17th Pacific Rim Real Estate Society Conference, Gold Coast, Australia

The investment strategies of property trusts and property investment companies listed on the New Zealand Stock Exchange (NZX)

Jane H. Simpson

Lincoln University, PO Box 84, Lincoln 7647, Canterbury, New Zealand
jane.simpson@lincoln.ac.nz

Abstract

The purpose of this study was to assess the overall investment strategies of the property trusts and property investment companies listed on the New Zealand Stock Exchange (NZX). The negative impact of the recent Global Financial Crisis (GFC) on property values and rental incomes has increased the attention, of investors and the property industry, on the performance of property. In New Zealand, Listed Property Trusts (LPTs) and Listed Property Investment Companies (LPICs) on the NZX provide vehicles for indirect property ownership. Research into the performance of these listed property entities in relation to other investment vehicles has shown that they are competitive. However, there has been minimal research on the investment strategies of the New Zealand LPTs and LPICs.

This exploratory study analysed data from public domain documents and from the results of the survey of the Managers of the listed property entities on the NZX. The results provided an overview of the composition of the combined Listed Property Entities (LPE) property portfolio, highlighted management structures, and identified the motivating and risk factors that are currently influencing LPE managers' investment decisions, including environmental sustainability factors. The findings revealed the current and future investment strategies of the LPEs on the NZX.

Introduction

The recent Global Financial Crisis (GFC) has renewed interest in the property market. The falling property values and rental income, combined with increased vacancies and the reduced availability of capital from the financial markets and lenders has had a significant impact on the property industry in New Zealand. All the current Listed Property Entities (LPEs) on the New Zealand Stock Exchange (NZX) managed to survive the GFC, compared to the aftermath of the Stock Market Crash (SMC) in 1987, which resulted in 50% of the LPEs failing. Management initiatives to survive the GFC included cost cutting, capital raisings and the divestiture of property, in order to strengthen the LPEs cash flows, hence putting them in a position to take advantage of investment opportunities as they arise.

The purpose of this paper is to reveal what the overall property investment strategies are for the property trusts and property investment companies listed on the New Zealand Stock Exchange (NZX). Understanding the investment strategies used to deliver an entity's goals and the factors that influence their investment decisions, as to what, where and when they select specific sectors, property types and locations, for the entities portfolio, will provide an important insight for scholars, developers, investors and other property industry stakeholders.

There has been minimal scholarly research (Hobbs, 1994; McKellar, 1995; Moricz & Murphy, 1997) carried out on the investment strategies of listed property market in New Zealand. More recently market analysts (Simpson, 2010) and the LPEs themselves have carried out further research on the performance of LPEs. Newell (2010), a prolific researcher in the area of property investment, has also reported a lack of scholarly research on Listed Property Trusts (LPTs) in New Zealand.

Moricz & Murphy (1997) found that the LPEs that survived the 1987 SMC had successful development and investment strategies. Researching the investment strategies now and going forward of the listed property market in New Zealand can assist decision makers (Schmitz & Brett, 1991) and scholars to better understand the property investment issues and to survive future challenging economic climates.

The study has the following objectives:

1. To profile the listed property entities in the property sector of the NZX.
2. To ascertain knowledge of the New Zealand listed property market by describing the existing composition of the combined LPE portfolio by way of sector, property type, and location.
3. To identify factors which either motivate or deter LPE management to include or exclude specific properties in their portfolios.
4. To extend knowledge of the overall investment strategies of New Zealand LPEs.
5. To provide information that will provide greater understanding of the New Zealand listed property market and the overall property investment strategies and thereby assist scholars with future studies.

The property sector of the NZX currently lists ten property entities: six Listed Property Trusts (LPTs) and four Listed Property Investment Companies (LPICs). At June 2010, nine of these LPEs (CDL Investments has been excluded from this study because the entity does not hold investment property and is deemed to be purely a residential development company), had a combined LPE portfolio total asset value of $7.4 billion, comprising over 246 properties in diversified and sector-specific portfolios, which accounted for over $3.6 billion in market capitalisation (NZX).

The review for this study examines literature that explores the composition of LPE portfolios (by way of sector, property type and location) and factors that impact on both the decision to invest and investment strategies. Recent studies have been examined through a thematic approach.

An exploratory study was undertaken in order to reveal the overall investment strategies now and going forward, of the LPEs under the property sector on the NZX. This study utilised data analysis of public domain documents and the results from the Author's survey of the LPEs: (1) to profile the existing composition of the combined LPE portfolio utilising Fair Value to determine the balance (by way of sectors, property types and location), (2) to identify each LPE's portfolio management structure and activity, and (3) to determine any risk or motivation factors that contribute to management's property investment decisions. The results represent a snap shot of the listed property market in New Zealand.

Literature Review

Most studies have focused on LPEs in the US, UK, Europe, Asia and Australasia. Researchers have typically examined the following strategic investment issues: (1) the performance of the LPEs, (2) the management structures and activities, and (3) the role of sectors, property types and the location in the portfolios of LPEs.

The traditional methods primarily used to research LPEs have been data and content analysis of public domain documents, surveys (mail, email, web-based), and one-on-one interviews with people directly responsible for the management of the LPEs investment properties.

The Listed Property Market in New Zealand

The poor performance of the New Zealand economy in the 1970's, led the Government to restructure the economy in the early 1980s (Moricz & Murphy, 1997). The restructuring led to an increase in the intensity and volume of property development in New Zealand, prior to the 1987 Stock Market Crash (SMC), and changed both the types of investors and the way in which property was used as an investment vehicle.

Prior to 1984 local institutional investors dominated the development process, seeking return on property over the long term. Post 1984, commercial banks and foreign institutional investors began to dominate the market, requiring short term return on property (Moricz & Murphy, 1997), the ability to increase the liquidity of their (property) assets, and the ability to easily adjust their holdings (McKellar (1995). Post crash many traditional investors downsized their portfolios, other investors reviewed the need to own property directly, and international investors shifted their focus away from the NZ Property Market (McKellar, 1995; Moricz & Murphy, 1997). The recent financial crisis has prompted a similar response from investors (Simpson, 2010).

Investor preferences in the mid 1980s in New Zealand led to the creation of indirect property investment vehicles, as an alternative to direct property investment; these were introduced in 1986 to the market and were initially structured as a Listed Property Trust (LPT). The sole objective of the LPT was "the ownership of investment quality urban properties and the management of those properties over an extended period of time" (Hobbs, 1994, pp. 3). Nowadays the LPEs have a similar objective and include the following ownership structures, LPTs and Listed Property Investment Companies (LPICs).

In New Zealand the LPTs and LPICs fall into the investor/developer category (Fraser, 1993; Simpson, 2010), in that they tend to undertake mostly property investment activity whereby the entity acquires and/or develops property for retention in an investment portfolio. The New Zealand LPEs typically own properties, collect rents and pay dividends according to Simpson (2010).

Prior to the 1987 SMC there were 20 LPEs on the NZX, post crash there was a rapid reduction, with only 10 LPEs existing in 1989. The other LPEs had either gone into receivership or had been liquidated (Moricz & Murphy, 1997; McDonagh, 2010).

Currently there are 10 LPEs under the Property Sector on the NZX, but for the purpose of this study CDL Investments has been excluded because the entity does not hold investment property and is deemed to be purely a residential development company. Also excluded are the listed companies which have major property holdings, for example, Ryman Healthcare Ltd, the port companies and the airport companies (Radford, 2010), this is because these entities are not grouped under the Property Sector on the NZX. Table 1 shows the 9 LPEs included in the study, which are under the Property Sector of the NZX.

Table 1: Listed Property Entities on the NZX (excluding CDL Investments)

Listed Property Entity	NZX Code	Property Investment Vehicle*	Total Assets ($000)	Investment Properties Fair Value ($000)	# of Properties	Effective Date: Annual Report	Year Listed
AMP NZ Office Trust	APT	LPT	$1,299,328	$1,276,775	16	30/06/2010	1997
DNZ Property Fund Limited	DNZ	LPIC	$715,079	$636,095	52	31/03/2010	2010
Goodman Property Trust	GMT	LPT	$1,510,400	$1,278,900	9	31/03/2010	1999
*Vital Healthcare Property Trust	VHP	LPT	$299,545	$291,990	15	30/06/2010	1999
**Argosy Property Trust	ARG	LPT	$950,004	$925,919	72	31/03/2010	2002
Kermadec Property Fund Limited	KPF	LPIC	$120,052	$98,435	5	31/03/2010	1993
Kiwi Income Property Trust	KIP	LPT	$1,984,822	$1,848,652	13	31/03/2010	2006
National Property Trust	NAP	LPT	$193,029	$191,190	9	31/03/2010	1996
Property For Industry Limited	PFI	LPIC	$370,074	$363,266	55	31/12/2009	1994
TOTALS			**$7,422,333**	**$6,9111,222**	**246**		

[Sources: Latest Company Annual Reports (2009, 2010) and the NZX website]

** Formerly ING Medical Properties Trust (IMP:NZX) – Renamed 1 October 2010*
*** Formerly ING Property Trust (ING:NZX) – Renamed 1 October 2010*

Macro economic conditions affect the performance of LPEs. Assessing the performance of LPEs against other investments such as government bonds, and stock market shares has been the focus of studies of listed property markets both in New Zealand and overseas (Herdson 2010; Newell, 2005; Newell, Hwa & Acheampong, 2002; Newell & Peng, 2006; Newell & Peng, 2007; Simpson, 2010).

Historically in New Zealand the inclusion of property in an investor's portfolios has been encouraged by property typically performing quite well when compared with the NZX50, government bonds, and other shares (Simpson, 2010). According to Lang (2009) New Zealand's listed property sector's market capitalisation fell by more than 18% over the year to 30th June 2009, with the Australian listed property sector falling by approximately 21% over the same period. Hutching (2010) reported that Simpson (2010) found that LPEs over the year to 30th June 2010 had performed better than the NZX50, with the annual movement for the listed property sector up 24.3% compared to the NZX50 which was up

21.3% and the monthly movement for the listed property sector was up 1.5% compared to the NZX50 which is only up 0.6%. Hutching (2010) also reported that despite this good performance, portfolio revaluations were continuing to fall, underlying activity (acquisitions, sales and development) had been relatively quiet and property fundamentals were still softening.

