Australian Unity A-REIT Fund

Fund Update
31 March 2025

The Fund invests in a portfolio of select Australian Real Estate Investment Trusts (A-REITs), aiming to deliver a total return, consisting of income and capital growth, above the S&P/ASX300 A-REIT Accumulation Index over the medium to long term.

Performance as at 31 March 2025

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	1.24	5.27	6.15	6.69	10.67	10.89	10.80
Growth return	(0.04)	(6.52)	(5.68)	4.93	(5.89)	(5.84)	(1.56)
Total return	1.20	(1.25)	0.47	11.62	4.78	5.05	9.24
S&P/ASX300 A-REIT Accumulation Index	(6.55)	(5.37)	3.27	13.79	7.41	6.92	10.52

Inception date for performance calculations is 31 July 2011.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

How the listed property market performed

Global politics continued to dominate the first quarter of 2025, with the Trump administrations' recent 'Liberation Day' tariffs triggering significant volatility across equity and capital markets, to levels not seen since the COVID-19 pandemic. While the imposition of tariffs had been widely telegraphed, the levels announced on the 2nd of April 2025, were substantially above those preconceived and markets reacted severely. The Trump administration has since announced a 90 day pause to reciprocal tariffs for all trading partners except China, which has been favourably received by markets, however considerable uncertainty remains over what future policy actions of the United States (US) Government will take. As a result, recession fears in the US continue to persist with some market participants currently forecasting that US central bank could deliver more rate cuts than previously anticipated.

Domestically, 2025 started positively with inflation continuing to trend lower. Headline inflation reduced to 2.4% in the December quarter, down from 2.8% in the September quarter, providing support to the RBA at their February 2025 meeting to undertake their first interest rate cut since November 2020. GDP across the December 2024 quarter increased by 0.6% and 1.3% for the year. The Australian economy continues to be heavily supported by the public sector with Government spending and investment comprising 26.4% of GDP in the December quarter.

Looking forward, attention in the short term will be focused on the outcome of the Australian Federal election which will be held in early May 2025. Noting the divergent policies around fiscal spending and cost of living measures, the outcome will likely represent a major influence in the RBA's thought process regarding further rate cuts in 2025. In their April 2025 meeting, the RBA held the cash rate at 4.1% highlighting the continued tightness of the labour market, wage pressures and potential inflationary impacts of newly implemented tariffs. Given recent market volatility, many economic commentators have updated their forecasts, suggesting the RBA could cut rates by as much as 50bps as early as May 2025, with a possible three further cuts over the remainder of 2025. Should such cuts materialise, this could prove positive for equities and capital markets, encouraging growth and reducing debt costs.

While the cautious optimism that greeted Australian commercial property markets at the start of 2025 is likely to have been tempered somewhat by recent macro-economic events, the potential implications for the direct real estate sector following the US's trade tariff adjustments, remains to be seen. Uncertainty is likely to continue in the short term which could impact leasing and transactional decision timings, however prior tailwinds remain in place for several real estate sub-sectors including continued national population growth and muted new construction supply. Transactional activity over the first quarter of 2025 was strong with MSCI reporting the rolling 12-month volume of deals across all commercial real estate sectors to 31 March 2025 was up 62 per cent to $48.1 billion. This acceleration in activity has been supported by liquidity for larger value assets which pleasingly has seen several Sydney office assets transact, providing welcome value support to this sector of the market. Further, the relative economic stability of Australia combined with a weakening Australian dollar is likely to continue to provide support for international investor interest in the Australian commercial property market, a stakeholder group who MSCI reports accounted for 35% of commercial property transactions in Australia across the first 3 months of 2025.

For the quarter ending 31 March 2025, the Australian listed property sector, as measured by the S&P/ASX 300 A-REIT Accumulation Index (A-REIT Index), returned negative 6.6% underperforming the broader equities market as measured by the S&P/ASX 300 Accumulation Index which returned negative 2.9%. Over the 12 months to 31 March 2025, A-REITs have underperformed with the A-REIT Index returning negative 5.4% compared to the S&P/ASX 300 Accumulation Index market return of positive 2.6% following strong performance across Financials, Utilities and Industrials sectors.

