

# Optimism as trusts take big hit

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THE great debate about the virtues of being in an unlisted or a listed real estate investment trust has moved back on to the agenda as investors waded through the wreckage of the latest reporting season.

Across the board, all of the real estate investment trusts reported bottom-line losses for the year, thanks to write-downs in asset values, impairment in the value of goodwill and unfavourable currency movements.

Analysts said the past 12 months had been the worst on record, with all sectors – office, retail, industrial and hotels – hard hit.

The outlook is mixed, although the general theme is one of “cautious optimism”.

Most predictions are that the bottom may have been reached for asset values and that capitalisation rates (a measure of the profitability of a building) might fall only another 50 to 100 basis points before showing improvement.

But with trust prices hitting rock bottom – at least eight of the top 10 stocks barely trading above 20 cents – returns have been poor.

The division director for Macquarie Private Wealth, Martin Lakos, said the sector had stood out so far this reporting season for all the wrong reasons.

“Firstly, in contrast to the other major sectors, the [trust] 2009-10, 2010-11, 2011-12 earnings-per-security forecasts remain unchanged (-23 per cent, -24.6 per cent, and up 2.7 per cent respectively). Secondly, the sector is the only one continuing to see net negative earning revisions.”

Latest data released by the Australian Direct Property Investment Association shows returns were reduced by almost 20 per cent over five years for investors in listed rather than unlisted property investments.

The preliminary findings of the association's Investment Report (prepared by Atchison Consultants) showed that investors in direct



Bright future ... analysts predict the commercial property market – including Sydney's CBD – has hit bottom and is on the way up. Photo: Louie Douvis

property achieved a 9.8 per cent return over the five years to June, against an -8.6 per cent for Australian Real Estate Investment Trusts. The direct property returns also carried a much lower level of volatility – 5 per cent compared with 21.8 per cent.

The returns were also more favourable over 10 years, with a return of 10.1 per cent and volatility of 3.6 per cent for direct property. The real estate investment trusts delivered

just 2.1 per cent with 16.7 per cent volatility. Atchison Consultants' managing director, Ken Atchison, said it was clear that liquidity in property had a significant detrimental impact on investor returns. “Around the world, baby-boomer investors were seeking high levels of income,” he said. “What this led to were complex listed property structures that were artificially feeding income through complex development and hedging structures rather

than pure rental returns. For a while [real estate investment trusts] produced strong returns, but what we now know is that these structures were unsustainable.”

The report showed that trust returns outperformed direct property from June 1989 to June 2007. However, since the market downturn began, the returns from direct property were stronger than those from real estate investment trusts.