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Colonial First State Global Asset Management

Unlisted property: a safe haven in times of stormy listed markets?

Presentation at 44th Kiparra Day

Luke Hartigan
Research

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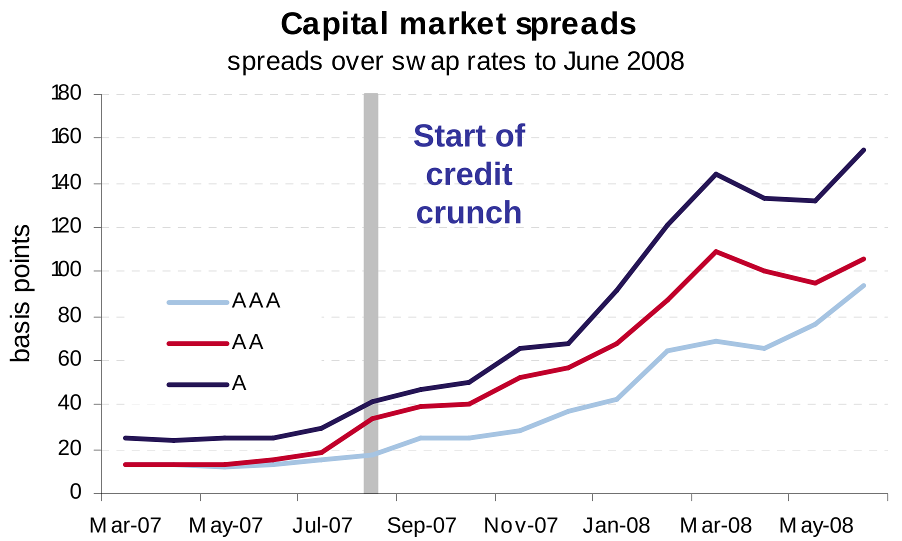
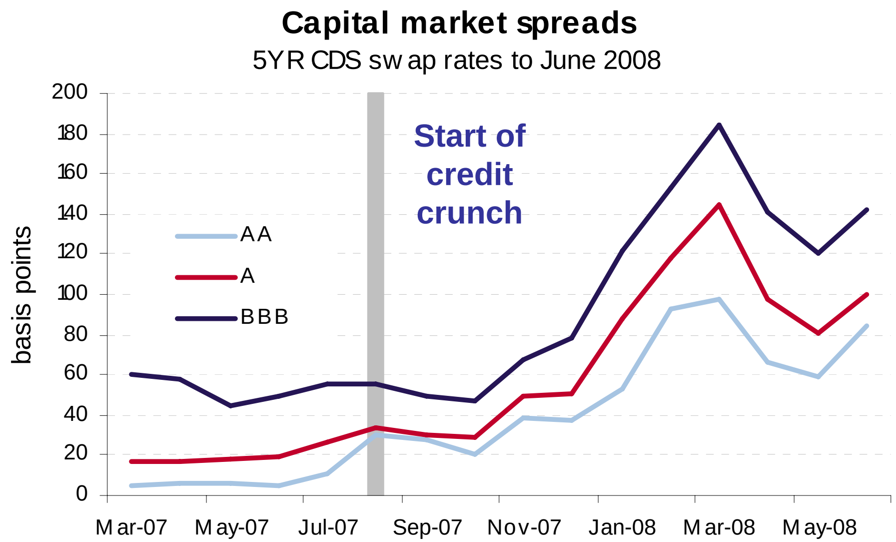
Outline

- Credit crunch and impact on asset markets
- Listed property returns and their changing risk profile
- Return performance of unlisted property against other asset classes
- Differences between listed and unlisted property vehicles
- Outlook for unlisted property returns

