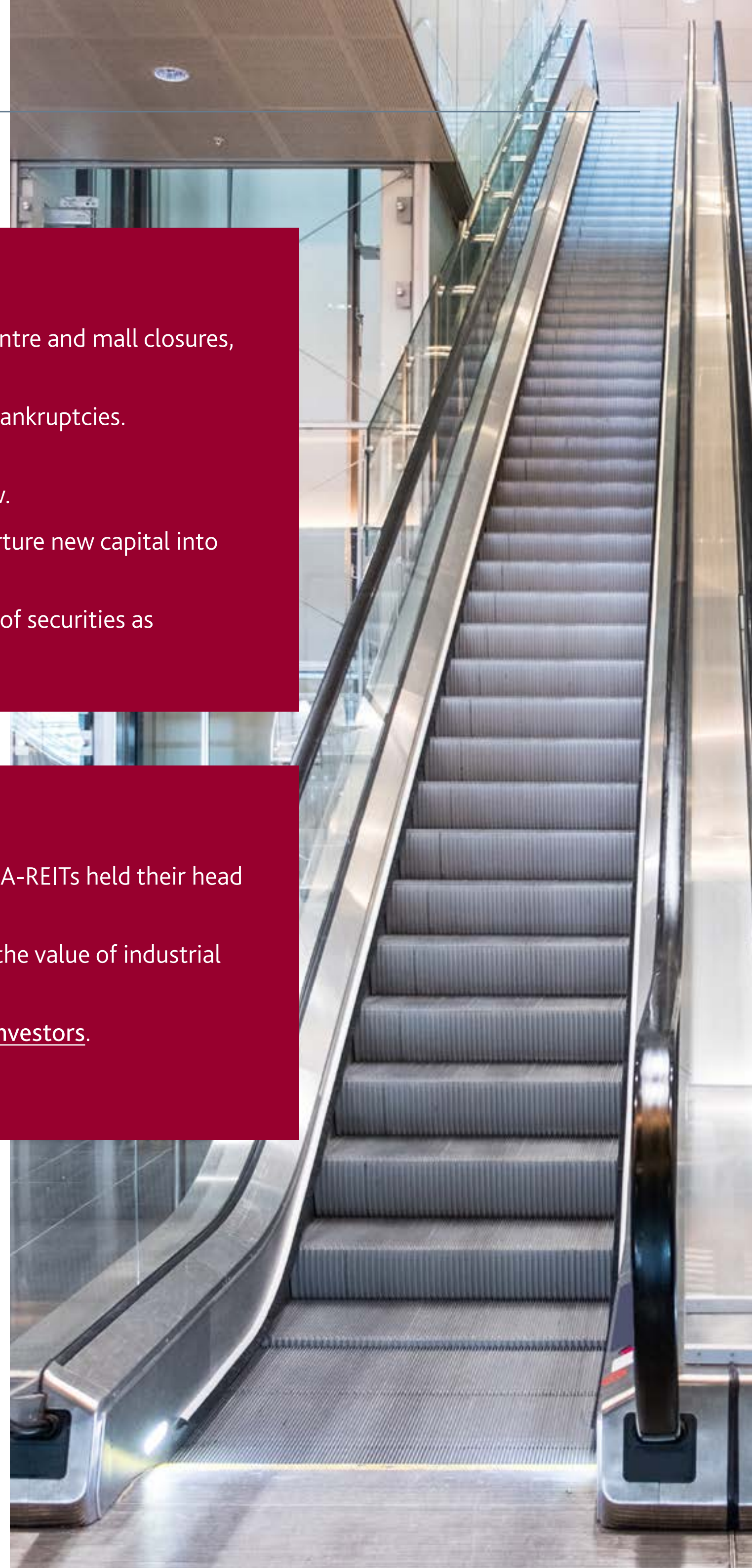
Net absorption of space continues to deteriorate in both Sydney and Melbourne, office values are falling, vacancy is increasing across the country and net effective rents are declining, according to Macquarie analysts.

Colliers International's most recent Capital Markets Outlook notes that, after a record year in 2019, where sales in both metro and CBD office markets totalled $25 billion, volumes plunged dramatically this year to September, down 75 per cent to $4.3 billion.

The impact of work-from-home directives on commercial real estate is still "playing out" in terms of what the future holds for office space in the capital cities and lease renewals/take up. It will certainly have a role to play in a revised assessment of investment strategies and portfolio structures for the A-REITs who play in the office sector. Long term, although rents are likely to fall in the short term, it isn't expected that there will be a fundamental decline in the value of office real estate, given that vacancy rates in Sydney and Melbourne have been low and that there will be a move to more personal space within offices.

Rents are likely to soften on a net basis due to the incentives that may need to be offered to keep tenants happy. Some cities, particularly Sydney and Melbourne may also see rents decline for the first time in many years.





2. WHERE TO FROM HERE FOR RETAIL?

The economic downturn induced by the coronavirus pandemic hit the retail sector hard. Mandatory lockdowns forced shopping centre and mall closures, which was particularly pronounced in Victoria.

One of the major risks for property investors is vacancies and COVID-19 may cause these through business decline and potential bankruptcies. The retail property sector is at the epicentre of this risk.

Retail A-REITs saw profits fall and returns were slim. Key to ongoing performance is rental rebates and their treatment on cash flow.

The key focus for retail A-REITs most recently has been on equity raising activity with Vicinity and Scentre Group all seeking to nurture new capital into the mix.

Westfield-owner Scentre's move to raise $4.1 billion in hybrid debt to withstand the coronavirus storm could spark more issuance of securities as Australia's biggest companies look to shore up balance sheets without diluting their shareholders.

3. SHEDS STILL A RISING STAR

Industrial property – in particular logistics - is seeing minimal impact from COVID-19 as tenants see continued demand. Industrial A-REITs held their head above water and continue to deliver strong results.

A game changing acceleration of the move to online shopping prompted by the coronavirus pandemic is driving a sustained lift in the value of industrial property, as retailers take up more warehouse space to deliver goods to customers.

Logistics transactions accounted for about 35 per cent of all real estate deals in October. As an asset class they are attractive for investors.

Goodman, Charter Hall, Dexus – all have industrial holdings so should fare well in coming months.

SEBASTIAN STEVENS
Partner, Head of Advisory, Sydney

2020 A-REIT RANKINGS

INGENIA COMMUNITIES GROUP

CHARTER HALL GROUP

CENTURIA INDUSTRIAL REIT

NATIONAL STORAGE REIT

GOODMAN GROUP

WAYPOINT REIT

CROMWELL PROPERTY GROUP

BWP TRUST

CENTURIA OFFICE REIT

APN CONVENIENCE RETAIL REIT

2020 A-REIT RANKINGS

11	ALE PROPERTY GROUP
12	AUSTRALIAN UNITY OFFICE FUND
13	HOTEL PROPERTY INVESTMENTS
14	AVENTUS RETAIL PROPERTY FUND
15	ARENA REIT
16	SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP
17	GROWTHPOINT PROPERTIES AUSTRALIA
18	CHARTER HALL RETAIL REIT
19	GARDA DIVERSIFIED PROPERTY FUND
20	APN INDUSTRIA REIT
21	GDI PROPERTY GROUP
22	STOCKLAND
23	RURAL FUNDS GROUP
24	CHARTER HALL LONG WALE
25	BLACKWALL PROPERTY TRUST
26	GPT GROUP
27	DEXUS
28	ASPEN PROPERTY TRUST
29	MIRVAC GROUP
30	ABACUS PROPERTY GROUP
31	CHARTER HALL SOCIAL INFRASTRUCTURE REIT
32	HOME CONSORTIUM
33	VITALHARVEST FREEHOLD TRUST
34	QUATTRO PLUS REAL ESTATE
35	ELANOR RETAIL PROPERTY FUND
36	SCENTRE GROUP
37	UNIBAIL-RODAMCO-WESTFIELD
38	VICINITY CENTRES
39	CARINDALE PROPERTY TRUST
40	BLACKWALL PROPERTY FUND
41	US MASTERS RESIDENTIAL PROPERTY FUND