Over the quarter, the negative performance of the A-REIT index heavily influenced by the negative performance of its largest contributor, Goodman Group (GMG) which returned negative 20.2% following a discounted equity raise in February 2025 and wider challenges experienced by several data centre focused stocks, a market to which Goodman is becoming increasingly focused. Other laggards for the sector this period include newly Index included Data Centre focused Digico Infrastructure REIT (DGT), which returned negative 32.6% as well as Healthcare focused HealthCo Healthcare and Wellness REIT (HCW), Fund Manager Centuria Capital (CNI) and Childcare focused Arena REIT (ARF) which returned negative 13.2%, negative 10.4% and negative 10.2% respectively.

Despite the overall negative return of the Index, returns from the majority of index participants were positive over the March 2025 quarter. Retail sector stocks all performed positively with Charter Hall Retail (CQR) the standout, returning 13.7% following the completion of its takeout of Hotel Property Investments (HPI) and continued investor support for defensive, non-discretionary focused retail assets. Following upgraded guidance news earlier in the quarter both Fund Manager Charter Hall Group (CHC) and residential land lease focused Ingenia Communities Group (INA) recorded positive total returns for the period of 12.8% and 19.4% respectively, while the potential emergence of some initial green shoots for the office sector saw both Dexus (DXS) and Mirvac (MGR) post positive returns of 6.3% and 11.5% respectively.

February 2025 witnessed A-REIT reporting season with much of the sector providing half year performance updates. While equity market volatility over the month of February was elevated, overall, A-REIT results were robust with JP Morgan reporting average consensus A-REIT earnings revised 1.1% higher through the season. At an individual stock level, the headline story was the unforeseen announcement by Goodman Group (GMG) of a record $4.4bn equity raise at a 7% discount to its last closing price prior. The raising, the largest ever conducted by an Australian REIT, was undertaken to fund an expected increase in development activity of its data centre asset pipeline. This after GMG continually flagged to the market at prior reporting seasons it had enough capital sources to not require raising equity. The discounted raise together with a tapering in prior market exuberance for the data centre sector saw GMG return negative 14.1% through February 2025.

Elsewhere A-REIT management teams were more positive on the sector having weathered the recent challenging times and seeing potential for further interest rate cuts following the February 2025 reduction. Asset valuations appear to have troughed with some positive valuation movements noted in the retail and industrial sectors as capitalisation rates stablised for most participants, with Bunnings Warehouse Properties (BWP) a notable standout seeing cap rate compression of 11bps over the half year to December 2024. The Office sector continued to see some negative valuation movements however on a positive note the rate of decline has reduced, and evidence is emerging that the office sector has possibly reached cyclical lows with occupancy levels holding, incentive levels appeared to plateau and elevated build costings limiting the risk of additional supply.

The A-REIT sector (A-REIT Index) is currently trading at a c.3.6% FY25 estimated dividend per share yield and a c.6.3% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, HMC Capital and Goodman Group from the equation as these have a large portion of non-rental earnings/assets (i.e. development and funds management businesses) and their market pricing can deviate substantially from NTA backing.

Outlook

In general terms, commercial property returns over the past few years had been strongly influenced by substantial property yield compression and a low-interest rate environment, however since 2022 this dynamic began to unwind impacting returns. Listed markets are increasingly looking beyond the recent interest rate peak and towards property yield stabilisation. In the near term listed market volatility is set to continue, while returns moving forward are likely to be increasingly guided by underlying property fundamentals.

Top 10 A-REIT holdings

Stock	Portfolio %
Scentre Group Limited	10.63
Vicinity Centres	7.84
Stockland	7.58
Dexus	6.73
Goodman Group	6.40
Mirvac Group	5.57
Charter Hall Retail REIT	4.67
GPT Group	4.59
Region Group	4.35
Growthpoint Properties Australia	3.54

Asset Allocation

Asset class	Portfolio %
Listed Property	97.98
Cash	2.02

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