Property Trust Investment for Fiji: Opportunities, Constraints and Viability

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Abstract: In the last decade property trusts and real estate investments have had a major impact on the property markets of Australia and the US. This paper charts the growth of these securitised investments. It goes on to investigate the processes and pitfalls that are involved in the establishment and operation of a successful trust vehicle.

Fiji has had an active stock market but a stagnant property investment market over the last five years with no significant commercial transactions. A few key players, including overseas banks, insurance companies and the state superannuation fund, dominate the property market. There are few opportunities for individual investors to gain access in the commercial, retail, industrial or tourism property sectors although residential investments remained popular prior to the current political unrest.

This paper undertakes a detailed study into the opportunities, constraints and viability of setting up property trusts in Fiji. It builds on the Australian and United States experience to suggest a framework for establishing property trusts. The research takes a qualitative approach and data analysis is grounded on the experience of experts in the market, from Australia and Fiji, to suggest ways of optimising opportunities in the Fijian context.

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Introduction

Property trust investment is an indirect form of property investment, which is highly favoured by institutional investors in most developed countries like Australia and America. Property trust investment operates with the idea of combining a large number of small sums of capital belonging to different investors into a viable investment pool which is professionally managed.

Property trust can provide a worthwhile spread of returns that is not achievable with investors acting individually. Their popularity stems from the fact that they allow investors to trade with property with a fair deal of liquidity. Both Australian Property Trusts (APTs) and United States Real Estate Investment Trusts (US REITs) enable a smaller investor to participate, yet retain the liquidity and convenience of an investment in traded shares, whether in a stock exchange or over the counter.

Fiji has had an active stock and a stagnant property investment market over the last five years with no significant commercial property transactions. Most investors in Fiji view property as an illiquid, long-term, immobile and low risk investment. These characteristics represent the concepts of direct property investment. Indirect property investments are yet to be introduced in Fiji's property investment market. However, the success of our regional neighbours, Australia, in indirect property investment, particularly in property trust investment over recent years is encouraging investors in Fiji to adapt this contemporary investment phenomenon.

This far, both institutions and investors remain skeptical of new property investment vehicles. A major education/marketing drive will be required to overcome the fears or reservations. General questions that are likely to be raised are *what is property trust investment? What are the characteristics and features of such and investment*? *What are the characteristics of the properties that are involved in such an investment*? *Do the properties in Fiji possess these characteristics to form a viable property trust investment for Fiji or not? And what are the views of major institutional investors in Fiji for such an investment?* These are the basic issues that need to be addressed before property trusts are set-up in Fiji. It is these basic issues that this research paper will address.

The paper is divided into three major sections, literature review, methodology and discussion/conclusions.

The literature review provides general theoretical background of APTs and US REITs from both primary and secondary sources. Discussions are provided on features and characteristics of property and share investments and an analysis of the Fijian investment market is made. The general features, characteristics, requirements of APTs and US REITs, their advantages and disadvantages, are also outlined. Investor awareness issues, such as things that are considered while choosing to invest in property trusts or REITs investments are discussed. The research also identifies the basic characteristics of properties that makeup a property trust portfolio in Australia and provides discussions on the Suva CBD office market sector, potentially the prime market for property trust investment in Fiji.

Based purely on a qualitative methodology, the research engages in a semi-structured interview process, and an ethnographic methodology. It provides a unique study, the first in Pacific region, putting together a paper that not only provides a concise but thorough review of the literature, and a synthesised view of property trusts based on empirical data grounded in the experience of investment 'experts' on property trust investments in Australia. It combines the views of major institutional investors and 'experts' in the property and investment arena in Fiji on opportunities, constraints and viability of setting up such an investment in Fiji. The methodology section justifies the use of a qualitative methodology for this research and provides discussions on how these methods are used in collecting and analysing data.

Finally, the research endeavours to provide sufficient guidance to investors, academics and students within the property and investment area in Fiji and the Pacific Region on the characteristics and features of property trust and REITs investments. It studies the characteristics of properties within such investment portfolios and illustrates whether the properties in the Suva office market sector possess these requisite characteristics to form part of a property trust investment in Fiji.

Literature Review

Investments

Investment can be defined as an act of immediate sacrifice in the expectation of future reward.[1] The capital committed to the acquisition of assets and the expected returns are exposed to risk. The greater the ability to produce a higher return, the higher is the risk involved. There are a variety of assets from which the investor may choose in order to achieve his or her objectives.[2] Portfolio and investment theory suggests that investors should diversify their investment portfolio in order to reduce total risk at a given level of return.[3]

The aim of any institutional investor is to achieve a diversified portfolio whilst maximising returns and minimising risk. Gerald Brown[4] states that:
"*risk in a portfolio could be reduced by spreading the amount of funds available for investments into a variety of opportunities, each in a different risk class*."

Back in 1950's, Harry Markowitz developed a basic portfolio model that demonstrated how risk could be reduced within a portfolio by combining assets whose returns demonstrate less than perfect positive correlation. Markowitz's theory exploited the low correlation between two assets and demonstrates that as long as the correlation between two assets is low, the risk component of a portfolio would be less than the average of the risk of the individual assets.[5]

Institutional investors have over the years achieved portfolio diversification using property and equity as their prime investments. A company that may be registered on a countries stock exchange can issue shares in its ownership to anyone who is willing to buy them. Investors buying shares in the company thus becomes shareholders of the company, being entitled to any profits made by the company or organisation (known as dividend payouts). These shareholders have the right to attend board meetings, vote on key issues and appointments, and can also trade their shares if someone is willing to buy them. Prices for shares are dynamic. They trade in a very volatile market that doesn't correlate to, or bear any relationship with, the assets upon which the company operates.[6]

Historically, property investments were seen as low-risk, long term and illiquid assets. Property plays a significant role in investment portfolios as it is considered a secure income generating and good capital growth investment. It is regarded as a less volatile investment than shares, providing a reliable hedge against inflation and offering diversification benefits.[7] Property investment, because of its illquidity factor, has often suffered from certain shortfalls as a portfolio investment.

[1] Renton, N.E. (1992), page 7.
[2] Hargitay, S.E. and Yu, S. (1993), page 4.
[3] Property Investment Research Ltd (1999), page 16.
[4] Brown, G. (1991) page 1.
[5] MacLeary, A.R. and Nanthakumaran, N. (1988) page 111.
[6] Leo, G. (1995), page 16.
[7] Boydell, S. and Clayton, P. (1993), page 3.

Over the years, institutional investors have come to demand more liquidity from assets. Property investment, with the help of securitisation, has diversified into a liquid, more easily tradable form allowing it to compete with other more easily accessible forms of investment. Rees[8] outlines two key components of securitisation:

- achieving greater efficiencies in the property market; and,
- re-arranging the equity, or burdens and benefits, of property ownership.

Securitised property investment vehicles pool the funds of a number of investors solely interested in property investment, enhancing direct property's liquidity factor, whilst providing diversity and professional management for investors. It allows multiple ownership and also provides investors with portfolio diversification benefits.[9] The main principle of securitisation is that whilst the investors receive a share of the property's income flow and capital value, they don't have any direct management control or responsibility for the investment.[10] Properties currently trade in the form of direct or indirect property investment. Indirect properties, particularly property trusts, are part of this securitisation concept and their success is evident in markets like Australia and the United States. Direct property investments are regarded as physical assets and involve at a fundamental levels an investor buying vacant land and erecting a building on it with the view to its resale now or in the future, or buying premises in poor condition, pulling them down and redeveloping the site.[11]

Indirect property investment is often defined as 'pooled investment', involving investors acquiring shares in property companies, property bonds, property unit trusts, unitisation and securitisation.[12] Such are examples of securitisation, which is the process of turning an illiquid physical asset into a tradable paper security.[13] Indirect property investment has increased rapidly on a worldwide scale with the main attraction being that it provides a liquid property investment vehicle. Liquidity is what separates direct property investments from indirect property investments. Boydell and Clayton[14] define liquidity as "*the case and certainty with which an asset can be converted to cash at, or close to, its market value*".

Internationally, investment attention is now focussed on indirect property vehicles. The split between property trusts and direct property investment has over the years in Australia reflected the demands that investors and institutional organisations have for trading in property with a fair deal of liquidity.

Table 1 illustrates the comparison between direct and indirect property investments in Australia over a decade in the 1990's.

Table 1: Comparison between direct and indirect property investments by percentage in Australia

Year (As at June)	**Direct Property Investments (%)**	**Indirect Property Investment (%)**
1991	81	19
1992	70	30
1993	69	31
1998	51	49

Source: Property Investment Research Ltd (1999), page 33

8 Rees, D.J. (1993), page 402.
9 Pridham, A. (2000), page 66.
10 Anderson, A., Robertson D., and Scott, A. (2000), page 3.
11 Renton, N.E. (1992), page 20.
12 Property Investment Research Ltd (1999), page 16.
13 Harrington, A. (2000), page 68.
14 Boydell, S. and Clayton, P. (1993), page 64.

In 1992, the split between direct and indirect property investment was 70%:30% to direct property investments in Australia, now it is more likely to be 50%:50% and set to go 40%:60% to indirect property as investors seek liquidity, access to high quality properties and lower transaction costs.

Property trusts, REITs and property syndicates are types of indirect property investments operating in the Australian and US property market. Property syndicates are typically closed-ended vehicles, whereby investors with similar goals come together as tenants-in-common and combine their capital to purchase a specific property or properties that would be sold after five to seven years. [15] The shares in these investments are non-redeemable and typically all investors enter or purchase at the same time and exit together when the property is sold. [16] Thus like direct property, syndicates are relatively illiquid investments.

Australian Property Trusts and United States REITs

REIT is one of the fundamental vehicles for public real estate investment in the US.[17] As explained by Jarchow[18], REITs are a viable vehicle for investment by a large number of individuals each investing a small amount of capital or a large institution making significant capital investments.