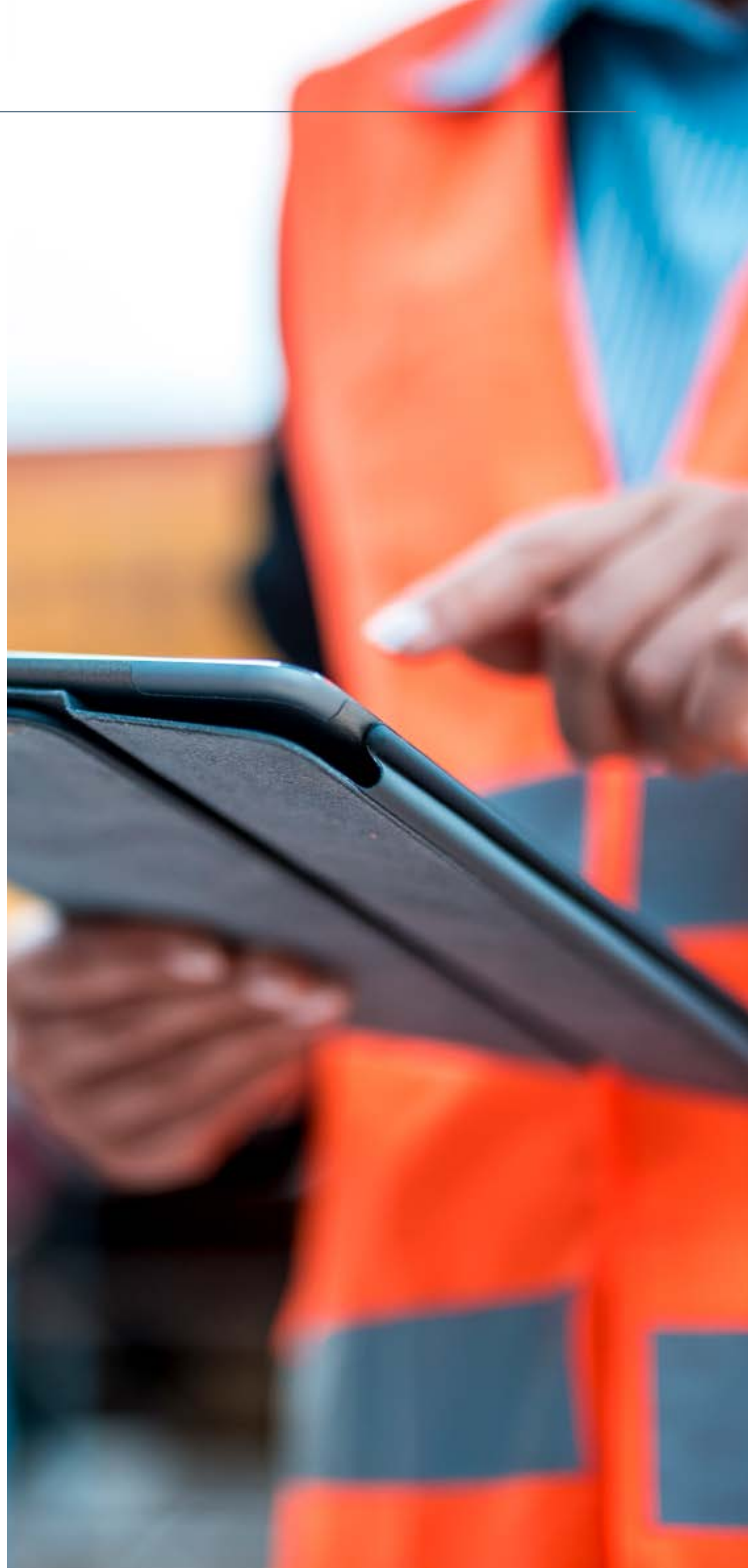
KEY FINDINGS IN 2020

A-REIT SECTOR PRICE RETURN

The S&P/ASX A-REIT 200 Index returned negative 22.1 per cent in FY20, underperforming the broader market index (S&P/ASX 200 Index) by negative 11.3 per cent. The A-REIT sector was adversely impacted by the outbreak of the COVID-19 pandemic in February and March 2020 given the large exposure to retail and office categories that were impacted by mandatory lockdowns and the uptake of employees working from home.

S&P/ASX A-REIT 200 ACCUMULATION INDEX VS S&P/ASX 200 INDEX

Source: CapitalIQ and BDO analysis

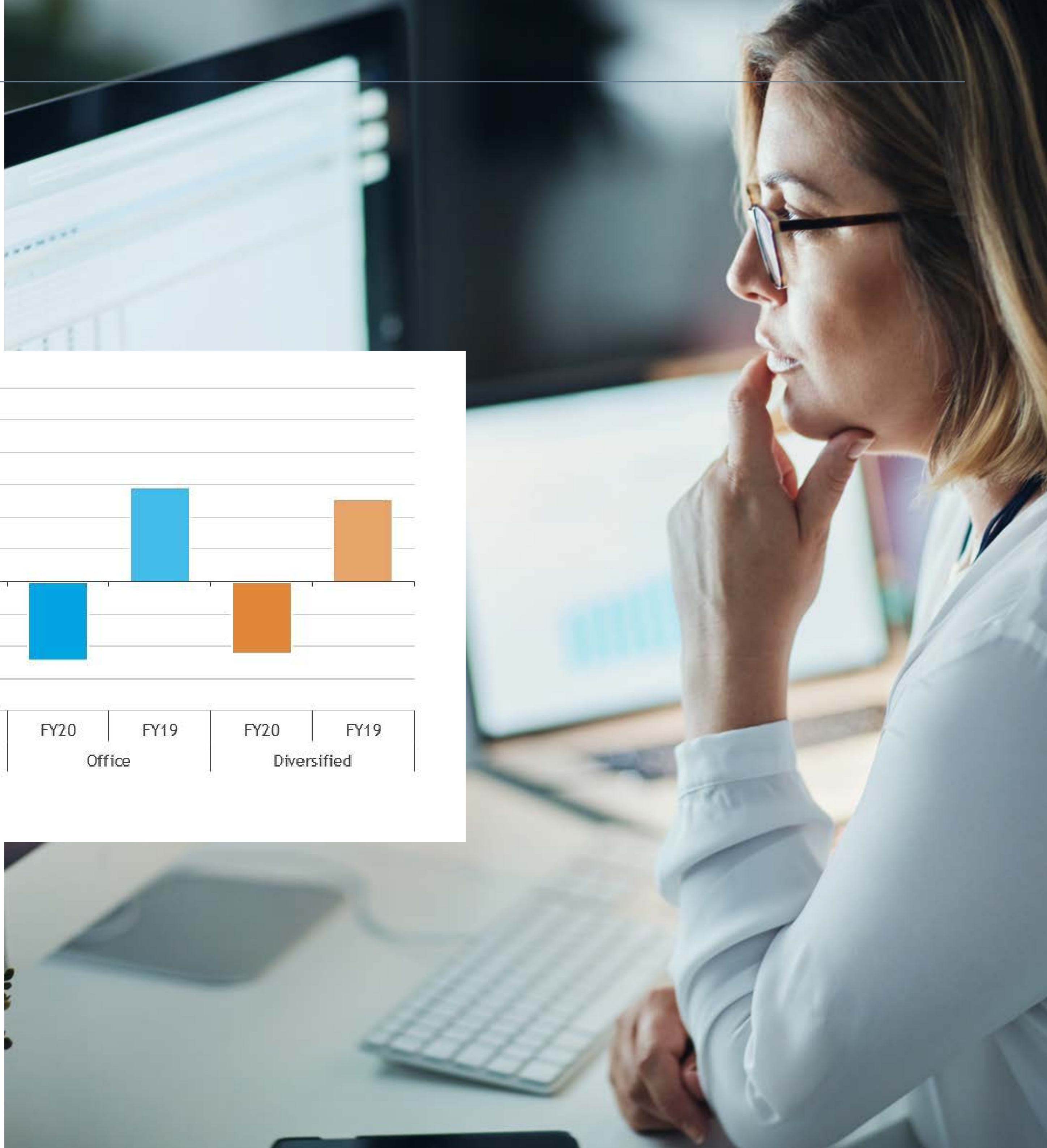


INDIVIDUAL CATEGORY PERFORMANCE

The Industrial category delivered the only positive return over the 12 months to 30 June 2020, generating 1.4 per cent (FY19: 56.2 per cent). The retail category was the poorest performing, delivering a -36.5 per cent return (FY19: -12.7 per cent).

2020 A-REIT SECTOR PRICE RETURNS

Source: CapitalIQ and BDO analysis



INDUSTRIAL

The industrial category displayed resilience throughout the COVID-19 pandemic and continues to cement itself as a desirable asset class for both domestic and international capital investment. The evolving trend towards e-commerce (where Australia Post noted growth in excess of 50% year-on-year in the months preceding COVID-19) has accelerated further through the pandemic. The switch to online shopping has made the industrial category a beneficiary to the increased demand by retailers for warehouse space and logistic needs to ensure fulfilment of delivery to customers.

