

# **Australian REIT Sector**

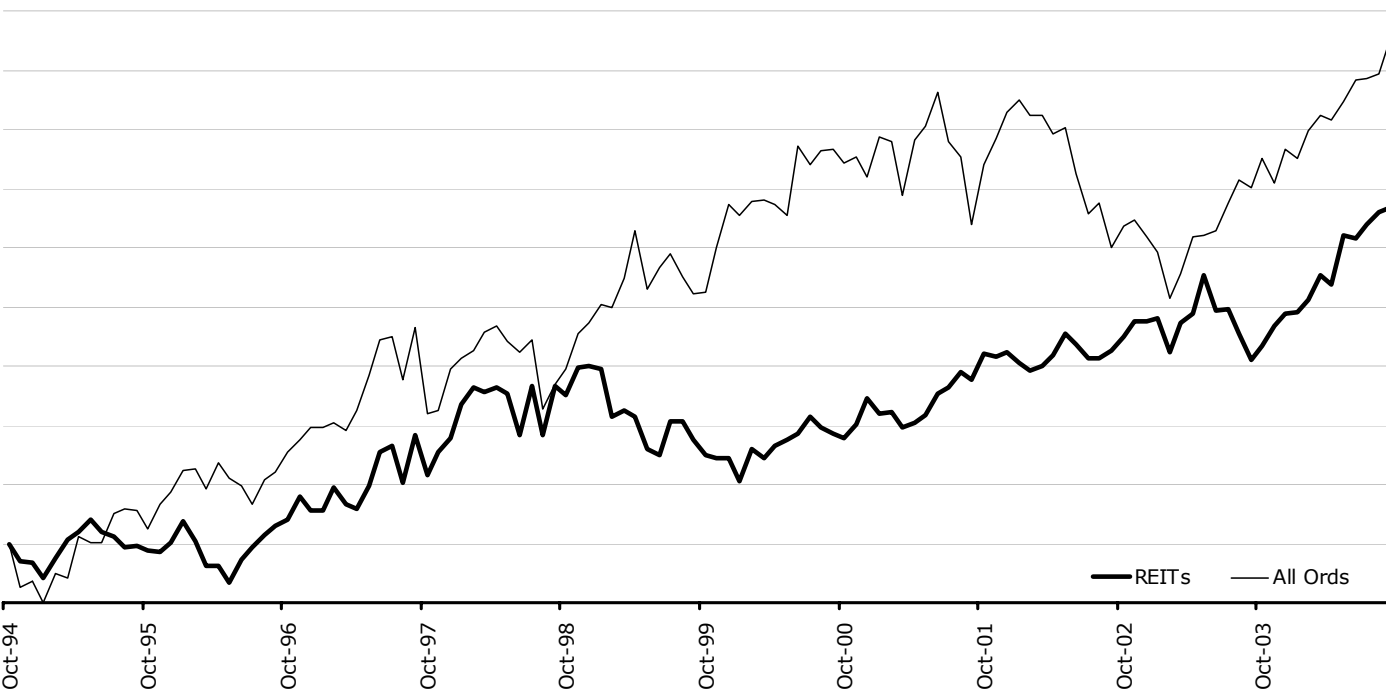
## **PRRES Conference**

**January 2005**

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## Performance

REITs vs All Ords - Price Index

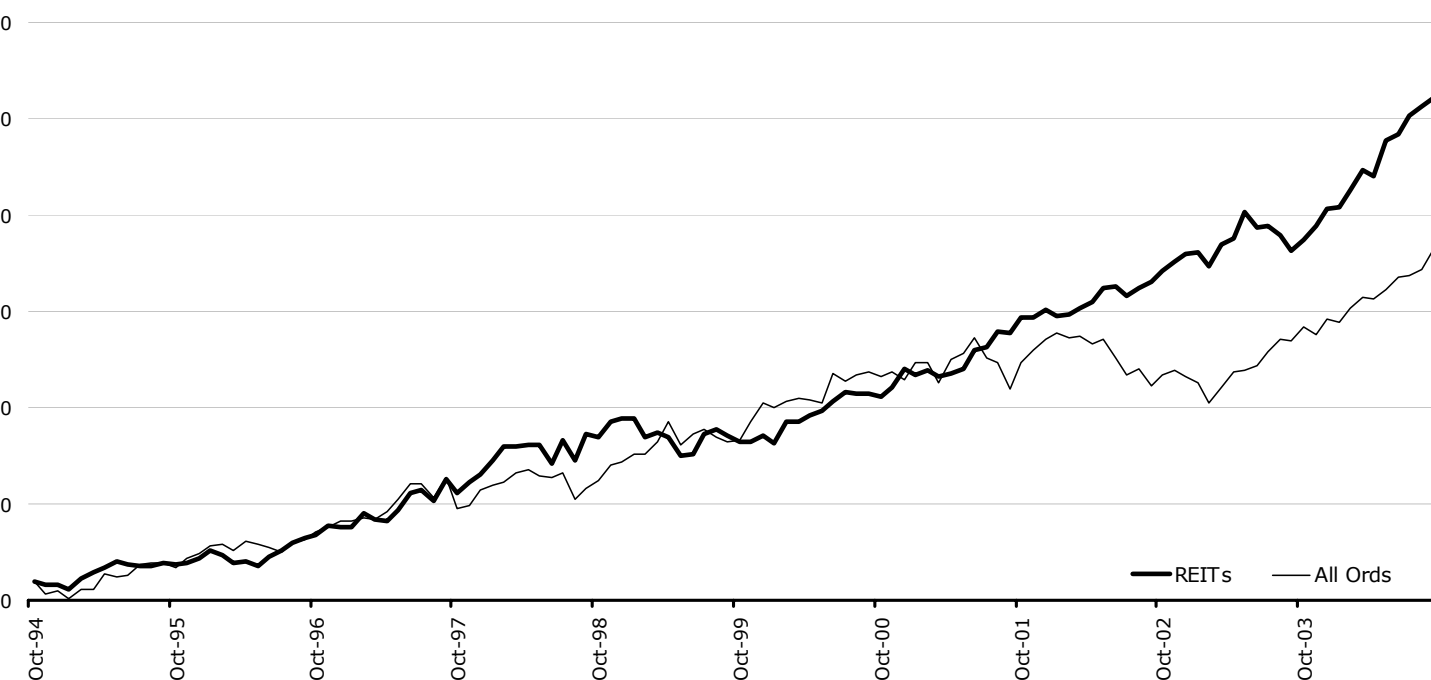


Less price growth as you would expect from a lower risk and lower volatility sector

