

# Fundamental Analysis of Listed Property Trusts

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**ASX**  
AUSTRALIAN STOCK EXCHANGE

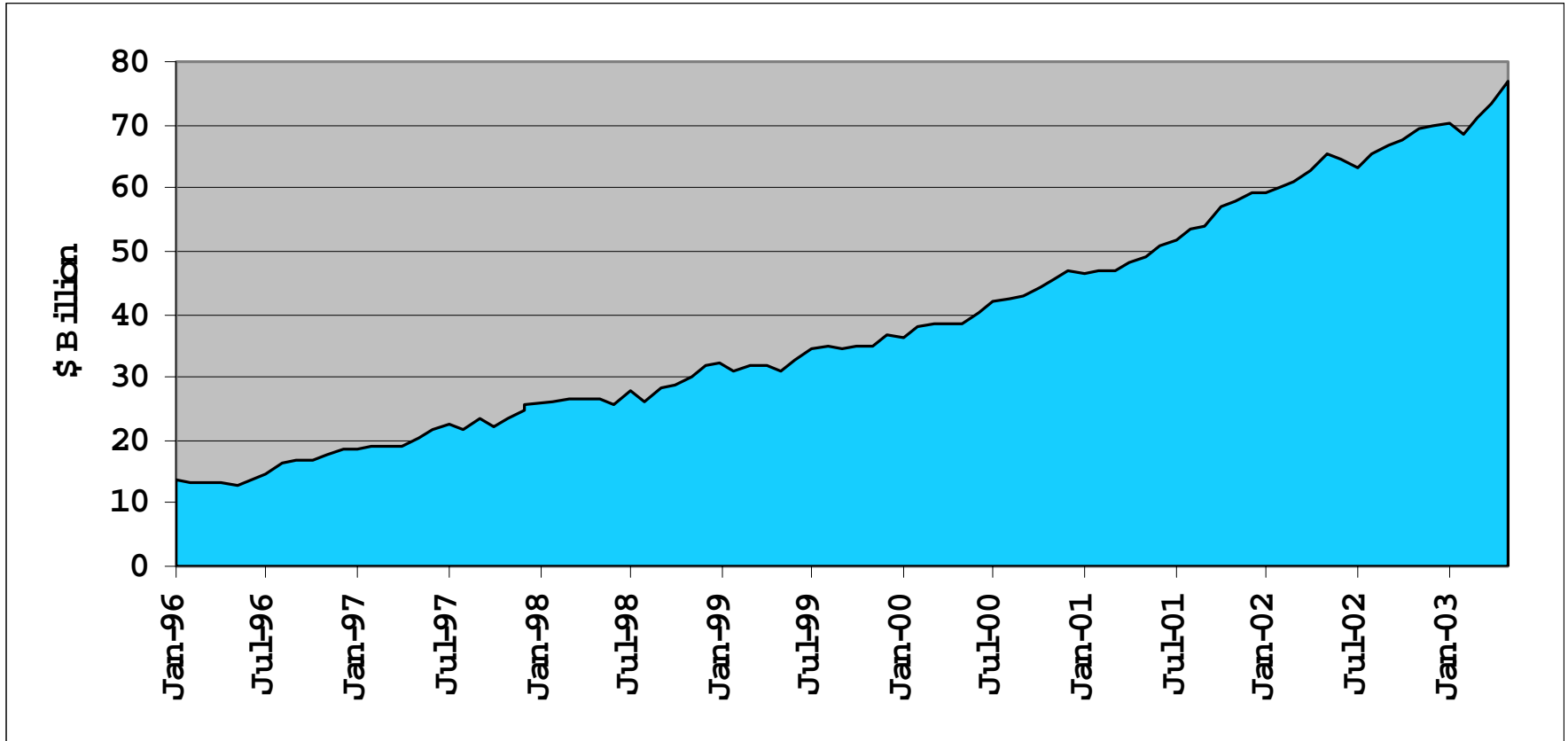
# Agenda

- **LPTs and Listed Managed Investments (LMIs)**
- **What are LPTs?**
- **Characteristics of LPTs**
- **Comparison to Residential Property**
- **Structure of LPTs**
- **Sector Profile**
- **Typical Property Selection Process**
- **Current Trends and Outlook**
- **Upcoming Floats**

# Listed Managed Investments (LMIs)

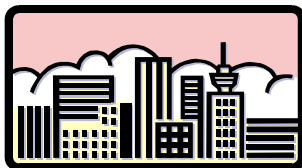
Type	Number	Size
<b>Property Trusts</b>	<b>49</b>	<b>\$55b</b>
Investment Companies	33	\$9b
Infrastructure Funds	5	\$9b
Exchange Traded Funds	10	\$600m
Pooled Development Funds	10	\$300m
Absolute Return Funds	4	\$35m

