INDUSTRY REPORT OD5551

Real Estate Investment Trusts in Australia

Trust the process: Despite volatile operating conditions, increasing rents have built revenue

James Thomson | May 2022

Contents

Recent Developments

Inflation pressures cause the RBA to raise interest rates

Concerns regarding inflation have prompted the RBA to raise interest rates. Surging demand and supply chain turmoil due to the COVID-19 pandemic, compounded by geopolitical tensions abroad, have contributed to the high inflation pressures. The RBA has therefore increased the cash rate target three times over the four months through August 2022 to limit spending and tame inflation. Rising interest rates are likely to increase the cost of borrowing and subdue business confidence, while simultaneously taming inflation.

This section last udpated December 02, 2022

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About This Industry

Industry Definition

Industry firms manage publicly listed real estate investment trusts (REITs). Operators in the industry purchase and lease properties to commercial tenants, including retailers, manufacturers and other businesses. Some firms also generate revenue through property development. Unlisted property trusts are excluded from the industry.

Major Players

Stockland

Scentre

Goodman

Mirvac

DEXUS Property

Charter Hall

Main Activities

The primary activities of this industry are:

Managing publicly listed real estate investment trusts (REITs)

Purchasing and leasing commercial property, including retail, commercial and industrial properties

Developing residential and commercial property, including retail, commercial and industrial properties

Commercial property management

The major products and services in this industry are:

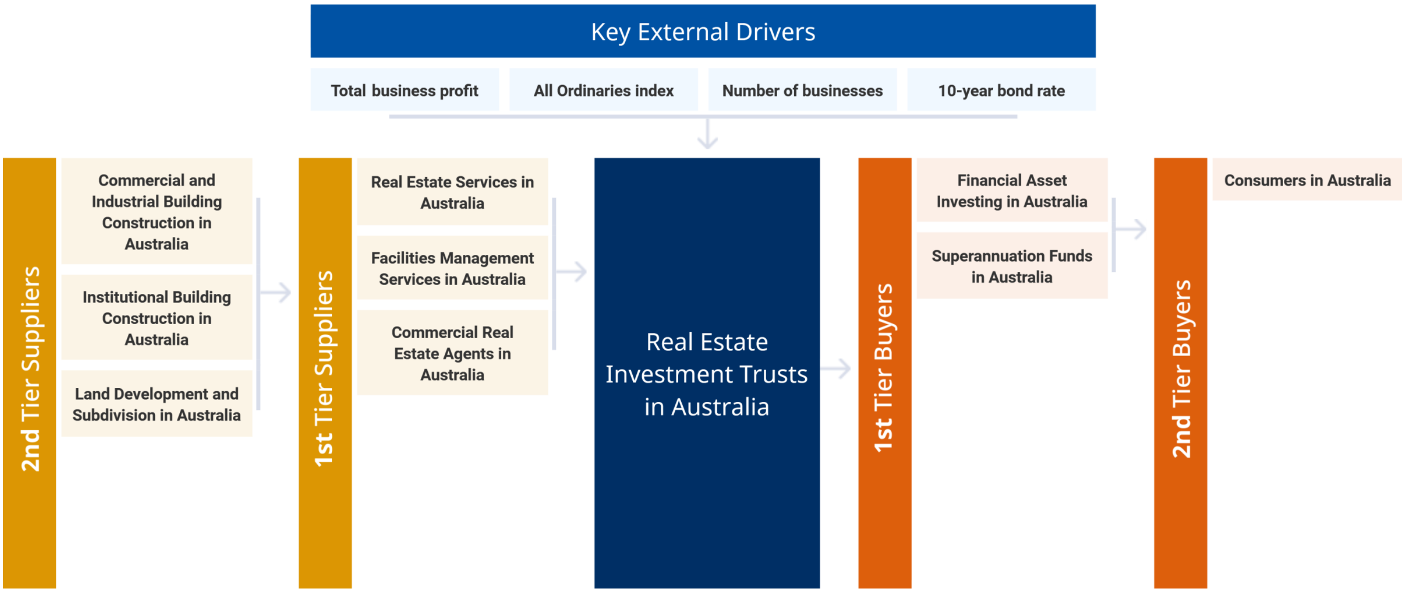
Retail

Office

Industrial

Other

Supply Chain



SIMILAR INDUSTRIES

Financial Asset Investing in Australia
Complementor

Office Property Operators in Australia
Competitor

Retail Property Operators in Australia
Competitor

Industrial and Other Property Operators in Australia

RELATED INTERNATIONAL INDUSTRIES

Real Estate Investment Trusts in the US

Real Estate Investment Trust Activities in the UK

Real Estate Investment Trusts in Canada

Industry at a Glance

Key Statistics

$17.4bn
Revenue

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
0.3%	3.6%	

$7.9bn
Profit

Annual Growth 2017–2022	Annual Growth 2017–2022
-1.8%	

45.6%
Profit Margin

Annual Growth 2017–2022	Annual Growth 2017–2022
-5.1pp	

34
Businesses

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
3.2%	2.2%	

11,507
Employment

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-2.6%	1.8%	

$1.1bn
Wages

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-3.6%	2.9%	

Key External Drivers

% = 2017–22 Annual Growth

1.0%
Number of businesses

-2.7%
10-year bond rate

11.6%
Total business profit

6.0%
All Ordinaries index

Industry Structure

POSITIVE IMPACT

Industry Globalization
Low / Steady

MIXED IMPACT

Life Cycle
Mature

Concentration
Medium

Technology Change
Medium

Competition
Medium / Increasing

Revenue Volatility
Medium

Regulation & Policy
Medium / Steady

Barriers to Entry
Medium / Steady

NEGATIVE IMPACT

Capital Intensity
High

Industry Assistance
Low / Steady

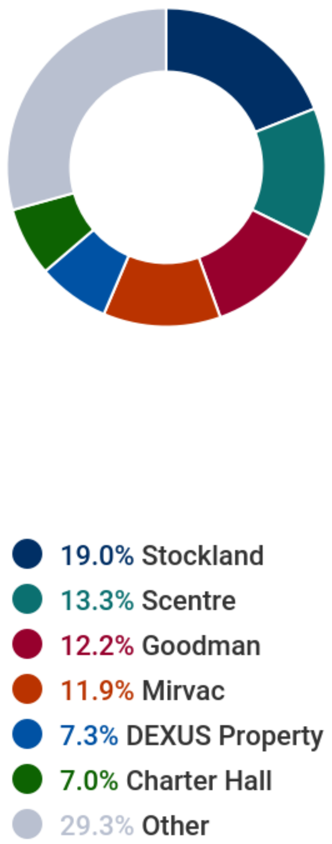
Key Trends

- REITs offer investors diversified exposure to property, requiring less capital than direct ownership
- The industry has undergone some consolidation, with rising acquisition activity over the period
- The COVID-19 pandemic has constrained performance for some product segments
- Industry firms are forecast to face higher borrowing costs over the next five years
- Demand for commercial property is projected to rise over the period, supporting rent increases
- Industry participation will likely rise, although some consolidation is forecast over the period
- Real estate investment trusts have faced volatile operating conditions over the past five years

Products & Services Segmentation

Real Estate Investment Trusts
Source: IBISWorld

Major Players



Real Estate Investment Trusts
Source: IBISWorld

SWOT

STRENGTHS

Low Imports
High Profit vs. Sector Average
Low Customer Class Concentration

WEAKNESSES

Low & Steady Level of Assistance
High Product/Service Concentration
High Capital Requirements

OPPORTUNITIES

High Revenue Growth (2017-2022)
High Revenue Growth (2022-2027)
High Performance Drivers
Number of businesses

THREATS

Total business profit

Executive Summary

Trust the process: Despite volatile operating conditions, increasing rents have built revenue

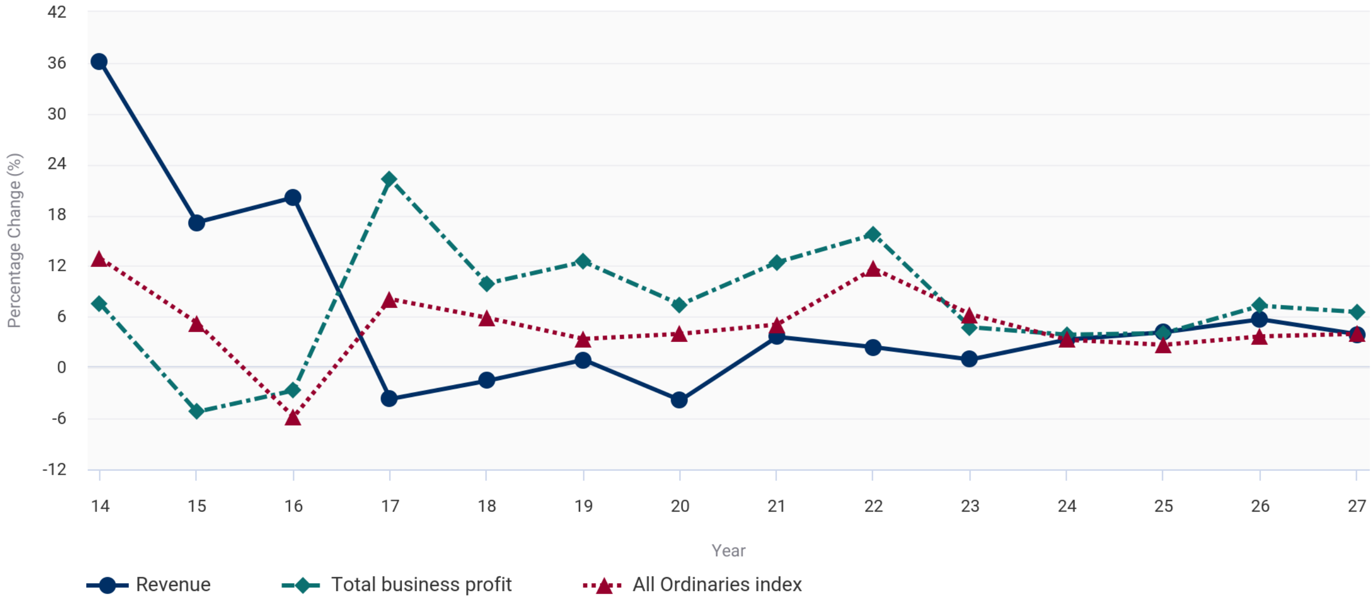
Firms in the Real Estate Investment Trusts industry manage publicly listed trusts, focusing largely on commercial property. These trusts typically trade as stapled securities listed on the ASX. Real Estate Investment Trusts (REITs) in the industry purchase and manage retail, office, industrial and other types of property. REITs generate rental income by leasing properties to businesses, and investment income through developing or selling properties. Rental income generated by industry firms is relatively stable, while investment income can fluctuate significantly every year. The industry has faced volatile trading conditions over the past five years, with the COVID-19 pandemic creating significant demand disruptions in key product segments, including retail and office property markets.

Industry revenue is expected to grow at an annualised 0.3% over the five years through 2021-22, to reach $17.4 billion. This growth includes anticipated increase of 2.4% in the current year, with rent increases expected to boost industry revenue. Industry firms have benefited from growth in the number of businesses and declining borrowing costs over the past five years, which have enabled many REITs in the industry to expand their property portfolios. Industry participation has also increased over the past five years, with several new REITs listing on the ASX over the period. However, acquisition activity among some of the industry's larger firms has partially offset growth in establishment numbers over the period.

Industry operators are projected to benefit from rising demand for commercial property over the next five years. Economic conditions are forecast to stabilise following the COVID-19 pandemic, with demand for retail and office property likely increasing. Some industrial companies are also projected to reshore manufacturing activities or retain more inventory to ensure reliability of supply chains. This trend is forecast to boost demand for industrial property over the next five years. Rising demand across key property segments is projected to enable REITs to implement rent increases, supporting revenue growth and industry profitability over the period. Overall, industry revenue is projected to rise at an annualised 3.6% over the five years through 2026-27, to reach $20.8 billion.

Industry Performance

Key External Drivers 2014–2027



Real Estate Investment Trusts
Source: IBISWorld

Key External Drivers

Total business profit

Total business profit affects businesses demand for commercial property. An increase in total business profit typically increases the capacity for businesses to pay rents and boosts industry demand. Alternatively, a decline in total business profit can represent a threat to industry demand. Total business profit is expected to rise in 2021-22.