After the GFC, LPEs have had to operate in a difficult economic climate, with constricted bank funding and reduced institutional investment activity impacting on their earnings, distributable profit, share price and the value of their property assets. Herdson (2010) reported that the performance of listed property entities worldwide over 2008 and 2009 had been subdued due to the GFC, with only slight improvements in 2010. New Zealand LPEs have opted in this challenging climate to reduce costs and strengthen the level of their cashflow, through various means including sales of property and capital raisings, to improve their position going forward in terms of dividend distributions and investment opportunities (Lang, 2010).

Herdson (2010) also found that Australian entities are showing renewed interest in property acquisitions in 2010, due to the increasing business activity, commercial property yields exceeding bank deposit rates, and improvements in both the equity markets and investor confidence. He expects New Zealand entities to follow this trend, but highlights that most acquisitions in New Zealand have more recently been made by private investors with isolated cases of institutional investment.

Portfolio Composition – Profiling the Investment Strategies

The profile of an entity's portfolio can be described by its composition in terms of the specific sectors, property types and locations the entity has invested in. Hobbs (1994) found that in the 1980s New Zealand LPEs' portfolios were imbalanced towards office properties, whereas the Australian LPTs' portfolios were relatively balanced. Nowadays most LPEs in New Zealand invest in diversified portfolios, with some LPEs preferring to invest in a portfolio with only one property type, for example AMP NZ Office Trust Limited (Office properties only), Property for Industry Limited (Industrial properties only) or Vital Healthcare Property Trust (Medical properties only).

Sectors and Property Types

An LPE's portfolio can be diversified or sector-specific with the main sectors according to Newell & Peng (2008) study being the traditional sector and the emerging sector (also referred to as the non-traditional sector). Newell & Peng's (2008) study found that in Australia the "traditional sector" is comprised of the following property types: office, retail, industrial and residential, and the "emerging (non-traditional) sector" included the following property types: hospitals, nursing homes, student accommodation, childcare centres, theme parks, holiday parks, bowling alleys, cinemas, pubs, restaurants, car parking, self-storage, ski resorts, golf courses, marinas, aquariums, and vineyards.

Australian and US public markets have become dominated by sector-specific LPEs since the late 1980s (Tan, 2004). This dominance can be attributed to the LPEs preference for flexibility and choice provided by a sector-specific portfolio and the fact that investors were making the investment portfolio asset allocation decisions instead of the LPE Manager (Harrington, 1997). Researchers have found that diversifying a portfolio by property type is more effective than by sector (Seiler, Webb & Meyer, 1999; Fisher & Liang 2000; Hamelink, Hoesli, Lizieri & MacGregor, 2000; Lee, 2001). This finding may further explain the trend towards sector-specific portfolios in these overseas markets.

New Zealand LPE portfolios have in the past included both diversified and sector-specific portfolios. Hobbs (1994) found that in the early 1990s minimal contribution to the overall portfolio was made by properties “other” than office, retail, and industrial in the overall LPE portfolio. Traditional sector portfolios in New Zealand have in the past been predominantly comprised of one or a mix of Office, Retail and Industrial properties (Hobbs, 1994; Simpson, 2010).

Geographical Spread

Location is one of the key property decisions that an LPE will make when acquiring or developing a property (McKellar, 1995). New Zealand’s listed property market has similarities to the Australian listed property market in terms of the geographical spread of properties within portfolios being focused mainly on urban areas.

Researchers (Newell, 2005; Newell & Peng, 2008) have identified that Australian LPEs hold either a mix of domestic and international assets or only domestic assets. LPEs in New Zealand have tended to invest in property, domestically within Auckland, Wellington and Christchurch (Simpson, 2010).

Australian LPTs have reportedly 25% of their investments in international properties (BDO, 2004; Tan, 2004). Larsen (2004) concluded in his research that overseas property for Australian LPTs would become the main source of sector growth. Tan (2004) found that LPTs in Australia had become increasingly interested in international property investment and that the strategic importance of LPTs including international investment property in their portfolios was growing strongly.

New Zealand LPEs have typically invested in only domestic property located in urban areas with only some LPEs having a mix of domestic and international property (Simpson, 2010). It is interesting to note that Moricz & Murphy’s (1997) study found that the New Zealand LPEs from the 1980’s had built successful portfolios through differentiating between the core CBD (a site of investments and capital growth) and peripheral areas (sites for development gain).

Motivating and Risk Factors

Factors that influence the investment strategies of listed property entities can either encourage or deter management from including a specific property investment in the enitites portfolio, due to its sector, type or location. Motivating and risk factors that have been identified by researchers (Newell, 2005; Newell & Peng, 2008; Simpson, 2010) include: tax changes, economic conditions, performance, market competition for investment properties and the impact of commercial property on the environment.

Taxes

Changes to taxation in New Zealand by the Government will potentially reduce the earnings from listed landlords and hence the net cash distributions to unit and share holders. The tax changes included firstly removing the ability of landlords to claim deductions on the depreciation of buildings (with potential inclusion of fit outs) and secondly lifting the tax rate to 15% (from 12.5%). The following rates will be reduced (effective in 2011): the Portfolio Investment Entity (PIE) tax rate (applicable to the Trusts), and the company tax rate, will both be reduced from 30% to 28%, and the depreciation rate applicable to “building structures” will be reduced to 0%.

Economic Conditions, Performance, and Market Competition

Portfolio performance is affected by a number of factors including the prevailing economic conditions and market competition for specific properties. Newell & Peng (2008) found in a study of Australian LPTs that the five main motivating factors influencing the decision to invest in the non-traditional sector properties included: (1) the desire for new product diversity, (2) the strong performance of this sector, (3) the higher/enhanced yield of this sector compared to the traditional sector, (4) the greater availability and choice of properties, and (5) the significant capital inflows available for property (e.g. mandatory superannuation). Newell & Peng (2008) also found that the five most significant difficulties experienced (or expected to be experienced) by Managers were: (1) the quality and availability of data, (2) the depth of the market, (3) the difficulty in identifying reliable/strategic business partners, (4) the lack of quality property stock, and (5) the competition of non-traditional property investments/acquisitions.

Environmental Sustainability

Worldwide the importance of environmental sustainability has grown, in terms of reducing carbon emissions and improving energy efficiency. Due to the extent that commercial property impacts on the environment, this important issue has been a driving force in terms of change for the property industry (Keeping, Dixon, & Ellison, 2007; King Sturge, 2007; Newell, 2008). In the Australian LPT Market Newell (2008) found that the drivers for the property industry actively embracing the environmental sustainability agenda were both top down via government (environmental legislation and regulations) and bottom up via the market (enhanced returns, increased value, future proofing, future legislation, reducing downside risk, changing landlord/tenant relationship, and investors expectations).

Newell (2008) found that the LPTs were "implementing international best practice in environmental sustainability in commercial property" and concluded that the Australian LPTs, as result of this major focus on environmental sustainability, were taking a leading role. Table 2 shows the initiatives and strategies that Australian LPTs were found to be implementing in order to enable them to deliver excellence and international best practice in environmental sustainability at all levels of commercial property (Newell, 2008). Table 2 also illustrates the various benefits of sustainable commercial property that Newell (2008) identified through his review of relevant literature, which included reports from the Green Building Council of Australia (2006) and Merrill Lynch (2005).

Table 2. Benefits, Strategies and Initiatives of LPEs in Australia

Benefits	**Strategies/Initiatives**
Energy and water costs savings	Corporate strategies
Brand differentiation	Corporate responsibility and sustainability reports
Capital cost savings	Carbon Disclosure Project reports
Enhanced Value	Property portfolio environmental sustainability performance ratings
Improved Marketability	Property portfolio environmental performance targets
Faster lease-up period	Environmental footprint
Higher tenant retention	International sustainability performance measures
Eligible to SRI fund mandates	Supply Chain screening
Reduced liability/risk	Tenant initiatives and green leases
Future proofing	Sustainability awards
Eligible for government tenants	SRI certification
Compliance with office grading schemes	ES KPIs
Relevance to non-government tenants	
Personal commitment to ESD and CSR	
Compliance with government regulations	

[Source: Newell, (2008)]

Newell (2008) assessed the LPTs strategies regarding environmental sustainability both at the portfolio level and individual property level for 44 LPTs on the Australian Stock Exchange, utilising content analysis of public domain documents including the Annual Reports. Two ongoing challenges facing LPTs in Australia is firstly the need to develop a business case for sustainability and secondly to integrate more fully sustainability into commercial property at all levels (Newell, 2008).

One of the key challenges that the property industry faces, in terms of the strategic significance of environmental sustainability, is quantifying the financial benefits of sustainability (Newell, 2008). In Australia, current sustainability benchmarks are helping LPTs measure themselves against other property companies and other sectors (Newell, 2008). In New Zealand further research is required to determine more reliable metrics, benchmarks and valuation methods to assess the impact of sustainability on value.

Bond (2010) highlighted a number of environmental sustainability factors that could influence an entities management when selecting an investment property. These factors included whether the building: had a Green Star Rating, was energy efficiency, was operating under green leases, had renewable energy features and had high performance glazing.

A Green Star Award is a design rating tool which signifies 'best practice' in sustainable building design and is given to buildings that have adopted innovative sustainable building strategies for the design reflected in the materials used (selected for durability), recycled content and low/zero air emissions (Henley, 2009).

Portfolio Management - Structure & Activity

LPEs can be internally or externally managed and in New Zealand the 'Manager' according to Simpson (2010) is typically an external manager with DNZ Property Fund being the only internally managed LPE. Simpson (2010) found that there has been a move by Real Estate Investment Trusts (REITs) in Australia to internalise management over the last few years due to the perceived conflict of interest that investors are concerned about. The conflict is perceived to arise because all or some of the management fee is based on a % of assets under management, hence the incentive is to grow the portfolio in order to maximise the management fee. Tim Storey (Chairman of DNZ) believes that "internal management structures, such as DNZ Property Fund, are the preferred model for the property sector in creating a platform to maximise shareholder returns" (Hutching, 2010, pp. 3).