A REIT is defined as a corporation, trust, or association (other than real estate syndication) which is engaged primarily in investing in equity interests in real estate (including fee ownership and leasehold interests) or in loans secured by real estate or both. [19]

Like any pooled ownership structure, property trusts are generally established to draw together a group of like-minded investors to own property investments. [20] A property unit trust is a: "*collective investment scheme under which property subject to the scheme is held on trust for the participants.*"[21]

REITs in US also provide investors with an opportunity to pool capital and invest in a managed real estate corporation or trust.[22] Thus a REIT by definition, is also:
"*a corporation or business trust that combines the capital of many investors to acquire or provide financing for all forms of real estate.*"[23]

There are different types of property trusts in Australia and REITs investments in US. *Table 2* illustrates the types of trust investments.

Table 2 Types of property trusts in Australia and REITs in United States

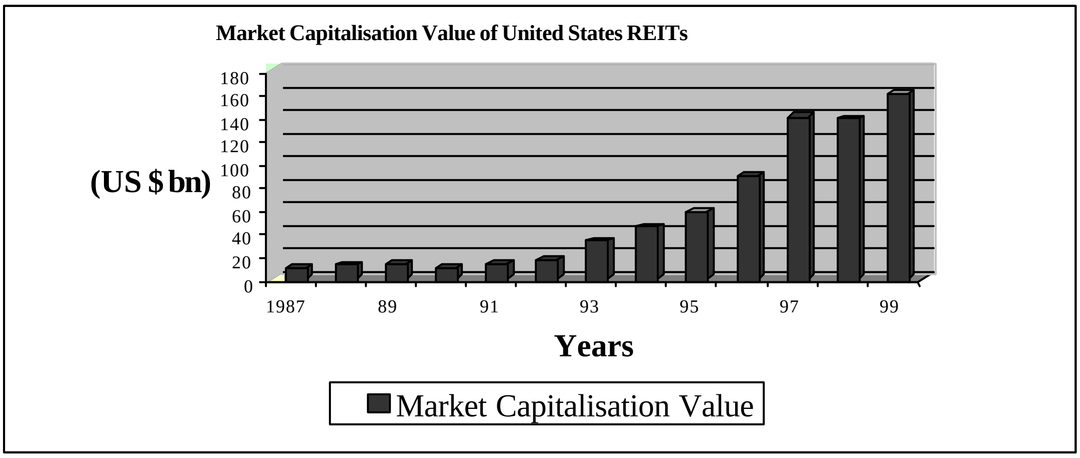
Property Trusts (Australia)	**Real Estate Investment Trusts (United States)**
Listed Property Trusts (LPTs) Unlisted Property Trusts (UPTs)	Equity REITs. Mortgage REITs Hybrid REITs

Source: Brueggeman, W.B. and Fisher, J.D. (1997), page 663 and Property Investment Research Ltd (1999), page 17.

[15] Pridham, A. (2000), page 68.
[16] Property Investment Research Ltd (1999) (a), page 16.
[17] Corgel, J.B., Mcintosh, W. and OTT, S.H. (1995), page 14.
[18] Jarchow, S.P. (1988), page 6.
[19] Jarchow, S.P. (1988), page 7.
[20] Paramor, G. (1997), page 437.
[21] Boydell, S. and Clayton, P. (1993), page 66.
[22] Jarchow, S.P. (1988), page 74.
[23] Martin, E.J. (1997), page 45.

The US REIT market has grown from US $1 bn in 1968 to US$160.2 bn in 1999.

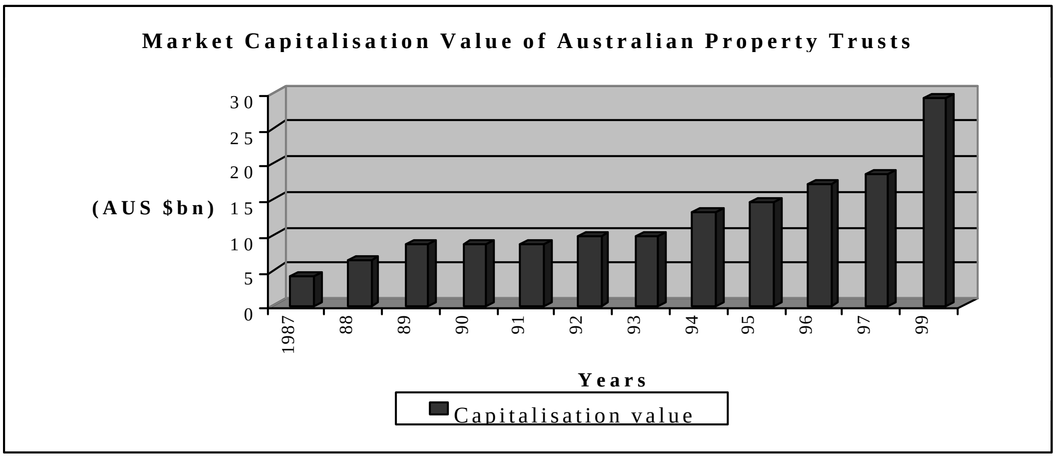
Graph 1 The Market Capitalisation Value for United States Real Estate Investment Trusts for the period 1987 to 1999.



Source: Newell, G. (1997), p6; Koch, R.L. (1998), p1, 22; Corgel, J.B., McIntosh, W. and Ott, S.H. (1995); Ferst, J.L. and MacCrate, J.R. (2000), p14; and Anderson, A., Robertson D., and Scott, A., (2000).

The market capitalisation rate for the APT sector for the year 1999 was AUS$29.3 bn.

Graph 2 The Market Capitalisation Value for Australian Property Trust Sector for the period 1987 to 1999.



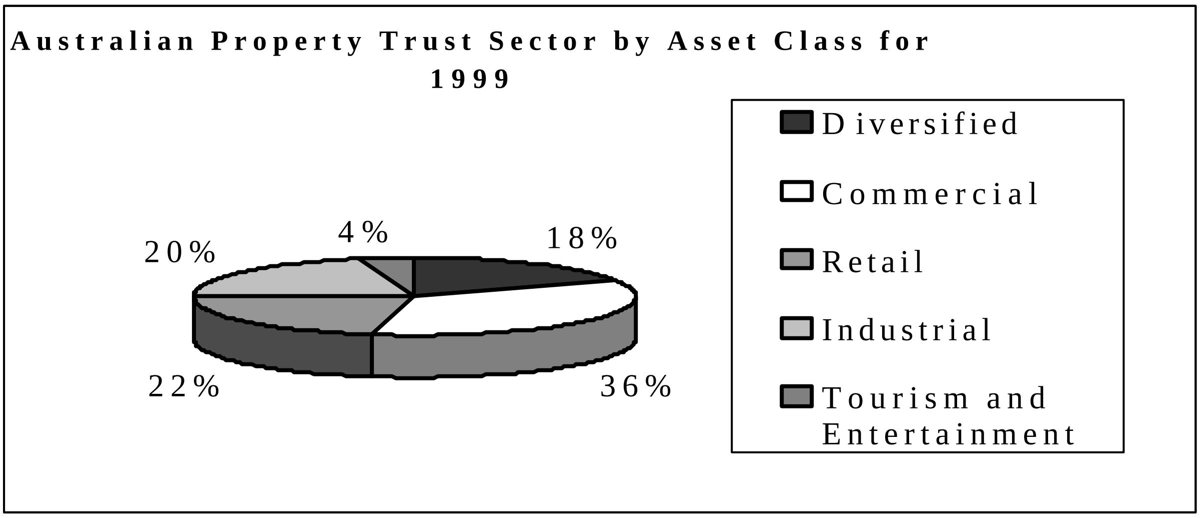
Source: Anderson, A., Robertson D., and Scott, A. (2000); Harrington, A. (2000), p95; Newell, G. (1997), p6, 14; and Property Investment Research Ltd (2000), p21.

Whilst the REITs investment sector of the US is a far larger market than the Australian trust sector, both are highly successful investments.

Property trusts and REITs provide investors with the best means of investing in a diversified portfolio of prime property, ensuring their participation in different sectors of property investment.[24] The diversity of asset classes or types of trusts that the US REITs invest in is far wider than the APTs sector. *Pie Charts 1* and *2* illustrate the trusts asset classes for the US REITs and APT sector for the year 1999.

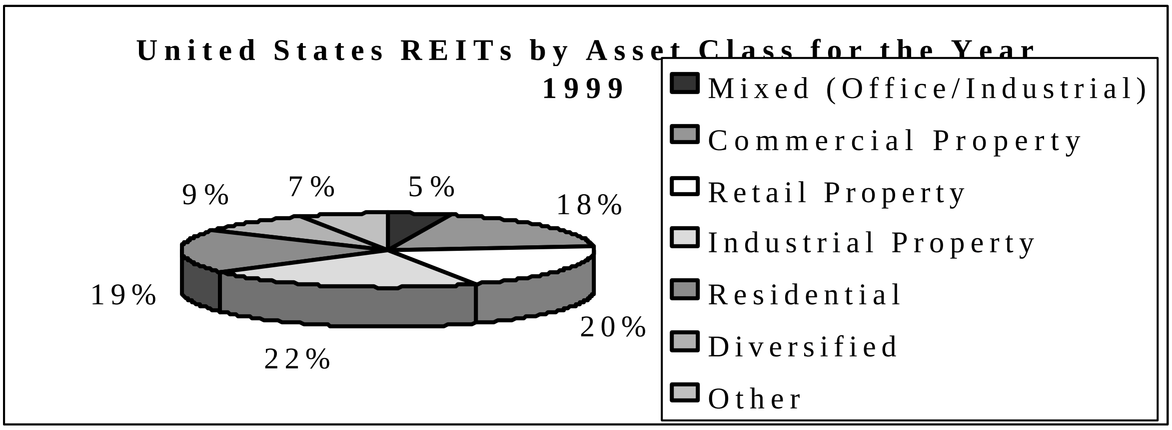
[24] IPAC Securities Ltd (1991), page 14.

Pie Chart 1 Australian Property Trust Sector by Asset Class



Source: Property Investment Research Ltd, (2000).

Pie Chart 2 United States REITs Investment by Asset Class.



Source: Anderson, A., Robertson D., and Scott, A. (2000), p24.