Based on the robust demand, diversified A-REITs are beginning to pivot their property portfolios towards industrial assets instead of retail and office properties. Charter Hall Group (which ranked 2nd in the 2020 survey) has focused their $8.3 billion in FY20 transaction activity towards industrial and logistics assets, as well as office.

However, with the highest demand being in the Sydney and Melbourne markets and a shortage of industrial properties for sale along Australia's eastern seaboard there is an increased risk for A-REITs in overpaying for assets or investing in secondary locations.

RETAIL

This year has been a challenging year for the retail category with continued headwinds impacting both retailers and landlords. Retail is going through a period of transition with the e-commerce boom impacting the performance of traditional bricks and mortar retailers. This performance lull has led A-REITs to scale back and delay large, pure play retail developments in favour of more mixed use precincts containing retail, distribution, co-working spaces, medical centres and gyms etc. Despite the slow easing of social restrictions, returns in this category continue to be depressed in 2020.

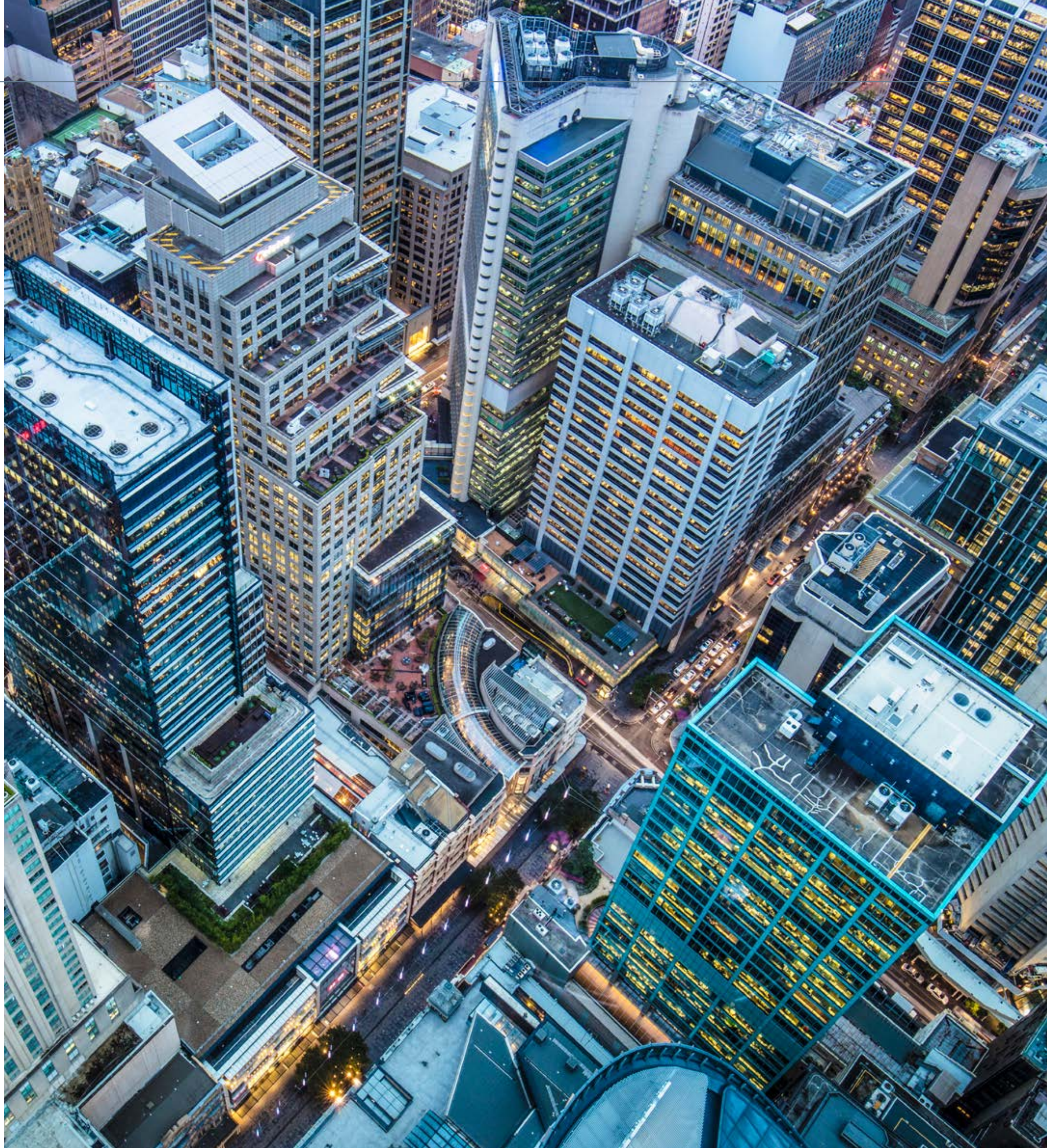
Despite over $1.6 billion in rent being waived or deferred for tenants in the retail category since the onset of the pandemic, rental vacancies are at record highs. According to JLL, vacancies across the retail category increased in the 6 months to June 2020 to an average of 5.2%; representing the highest vacancy rate in more than 20 years. The eventual reopening of retail centres was not enough to offset depressed returns in this category.

To get through the pandemic and shore up balance sheets we have seen retail A-REITs active in raising equity with most recently Westfield-owner Scentre Group raising $4.1 billion in hybrid debt (September 2020).

OFFICE

After a number of years of strong performance based on growing rents, high demand and high occupancy rates, the office category has been adversely impacted by the COVID-19 pandemic. Amidst the uncertainty, A-REITs have paused investment decisions with Colliers International showing that transactions to Q3 2020 were 75% down from the corresponding quarter in 2019. Further highlighting office A-REIT weaknesses was that Industrial transactions outpaced office transactions, the first time this has occurred in almost a decade.

Despite the structural change towards WFH, the office is unlikely to disappear as tenants look to manage flexible working arrangements with their employees. Adapting to technological change and driving employee collaboration within the office environment will be at the forefront of a recovery for the office category. The go forward strategy noted by a number of office A-REITs is to focus on high quality tenants and long weighted average lease expiry tenures (WALEs) in driving the recovery for the office category.



PREMIUM/DISCOUNT TO NET TANGIBLE ASSETS (NTA)

The median premium/discount to NTA for A-REITs in FY20 was negative 13%. This discount to NTA has been driven by the impact of COVID-19 depressing both shareholder returns and property valuations across the sector.

GEARING LEVELS

A-REITs continue to maintain lower gearing levels, with an average c28% gearing in FY20. This remains in line with the sectors long term gearing levels of c30%.

The weighted average cost of debt for the A-REIT sector for FY20 is 3.0%.

CAPITAL RAISING

FY20 saw $11.6 billion raised in the secondary debt and equity markets, this is up on the $10.0 billion raised in the previous year. The largest was Unibail-Rodamco-Westfield's raising of $6.0 billion in fixed-income offerings. Other considerable issues were Vicinity Centres' equity offering of $1.2 billion and fixed-income offering of $0.8 billion, and Charter Hall Long WALE REIT's follow-on equity offering of $0.8 billion.

A-REITs were active in the debt and equity capital markets in response to the uncertainty caused by COVID-19. The need to strengthen balance sheet resilience, increase liquidity and provide funding flexibility were reasons noted for capital raising needs. Actions were also taken by a number of A-REITs to increase and further extend existing debt facilities.

Admitted to the ASX and new to the 2020 A-REIT Survey is Home Consortium (ASX: HMC) who undertook an Initial Public Offering in October 2019, raising $325 million in primary capital at a market capitalisation of $663 million.

TOP 10 A-REITs DEEP DIVE

01 INGENIA COMMUNITIES GROUP

Ingenia Communities Group – seniors communities and holiday parks. Ingenia's incredible performance saw them move from 20th position in BDO's A-REITs Survey 2019, to number one in 2020.