Table 3 illustrates that in New Zealand, assets under the management of LPEs are significant; the total asset value of $7.4 billion (NZD), with a total market capitalisation of $3.6 billion (NZD).

Table 3: Property Entities Portfolio Overview

	APT	DNZ	GMT	VHP (IMP)	ARG (ING)	KPF	KIP	NAP	PFI	Totals
Market Capitalisation (as at 30/10/2010, except DNZ shown as at 22/8/2010) $Million	$708	$247	$798	$173	$368	$38	$876	$101	$246	$3,608
Portfolio Total Assets (NZD Million)	$1,299	$715	$1,510	$300	$950	$120	$1,985	$193	$370	$7,422

[Sources: Latest Company Annual Reports (2009, 2010) and the NZX website]

LPE Managers tend to focus their efforts on the performance of the investment portfolio. Distributable profits have been a strong focus for listed property entities due to the tough global macro outlook. These profits are an important view of earnings by property entities because the unrealised movements in the Fair Value of companies' assets are stripped out (Lang, 2009). To create wealth for unit/share holders and ensure that distributions are sustained, Managers actively manage their entities portfolio, to maintain a steady growth in rental income (Lang, 2009). Most LPEs in New Zealand would describe their management as 'active' but if compared to many of the Australian and International Real Estate Investment Trusts (REITs), they are relatively passively managed according to Simpson (2010) in that they mostly own buildings and collect the rent and pay dividends. LPEs actively manage their portfolios by rebalancing the composition of assets through adjusting the allocation and holding period for each property type to take advantage of mispricing and/or the property cycle (Newell & Peng, 2008).

The level of investment in LPEs is linked to whether investors believe that they are getting a fair deal: (1) does the stock market provide a fair and accurate valuation of the underlying assets, and (2) does the entity pass on the full return generated by the underlying assets (Hobbs, 1994). Currently investors are cautious about investing in listed property entities, predominantly due to the concern over external management and the resulting returns to investors after management fees are paid out (McDonagh, 2010). Simpson (2010) believes an internal management structure is better overall and expects that new listings will be internally managed as result of investors demand. For the external management structure to continue to work each LPE will need "strong independent directors to ensure that all deals are done in the investors interest" and an appropriate management structure "with regard to base fees and incentive fees" (Simpson, 2010). He believes that external management can work if there is this alignment which ensures that managers and investors both share the upside and the downside in terms of returns.

Studies have shown that the effect of investing decisions can be seen in the financial statements (Stickney, Brown, & Wahlan, 2007). Data analysis of the LPEs Financial Statements and the Notes to the Financial Statements, (sourced from the Annual Reports), is a method many researchers have utilised in order to explore the significance of the various property investments by way of sector, property type and location. Because LPEs in New Zealand are required to value and account for their assets in accordance with the New Zealand Equivalent International Financial Reporting Standards (NZ IFRS) this study used the latest company annual reports to determine a profile for the combined portfolio.

Method

The Stages

The first stage of the research involved reviewing the relevant literature, in order to gather background information on the listed property market in New Zealand, their portfolio compositions (by way of sector, type and location), their management structures and activity, and any motivating and risk factors (relevant to property investment decisions).

The second stage of the research involved data collection and analysis, through an exploratory research method.

Secondary data was sourced from the annual reports of these LPEs retrieved from each entities website, which contained the Consolidated Financial Statements (for the Group) and the Notes to the Financial Statements for the latest financial year. A total of nine annual reports were utilised in this study, comprised of five property trusts and four property investment companies (CDL Investments was excluded from this study, refer to the page 2). Analysis was carried out to reveal the composition of the combined LPEs portfolio and to provide further background information on the listed property entities.

By examining the contribution of the sectors, property types and property locations to the total Fair Value (of the investment properties) the composition of the combined LPE portfolio was determined. The terms Market Value and Fair Value (which appears as a term in the New Zealand Equivalent Accounting Standards, *NZ IAS*) "are generally compatible, if not in every instance exactly equivalents concepts" (Property Institute of New Zealand and the Australian Property Institute, *PINZ/ API*, 2009, pp. 3.4.6). "Fair Value is generally used for reporting both Market and Non-Market Values in financial statements"(PINZ/ API, 2009, pp. 3.4.6). The total assets in the balance sheet of an entity are the resources available to the entity and the core business of a property investment company or property trust is represented by the investment properties. Investment properties typically comprise of direct property investments which are held for long-term capital gains and to generate rental revenue. Assets sold during the period are excluded from Investment Properties on the Balance Sheet in the Consolidated Financial Statements, in accordance with NZ IAS 40 (New Zealand Institute of Chartered Accountants, *NZICA* 2010).

The third stage of the research involved collecting and analysing both qualitative and quantitative data from a questionnaire via an on-line survey. Surveys were sent to the Managers of the LPEs on the NZX under the property sector (except CDL Investments, refer to page 2). Table 4 shows the survey respondent profile. The portfolios of the survey respondents included both the traditional and non-traditional sectors with a variety of property types. Traditional sector properties included: Office, Retail and Industrial properties and non-traditional sector properties included: Medical and Other.

Table 4. Survey Respondent Profile

Survey Conducted	October 2010	
Number of LPEs responding	8	
Survey response Rate	89%	
Total Assets	$7,072,259,000*	*Representing 95% of the LPE's
Total Investment Properties	$6,547,956,000*	*Representing 95% of the LPE's
Number of Properties	191**	**Representing 78% of the LPE's
Sectors Covered by the Survey	Traditional and Non-Traditional	
Property Types covered by the Survey	Office, Retail, Industrial, Medical, and Other	

[Sources: The Survey Results (October 2010) and the latest Company Annual Reports (2009, 2010)]

Eight of the nine LPEs responded to the survey, for an effective response rate of 89%. These surveyed entities accounted for $6.5 billion in total Investment Properties, representing 95% of the combined LPE property investment portfolio (except CDL Investments, refer to page 2) and $7.1 billion in total assets, representing 95% of the combined LPEs property portfolio. These survey respondents also accounted for 191 properties which represents 78% of the LPEs combined property portfolio.

The survey was utilised to provide further information on the LPEs: (1) their current investment strategy, (2) the motivating and risk factors that influence their Managers investment strategies, (3) the management of their portfolios, and (4) the benchmarks they utilise to measure the current performance and to select investment properties.

From the findings in stages three and four conclusions were able to be drawn, as to the overall investment strategy for the LPEs on the NZX, both now and going forward.

Limitations

A limitation of the secondary data in this study is the total Fair Value for the investment properties in the combined LPE portfolio. Fair Value is typically stated for each investment property. Although in the case of ING, which has recently changed the disclosure policy according to Bhana (2010) an asset manager for ING, a Fair Value for each property had to be derived from the 2009 Annual Report, Notes to the Financial Statements for both 2009 and 2010, and company reports accessed from the Trusts website. According to Bhana (2010) the change in policy was due to the reliance of buyers on the book value (fair value) sourced from the Annual Reports in making their offers. The Trusts recent sale of a large amount of property has prompted ING to choose not to disclose the fair value of each property in the foreseeable future.

The main difficulty experienced when collecting primary data was the time constraint of the survey respondents. A further difficulty experienced when collecting secondary data from the Annual Reports was determining the number of properties each LPE owned. Properties were counted per building and other times per legal parcel in statistical data offered by the entities in their Annual Reports. For example some properties are legally 3 parcels but managed as one property (e.g. the Mega Centre managed by the Argosy Property Trust).

Results & Discussion

The investment strategies of the LPEs on the NZX were revealed through the analysis of both secondary data from the latest Company Annual Reports and primary data from the survey.

Portfolio Composition – Profiling the Investment Strategies

The analysis of the company Annual Reports revealed the Fair Value of the Investment Properties and the Total Assets for each LPE, shown in Table 5. Figures 2 to 14 reveal the composition of the combined LPE portfolio, determined by examining the contribution the various sectors, property types and property locations make towards this portfolios $6,849 million total Investment Properties Fair Value of. This total figure was arrived at by subtracting the $62 million allocated to other investment properties (due to the lack information in the Annual Reports as to where these properties are located) from the total of $6,911 million.

The Fair Values for the entities property assets are based on the effective dates of the valuations, which are aligned with each entities end of the financial year reporting date: the 31st December 2009 for PFI, the 31st March 2010 for DNZ, GMT, ARG (ING), FPF, KIP, NAP, and the 30th June 2010 for AMP, VHP (IMP).

Table 5 also shows the contribution each entity makes to the Fair Value ($6,911 million) of the Investment Properties for the combined portfolio for the LPEs. Kiwi Income Property Trust (KIP) contributes the highest proportion of $1,849 million (27%) to this portfolio and Kermadec Property Fund Limited (KPF) contributes the lowest proportion of $98 million (1%). KIP, APT and GMT hold the largest portfolios of investment properties, each having an approximate Fair Value of $1,200 million.

Analysis of the data in table 5 revealed that the Total Assets of the current LPEs are comprised of mainly Investment properties, which supports Simpson's (2010) observations. The median proportion of investment properties to the total assets is 95%, and the average proportion is 93%. The entities that had a lower proportion had either a substantial amount recorded for development properties (GMT, $195 million), current assets held for sale (DNZ, $62 million; KPF, $18 million), or cash/cash equivalents (KIP, $118 million).

