

**Pacific Rim Real Estate Society (PRRES)
Conference 2001**

Adelaide, 22-24 January 2001

**IMPACT OF AUSTRALIAN STOCK EXCHANGE INDEX
CHANGES ON PROPERTY TRUST PERFORMANCE**

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Keywords: Property trusts, Australian Stock Exchange, institutional benchmarks,
index weightings, selling pressure.

INTRODUCTION

Considerable discussion occurred in 1999 regarding the future direction of Australian stockmarket indices (Australian Stock Exchange, 1999). In April 2000, the Australian Stock Exchange (ASX), in conjunction with Standard and Poor's, established new Australian stockmarket benchmark performance indices (Australian Stock Exchange, 2000). This saw the traditional All Ordinaries index increase from 251 companies to 500 companies, as well as the ASX 100, 200 and 300 established to meet the investment benchmarking needs of the Australian institutional investment community.

In particular, for these new stockmarket indices:

- * **ASX100** represents 81.96% of ASX market capitalisation, covering large cap and mid-cap stocks and serves as benchmark for large active investment managers requiring sufficient liquidity.
- * **ASX200** represents 88.21% of ASX market capitalisation, serving as benchmark for portfolio replicators requiring sufficient market capitalisation and liquidity.
- * **ASX300** represents 89.99% of ASX market capitalisation, serving as benchmark set near limits of institutional investability to cater for small-cap stocks and requiring sufficient liquidity.
- * **All Ordinaries (or ASX500)** represents 97.7% of ASX market capitalisation,

with an ASX50 and Small Ordinaries (ASX300-ASX100) also established. Index eligibility is based on market capitalisation, with a liquidity adjustment (if needed).

A key concern in these revised ASX index procedures relates to the choice of the ongoing performance benchmark by fund managers. While funds have a range of investment styles and strategic objectives, 70% of index fund managers favoured the ASX300 and 30% favoured the ASX200 (Property Investment Research, 2000a). Similarly amongst active funds managers, the ASX300 was favoured (eg: ANZ, Colonial, Deutsche, HSBC, Macquarie) ahead of the ASX200 (eg: AMP, AXA, Commonwealth, Lend Lease, Westpac) (Mercer Investment Consulting, 2000).

With over 50 property trusts accounting for \$33.5 billion or 5.2% of the total ASX market capitalisation at June 2000, the impact of these revised ASX index procedures on property trusts are likely to be highly significant. In particular, while the previous benchmark ASX All Ordinaries index included 39 LPTs, Table 1 shows the new benchmark ASX200 and ASX300 at February 2000 included 32 LPTs and 42 LPTs respectively (Australian Stock Exchange, 2000). Under these new ASX index procedures:

- ten (10) LPTs are excluded from the ASX300
- an additional ten (10) LPTs are excluded from the ASX200
- six (6) LPTs have reduced weightings in the ASX200 (4 LPTs) or ASX300 (2 LPTs) due to liquidity adjustments.

As a result of these above ASX index exclusions or downgradings, these property trusts are expected to experience considerable selling pressure and reduced portfolio weightings by institutional investors.

With the key events in this process being the announcement of these ASX revisions (March 9, 2000) and the introduction of these ASX revisions (April 3, 2000), the purpose of this paper is to assess the impact of the announcements and revisions to the ASX investment benchmarks on the share price and trading volume of those property trusts affected by these revised ASX investment benchmarks.

METHODOLOGY

Available LPTs were classified as:

- (1) not in ASX300; n = 9
- (2) in ASX300, but not in ASX200; n = 9
- (3) in ASX200; n = 27
- (4) downweighted in ASX200 or ASX300; n = 5,

with Table 2 giving the LPTs in each of these four categories. Daily share price and trading volume was available for each of the above LPTs (UBS Warburg, 2000).

With the announcement of these ASX revisions being March 9, 2000 and the introduction of these ASX revisions being April 3, 2000, the period of analysis was broken up into the following seven (7) relevant periods:

- February 18 - March 8: before announcement (14 trading days)
- March 9: announcement (1 trading day)
- March 9 - March 31: after announcement, but before introduction (17 trading days)
- April 3: introduction (1 trading day)
- April 3 - April 11: short-term after introduction (7 trading days)
- April 3 - April 20: medium-term after introduction (14 trading days)
- April 3 - May 15: long-term after introduction (28 trading days).

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ACKNOWLEDGMENT

The authors would like to acknowledge the valuable assistance of UBS Warburg in providing the necessary LPT share price and trading volume information.