REITs are also a highly sector specific investment involving office, retail, industrial, residential, mixed (office/industrial), diversified and others involving health care, and hotels.[25] The dominant sector of investment for APTs is commercial or office (36%), followed by retail, industrial, diversified and than the tourism and entertainment sector, which is still to gain popularity among investors in Australia. The REIT investment is dominated by the industrial sector (22%), followed by retail, residential, commercial, diversified, mixed and than the tourism and health care sectors.

Property trusts exist on the stock exchange in the same way as new companies. The units, once registered, are bought and sold as shares. Listed trust holders cash in their interest by selling their units through a stockbroker. Unlisted trust units, when newly created, can be obtained from the fund manager.[26] The overall performance of LPTs has been deemed better than UPTs. The share and property markets both affect the value of units in LPTs.[27] The price that shareholders receive in LPTs may have been disappointing at times, but at least the units can be sold. The performance of the LPTs are distinct from the performances of the

[25] Newell, G. (1997), page 4.
[26] Renton, N.E. (1992), page 273.
[27] Donnelly, A. (1996), page 62.

properties within the trust's portfolio, however the performance of UPTs is based on the performance of the properties within the trust's portfolio.[28]

By nature UPT's shares are redeemed at periods of one year or around five to seven years when the property is sold, whilst LPTs shares are sold and not redeemed. The circumstances that prevail at the time of investments mostly determines the value of a listed or unlisted property trust. The number of times units are traded also determines the liquidity of the trust. "*The liquidity of a listed trust depends on whether buyers on the stock exchange can be found – at least, buyers willing to pay reasonable prices. The liquidity of unlisted units depends on whether the manager has sufficient cash on hand – or can raise it from the realization of trust assets or from borrowing*."[29]

The UPTs sector in Australia has lost popularity in comparison to LPTs. Back in the early 1980's the UPTs investment was a boom sector because of its ability to provide individual investors access to premium grade properties for a minimum investment, providing investors with lower volatility than listed equities and having a sixty-day maximum redemption. Its sixty-day redemption period led to its downfall as assets could not be sold without forfeiting the remaining shareholders, thus forcing the funds to place moratoriums on redemptions. Many trusts were wound up, with shareholders losing huge amounts. In July 1991, the Australian Government imposed a standard 12-month maximum redemption period on UPTs, thus forcing the closure of most unlisted trusts and resulting in their conversion to listed trusts.[30]

The Australian Listed Property Trust's (ALPT) current success is largely owed to the fact that it has over the years adopted its operations in such a way that it meets the demands of institutional investors by:

1) increasing the number of investments; and
2) creating a trend towards sector specific trusts. [31]

The US REITs investment, like the APT sector, are also traded publicly and privately. Public REITs are those that are traded on the stock exchange and Private REITs are once that involve direct dealings with individual trust managers or operators.[32] In 1997, 65% of the REITs in the US were trading at the United States National Stock Exchange, while 35% chose to remain private.[33] Unlike the Australian counterparts, US REITs investors choose to remain private for flexibility reasons, that is, they always have the option of going public whenever they want to.[34] The advantage of private REITs in US is that they have the opportunity of teaming up or entering into partnership with other private and public companies, a feature which is not so evident in the APT sector.

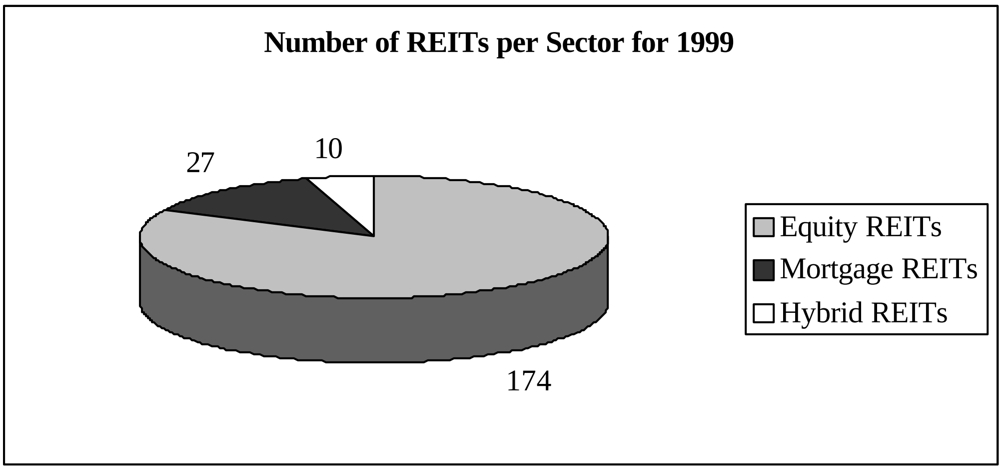
The modern REITs are classified by the National Association of Real Estate Investment Trusts (NAREIT) as *Equity REITs*, *Mortgage REITs* and *Hybrid REITs*. The equity trust acquires property interests directly or invests in joint ventures holding property assets.[35] Mortgage trusts purchase mortgage obligations and invest in loans secured through property, thus becoming a creditor. Mortgage REITs do not own property, but rather make loans that enable others to buy property investments.[36] Over time the advantages of both equity and

[28] Property Investment Research Ltd (b) (1999), page 16.
[29] Renton, N.E. (1992), page 95.
[30] Property Investment Research Ltd (b) (1999), page 18.
[31] Anderson, A., Robertson D., and Scott, A. (2000), page 14.
[32] Downs, A. (1994), page 20.
[33] Martin, E.J. (1997), page 69-70.
[34] Moore, S.A.D. (1995), page 52.
[35] Moore, S.A.D. (1995), page 51.
[36] Brueggeman, W.B. and Fisher, J.D. (1997), page 663.

mortgage REITs were combined to develop an investment that suited specific investment objectives, which are now known as 'hybrid' REITs. The Mortgage REIT is different from the equity REIT, in the sense that it does not own any real property. It only owns the mortgage paper which secures the subject property for the loan purposes. While Equity REITs derive their income from the property, Mortgage REITs derive theirs from the mortgage paper at the amount of funds outstanding on the loans.[37] These trusts are engaged in short-term construction and development lending, as well as long term commercial mortgages.[38]

The equity REITs possess the same characteristics as the APTs sector, while mortgage and hybrid REITs possess characteristics which are not evident in the Australian market. The success and growth of REITs investments has had many inevitable downturns or fluctuations. REITs took off as a very attractive investment in the late 1960's and early 1970's, at a time when there was increased demand for construction and development financing and when existing financial institutions were unable to meet this demand.[39] During this period mortgage trusts were used as a source of loans, particularly for construction and development. The dramatic fall in inflation rates in the late 80's, overbuilding and a weak US economy, led to a severe depression in the real estate market, leading to the under-finance of properties. The rentals at that time were not sufficient to cover interest and amortisation payments and many building had to file for bankruptcy. The only way out of the crisis was to pay down debt with new capital from the equity public capital markets and the REITs suddenly had a renewed purpose.[40] The current domination of Equity REITs sector in US is illustrated in *Pie Chart 3*.

Pie Chart 3 Division of REITs sectors in 1999.



Source: Anderson, A., Robertson D., and Scott, A. (2000).

The reasons for the success of the US REITs are not exactly the same as for the Australian sector. The fact that the US has a substantially bigger investment market than Australia means that its property and equity market are significantly larger than the Australian market. Correspondingly it has a higher degree of trading than the Australian market and hence liquidity isn't a factor that makes REITs attractive to investors. The success of US REITs has been driven by:

1) the introduction of UPREITs in early 1990's,
2) REITs providing a very wide investment base or wide choice of property category for investors to choose from, and,

[37] Jennings, R.B. (1993), page 13.
[38] Jarchow, S.P. (1988), page 243.
[39] Jennings, R.B. (1993), page 14.
[40] Eickhorst, T.C. and Schulte, K.W. (2000), page 2.

3) investors are supplied with adequate information as to the market and specific REITs.[41]

To maintain their tax-exempt status, both REITs and APTs must distribute all of their substantial net earnings to unitholders and any profits made through the sale of properties within the trust's portfolio.[42] [43] Both the APT and REIT investments pass their taxable earnings to the unitholders, and it's the unitholders who pay tax on of the received income.

The trustee is responsible for holding the property and ensuring the conditions of the trust deed are upheld. This is the basis on which the APTs and the US REITs investments are founded. Property Trusts can be defined as:
"*a legal structure where investment assets are held on trust for the benefits of the trust's beneficiaries, the unitholders.*"[44]

These investments must be approved and managed by a board of trustees, who are accountable to the shareholders and are ordinarily well qualified to make such decisions. REITs are administered by a board of directors or trustees on behalf of the investor, while the day to day asset management is performed either externally or internally.[45] Generally, these investments have three trustees who are independent of the trust, in other words they are outsiders to the trust, performing no other function than to provide their services as trustees.[46]

The traditional concept upon which this collective investment is based has changed over the years. In Australia, a "Single Responsible Entity" can replace the manager and the trustee.[47] Property trusts in Australia currently are not headed by the trustees, but are managed by the "single responsible entity". The new management structure merges the role of a trustee, who is responsible for ensuring that the provisions of the trust deeds are upheld, and that of the trust manger, who is responsible for the commercial decisions in relation to the trust.[48]

Several authors (McMahan[49]; Jarchow[50]; Brueggeman[51]; Corgel, Mcintosh, and Ott[52], Koch[53]; Anderson, Robertson and Scott[54]; and Chen and Tzang[55]) have outlined some of the major requirements that need to be fulfilled by US REIT and APT investments:

- REITs are required by provisions to have at least 100 shareholders for a whole taxable year;
- no individual or five individuals should hold 50% of these shares or stocks;
- 75% of its annual income to be derived from direct property investments.
- REITs cannot hold investments for short-term profits, meaning that they are long term investments;
- are required not to hold more than 5% of stocks or securities in their portfolio;
- to qualify as trusts, and to be tax exempt, trusts must pay out 95% to 100% of their earnings as dividends to the shareholders annually;
- trust's are allowed a gearing level of 60%; and,

[41] Anderson, A., Robertson D., and Scott, A. (2000), page 24.
[42] Property Investment Research Ltd (a) (1999), page 27.
[43] Brueggeman, W.B. and Fisher, J.D. (1997), page 661.
[44] Pridham, A. (1997), page 1.
[45] McMahan, J. (1995), page 2.
[46] Jarchow, S.P. (1988), pages 32, 42.
[47] Property Investment Research Ltd (a) (1999), page 19, 20.
[48] Pridham, A. (1997), page 1.
[49] McMahan, J. (1995), page 2.
[50] Jarchow, S.P. (1988), pages 6, 7.
[51] Brueggeman, W.B. and Fisher, J.D. (1997), page 662.
[52] Corgel, J.B., Mcintosh, W. and OTT, S.H.. (1995), page 23.
[53] Koch, R.L., (1998), page 21.
[54] Anderson, A., Robertson D., and Scott, A. (2000), page 3, 14-15.
[55] Chen, K.C. and Tzang, D.D. (1988), page 13.

