Property Report

Bonus Blue Chip Report

December 2025

under the radar REPORT

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under the radar report
BLUE CHIP

Bonus Report
5 December 2025

Property Bonus Report

Investing is about generating income. It's about putting your money to work. Whether it's generating income from stable and low risk assets, or in assets that have growth potential, that is, they rise and at some point, you take profits.

Many investors avoid listed property trusts because they already own home. But your residence is not an investment and there are many different kinds of properties. Your home isn't an investment because it doesn't derive any income. When you sell your home, most of the time, you'll need to buy another one.

Residential property behaves very differently from listed property trusts (REITs) because of two things: **yield** and **liquidity**. A owner occupied house produces no cash income.

If you own a rental property, you have significant running costs, eating into your income and it takes months to sell and there are high entry and exit costs.

A REIT delivers regular distributions and trades instantly and cheaply on the ASX. REITs can be a powerful diversifier in a long-term portfolio, delivering income and possibly growth, provided you understand the risks.

The question is how big a part property should play in your investment portfolio. Property as a direct investment is time consuming and expensive. There is great difficulty in buying in and exiting, which is referred to as liquidity. In contrast, the ASX provides listed property options, which are easy to buy and sell.

This is a great way to gain property exposure, but as with every investment, there are risks.

This report aims to provide you with a guide to the risks, rewards and options of investing in different REITS. Yield is one factor, but so is debt, or the leverage embedded in a REIT, as is its growth prospects. There are big diversified REITS as well as specialist REITS, which invest solely in one sector. Don't worry!

We go through the major sectors and REITS and give you our **favourite FIVE** to choose from.

RICHARD HEMMING
FOUNDER AND HEAD OF INVESTMENTS

the issue

Getting Started

Our Favourite Five

Five REITs worth considering:
> Stockland (SGP)
> Mirvac (MGR)
> Dexus Industrial REIT (DXI)
> Vicinity Centres (VCX)
> Scentre Group (SCG)

"Your home isn't an investment because it doesn't derive any income."

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Cheat Sheet!

Why REITs Matter

- **Provide 4-8% income yield, backed by real assets.**
- **Lower volatility than equities due to illiquid underlying properties.**
- **Strong diversification from residential property.**

Key Risks

- Interest rate risk
- Tenant failures
- Office sector structural decline
- High gearing (watch for >40%)

Portfolio Approach

- Own 3 REITs for balanced exposure
- Prefer low gearing (<30%)
- Favour industrial, retail, and diversified sectors
- Avoid highly leveraged or speculative structures

Our Favourite FIVE!

SGP	Stockland	Diversified	Low gearing, strong balance sheet, well-positioned for recovery.
MGR	Mirvac	Diversified	High-quality assets, strong development pipeline, diversified exposure.
DXI	Dexus Industrial REIT	Industrial	Pure exposure to the strongest property sector with tight supply and resilient tenants.
VCX	Vincinity Centres	Retail	Owns premium shopping centres; low vacancies and stable rental income.
SCG	Scentre Group	Retail	Owner of Westfield. Long leases, high foot traffic, robust anchor tenants.

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Which Property Stocks You Should Own

- Residential property behaves differently from REITs
- REITs produce income and you can trade on the market

Many investors avoid listed property trusts because they already own or rent a home.

But your residence is not an investment. Residential property behaves very differently from listed property trusts (REITs) because of two things: **yield** and **liquidity**.

A house produces no cash income and takes months to sell; a REIT produces contractual income and trades instantly on the market.

Despite these differences, property trusts can be a powerful diversifier in a long-term portfolio—provided you understand the risks.

Why Property Trusts Matter

ASX REITs share several traits with bonds:

- They pay **regular distributions**.
- They are backed by **hard assets**.
- They move slowly because real property is illiquid.

Critically they provide investors with income AND growth AND liquidity, with exposure large-scale commercial real estate: office towers, shopping centres, logistics warehouses, healthcare facilities, and more; moreover, without the need to buy properties directly.

The investment model is simple: buy a property, lease it, pay expenses, and distribute the remaining cash. Rent is typically governed by multi-year contractual leases, so income is relatively stable.

REITs provide another defensive anchor or Core for investment portfolios, to the added to the likes of ASX listed banks, diversified mining giants, utilities and health care assets.

Like every other investment, they come with risks, which we cover below.

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The Key Risks to Understand

Because property trusts have bond characteristics the big risk is interest rate movement.
Generally, down is good, up is bad. Rising interest rates increase borrowing costs, reduce cashflow, and put downward pressure on asset values.

