

# **THE PERFORMANCE OF PROPERTY SECURITIES FUNDS: 1991-96**

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## **INTRODUCTION**

Listed property trusts have been the most successful indirect property vehicle in Australia over the last 10 years. This has seen property trusts having over \$18 billion in assets in 1997, having increased significantly from only \$2.6 billion in 1986. With over 50 property trusts including over 500 major commercial properties in their portfolios, the property trust sector accounts for over 4% of the total Australian stock market capitalisation.

While investors can invest in individual property trusts, property securities funds are also available as an investment option. These managed investment funds are unlisted vehicles that invest in a portfolio of listed property trusts. The advantages of property securities funds are the opportunity to invest in professionally managed funds and the ability to achieve significant spread or diversification across the spectrum of property trusts. Currently property securities funds are available in Australia from a wide range of institutional investors and funds managers.

As such, the objectives of this paper are:

- (i) to examine the strategic investment role of property securities funds
- (ii) to examine the investment performance of property securities funds over 1991-96
- (iii) to compare the performance of property securities funds against property trusts, direct property, shares and bonds over 1991-96.

## **OVERVIEW OF PROPERTY SECURITIES FUNDS**

Managed investment funds are available for a range of investment categories including Australian shares, overseas shares, fixed interests and property, with both diversified and sector-specific funds available.

For property, property securities funds are available, with these unlisted vehicles investing in portfolios of listed property trusts. Property securities funds have taken on

increased significance since the decline in unlisted property trusts in the early 1990s, and have the advantages of:

- \* opportunity to invest in professionally managed funds
- \* ability to achieve significant spread or diversification across the spectrum of property trusts.

In December 1996, property securities funds accounted for \$1.16 billion in funds under management, with this representing approximately 6% of listed property trust market capitalisation. This level of funds currently (June 1997) stands at \$1.45 billion.

Currently eleven property securities funds are available in Australia from a wide range of funds managers; namely:

- \* MLC Property Securities Fund
- \* Westpac Australian Property Securities Fund
- \* GEM Property Securities Fund
- \* Strategic Investment Services Australia Property Fund
- \* Advanced Property Securities Fund
- \* IMS Australian Property Fund
- \* ANZ Property Securities Fund
- \* Paladin Property Securities Fund
- \* BT Property Securities Fund
- \* First State Property Securities Fund
- \* HSBC Property Securities Fund.

Table 1 gives specific details for each property securities fund, including fund size and investment requirements at December 1996 (Property Investment Research, 1997a). Fund size ranged from \$8M - \$340M. Initial service fees (up to 5%) and annual management fees (up to 2%) generally apply. Redemption periods listed are maximum times, and funds are generally available within 7 days.

The overall property sector composition of property securities funds at December 1996 was retail (50%), office (34%), industrial (10%), hotel (3%) and other (2%) (Property Investment Research, 1997a). This percentage composition matched the overall listed property trust sector, reflecting the significant spread and diversification achievable via property securities funds. Westfield (17%), GPT (17%), Stockland (7%), Schroders (6%) and Gandel (4%) represented the largest percentages invested. Table 2 presents the investment composition of the three property securities funds (GEM, ANZ and First State) considered in this paper. In each case, considerable diversification across the property trust sector is evident, involving approximately 25 property trusts in each fund.

Issues of potential concern for property securities funds are:

- \* conflict over asset allocation decisions when funds manager has both property securities fund and listed property trust (eg: Westpac, BT, Paladin)

- \* multiple tiers of asset management fees (i.e. administration fees and trustee fees) decreases income for distribution to investors.

## **DATA SOURCES**

To assess the investment performance of property securities funds, three funds were selected:

- \* GEM (\$163 million)
- \* ANZ (\$66 million)
- \* First State (\$39 million),

with redemption price and distribution history obtained for December 1991-December 1996 on a six-monthly basis.

For comparative purposes, the following alternate investment options were also included:

- \* **Listed property trusts**

- GPT
- Schroders
- Stockland
- Listed property trust index

- \* **Unlisted property trusts**

- Super CMS unlisted property trust index

- \* **Shares**

- ASX All Ordinaries index

- \* **Bonds**

- Commonwealth Bank bond index

- \* **Direct property (Property Council of Australia, 1997)**

- Australian office index
- Australian retail index
- Australian industrial index
- Australian “composite” index.

Analyses were performed over 1991-96 using total returns to assess the risk-adjusted investment performance analysis for these various investment options.

## **RESULTS AND DISCUSSION**

### **Return and risk analysis**

Table 3 presents the risk-adjusted performance analysis over the 5-year period of 1991-96 for property securities funds and the alternate investment options.

Each of the property securities funds gave average annual returns below the ASX listed property trust index (11.0%), as well as being below each of the three individual property trusts. This was also evident in each of the other property securities funds over this period. As fees are not included in this analysis, this further reinforces the underperformance of property securities funds over this period and the difficulty of outperforming the property trust sector benchmark on a regular basis. Over shorter time periods (eg 1-year, 3-years), some property securities funds have outperformed this benchmark (Property Investment Research, 1997a).

The risk for each of the property securities funds was consistent with the LPT sector risk, and below the risk of the individual property trusts and the stockmarket. This reflects the diversification in the property securities fund's portfolios, and the property trust sector having a lower risk profile than the stockmarket.

On a risk-adjusted basis (Sharpe index), each of the property securities funds underperformed the LPT sector. The LPT sector was the 3rd best performed asset class, behind retail property and industrial property.