Credit crunch impact
- Turbulence in credit markets



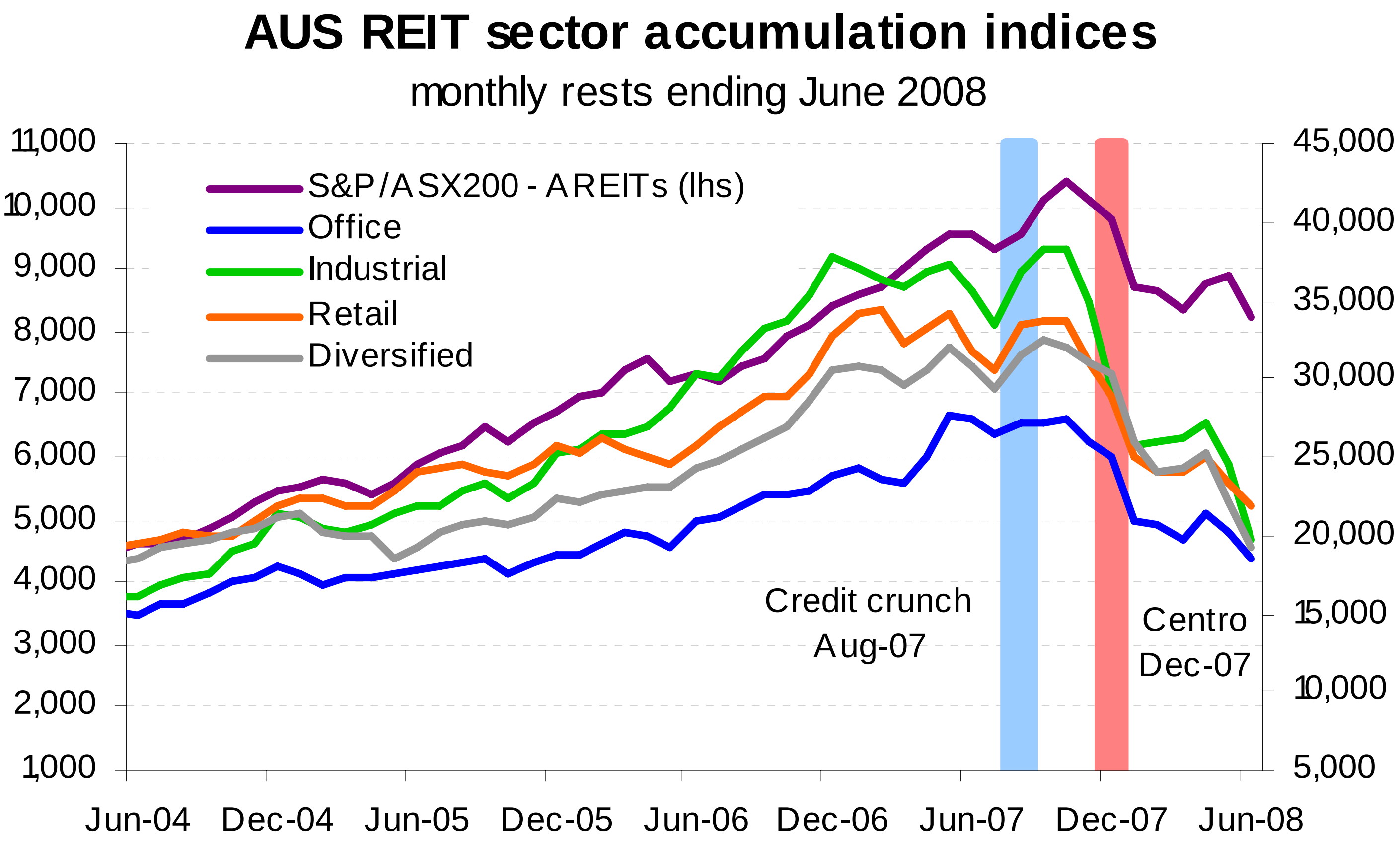
Source: RBA & CFS Research