# LMI Sector Growth

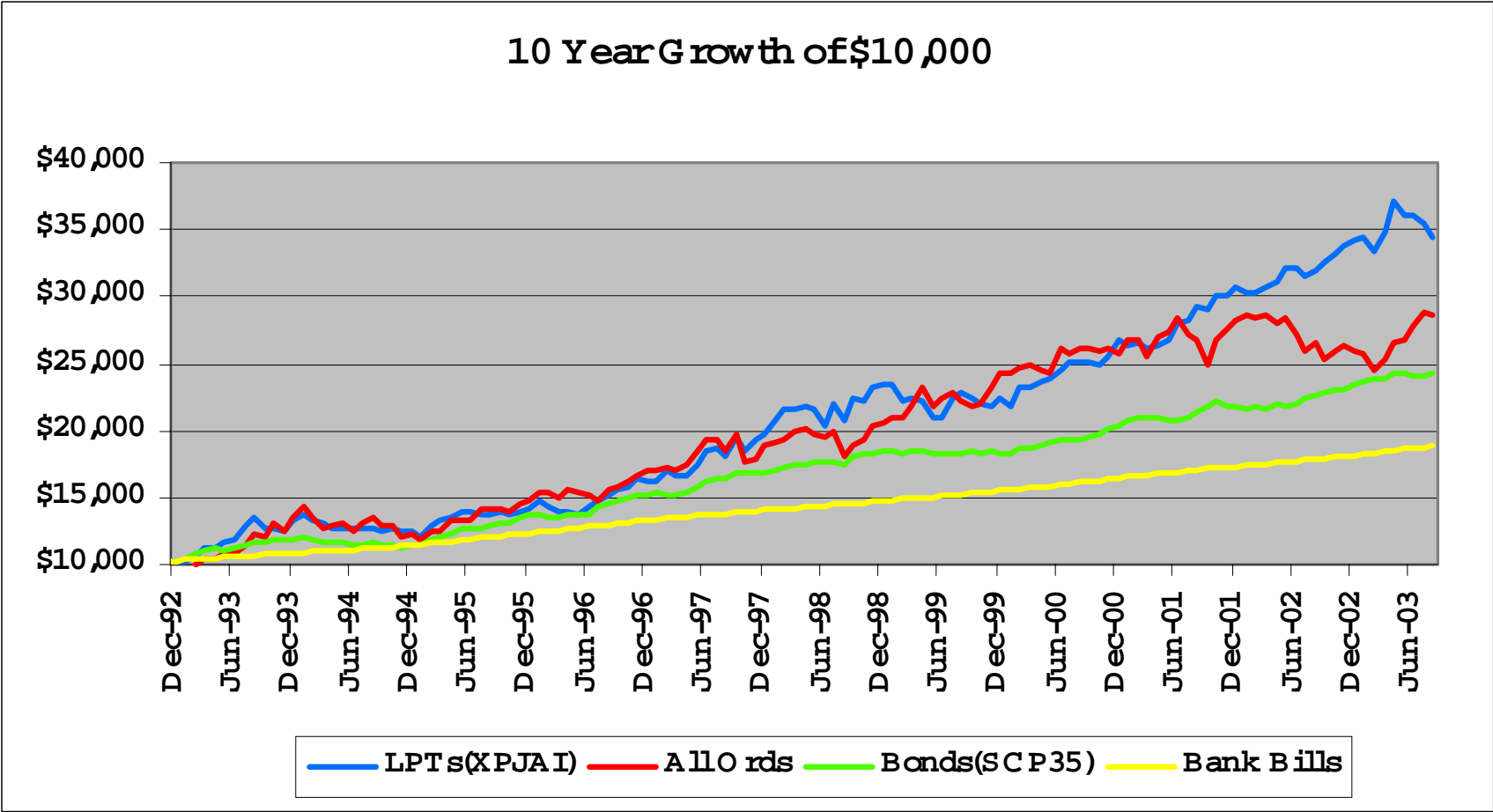


# What are LPTs?

- **High grade diversified commercial property exposure**
- **Office, industrial, retail, hotel, international or diversified**
- **Solid income from underlying leases**
- **Capital growth**
- **Traded on ASX**



# LPT Performance



# Characteristics of LPTs

- Stable, secure, attractive yields with growth
- Transparent structures
- Access to ownership of investment grade property
- Diversity of product
- Professional management & high level of research
- Tax deferred components (P.T.O)

# Tax deferred distributions

## Example:

- **\$10,000 investment @ 8% yield and 100% deferred**
- **\$800 income per year over 5 years**
- **New cost base \$6000**
- **Sell on market 5 years later = \$4000 profit**
- **CGT eligibility =  $\$4000 \times \frac{1}{2} \times 40\%$**
- **Effectively means investor pays half the tax they would have ordinarily**
- **Investor controls the tax trigger**



# Comparison to Residential

## **LPTs:**

- **Liquidity**
- **Daily pricing**
- **Taxation benefits**
- **Pooling of funds to gain efficiencies and scale**
- **Diversification benefits**
- **6 – 10% net income yield**
- **2 – 5% growth & low risk**
- **Value added management**
- **Low transaction costs**

