

MAKING MONEY



Listed property falls from grace

ANTHONY KEANE
MONEY EDITOR

THERE'S no prize for guessing what has been the worst-performing sector on the share market in the past 12 months.

Listed property trusts, which have been a darling among investors for the past 10 years, have tumbled 38 per cent in a year, hammered by rising interest rates, a global credit crisis, crushing debt levels and poor market sentiment.

LPT prices peaked in February last year after surging 120 per cent in the preceding decade, but today are trading back at 2004 levels.

Bourke Shaw Financial Services principal Lawrence Orlando said the "volcano erupted" in December last year when one of Australia's biggest LPTs, Centro Properties, reported difficulties in refinancing \$2.7 billion of debt.

Centro suspended its distributions – income payments to investors – which "catapulted its share price downward, which set off a domino effect that saw other professed highly geared property stocks, and the broader LPT market, sold off," he said.

But headwinds were buffeting the

WINNERS AND LOSERS

Share price movements by sector over the past 12 months:

- Energy up 32.9 per cent
- Materials up 17.7%
- Health care up 8.15%
- Consumer staples down 6.3%
- Telecommunications down 9.11%
- Utilities down 27.3%
- Information technology down 27.3%
- Industrials down 32.9%
- Property trusts down 37.9%

LPT sector long before December, Mr Orlando said. "We saw the emergence of the sub-prime fiasco and its contagion across other asset classes which, when coupled with the emergence of a global credit crunch, spelled an end to the good times experienced by property and financial stocks."

Ord Minnett state manager Nick Ross said on a three, six and 12-month basis, the investment returns from the LPT sector had been negative.

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Personal loans pay off – PAGE 57

Cooking with gas
- PAGE 30



Car costs skyrocket
- PAGE 31



Defence veterans pension concerns
- PAGE 56



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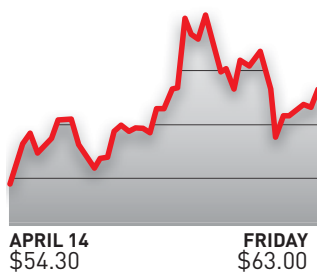
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JBWere**

□ **BUY: WOODSIDE
PETROLEUM**

Woodside offers good returns on equity, high-quality assets and significant exposure to the strong LNG market – an area in which it is a proven developer and operator.

We like the clarity of Woodside's growth profile and high-quality, long-life assets.

WOODSIDE PETROLEUM



Furthermore, the growth of the company is tied to commodities that are performing extremely strongly and it has the ability to influence the pace and timing of its LNG projects.

□ **HOLD: MONADELPHOUS
GROUP**

The key reason for the hold recommendation is the stock is trading on a 2007-08 price-to-earnings ratio of about 17.5 times, and yet we are only forecasting mid to high single-digit earnings per share growth in 2007-08 and 2008-09.

Despite our hold, we have a positive bias towards



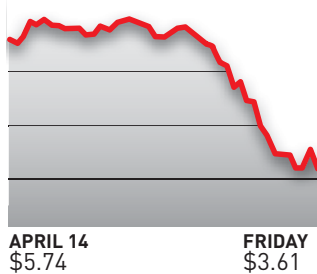
**james
HANNAM**
SHARE TIPS

Monadelphous, given the strong positioning and reputation of the company in the construction market for the resources sector and the potential for earnings growth. Another positive aspect about Monadelphous is the revenue mix.

□ **SELL: MINARA
RESOURCES**

With a deteriorating nickel price outlook due to the relatively anaemic recovery in stainless steel production following last year's output cuts and the impact of nickeliferous pig iron as a source

MINARA RESOURCES



of supply, we believe there is no need to have a pure play nickel exposure.

Despite the recent share price pullback for Minara, we maintain our sell recommendation as the impact of the explosion and fire at Apache Energy's Varanus Island gas export facility will likely weigh on the share price.



STRONG MARKET: Construction workers prepare reinforcements at Woodside's Pluto liquefied natural gas project, in Western Australia.

Listed property trusts fall from grace

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"At the end of May the sector had fallen to a discount to estimated net asset value of 12.3 per cent – the largest discount in 10 years," he said.