All Ords has survivorship bias and higher failure rate.

## Performance

REITs vs All Ords - Accumulation Index

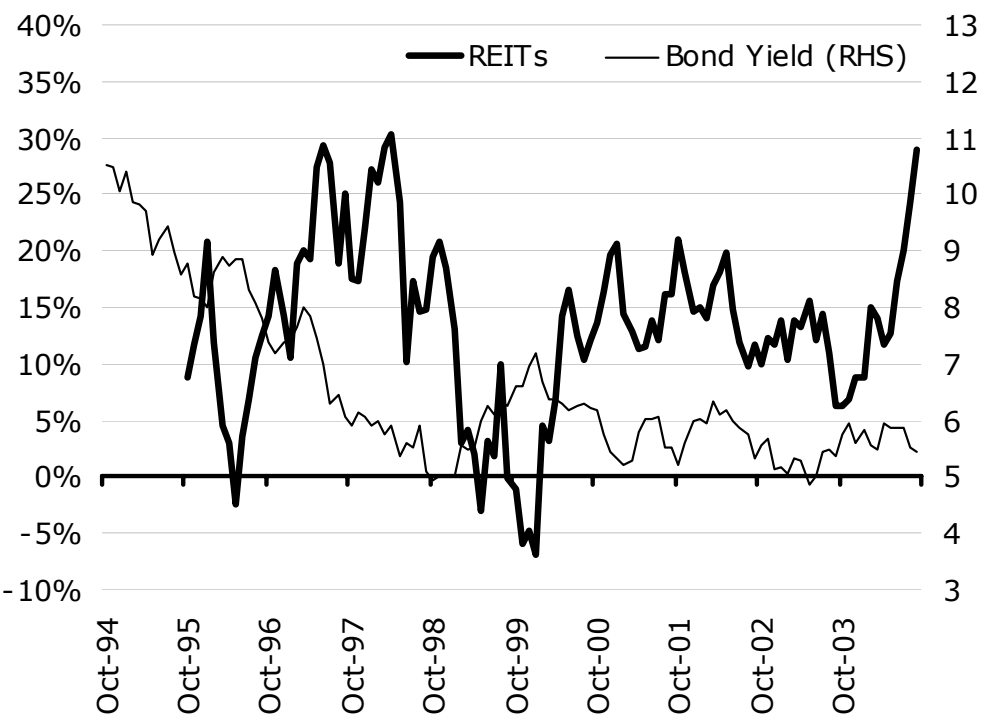


Adding in the income, shows the stellar performance.

Despite the introduction of the CGT discount rule and the redeemable excess franking credit regimes.