All Ordinaries index

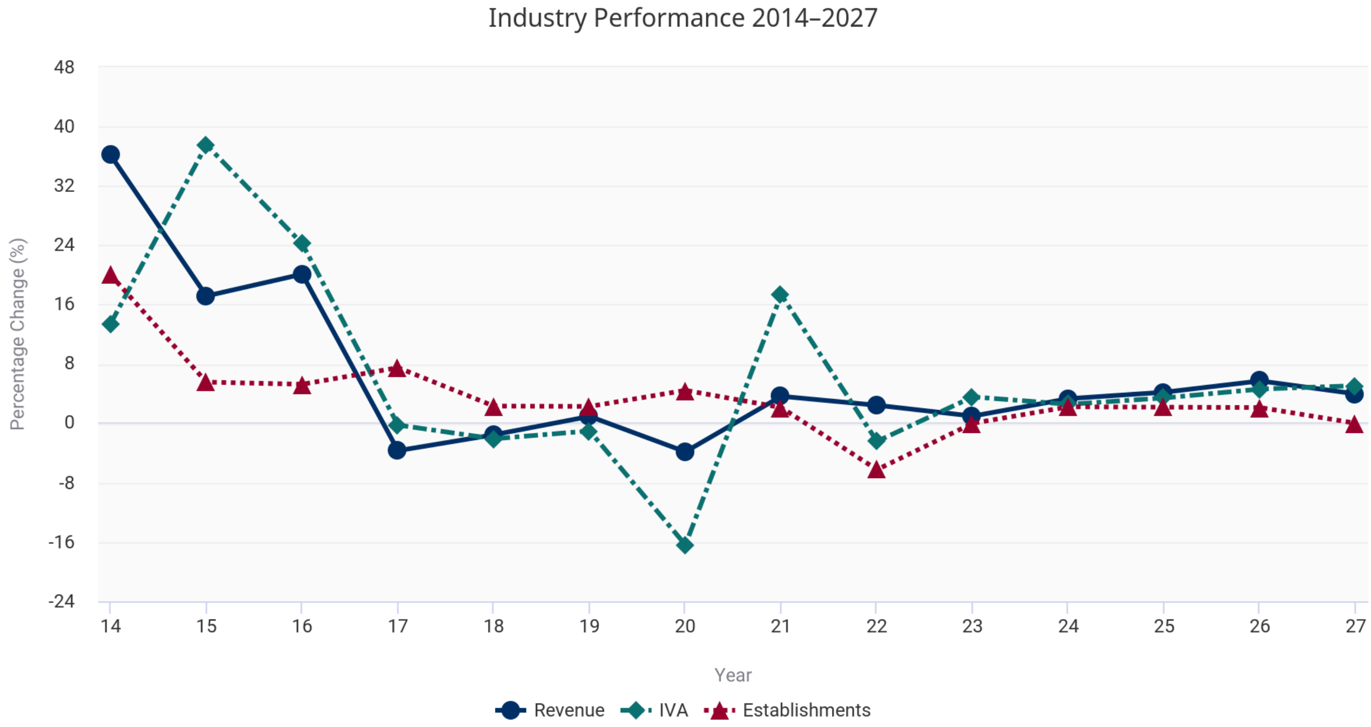
The All Ordinaries index's performance, which affects investor sentiment, influences real estate investment trusts' (REITs) ability to raise capital to fund expansion. As a result, REITs typically benefit from a rise in the All Ordinaries index. The All Ordinaries index is anticipated to rise in 2021-22.

Number of businesses

Most industry firms operate in the commercial property segment. As a result, an increase in the number of businesses typically boosts demand for commercial property, enabling industry firms to increase rents. The number of businesses is expected to rise in 2021-22, representing an opportunity for the industry to expand.

10-year bond rate

Operators in the Real Estate Investment Trusts industry rely on capital markets to fund property purchases. Movements in the 10-year bond rate reflect changes in capital costs for industry firms. A rise in the bond rate typically indicates that financing will become more expensive for industry firms. The 10-year bond rate is anticipated to rise in 2021-22.



Real Estate Investment Trusts
Source: IBISWorld

Current Performance

Firms in the Real Estate Investment Trusts industry have faced volatile operating conditions over the past five years.

Property market and business conditions have been favourable over most of the period, with a falling cash rate making borrowing cheaper. However, the COVID-19 pandemic has caused demand volatility in some property segments over the period, which has weighed on industry revenue. The S&P/ASX 200 A-REIT index has delivered an annualised total return of 4.72% over the five years through 2021-22. This represents an underperformance of the wider ASX 200, which delivered an annualised total return of 6.73% over the same period.

INDUSTRY PERFORMANCE

Industry revenue is expected to grow at an annualised 0.3% over the five years through 2021-22, to reach $17.4 billion.

This trend includes expected growth of 2.4% in the current year. Rising property prices and low borrowing costs have supported industry performance over the past five years. However, volatile conditions in some segments during the COVID-19 pandemic, particularly in retail and office markets, has weighed on overall industry performance over the period. Industry participation has increased, with both enterprise and establishment numbers rising over the past five years. However, consolidation among some larger firms has led to industry employment falling over the period. As a result, wage costs have fallen as a share of industry revenue over the past five years. Nevertheless, industry profitability has also fallen slightly over the period.

COVID-19

The COVID-19 pandemic has significantly affected industry operations.

Restrictions and lockdowns meant many businesses were unable to operate at the height of the pandemic, leading to rent reductions or pauses in rent payments. These restrictions particularly affected firms operating within the retail property segment. Moreover, the shift to remote working also negatively affected office property operators. Stock market volatility also led to many REITs trading at a discount to book value at various stages during the COVID-19 pandemic.

MARKET STRUCTURE

The majority of Australian Real Estate Investment Trusts (A-REITs or REITs) trade as stapled securities, where two or more securities are bound to a single saleable unit and cannot be bought or sold separately.

Several large stapled property groups that trade on the ASX dominate the industry. Unlisted property trusts are not included in the industry.

REITs pool capital from investors to purchase and manage commercial properties. Retail, office and industrial property operators are dominant in the industry, although a range of other specialised REITs operate in the industry. For example, Rural Funds Group focuses on farmland and agricultural properties, National Storage REIT manages self-storage facilities, BWP Trust manages a portfolio of Bunnings Warehouse locations and Hotel Property Investments manages hotels and pubs. Some firms also engage in residential property development.

Many of the industry's major players operate multiple REITs across different property segments. REITs typically generate revenue from two main sources, rental income and investment income. Rental income comes from tenants paying rent on properties owned by the REIT. Investment income is typically generated through developing and selling properties.

BENEFITS OF REITS

REITs have grown in popularity over the past decade, increasing as a share of the Australian sharemarket.

As at June 2022, real estate, including REITS, constituted 6.3% of the ASX 200. REITs offer individual investors several benefits over direct property investments. In particular, REITs can be bought and sold on the ASX, giving investors greater price discovery and liquidity than direct property investment. Moreover, an investment in a REIT requires less capital than direct property investment. REITs also provide a professional management team to identify potential acquisitions and manage the property, such as looking after repairs, maintenance and upgrades. This practice gives investors a more hands off experience than direct property investment.

REITs typically own multiple properties across different geographic locations. Investors can therefore benefit from a level of diversification that would typically require significant capital for a direct investment. Furthermore, most REITs focus on a particular property segment, such as retail, office or industrial properties. This practice allows investors to gain exposure to a specific desired segment or diversify further by owning multiple REITs in different property segments. These factors, combined with Australia's booming property market, have attracted inflows to the sector over the past five years, particularly from the superannuation sector. According to APRA, listed property has increased as a share of the superannuation sector's asset allocation over the past five years, accounting for approximately 3.4% in March 2022.

REIT PERFORMANCE

Several internal and external factors determine REIT performance.

Internal factors include the ability to identify attractive investment opportunities, to attract and retain tenants, to increase rents and effectively add value to existing properties. Key performance measures include weighted average lease expiries (WALE), which measure the remaining length of leases across a property portfolio. A higher WALE is typically preferable. Occupancy rates are another performance measure, which indicate how much of a REITs portfolio is currently tenanted. Most industry firms maintain occupancy rates above 95%. REITs also need to effectively manage their capital structure and maintain sustainable levels of gearing. Other performance metrics commonly used to measure REIT performance include funds from operations (FFO) and adjusted funds from operations (AFFO), which measure the amount of cash generated by a REIT.

External factors, such as the number of businesses and conditions in the wider economy, determine demand for commercial property. Growth in the number of businesses, total business profit and business confidence typically boost demand for rental properties and, in turn, benefit REITs. REITs require debt and equity financing to fund property purchases. Industry firms have benefited from the low interest rate environment over the past five years. A declining cash rate has reduced borrowing costs for REITs and caused asset price inflation, allowing some REITs to more easily fund expansion or acquisitions using equity financing. However, the cash rate is expected to rise over the coming year, with the RBA starting to increase rates at its May and June meetings in 2022. Many REITs have also benefited from rising commercial property prices over the past five years, leading to capital appreciation and upward revaluations of their property portfolios.

CONSOLIDATION TRENDS

The Real Estate Investment Trusts industry exhibits moderate market share concentration, with several large players accounting for a significant share of the market.

These larger firms typically operate multiple REITs across different property segments. Many of these larger firms also engage in property development. Some firms, such as Mirvac Group, also develop properties on a build-to-rent basis. While there have been several new listings over the past five years, merger and acquisition activity among industry players has constrained growth in industry participation over the period. For example, major player DEXUS Property Group acquired APN Property Group in 2021.

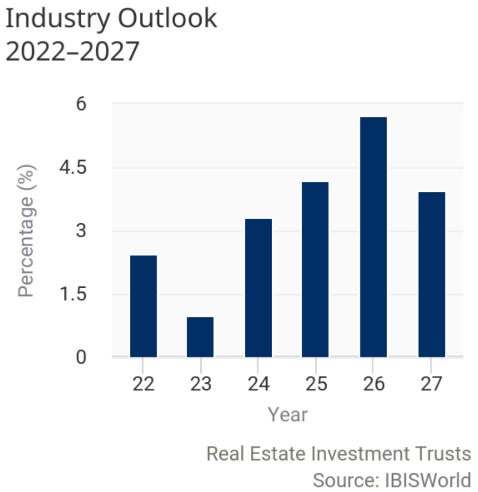
Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2012-13	9,277	6,401	30.0	22.0	6,488	N/A	N/A	614	N/A
2013-14	12,631	7,263	36.0	26.0	8,760	N/A	N/A	847	N/A
2014-15	14,799	9,989	38.0	26.0	10,486	N/A	N/A	1,095	N/A
2015-16	17,775	12,407	40.0	28.0	11,234	N/A	N/A	1,162	N/A
2016-17	17,120	12,378	43.0	29.0	13,132	N/A	N/A	1,320	N/A
2017-18	16,856	12,119	44.0	29.0	13,783	N/A	N/A	1,373	N/A
2018-19	17,014	11,995	45.0	30.0	13,141	N/A	N/A	1,323	N/A
2019-20	16,361	10,030	47.0	31.0	12,823	N/A	N/A	1,168	N/A
2020-21	16,957	11,768	48.0	32.0	12,261	N/A	N/A	1,146	N/A
2021-22	17,370	11,482	45.0	34.0	11,507	N/A	N/A	1,100	N/A

Industry Outlook

Outlook

Operating conditions for the Real Estate Investment Trusts industry are forecast to improve over the next five years.



Industry revenue is projected to grow at an annualised 3.6% over the five years through 2026-27, to reach $20.8 billion. Real Estate Investment Trusts (REITs) are forecast to benefit from population growth, positive business confidence and growth in the wider economy over the next five years.

DEMAND CONDITIONS

The size of Australia's population and the number of businesses are both projected to rise over the next five years.

These trends are forecast to boost retail spending, benefiting REITs that operate in the retail property segment. These conditions are projected to support rent increases. However, some retailers are now seeking to tie rent prices to retail sales revenue, which may lead to greater variability in rental income for retail-focused REITs over the next five years.

Online shopping is forecast to continue rising as a share of total retail spending over the next five years, which is also projected to boost demand for industrial properties, such as warehouses. In light of supply chain disruptions throughout the COVID-19 pandemic, some industrial companies are also likely to reshore operations over the period to ensure supply chain reliability in times of global disruption. Reshoring operations may also benefit some industry firms, increasing demand for industrial property and allowing for rent increases.