Does this mean that bargains are now everywhere?

Mr Ross said the short-term outlook for the sector was still cloudy.

"Over the next six months it's still going to be volatile and choppy. But

taking a three to five-year view, there's certainly some value out there," he said.

"If you have quality property trusts, just be patient."

Mr Orlando said uncertainty still surrounded the sector and investors should take caution.

"In the short term there seems to be more pain than gain, as higher interest rates tend to have a negative impact on LPTs, and it is unknown whether interest

rates will continue to rise," he said. Property trusts should always be seen as a long-term investment, he said.

"The main risks for a listed property trust are that its underlying properties decline in value or do not produce the expected level of rental income.

"Possible causes include poor management, a loss of tenants and increasing competition from other properties."

□ **LPTs under the microscope – Page 34**

CALENDAR

■ **TOMORROW:** Borrowing to invest free seminar, Adelaide, 6pm. Bookings essential. For more details phone Centrelink Financial Information Service on 13 6357.

■ **JULY 1:** ANZ Banking Group to pay its 62c per share interim dividend.

■ **JULY 2:** Westpac to pay its 70c per share interim dividend.

■ **JULY 2:** St George Bank to pay its 88c per share interim dividend.

■ **JULY 2:** ASX seminar: Introduction to ASX CFDs, Adelaide, 4pm. For more information email info@asx.com.au or contact the ASX on 131 279.

■ **JULY 4:** Macquarie Group to pay its \$2 per share interim dividend.

■ **JULY 10:** National Australia Bank to pay its 97c per share interim dividend.

■ **JULY 14:** Goldsbrough Financial Services retirement and redundancy seminars, Unley, 2.30pm or 6pm. Bookings essential. Phone 8373 4488.

MONEY TALKS

“When buying shares, ask yourself, would you buy the whole company?”

– STOCKBROKER RENE RIVKIN



GOING UP

ALL ORDINARIES PAST MONTH	FRIDAY'S CLOSE	RISE
Sundance Resources	39.5c	71.7%
MEO Australia	51c	59.4%
Whitehaven Coal	\$4.55	51.2%
White Energy	\$3.60	44.4%
PAST YEAR		
OM Holdings	\$2.40	576%
Cockatoo Coal	96.5c	408%
Innaminka Petroleum	\$1.00	317%
Coal of Africa	\$4.19	299%

GOING DOWN

ALL ORDINARIES PAST MONTH	FRIDAY'S CLOSE	FALL
Babcock & Brown	\$5.25	-67.2%
Babcock & Brown Power	71c	-66%
CEC Group	29c	-53.2%
City Pacific	40c	-48.7%
PAST YEAR		
Allco Finance Group	33c	-97%
Centro Properties	29c	-96.7%
Credit Corp	65c	-94.4%
Record Realty	7.2c	-91.5%

8-6%

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MONSTERED | Listed property trusts have been savaged in recent months, so is now the time to buy?

Shaky foundations – or just ripe for the picking?



ANTHONY KEANE
MONEY EDITOR

FOR two decades they have delivered investors fantastic returns, averaging 12 per cent a year, with some handy tax benefits as an added bonus.

Listed property trusts, which allow people to own a diversified portfolio of commercial real estate with as little as a few hundred dollars, became one of the nation's most popular investments, with millions of Australians holding them either directly or indirectly through their superannuation funds.

With LPT investment returns rivaling the overall share market, everyone was happy.

Then the wheels fell off. Or more accurately, interest rates went up. Here in Australia, and importantly in the U.S., which prompted the sub-prime mortgage collapse and the global credit crisis.

LPTs that had borrowed heavily to fund their rapid growth were suddenly faced with problems refinancing their debt, and those that were able to refinance were paying much higher interest rates.

The most prominent casualty was Centro Properties Group, which has a stable of shopping centres across Australia and overseas. When Centro announced its refinancing problems in December its shares – known as “units” – plummeted and haven't stopped sinking.

It is currently down 96.7 per cent over the past year, meaning investors have lost almost all the money they invested.

Hood Sweeney technical services manager Julie Kaesler said Centro's share price collapse precipitated a sell-down of other trusts with high debt levels.