## **Residential property:**

- **Relatively illiquid**
- **Pricing on sale**
- **Taxation benefits**
- **Confined to assets within financial means**
- **Diversification difficult to achieve**
- **2 - 4% income yield**
- **High growth expectation**
- **Residential property management**
- **High transaction costs**

# LPT structures

## 1. Trust Structure

- Hold the portfolio of property assets and distribute the rents
- Eg. Westfield Trust

## 2. Stapled Structure

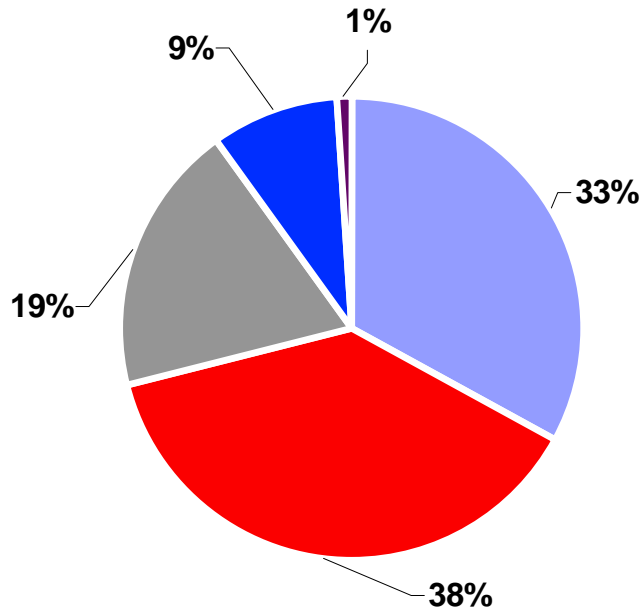
- Hold the portfolio of property assets and distribute the rents + exposure to the management company
- Eg. Centro Properties Group

# Sector Profile

- **Total Market Capitalisation of \$55b**
- **Australia's LPT market is a world leader**
- **ASX LPTs make up 8% of world's listed real estate**
- **Highly skilled management teams**
- **Stable regulatory environment**
- **Liquidity on ASX**

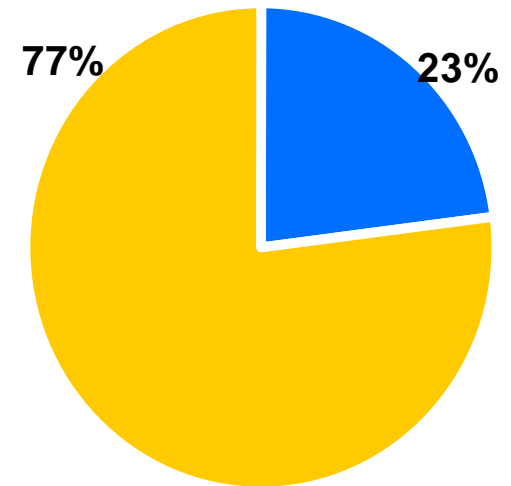
# Sector Profile

Sub-sectors by value



Source: UBS

Asset mix



Source: UBS, PIR

# Typical Property Selection Process

- **Forecasting**
- **Analysis of markets and the economy**
- **Identify value add opportunities**
- **Alternative investment opportunities**
- **Ensure investment proposal fits criteria**
- **Investment committee scrutinises proposal**
- **Decision to buy**

# Current trends in the LPT sector

- **Increased levels of gearing**
- **Increased takeover activity**
- **More internally managed funds**
- **Offshore expansion**
- **Scarcity of assets locally**

# The Case for Out-Performance

- **LPTs as a safe haven**
- **Reasonable supply and demand dynamics**
- **6-10% yield attractive compared to bonds**
- **Value add improvements**
- **Overseas assets**

# The Case for Under-Performance

- **Effects of rising interest rates**
- **Longer term convergence with equity performance**
- **Institutional shift into growth oriented holdings**
- **Scarcity of new quality investment properties**



# What do the experts say...

<b>Research Broker</b>	<b>Prospective Yield '04</b>	<b>EPS Growth</b>	<b>Total Return Forecast 04</b>
UBS Warburg	7.8%	3.0%	10.0%
Deutsche	8.0%	3.8%	11.0%
Merrill Lynch	7.9%	4.3%	14.0%
JBWere	7.9%	5.0%	8.0%
Macquarie	7.9%	4.2%	6.5%
<b>Average</b>	<b>7.9%</b>	<b>4.1%</b>	<b>9.9%</b>

# Upcoming Floats

- Galileo Shopping America Trust – 9.5%
- Australian Leisure & Hospitality - 6.0%
- MFS Diversified Trust – 9.98%
- Multiplex - \$1.2 billion trust/\$800m RE

# For More Information

- ➔ [www.asx.com.au/LMI](http://www.asx.com.au/LMI)
- ➔ ASX educational booklet



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