While the property securities funds underperformed the property trust sector over this 5-year period, the aspect of utilising a professionally managed fund to achieve property exposure via LPTs may be sufficient compensation for some investors.

### **Diversification benefits**

Table 4 presents the inter-asset correlation matrix for the various investment options. Each of the property securities funds were highly correlated (.74 to .92), as well as being highly correlated with the property trust sector (.92 to .98) and the stockmarket (.77 to .80). Whilst being unlisted investment vehicles, property securities funds are not correlated with unlisted property trusts (-.05 to .10). Similarly, the performance of property securities funds were negatively correlated with direct property (-.32 to -.23), further reflecting the closer alignment of property trusts with the stockmarket than the underlying physical property assets.

Overall, property securities funds have taken on increased importance in recent years with the expanded role and strong performance of listed property trusts. The features of portfolio diversification and professional management would seem to partly offset the lesser performance of these funds over 1991-96, with recent evidence of some property securities funds outperforming the property trust sector benchmark.

## **REFERENCES**

Property Council of Australia, (1997). Investment Performance Index. Property Council of Australia: Sydney.

Property Investment Research, (1997a). Independent Property Trust Review (miscellaneous copies). PIR: Melbourne.

Property Investment Research, (1997b). Review of Listed Property Trusts: 1997. PIR: Melbourne.

**Table 1: Overview of Property Securities Funds: December 1996**

Property Securities Fund	Fund size (\$M)	Market share (%)	Min. invest. (\$)	Initial service fee (%)	Annual management fee (%)	Redemption period (days)
MLC	340	29	2,000	5	1.5	30
Westpac	171	15	5,000	3	1.0	60
GEM	163	14	1,000	4	10% income +10% capital growth	30
Strategic Investment Services	106	9	1,000	5	1.5	10
Advance	96	8	1,000	5	2.0	5
IMS	81	7	1,000*	3**	1.4	30
ANZ	66	6	5,000	2.75	1.5	28
Paladin	50	4	20,000	Nil	0.5	30
BT	43	4	2,000	3	1.5	30
First State	39	4	1,000	4	1.5	30
HSBC	8	1	1,000	4	1.5	7

\* as part of \$5000 IMS investment

\*\* 1% for 3 years

Source: "Independent Property Trust Review" (1997a)

**Table 2: Make-up of three selected property securities funds: December 1996**

<b>GEM</b>	<b>ANZ</b>	<b>First State</b>
Westfield (20%)	GPT (22%)	GPT (22%)
GPT (17%)	Westfield (15%)	Westfield (20%)
Stockland (6%)	Advance (8%)	Stockland (7%)
Gandel (4%)	Grosvenor (7%)	Schroders (5%)
Prime Industrial (4%)	Nat.Mutual (7%)	Nat.Mutual (5%)
Grosvenor (3%)	Westfield Amer.(5%)	Advance (4%)
Centro (3%)	Prime Industrial (5%)	AMP Office (4%)
Capcount (3%)	Gandel (5%)	Grosvenor (4%)
Westfield Amer. (3%)	AJ Retail (4%)	Hills Motorway (4%)
AJ Retail (3%)	AJ Office (3%)	Capital (4%)
Capital (3%)	Capcount (3%)	Colonial Comm.(4%)
16 others (31%)	National Ind. (3%)	BT Property (3%)
	Prime Credit (3%)	Colonial Ind. (3%)
	Others (10%)	BT Hotel (3%)
		10 others (8%)

Source: "Independent Property Trust Review"

**Table 3: Investment performance analysis: 1991-96**

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Investment	Average annual return (%)	Risk (%)	Risk- return ratio	Sharpe index	Rank
<b>Property Securities Fund</b>					
First State	9.3	9.98	1.08	0.28	8
ANZ	9.0	8.51	0.95	0.30	7
GEM	7.4	7.71	1.05	0.12	11
<b>Listed Property Trusts</b>					
GPT	9.5	12.43	1.31	0.25	10
Schroders	10.2	13.37	1.31	0.28	9
Stockland	11.9	13.07	1.10	0.41	5
LPT (overall)	11.0	8.98	0.81	0.52	3
<b>Unlisted Property Trusts</b>	-4.9	4.44	-0.91	-2.55	14
<b>Shares</b>	12.3	13.69	1.12	0.43	4
<b>Bonds</b>	9.6	7.97	0.83	0.40	6
<b>Direct Property</b>					
Australian office	0.3	7.01	28.28	-0.89	13
Australian retail	11.1	1.71	0.15	2.72	1
Australian industrial	10.2	4.13	0.41	0.90	2
Australian "composite"	4.5	4.65	1.05	-0.43	12

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**Table 4: Inter-asset correlation matrix: 1991-96**

	First State	ANZ	GEM	GPT	Sch.	Stock.	LPT	Shares	ULPT	Bonds	Composite property
First State	1.00										
ANZ	.92	1.00									
GEM	.88	.98	1.00								
GPT	.74	.90	.85	1.00							
Schroders	.81	.85	.89	.72	1.00						
Stockland	.85	.80	.74	.67	.69	1.00					
LPT	.92	.98	.95	.91	.87	.86	1.00				
Shares	.77	.78	.80	.68	.95	.62	.81	1.00			
ULPT	-.05	.09	.10	.07	-.02	-.03	.04	.16	1.00		
Bonds	.66	.79	.77	.77	.70	.82	.81	.58	.12	1.00	
Composite property	-.32	-.29	-.23	-.33	-.33	-.43	-.36	-.12	.82	-.40	1.00

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