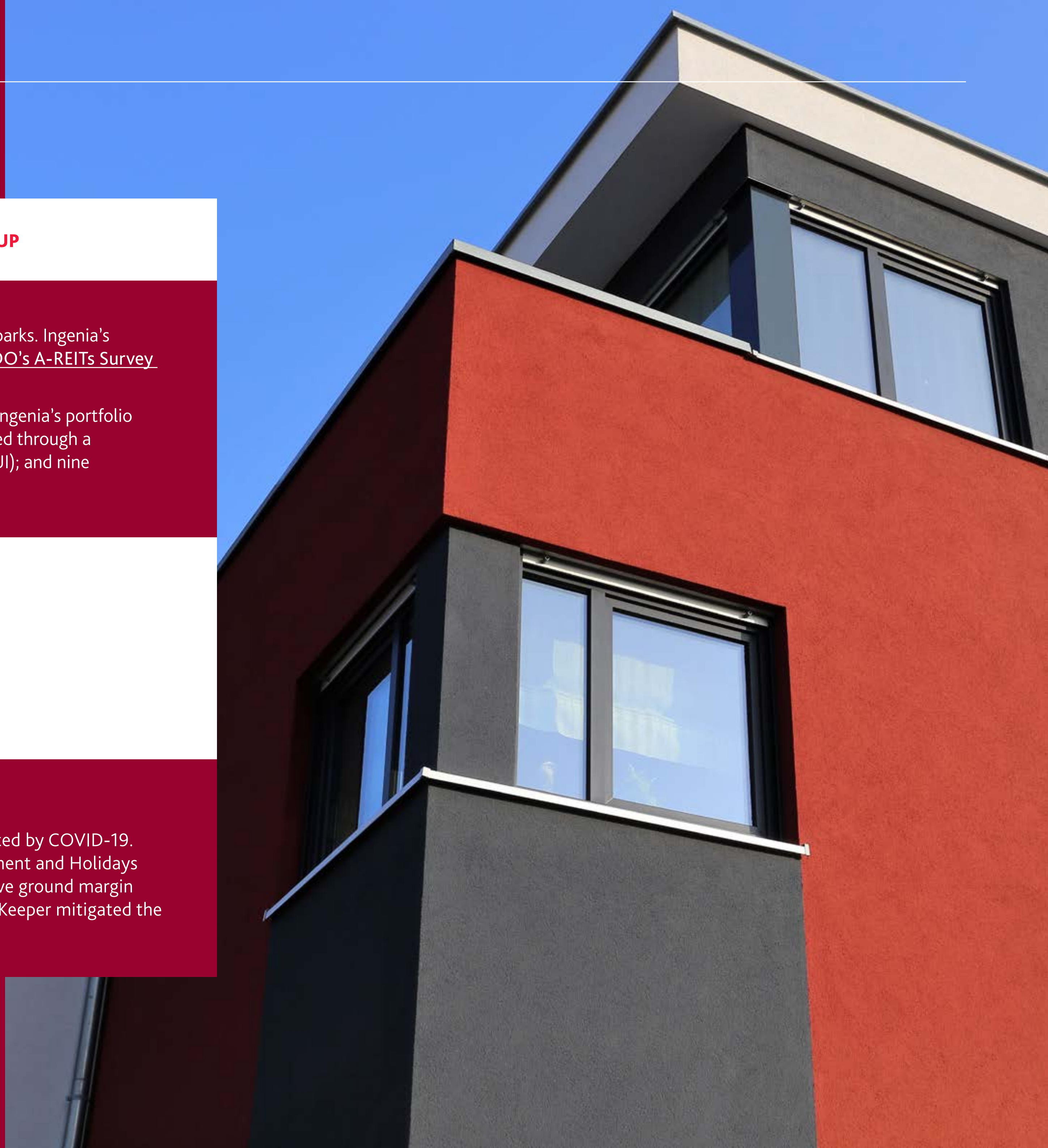
The group's balance sheet portfolio consists of 74 communities. Ingenia's portfolio includes: two greenfield lifestyle community developments owned through a development Joint Venture with Sun Communities, Inc (NYSE: SUI); and nine established communities through the Group's managed funds.

Highlights:

- Total shareholder return of **42 per cent** over one year
- Total shareholder return of **85 per cent** over three years
- Premium to NTA of **73 per cent**
- **25 per cent increase** in NTA per security to $2.89

ANNUAL REPORT INSIGHT

Like many businesses in Australia, Ingenia was adversely impacted by COVID-19. Despite operating restrictions impacting the Lifestyle Development and Holidays segments, an increase in the group's rental base, growth in above ground margin per new home settlement, cost management and access to JobKeeper mitigated the impact of mandatory closures on the group's holiday parks.



02 CHARTER HALL GROUP

Charter Hall Group (ASX: CHC) is an integrated property group that manages listed and unlisted property funds on behalf of wholesale, institutional and retail investors. Assets are mixed: office, industrial, retail and social infrastructure.

Highlights:

- Total shareholder return of **98 per cent** over three years
- Premium to NTA of **139 per cent**
- Operating cash yield of **20 per cent**

ANNUAL REPORT INSIGHT

Charter Hall Group's strategy of investing in long WALE assets leads to defensive and resilient portfolios. While Charter Hall Group has not been immune to the effects of COVID-19, the impacts have been limited through their focus on assets with long leases to high quality tenants in predominantly defensive industries. Small to medium enterprises (SMEs) represent only 10.2% of tenants across the funds platform, a much smaller proportion than other listed A-REITs. More broadly, COVID-19 has seen accelerating demand for access to industrial and logistics assets, something they have actively pivoted towards.

03 CENTURIA INDUSTRIAL REIT

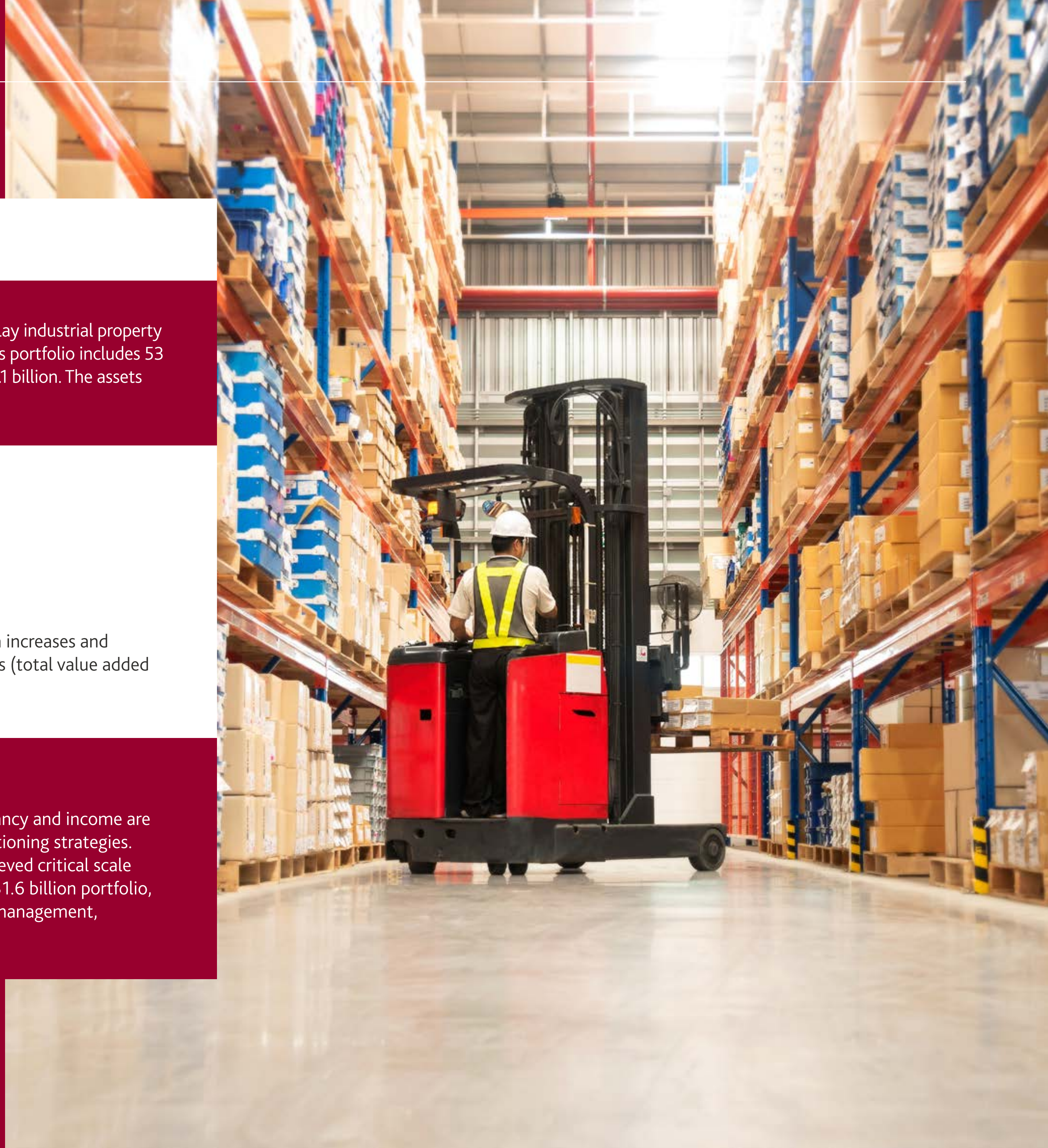
Centuria Industrial REIT (CIP) is Australia's largest domestic pure play industrial property investment vehicle and is included in the S&P/ASX 200 Index. CIP's portfolio includes 53 high-quality, fit-for-purpose industrial assets worth a collective $2.1 billion. The assets are situated in key in-fill locations and close to key infrastructure.

