

# The Outlook for Property Investment

## An Investor's Perspective

Pete Morrissey  
Senior Investment Analyst  
Lonsec Ltd



1. Property Investment Trends.
  - I. Listed Property - Investor issues.
  - II. Direct Property - Investor requirements.  
- Concerns.
  
2. Background on Lonsec Property Research.

**Contact Details:**

Pete Morrissey - Lonsec Ltd

Senior Investment Analyst – Property and Infrastructure

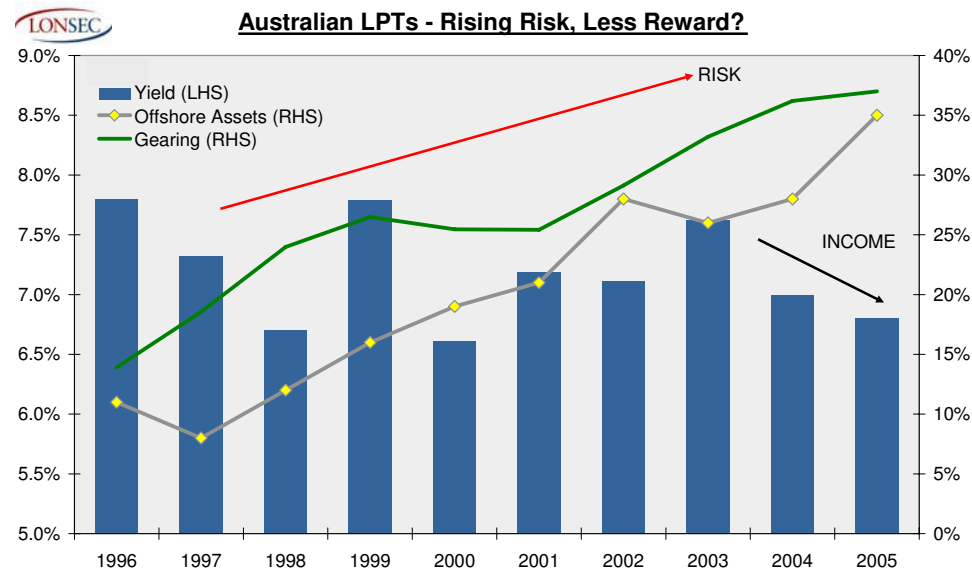
Email: [peter.morrissey@lonsec.com.au](mailto:peter.morrissey@lonsec.com.au) Ph: 613 9623 6336.

- Acceptable but lacklustre returns from LPTs in 2005. Similar for 2006?
- Domestic opportunities limited - world's most securitised market (70%+ including syndicates etc).

Sector Performance	2004	2005
Australian LPTs	<b>32.0%</b>	12.7%
Australian Direct Property	11.9%	13.7%
Australian Equities	27.6%	<b>22.5%</b>
US REITs	25.7%	15.2%
Global REITs	<b>33.9%</b>	15.8%
Global Equities	10.6%	<b>16.4%</b>
(figures to December 2005)		Source: Lonsec

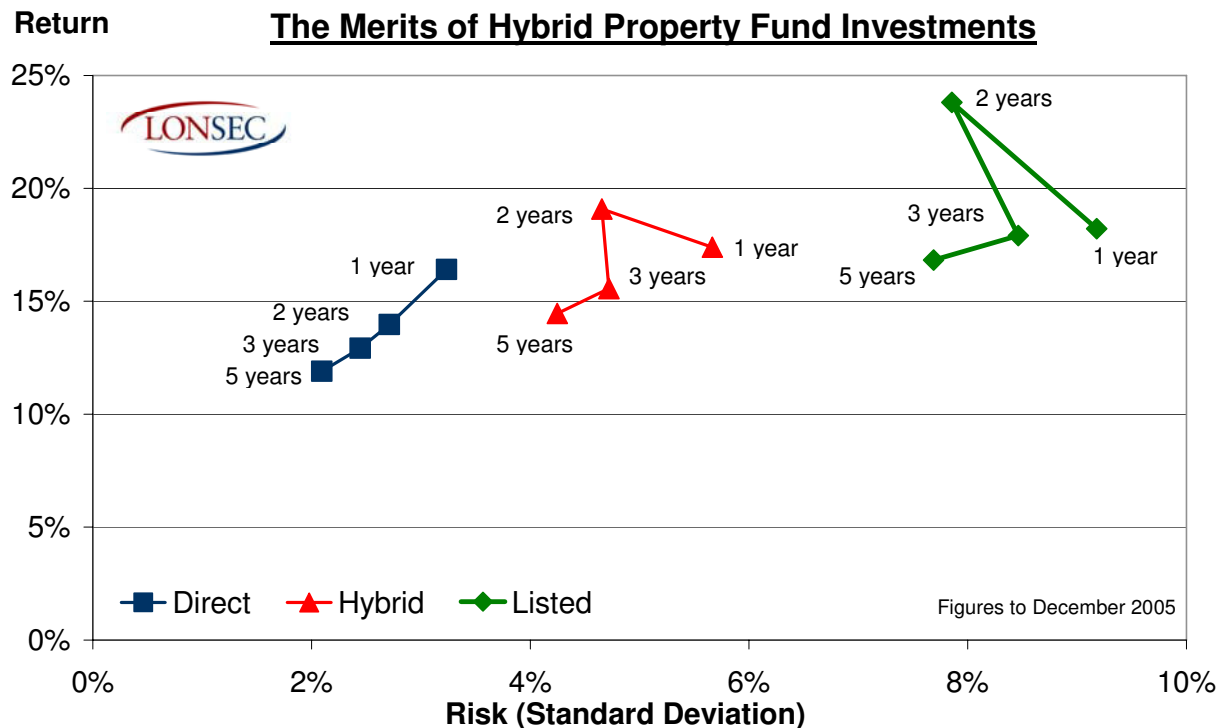
- Offshore acquisitions will continue to dominate (\$5.4b equity raised in 2005, approx 75% being used to acquire foreign assets!).
- European and Asian opportunities more prevalent in 2006 due to more attractive fundamentals and re-rating opportunities.