“The sector has fallen approximately 30 per cent since November, 2007, as the global credit crisis has worsened,” she said.

“There is concern regarding high gearing levels, inflated property valuation levels and the ability of trusts to refinance debt as it matures. Interest costs have increased and the availability of finance has contracted.”

Ord Minnett state manager Nick Ross said debt levels among listed property trusts had increased in the

WHAT ARE THEY?

■ Listed property trusts allow investors to buy an interest in a professionally managed and diversified portfolio of commercial real estate.

■ Investors gain exposure to both the value of the real estate the trust owns, and the regular rental income generated from the properties.

■ The fund manager selects the properties and is responsible for all maintenance, administration, rentals and improvements.

past decade, from about 20 per cent to 35.7 per cent now.

“They're very interest-rate sensitive given their gearing levels,” he said. “The listed property trust sector has done exceptionally well but the last 18 months have been very volatile.”

That volatility is expected to continue in the coming months. If you have quality property trusts, just be patient,” Mr Ross said.

Bourke Shaw Financial Services principal Lawrence Orlando said analysts' forecasts for the sector for 2008 varied widely, ranging from minus-9 per cent to “an optimistic” 8 to 10 per cent.

He said historically markets had favoured long-term investors who had stuck to their guns.

“It is not the first time we have had a downturn and I would think that it won't be the last either.”

Ms Kaesler said the LPT sector might now be worth a look if people focused on trusts that had a bias to Australian property, high occupancy, sound rental income, reasonable levels of gearing and manageable debt.

“For property trusts with good quality assets, price falls are likely to have exceeded fair market valuations due to negative sentiment,” she said.

“Investors need to assess the ability of the trust to maintain dis-

tributions and weather the current negative sentiment.”

Ord Minnett's Mr Ross said his firm recommended quality stocks such as Westfield and Stockland, which had a strong track record, were not heavily geared, had quality management and strong assets.

“There's time to invest in these over the next six months,” he said.

Analysts in general are still wary about the sector. A current survey of analyst forecasts by Aspect Financial found that among the six biggest LPTs, only one, Goodman Group, had more “buy” recommendations than “holds”.

Goodman – which specialises in business parks, industrial estates, warehouses and distribution centres – has five buys, two holds and one sell.

The world's biggest property trust, shopping centre giant Westfield Group, has four buys, seven holds and one sell.

Stockland – a diversified property trust holding residential, retail, office and industrial property – has two buys, five holds and two sells. Dexis Property Group holds office, industrial and retail properties in six countries and has two buys, four holds and two sells.

CFS Retail Property trust has one buy, five holds and two sells, while the least popular LPT among analysts is Mirvac Group, which has a diverse range of properties including hotels. Mirvac has one buy, three hold and five sell recommendations.

Shareholders can invest in LPTs directly on the share market or through managed funds and superannuation funds that are likely to own a range of different property trusts.

“It is a more simplified way for an investor wanting to enter the property market but without the available cash to go and purchase a warehouse property or office complex outright,” Mr Orlando said.

“LPTs can deliver an attractive income stream over the long term, as well as acting as a good way for investors to diversify a balanced portfolio.”

“Income streams from LPTs have generally been consistent as rents are mainly derived through long-term leases. LPTs are liquid, making it possible for an investor to sell



down part of their holdings in a short space of time.

“Tax concessions such as depreciation means that some of the income generated from LPTs is deferred and as trusts are non-tax-paying entities, the tax-deferred component of distributions is passed on to the investor who does not pay tax on the distribution until the asset is sold.”

The biggest drawback of LPTs is their volatility compared with direct property investment. Prices are provided daily and are often based more on market sentiment – as is the case now – than the underlying value of the assets the LPT owns.

Mr Orlando said listed property trusts should never be viewed as a short-term investment.

THE TAX BENEFITS

■ Listed property trusts have access to tax concessions such as depreciation, so some of the tax associated with the rental income they earn is deferred.

■ The tax-deferred component is generally between 15 per cent and 100 per cent of the total income distribution.

■ This portion is passed on to investors, meaning you do not pay tax on it until your stake in the trust is sold.

■ The tax-deferred component reduces the cost base. Capital gains are calculated on the new cost base.

Source: ASX