

JULY 2010 – SEPTEMBER 2010

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 rose 3.8% in the October quarter. The market responded positively to the June results announcements, which were broadly in line with market expectations.

The Industrial sector was the best performing sector for the quarter, led by ING Industrial Fund which was up 32.9%, as it benefited from the divestment of its Canadian assets plus corporate speculation. Goodman Group announced their interest in taking over the management rights of the vehicle and then late in the quarter buying an additional 2.7% stake to take their holding to 7.1%.

The diversified sector also outperformed, up 4.9% for the quarter. Dexis Property Group was the best performer, benefiting earlier in the quarter by unsubstantiated takeover rumours, but managing to maintain that level with some investors gaining comfort in their US repositioning strategy following a tour by the new US management team.

The retail sector slightly underperformed, but was still up 2.8% for the quarter. Charter Hall Retail REIT was the best performer, benefiting from a strong operational result together with their announcement that they plan to set down their US and NZ assets and reinvest the proceeds back into Australia. Westfield Group's result, which was ahead of many brokers expectations, also helped it to outperform. Bunnings Warehouse Property Group fell 2.1% for the quarter despite delivering a result in line with market expectations. The office sector was the weakest over the quarter with the reporting season highlighting the difficulty office landlords are continuing to face with demand remaining subdued and tenant incentives remaining high. Charter Hall Office REIT was the worst performer with its results and guidance below market expectations.

Outlook

The strong domestic economy will continue to be a clear positive for the property markets and listed property stocks, however, the market will remain mindful of potential future interest rate rises and in particular the impact on the residential market. The capital raising by CFS Retail Trust and Stockland's takeover of Aevum Group has brought the potential for corporate activity back into the spotlight. In that regard the market is focussed on a resolution of ING's Australian Listed Vehicles. With the continued uncertain global economic recovery, Australian REITs should continue to be supported, with earnings of most stocks set to recover from current levels.

A note from our legal team

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S&P/ASX 200 Property Trust Accumulation Index