Continued growth in the total number of non-manual employees in the workforce is forecast to support rising demand for office space. Despite concerns that employees would continue to primarily work from home in the wake of the pandemic, demand for office property is projected to remain strong as workers continue returning to offices. However, some tenants may seek shorter lease agreements, to provide greater flexibility for their businesses.

Demand for other property segments, including hospitality, healthcare and agricultural properties, is also forecast to increase over the next five years. Food security is becoming an increasingly important issue, as highlighted by disruptions to global food supply caused by the Russia-Ukraine conflict in early 2022. Shortages due to the conflict caused fertiliser and wheat prices to rise sharply in 2021-22. These concerns are projected to support demand for Australian agricultural properties over the next five years. Operators in the Agriculture subdivision are also increasingly engaging in sale and leaseback transactions to free up capital to invest in their businesses. This trend may create an opportunity for further agricultural-focused REITs to enter the industry over the next five years.

OPERATING CONDITIONS

Operating conditions will likely be mixed for industry firms over the next five years.

While demand is forecast to grow across most product segments, funding costs are projected to rise over the next five years. At its May and June meetings in 2022, the Reserve Bank of Australia (RBA) raised the cash rate by 25 and 50 basis points respectively. These were the first increases since November 2010. The RBA has also signalled that it expects several more rate rises over 2022-23. Any increases in the cash rate over the next five years are projected to place upward pressure on financing costs for industry firms. Some industry firms may also face increased costs to retrofit existing buildings to meet rising demand for sustainable buildings. These higher costs will likely weigh on industry profitability over the period. However, growing demand for commercial property is forecast to raise rents, largely offsetting increased borrowing costs and leading to a modest increase in industry profitability over the next five years. Rising rental income is also projected to cause wage costs to fall as a share of industry revenue over the period.

INDUSTRY CONSOLIDATION

Industry participation is forecast to rise over the next five years, as some specialised REITs will likely enter the market over the period.

However, further consolidation among the industry's larger players is projected. Merger and acquisition activity is forecast to continue over the period as firms seek to benefit from improved economies of scale.

Increased investment in the industry from superannuation funds is projected to benefit existing REITs. Inflows from superannuation funds are forecast to rise over the next five years, due to the Superannuation Guarantee's scheduled 0.5% rise each financial year until it reaches 12.0% in July 2025. Some of these inflows are projected to be directed towards REITs. However, superannuation funds are also forecast to become more directly active in the sector, creating increased external competition for industry firms. Moreover, some super funds will likely attempt to acquire REITs over the period. The COVID-19 pandemic has created favourable market conditions to take some REITs private, with some REITs trading below the book value of their commercial properties.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2021-22	17,370	11,482	45.0	34.0	11,507	N/A	N/A	1,100	N/A
2022-23	17,539	11,891	45.0	35.0	11,760	N/A	N/A	1,133	N/A
2023-24	18,122	12,196	46.0	36.0	12,303	N/A	N/A	1,199	N/A
2024-25	18,883	12,614	47.0	37.0	12,571	N/A	N/A	1,246	N/A
2025-26	19,963	13,196	48.0	38.0	12,642	N/A	N/A	1,266	N/A
2026-27	20,756	13,865	48.0	38.0	12,566	N/A	N/A	1,272	N/A
2027-28	21,497	14,274	49.0	39.0	12,617	N/A	N/A	1,286	N/A

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

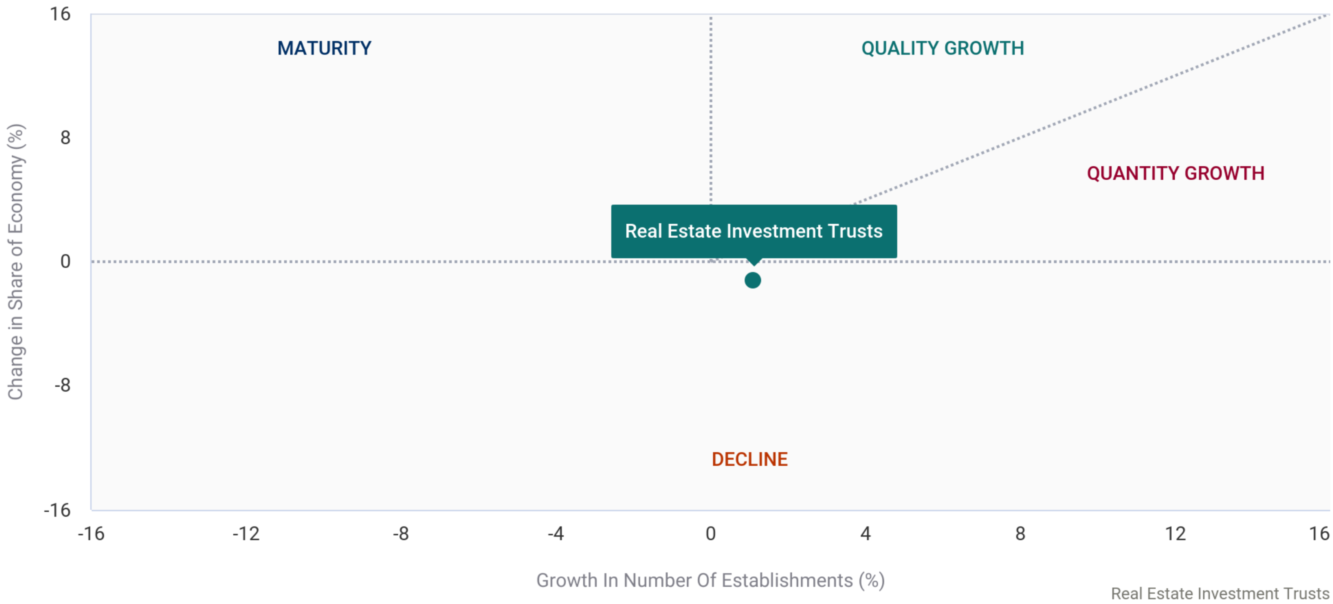
LIFE CYCLE REASONS

Industry value added is growing at a slower rate than the overall economy

Industry participation is increasing

The COVID-19 pandemic has weighed on some product segments' performance over the past three years

Indicative Industry Life Cycle



Real Estate Investment Trusts
Source: IBISWorld

The Real Estate Investment Trusts industry is in the mature stage of its economic life cycle. Industry value added (IVA), which measures an industry's contribution to the overall economy, is expected to rise at an annualised 1.1% over the five year through 2026-27. This represents an underperformance of the wider economy, with real GDP projected to rise at an annualised 2.3% over the same period.

Real Estate Investment Trusts (REITs) have market acceptance, with the first REIT listing on the Australian Stock Exchange in 1971. Industry participation has grown over the past five years. However, the industry has also undergone some consolidation, with larger firms in the industry expanding their portfolios through acquisitions. The industry has clearly defined product segments that have remained largely stable over the past five years and exhibits moderate technological change. These factors contribute to the industry's mature life cycle stage.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

Financial Asset Investing in Australia

Superannuation Funds in Australia

2nd Tier

Consumers in Australia

Key Selling Industries

1st Tier

Real Estate Services in Australia

Facilities Management Services in Australia

Commercial Real Estate Agents in Australia

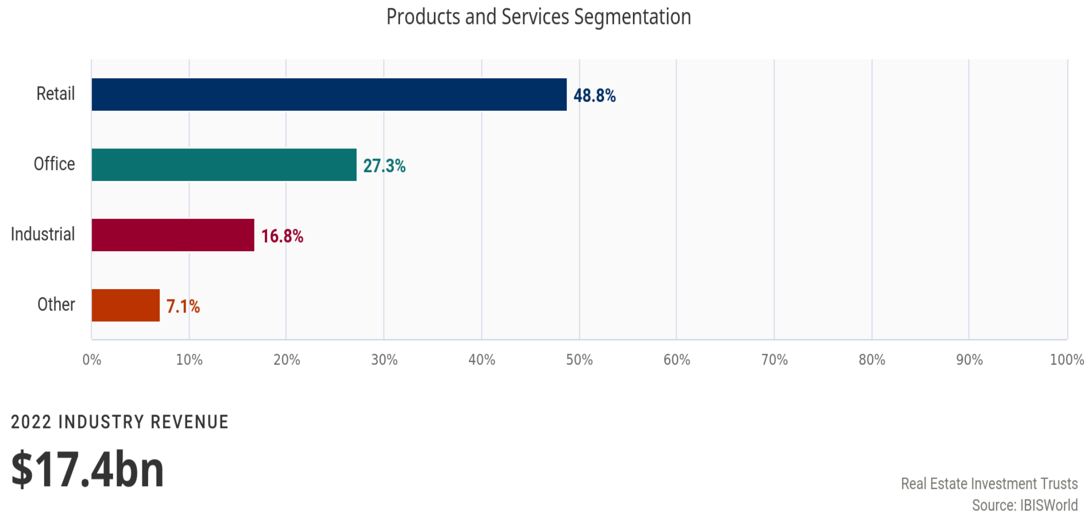
2nd Tier

Commercial and Industrial Building Construction in Australia

Institutional Building Construction in Australia

Land Development and Subdivision in Australia

Products & Services



Real estate investment trusts (REITs) can invest in either commercial or residential properties, or both.

However, firms that operate in the commercial property segment dominate the Australian market. The industry's products and services breakdown is segmented by property type and its contribution to industry revenue. Some industry firms operate across multiple product segments.

RETAIL

Retail properties represent the industry's largest product segment.

Several of the industry's largest companies operate in this segment, including Charter Hall, DEXUS, Scentre Group and Stockland. This segment also includes fuel and convenience retail properties, such as those operated by Waypoint REIT. Despite volatility and a decline in rent generated from retail properties at the height of the COVID-19 pandemic, this segment has increased slightly as a share of industry revenue over the past five years.

OFFICE

Office properties represent another major product segment.

Large firms, including DEXUS, Cromwell Property Group and Mirvac Group, and focused REITs, such as the Centuria Office REIT, operate in this product segment. Demand for prime office properties has been strong over the past five years, despite some volatility during the COVID-19 pandemic. The total number of non-manual employees in the workforce has also grown over the past five years. As a result, this segment has increased as a share of industry revenue over the past five years.

INDUSTRIAL

Industrial properties include factories and warehouses used by industrial companies, such as manufacturers.

REITs focused on this product segment include DEXUS Industria REIT and Centuria Industrial REIT. DEXUS expanded its presence in this product segment through the acquisition of the APN Property Group in 2021. This product segment has increased as a share of revenue over the past five years due to strong demand for industrial property and rising rents. Furthermore, increased uptake of online shopping has boosted demand for warehouse properties to store goods over the period.

OTHER

This segment includes rural and agricultural properties, self-storage, and hospitality venues, such as pubs.

This segment has declined as a share of industry revenue over the past five years, due to growth in other segments. Many REITs specialising in other property types are well established, such as Rural Funds Group, Hotel Property Investments and National Storage REIT. A notable entry to the industry in this product segment over the past five years have been Healthco's two REITs, which were listed on the ASX over the past two years.

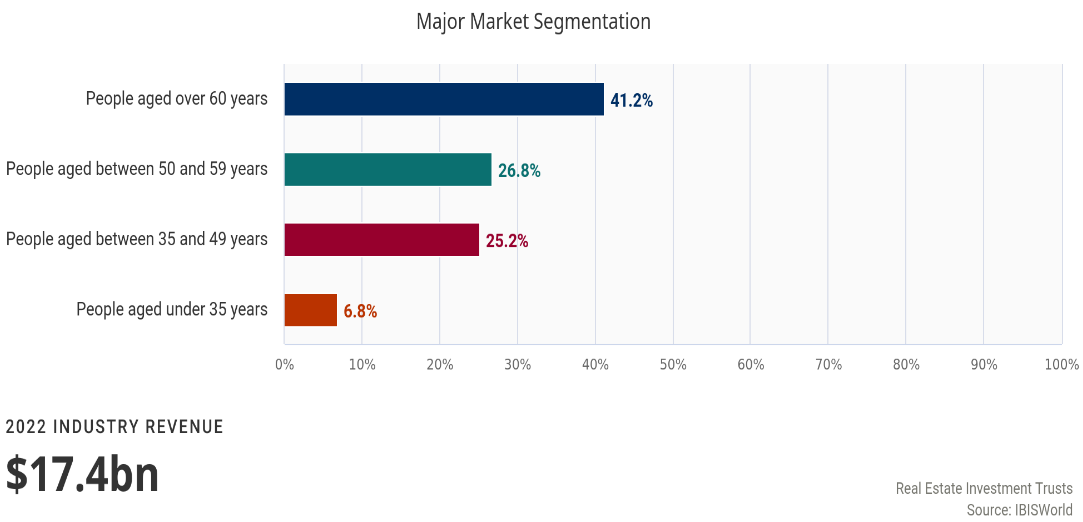
Demand Determinants

A range of factors influence industry demand.