- Specialist external property investment managers extensively manage LPTs, while REITs prefer internal managers.

Other essential features of REITs and APTs are that there is no minimum or maximum size for these trusts, and taxable losses cannot be passed onto the shareholders like partnership investments.[56] Both REITs and Australian property trusts are formed prior to their registration with their respective national stock exchange market. The trust manager when setting up the trust is required to identify suitable properties, form a trust deed that needs to be approved by the stock exchange, make arrangements with brokers and research investor demands, make presentations to major institutional investors, gain support from brokers and institutions for flotation, underwrite and distribute prospectus, and take subscriptions. Managers then need to make applications to the Stock Exchange for listing, ensuring that any shortfalls in subscriptions are taken care of by the underwriters once the subscriptions are closed. Final settlements on the properties are made and stocks are listed. Finally, the fund manager has the on-going responsibility to meet the forecasts contained in the prospectus, comply with Stock Exchange listing rules and uphold the trust deed. The fund manager has the on-going responsibility to produce and disclose reports.[57]

There are two major types of trust management. Funds can be managed internally, through a subsidiary body of the trust organisation or externally through contractual agreements. Fund mangers monitor the day-to-day operations of the trust. They do not own the properties within the trust's portfolio. They are only contracted employee of the unitholders and can be typically removed by a majority vote of unitholders in annual general meetings.[58]

Internally managed REITs employ their own acquisition, research and asset management staff. If REITs are externally managed then outside advisors perform these services and then bill the organisation for expenses.[59] The fees paid to fund managers by REITs are asset based, ranging from 0.50% to 1.5% per annum of the total value of the assets.[60]

Financial management skills are critical for fund managers. There are different sources of debt funding techniques due to increased use of debt for funding acquisitions and property development.[61] Raising capital is not an easy process for property trusts. Critical factors are sub-sector (asset class), issue size and liquidity, management, asset quality and pricing.[62] Like direct property investment, property trusts also rely on the rental income from the property. Rental is the major source of income and if rental earnings fall, then trust returns will also fall.

The LPT sector in Australia currently relies on the debt market more than it used to some years ago. As property trusts are not allowed to retain any earnings, the major source of repayments is equity sales. Typically trusts in Australia borrow around 25% of their gross assets value to fund their acquisitions and redevelopment.[63] Trusts can sell their properties to raise capital, but such extreme measures are only taken after all avenues of raising capital are exhausted, that is both the equity and debt market. However, it is important to note that the manager’s payments are based on the gross asset value and consequently downsizing the trust’s portfolio is the least attractive option for fund managers.[64] Bank debts or bank loans

[56] Anderson, A., Robertson D., and Scott, A. (2000), page 22.
[57] Paramor, G. (1997), page 438.
[58] Property Investment Research Ltd (1999), page 19, 20.
[59] Corgel, J.B., Mcintosh, W. and OTT, S.H. (1995), page 14.
[60] Jarchow, S.P. (1988), pages 6, 7.
[61] Harrington, A. (2000), page 8.
[62] Property Investment Research Ltd (a) (1999), page 27.
[63] Parsons, A. (1999), page 3.
[64] Parsons, A. (1997), page 4.

are the primary source of funding for listed property trusts. They are also active users of Medium Term Notes and commercial paper, with the latter being used by fewer LPTs.
The amount of money outstanding to these sources by the ALPTs sector for the year 1999 is outlined in *Table 2.3*.

Table 3 Listed Property Trust's Debt Sources and Outstanding Figures for the Year 1999.

Debt Sources	**Outstanding Figures (Aust)**
Bank Debt	Over $6.0 billion
Medium Term Notes	Approximately 1.0 billion
Commercial Paper	A minimum of $100-150 million

Source: Phillips, M. (1999), page 2-7.

Around 66% of the LPT sector's debt is derived from bank debts, 16% from commercial paper and 18% medium term notes.

It is a challenging task to accurately analyse and value a securitised property investment. Not only does the analyst have to consider the complex factors that affect the pricing of shares on the stock market, but they also have to deal with the illiquidity of a property investment, structured in the form of a liquid asset. Stock market analysts and property valuers carry out property trusts and REITs valuation and assessment. It is important to distinguish between the roles of the valuers and the trust analysts. While the valuer is involved in valuation of the individual properties within the trust’s portfolio (micro), the trust analyst assesses the trust’s overall performance (macro), taking into account the valuations of the individual properties and other trust operational and performance issues.

Professional independent appraisers with a minimum of five years experience are hired to value properties within the REITs portfolio.[65] In Australia, property trusts are required by Australian Corporation Law and Regulations to engage valuers when property is acquired, disposed off or at least once in every three years. The valuation must be at market value, should provide comparables of capitalisation value of properties and use the discounted cash flow to value the assets. The valuers are also required to make projections based on the subject property’s earnings and most importantly, one valuer cannot make more than three consecutive valuations on the same property.[66] These valuers can again be contracted by the trust for a lapse of two years.[67]

The major appraisal methods used by valuers in Australia for valuing LPTs are the Yield Based Method, Net Tangible Asset Based (NTA) method and Dividend Discount Model (DDM). Yield based methods are used to make comparisons between individual listed property trusts and the listed property trusts sector average. NTA based valuations are used to make comparisons between individual LPTs and the LPTs sector average and to relate to the property market. The Dividend Discount Model (DDM) is used to calculate the present value of cash flows using the capital asset pricing model, thus creating an absolute value, which is then compared against the trading price of the LPT.[68]

[65] Corgel, J.B., Mcintosh, W. and OTT, S.H. (1995), page 21.
[66] Piltz, B. (1997), pages 7.
[67] Renton, N.E. (1992), page 98.
[68] Wright, K. (n.a), pages 16-22.

IPAC Securities Ltd.[69] of Australia and Jarchow[70] outline the following guidelines that investors must consider while planning to invest in property trusts and REITs investments:

1) the quality of properties, by acquiring information on appraisals, market studies, information on key property holders, average time of expiry for major tenant leases, vacancy rates, geographical diversification of the trusts, spread of properties by type (Central Business District, retail, industrial, leisure, tourism) and general real estate understanding;
2) the management qualities of the properties. It is important to look at the overall asset management standard, the investment experience of the fund managers and their backgrounds in terms of trust or day-to-day property management;
3) the gearing or borrowing level is also an important issue for investors to look into. Investors should look at the financial commitments of the trust;
4) the quality of the cashflow and the trusts liquidity value;
5) investors should avoid investing in trusts that have new buildings with limited tenants or high vacancy rates; and,
6) it must be noted that property trusts and REITs prospectus can be long and complicated documents. It is important that investors are sensitive to the minor details, which in the longer run can dramatically alter an investment return.

One question that often arises is “are REITs and property trusts investment property or stocks?” Theatrically, both REITs and property trusts must legally hold a high proportion of direct property investment in their portfolio and their returns must behave similarly to the returns of direct property investment. Nevertheless the fundamentals of REITs and unsecuritiesed or direct property investments are the same. However, they are totally different forms of investment in terms of performance and returns.

Both LPTs and publicly traded REITs are subject to day-to-day price movements, while direct property is subject to less frequent transaction based sales evidence. Thus, direct property is hypothetically less volatile than property trusts, which in turn at less volatile than general stocks and shares. This volatility is because LPTs are more frequently traded than direct property investments.[71] However, over a long period, returns from direct property and LPTs should be similar as they have the same underlying asset. Direct property is less volatile than LPTs, and is negatively correlated to LPTs. LPTs have a high correlation with equities and generally outperform direct property investments. [72]

The performance of direct property is highly correlated to the level of economic activity, meaning that values rise and fall depending on the demand for a particular property. However, shares in the LPT sector respond more promptly to the liquidity cycle.[73] Movements in the Australian stockmarket significantly influence the LPT sector. The Australian stockmarket is in turn very much influenced by overseas markets, particularly the New York and London stock exchanges.[74] The movements in the direct property market depend largely on economic activity, while the movements in LPTs are dependent on movements of a countries stockmarket, which actually also depends on the movements of the international stock markets.

[69] IPAC Securities Ltd (1991), page 18.
[70] Jarchow, S.P. (1988), pages 246-247.
[71] Anderson, A., Robertson D., and Scott, A. (2000), page 18.
[72] Harrington, A. (1996), page 13.
[73] Joslin, L. (1998), page 5.
[74] Property Investment Research Ltd (a) (1999), page 35.