NB: CDS refers to credit default swaps

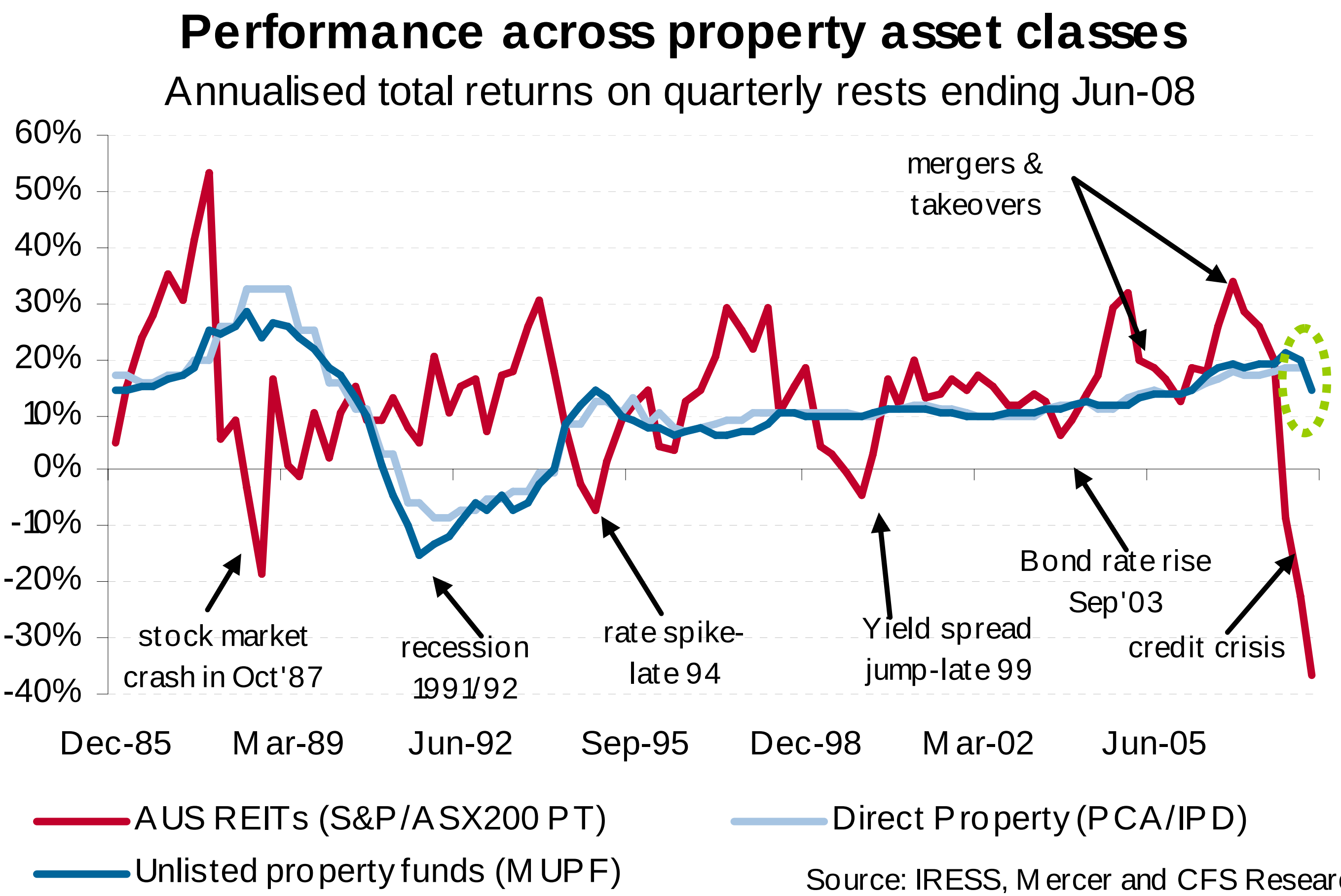
Source: RBA & CFS Research

Credit crunch impact
- Tempestuous listed markets...