Conditions in the wider sharemarket and property markets drive demand for real estate investment trusts (REITs) as an investment. When property prices are rising and investor sentiment is positive, investors are more likely to invest in REITs. Investors are also attracted to REITs for their higher yield relative to other investment options. Growth in superannuation fund assets also supports demand for REITs, with listed property accounting for approximately 3.4% of the superannuation sector's asset mix. Superannuation inflows have increased strongly over the past five years, particularly among industry super funds.

Conditions in the wider economy also influence demand for commercial properties owned and operated by REITs. Growth in the number of businesses, total business profit and positive business confidence typically boost demand for commercial property. However, conditions can differ among different property segments. For example, at the height of the COVID-19 pandemic, many retail businesses were forced to close, reducing demand for retail property and leading many retailers to struggle meeting rental payments. Furthermore, manufacturing activity and value of merchandise trade typically drive demand for industrial property, while business confidence and the total number of non-manual employees in the workforce affect demand for office properties.

Major Markets



The industry's major markets are broken down by age group.

Each market segment's share represents that market's estimated ownership share of real estate investment trusts (REITs). Older investors typically represent a greater share, having had a longer time to accumulate assets both within and outside of superannuation funds.

PEOPLE AGED UNDER 35 YEARS

People aged under 35 represent the industry's smallest market.

Many individuals in this market segment are students or have recently entered the workforce. As a result, they generally have a lower net worth than individuals in other market segments and have had less time to accumulate assets. Many within this segment are also saving for a house deposit. Moreover, alternative asset classes, such as cryptocurrency and exchange traded funds (ETFs), have increased in popularity among younger investors. As a result, this market has declined as a share of industry revenue over the past five years.

PEOPLE AGED BETWEEN 35 AND 49 YEARS

People aged between 35 and 49 years are expected to account for approximately one quarter of REIT ownership.

People in this market have been in the workforce for longer than people aged under 35 and may have already purchased a home. This segment is therefore likely to have larger superannuation balances than younger investors and more funds available to invest in securities, such as REITs. Nevertheless, this market has declined as a share of industry revenue over the past five years, due to strong growth among people aged over 60 years.

PEOPLE AGED BETWEEN 50 AND 59 YEARS

This segment represents the industry's second largest market.

Members in this market segment are typically near their peak earning power and have had more time to accumulate assets to invest than younger segments. This market has declined slightly as a share of industry revenue over the past five years due to stronger growth in the over 60 segment.

PEOPLE AGED OVER 60 YEARS

People aged over 60 years represent the industry's largest market.

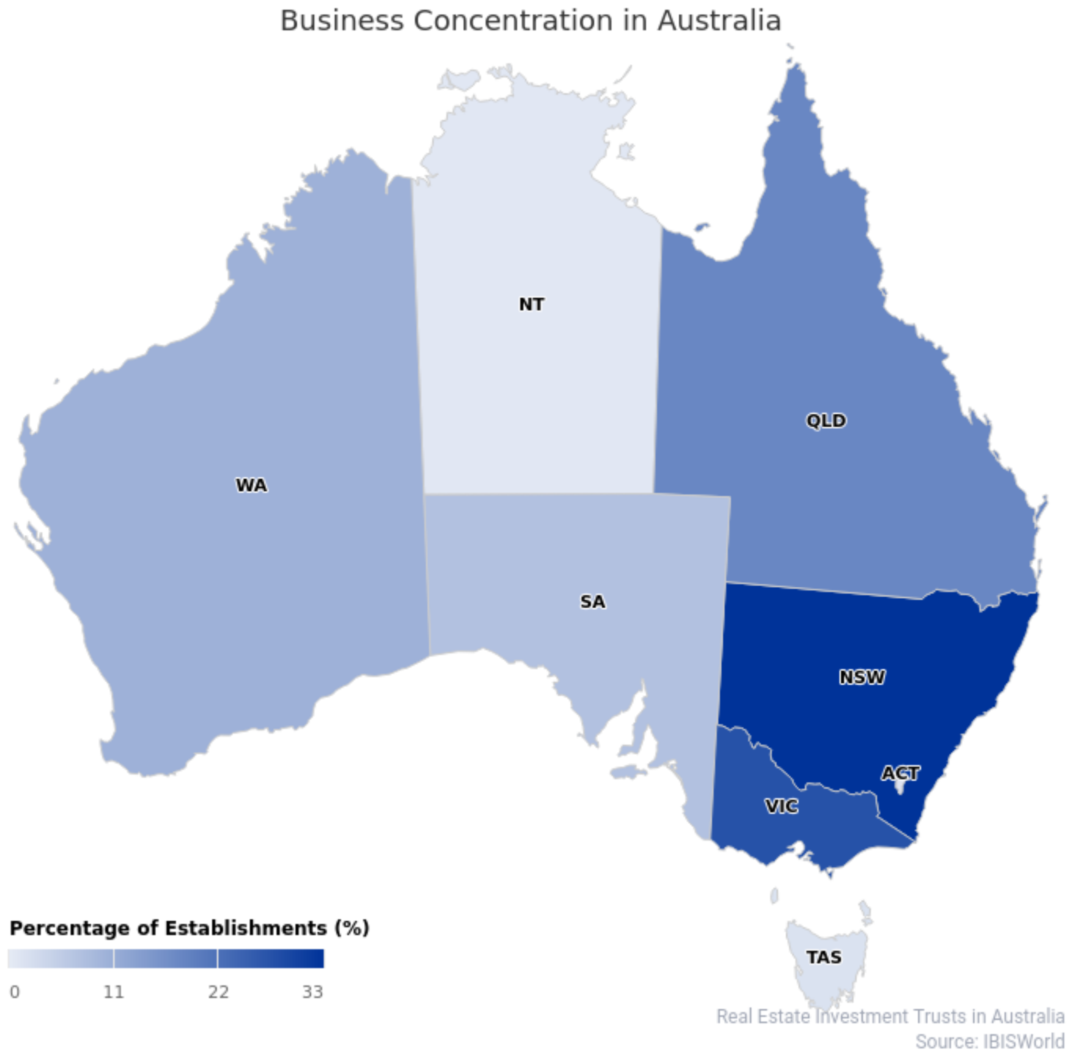
These individuals have typically had a longer working life to accumulate assets, and have greater superannuation balances than younger market segments. This market is also more likely to have direct exposure to property investments. Australia's population has been ageing, with strong growth in the population aged 60 and older over the past five years. As a result, this market has increased as a share of industry revenue over the period.

Exports in this industry are ⊘ Low and Steady

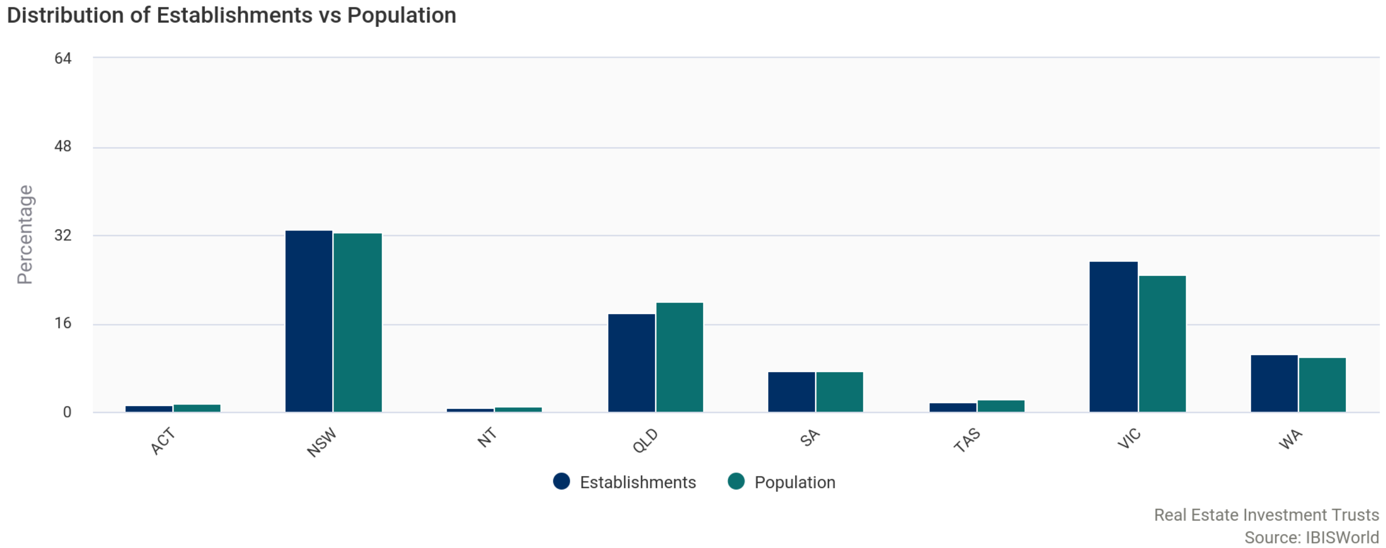
Imports in this industry are ⊘ Low and Steady

The Real Estate Investment Trusts industry does not engage in international trade. However, some Australian companies operate real estate investment trusts (REITs) or own property in other countries. For example, LendLease operates the Lendlease Global Commercial REIT, which is listed on the Singapore Stock Exchange. Some ASX-listed REITs also that focus on foreign property markets, such as the Auckland Real Estate Trust and the US Masters Residential Property Fund. However, these firms are excluded from the industry.

Business Locations

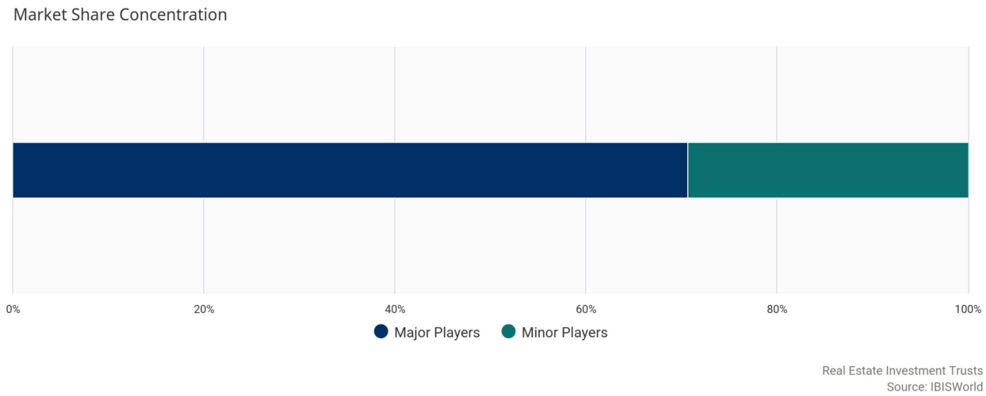


The majority of industry firms are based on the Australian east coast, with New South Wales, Victoria and Queensland accounting for almost 80% of industry establishments. Most real estate investment trusts (REITs) are headquartered in Sydney and Melbourne. Few REITs are based in other states. Some exceptions include BWP Trust, which is based in Perth; National Storage REIT, which is headquartered in Brisbane; and Rural Funds Management, which is based in the Australian Capital Territory.