Property trusts and REITs provide various advantages and disadvantages when compared to direct property investments. Property trusts involve small sums of investments, with many trusts accepting as little as AUS$1,000.[75] REIT ownership does not always require typically large and long-term financial commitments as in other property investment alternatives. As shares of REIT stocks are publicly traded or sold, they are easily transferred with low transaction cost.[76] The primary advantage of a REIT, other than its ability to avoid double taxation on its earnings, is its liquidity as a traded security. Shares in property trusts can be cashed in within days of transaction.[77] Property trust investors have the opportunity to oversee the whole market and select trusts that fit the investor's strategic portfolio goals.[78] These investments give investors access to quality properties, without having to actually buy the properties directly.[79] It also provides investors access to unlimited sources of capital.[80]

Institutional investors, by investing in REITs, can diversify their portfolios through acquisition of shares in a number of REITs, each specifying locationally or sectorally.[81] Money in property trust investments can be taken out in small sums, whereas a direct property investment can quit only on an "all/nothing" basis.[82] Investors in REITs are mostly ensured of transparent transactions and reporting, as independent fund mangers, trustees, independent auditors, financial agencies, analysts and valuers consistently monitor trusts.[83]

Other advantages are that stocks in trusts can be bought by larger investors and then held by a large number of smaller investors. It saves the investor from making decisions on its property functions such as management and renovation problems. Many REITs offer professional real estate services to customers, including development, acquisition, management, leasing, and renovations.[84] Investors in REITs also benefit from the experience and knowledge of fund management teams who possess expertise in property and investment area and in finance and legal issues.[85]

Property trusts and REITs are traded in an efficient market place, ensuring sufficient data and information availability.[86] LPTs and publicly traded REITs may be more structured, organised and disciplined than other direct property investment companies.[87] Property trusts and REITs have lower volatility when compared with equity investments.[88] REITs offer investors the opportunity to hold two major types of investment; property and equity. They allow investors the flexibility of owning several types of property investment without being associated with the burden of individual property ownership and management.[89] These investments are being traded daily in the stock market, providing investors and analysts with a wealth of information which is rarely available for direct property investments. Details of valuation, rental details, tenant details, current and expected cashflows of individual properties are openly accessible[90]

[75] Renton, N.E. (1992), page 96, 97.
[76] Jarchow, S.P. (1988), pages 246-247.
[77] Renton, N.E. (1992), page 96, 97.
[78] Klijen, J. (1997), page 7.
[79] Newell, G. (1997), page 2.
[80] Decker, M.O. and East, B.B. (1996), page 47.
[81] Klein, R. and Ross, S. (1994), page 40.
[82] Renton, N.E. (1992), page 96, 97.
[83] Decker, M.O. and East, B.B. (1996), page 47.
[84] Coley, A.W. (1994), page 34.
[85] Decker, M.O. and East, B.B. (1996), page 47.
[86] Newell, G. (1997), page 2.
[87] Klein, R. and Ross, S. (1994), page 40.
[88] Decker, M.O. and East, B.B. (1996), page 47.
[89] Moore, S.A.D. (1995), page 50.
[90] Harrington, A. (1996), page 10.

The disadvantages of these investments are that although property trusts reduce concern over high transaction cost, lengthy marketing periods and high information costs, investors lose the opportunity to get the 'feel' of the market.[91] The investors no longer have control over the running and management of the trust as they would have in a direct property investment. Investors are not able to optimise their individual expert property investment knowledge. In Australia, often there are concerns over the use of external managers to operate trusts. They have caused some major problems over the years. The management fees are linked with asset values. This means the managers are not paid based on their performance, but rather on the gross asset values of the trust. It sometimes becomes difficult to tell who is reaping the most benefits from capital raising, the investor or the manager.[92] This repackaging of property via the stock market provides liquidity to investors, but at a cost. There are two sides to a coin and the investors, knowing this, have to willingly secure costs in exchange for benefits of greater liquidity.[93] REIT investments cannot pass losses to its shareholders.[94] Property trusts and REITs are securitised investments, often involved in employing agents to act on their behalf, for example, fund managers and trustees. Often when people are employed to carry out instructions, their interests and their employees' interests seldom coincide. It can not be assured that these agents will always act in the best interest of all the investors.[95]

REIT operations lack flexibility in the sense that they have extensive restrictions and requirements for qualification compared to other investments such as ordinary corporations or direct property investments.[96] Within a short-term period their performance is not related too or does not reflect, the performance of direct property within the trust's portfolio. Traditionally, most listed property trusts and publicly traded REITs have had a high proportion of debt at fixed rates, which is mostly 85% to 90% higher than other industries. They are highly disadvantaged in the debt market as they are not able to compete with other investment industries.[97]

Australian Listed Property Trust Properties

This sub-section of the research paper provides an analysis of the ALPT market, abstracting materials from the *Review of Listed Property Trusts (1999)*, complied by the *Property Investment Research Pty Ltd.* The literature as complied in this sub-sections has been fully derived from the *Review of Listed Property Trusts (1999)*, therefore no direct quotations are provided. LPTs currently exits in five different sectors in Australia. The types of LPTs are:

1) Diversified Property Trust
2) Commercial Sectored Property Trust
3) Retail Sectored Property Trust
4) Industrial Sectored Property Trust
5) Tourism and Entertainment Property Trust

The ALPT sector is dominated by Commercial, Retail and Industrial sectored trusts. While Diversified trusts are catching up, Tourism and Entertainment are relatively new and don't provide much interest to investors in the Australian sector. In 1998 there were 9 Diversified trusts, 17 Commercial, 11 Retail, 10 Industrial and 2 Tourism sectored listed property trusts operating in Australia.

[91] Hewitt, G. (1994), page 12.
[92] Brenchley, H. (1997), page 18.
[93] Rees, D.J. (1993), page 402.
[94] Moore, S.A.D. (1995), page 60.
[95] Rees, D.J. (1993), page 402-403.
[96] Moore, S.A.D. (1995), page 60.
[97] Phillips, M. (1999), page 8.

Most trusts in Australia are externally managed, however retail and industrial sectors prefer internal management. These trusts have a management fee of 0.64% to 0.81% of the gross asset value, with trust management corporations having between 10 to 40 years of experience in property related fields and working with a staff of 18 to 70 personnel. Trust's property teams comprise people involved in the building, engineering, valuation, management, administration, law and finance professions. It is important that the external management company has adequate experience in the property industry with regards to trust's financial management, marketing and property management. Most trusts involve huge amounts of borrowings, as it is the only form of finance for new acquisitions and any refurbishment or redevelopment costs. While some trusts may have positive asset backing, most are trading negatively because of the distribution requirements and significant borrowing amounts.

The dominant sectors within the diversified property trust are office, followed by retail and a small percentage of industrial properties. These trusts are also sectored in carpark and property development investments. Most successful diversified property trusts hold an average of 18 properties. Trusts also own leasehold properties with holding of 25% to 75% interest. Office properties within diversified trusts are the dominant investment, followed by retail and industrial sectors, which are described in more detailed below

<u>Office Sector</u>

Office sector property trusts are by far the most popular form of property trust investment in Australia. Office trusts composite 35% of the ALPT market. They are well located within the main CBD area and most properties are leased to state or federal government or semi-government departments. The average number of properties a successful office sector property trust invests in is nine, with the trust's assets worth an average of AUS$476 million.

Office sector trusts also hold leasehold interests of 20% to 100%. The average borrowing rate of office sector trusts is AUS$111.13million. These trusts have office space of up to 6 to 45 levels, with car parking accommodation for up to 100 to 390 cars or up to five levels. The tenants are mostly responsible for statutory outgoings and management fees, while the trusts are responsible for the maintenance of the buildings and equipment, structural repairs, repainting and re-carpeting every four to seven years. The average area of office properties is 23,508m^2 at an average rate of AUS$212.89/$m^2$ with a vacancy rate of 4.1%. Rentals for these prime assets are mostly at or above market levels and are highly unlikely to fall below the market rate during lease negotiations.

<u>Retail Sector</u>

Property trust investors also favour retail sector property trusts. These trusts are second only to office trusts, remaining more popular than industrial and diversified property trusts. These trusts include properties that are well established and capable of catering for bulky goods. These centres are always very hard to replicate. One of the major drawbacks of retail sector property trusts is that they involve significant buildings, which requires constant capital expenditure for maintenance and improvement purposes.

The average number of properties a successful retail sector property trust holds is 11, worth AUS$1,357 million. However, single asset property trusts, do exists. Retail sector trusts have properties with partial ownership of 25% to 50%. Westfield is the most successful retail sector property trust in Australia and out of the 28 properties in its portfolio, 11 are through partial ownership.

Borrowing in retail sector trusts ranges from AUS$112.06 to $660million. These trusts mostly manage their own centres in terms of development, design, construction, management, leasing and marketing through separate divisions of the company. External trust managers for retail sector trusts are mostly the major vendor, unitholder, developer, tenant and property managers of the trust. External managers also provide trusts with vacancy guarantees in retail sectored property trusts.

Most retail properties are located in suburban areas, servicing around 25,000 to 60,000 people, which can involve both residents and lunchtime shoppers from office sectors. These centres also have potential for increase in terms of future developments on the site. Retail sector trusts have major and speciality tenants with large parking facilities. These centres also involve food courts, cinemas and family entertainment centres to draw shoppers or visitors. The average area of retail properties in retail sectored trusts was 59,265m^2 at an average rate of AUS$171.19/$m^2$. Rentals for retail properties are mostly at or below market level.

<u>Industrial Sectors</u>

Industrial sectored property trusts in Australia provide a reasonable spread of industrial exposure across various sub-sectors. These trusts mostly have opportunities for added value through expansion of facilities. The average number of properties a successful industrial sector trust holds is around 15 to 20, with the value being AUS$221 million. All properties in the portfolio were wholly owned by the trust. The average amount of borrowing for an industrial sectored property trust is AUS$50million. The relative lack of popularity of industrial trusts mean that fund managers are quite cautious about acquiring new properties, as their returns are not quite as high as the retail or office sectors. Most industrial sectored trusts are managed internally by a subsidiary company of the trust group.