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Table 1: Contribution of individual LPTs to ASX benchmarks

Property trust	Weightings (%)			All Ordinaries (ASX500)	Market capitalisation (March 31, 2000)
	ASX100	ASX200	ASX300		
ASX100					
AMP Diversified PT	.18	.17	.17	.15	\$964M
AMP Shopping Centre Trust	.14	.13	.13	.12	\$936M
Colonial First State PT	.22	.21	.20	.19	\$1,172M
Gandel Retail Trust	.26	.24	.23	.21	\$1,354M
General Property Trust	.72	.67	.66	.61	\$3,960M
Mirvac Group	.33	.31	.30	.28	\$1,809M
National Mutual PT	.17	.16	.15	.14	\$898M
Stockland Trust Group	.27	.25	.24	.22	\$1,477M
Westfield America Trust	.30	.28	.28	.26	\$1,617M
Westfield Trust	.97	.90	.88	.81	\$5,224M
ASX200⁽³⁾					
AMP Industrial Trust	-	.06	.06	.05	\$329M
Armstrong Jones Industrial Trust	-	.12	.12	.11	\$714M
Armstrong Jones Office Group	-	.13	.13	.12	\$771M
Armstrong Jones Retail Fund ⁽¹⁾	-	.03	.03	.04	\$182M
AMP Office Trust	-	.10	.10	.09	\$551M
Advance Property Fund	-	.11	.11	.10	\$634M
BT Office Trust	-	.14	.13	.12	\$764M
BT Property Trust ⁽¹⁾	-	.06	.06	.07	\$303M
Centro Property Group	-	.11	.10	.10	\$686M
Commercial Investment Trust ⁽¹⁾	-	.09	.09	.11	\$506M
Commonwealth Property Office Fund	-	.08	.08	.08	\$491M
Darling Park Trust	-	.05	.05	.05	\$315M
Flinders Industrial PT	-	.04	.04	.04	\$259M
Grand Hotel Group	-	.04	.04	.04	\$229M
Goodman Hardie Indust. PT	-	.07	.07	.06	\$393M
Lend Lease US Office Trust	-	.07	.07	.06	\$398M
Macquarie Countrywide Trust	-	.06	.06	.06	\$367M
Macquarie Industrial Trust	-	.05	.04	.04	\$266M
Macquarie Office Trust	-	.10	.09	.09	\$558M
Paladin Commercial Trust	-	.08	.08	.07	\$471M
Thakral Holdings Group ⁽¹⁾	-	.05	.05	.06	\$262M
Westpac PT	-	.12	.12	.11	\$699M
ASX300⁽⁴⁾					
Australian Growth Properties	-	-	.02	.02	\$121M
Bunnings Warehouse PT	-	-	.03	.03	\$165M
Challenger Property Trust	-	-	.02	.02	\$118M
Homemaker Retail PT ⁽¹⁾	-	-	.02	.02	\$116M
Ipoh Ltd ⁽²⁾	-	-	.02	.03	\$82M
Macquarie Leisure Trust	-	-	.02	.02	\$83M
MTM Entertainment Trust	-	-	.01	.01	\$62M
Paladin Industrial Trust	-	-	.03	.02	\$146M
Prime Retail Group	-	-	.01	.01	\$69M
Tourism Asset Holdings	-	-	.03	.03	\$142M

All Ords (ASX500)⁽⁵⁾					
Australian Commercial PT	-	-	-	.02	\$146M
Carindale PT	-	-	-	.02	\$132M
Flexi Property Fund	-	-	-	.01	\$50M
Industrial Investment Trust	-	-	-	.03	\$203M
CT Retail Investment Trust	-	-	-	.01	\$72M
MTM Office Trust	-	-	-	.04	\$117M
Tyndall Meridian Trust	-	-	-	.03	\$198M
PA PT	-	-	-	.01	\$47M
Peppers Hotel Trust	-	-	-	.01	\$37M
Property Trust of Australasia	-	-	-	.01	\$45M

(1): 75% liquidity adjustment in ASX200 and ASX300

(2): 50% liquidity adjustment in ASX300

(3): ASX200 also includes LPTs from ASX100

(4): ASX300 also includes LPTs from ASX200

(5): All Ords (ASX500) also includes LPTs from ASX300

Table 2: Classification of LPTs

Not in ASX300 (n = 9)	In ASX300, but not in ASX200 (n = 9)	In ASX200 (n = 27)	Downweighted in ASX200 or ASX300 (n = 5)
Australian Commercial PT	Australian Growth Properties	AMP Diversified PT	Armstrong Jones Retail Fund
Carindale PT	Bunnings Warehouse PT	AMP Industrial Trust	BT Property Trust
CT Retail Investment Trust	Homemaker Retail PT	AMP Office Trust	Homemaker Retail PT
Flexi Property Fund	Ipoh Ltd	Armstrong Jones Industrial Trust	Ipoh Ltd
Industrial Investment Trust	Macquarie Leisure Trust	Armstrong Jones Office Group	Thakral Holdings Group
MTM Office Trust	MTM Entertainment Trust	Armstrong Jones Retail Fund	
PA Property Trust	Paladin Industrial Trust	Advance Property Fund	
Peppers Hotel Trust	Prime Retail Group	BT Office Trust	
Property Trust of Australasia	Tourism Asset Holdings	BT Property Trust	
		Centro Property Group	
		Colonial First State PT	
		Commonwealth Property Office Fund	
		Gandel Retail Trust	
		General Property Trust	
		Grand Hotel Group	
		Goodman Hardie Industrial PT	
		Lend Lease US Office Trust	
		Macquarie Countrywide Trust	
		Macquarie Industrial Trust	
		Macquarie Office Trust	
		Mirvac Group	
		National Mutual PT	
		Paladin Commercial Trust	
		Stockland Trust Group	
		Thakral Holdings Group	
		Westfield America Trust	
		Westfield Trust	