Competitive Landscape

Market Share Concentration



Concentration in this industry is ⊖ Medium

The Real Estate Investment Trusts industry's market share concentration is moderate. The four largest industry firms are expected to account for over 50% of industry revenue in the current year. Market share concentration has increased over the past five years, with merger and acquisition activity leading to industry consolidation over the period. Volatile demand conditions in commercial property rental markets during the COVID-19 pandemic also created an opportunity for some larger firms to expand through acquisitions over the period.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

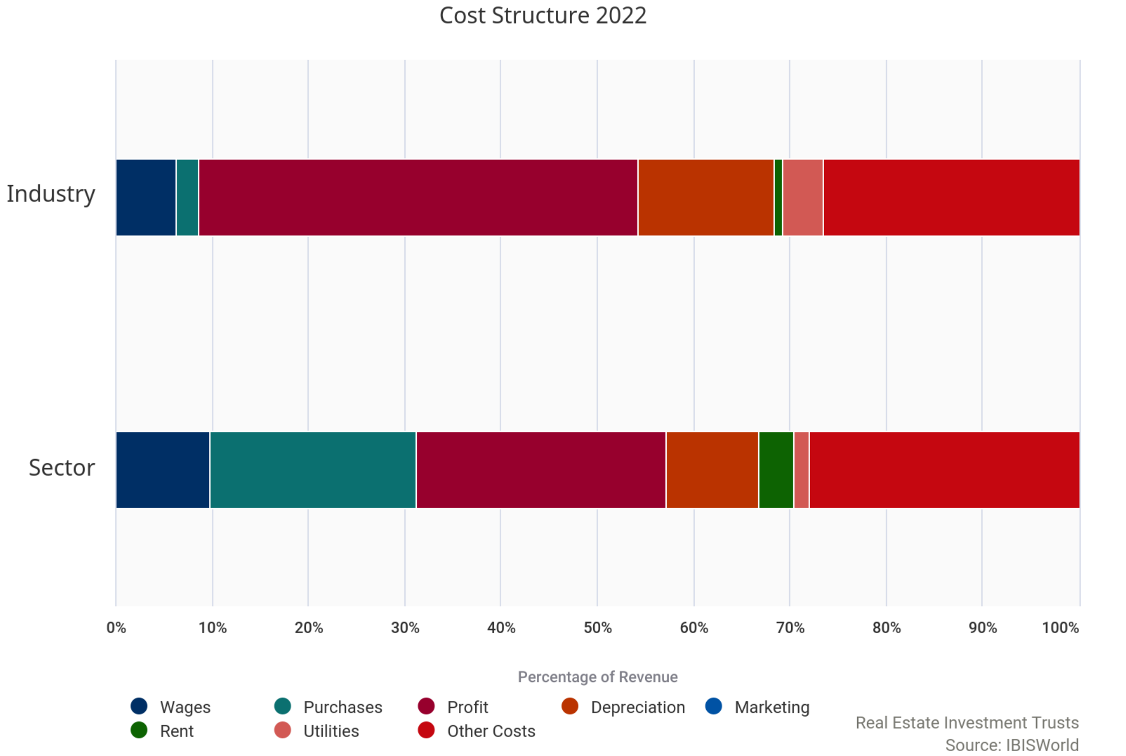
Superior financial and debt management:
Industry firms require a significant amount of equity and debt capital to fund property purchases. Operators must therefore be able to effectively manage their cashflows and gearing to expand and manage their property portfolios.

Access to highly skilled workforce:
Attracting and retaining a skilled management team is important to a REITs' success.

Capacity to objectively assess new investments:
Operators must be able to effectively and objectively assess new investment opportunities to grow and expand a REITs property portfolio.

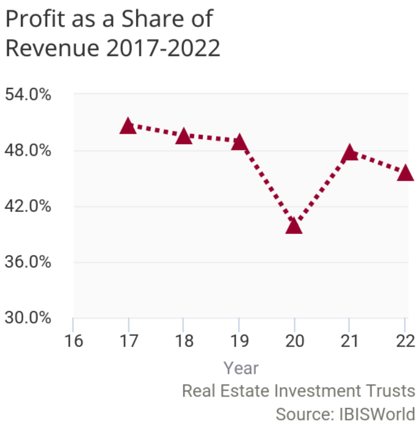
Provision of appropriate facilities:
To maintain a high occupancy rate and implement rent increases, REITs must ensure they are providing appropriate facilities to meet their tenant's needs in desirable locations.

Cost Structure Benchmarks



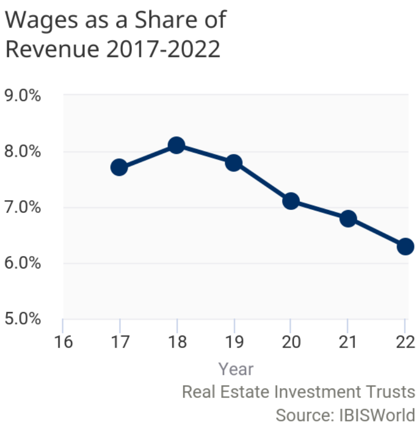
Profit

The industry generates high profit margins. However, industry profitability has fallen over the past five years. Volatile demand conditions in some downstream markets throughout the COVID-19 pandemic have had a negative effect on profitability. Labour and materials costs for firms that engage in property development are also expected to rise in the current year, placing further downward pressure on these firms' profitability.



Wages

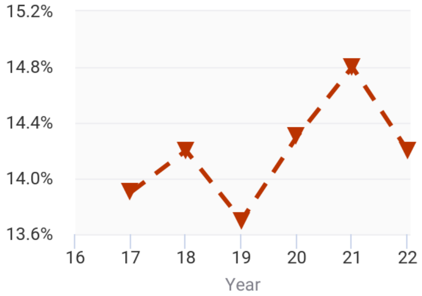
Total wage costs for the industry are low. However, the industry has a high average wage, with firms competing to attract and retain skilled employees. Consolidation among larger industry firms has caused industry employment to fall over the past five years. As a result, wage costs have fallen as a share of industry revenue over the period. Several firms have also expanded their property portfolios, while outsourcing property management functions, reducing the need to add additional staff.



Depreciation

Depreciation costs for industry firms are high. With industry firms incurring depreciation costs against buildings, office equipment and other capital items. When analysing the performance of REITs, investors typically look at funds from operations (FFO) to remove the effect of depreciation charges against an appreciating asset. FFO represents the amount of cashflow generated from the REITs operations and is calculated by adding non-cash charges, such as depreciation and amortisation, back to net income. Overall, depreciation costs have increased as a share of industry revenue over the past five years, with increased use of technology placing upward pressure on depreciation costs.

Depreciation as a Share of Revenue 2017-2022

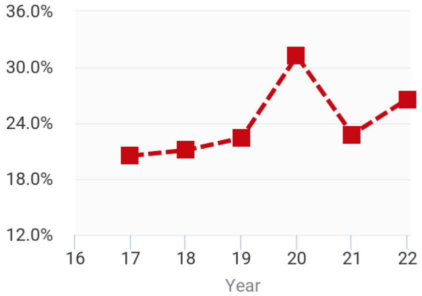


Real Estate Investment Trusts
Source: IBISWorld

Other Costs

This cost segment includes purchases, rent and utilities, administrative, marketing, professional services and other costs. Rent and utilities costs have both increased slightly as a share of industry revenue over the past five years. Purchase costs, which include office supplies and other consumables, have fallen slightly as a share of revenue over the period due to improving economies of scale. This segment also includes outsourced property management expenses, such as repairs and maintenance. Many day-to-day management functions are outsourced to property management companies. Property management outsourcing costs have increased as a share of revenue over the past five years.

Other Costs as a Share of Revenue 2017-2022



Real Estate Investment Trusts
Source: IBISWorld

Finance and insurance

Other major expenses include finance and insurance. Financing expenses can be significant for industry firms, which typically use a mix of debt and equity to finance property purchases. Interest expenses have fallen slightly as a share of industry revenue over the past five years, in line with declining interest rates. Insurance costs for industry firms can also be significant and have increased as a share of industry revenue over the past five years due to rising insurance premiums.

Basis of Competition

Competition in this industry is ⊖ Medium and the trend is Increasing

Competition in the Real Estate Investment Trusts industry is moderate.

Industry operators compete to raise funds from both retail and wholesale investors. Funds are pooled and used to purchase or develop property portfolios. Competition is based on investment returns, which are a function of management effectiveness and rate of return achieved on investments. Real estate investment trusts (REITs) also compete with other asset classes, such as shares, bonds and direct investment in property.

REITs typically compete within different property segments, although larger firms sometimes offer multiple REITs to target different segments. The main segments include office, retail and industrial property REITs. However, smaller firms have opportunities to operate in specific market niches, such as self-storage, farmland or hospitality properties. Competition has increased over the past five years, with other large investment funds, such as operators in the Superannuation Funds industry, increasingly diversifying their growing asset pool and competing with REITs to purchase properties.

Barriers to Entry

Barriers to Entry in this industry are ⊖ Medium and the trend is Steady

The Real Estate Investment Trusts industry has medium barriers to entry. Capital intensity in the industry is high, with significant capital required to purchase properties. Access to capital to develop and expand property portfolios can be difficult for operators without an operating history, which can be a significant barrier to entering the market.

Entry into the industry is easier for companies with an existing property portfolio. However, listing costs, increased reporting requirements and greater regulatory oversight are still barriers for these established firms. Regulatory costs particularly prohibit smaller firms. Other barriers to entry include attracting and retaining skilled staff experienced in financial markets and managing property portfolios. The industry's average wage is therefore high.

Barriers to Entry Checklist

Competition	Medium ⊖
Concentration	Medium ⊖
Life Cycle Stage	Mature ⊖
Technology Change	Medium ⊖
Regulation & Policy	Medium ⊖
Industry Assistance	Low ⚠

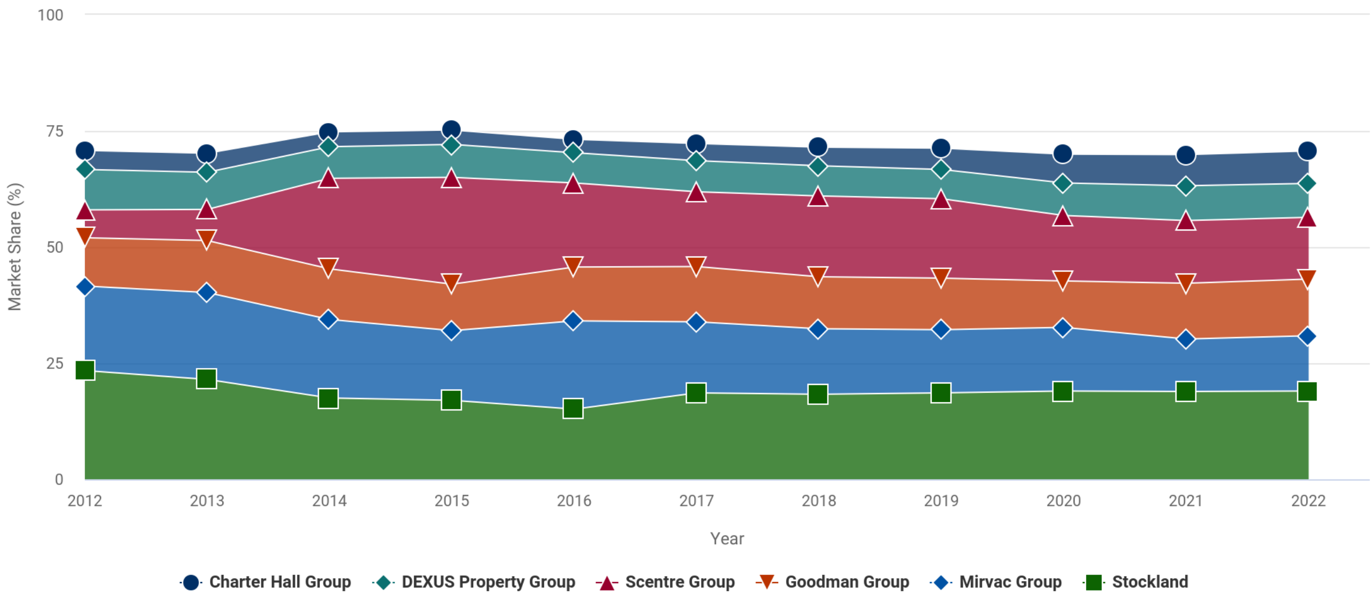
Industry Globalization

Globalization in this industry is Low and the trend is Steady

The industry exhibits a low level of globalisation. All industry firms are listed on the ASX and primarily focus on domestic property markets. While Australia has a well-developed real estate investment trust (REIT) market, foreign ownership of Australian REITs is relatively low given the size of Australia's market in a global context. For example, in 2020-21, the Australian sharemarket accounted for less than 2% of the market capitalisation of the global sharemarket. Some ASX-listed REITs focus on foreign property markets, although these firms are excluded from the industry. Some domestic companies have REITs listed on foreign stock exchanges. These are also excluded from the industry.