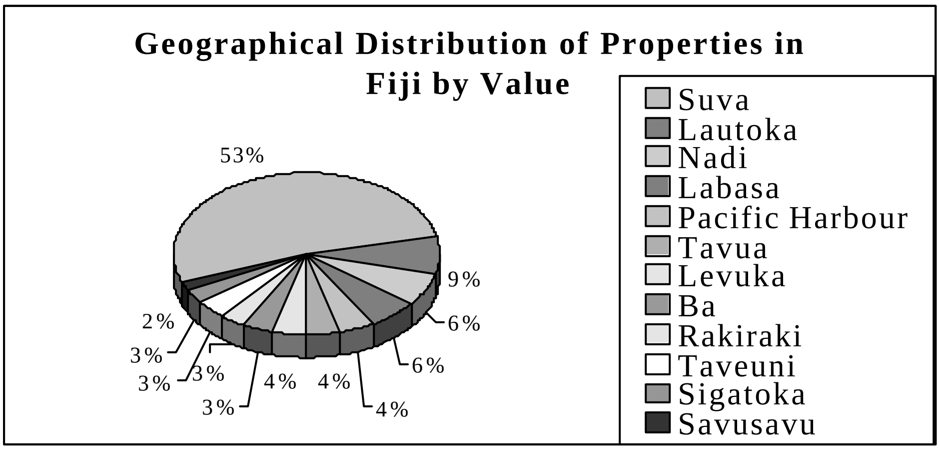
Most industrial centres are located as close to five kilometres from the main CBD areas and in well established industrial zones. These properties are close to major airports and ports, and have good access via road or highway. Even so, industrial property managers find it hard to lease these properties. Vacancies range from 4.5% to as high as 56%. The high level of vacancy rate is a major reason for the lack of popularity of industrial property trusts. The average area of industrial property trusts was 15,946m^2 at an average rate of AUS$103.50/$m^2$. Rentals are always at or below market levels, meaning that there are always opportunities for increases in future. However if market rentals fall then the rates can be pushed even further down.

Investments in Fiji

Fiji has a number of institutions and private investors involved in investing in property, government bonds and shares. Institutional investors like the Fiji National Provident Fund (FNPF, the state superannuation fund) have diversified their portfolio into different sectors and categories of investment. Shares are traded on the national stock exchange (South Pacific Stock Exchange). Like most countries, shares and bonds in Fiji form a large part of an institutional investors portfolio, with property forming around 3% to 10% of the portfolio. Investors in Fiji view property as an illiquid, long-term, immobile and low risk investment. These characteristics are representative of direct property investment. The concept of indirect property investment is yet to be understood and embraced by property managers or investors in Fiji.

Fiji has a relatively small property market when compared to other countries like Australia and New Zealand. The major sectors of property investment in Fiji are retail, commercial, industrial, hotel, agricultural (includes forestry), and residential. Sectorally, most of the offices are located in Suva, hotels in Lautoka, Nadi and Sigatoka areas, industrial sites are based at Lautoka, Suva, Levuka and Labasa, while the agricultural sector has success in most parts of Fiji, apart from the Suva metropolitan area. The two major cities are Suva, the capital and Lautoka, with the major entries being ports in both these cities with the International Airport in Nadi and Domestic in Nausori. *Pie Chart 4* shows the distribution of property investment geographically in Fiji for 1997.

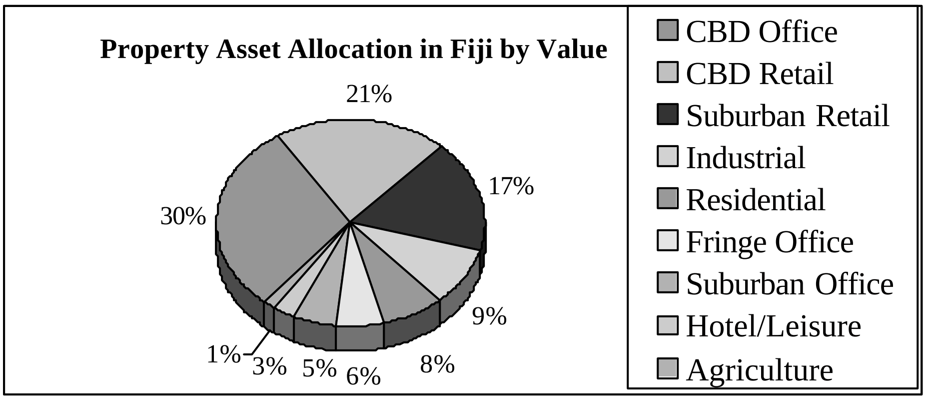
Pie Chart 4 Geographical distribution of property investments in Fiji for 1997.



Source: Atsir, R. (1997), page 6.

As seen in *Pie Chart 2.1*, the major property investment base is Suva, holding 53% of the total property investments in Fiji. Areas like Lautoka have 9%, while Nadi and Labasa have 6% respectively. The allocation of property sectors for 1997 is illustrated in *Pie Chart 5*.

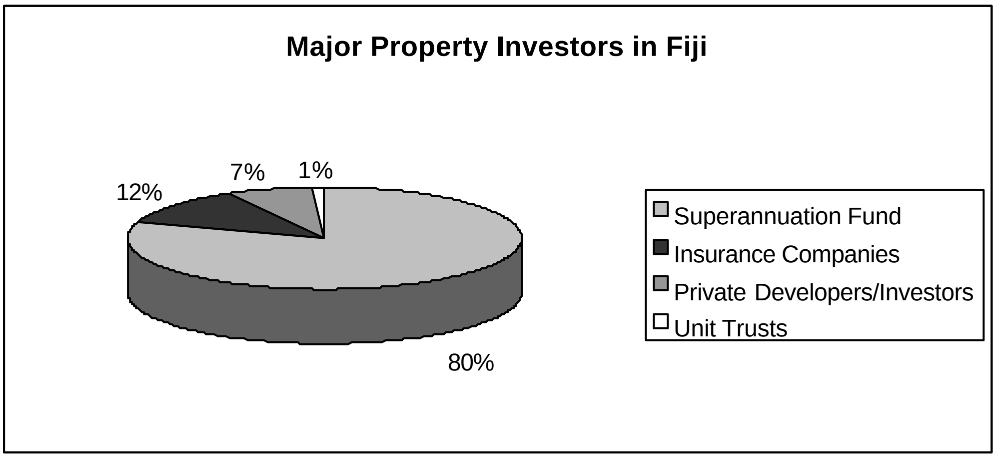
Pie Chart 5 Property sector allocation for 1997.



Source: Atsir, R. (1997), page 7.

The office sector dominates property investment in Fiji, comprising 41% of the investment sector by value. It is followed by retail, with a total of 38% and industrial (9%). *Pie Chart 6* illustrates the percentage of investment held by major investors in Fiji in 1997.

Pie Chart 2.3 Investor type and their percentage of investment in Fiji market for 1997.



Source: Atsir, R. (1997), page 5.

The largest property investor in Fiji is the FNPF, a national superannuation fund, which holds 80% of property investments in Fiji.

Indirect property investments are yet to be introduced in Fiji's investment market. However, the success of developed countries, particularly our regional neighbour Australia in indirect property investment will in future have an influence on the Fijian market. It is this influence and potential that is explored in the research paper.

Suva CBD Office Market Properties

In Fiji retail and industrial sector property investment is yet to make its mark as being a major form of property investment for institutional investors. The office sectored is the most dominant form of property investment in Fiji. The research paper in this sub-section provides an analysis of the Suva CBD office market properties from the 1999 survey carried out by the *Land Management and Development Department* of the *University of the South Pacific*. The literature as complied in this sub-sections has been fully abstracted from the *Suva CBD Office Market Survey(1999)*, therefore no direct quotations are provided.

According to the *Property Council of Australia's National Grade Matrix (*see *Appendix One)* for office property floor sizes, all properties within the Suva CBD area can be classed as "B", "C" and "D" grades, as none have the required 10,000m^2 floor area for grade "A" and more than 20,000m^2 area for "premiuim" grade classification. However, there were properties which came very close to required 10,000m^2 area for Grade "A" classification. These properties included the ANZ Building (9290m^2), Dominion House (8118m^2) and Provident Plaza (9996m^2). (***Note***, attached in the *Appendix* section are details of Suva CBD Properties, *Property Council of Australia's National Grade Matrix* and a modified grade matrix as used for this research paper).

Within the Suva CBD sector eight properties fall into the “B” grade category, while four make up the “C” grade category and eight fall into grade “D” category, while the rest are put in the unclassified section. These properties have floor levels of 1 to 12, with the biggest CBD Office property area being 9,996m^2.

Local and international government departments, aid organisations, public and private companies are the major tenants for prime “B” grade properties in the Suva area. The Suva CBD Office sector demonstrated a vacancy rate of 4.36% to 37.50%. Grade “B” properties had a vacancy rate of 4.36% to 20%, grade “C” had 11%, while there were no vacancy levels in grade “D” properties. Most grade “B” properties in the Suva CBD sector have parking space for 8 to 225 vehicles or a basement or full floor area. Grade “C” properties have 9 to 22 spaces and grade “D” properties have 5 to 14 spaces.

The average rentals for the Suva CBD sector are around \$120.28/m^2 (Australian \$98.63/m^2) to \$176.98/m^2 (Australian \$145.12/m^2). The highest rental achieved by a grade “B” property is \$272.37/m^2 (Australian \$223.34/m^2); grade “C” property is \$286.16/m^2 (Australian \$234.65/m^2) and \$193.86/m^2 (Australian \$158.97/m^2) for grade “D” properties. Rentals for properties in the Suva CBD area are inclusive of service charges. Office properties in the Suva sector are also located well within and around the CBD area and have good transportation links.

The major investors in the Suva CBD Office market sector holding grade “B” and “C” properties are the Fiji National Provident Fund, Colonial Mutual Limited, Fijian Holdings, Rewa Provincial Council, ANZ Banking Cooperation, Government of Fiji, Kelton Investments, and Suva City Council. The dominant property investors with quality property in the Suva CBD sector are FNPF, Colonial, and Fijian Holdings. A significant number of properties are held by Kelton Investments too, however they are of grade “C” and “D” quality and primarily serve the government sector.