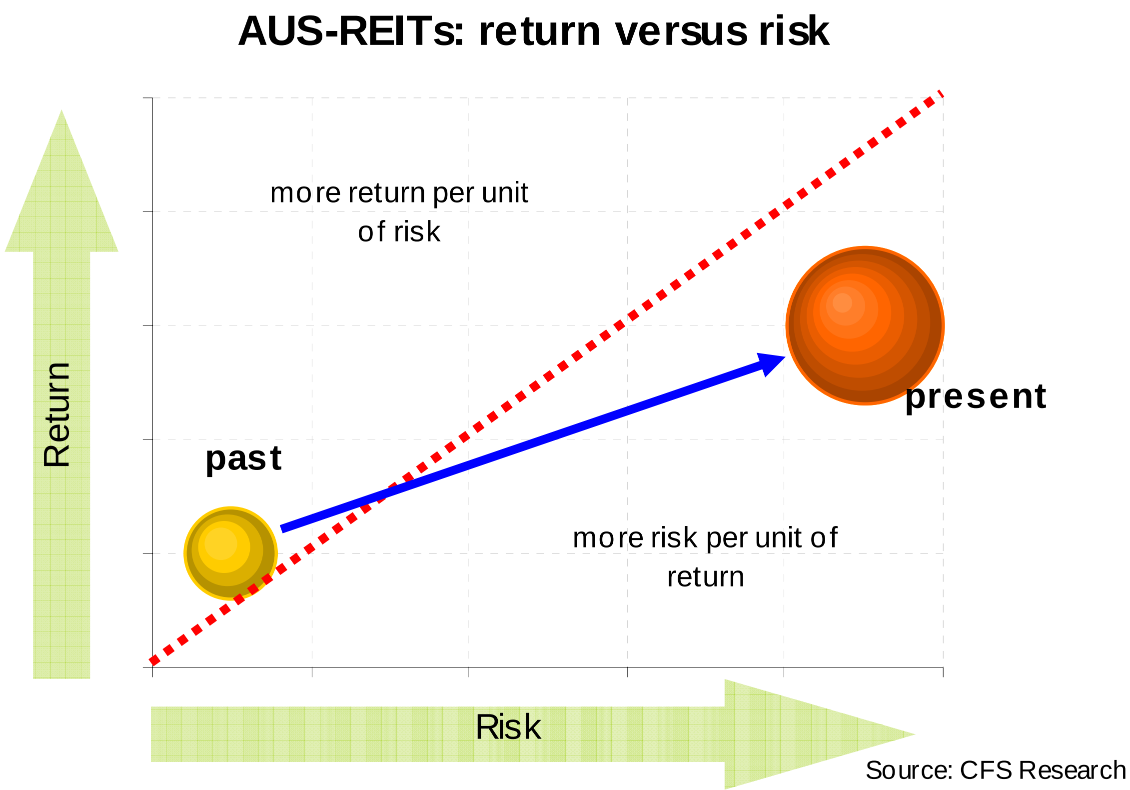
Source: UBS and CFS Research.

Credit crunch impact
- ...tranquillity in unlisted property markets?



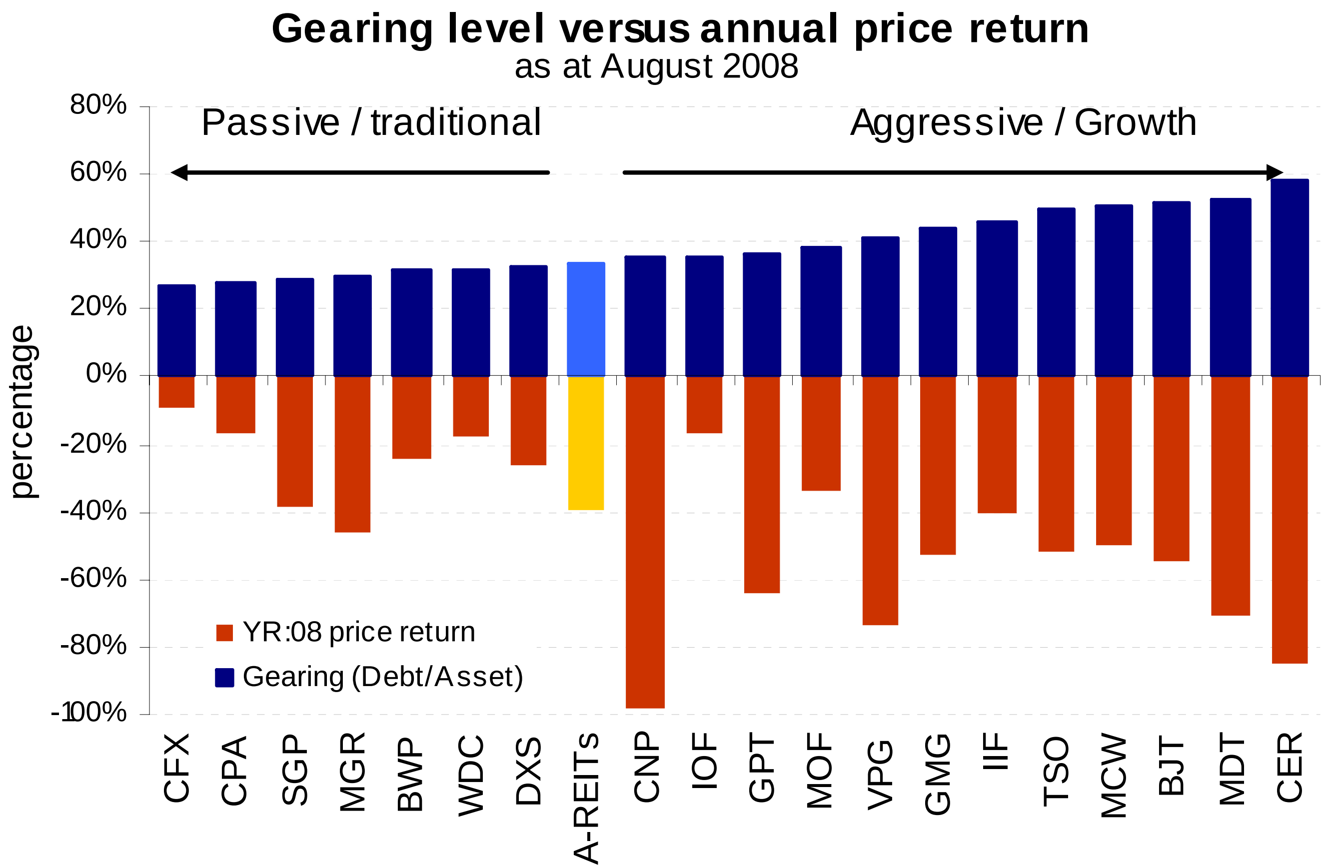
Source: IRESS, Mercer and CFS Research.