## Performance

Rolling Annual REIT Accumulated Return vs 10 Year Bonds



Source: IRESS

Highly correlated most of the time

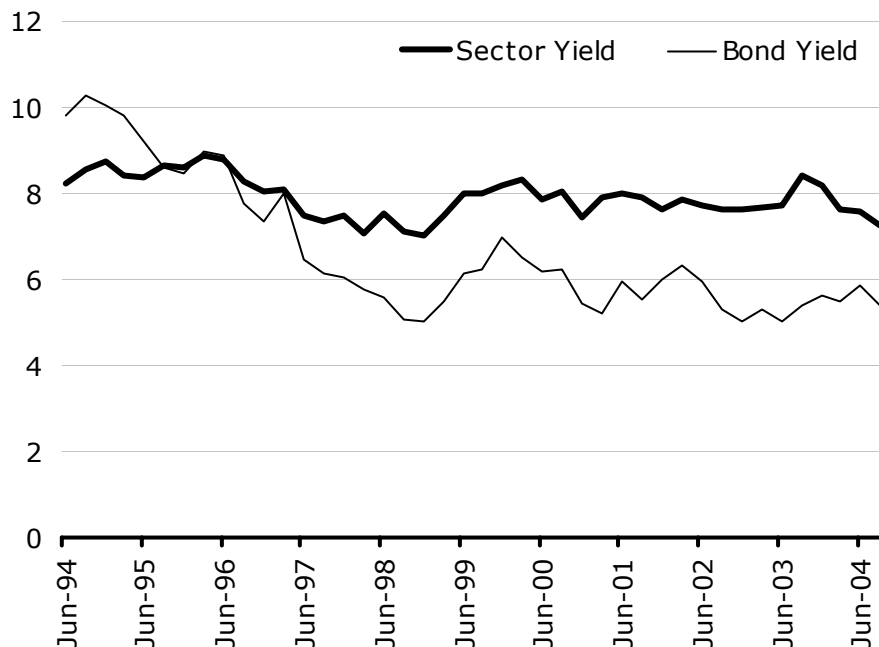
Secular trend has been beneficial

More recently, Bonds have been in a range but REITs continue to outperform

Other factors are at work.....

## Performance

REIT Yield vs 10 Year Bond Yield



Performance has not been all bond related

Properties have done their job

Sector has changed too

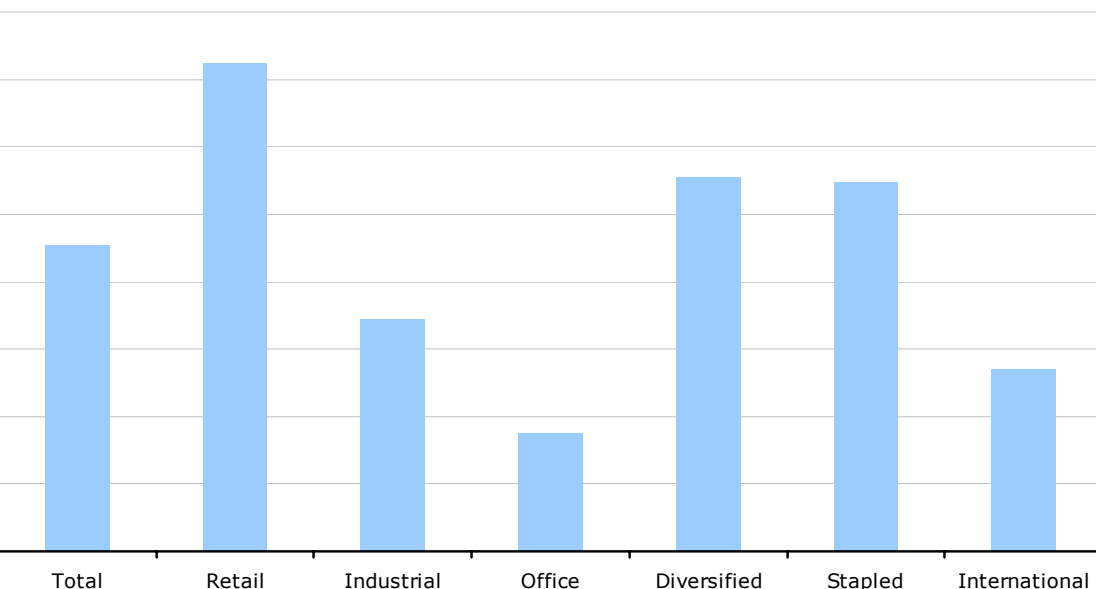
- Growth and consolidation
- Internalisation
- Globalisation
- Gearing

De-rated relative to bonds?