Methodology

This research paper is based on qualitative methodology. There are many ways in which qualitative research is carried out. There is really no standard way to conduct qualitative property research. Among the most commonly used methods are ethnographic research, unstructured interviewing, action research, case studies and historical research. All these methods provide their own advantages and disadvantages. As stated by Barton and Lazersfeld (1969):

"*like the net of deep-sea explorers, qualitative studies may pull up unexpected and striking things for us to gaze on*".[98]

The approach of qualitative research is that reality cannot be subsumed within numerical classifications. It can thus be defined as any kind of research which produces findings not arrived by means of statistical or quantification methods.[99] Qualitative methods attempt to capture and understand individual definitions, descriptions and meanings of events and experiences. The strength of qualitative studies lies in research that is descriptive or exploratory and that stresses the importance of context and the subject’s terms of reference.[100]

[98] Barton, A. and Lazarsfield, P. (1969), page 166.
[99] Corbin, J., and Anselm, S. (1990), page 17.
[100] Bryman, A. (1988), page 46.

Qualitative methodology in a broad sense refers to "*research that produces descriptive data: people's own written or spoken words and observable behaviour*".[101]

A qualitative researcher is regarded as craftsperson and should be flexible in terms of how they conduct their research.[102] They are basically engaged in evolving their own methodology. There are broad guidelines to follow, but never any rules, thus ensuring that the methods serve the researcher rather than a researcher being enslaved to specific techniques and procedures.

This research adopted a qualitative methodology in attempting to gather information that reveals the qualities and characteristics of property trusts and properties within the trust's portfolio. The background was provided by the literature review on APTs and US REITs to establish a framework for interviews with Australian experts. This was done to capture and understand individual definitions, descriptions and establish in-depth knowledge on property trusts. Informal verbal data that cannot be analysed using quantitative methods was collected and processed. Through the literature and subsequent data analysis the research focuses on developing a checklist of the optimal characteristics of property trusts and properties within the trust's portfolio which can be used to assess whether the properties within the Suva CBD survey have the requisite characteristics to establish a property trust in Fiji. It also provides analysis on interviews carried out with major local investment 'experts'. Thus, the methods as identified appropriate for the purpose of this research paper are:

1) Semi-structured interviews; and,
2) Ethnographic research

Semi-structured interviewing engages techniques that are not structured or standardised. Rather than having a specific interview schedule or none at all, the interviewer develops a conceptual framework, without fixed wordings or ordering of questions. This ensures flexibility in terms of how the interviewee responds to question and provides a direction for the interview as the content initially focuses on the crucial issues derived from the literature.[103] Importantly it ensures that the interview is not restricted by literature and can allow new, or unforeseen ideas to be recorded. All the interviews were tape-recorded. Burns[104] regard tape recording as the best method of conducting interviews for two reasons:

1) it allows raw data to be retained for future studies; and
2) it enables the researcher to be more actively involved in the conversation in a more natural way rather than to be distracted by note taking.

However, it must be noted that transcribing the recorded data is a lengthy and time-consuming process. Burns[105] describes ethnography as '*writing about people*'. It provides a study of a group of people for the purpose of describing their socio-cultural activities and patterns. By compiling and organizing information, ethnographers are able to construct a picture of a subject group's cultural and perceptual world. People are not subjects, but are the 'experts' on what the ethnographer or researcher wants to find out about. It involves a process of descriptive data collection on the basis of interpretation, thus representing a dynamic 'picture' of the way of life of some interacting social group, in this case key players in investment property market.

[101] Bogdan, R. and Taylor, S.J. (1984), page 5.
[102] Bogdan, R. and Taylor, S.J. (1984), page 7, 8.
[103] Burns, B.R. (1998), page 330
[104] Burns, B.R. (1998), page 335.
[105] Burns, B.R. (1998), page 297.

This research involved interviews in Fiji and Australia. The interviewees were involved in the property and general investments areas, and acknowledged 'experts' in their respective professions. By working in a property and investment environment, these people were part of a social and cultural group of the property and investment profession.

Data management and analysis is the most fundamental part of any research. The data needs to be managed correctly, and reduced without losing its essence. As Burns[106] puts it:
The purpose of analysing the data is to find meaning in the data, and this is done by systematically arranging and presenting the information. It has to be organised so that comparisons, contrasts and insights can be made and demonstrated.

A qualitative researcher begins their data analysis process for interviews by categorising the responses after continuous grouping of items together. It is important that the materials are classified into themes, issues, topics, concepts and propositions, a process, which is known as coding. Coding transcribed data can be a lengthy and vigorous procedure. There is computer software that sorts and formats the text in a database and then applies an analysis package to code the data. Examples include QSR NUD·IST$_{TM}$ and ETHNOGRAPH. This software has become an important tool for qualitative researchers now. They require some time to be learnt, however the results are highly efficient and of good quality. *It has become accepted that computer-aided analysis of qualitative data is the norm. There are counter arguments that computers do not actually save time because of the lead-time to learn the programme and the enticement to use features that cloud rather than focus research. The indication is that ultimately the learning curve is short, the outcome is more efficient and of a higher quality for the same total time investment.* [107]

The choice of software mostly depends on the researchers knowledge of computers, the time frame within which data needs to be analysed, and the type of analysis that is to be done and the availability of the software.[108] This research used the Australian QSR NUD·IST$_{TM}$ software to code and analyse interview data into specific categories and subcategories.

Discussion and Conclusion

After looking at the characteristics of property trusts and REITs investments and also having looked at the features and characteristics of properties that composite a trust's portfolio this section now triangulates these with the outcomes of discussions on the Suva CBD Office market data, and interviews that were carried out on the local scene to see the opportunities, viability and constraints of such an investment in Fiji.

The major institutional investors in Fiji's equities and property market are FNPF, Colonial Mutual Limited, and Fijian Holdings. While the tourism sector is popular in Fiji, it often suffers from uncertainties and relies heavily on occupancy levels. Suggestions from some 'experts' interviewed in Australia were that tourism would viable sector for property trusts in Fiji. Tourism and entrainment sectors have remained unpopular in Australia because of reliance on occupancy levels or uncertain patronage. The recent political crisis in Fiji has shown how vulnerable the sector is and any investor now trying to set-up property trusts in Fiji would certainly not choose tourism and entertainment as their prime property investment sectors.

Other sectors involving retail, industrial, agricultural and residential are still developing. The most attractive property investment sector in Fiji is the office market within the Suva CBD area. The Fijian market is dominated by the office sector and the properties within the Suva

[106] Burns, B.R. (1998), page 338.
[107] Boydell, S. (1998), page 122.
[108] Miles, M.B. and Weitzman, E.A. (1995), page 9.

CBD area are the most attractive for any investor trying to set-up the first property trust for Fiji.

The largest property within the Suva CBD Office market has a floor area of 9996.37m^2. All properties in the ALPT office sector has floor levels from 6 to 45 and an average floor area of 12,622m^2 for diversified trusts and 23,508m^2 for purely office trusts. These properties are "A" and "Premium" grade properties according to the *Property Council of Australia's National Office Quality Grade Matrix*. In terms of size the properties in Fiji cannot match the Australian sector. Fiji has a much smaller economy and size when compared to Australia and corresponding the demand for office space here is much smaller. At small scale these properties do have the characteristics to continue to property trust investment in Fiji.

In the ALPT sector most tenants for the office sector are in form of government, semi-government or federal government, with tenants paying for outgoings and thus providing a secure and fixed income flow. For the Suva CBD area the major tenants for the eight "B" grade category are more diverse: government, semi-government, international governments and organisations, private and public companies. Properties within the Suva CBD area has secure tenants in grade "B" category, thus ensuring that trusts can be put together using these properties providing investors a secure income stream or returns.

The vacancy rate for office properties in ALPT sector were 4.1% to 9%. The vacancy rate in the Suva sector is much higher compared to the Australian sector, even though the buildings in Suva have much smaller floor areas than the ones in Australia. Higher vacancy levels are always a negative factor for trust investors. The fact that some properties in the grade "B" category have around 4.36% to 20% vacancy rate portrays an insecure and unfavourable image to potential investors. However, these are the only prime office sector properties in the country.

Most office properties in Australia have 100 to 390 car parking space per building or two to five levels of car parking space. The "B" grade properties in the Suva CBD Office sector have parking provisions of 8 to 225 vehicles or basements and full floor areas for parking. The car parking services are considered adequate and sufficient for each of the Suva building.

Office properties in Australia has a rental level of Australian \$248.94/m^2 for diversified trusts and \$212.89/m^2 for office sectored trust. The properties in the Suva CBD sector are earning above Australian \$200. The current rental levels of the Suva Office sector are quite attractive for investors wishing to use these properties in setting up trusts in Fiji.

The office properties in the Australian sector are well located in and within the main CBD area with good transportation links. All properties within the Suva Office market sector are located well within the CBD with good transportation links.

The properties with the APT sector are managed by reputable and experience property and fund managers. In Fiji the major property investors holding "B" grade properties are FNPF, Colonial Mutual Limited, and Fijian Holdings have been investing and managing office properties successfully in the Fijian market for over 35 years (see *Appendix Three*).

The Suva CBD Office market "B" grade properties have acceptable characteristics, when analysed against the ALPT properties, to comprise a property trust investments in Fiji. The most attractive properties are Provident Plaza, Dominion House, FNPF Place, Reserve Bank of Fiji and Sukuna House. These properties are well located, provide sufficient parking provisions and a secure rental or cashflow with government, semi-government, public companies, international governments and organisations as their major tenants. Institutional investors FNPF, Colonial Mutual Limited, and Fijian Holdings are major “B’ grade property owners and also dominate the investment market of Fiji and are reputable property and investment managers. FNPF is the largest institutional investors in Fiji, holding quality properties such as Provident Plaza (Downtown Boulevard) and FNPF Place.

Experts interviewed in Australia and Fiji outlined recommended requirements for investors trying to set-up property trusts in Fiji.

- Fiji’s taxation system needs to be understood and a tax framework for property trusts needs to be clarified;
- The Fijian market needs to be studied and it needs to be analysed in greater depth and it needs to be understood whether there actually is a demand property trusts and liquid investments;
- It is important not to develop new properties, rather repackage current ones;
- Properties selected should provide sufficient cashflow to sustain distribution and it would be good to avoid any assets identified as potentially high risk;
- It is important that the market is well educated and are comfortable with the concept of property trust investment. It would be something new for Fiji and must involve or have:
  - major players or institutional investors, who have knowledge in stock market and property investment and Fiji’s market conditions and economic situation;
  - credibility, reputation and confidence in the investment sector to attract major institutional and other investors;
  - quality or right properties; and,
  - should have professional managers with good track record, someone who is well recognized.