Why the massive re-pricing of A-REITs?
- increasing risk profile with growth strategies



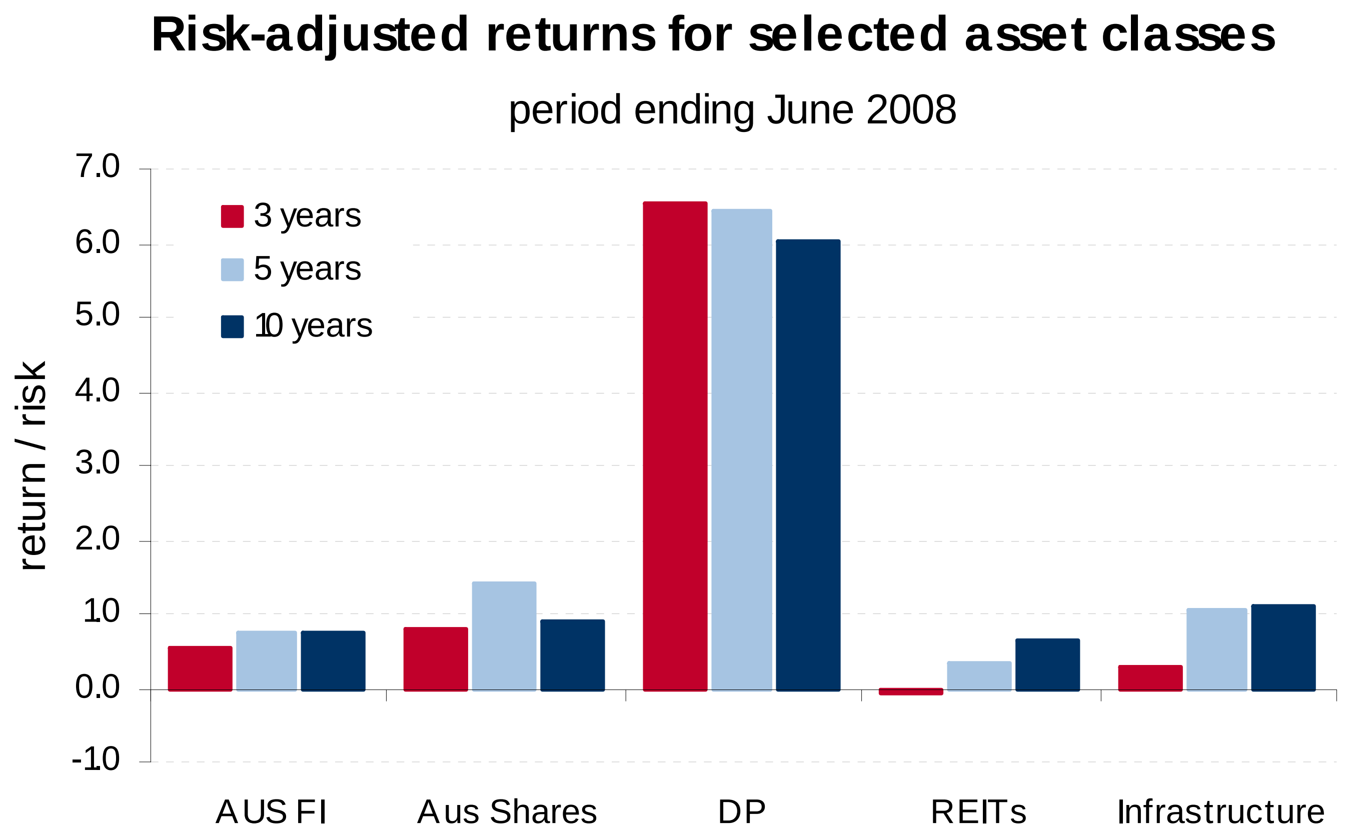
- The quest for growth has seen the AUS-REIT sector take on more risk:
  - increased gearing levels (currently c35%)
  - growing offshore exposure (currently around 40%)
  - rise of stapled trusts (over 70% of REITs are stapled)
  - increased market concentration (top 10 trusts comprise 80% of market cap)
  - poor capital management & lack of transparency