Table 5. The Proportion of the Total Fair Value of Investment Properties to Total Assets as at 30 June 2010

Listed Property Entity	NZX Code	Investment Properties (IP) Fair Value ($000)	Total Assets ($000)	Proportion IP/CP
AMP NZ Office Trust	APT	$1,276,775	$1,299,328	18%
DNZ Property Fund Limited	DNZ	$636,095	$715,079	9%
Goodman Property Trust	GMT	$1,278,900	$1,510,400	19%
*Vital Healthcare Property Trust	VHP	$291,990	$299,545	4%
**Argosy Property Trust	ING	$925,919	$950,004	13%
Kermadec Property Fund Limited	KPF	$98,435	$120,052	1%
Kiwi Income Property Trust	KIP	$1,848,652	$1,984,822	27%
National Property Trust	NAP	$191,190	$193,029	3%
Property For Industry Limited	PFI	$363,266	$370,074	5%
Combined Portfolio (CP)		$6,911,222	$7,442,333	100%

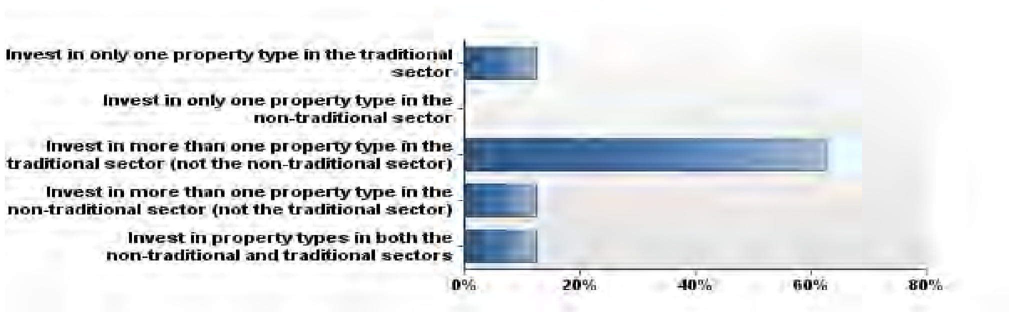
[Source: The latest Company Annual Reports (2009, 2010)]

** Formerly ING Medical Properties Trust (IMP:NZX) – Renamed 1 October 2010*
*** Formerly ING Property Trust (ING:NZX) – Renamed 1 October 2010*

Sectors

Portfolios can be either sector-specific or diversified by sector depending on the entities investment strategy. Figure 1 illustrates that most (7 out of 8) of the LPEs had a sector-specific portfolios and one LPE had a diversified portfolio, investing in property types in both the traditional sector and non-traditional sector. The New Zealand market is therefore shown to be in line with the Australian and the US markets, which are dominated by sector-specific LPEs (Tan, 2004). The findings indicate that New Zealand LPEs prefer to diversify by property type rather than by sector, which supports findings in other listed property market studies overseas (Harrington's , 1997; Seiler, Webb & Meyer, 1999; Fisher & Liang 2000; Hamelink, Hoesli, Lizieri & MacGregor, 2000; Lee, 2001).

Figure 1. The Current Investment Strategies of LPEs on the NZX by Sector and Property Types



[Source: The Survey Results, October 2010]

Analysis of the combined LPEs portfolio shows that 95% of the total Fair Value is attributable to traditional sector properties (office, retail and industrial), which supports previous studies (Hobbs, 1994; Simpson, 2010) and 5% is attributable to property from the non-traditional sector (medical and other investment properties). LPTs in Australia have invested in properties in the traditional sector and the non-traditional sector (Newell & Peng, 2008) and this study shows LPEs in New Zealand have also invested in both sectors, but compared to Australia there has been minimal investment by LPEs in New Zealand into non-traditional property types. This finding supports the survey results (refer to table 6) which presents the factors that have deterred the management from investing in the non-traditional sector.

Property types

Figure 1 above, also shows that over 64% of the LPEs invested in more than one property type in the traditional property sector, whilst 13% invested in more than one property type in the non-traditional property sector and 13% invested in property types in both sectors.

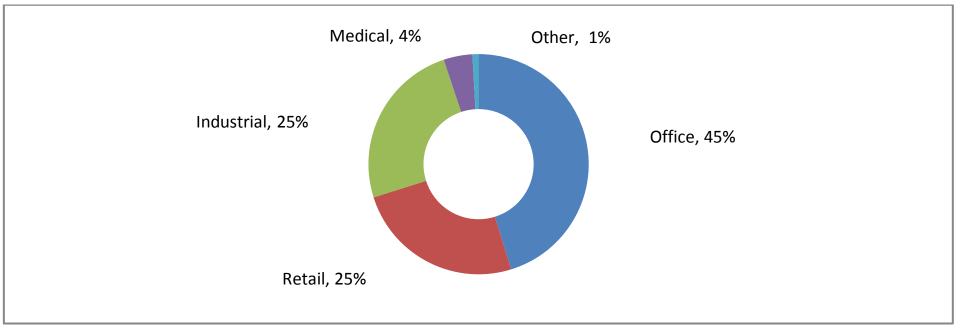
Figure 2 illustrates the balance of the specific property types within the combined property portfolio. Figure 3 and 4 show the proportions of the property types within the traditional sector and the Non-Traditional Property Sector respectively.

The findings highlight that office properties still dominate the LPE combined portfolio in New Zealand as found in previous studies (Hobbs, 1994; McKellar, 1995; Moricz and Murphy 1997; Simpson, 2010).

The small contribution from the non-traditional sector property types (5%), supports Hobbs (1994) findings that properties "other" than office, retail, and industrial in the early 1990s made a minimal contribution to the overall portfolio.

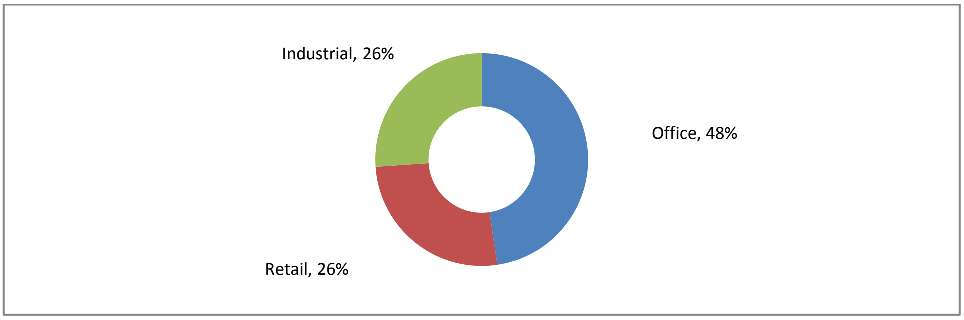
The findings show that medical properties dominate (82%) the narrow range of non-traditional property types in New Zealand, which differs to the study of Australian LPTs, which were found to have a 17 different property types, dominated by leisure and entertainment properties (41%) and retirement properties (26%) with medical properties only contributing 10% to the combine portfolio (Newell & Peng, 2008). The study by Newell & Peng (2008) also highlighted that the reason that Australian LPTs have expanded their portfolios with non-traditional properties is due to the disparity in Australia between available funds (from institutional investors) and available traditional property types. This implies that funds available to New Zealand LPEs match the available traditional property types.

Figure 2. Composition of the Combined LPEs Property Portfolio by Property Type



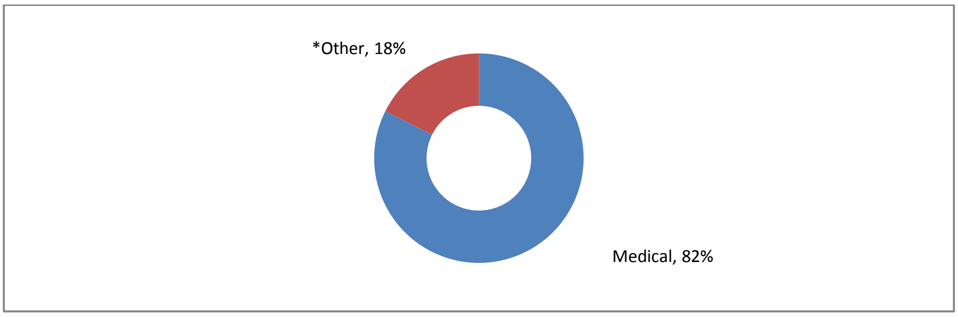
[Source: The latest Company Annual Reports (2009, 2010)]

Figure 3. Composition of the Traditional Sector within the Combined LPEs Property Portfolio by Property Type



[Source: The latest Company Annual Reports (2009, 2010)]

Figure 4. Composition of the Non-Traditional Sector within the Combined LPEs Property Portfolio by Property Type

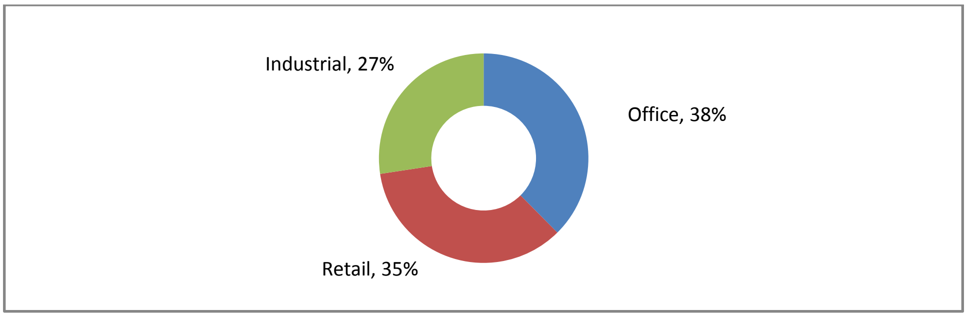


*NOTE: *Property types classified as "other" in figure 4 refer to properties that were difficult to categorise due to the limited information in the Annual Reports. This category includes investment properties that were being constructed or developed for future use, and labelled by the relevant LPE as "adjoining properties" and also "development land".*

[Source: The latest Company Annual Reports (2009, 2010)]

The LPEs in New Zealand that invest in a single property type are APT (office properties), VHP (medical properties) and PFI (industrial properties). Figure 5 illustrates the property weightings for the remaining 6 LPEs who diversify their portfolio by property type, which show a similar weighting of office, retail and industrial properties. In comparison to figure 2 this finding reveals the overall preference of LPEs when diversifying by property type is to hold almost equal amounts of each category.