Major Companies

Major Players and Their Market Share 2012–2022



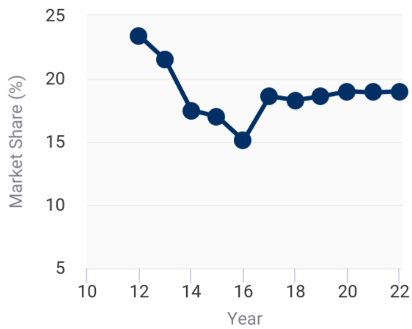
Real Estate Investment Trusts in Australia
Source: IBISWorld

Major Players

Stockland

Market Share: 19.0%

Stockland



Real Estate Investment Trusts
Source: IBISWorld

Stockland (ASX: SGP) is an Australian publicly listed entity that develops, owns, manages and invests in commercial properties. The company also develops and sells residential property. The company is headquartered in Sydney and employs 1,600 people. Stockland is a stapled security consisting of Stockland Trust and Stockland Corporation Limited.

As at March 2022, the company had occupancy rate of 99.1% across its town centres segment. The company had a weighted average lease expiry (WALE) of 3.6 years and occupancy rate of 99.0% across its logistics properties. Stockland also had a WALE of 4.6 years and occupancy rate of 90.2% across its workplace properties.

Financial performance

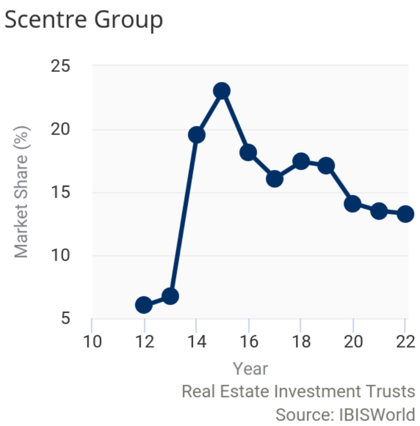
Stockland's industry-specific revenue is expected to rise at an annualised 2.8% over the five years through 2021-22, to reach $3.3 billion. This represents an outperformance of the wider industry over the same period. However, the company's profitability is anticipated have declined over the five years through 2021-22.

Stockland - industry segment performance*		
Year	Revenue ($b)	Growth (% change)
2011-12	2.04	N/C
2012-13	1.73	-15.2
2013-14	1.94	12.1
2014-15	2.20	13.4
2015-16	2.34	6.4
2016-17	2.87	22.6
2017-18	2.83	-1.4
2018-19	3.01	6.4
2019-20	3.01	0.0
2020-21	3.15	4.7
2021-22	3.30	4.8

Source: IBISWorld
Note: *Estimate

Scentre Group

Market Share: 13.3%



Scentre Group (ASX: SCG) is a publicly listed stapled entity that owns and operates 42 Westfield Living Centres across Australia and New Zealand. The group employs over 2,000 employees and is headquartered in Sydney. Scentre Group comprises one share of Scentre Group Limited, one unit of Scentre Group Trust 1, one unit of Scentre Group Trust 2, and one unit of Scentre Group Trust 3 stapled together. As at December 2021, Scentre Group had a WALE of 5.9 years, with an average lease term remaining of 8.2 years for anchor tenants, such as the major department stores and supermarkets. As at March 2022, the company had an occupancy rate of 98.7% across its portfolio.

Financial performance

Scentre Group's industry specific revenue is expected to decline at an annualised 1.4% over the five years through December 2022, to total $2.3 billion. This represents an underperformance of the wider industry over the period. Subdued retail activity during the COVID-19 pandemic weighed heavily on the company's revenue and profitability in 2020. Lockdowns caused foot traffic to fall in the company's centres, leading to declines over the five-year period.

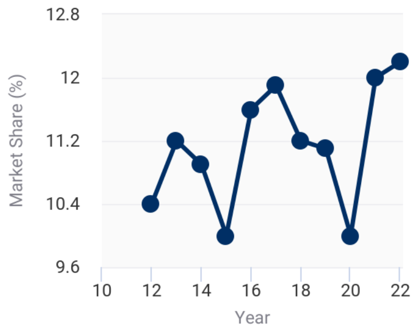
Scentre Group - industry segment performance*		
Year**	Revenue ($b)	Growth (% change)
2012	0.52	N/C
2013	0.54	3.8
2014	2.17	301.9
2015	2.97	36.9
2016	2.79	-6.1
2017	2.48	-11.1
2018	2.69	8.5
2019	2.76	2.6
2020	2.23	-19.2
2021	2.25	0.9
2022	2.31	2.7

Source: IBISWorld
Note: *Estimate **Year end December

Goodman Group

Market Share: 12.2%

Goodman Group



Real Estate Investment Trusts
Source: IBISWorld

Goodman Group (ASX: GMG) is a locally owned public company that owns, manages and develops industrial property. The group employs over 900 people, operates in Australia, New Zealand, Asia, Europe, the UK and the Americas, and is headquartered in Sydney. Goodman Group is a triple stapled entity comprising a share in Goodman Limited, a unit in Goodman Industrial Trust and CHESS Depositary Interest over an ordinary share in Goodman Logistics (HK) Limited (incorporated in Hong Kong). The group is quoted as a single security on the ASX. As at December 2021, the company had a WALE of 4.9 years and occupancy rate of 98.4% across its property portfolio.

Financial performance

Goodman Group's industry specific revenue is expected to grow at an annualised 3.0% over the five years through 2021-22, to reach $2.1 billion. This represents an outperformance of the wider industry over the same period. The company's profitability is also anticipated to rise over the period, supported by rental growth and development activity.

Goodman Group - industry segment performance*

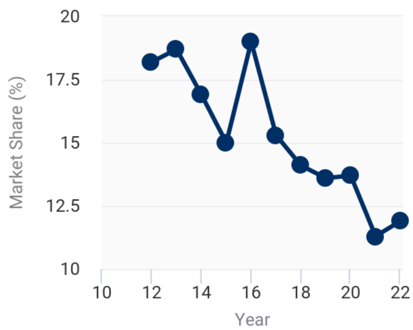
Year	Revenue ($b)	Growth (% change)
2011-12	0.91	N/C
2012-13	0.90	-1.1
2013-14	1.21	34.4
2014-15	1.29	6.6
2015-16	1.80	39.5
2016-17	1.83	1.7
2017-18	1.73	-5.5
2018-19	1.79	3.5
2019-20	1.58	-11.7
2020-21	1.99	25.9
2021-22	2.12	6.5

Source: IBISWorld
Note: *Estimate

Mirvac Group

Market Share: 11.9%

Mirvac Group



Real Estate Investment Trusts
Source: IBISWorld

Mirvac Group (ASX: MGR) is a locally owned publicly listed stapled security, involved in real estate investment and development, third-party capital management and property asset management. The company is a stapled security consisting of Mirvac Limited and Mirvac Property Trust. Mirvac Group operates across multiple property segments including office, industrial, retail and residential.

In 2020-21, the company had a WALE of 6.3 years and occupancy rate across 25 office properties, a WALE of 7.4 years and occupancy rate of 100% across 10 industrial properties, and a WALE of 3.6 years and occupancy rate of 98% across 15 retail properties (latest data available). In 2021, the company opened its first build-to-rent property in Sydney. The company has several other commercial and mixed use build-to-rent projects under development.

Financial performance

Mirvac Groups industry specific revenue is expected to fall at an annualised 2.7% over the five years through 2021-22, to total $2.1 billion. This represents an underperformance of the wider industry over the period. The company's profit margins are also anticipated to fall slightly over the period, with tight labour market conditions and rising materials costs expected to weigh on profitability in the current year.

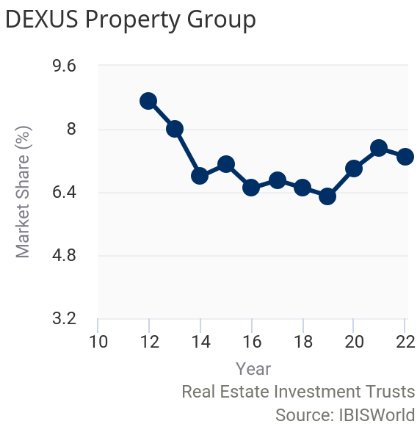
Mirvac Group - industry segment performance*

Year	Revenue ($b)	Growth (% change)
2011-12	1.59	N/C
2012-13	1.50	-5.7
2013-14	1.88	25.3
2014-15	1.94	3.2
2015-16	2.94	51.5
2016-17	2.36	-19.7
2017-18	2.18	-7.6
2018-19	2.19	0.5
2019-20	2.17	-0.9
2020-21	1.88	-13.4
2021-22	2.06	9.6

Source: IBISWorld
Note: *Estimate

DEXUS Property Group

Market Share: 7.3%



DEXUS Property Group (ASX: DXS) is a locally owned public trust that engages in office, industrial and retail property investment, and real estate fund management for investors. DEXUS is a stapled entity consisting of one unit each from DEXUS Diversified Trust, DEXUS Industrial Trust, DEXUS Operations Trust and DEXUS Office Trust. The responsible entity of the group is DEXUS Funds Management Limited.

The company manages the Dexus Industria REIT (ASX: DXI) and the Dexus Convenience Retail REIT (ASX: DXC). In May 2021, DEXUS announced plans to buy APN Property Group for $320.0 million, with the acquisition expanding the company's industrial property portfolio. The acquisition was completed in August 2021. As at December 2021, DXC had a WALE of 11.5 years and occupancy rate of 99.7% across 112 properties. DXI had a WALE of 5.9 years and 97.0% occupancy rate across 93 properties.

Financial performance

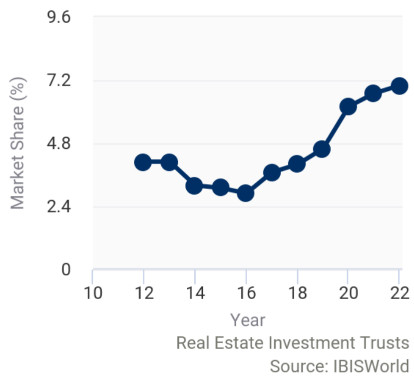
The company's industry specific revenue is expected to grow at an annualised 3.9% over the five years through 2021-22, to reach $1.3 billion. This represents an outperformance of the wider industry over the period, with revenue growth supported by the company's expanding property portfolio. This growth has also supported rising profitability over the period.

DEXUS Property Group - industry segment performance*		
Year	Revenue ($b)	Growth (% change)
2011-12	0.76	N/C
2012-13	0.64	-15.8
2013-14	0.75	17.2
2014-15	0.92	22.7
2015-16	1.01	9.8
2016-17	1.04	3.0
2017-18	1.01	-2.9
2018-19	1.02	1.0
2019-20	1.11	8.8
2020-21	1.25	12.6
2021-22	1.26	0.8

Source: IBISWorld
Note: *Estimate

Charter Hall Group

Market Share: 7.0%



Charter Hall Group (ASX: CHC) is a locally owned publicly listed property trust that generates revenue through the investment, development and management of property funds. The company operates in Australia and New Zealand and is headquartered in Sydney. The company operates multiple REITs, including the Charter Hall Social Infrastructure REIT (ASX: CQE), Charter Hall Retail REIT (ASX: CQR) and Charter Hall Long WALE REIT (ASX: CLW).

Charter Hall Group manages over 1500 properties. As at December 2021, CQE has a 100% occupancy rate and WALE of 14.6 years across its 374 properties. CQR has an occupancy rate of 98.4% and WALE of 7.3 years across 347 properties. CLW has an occupancy rate of 99.9% and WALE of 12.2 years. Overall, the company had a WALE of 8.8 years and portfolio occupancy of 98.4%. In September 2021, the company acquired ALE Property Group for $67.0 million increasing CLW's portfolio to 549 properties.

Financial performance

Charter Hall's industry specific revenue is expected to grow at an annualised 16.3% over the five years through 2021-22, to reach $1.2 billion. This represents an outperformance of the wider industry. The company's expanding property portfolio over the period has driven this growth. Expanding economies of scale have also supported improved profitability over the period.

Charter Hall - industry segment performance*		
Year	Revenue ($m)	Growth (% change)
2011-12	359.0	N/C
2012-13	331.2	-7.7
2013-14	352.3	6.4
2014-15	395.3	12.2
2015-16	447.5	13.2
2016-17	570.9	27.6
2017-18	620.7	8.7
2018-19	742.7	19.7
2019-20	988.3	33.1
2020-21	1,120.6	13.4
2021-22	1,213.7	8.3

Source: IBISWorld
Note: *Estimate

Other Companies

While larger operators typically have a diverse property portfolio across multiple segments, smaller players in the Real Estate Investment Trusts industry often focus on a single property type, such as retail, office or industrial properties. Some firms also operate in a specific market niche, such as self-storage, agricultural properties, hospitality or healthcare properties. Several smaller firms have entered the industry over the past decade.