Why the massive re-pricing of A-REITs?
- greater leverage made A-REITs more risky



Source: UBS & CFS Research

Investment performance across assets
- direct property provides stable returns



Source: IRESS, MSCI, PCA/IPD and CFS Research

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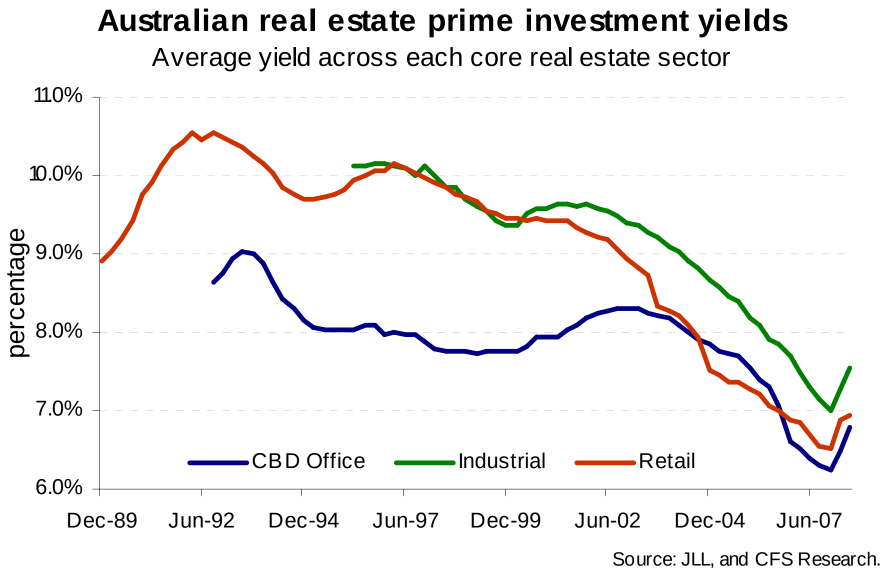
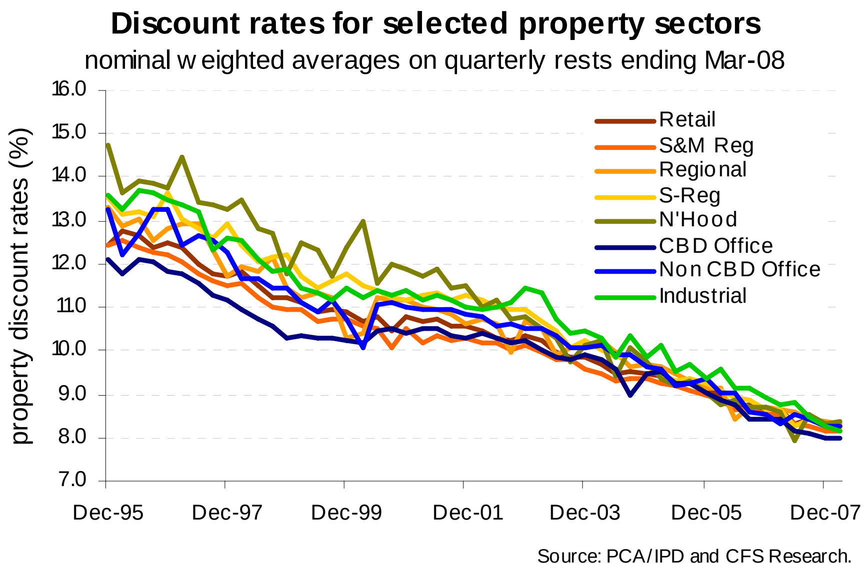
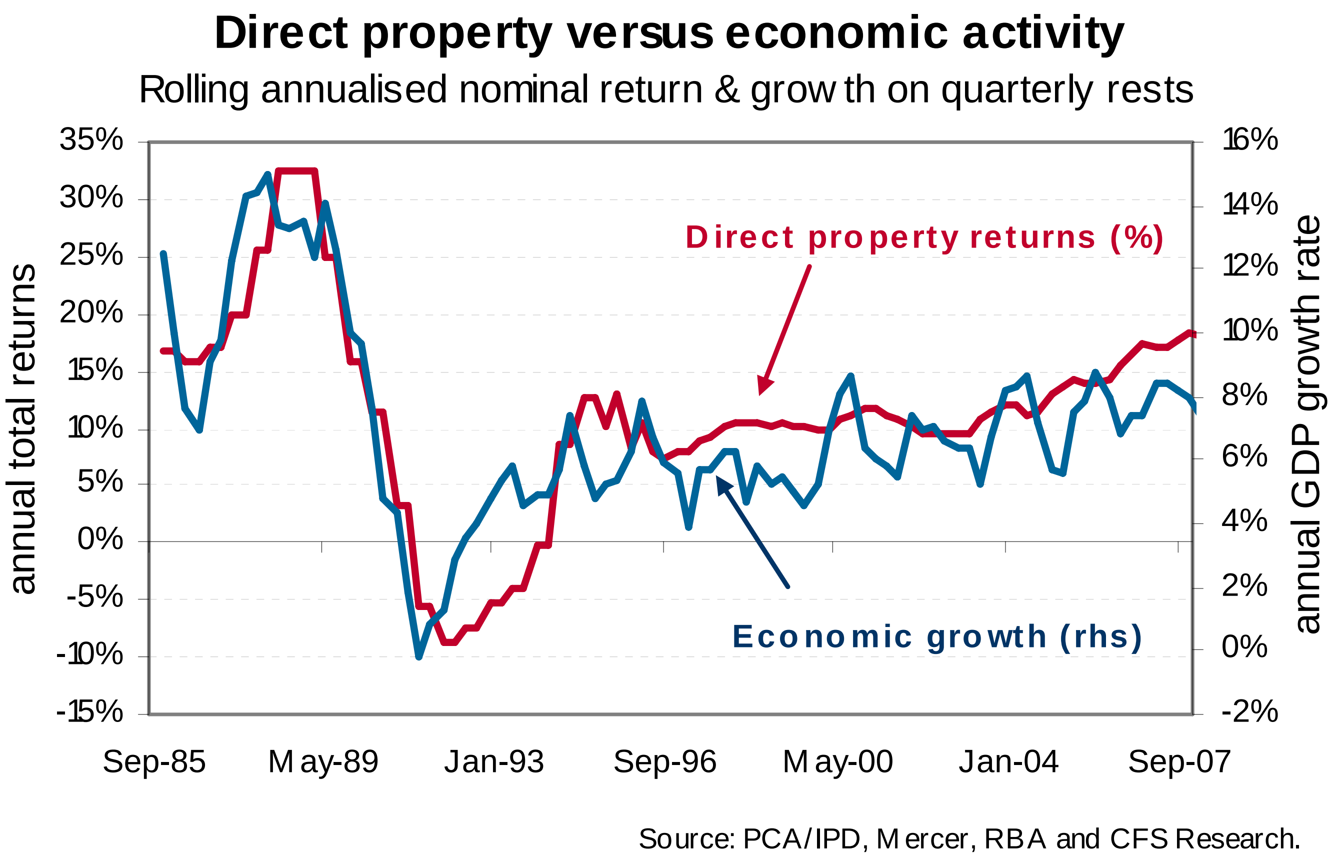
Direct property outlook
- yields and discount rates softening





- Property market yields and discount rates to soften with a re-rating of risk & rising cost of debt.
- Price softening to restore spread across asset grade – i.e., greater softening in yields for secondary grade than prime assets.

Direct property outlook
- linked more to real economy



- Access Economics forecasts that GDP will expand by 3.1% in 2008 and 3.7% in 2009. It expects growth to average 3.2% over the next five years which will provide support to space market fundamentals (SMFs) and unlisted property returns.