Figure 5. Composition of the diversified LPEs Combined Property Portfolio by Property Type



[Source: The latest Company Annual Reports (2009, 2010)]

Geographical spread

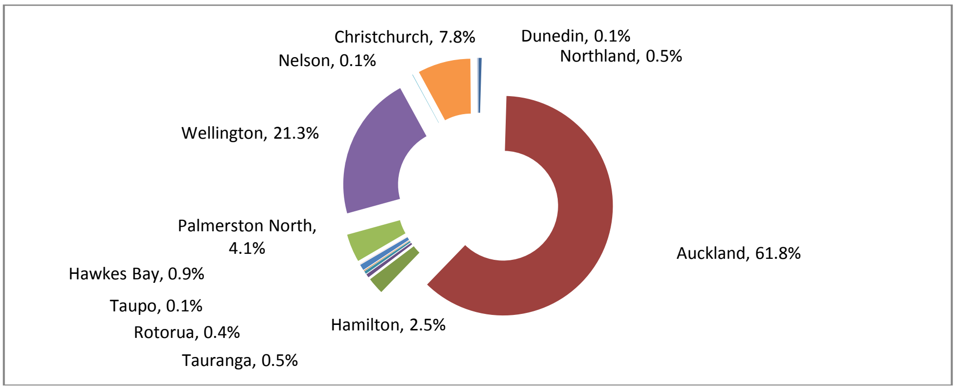
The analysis revealed that 98% of the combined portfolio is comprised of domestically located properties ($6,742 million of which 92% is contributed by properties located in the North Island), and with only 2% of the properties located internationally ($107 million) in Melbourne Australia (medical properties all owned by the same entity). Compared to Australia where 25% of the LPTs investment properties were found to be international properties (Tan, 2004), New Zealand's LPEs have a significantly lower proportion of properties located overseas. The survey results (refer to page 22) also support this finding with seven out of the eight respondents indicating that they would only invest in domestic property assets to expand their portfolios.

These results suggest that New Zealand LPEs prefer not to diversify through the inclusion of international properties in their portfolios and implies management regard this diversification strategy as unimportant. It may also be the case that LPE management regard the option to invest internationally as too risky, due to their lack of knowledge of the international property markets.

The results shown in figures 6 to 14 are based on the Fair Value ($6,742 million) of the domestically located combined LPE portfolio. Figures 6 to 10 set out the contributions of the various property types to the domestic portfolio by location, and figures 11 to 14 set out the contributions of the four main locations to the domestic portfolio by property type.

Figure 6 illustrates the geographical spread of the domestic portfolio. The four main locations that collectively make a significant contribution (95%) to the Fair Value are: Auckland (61.8%), Wellington (21.3%), Christchurch (7.8%), and Palmerston North (4.1%). These findings support Simpson's (2010) research which found that New Zealand LPEs have tended to invest Auckland, Wellington and Christchurch.

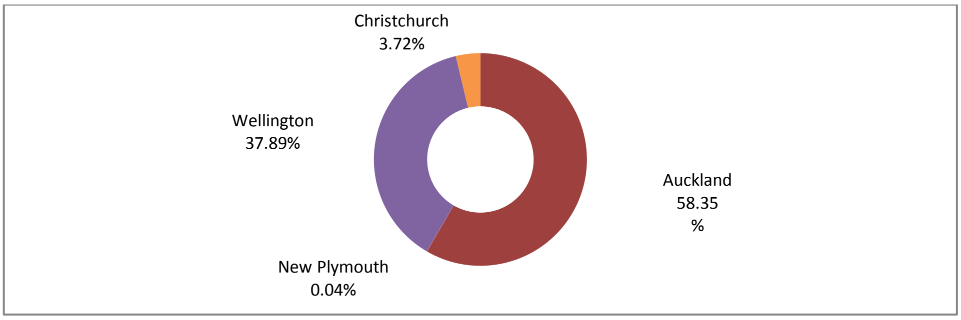
Figure 6. Composition of the Combined LPEs Property Portfolio by Location



[Source: The latest Company Annual Reports (2009, 2010)]

Figures 7 to 10 sets out the contribution the various property types make to the domestic portfolio. Figure 7 presents the geographical spread of the office properties, which contribute $3.1 billion to the domestic portfolio. The results show that Auckland and Wellington provide the highest contribution with 58.4% and 37.9% respectively towards the total Fair Value of office properties, which supports Hobbs (1994) previous study of the listed property market.

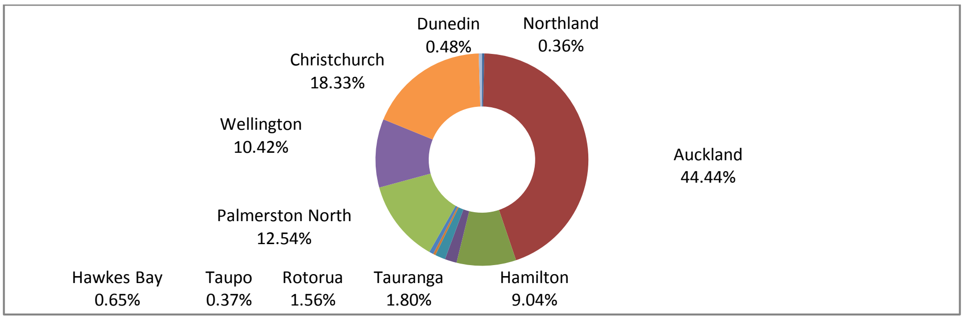
Figure 7. Composition of the New Zealand Office Properties by Location



[Source: The latest Company Annual Reports (2009, 2010)]

Figure 8 sets out the geographical spread for the retail properties in the domestic portfolio, Retail contribute $1.7 billion to this portfolio. Auckland and Christchurch provide the highest contribution of 44.4% and 18.3% respectively. Smaller contributions are made by Palmerston North, Wellington and Hamilton at 12.5%, 10.4% and 9.0% respectively, with the remaining contribution from Tauranga (1.8%), Rotorua (1.6%), Hawkes Bay (0.7%), and Dunedin (0.5%) with even smaller amounts contributed by the Northland and Taupo properties. Retail properties show a wider geographical spread than both the office and industrial properties in the portfolio.

Figure 8. Composition of the New Zealand Retail Properties by Location

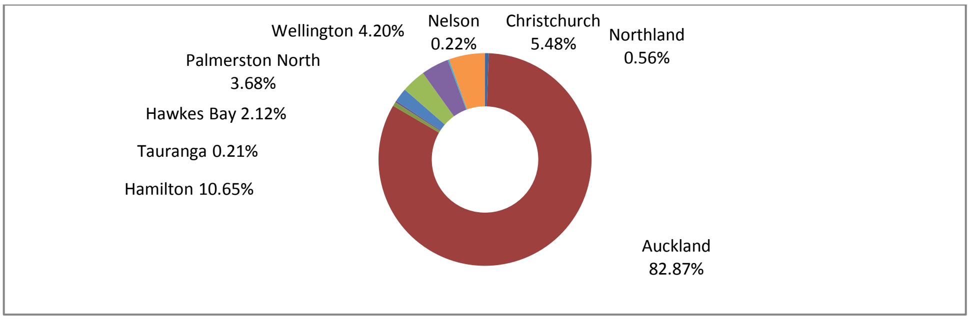


[Source: The latest Company Annual Reports (2009, 2010)]

Figure 9 sets out the geographical spread for the industrial properties in the domestic portfolio. These properties contribute $1.7 billion to this portfolio. Auckland provides the highest contribution at 82.9%. Smaller contributions are provided by industrial properties in Hamilton (10.7%), Christchurch (5.5%), Wellington (4.2%) and Palmerston North (3.68%). The remaining contributions are made by Hawkes Bay, Nelson and Tauranga properties.

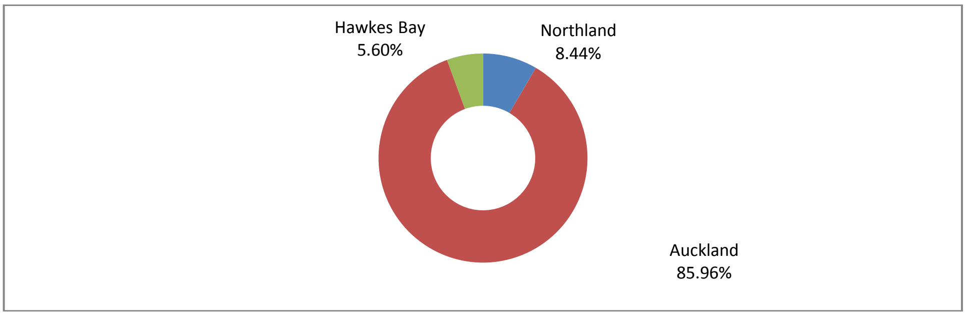
Figure 10 sets out the geographical spread for the medical properties in the domestic portfolio. These properties contribute $184 million to this portfolio. Properties in Auckland (86.0%) contribute the majority of the Fair Value, with smaller contributions from Northland (8.4%) and Hawkes Bay (5.6%).

Figure 9. Composition of the New Zealand Industrial Properties by Location



[Source: The latest Company Annual Reports (2009, 2010)]

Figure 10. Composition of the Medical Properties by Location

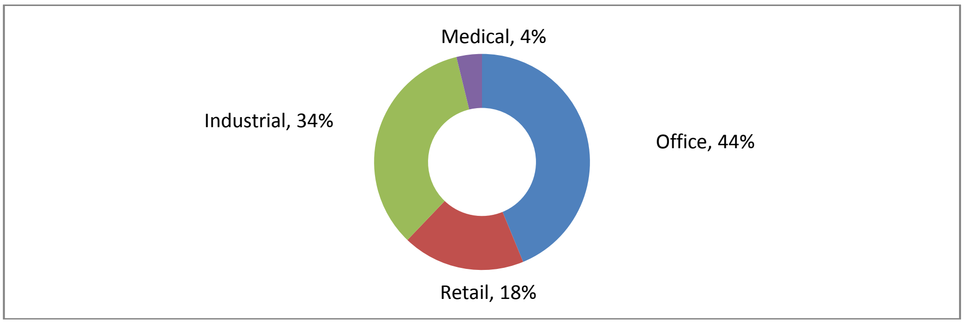


[Source: The latest Company Annual Reports (2009, 2010)]

Figures 11 to 14 set out the contribution that each property type makes to the four main urban areas which have been shown to contribute a significant amount to the domestic portfolio, refer to figure 6 (Auckland, Wellington, Christchurch and Palmerston North).

