

JANUARY 2011 – MARCH 2011

The expected return on Listed Property investments is generally greater than Fixed Interest or Cash but they are considered more risky as returns can rise and fall substantially. Listed Property securities generally comprise properties such as offices, hotels and shopping centres as they are usually more liquid (i.e. easier to cash in) than residential property, as they're listed on the share market.

Quarter Review

The S&P/ASX 200 Property Trust Accumulation Index was up for the quarter by 3%. The RBA continued to hold rates steady and global managers started to be encouraged by the Aussie REITs' good results and accommodative policy environment. The earthquake in Japan had an impact on the market however it recovered nicely. The strong Australian Dollar had a positive effect on performance as well.

The office sector was the best performing sector for the quarter, returning 10.1% over the period. Tenant demand looks to be returning with recent leasing activity showing reduced incentives and prime vacancies tightening across most markets.

The industrial sector returned 3.2% for the quarter.

This was mainly boosted by the performance of Goodman Group, which was up by 5.4%, as investors continued to like the stock for the better prospect of global trade recovery and potential dual listing of the stock for better valuation in Hong Kong. ING Industrial Fund returned 1.9% and was finally delisted as the deal of being taken over by Goodman Group closed.

The diversified sector rose 5.1%. GPT Group was a standout, returning 8.4% as investors continued to gain comfort from the REIT's strategy of selling non-core overseas assets and focusing on executing in Australia.

Retail property stocks were the worst performers for the quarter as the sector was overshadowed by softer retail sales data and the news that some retailers were placed in administration. Charter Hall Retails was up 6.1% after good earnings and announced share buyback intent. Westfield Group was the worst stock for the quarter, remaining flat, as the stock was hurt by the negative news flow in the retail space as well as the strong Australian Dollar due to its US exposure.

Outlook

Some fund managers continue to believe the office sector will outperform as the stocks offer the largest discounts to intrinsic value. These fund managers also expect this valuation discount to be closed through a combination of improving fundamentals and a strong transaction market. They also continue to like the steadiness of the retails sector although they note growth opportunities may be somewhat limited. With the RBA on hold some experts have become slightly more positive on the residential sector.

A note from our legal team

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S&P/ASX 200 Property Trust Accumulation Index

