

OCTOBER 2010 – DECEMBER 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 are listed on the share market.

Quarter Review

The S&P/ASX 200 Property Trust Accumulation Index was marginally down for the quarter, shedding 1.31%. The impact of one interest rate increase domestically, coupled with mixed signals on the global economic growth front, saw property markets trade sideways.

The Industrial sector was the best performing sector for the quarter, returning 0.4% over the period. The ING Industrial Fund provided much of this strength as fellow industrial developer Goodman Group led a bid for the trust. The final offer of \$0.53 per unit was a solid premium to the last traded price prior to the takeover, though a slight discount to NTA.

The office sector was flat over the quarter despite continued signs of recovery. Tenant demand looks to be returning, with recent leasing activity showing reducing incentives and prime vacancies tightening across most markets. Charter Hall Office REIT was the best performer as vacant office space continued to be leased up.

Retail property stocks declined by 0.3% as expectations of weak domestic retail sales data depressed the sector. The diversified sector dropped 1.3% as multiple capital raisings saw large liquid REITs traded as funding sources.

Outlook

The property sector is likely to see some reduced volatility. Fundamentals continue to firm up and some fund managers believe the sector looks fairly attractive from a global real estate perspective, trading at discounted multiples and discounts to NTA, particularly the office sector. The companies have taken dramatic steps to shore up their balance sheets in the past two years and are in a good position to deploy capital, should opportunities arise. The biggest risk to the sector continues to be a continual rise in interest rates.

A note from our legal team

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S&P/ASX 200 Property Trust Accumulation Index