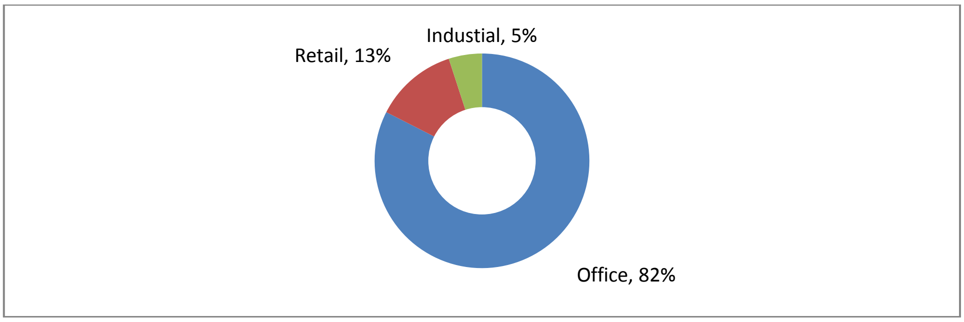
Figure 11 shows that properties located in Auckland are mainly office (44%) and industrial (34%), with the smaller contributors being retail (18%) and medical (4%). Figure 12 shows that properties located in Wellington are predominantly office (82%) with a similar proportion of retail (13%) and industrial (5%) compared to Auckland. Figure 13 shows that properties in Christchurch are predominantly retail (60%), with almost equal weightings of office (22%) and industrial (18%). Figure 14 reveals that properties in Palmerston North show similar proportions as Christchurch, being heavily weighted towards retail (60%), with smaller amounts of office (22%) and industrial (18%).

Figure 11. Composition of the Auckland Properties in the Combined Property Portfolio by Property Type



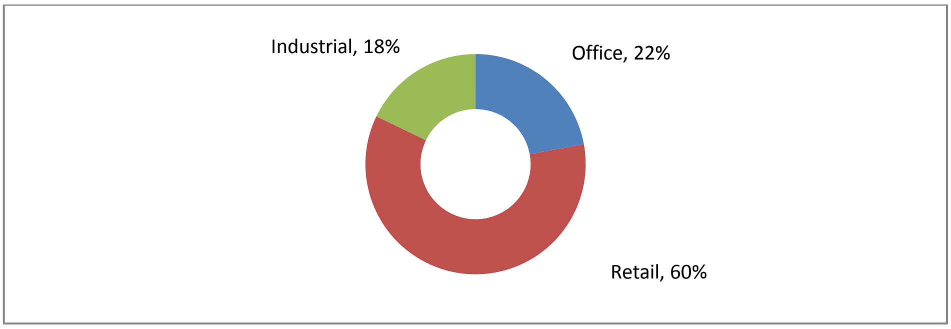
[Source: The latest Company Annual Reports (2009, 2010)]

Figure 12. Composition of the Wellington Properties in the Combined Property Portfolio by Property Type



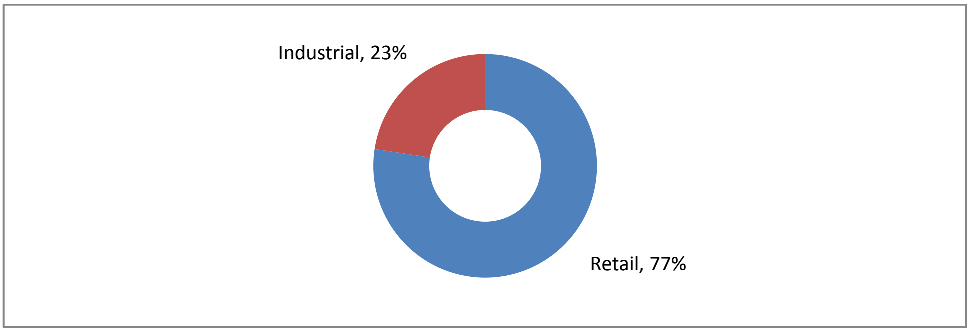
[Source: The latest Company Annual Reports (2009, 2010)]

Figure 13. Composition of the Christchurch Properties in the Combined Property Portfolio, by Property Type



[Source: The latest Company Annual Reports (2009, 2010)]

Figure 14. Composition of the Palmerston North Properties in the Combined Property Portfolio by Property Type



[Source: The latest Company Annual Reports (2009, 2010)]

Combining the above results reveals that properties in Auckland contribute over 60% to the combined LPE portfolio Fair Value, weighted towards office (44%) and industrial properties (34%). Wellington properties contribute over 20%, heavily weighted towards office Properties (80%). Properties in Christchurch contribute nearly 8% and are heavily weighted towards retail (60%), which is in line with Christchurch having the highest net lettable retail area (square metres) per capita in New Zealand (NZCSC/PCNZ, 2009/2010). Smaller contributions come from Palmerston North properties (just over 4%), which are heavily weighted towards retail properties (77%). These findings show that the investment strategies, of the current LPEs in New Zealand, still focus geographically on the main urban areas in New Zealand, which support Simpson's (2010) observations.

Motivating and Risk Factors – The Investment Decision

The survey results highlighted the motivating and risk factors that influence the investment decisions made by the management of the LPEs.

Portfolio Composition - Sectors

Out of the eight respondents only seven indicated that their entity held traditional sector properties and table 6 presents the factors which have deterred these respondents (management) from investing in non-traditional properties. Also found was that from these seven respondents only one respondent acknowledged that their entity's portfolio indirectly invested in non-traditional sector properties (which included cafes, gyms, and childcare facilities), but these properties were identified as part of the amenity within larger traditional sector estates, which their LPE owned.

Table 6. Factors that have Deterred Management, of Traditional Sector Property Portfolios, from investing in Non-Traditional Properties

	Factors
Risk & Return	• Sectoral risk • The avoidance of specific risk associated with unique or specialised asset types • Not being comfortable with the stability of returns
Investment Approach	• Prefer a passive investment approach • Prefer to selecting core/traditional property types only • Investor appeal
Management	• Management implications • No expertise in those areas
Responsibilities	• Outside both the investment strategy and the Trust Deed

[Source: The Survey Results, October 2010]

Table 7 presents the motivating factors that influenced management's decision to include or consider including non-traditional sector properties in their respective entities portfolio.

Table 7. Motivating Factors for LPEs Investing in Non-Traditional Sector Property Types

	Motivating Factors
Very Important	• A greater understanding of non-traditional property investment risk • Portfolio diversification benefit • Barriers to entry into the Traditional Sector
Important	• Strong performance of non-traditional property sector LPEs
Less Important	• Greater availability and choice of properties • Significant capital inflow available for property investment (for example, superannuation funds) • Desire for new product diversity • Higher/enhanced yield than traditional properties • Positive spread between non-traditional property yield and the cost of debt • Favourable tax structure/treatment
Unimportant	• A shortage of quality local commercial property • Compelled to expand due to strong capital inflow into the fund • Concessions (for example licensing laws) • Government funding to some non-traditional property sectors

[Source: The Survey Results, October 2010]

The results suggest that most LPEs do not invest in non-traditional sector properties but for those that do invest in this sector the most important motivating factors are the strong performance of these types of property and barriers to entry into the traditional sector. These findings are similar to Newell & Peng's (2008) study of Australian LPTs in terms of the main motivating factors and the five most significant difficulties experienced (or expected to be experienced) by Managers influencing the decision to invest in the non-traditional sector properties.

Table 8 presents the various difficulty/risk factors that the respondents experienced or expected to experience, when investing in non-traditional sector property types.

The results suggest that the there are three significant risk factors that Managers of the LPEs take into account when making an investment decision to acquire or develop property in the non-traditional sector. These factors relate to the lack of quality stock, the depth of the market and the difficulty in identifying sound properties. Other actual and potential factors experienced when investing in this sector include the competition for these property types and the ongoing requirements of their management and operation.

None of the respondents referred to the tax changes as either a motivating or risk factor.

Table 8. Risk Factors for LPEs Investing in Non-Traditional Sector Property Types

	Risk Factors
Very Important	• Lack of quality non-traditional sector property stock • Difficulty in identifying sound non-traditional property investments/acquisitions • Depth of the market
Important	• Competition for non-traditional property investments/ acquisitions • Ongoing management and operation of non-traditional property investment
Less Important	• Quality and availability of data • Uncertainty of government policy • Inconsistent and ambiguous legislation (regarding property, trusts etc)
Unimportant	• Difficulty in identifying reliable/strategic business partners • Difficulty in identifying appropriate management structure

[Source: The Survey Results, October 2010]

Environmental Sustainability

Table 9 reveals the level of importance LPE management place on the six environmental sustainability factors, identified by Bond (2010), when selecting an investment property. Whether the building has a Green Star Rating and the energy efficiency of the building are both ranked highest in this investment decision.

Table 9. Ratings for Environmental sustainability Factors Considered in the Investment Decision

Environmental Sustainability Factor	**Critical**	**Very Important**	**Important**	**Less Important**	**Unimportant**
Green Star Rating	0	4	3	0	1
Energy efficiency	0	5	3	0	0
The building is operating under green leases	0	1	1	6	0
The building has renewable energy features (solar, wind, co-generation plants etc)	0	0	4	3	1
The building has passive solar features	0	2	2	4	0
The building has high performance glazing (e.g. double glazing etc)	0	1	7	0	0

[Source: The Survey Results, October 2010]

Table 10 shows the twelve strategies, identified by Newell (2008), the LPEs currently use to deliver excellence and international best practice in environmental sustainability. These findings highlight that the most common strategies used by the LPEs are: tenant initiatives and green leases 88% (ensuring better energy and water management practices and the use of energy conservation technology fit-outs), and corporate strategies 75% (e.g. annual report disclosure of environmental sustainable activities).

The importance placed on environmental sustainability factors by LPEs when selecting and managing a property shows that they have embraced the agenda set by the property industry, the Government and other stakeholders both domestically and internationally.

