

Listed trusts avoid flogging

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August 4, 2007

IT MAY be cold comfort but, despite being underperformers over the year, listed property trusts have been the best performing sector of the broader market in recent weeks.

The current environment of uncertain credit markets has seen some almost panic selling of the leading trusts as traders reduced their heavy exposures, but there has also been some opportune buying.

But not every investor is that confident and some have been channelling cash into the unlisted sectors to avoid the sharemarket volatility.

However, brokers have said that, given how low the LPTs have gone in unit prices, they do represent good value now, for when the good times come again.

"Property is still a safe haven and inflation hedge," one broker said.

"The LPTs may have changed in nature from being a pure rent collector to a funds manager with interests around the world in a variety of sectors but the underlying property asset is still a valuable, tradeable commodity."

But the broker said private equity players are not expected to be big buyers in LPTs, as they have been with the Mulitplex and Investa Property Group takeovers, until the uncertainty disappears.

Moody's Investors Service has, despite the current volatility, maintained a stable rating outlook for the LPT sector.

The ratings agency in a report says the LPT sector has maintained solid financial profiles and continues to build on established track records for managing risk and growth.

The report's author, Peter Fullerton, an analyst at Moody's, said the LPTs that are rated, including GPT, Westfield, and Stockland, have solid investment-grade ratings, in the A2 to Baa2 range, reflecting their high quality assets, solid access to capital markets, moderate gearing levels, good liquidity and well laddered debt maturity profiles.

"Looking ahead, a key challenge for the LPTs will be their ability to manage pressure for greater equity returns, which is often difficult in mature markets like Australia," Mr Fullerton said.

"As a solution, some LPTs are transforming themselves into funds or property management entities, leveraging off their core assets.

"While this enables them to enhance earnings relative to their asset base, build relationships and reduce concentration, Moody's takes a cautious view because of the concurrent emergence of control issues, lower transparency, management diversion and potential for greater volatility in earnings and corresponding cash flows."

Mr Fullerton said continued strong economic conditions were expected to provide support for the industry, although increased competition would probably make it more difficult to acquire prime properties over the short term.

Australian Unity Investments' head of property Martin Hession said the roller-coaster ride of the LPTs has seen a rise in demand for unlisted funds, which are less vulnerable to the whims of the sharemarket.

"LPTs now have far more exposure to increasing debt, currency risks, the volatile construction industry, the uncertain residential market, as well as trying to be funds managers," Mr Hession said.

"As a result, the performance of unlisted funds is probably going to better listed property trusts over the next year. We forecast a total return of 12 per cent from unlisted funds over the next year and 9 per cent for listed property trusts."

Winston Sammut, Maxim Asset Management's managing director, is also believer in having an exposure to the unlisted property market and has recently launched a hybrid property fund as an alternative to the poorly performing LPT sector.

"Because the listed property trust sector is trading on a forward yield of about 5.9 per cent - a discount to the bond rate - investors have been cautious about the outlook," Mr Sammut said.

He said further volatility would ensue and provide a drag on sector performance in the short term.

"The new diversified fund will target a lower level of risk than the listed property sector; as much as 60 per cent of it is to be invested in direct property vehicles," Mr Sammut said.