Vicinity Centres

Market Share: 6.7%
Vicinity Centres (ASX: VCX) is a stapled entity made up of Vicinity Centres Trust and Vicinity Limited. The company operates, manages and develops retail properties. Vicinity Centres operates in Australia, employing approximately 1,320 people and is headquartered in Chadstone, Melbourne. The responsible entity of the Vicinity Centres Trust is Vicinity Centres RE Ltd. The company listed on the Australia Stock Exchange in December 2011.

Financial performance

Vicinity's revenue is expected to fall at an annualised 0.6% over the five years through 2021-22. This represents an underperformance of the wider industry over the period. The company's revenue fell over the two years through 2020-21 due to weakness in the retail sector during the COVID-19 pandemic. As at December 2021, the company's weighted average lease expiry (WALE) was 3.2 years and occupancy rate was 98.2%.

GPT Group

Market Share: 5.0%
GPT Group (ASX: GPT) is a locally owned publicly listed entity that develops, manages and invests in retail, office and logistics properties. The company was Australia's first REIT and was formed in 1971 following LendLease's divestment and listing of several of its commercial properties. GPT Group is a stapled security, consisting of a unit in General Property Trust and a share in GPT Management Holdings Limited. As at December 2021, the company has a WALE of 4.8 years and portfolio occupancy of 97.7%.

National Storage REIT

Market Share: 2.0%
National Storage REIT (ASX: NSR) is a locally owned publicly listed company that operates over 200 self-storage facilities across Australia and New Zealand. The company operates in Australia and New Zealand, and is administered from its head office in Brisbane. As at December 2021, the company had an occupancy rate of 87.6% across its Australian portfolio.

BWP Trust

Market Share: 1.0%
Bunnings Warehouse Property Trust (ASX: BWP), trading as BWP Trust, is a locally owned trust. The trust generates revenue through investment in and management of large format retail sector properties, most of which are Bunnings Warehouse properties. The company operates throughout Australia and is administered by the Wesfarmers head office in Perth. The responsible entity of the trust is BWP Management Limited, a wholly owned subsidiary of Wesfarmers Limited. As at December 2021, the company had a WALE of 4.3 years and occupancy rate of 97.6%.

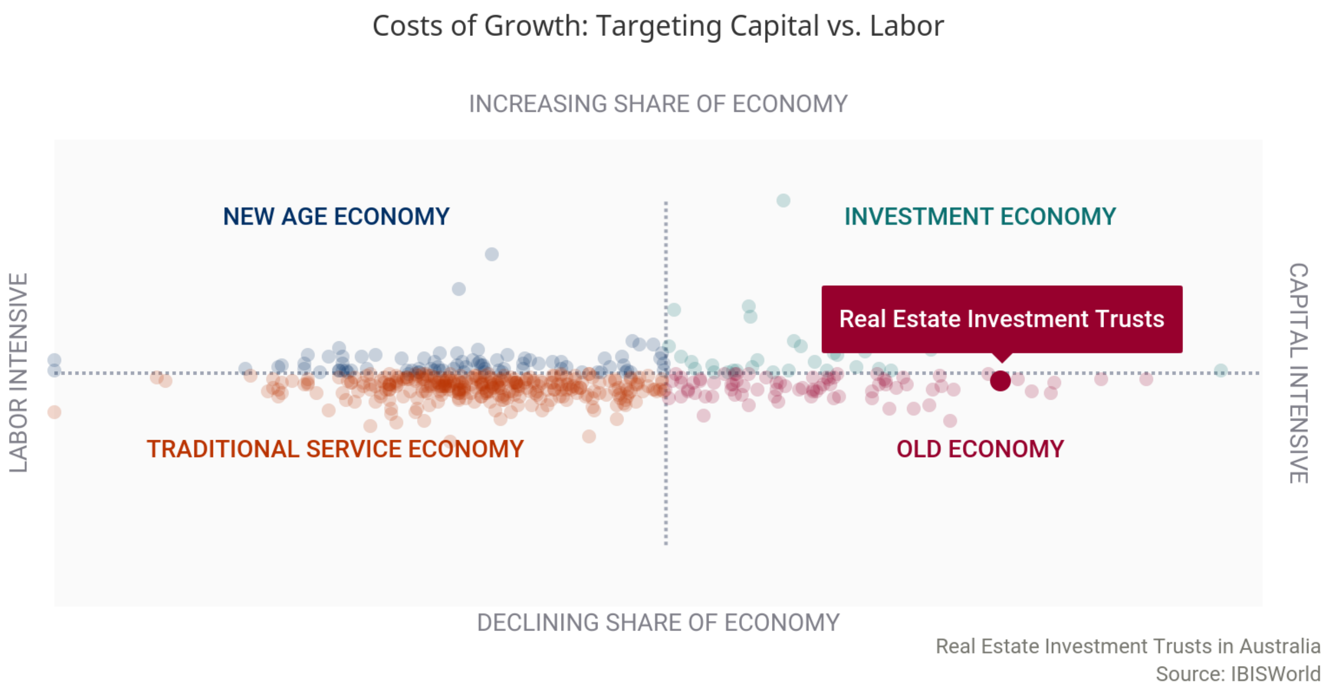
Hotel Property Investments

Market Share: 1.0%
Hotel Property Investments (ASX: HPI) is a locally owned public company that manages real estate investments in the hospitality sector. The company listed on the ASX in December 2013. Hotel Property Investments is the responsible entity for the stapled entity Hotel Property Investments Limited and Hotel Property Investments Trust. As at December 2021, the company operates 56 properties, and had a WALE of 10.6 years.

Rural Funds Management

Market Share: 1.0%
Rural Funds Management Ltd is a locally owned publicly listed company that develops and leases agricultural properties. The company employs over 100 employees and operates throughout Australia. The company operates in the industry through its management of Rural Funds Group (ASX: RFF). As at December 2021, the company has a WALE of 9.2 years.

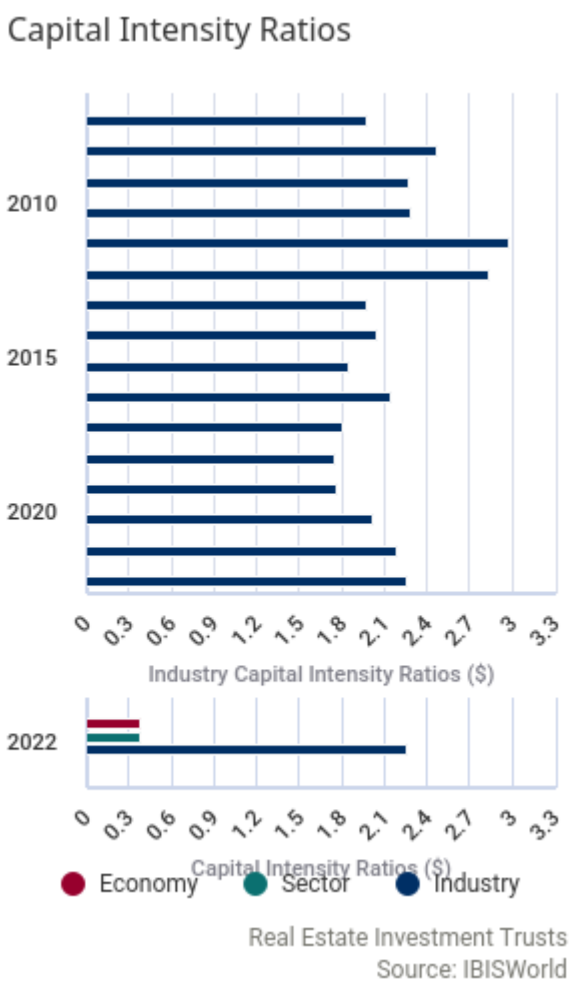
Operating Conditions



Capital Intensity

The level of capital intensity is ⚠ High

Capital intensity in the Real Estate Investment Trusts industry is high. For every dollar spent on wages in the current year, an estimated $2.25 will be invested in capital. Depreciation costs for industry firms are high. Industry firms have increased investment in technology to improve operating efficiency. Many industry firms have also expanded their property portfolios over the past five years. Industry wage costs are a low, with many smaller real estate investment trusts (REITs) requiring less than 25 employees to operate. Consolidation among industry firms has also caused industry employment to decline over the past five years.



Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruptive Effect	Description
Very Low	Rate of Innovation	Very Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
Very High	Innovation Concentration	Very Likely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
Medium	Ease of Entry	Potential	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
High	Rate of Entry	Likely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
Very High	Market Concentration	Very Likely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The rate of new patent technologies entering the industry is low, which limits the potential for innovations. A low rate does not mean that innovations cannot occur, just that the likelihood of some innovation materializing as a threat is lower. However, the concentration of technologies is high in this industry. This suggests that industry operators have exposure to potentially unforeseen areas of innovation.

The industry structure creates a moderate level of entry barriers, which is coinciding with a high rate of new competitors entering the industry. This high rate of entry creates a significant pool of potentially disruptive entities and the industry structure does not significantly affect their growth potential.

The major markets for this industry are highly concentrated, which implies that the market has a focus on key customer segments. This presents an opportunity for strategic entrance into lower-end markets or unserved markets for innovations to take on a disruptive trajectory.

Operators in the Real Estate Investment Trusts industry have faced limited technological disruption over the past five years, with their primary functions being to invest in commercial real estate and distribute earning to investors.

Technological advances have supported industry operations, helping improve communication channels with investors and allowing firms to reduce operating costs. However, new asset classes and investment options, such as non-fungible tokens (NFTs) and cryptocurrencies, may heighten competition for REITs when attracting investment funds.

The level of technology change is Medium

The Real Estate Investment Trusts industry has displayed a moderate level of technological change over the past five years.

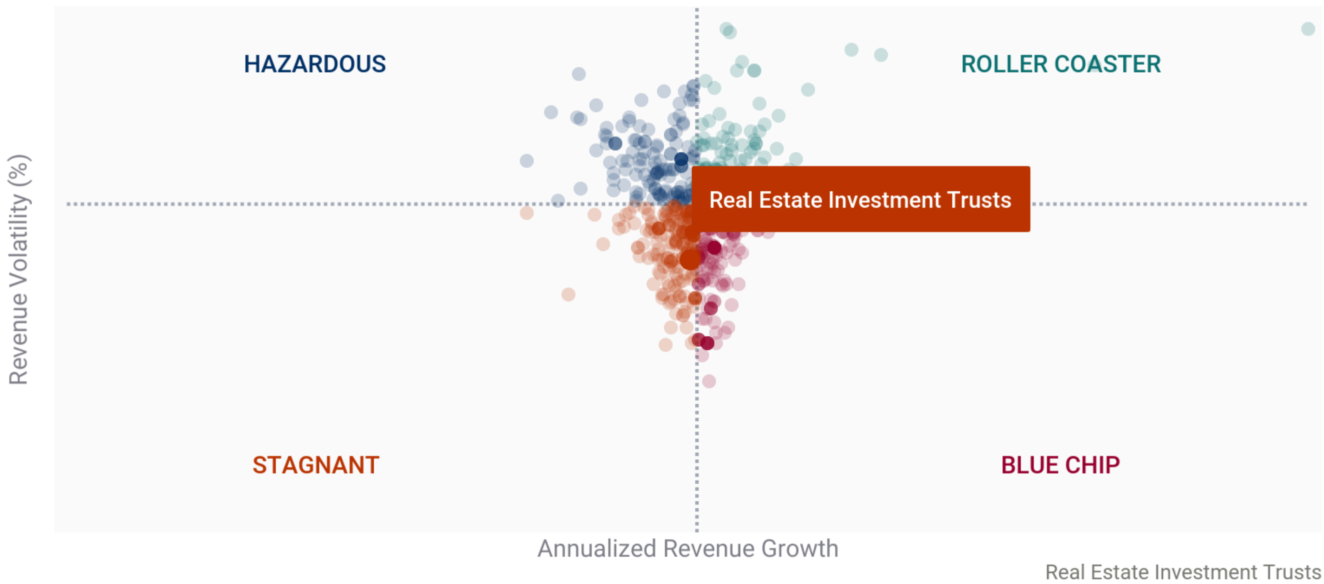
Real estate investment trusts (REITs) have benefited from developments in technology used to administer funds, such as improved communications channels for investors and streamlined functions, such as record keeping and automating invoicing. Rising public concern over environmental issues has also raised costs for firms, with some REITs required to upgrade properties to meet the increasing environmental standards of newly built properties to compete for tenants.