Table 10. Strategies used to deliver excellence and international best practice in environmental sustainability

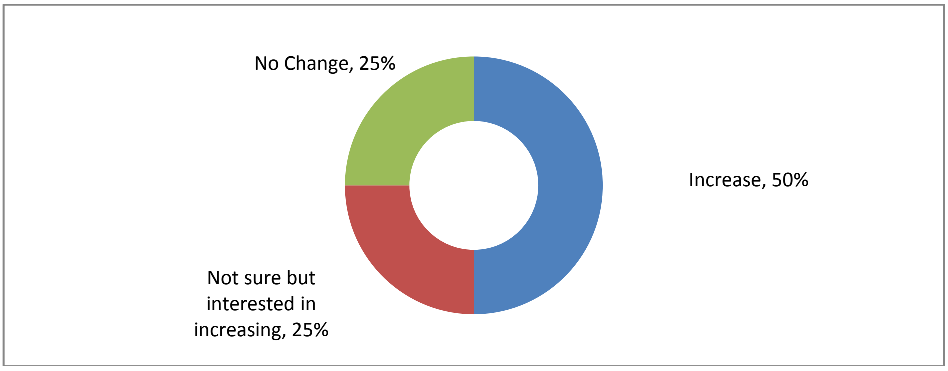
Initiative	Respondents	%
Tenant initiatives and green leases (ensuring better energy and water management practices and the use of energy conservation technology fit-outs)	7	88%
Corporate Strategies (e.g. annual report disclosure of environmental sustainable activities)	6	75%
Property portfolio environmental sustainability performance ratings	3	38%
Corporate responsibility and sustainability reports (e.g. separate report available on the trust/company website)	2	25%
Property portfolio environmental performance targets (for the portfolio and for individual properties that are new or existing)	2	25%
Green Star Ratings - hold and refurbish buildings in the portfolio or develop or acquire buildings as new assets for the portfolio	2	25%
Carbon disclosure project reports	1	13%
Environmental Footprint Statements in your sustainability reports	1	13%
Supply chain screening (to ensure suppliers are consistent with the LPT's/LPIC's environmental sustainability agenda)	1	13%
Collecting Environmental Sustainability awards for the LPT's or LPIC's initiatives (for Government, industry and community levels)	1	13%
International sustainability performance measures (inclusion on the indices that show sustainability performance measures)	0	0%
Sustainable Responsible Investment (SRI) certification (required to be included in the ethical funds)	0	0%

[Source: The Survey Results, October 2010]

Portfolio Management - Activity

Figure 15 shows that in the current economic climate 50% the respondents intend to increase the size of their LPE's portfolio, 25% were not sure but were interested in increasing the size of their portfolios, and 25% do not intend to change the size of their portfolio. These results suggest LPEs are being cautious in terms of property investment going forward. This result supports Herdson's (2010) findings that the majority are intending or interested in increasing the size of their LPEs portfolio in the current economic climate.

Figure 15. Intentions Regarding the Size of the Entities Portfolio



[Source: The latest Company Annual Reports (2009, 2010)]

The findings reveal that LPEs who intend to increase the size of their entities portfolio (or who are interest in increasing the size of their portfolio), are looking to buy: (1) domestically located properties with only 1 LPE looking to invest in internationally located properties, (2) traditional sector properties preferably Office properties (5 LPEs), Retail properties (3 LPEs), and Industrial properties (2 LPEs), and (3) non-traditional sector properties preferably car parking (2 LPEs), hospital and medical properties (2 LPEs) and development land (1 LPE). These results support the findings of previous research (Hobbs, 1994; McKellar's, 1995; Simpson, 2010) findings regarding the location and sector investment preferences of LPEs in New Zealand.

Table 11 shows the variety of ideal price ranges (by property type) indicated by the respondents, for each property type they intended to invest in. The results show that the majority (86%) of the LPEs have an ideal acquisition price range they are willing to pay when they make a property investment decision. Each entity appears to have a similar price range requirement across the different property types. The LPEs that undertook a significant amount of their own development, preferred to buy larger estates typically priced between $50 million to $100 million.

Table 11. Ideal Acquisition Price Ranges by Property Type

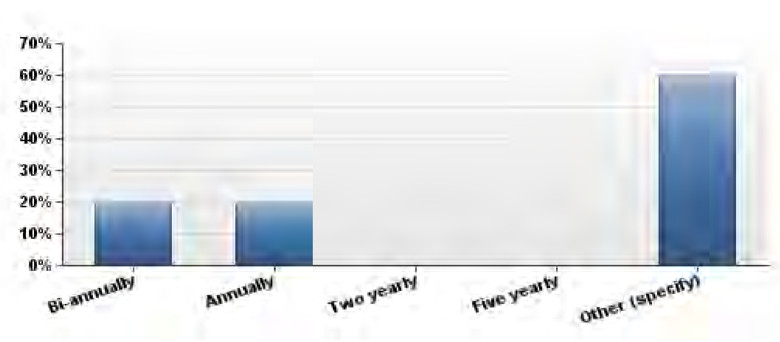
Office	Retail	Industrial	Car Parks
< than $25mill	< than $25mill	$25 million	$10 - 30m
$9m and $21m	$9m and $21m	$9m and $21m	
$10 - $20m	$10 - $20m	$10 - $20m	
$30m - $150m	$30m - $150m	>than $20m**	
$15 - $25m	$15 - $25m	$20m (Estates)	

**But prefer to acquire larger estates (between $50m-100m+) for development

[Source: The Survey Results, October 2010]

Analysis of the survey responses shows that five out of the eight respondents (63%) report that they actively manage their LPE's portfolio, by adjusting the allocation of each property type to take advantage of mispricing and/or the property cycle. Figure 16 illustrates how frequently those five LPEs actively rebalance their portfolios; one of the five respondents preferred to rebalance bi-annually, one of the five respondents preferred to rebalance annually and the other three managers who selected the "other" option, stated that their decision to rebalance was influenced by market conditions and noted that the this decision was not time specific and that their portfolio investment strategy is reconsidered informally as the dynamics in the market relating to certain sectors or sub sectors dictate, but noted that they formally rebalance once a year. Also analysed from the survey results is the desired holding period for property investments, which for all LPEs was more than 10 years.

Figure 16. How Frequently Portfolios are Actively Rebalanced by LPE Managers



[Source: The Survey Results, October 2010]

Data analysis of the Annual reports showed that management has focused their efforts on the performance of their portfolios including: earnings (rental revenue and earnings per unit), distributable profit, rent reviews (average increase over the previous contract rent), portfolio occupancy rates and the portfolios weighted average lease term (WALT).

The survey revealed that LPEs are using a number of performance benchmarks to measure the performance of the existing portfolio, shown in table 12.

Table 12. The Benchmarks used by LPEs to Measure the Performance of the Entity's Existing Portfolio

Performance Benchmark	Compared to:
Returns and yields	• Indices: NZX Gross Property Index, NZX 50 • IPD benchmark data • PCNZ benchmark data (OPEX and performance) • Returns compared to competitors both in New Zealand and Australia • Returns compared to budget or previous results
Property values changes (total value and $/m^2$) and rental income changes	• The previous years
Distributable Profit per Unit and Unit price	• The other LPEs on the NZX
Customer retention	• (Not Stated)
Occupancy	• Expectation and previous years

[Source: The Survey Results, October 2010]

The analysis of the survey results also showed that the most common performance benchmarks used by the LPEs to facilitate investment decision making included: (1) Internal Rate of Return (IRR) requirement for the fund, (2) over the long term will the acquisition be earnings accretive to the fund (the acquisition which is expected to increase earnings per share), (3) initial yield and contract yield requirements, (4) capital growth opportunities, (5) the positive impact on the Weighted Average Lease Term (WALT), and (6) the Loan to Value Ratio (LVR) Impact.

The results show the performance benchmarks LPEs are using as part of their quantitative and qualitative criteria for selecting property. The effect of the investing decisions can be seen in the financial statements and because the distributable profits of a LPE is an important view of an entities earning, portfolio managers, in order to survive and maintain distributions, focus on meeting the entities goals which include the creation of wealth for unit/shareholders . The performance benchmarks are important measureable criteria in an entities property investment strategy.

Conclusion & Recommendations

The negative impact of the recent Global Financial Crisis (GFC) on property values and rental incomes has increased the attention, of investors and the property industry, on the performance of property. This study reveals the successful property investment strategies that the Listed Property Entities (LPEs) in New Zealand have adopted, which resulted in all the LPEs surviving the GFC, unlike the aftermath of the 1987 Stock Market Crash which reduced the number of entities by 50%.

The purpose of this exploratory study was to assess the overall investment strategies of the property trusts and property investment companies listed on the New Zealand Stock Exchange (NZX). The study profiled, by way of sector, property type and location, the composition of the combined LPEs portfolio. The findings showed that almost all New Zealand LPEs hold portfolios with domestically located traditional sector property (office, retail and industrial property), with only one LPE also holding non-traditional sector properties (medical properties) which were located both domestically and internationally (Australia). The survey respondents also indicated that their investment strategy is unlikely to change going forward.

The findings also showed that the combined portfolio is imbalanced towards office properties, which supports other research of the New Zealand Market (Hobbs, 1994; McKellar, 1995; Moricz and Murphy 1997). When analysis was carried out on only those LPEs that diversify through property type, the results showed a different balance with an almost equal Fair Value weighting of office, retail and industrial properties. Results also identified that the domestically located properties are heavily weighted towards the main urban centres, Auckland, Wellington and Christchurch which supports Simpson's (2010) findings.

The survey respondents identified that their portfolios are managed actively, but to a relatively low level compared to overseas entities, which supports Simpson's (2010) research, in which he observed that New Zealand's LPEs are relatively passively managed compared to Australian and overseas REITs.

The study shows that the investment strategies of LPEs in New Zealand are similar both now and going forward. Managers intend to invest in similar property types and locations. The findings revealed that most LPEs in New Zealand were sector-specific preferring to diversify through property type, which has been found to be more effective (Seiler et al., 1999; Fisher & Liang 2000; Hamelink et al, 2000; Lee, 2001). These findings are similar to Australia and the US, where this is the predominant approach used by the REITs (Harrington, 1997; Tan, 2004).