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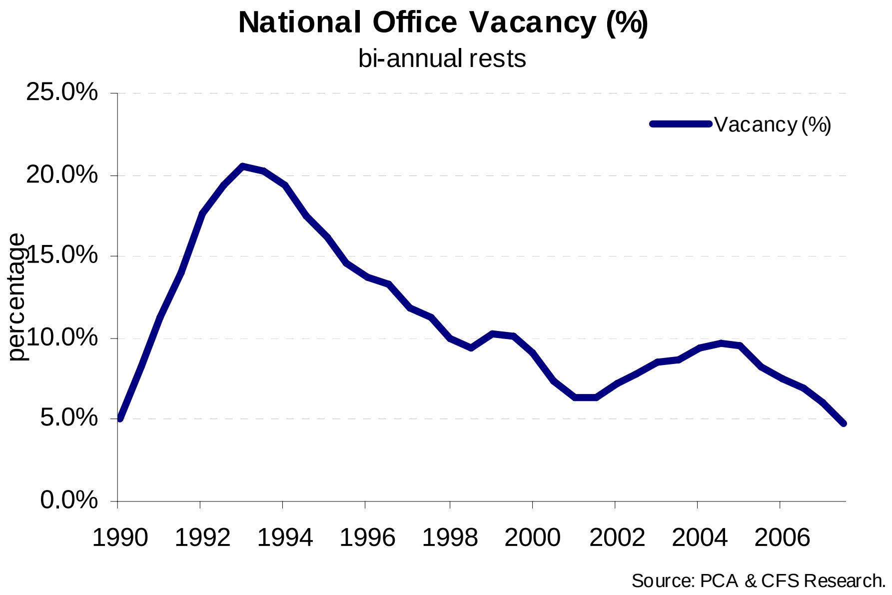
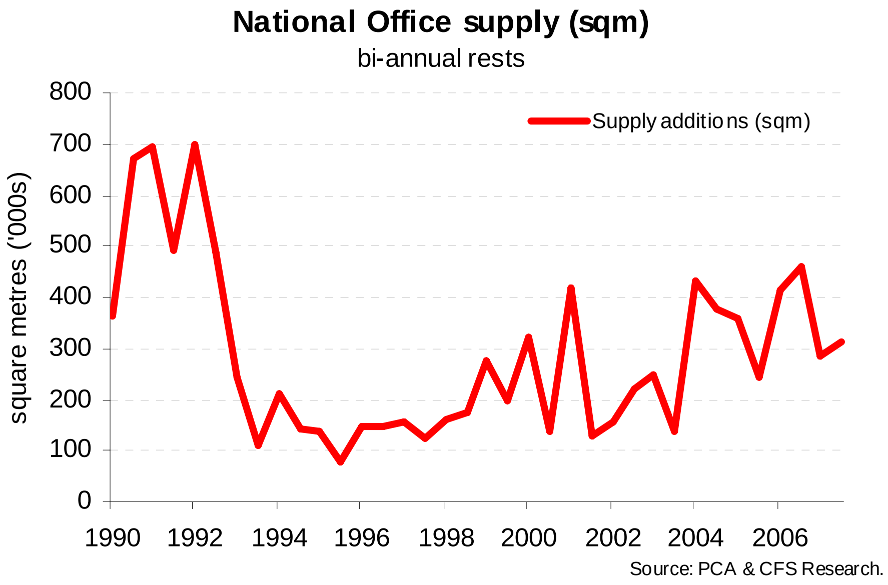
Direct property outlook
- current SMF's are relatively healthy





- Last major direct property market crash due to economic recession at a time of relatively high interest rates and a relative over-supply of product.
- Current environment does not have these features

Matching the investor to the product
- property best matched by unlisted vehicle

Objective:
- capital preservation
- stable returns
- long investment horizon

Real assets:
- direct property
- infrastructure

Structure:
- unlisted

Summary

- Historically, unlisted property has offered investors relatively higher risk-adjusted returns compared to other asset classes.
- The changing risk profile of A-REITs means they do not offer the same 'pure' exposure to direct property as unlisted property.
- A-REITs influenced more by financial markets while unlisted property driven more by real economy.
- Property prices will weaken with softening yields and discount rates but are unlikely to experience the level of repricing implied by the A-REIT sector.
- In times of heightened uncertainly, short-term re-allocations to assets which mitigate market volatility can enhance a portfolio's risk-adjusted returns.
- Unlisted property vehicles are well suited for investors who have a long term horizon and who are after stable returns.

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