- Gearing (circa 37%).
- Offshore assets (circa 35%).
- 30% of LPT assets held in mature US!
- Currency implications – income and capital.

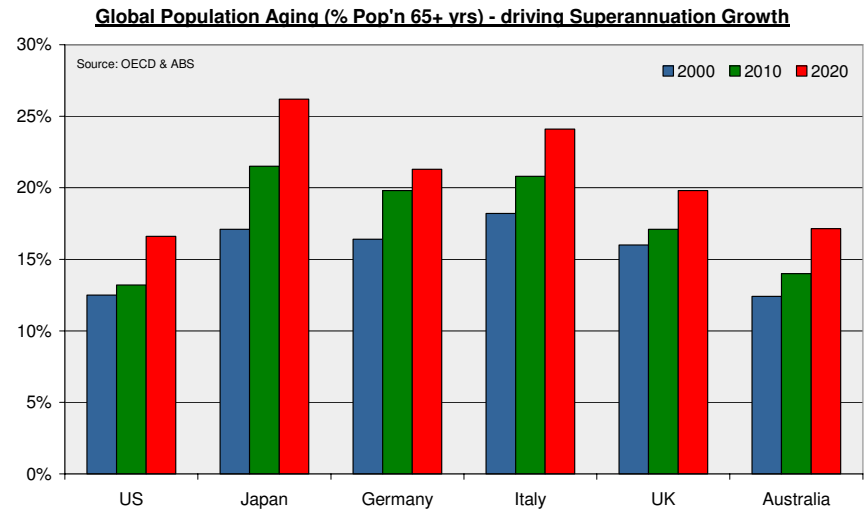


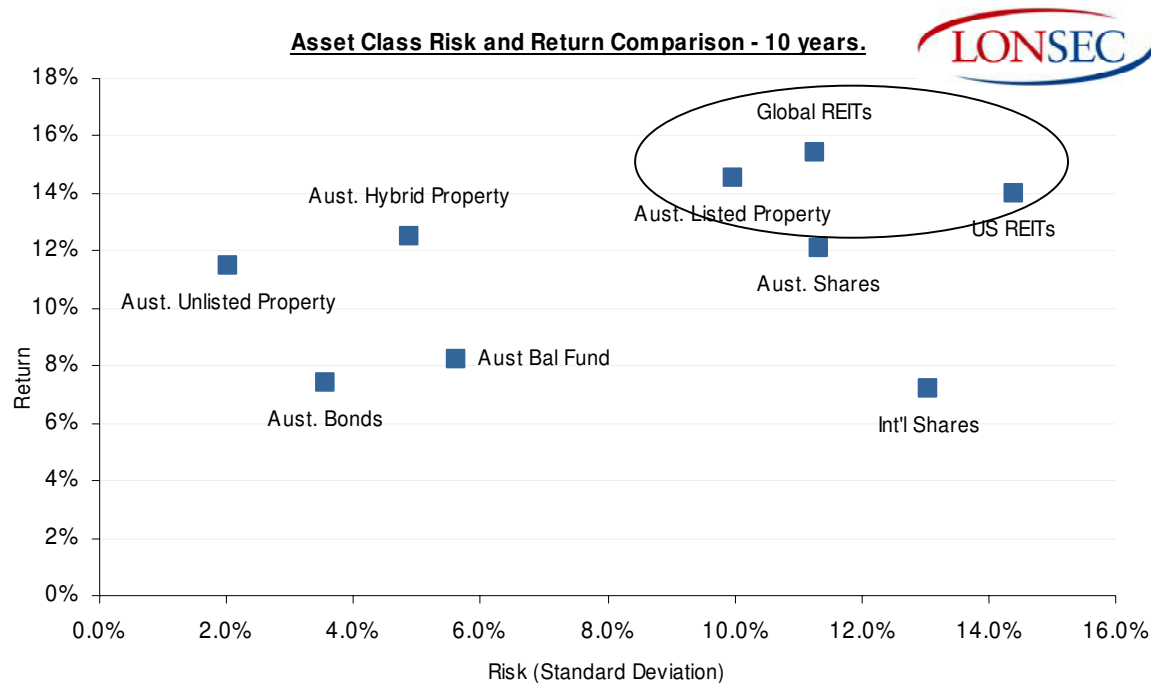
- Narrowing yield spreads/cap rate compression – introducing offshore asset quality issues?
- Rising corporate earnings (non-rental income) (4% in 2000, 11% in 2005).
- LPTs remain a lower risk option than equities.