The significant factors, identified by the study, that motivate LPEs in New Zealand to invest in the traditional sector relate to: the risk and return, the management's abilities, the responsibilities to the owners, and the preferred investment approach (passive investment in traditional sector properties to appeal to investors). The research showed that the significant factors that motivate LPE Managers to invest in the non-traditional sector included: the strong performance of these types of property, the barriers to entry into the traditional sector, and the diversification benefits of investing in both sectors. The results also highlighted the main risk factors that deter LPE Managers from investing in the non-traditional sector and these included: the lack of quality stock, the depth of the market and the difficulty in identifying sound properties, the competition for these property types, and the ongoing requirements of their management and operation.

LPEs are placing increasing importance on environmental sustainability factors when selecting property investments especially in terms of the Green Star Rating and energy efficiency of the building. The strategies that New Zealand LPEs are using to deliver excellence and international best practice in environmental sustainability were similar to the Australian LPTs studied by Newell (2008). The most important strategies revealed included: tenant initiatives and green leases (ensuring better energy and water management practices and the use of energy conservation technology fit-outs), and corporate strategies (e.g. annual report disclosure of environmental sustainable activities).

The study revealed that LPE management utilise an ideal price range when selecting property, which are unique to each entity, and once included in the portfolio most LPEs hold a property for more than 10 years but this period is influenced by the market conditions, the property cycle and any mispricing opportunities. The research also revealed that in order to select and monitor their portfolios, management utilised a number of key performance criteria, which they compared with both internal and external benchmarks. The criteria included: returns and yields, capital growth potential, occupancy levels, unit price and distributable profit per unit, and the impact on the Weighted Average Lease Term (WALT) and the Loan to Value Ratio (LVR). The benchmarks included: NZX 50, IPD data, competitors, and internal budget and previous year figures.

There are several practical implications arising from this study. Developers should focus on supplying LPEs in New Zealand with traditional sector properties (office, retail and industrial) which are domestically located in the major urban areas (Auckland, Wellington, Christchurch), and which meet both the ideal price ranges and the performance criteria. New and existing LPEs Managers can use the study as a guide to determine what investment strategies can be used to position their entity to survive any future difficult economic climates. As this study is based on LPEs which have survived the GFC, it would thus appear that their property decisions have been based on sound investment strategies.

In terms of the theoretical implications, this study has advanced the knowledge available on the listed property market in New Zealand and of the investment strategies of property entities listed on the NZX. This research hence provides scholars with information for future studies and potential opportunities for cross sectional and time series analysis.

Overall the findings provide decision makers and researchers with a better understanding of the property investment opportunities and issues in New Zealand. Further studies could investigate the performance aspects of investment strategies, carry out time series and cross sectional analysis of investment strategies and also look at the actual versus intended management activity carried out by New Zealand LPEs.

References

AMP New Zealand Office Trust (2010), Annual Report. Retrieved from http://www.anzo.co.nz/pdfs/ANZO%20AR%202010.pdf

BDO, 2004. *BDO Listed Property Trust Survey 2004 Edition.* BDO Chartered Accountants and Advisers: Australia.

Bond, Sandy. (2010). *Personal Communication*. Professor of Property Studies, Lincoln University, New Zealand.

DNZ Property Fund Limited (2010), Annual Report. Retrieved from http://www.dnzproperty.com/images/objectimages/DNZ_AR2010_web.pdf

Fisher, J. and Liang, Y. 2000. Is Sector Diversification More Important Than Regional Diversification? *Real Estate Finance*. Fall, 35-40.

Fraser, W D. 1993. *Principles of Property Investment and Pricing.* MacMillan.

Goodman Property Trust (2010), Annual Report. Retrieved from http://www.goodman.com/en/FundManagement/Asia/GMT/Documents/GMT%20Annual%20Report%202010.pdf

Green Building Council of Australia (2006). *The Dollars and Sense of Green Buildings*, Green Building Council of Australia, Sydney.

Hamelink, F., Hoesli, M., Lizieri, C. and MacGregor, B. 2000. Homogenous Commercial Property Markets Grouping and Portfolio Construction in the UK. *Environment and Planning.* Vol. 32, 323-344.

Harrington, A. 1997. Sector Specific Trusts. *Property Australia*. January, 62.

Henly, J., (2009). *ING Medical Properties Trust's Ascot Central Awarded NZGBC 4 Green Star - Office Design Rating - CEO of NZGBC*. Retrieved 12/10/2010 from http://www.voxy.co.nz/business/ing-medical-properties-trust039s-ascot-central-awarded-nzgbc-4-green-star-office/5/12877

Herdson, P. (2010). 2010 A time of opportunity. *National Portfolio.* (1) p. 1, Colliers International.

Hobbs, A.M. (1994). What might be the future of listed property investment companies and trusts in New Zealand. *BOMA New Zealand Property Achiever Award Speech Notes.* 1-15

Hoesli, M., & MacGregor, B.D. (2000). *Property Investment: Principles and practice of portfolio management*, Pearson Education Limited.

Hutching, C. (2010). Listed trusts perform better than market, *NBR NZ Property Investor,* page. 2.

ING Medical Properties Trust (2010) – renamed October 2010 as Vital Healthcare Property Trust, Annual Report. Retrieved from http://file.nzx.com/000/745/4177745.pdf

ING Property Trust (2010), – renamed October 2010 as Argosy Property Trust, Annual Report. Retrieved from http://www.ingproperty.co.nz/content/491/INGPT025%20ING%20Property%20Trust%20A-R%20Web%202010.pdf

Keeping, M., Dixon, T. and Ellison, L. (2007). *The Energy Performance of Buildings Directive and Commercial Property Investment*, Investment Property Forum, London.

Kermadec Property Fund Limited (2010), Annual Report. Retrieved from http://companyresearch.nzx.com/reports/nz/2010/KPF2010.pdf

King Sturge (2007). *European Property Sustainability Matters*, King Sturge, London.

Kiwi Income Property Trust (2010), Annual Report. Retrieved from http://thomson.mobular.net/thomson/7/2998/4298/document_0/KIPT_AR10.pdf

Lang, R (2009). Annual Report 2009. *AMP NZ Office Trust.* 6-9

Larsen, C. 2004. Interview with Mark Steinert: The Growth Guru. *Property Australia.* April, 18-21.

Lee, S. 2001. The Relative Importance of Property Type and Regional Factors in Real Estate Returns. *Journal of Real Estate Portfolio Management*. *7*(2), 159-167.

McDonagh, John. (2010). *Personal communication.* Associate Professor in Property Studies, Lincoln University, New Zealand.

McKellar, M. (1995). The new wave of property investment vehicles. *Property Management*. 13-17

Merrill Lynch (2005). *Green Property: Does It Pay?*, Merrill Lynch, Sydney.

Moricz, Z. and Murphy, L. (1997), *Space Traders: Reregulation, Property Companies and Auckland's Office Market, 1975–94.* International Journal of Urban and Regional Research, 21: 165–179.

New Zealand Institute of Chartered Accountants (NZICA), 2010. New Zealand Equivalent to International Accounting Standard 40 (NZ IAS 40), Retrieved 12 October 2010: http://www.nzica.com/AM/Template.cfm?Section=NZEIFRS_2009_Volume_files&Template=/CM/ContentDisplay.cfm&ContentID=15665

New Zealand Council of Shopping Centres/Property Council of New Zealand, 2009-10. New Zealand Shopping Centre Directory.

Newell, G. (2005). Factors influencing the performance of Listed Property Trusts. *Pacific Rim Property Research Journal, 11*(2). 211-227.

Newell, G. (2008). The strategic significance of environmental sustainability by Australian-Listed Property Trusts. *Journal of Property Investment and Finance, 26*(6). 522-540.

Newell, Graeme. (2010). *Personal communication via email.* Professor, Associate Head of the School of Economics and Finance, University of Western Sydney, Australia.

Newell, G. & Acheampong, P. (2002). The role of property in ethical managed funds. *Pacific Rim Real Estate Conference,* 1-14

Newell, G., Hwa, T.K. & Acheampong, P. (2002). Listed Property Trusts in Malaysia. *Journal of Real Estate Literature, 10*(1), 109-118

Newell, G. & Peng, H.W. (2006). The Role of non-traditional real estate sectors in REIT Portfolios. *Journal of Real Estate Portfolio Management, 12*(2), 155-166

Newell, G. & Peng, H.W. (2007). The significance of leisure property in property portfolios in Australia. *Journal of Retail and Leisure Properties, 6*, 109-116

Newell, G. & Peng, H.W. (2008). LPT fund manager decision making in the emerging property sectors. *Pacific Rim Property Research Journal, 14*(2), 222-232

Property for Industry Limited (2009), Annual Report. Retrieved from http://www.pfi.co.nz/downloads/PFI_AnnualReport%2009.pdf

Property Institute of New Zealand (PINZ) and Australian Property Institute (API), 2009. *Valuation and Property Standards 2009.* PINZ/ API.

Radford, Jack. (2010). *Personal Communication.* Senior Lecturer in Accounting, Lincoln University, New Zealand.

Saatyesh, Bhana (2010), *Personal communication*. Argosy Property Trust Asset Manager.

Schmitz, A., & Brett, D.L., (2004). *Real Estate Market Analysis: A case study approach* (Fourth ed.): ULI.

Seiler, M., Webb, J. and Myer, F. 1999. Diversification Issues in Real Estate Investment. *Journal of Real Estate Literature.* Vol. 7, No. 2, 163-179.

Simpson, Jeremy. (2010). *Personal communication.* Forsyth Barr Financial Analyst.

Stickney, C. P., Brown, P. R., & Wahlan, J. M. (2007). *Financial Reporting, Financial Analysis and Valuation: A Strategic Perspective* (Sixth ed.): Thomson South Western.

Tan, Y. K. (2004). *Strategic Investment Issues for Listed Property Trusts.* (Thesis, University of Western Sydney, Australia, 2004), retrieved from: http://voyager.uws.edu.au/vwebv/search?searchArg=tan&searchCode=NAME%2B&limitTo=none&recCount=30&searchType=1.

The National Property Trust (2010), Annual Report. Retrieved from http://www.npt.co.nz/pdf/annual_reports/npt_annual_report_2010.pdf