Highlights:

- Total shareholder return of **10 per cent** over one year
- Total shareholder return of **51 per cent** over three years
- **75 per cent** tax advantaged distribution
- Premium to NTA of **15 per cent**
- CIP grew both organically, with investment property valuation increases and inorganically, through the acquisition of seven industrial assets (total value added through acquisition: $300million).

ANNUAL REPORT INSIGHT

Centuria continues to focus on portfolio leasing to ensure occupancy and income are maximised, active asset management, risk mitigation and repositioning strategies. Through the expertise under Centuria management, CIP has achieved critical scale to become Australia's largest pure-play industrial A-REIT with a $1.6 billion portfolio, whilst significantly de-risking the platform through active asset management, repositioning and strengthening the balance sheet.



04 NATIONAL STORAGE REIT

National Storage REIT (ASX:NSR) is an internally managed and fully integrated owner and operator of commercial and residential self-storage in Australia and New Zealand – with over 70,000 customers and 190 storage centres.

Highlights:

- Total shareholder return of **10 per cent** over one year
- Total shareholder return of **40 per cent** over three years
- **172%** unannualised liquidity

ANNUAL REPORT INSIGHT

Over the last 12 months their results have continued the robust growth trajectory of previous years, growing revenue from $159 million to $178 million, with slightly reduced occupancy - despite some significant operating constraints as a result of the COVID-19 pandemic. Pleasingly, occupancy has rebounded strongly post the first wave of COVID-19 and this growth has continued through July and early August 2020. The strong performance of their business through the COVID-19 pandemic further demonstrates the resilience of self-storage as an asset class and the proactive capability of the NSR team in responding quickly and effectively to such challenges.

05 GOODMAN GROUP

Goodman Group is a global industrial property group that owns, develops, and manage modern industrial real estate including logistics facilities, warehouses and business parks in strategic locations throughout 17 countries.

Highlights:

- Total shareholder return of **100 per cent** over three years
- Premium to NTA of **167 per cent**
- Operating cash yield of **10 per cent**
- **9 per cent increase** in NTA per security to $5.84

ANNUAL REPORT INSIGHT

Over the past decade, the Group has developed significant expertise, financial resources and a well-located property portfolio to sustain it through various market conditions. These strong foundations were evident in our FY20 results with operating performance ahead of guidance. Customer demand for strategically located space in our $51.6 billion portfolio increased during the year. Occupancy remained high and rental growth was steady across several industry segments, particularly those involved in consumer staples, e-commerce and data storage. This strong customer demand is positively impacting their development business, where work in progress has increased 59% on last year, to $6.5 billion, and is forecast to exceed $7 billion in the first half of FY21.

06 WAYPOINT REIT

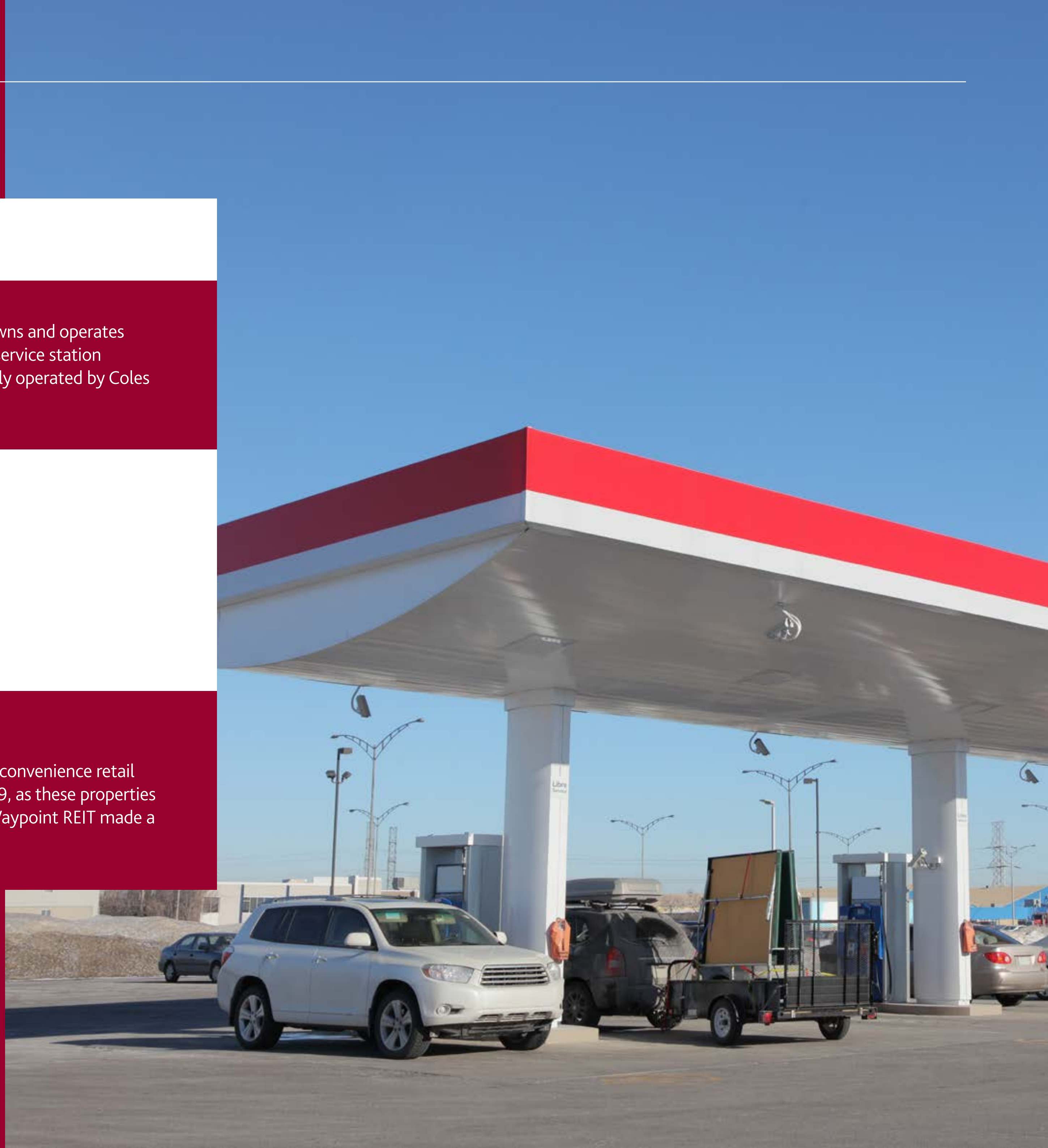
Waypoint REIT (formerly Viva Energy REIT Ltd) is an A-REIT that owns and operates a portfolio of service stations, with more than 400 Shell-branded service station properties around Australia. Waypoint REIT's properties are typically operated by Coles Group Ltd (ASX: COL) as Coles Express service stations.

Highlights:

- **126%** unannualised liquidity
- Operating cash yield of **8 per cent**
- Total shareholder return of **6 per cent** over one year
- Total shareholder return of **33 per cent** over three years
- Premium to NTA of **15 per cent**

HALF YEAR REPORT INSIGHT

Given Waypoint's diversified portfolio of service stations and their convenience retail network, Waypoint has not been materially impacted by COVID-19, as these properties remained essential. Through the six-month period to June 2020, Waypoint REIT made a total of 5 property acquisitions totalling $39.7 million.