REITs with high gearing (debt/ total assets), short debt maturities, or large refinancing requirements are most exposed. Higher bond yields also push capitalisation or 'cap' rates higher, causing valuation write-downs.
Cap rates are the expected return of a property based on the income it generates, informing how much income a property produces relative to its value and are generally in the mid-single digits as a percentage.

Cap Rate = Net Operating Income (NOI) ÷ Property Value

A **property's yield** is similar to a cap rate, referring more directly to the purchase price of the property and can be used interchangeably.

In contrast, the **distribution yield** for a REIT tell you the income return a unit holder receives at the given market rate and has nothing to do with the asset's valuation.

A REIT yielding 7% may have a 5% cap rate, the difference being the benefit of leverage, or debt within the structure.

Beyond interest rate risk, here are three key risks:

1 Tenant risk

If tenants fail or occupancy falls, distributions drop.

2 Sector demand risk

If a property type falls out of favour (e.g., office), valuations suffer.

3 Gearing risk

High debt increases sensitivity to interest rates and refinancing.

Most REIT yields sit between 4% and 8%, depending on risk.
Lower yields generally indicate safer, more in-demand assets.

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Sector Snapshot

Sector	Current Status	Yields	Notes
Industrial	Strongest segment	4-5%	e-commerce, limited supply
Retail	Resilient	5-6%	Low vacancies, stable rent
Office	Weak	7-9%	High vacancies, WFH
Healthcare	Mixed	7-8%	Tenant profitability stressed
Diversified	Stable	~5%	Balanced exposure

Listed property provides attractive income and diversification, especially in a world where real assets are increasingly valued. Select low-geared, well-managed trusts in the diverse sectors.

“To really accelerate your wealth over-time, our advice is to re-invest all dividends.

Sector Breakdown

Office

Office REITs have been hit hard by structural shifts such as work-from-home, hybrid work, and rising vacancy rates, which is reflected in their higher-than-average dividend yield of 8%. The stocks also trade at big discounts to NTA, reflecting market scepticism about how long the sector will take to stabilise.

Work from home related pressures have pushed incentives higher, reduced effective rents, and driven cap-rate expansion, resulting in write-downs across most portfolios. Asset values remain under pressure, leasing cycles are longer, and refinancing costs have risen sharply due to higher interest rates.

Importantly, these pressures are alleviating, creating investment opportunities, although at relatively high risk. ASX specialists include:

- **Centuria Office REIT (COF)**, and
- **Elanor Commercial Property Fund (ECF).**

- **Yields:** 7-9%
- **Pros:** Depressed prices; some assets still collecting stable rent.
- **Cons:** Structural headwinds, slower recovery.

Industrial (Logistics & Warehousing)

The strongest commercial property segment and the backbone of e-commerce. Industrial REITs continue to benefit from structurally high demand driven by online retail, supply-chain resilience strategies, and nearshoring of inventory. Vacancy rates remain among the lowest of any property type, underpinning strong rental growth, especially for well-located infill assets near major population centres. Limited new supply is due to higher construction costs and constrained land availability, which supports valuations enabling landlords to capture significant re-leasing spreads.

Most ASX industrial landlords are reporting robust occupancy, long weighted average lease expiries (WALE) and resilient income despite higher interest rates. The sector continues to attract both domestic and global capital, often trading at premiums to NTA. ASX specialists include:

- **Goodman Group (GMG)**
- **Charter Hall Long WALE REIT (CLW)** mixed but industrial heavy
- **Centuria Industrial REIT (CIP)**
- **Waypoint REIT (WPR)**
- **Growthpoint (GOZ)** diversified with major industrial exposure.

- **Yields:** 4-5%
- **Drivers:** Amazon, supply-chain optimisation, limited industrial land near major cities.
- **Pros:** High demand, low vacancy.
- **Cons:** Expensive; priced for strength.

Retail

A surprisingly resilient sector, even through inflationary periods. Supermarket-anchored neighbourhood centres, in particular, have shown strong foot traffic and steady tenant demand due to their non-discretionary focus. While discretionary retail has faced margin pressure, landlords have generally maintained high occupancy and stable income. Inflation has supported rent escalations in many leases; consumer spending has held up better than expected.

