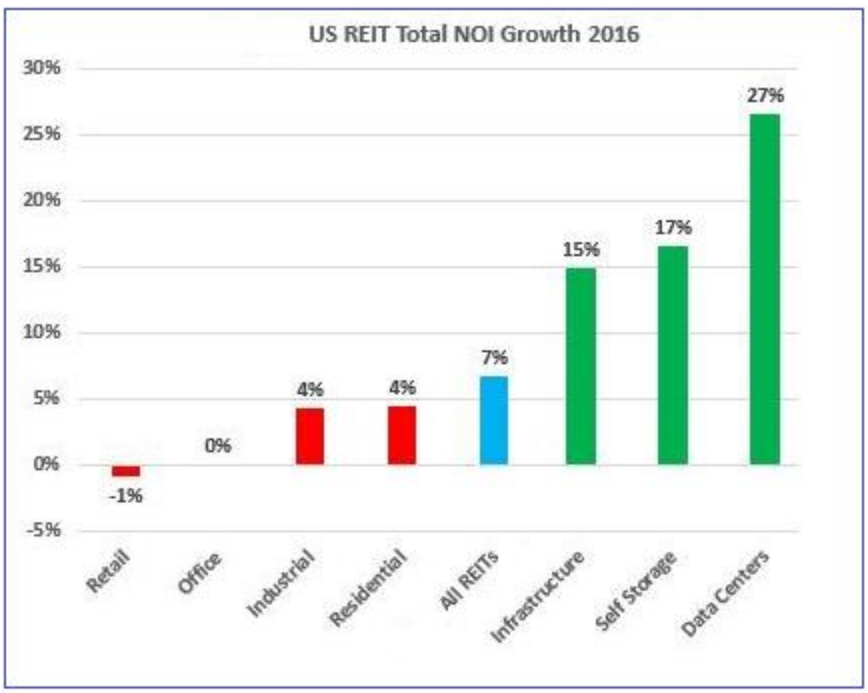
Specialty REIT growth outpacing traditional REITs

By Mark Mayer, B.Com (Hons) – March 2017

Specialty REITs collect rent from their tenants in a similar manner to that of the traditional REIT managers but it is the unique mix of property types that differentiate the two. Properties include amongst others, Data Centres, Communication Towers and Self-storage facilities.

The traditional "Big Four" REIT sectors being Retail, Industrial, Residential and Office have performed well since their lows of 2009. The specialty REITs have turned in performances that have surpassed these sectors by a significant margin and as a result, are commanding higher ratings and the attention of investors.

In 2016 US REITs saw a 7% growth in Net Operating Income with traditional REITs delivering a below average 3%. This is in stark contrast to the 16% average achieved by the specialty sectors (in green below).



Data source: www.cpexecutive.com

Factors Contributing to Growth Differentials

- The majority of traditional property REITs are in a mature phase of their growth cycle. Thus, they are finding "needle moving" accretive acquisitions more difficult to come by.

- Specialty REITs are benefitting from growth off a lower base relative to their often larger, more cumbersome counterparts.

- Insatiable demand for particular rental facilities is another factor playing into the hands of specialist REITs. Data Centres in particular are experiencing rapid growth and in many cases they cannot build their facilities fast enough to keep pace with the markets' requirements.

Stock-picking still needed among specialist REITs

The sheer scale of Data Centre properties, cooling requirements, back-up electricity infrastructure and Fort-Knox-like security make this sector unlike any other. Thus managing such a facility and selecting a strategic niche is paramount to the long term success of a particular Data Centre REIT.

Whilst demand continues to propel growth in this sector, it is essential for portfolio managers to understand and select the management strategy that will maximise returns over the long term. To this end, diligent research, a deep understanding of the business and stock picking is a prerequisite.

For instance CyrusOne (Code: CONE) has demonstrated an ability to build facilities at a lower cost and in a shorter time than their competitors, giving them a significant competitive edge. By contrast, Equinix (Code: EQIX) has ventured beyond the US and has become a global player. This is particularly attractive to multinationals who need data to be collected and stored in numerous locations around the globe.

To conclude, our benchmark agnostic, Growth at a Reasonable Price (GARP) approach positions Reitway Global well to optimise REIT selection and assign the appropriate weightings in our portfolios.

Disclosure: The author is currently invested in global REITs through the Reitway BCI Global Property Fund. Contact details: markm@reitwayglobal.com

References: "Specialty REITs Eating More of the Pie" by David Dent (www.cpexecutive.com)