Experts interviewed in Australia and Fiji believe that opportunities for property trust investment exists because Fiji already has property and stock market investments and all that is needed to be done is to get a reputable manager or institution to repackage quality properties together in an investment portfolio and market the idea. The Fijian market has domestic opportunities for such an investments together with offshore as most global investors now prefer to invest in indirect property investments than in direct property.

The major constraints of setting up such an investment in Fiji are the lack of experience in the industry, lack of finance, and the difficulty in explaining, and marketing the concept of property trust investment to local investors. The most critical issue would be that there is no independent property portfolio or trust management company in Fiji or any fully developed reputable property management system. Institutional investors like FNPF, Colonial and Fijian Holdings have been the major property investors and mangers in Fiji. Therefore, finding property trust managers who can maintain the value of potential properties and getting a property manager that major institutional investors would accept and have confidence in outside these three institutions would be the major constraint.

There is an argument that suggests one or more of the three key players should instigate a trust themselves. However, there is no clear advantage to them in floating their prime assets as there is a limited supply stream of alternative opportunities to reinvest in Fiji’s property market is still developing. Its capital market is not that liquid and it would be hard to create the ‘bubble of liquidity’. Thus, there would be reluctance from local investors as they culturally are more inclined to holding property assets directly and are suspicious in allowing their investment to be managed by somebody else. The recent political crises are another major constraint for investors trying to set-up property trusts in Fiji. During times of uncertainly investors seem to move towards areas of comfort. It would be very hard for any investor setting up trusts to attract overseas investors in the current political, social and economical climate.

The question of whether such an investment will ever happen in Fiji following the recent political unrest is a big one. A countries economic performance and political stability affects its investment market, both for property and equities. In an environment of increased uncertainty it is often hard to get things off the ground. Such an investment is likely not to be rushed. The right people need to repackage the idea with the right properties. The support and confidence of major institutional investors in Fiji like FNPF, Colonial and Fijian Holdings must be obtained. The country will recover given time to heal current wounds. Recent investors will comprise people who understand Fiji's market and its business environment and are comfortable in investing in Fiji.

Most of the 'expert's interviewed in Australia and Fiji believe that single or multiple property trusts will be a viable investment for Fiji as it would provide investors another investment avenue, allowing them access to liquidity and a chance to raise capital by selling shares in property investments, thus funding their investments through the equity market. Property trusts and REITs allows a collective investment of properties providing access for smaller investors to hold interests in these properties.

The size of the market precludes individual private investors from acquiring prime properties to establish a property trust investment vehicle for Fiji. Fiji has a small property market, and it will also be a waste of money if the investor goes on a property building spree within the Suva CBD Office market sector given current vacancies. As seen through the analysis of the Suva CBD Office Market Survey some of the grade "B" quality properties have vacancy rates as high as 20% and this is a clear indication of lack of demand for office space. It would be advisable that trusts, if formed, comprise a collection of existing prime properties.

The formation of a property trust may not be a major problem, but the main issue would be how this concept of illiquid property investment would be introduced and accepted in Fiji. There are exiting liquid forms of investments in Fiji like government stocks and bonds, shares in Fiji Television and so on. The fact that these forms of investments have survived successfully in Fiji's investment market, and the recent listing and floatation of shares like FijiCare Insurance Limited stocks on the South Pacific Stock Exchange after the May 19th crises proves that there is a demand for liquid forms of investment. However, the concept of indirect form of property investment will be totally new to investors in Fiji. The idea of trading property as units or shares on a daily basis would raise suspicion as the idea did when first introduced in Australia. However, trusts such as Unit Trust of Fiji has existed in Fiji, meaning that people are comfortable with these forms of investments.

Property investments are globalised with capital moving from country to country searching the most viable form of investment and trading on the concept of border-less economy. The fact that there are no "A" or "Premium" grade properties in the Suva CBD Office market sector and recent political crises would be enough to guarantee a lack of participation from overseas counties like Australia, New Zealand and America. However, the South Pacific Stock Exchange , Fiji's national stock exchange, also accommodates Pacific Island countries, ensuring participation of these smaller island nations.

The opportunities of setting up property trust investments is extremely viable for Fiji at a small scale. It is important that whoever initiates such an investment in Fiji are the major institutional investors. They need experience in Fiji's property, equities and investment market, along with knowledge of Fiji's market conditions and economic situation. The property investment assets selected must be sector successful, attractive and established investment in Fiji and be reasonable in terms of their size and value. These investors must have prime "B" grade Suva CBD office properties with secure government, semi-government and public companies as tenants, providing a significant cashflow to withstand future distributions. Most importantly they must have the credibility, reputation and confidence to gain support and attract other major institutional investors in Fiji.

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Appendix One Property Council of Australia's National Grade Matrix

Grade	Size	Floorplate	Finish	Services
Premium	>20,000 m^2	>1,000 m^2 column free	Landmark / Premium	State of the art intelligent building
Grade A	>10,000 m^2	>600 m^2 mainly column free	High quality	High quality, multiple zone a/c 24hr access
Grade B	Any size	Any size	Good quality	A/c, lifts, so standby power
Grade C	Any size	Any size	Older style	A/c, slower lifts
Grade D	Any size	Any size	Poor quality	Minimal specification

Appendix Two Modified Grade Matrix for Suva CBD Survey

Grade	Requirements
Premium	• More than 20,000m^2 and 30,000 m^2
A	• All properties that are more than 10,000m^2
B	• As grade "A" properties are 10,000m^2 or more, thus all properties close to 10,000m^2 will be classified as grade "B". • All properties that are at and over 5000 m^2 will be classified as grade "B". • All properties that don't have available details of their floor areas, but are over 8 levels or floors or more will be classified as grade "B" properties.
C	• As grade "B" properties are 5000m^2 or more, thus all properties close to 5000m^2 will be classified as grade "C". • All properties that are at and over 2000 m^2 will be classified as grade "C". • All properties that doesn't have available details of their floor areas, but are within the range of 3-7 levels or floors or more will be classified as grade "C" properties.
D	• As grade "C" properties are 2000m^2 or more, thus all properties close to 2000m^2 or below will be classified as grade "D" properties. • All properties that doesn't have available details of their floor areas, but are within the range of 1-2 levels or floors or more will be classified as grade "D" properties.

Source: Reddy, W (2001), developed for this research.

Appendix Three Details of Suva CBD Properties

Property	Owners	Floor area (m^2)	No. of floor	Rate $/m^2$ ($FJ)	Type of tenant	Vacancy rate (%)	Number of cars/ type of carpark accommodation
6.22.1.1 Grade "B" Properties							
Provident Plaza	FNPF	9996.37	3	161.55 to 191.92	Semi-Government, Public and Private Companies	4.36	Basement is used as carpark
ANZ Building	ANZ Banking Group, Fiji	9290.30	10	140.01 to 161.55	ANZ Banking Company	20	225
Dominion House	Colonial	8117.78	9	34.68 to 272.37	International Government Organisations and Private Companies	11.53	Allocated at Civic Centre
Reserve Bank of Fiji	Government of Fiji	5287.10	12	181.69	International Government Organisations	N/A	8
Ro-Lalabalavu House	Rewa Provincial Holding	6368.69	10	N/A	Government	Nil	47
Civic Tower	Suva City Council	5523.92	8	145.40 to 215.40	Government	N/A	30
FNPF Place	FNPF	N/A	10	150.78 to 198.86	Government, semi-government organisations, International organisations, Private companies	Nil	Second floor is used as carpark
Sukuna House	Fijian Holdings	N/A	8	N/A	Government	N/A	N/A
6.22.1.2 Grade "C" Properties							
Pacific House	Colonial	3581.23	9	79.81 to 265.16	N/A	Nil	22
Kelton House	Kelton Investments	2787.10	5	150.78	International Government Organisations	Nil	N/A
Parade House	Colonial	2677.75	3	140.01 to 286.16	Private Company	11	9
Fiji FA House	Fiji Football Association	2113.92	4	N/A	Government	Nil	5

6.22.1.3 Grade "D" Properties							
Credit Union Towers	FPSCU	1597.17	3	145.40	Government and Private Company	Nil	7
Nasoqo House	Kelton Investments	1059.10	3	145.00	Government	Nil	14
Credit House	Kelton House	836.13	3	140.01 to 172.32	N/A	Nil	8
Heath House	Kelton House	779.27	3	140.01 to 145.40	Private Companies	Nil	5
Waisomo House	Kelton Innvestments	769.89	3	140.01	Government	Nil	8
Senikau House	Kelton Investments	742.95	3	140.01	Government	Nil	8
Datec	Kelton Investments	557.42	3	193.86	Private Companies	Nil	10
Koro-basaga House	Kelton Iinvestments	464.52	3	150.78 to 172.32	Private Companies	Nil	N/A
6.22.1.4 Unclassified (Lacks information)							
Civic House	Suva City Council	N/A	6	140.01 to 172.32	Government	Nil	10
Suvavou	N/A	N/A	N/A	N/A	Government	N/A	N/A
Central Street	Colonial	N/A	5	269.25	N/A	Nil	9
FPSCU Building	FPSCU	N/A	4	134.60	Private Company	37.50	4
Marela House	Marela Holdings	N/A	3	129.24	Government	Nil	7
Eastwood Building	Eastwood Limited	N/A	3	145.40	Government and Private Company	Nil	10
Parshotam Building	FNPF	N/A	3	107.70 to 150.89	Private Company	Nil	N/A
Velop House	FNPF	N/A	3	96.93 to 140.01	Private Company	Nil	N/A
Kwong Tiy Plaza	FNPF	N/A	2	96.93	Private Company	Nil	N/A
Burns Philip Building	FNPF	N/A	1	78.62 to 96.63	Private Company	12.50	N/A
National Bank Market Branch Building	FNPF	N/A	1	226.17	Private Company	Nil	N/A

Source: Developed for the research from Suva CBD Office Market Survey (1999)