Large regional malls continue to recover as tourism, entertainment, and dining traffic normalise, though specialty tenants remain more sensitive to cost pressures. Overall, retail REITs have demonstrated lower volatility than office and stronger income certainty than expected in a high-rate environment. ASX specialists include:

- **Scentre Group (SCG)**
- **Vicinity (VCX)**
- **Charter Hall Retail (CQR)**
- **Region Group (RGN)**
- **HomeCo Daily Needs REIT (HDN)**

☑ **Yields:** 5-6%

☑ **Pros:** Low vacancies; major shopping centres replace failed tenants quickly.

☑ **Cons:** Sensitive to consumer spending cycles.

Healthcare

Historically defensive, but post-COVID pressures have exposed weaknesses. Has exposure across hospitals, pathology, imaging, and aged care. All have faced rising labour costs, staff shortages, and slower recovery in elective surgery volumes. These pressures have flowed through to landlords in the form of lower tenant profitability, occasional renegotiations, and longer leasing cycles.

Despite this, healthcare property remains supported by long-term demographic tailwinds, including ageing populations, chronic disease, and growing demand for out-of-hospital treatment. Many assets feature long leases and high-quality tenant covenants, which anchor rent stability. Inflation-linked rent reviews have also supported income growth, although some operators are pushing back on large annual increases.

Valuations have been more stable than office and retail but not immune to rising cap rates; several healthcare REITs have seen modest write-downs as bond yields climbed. Investor appetite remains strong for essential-service assets, particularly medical centres, hospitals, and day surgeries with strong catchments and high barriers to entry. ASX names include:

- **HealthCo Healthcare & Wellness REIT (HCW)** diversified exposure across hospitals, primary care, childcare, and life sciences,
- **Arena REIT (ARF)** not purely healthcare, but significant healthcare-adjacent exposure through early learning and care facilities with long leases and CPI-linked escalations.

☑ **Yields:** 4-5%

☑ **Pros:** High demand, low vacancy.

☑ **Cons:** Expensive; priced for strength.

The all in one option

ASX Diversified REITs

Mixed portfolios across office, industrial, retail and residential. A core part of the ASX property landscape due to their scale, liquidity, and relatively reliable income profiles, appealing to investors seeking broad real-estate exposure without the sector-specific risks of pure-play office or retail trusts.

This model has been particularly valuable in the current environment, where industrial has been strong, retail has been resilient, and office has been under significant pressure. Some diversified groups carry more ambitious development pipelines, which can be sensitive to construction costs and funding markets.

- **Yields:** 5%
- **Pros:** Stability, reduced sector-specific risk
- **Cons:** Don't offer concentrated exposure to outperforming sectors
- **Our favourites:** include **Stockland (SGP)** and **Mirvac (MGR)**

Investing directly in the manager

Property Fund Managers

These are not REITs; they manage property for fees. There are times when these companies are good value, but you need to wait for the stock to come to you, rather than chasing it. You are making a bet on a management at a discount and that this discount will diminish. This is something you should only do if you follow management teams very closely.

Goodman Group (GMG)
Global industrial leader, extremely low gearing, data centre expansion.
Yield <1%—investors buy for growth.
Charter Hall (CHC)
One of Australia's largest. Strong performance driven by sector recovery and FUM growth.
Centuria (CNI)
Mid-sized, more leveraged to growth than Charter Hall. Solid management.
HMC Capital (HMC)
Rapid expansion has raised concerns—market sees parallels to past over-geared managers.

Our 5 favourite REITs

Ticker	Name	Sector	Yield (approx)	Gearing	Investment Appeal
SGP	Stockland	Diversified	~5%	~25%	Strong balance sheet, recovery optionality, high-quality residential & commercial exposure
MGR	Mirvac	Diversified	~4.5–5%	Low–mid 20s	Premium assets, strong management, development pipeline
DXI	Dexus Industrial REIT	Industrial	~5%	~30%	Exposure to best-performing property segment; low vacancies, e-commerce tailwinds
VCX	Vicinity Centres	Retail	~5.5%	~30%	High-quality shopping centres, low vacancy, stable rent growth
SCG	Scentre Group	Retail	~6%	Mid–30s	Westfield ownership, strong cash flow, resilient tenant mix

Investing tips

Gearing

Bigger Returns but with big risk

In the GFC, trusts with **40–50% debt** collapsed (Centro, Babcock & Brown).
Today: most sit in the **high 20s to low 40s**.

Safe zone: under 30%
Warning zone: high 30s to 40%+

How many should you own?

THREE REITs is usually enough for diversification. Focus on:

- Low gearing
- Strong management
- High-quality assets
- Exposure to industrial, retail, or diversified sectors

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