07 CROMWELL PROPERTY GROUP

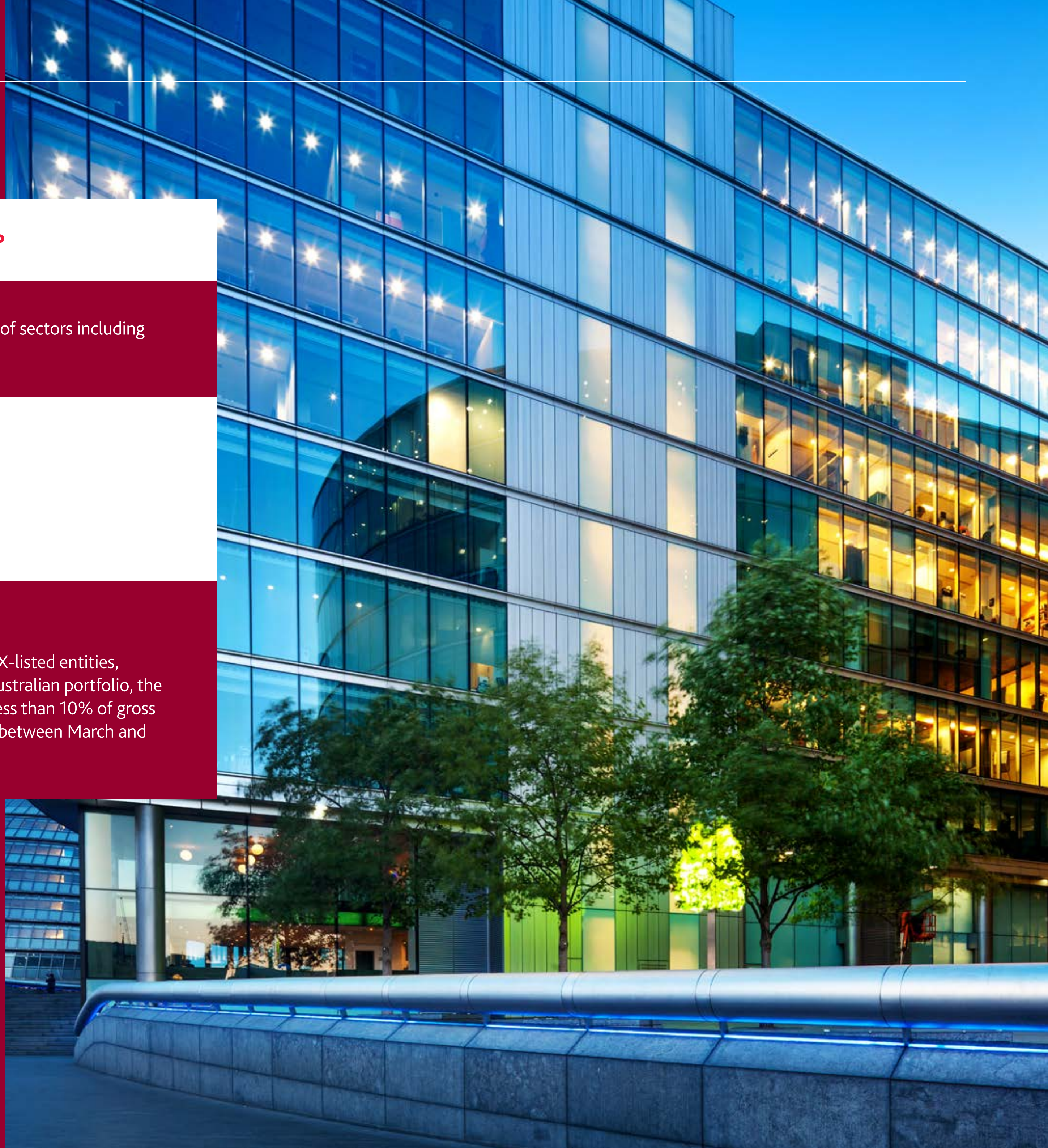
Cromwell Property Group has a mixed asset spread across a range of sectors including Office (66.2%), Retail (15.5%), Industrial/Logistics (12.2%)

Highlights:

- **8 per cent** distribution return
- **69 per cent** tax advantaged distribution
- Operating cash yield of **8 per cent**

ANNUAL REPORT INSIGHT

Given their strong tenant skew towards government and larger ASX-listed entities, rental collection was relatively unimpacted by COVID-19. In the Australian portfolio, the Government's Code of Conduct applied to 93 SMEs representing less than 10% of gross passing income and a total of $9.6 million was waived or deferred between March and 30 June 2020, representing less than 4% of total rent.



08 BWP TRUST

BWP Trust is the largest owner of Bunnings Warehouse sites in Australia, with a portfolio of 68 stores. Seven of the properties have adjacent retail showrooms that the Trust owns, and are leased to other retailers. The Trust also owns four large format retail showrooms, has one large format retail showroom under construction, and currently has two vacant properties.

Highlights:

- Premium to NTA of **29 per cent**
- Total shareholder return of **9 per cent** over one year
- Total shareholder return of **47 per cent** over three years

ANNUAL REPORT INSIGHT

Throughout the financial year, Bunnings has been able to operate on an unrestricted basis from all of the properties leased from the Trust, as they have the significant majority of the Trust's other tenants. The Trust has leases with a small number of tenants such as gym operators that were subject to COVID-19 mandatory closure by Federal or State governments for some, or all, of March, April, May and June this year. A Code of Conduct was legislated in each state which stipulated how landlords and tenants should cooperate during this period. For tenants that qualified under the relevant Code of Conduct legislation, arrangements were put in place for the abatement of rent in accordance with legislation. Rent abatements totalling $435,886 were granted in the period ended 30 June 2020. The Trust received 98.8 per cent of rent due during the months of March to June this year, taking into account the COVID-19 impacts.

09 CENTURIA OFFICE REIT

Centuria Office REIT (COF) is Australia's largest pure play office REIT and is included in the S&P/ASX300 Index. COF has a geographically diversified portfolio of 23 high quality assets with a value of $2.1 billion. The portfolio is predominantly exposed to metropolitan and near city office markets that are well connected to transport and lend themselves to affordable rents.

Highlights:

- **9 per cent** distribution return
- **80 per cent** tax advantaged distribution
- Operating cash yield of **8 per cent**

ANNUAL REPORT INSIGHT

Throughout FY20, Centuria has maintained its dual strategy of growth by both direct real estate transactions as well as corporate acquisitions. The latter most recently included the settlement of a 63% interest in Heathley Limited (September 2019), which has since re-branded to Centuria Healthcare. This year Centuria also completed a full takeover of Augusta Capital Limited, a leading New Zealand property funds manager with $1.8 billion in assets under management.

10 APN CONVENIENCE RETAIL REIT

APN Convenience Retail REIT (ASX: AQR) wholly owns a portfolio of 80 service station and convenience retail assets located across Australia with a skew towards the eastern seaboard, independently valued at $455 million.

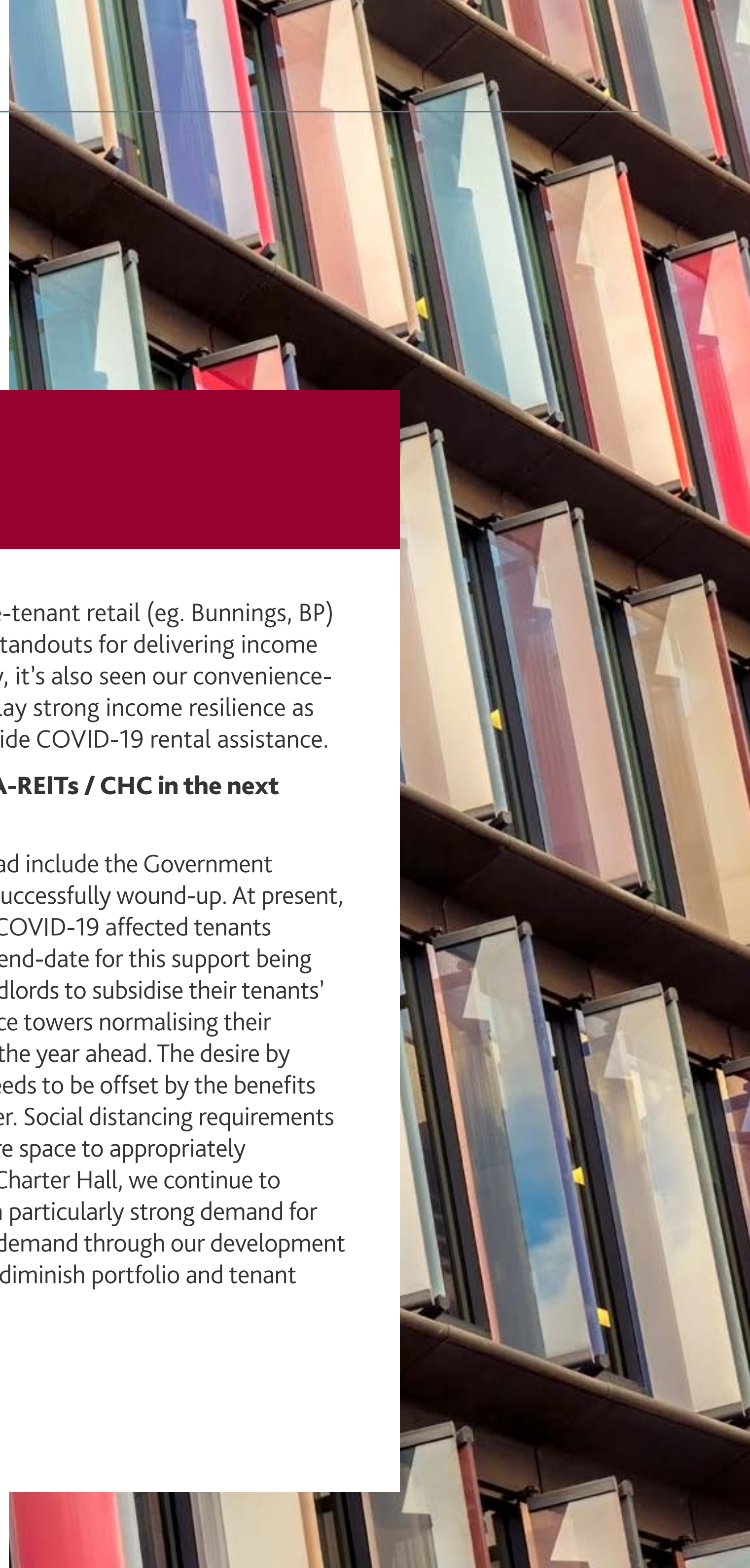
Highlights:

- Total shareholder return of **16 per cent** over one year
- Premium to NTA of **10 per cent**
- **10 per cent increase** in NTA per security to $3.27

ANNUAL REPORT INSIGHT

The portfolio continues to be resilient in the midst of the COVID-19 pandemic, with all sites remaining open and trading and with minimal impact on rental income. They expect service station and convenience retail properties to remain highly sought after as a stable and defensive asset class due to their long leases and strong lease covenants. The portfolio is well diversified by geography, tenant and site type. It is underpinned by long-term leases to high quality and experienced global operators, with 97% of the rental income derived directly from major service station tenants. The portfolio remains 100% occupied and is supported by a long weighted average lease expiry (WALE) of 10.6 years as well as an attractive lease expiry profile with 74% of rental income expiring in FY2030 and beyond, providing security holders with a strong level of income security.

A-REIT INSIGHTS



CHARTER HALL GROUP
Philip Cheetham - Head of Listed Investor Relations

Given the unprecedented impact COVID-19 has had on the A-REIT sector, how have CHC navigated through this year?

Our first response was to move quickly to establish working from home routines for our people in non-frontline roles, whilst supporting our executives in frontline roles within our supermarket anchored shopping centres. We partnered with our tenants to support them through the mandated closure periods and across all our assets, our first priority was the safety and health of all those who work or visit our properties.

As the pandemic risks diminished, we also moved decisively to bring our people back to the office as soon as practical, where possible, with senior management returning in late May. Having everyone back quickly gave Charter Hall an edge against others who have been slower to return, with the benefits of collaboration and culture evident in our performance. We've also been very focused on the basics – collecting rent, signing leases and engaging with our tenants. That focus on working as a team and partnering with our tenants has been the key to the way we have navigated this year.

What assets in your portfolio / sector are showing the best value and what strategies relating to the management of these assets have worked for you?

We have a strong focus across our entire platform of partnering with the leading tenants in essential industries and looking to extend leases wherever possible. That means we have sector-leading weighted average lease expiries (WALEs) across the portfolio's we manage, with high-quality tenant covenants. That combination is highly resilient and saw our portfolios demonstrate strong performance this year.

In particular, our long WALE strategies in single-tenant retail (eg. Bunnings, BP) and in industrial and logistics have both been standouts for delivering income certainty and asset value growth. More broadly, it's also seen our convenience-based retail centres and office towers also display strong income resilience as the tenant quality has limited the need to provide COVID-19 rental assistance.

What do you see as the key challenges for A-REITs / CHC in the next 12-months?

Challenges for the A-REIT sector in the year ahead include the Government mandated Commercial Code of Conduct being successfully wound-up. At present, landlords continue to provide rental support to COVID-19 affected tenants and State Governments continue to extend the end-date for this support being provided. At some point, the expectation on landlords to subsidise their tenants' businesses must come to an end. Tenants in office towers normalising their working patterns will also provide challenges in the year ahead. The desire by employees to continue flexible work patterns needs to be offset by the benefits employers get from having all their staff together. Social distancing requirements also mean many organisations need to take more space to appropriately accommodate their employees. Specifically for Charter Hall, we continue to enjoy strong investor support for our funds, with particularly strong demand for industrial and logistics exposure. Satisfying this demand through our development pipeline and appropriate acquisitions that don't diminish portfolio and tenant covenant quality is an on-going challenge.

BWP TRUST

Michael Wedgwood - Managing Director

Given the unprecedented impact COVID-19 has had on the A-REIT sector, how have BWP navigated through this year?

BWP started the 2019/20 financial year with a strong balance sheet and a good portfolio of property leased to Bunnings, and other national retailers. The Trust was well positioned for the challenges created by COVID-19 in the second half of the year, which are ongoing. During FY20 Bunnings was able to operate on an unrestricted basis (in terms of COVID-19) from all the properties leased from the Trust, as were the significant majority of the Trust's other tenants. The Trust has leases with a small number of tenants such as gym operators that were subject to COVID-19 mandatory closure by Federal or State governments for some, or all, of March, April, May and June of the 2019/20 financial year. Rent abatements totally $436,000 were granted in the period ended 30 June 2020. The Trust received approximately 99 per cent of its rent in the period March to June, taking into account the COVID-19 impacts. Large format retail has generally performed quite well during COVID-19 as the population has adjusted to spending more time at home. Large format retail centres have been able to adjust well to trading restrictions, in terms of customers being able to directly access retailers from the car park, and from retailers having the flexibility to adjust at short notice to significantly increased volumes of "Click and Collect". We have some vacancies in our property portfolio. We thought at the beginning of COVID-19 there may be a significant drop in enquiry for the leasing of additional space. To date, we have been pleased that this has not turned out to be a major negative, we are finding there continues to be an encouraging level of enquiry at all of our properties.

What assets in your portfolio / sector are showing the best value and what strategies relating to the management of these assets have worked for you?

Almost 90 per cent of our rent comes from Bunnings. Bunnings has a fantastic business model which is continuing to evolve. The key features of a Bunnings property are good location, easy access, and visibility. As Bunnings typically determines where it wants to be located, and designs the building, it tends to operate from locations for long periods of time. In the event Bunnings does move out of a property, the attributes mentioned above make re-positioning relatively easy. If a property does become vacant, we consider all options for its future ranging from large format retail, neighbourhood shopping centres, last mile DCs, office and residential. To date we have been pleased with the outcomes we have been achieving on all of our vacant properties.

What do you see as the key challenges for A-REITs / BWP in the next 12-months?

We expect the disruption from COVID-19 to continue for a while into the future. This, combined with other factors is resulting in structural change in a number of sectors in the economy. From a property perspective, cashflow is critical, structural change is and will likely continue to impact the certainty of future cashflow from property. At the same time, in a very low interest rate environment, assets are demanding high prices and historically low yields. Uncertainty of future cashflow and low yields combined, are the main challenges in finding opportunities to grow, we expect this to be the case for sometime yet. That being said, disruption creates opportunity, our focus is on finding those opportunities that will create value into the future in a rapidly changing external environment. We remain optimistic that new sources of growth will be available.

MACRO OVERVIEW

With global economies experiencing unprecedented levels of heightened volatility as caused by the onset of the COVID-19 pandemic, the future of A-REIT performance remains in doubt. Coupled with global market uncertainty are the ongoing headwinds of structural change towards flexible working patterns and e-commerce impacting A-REITs more broadly.

As the onset of uncertainty caused by the US election and further outbreaks of COVID-19 slowly dissipates, the positioning of businesses in a post-COVID-19 world will be instrumental in the eventual economic recovery. Nevertheless, the risk of further outbreaks of COVID-19 and prolonged mandatory lockdowns will continue to challenge A-REITs and the wider economy.