- Combine direct/unlisted property with listed.
- Low volatility, higher income than LPTs.
- Suited to traditional property investors with a yield focus.
- Benefits of direct property income and stability plus liquidity.



- Macro factors driving real estate investment growth.
- Total return focus (yield circa 4% vs. 7% LPTs).
- Opportunity from property market re-ratings and adoption of Real Estate Investment Trust (REIT) structure.
- Australia is a roadmap for the Global REIT markets potential.
- Maturing US REIT market a concern – circa 50%+ of global REIT market.
- Fundamentals may weight on US REITs – flow on to global performance.
- Developing markets (e.g. Japan) will mature quickly as more companies go public.

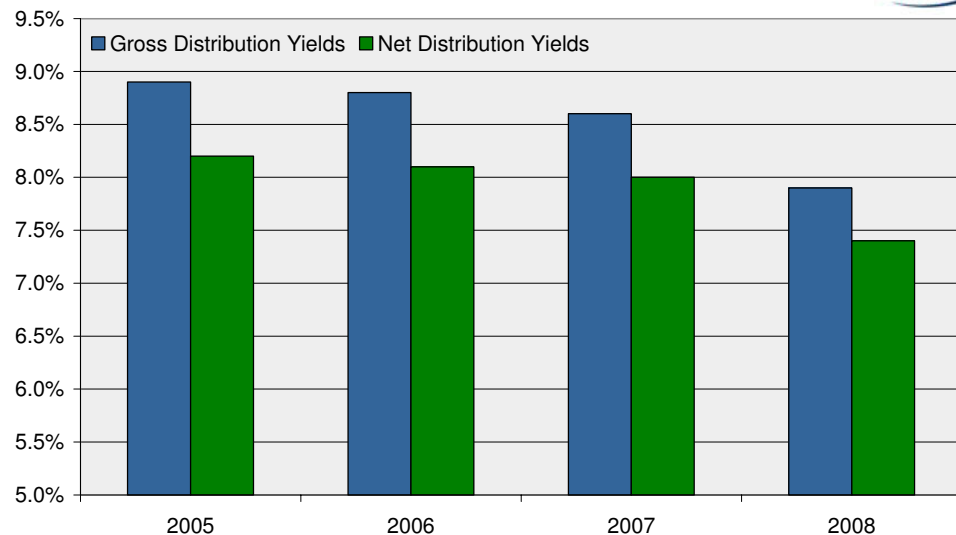




- Listed property has been the standout performer relative to other asset classes.
- Performance driven by Australia and US (circa 60% of global REIT index) as their property markets matured and re-rated.
- New REIT markets (Japan/UK/Germany?) will provide further upside.

- General investors – move to total return focus.
- Emergence of sector specific funds.
  - Residential Land Subdivision.
  - Coastal Property Development.
  - Infrastructure products.

**Syndicate/Trust Yields (2005 - 2008) - declining!**



- Retirees – income driven (accept lower yields?)
- Planners – move from upfront fees to fee for service.
- Platforms and wrap accounts.
- Products – diversified vs. single asset.



Investor expectations are for increasingly sophisticated direct property investment products:

- Liquidity mechanisms:
  - Unit pricing
  - Specified annual buy-back
  - Secondary market listing
  - Listed investment allocation
  - Cash
- International exposures – fully hedged (income).
- Internationalisation attractive due to yield and lack of stamp duty – traditionally NZ & US, move to Asia and Europe looming.

- Tightening yields have led to asset quality slippage.
- Secondary markets providing higher yielding opportunities but introduce more risk.
- Introduction of underlying business risk.
- New operators with limited direct property expertise.

1. Basic Service (Reports & Recommendation Lists)
  - Direct/Unlisted Property Syndicates/Trusts.
  - Open-ended property securities funds:
    - Australian Listed Property Trust Funds.
    - Hybrid Property Funds (combining listed and direct/unlisted property).
    - Global Property Securities Funds – investing in REITs.
2. Premium Services
  - Unlisted Property Sector Guide.
3. Property & Infrastructure Industry Outlook & Database