Environmentally friendly building solutions have also allowed some firms to reduce property operating costs, by improving energy efficiency.

Revenue Volatility

The level of volatility is ⊖ Medium

Volatility vs. Growth



Real Estate Investment Trusts
Source: IBISWorld

The Real Estate Investment Trusts industry has exhibited moderate revenue volatility over the past five years.

Industry firms generate rental income through purchasing and leasing properties, and investment income from developing or selling properties. Rental income is typically more stable, with firms preferring to maintain the stability of long weighted average lease expiries. Investment income can be very volatile and is influenced by the ability to raise capital to fund property purchases and financial market conditions. Financial and property market volatility over the past five years has also contributed to volatility in investment income. Moreover, the COVID-19 pandemic has contributed to revenue volatility over the period, with commercial property rents, particularly for retail and office properties, coming under pressure at the height of the pandemic.

Regulation & Policy

The level of regulation is ⊖ Medium and the trend is Steady

A moderate level of regulation governs the Real Estate Investment Trusts industry.

Real Estate Investment Trusts (REITs) are governed as a Managed Investment Scheme (MIS), which are regulated by the Australian Securities & Investments Commission (ASIC). REITs can operate in various structures. The majority of REITs trade as stapled securities, where two separate entities are bound together and cannot trade separately. REITs are also required to comply with ASX listing requirements.

MODERN SLAVERY ACT

In November 2018, the Federal Government passed the Modern Slavery Act 2018.

The act, which came into force on 1 January 2019, is a new reporting requirement for larger Australian businesses. Companies that generate annual consolidated revenue of at least $100.0 million have to report on how they act to mitigate the risks of modern slavery in their operations and supply chains.

The NSW Modern Slavery Act 2018 was due to come into force on 1 July 2019, but the act was delayed for further consultation on the day it was set to be implemented. After lengthy deliberation, the NSW Parliament voted in favour of proposed amendments to the NSW Act in November 2021, under which local councils meeting the reporting threshold will also need to prepare a modern slavery statement. The Modern Slavery Amendment Act 2021 (NSW) commenced on 1

January 2022.

Industry firms must act to ensure their supply chains are free from modern slavery. Firms that also engage in property development must be particularly wary, due to greater use of labour and imported building materials.

Industry Assistance

The level of industry assistance is ⚠ Low and the trend is Steady

The Real Estate Investment Trusts industry receives a low level of industry assistance.

Industry firms do not receive direct assistance. However, some firms benefited from various support mechanisms introduced to support economic activity during the COVID-19 pandemic.

Real estate investment trusts (REITs) also benefit from increases in the compulsory superannuation contribution, with a portion of inflows to super funds directed towards listed property. According to APRA data, listed property has increased as a share of the super sector asset mix, accounting for 3.4% in March 2022 (latest available data). Some industry firms also benefit from government initiatives aimed at supporting non-residential property owners to improve energy efficiency. However, in some cases this support can create additional costs for industry players.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2012-13	9,277	6,401	30.0	22.0	6,488	N/A	N/A	614	N/A
2013-14	12,631	7,263	36.0	26.0	8,760	N/A	N/A	847	N/A
2014-15	14,799	9,989	38.0	26.0	10,486	N/A	N/A	1,095	N/A
2015-16	17,775	12,407	40.0	28.0	11,234	N/A	N/A	1,162	N/A
2016-17	17,120	12,378	43.0	29.0	13,132	N/A	N/A	1,320	N/A
2017-18	16,856	12,119	44.0	29.0	13,783	N/A	N/A	1,373	N/A
2018-19	17,014	11,995	45.0	30.0	13,141	N/A	N/A	1,323	N/A
2019-20	16,361	10,030	47.0	31.0	12,823	N/A	N/A	1,168	N/A
2020-21	16,957	11,768	48.0	32.0	12,261	N/A	N/A	1,146	N/A
2021-22	17,370	11,482	45.0	34.0	11,507	N/A	N/A	1,100	N/A
2022-23	17,539	11,891	45.0	35.0	11,760	N/A	N/A	1,133	N/A
2023-24	18,122	12,196	46.0	36.0	12,303	N/A	N/A	1,199	N/A
2024-25	18,883	12,614	47.0	37.0	12,571	N/A	N/A	1,246	N/A
2025-26	19,963	13,196	48.0	38.0	12,642	N/A	N/A	1,266	N/A
2026-27	20,756	13,865	48.0	38.0	12,566	N/A	N/A	1,272	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2012-13	-7.79	18.5	11.1	10.0	31.4	N/A	N/A	34.1	N/A
2013-14	36.1	13.5	20.0	18.2	35.0	N/A	N/A	37.9	N/A
2014-15	17.2	37.5	5.55	0.00	19.7	N/A	N/A	29.3	N/A
2015-16	20.1	24.2	5.26	7.69	7.13	N/A	N/A	6.12	N/A
2016-17	-3.69	-0.24	7.50	3.57	16.9	N/A	N/A	13.6	N/A
2017-18	-1.55	-2.09	2.32	0.00	4.95	N/A	N/A	4.00	N/A
2018-19	0.93	-1.03	2.27	3.44	-4.66	N/A	N/A	-3.65	N/A
2019-20	-3.84	-16.4	4.44	3.33	-2.42	N/A	N/A	-11.7	N/A
2020-21	3.64	17.3	2.12	3.22	-4.39	N/A	N/A	-1.90	N/A
2021-22	2.43	-2.44	-6.25	6.25	-6.15	N/A	N/A	-3.98	N/A
2022-23	0.97	3.56	0.00	2.94	2.19	N/A	N/A	3.00	N/A
2023-24	3.32	2.56	2.22	2.85	4.61	N/A	N/A	5.83	N/A
2024-25	4.19	3.42	2.17	2.77	2.17	N/A	N/A	3.93	N/A
2025-26	5.71	4.61	2.12	2.70	0.56	N/A	N/A	1.57	N/A
2026-27	3.96	5.07	0.00	0.00	-0.61	N/A	N/A	0.43	N/A

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage ($)
2012-13	69.0	N/A	N/A	1,430	6.62	216	94,605
2013-14	57.5	N/A	N/A	1,442	6.70	243	96,655
2014-15	67.5	N/A	N/A	1,411	7.40	276	104,396
2015-16	69.8	N/A	N/A	1,582	6.54	281	103,409
2016-17	72.3	N/A	N/A	1,304	7.71	305	100,518
2017-18	71.9	N/A	N/A	1,223	8.14	313	99,601
2018-19	70.5	N/A	N/A	1,295	7.77	292	100,654
2019-20	61.3	N/A	N/A	1,276	7.14	273	91,055
2020-21	69.4	N/A	N/A	1,383	6.76	255	93,426
2021-22	66.1	N/A	N/A	1,510	6.33	256	95,594
2022-23	67.8	N/A	N/A	1,491	6.46	261	96,352
2023-24	67.3	N/A	N/A	1,473	6.62	267	97,472
2024-25	66.8	N/A	N/A	1,502	6.60	267	99,149
2025-26	66.1	N/A	N/A	1,579	6.34	263	100,142
2026-27	66.8	N/A	N/A	1,652	6.13	262	101,186

Figures are inflation adjusted to 2021-22

Additional Resources

Additional Resources

Australian Securities Exchange
http://www.asx.com.au

Property Council of Australia
http://www.propertycouncil.com.au

Australian Bureau of Statistics
http://www.abs.gov.au

Industry Jargon

ADJUSTED FUNDS FROM OPERATIONS (AFFO)
A measure of FFO that takes into account recurring maintenance costs and straight-lining of rents.

AUSTRALIAN REAL ESTATE INVESTMENT TRUST (A-REIT)
A specific term used to reference REITs that are listed on the ASX.

FUNDS FROM OPERATIONS (FFO)
A measure of the cash generated by a REIT. FFO equals net income plus depreciation and amortisation plus losses from property sales minus gains from property sales mins interest income.

GEARING
A measure of a company's financial leverage, which shows the amount of debt in proportion to equity capital a company uses to fund its operations.

OCCUPANCY RATE
The amount of property space occupied as a percentage of total available space.

REAL ESTATE INVESTMENT TRUST (REIT)
Publicly listed investment trusts that pool assets to purchase and manage a portfolio of properties.

RESHORE
To transfer a business back to the country in which it was originally located.

WEIGHTED AVERAGE LEASE EXPIRY (WALE)
A measure of the average expiry period of all of the leases across a property portfolio or building.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT

The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE
The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)
The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE
The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE
All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT
Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT
IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY
The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES
The gross total wages and salaries of all employees in the industry.

Call Preparation Questions

Role Specific Questions

Sales & Marketing

How does your company attract tenants?

Large companies often hold several assets, across multiple locations and product segments.

Operators can attract particular tenants through the quality of property they offer.

What markets does your company focus on?

Professional service firms represent the largest market for office properties.

Manufacturers and logistics firms represent a significant market for industrial properties.

Strategy & Operations

How do you manage your risk and exposure to different property segments?

Some larger firms manage multiple trusts focusing on different segments of the property market.

How do you monitor the performance of competitors with properties near yours?

Companies must monitor the rent prices of other properties near them to ensure they are price competitive.

However, owning property in a prime location can minimise the effects of price competition.

Technology

What new IT and data systems have you invested in recently?

Investments in automated services associated with accounts receivable have improved collection rates for industry operators.

How can you expand your investor base through online or new media?

Investors under 35 years old represent the industry's smallest market. Real estate investment trusts face increasing competition for investor funds in this market segment from other asset classes, such as cryptocurrency.

Compliance

Is your company adequately prepared for increasing environmental standards?

Industry operators have been expanding their portfolio of environmentally sustainable properties in recent years.

How is your investment vehicle regulated?

Different authorities regulate different investment vehicles.

For instance, unit trusts are overseen by ASIC.

Finance

What systems do you have in place to manage your balance sheet?

Industry firms need to maintain an appropriate level of gearing to attract further funding to expand property portfolios.

How do your profit margins compare with those of your main competitors?

Average industry profit margins are high.

Industry firms are expected to benefit from rising rents over the next five years. However, rising borrowing costs are projected to constrain growth in profitability.

External Impacts Questions

Impact: Total business profit

How do changes in business profit affect your business?

An increase in total business profit typically boosts demand for commercial property as businesses have greater capacity to expand.

Impact: 10-year bond rate

How do changes in interest rate affect your business's profitability?

Changes in the 10-year bond rate reflect expectations about interest rates.

An increase in the bond rate typically indicates that interest rates and borrowing costs for industry firms will increase. Rising borrowing costs may negatively affect a firms' profitability.

Impact: Number of businesses

How do changes in business numbers affect demand for your property mix?

Most industry firms operate in the commercial property segment.

As a result, an increase in the number of businesses typically boosts demand for commercial property, enabling industry firms to increase rents.

Internal Issues Questions

Issue: Capacity to objectively assess new investments

How does your business identify and analyse potential property acquisitions?

Real estate investment trusts can improve economies of scale and profitability if they grow their property portfolio by effectively assessing new investment opportunities.

Issue: Provision of appropriate facilities

How does you firm monitor demand trends in downstream markets?

Industry firms need to monitor tenant requirements to effectively provide appropriate facilities.

By observing demand trends in downstream markets, firms should be able to provide desirable amenities and facilities to attract new tenants.

Issue: Superior financial and debt management

What steps does your business take to ensure its gearing levels are within a desired range?

Businesses need to ensure that they use an appropriate mix of debt and equity funding to fund acquisitions.

Higher gearing may make it more difficult to attract new funding.

WHERE KNOWLEDGE IS POWER

IBISWorld helps you find the industry information you need – fast.

With our trusted research covering thousands of global industries, you'll get a quick and intelligent overview of any industry so you can get up to speed in minutes. In every report, you'll find actionable insights, comprehensive data and in-depth analysis to help you make smarter, faster business decisions. If you're not yet a member of IBISWorld, contact us at (03) 9655 3881 or info@ibisworld.com to learn more.