As a result, the current macroeconomic backdrop presents a challenge in the pricing of A-REITs and any future acquisitions in determining how occupancy rates and future rent assumptions will be impacted by these factors.

In FY20, the Australian economy was faced with the bushfire crisis, falling consumer confidence and COVID-19. In response, the Reserve Bank of Australia's aggressive stance to lower interest rates to record lows bodes well for the attractiveness of A-REITs as an investment class, and it is predicted that interest will remain low in the interest of an economic recovery.

Our view that interest rates present the biggest threat to A-REITs still remains, as any future increases in bond yields will have adverse impacts on discount rates, cost of debt, and earnings. Given COVID-19 has forced a number of A-REITs to seek extended debt terms, A-REITs are largely protected from any unfavourable future increases to interest rates.

METHOD OF RANKING

1 EXPLANATION OF CRITERIA AND RANKING

A brief explanation of each criterion used to rank A-REITs in the 2020 Survey is provided below.

1.1 FINANCIAL CRITERIA

- **Operating Cash Yield on Average Net Assets**

  Calculated by dividing operating cash flow (including interest expense); by the average of opening and closing net assets for the period.

  The financial year end of the entity has been used in all cases, except for 31 December entities where 30 June 2020 figures have been sourced from half year reports.

  Where accounts have been prepared for a period of less than one year, the operating cash measure has been annualised.

- **Distribution Return on Investment**

  Calculated by dividing the distribution per Security paid for the entity's financial year by the average ASX price of the Security through the year. The average ASX price is calculated on a daily closing price basis, with prices sourced from S&P Capital IQ.

  Where accounts have been prepared for a period of less than one year, the distribution has been annualised.

- **Tax Deferred Distribution Component**

  The percentage of the total annual distribution from each entity which is tax deferred.

  Where this information was not disclosed in the annual report, BDO attempted to obtain the detail required from other sources.

- **Movement in NTA Per Security**

  Calculated by assessing the percentage increase (or decrease) in NTA per Security over the entities' financial year by using the opening and closing figures for NTA per Security.

  Where an entity was listed during the year, BDO has assessed the opening NTA as being equal to the issue price.

  In all cases the financial year end of the entity has been used, except for 31 December year ends where we have used NTA from the 30 June 2019 and 2020 half year reports.

- **Premium/Discount to NTA**

  Calculated by subtracting the average of NTA per Security (being opening NTA plus closing NTA divided by two) from the average ASX price per Security, and dividing this by the average NTA per Security.

  We have ranked entities trading at a premium to NTA as having the highest ranking in this criteria.

1.2 INVESTMENT CRITERIA

- **Total Return**

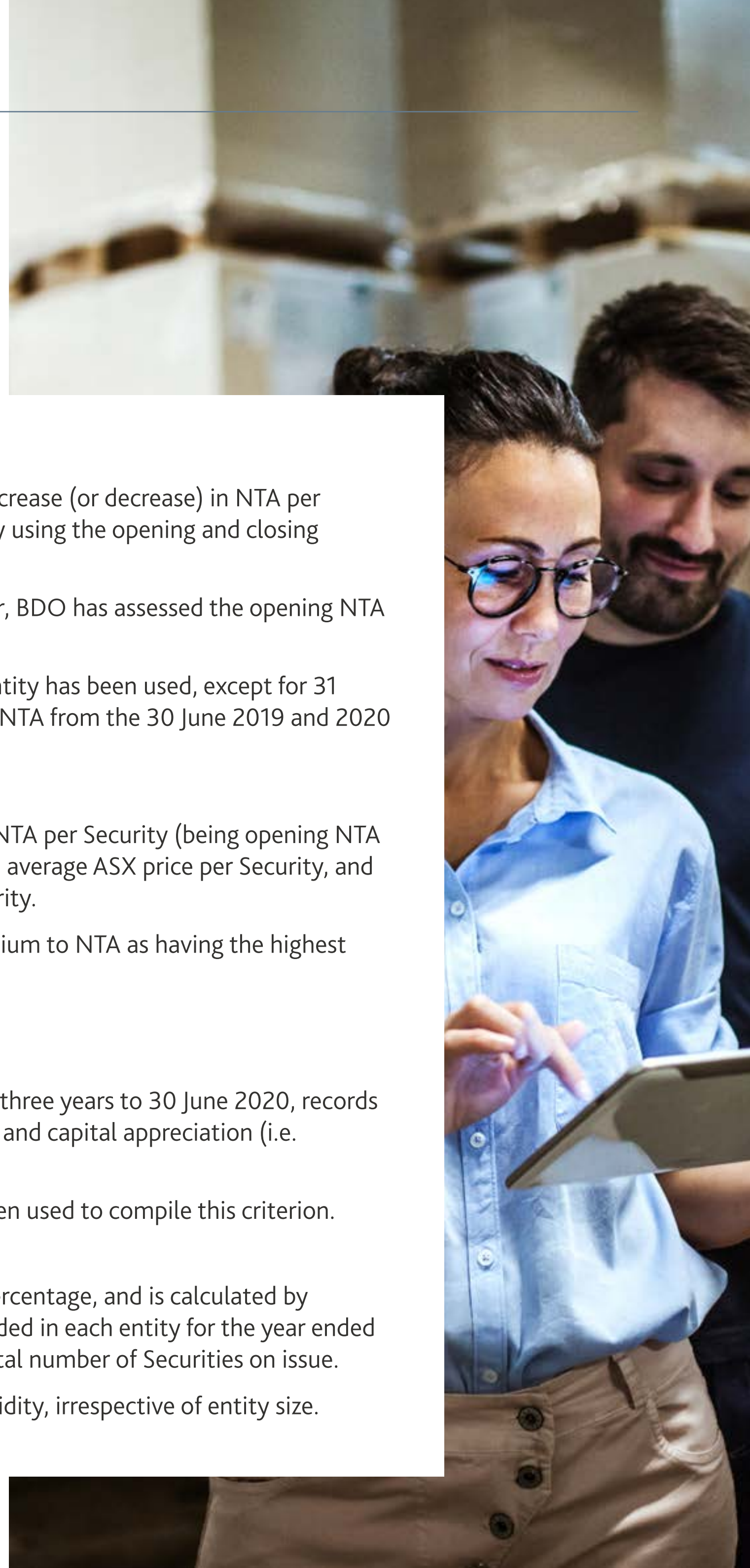
  This measure, over both the one year and three years to 30 June 2020, records both the income return (i.e. distributions) and capital appreciation (i.e. movement in ASX price).

  Information sourced from the ASX has been used to compile this criterion.

- **Volume of Trading on ASX (Liquidity)**

  This liquidity measure is expressed as a percentage, and is calculated by dividing the total volume of Securities traded in each entity for the year ended 30 June 2020 by the weighted average total number of Securities on issue.

  This provides an indication of relative liquidity, irrespective of entity size.



1.3 METHOD OF RANKING

A total score of 100 (maximum) has been used, comprising 65 points for financial criteria and 35 points for investment criteria. In determining the final rankings the scores on each component were aggregated (not the rankings) such that the relative performances within each criterion are maintained in determining the overall rankings.

- **Financial Criteria**

  The tests used in the financial criteria and assigned weightings are as follows.

FINANCIAL CRITERIA	SCORE
	2020
Operating Cash Yield (on net assets)	15
Movement in NTA	15
Premium/Discount to NTA	15
Distribution Yield	10
Tax Deferred Distribution Percentage	10
PERFECT SCORE	**65**

  In each of the above tests the scores were scaled so that the top performer in each test received the maximum available score for that criterion. Rankings were then assigned based on the scaled scores.

- **Investment Criteria**

  The tests used in the investment criteria and assigned weightings are as follows.

INVESTMENT CRITERIA	SCORE
	2020
Total Return (One Year)	20
Total Return (Three Year)	10
Volume of Trading on ASX	5
PERFECT SCORE	**35**

  The above tests have been ranked using a variable points system for each test, based on the number and importance of aspects taken into account. In each of the tests, the scores were scaled so that the top performer in each test received the maximum available score for that criterion. Rankings were then assigned based on the scaled scores.

- **Median Results**

  For an entity which could not be scored equitably in a particular criteria, due to its recent listing, the unique nature of an entity's activities, or lack of available information for the relevant criteria, that entity was allocated a median result for the purpose of ranking. This ranking was then weighted and scored as usual. For all such instances 'N/A' appears in the result column for the individual criteria tables.

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