Source: IRESS, GSJBW Research yield estimates

## Property Markets

Revenue Growth from assets 2004



Source: Company data, GSJBW Research estimates

Real estate assets have done well and this explains part of the performance of the sector

Retail has powered ahead

Offices have come off a high

Industrial solid

## Growth and Consolidation

	1994	2004
Market Cap#	\$13bn	\$67bn
No. of Stocks	34	22
Avg. Size	\$2bn	\$23bn
Median	\$0.2bn	\$1.5bn
No. of assets	~15	> 50
Turnover	15%	35%
Cost Spreads	75-125bps	55-80bps
MER	75bps	25bps

Source: IRESS, GSJBW Research estimates

Good managers have grown accretively

Have resulted in bigger, more liquid, more diverse portfolios

Best managers have survived

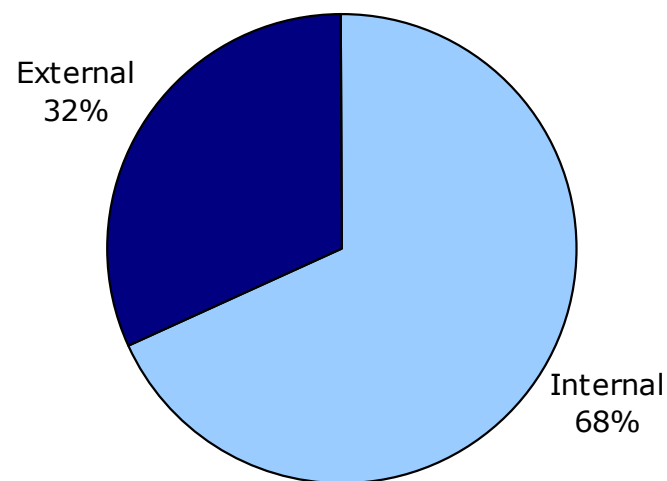
Has enabled trusts to gear

Has enabled benefits of scale

Has broadened the investor base

## Internalisation

Portion of sector



Note: Including GPT and MGI internal is 83%

Source: IRESS, GSJBW Research estimates

Stapled security format has gained dominance

Cost efficient

Aligned interest

Flexibility

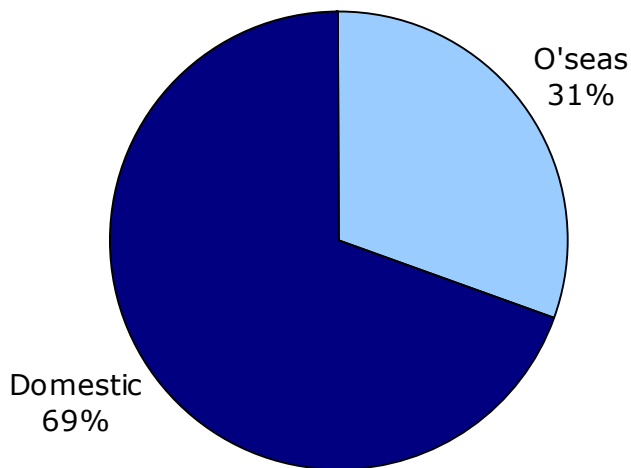
Synergies have existed for the vertically integrated manager

New risks emerging.



## Globalisation

Portion of sector by market cap



Source: IRESS, GSJBW Research estimates

Mature local market

US and UK compatible markets

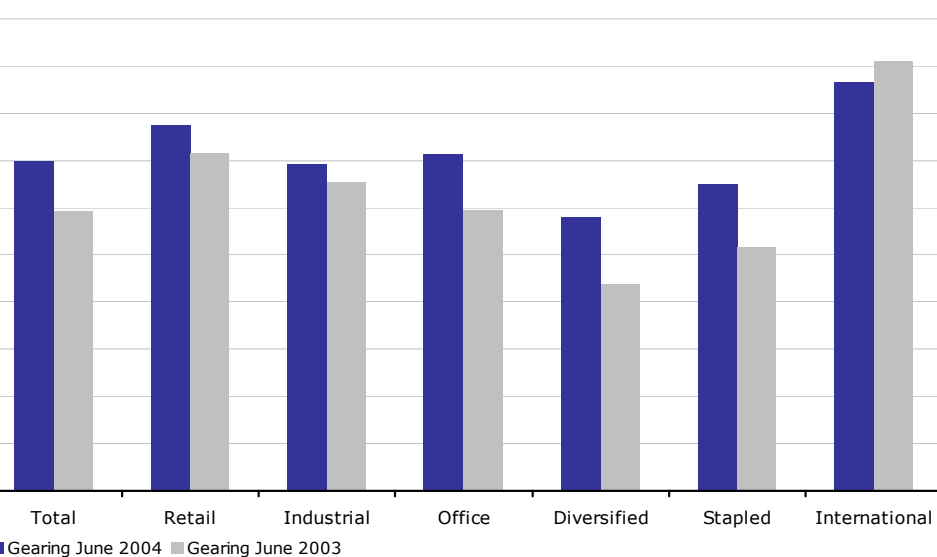
Risk management

Property

Financial

## Gearing

to Tangible Assets



Adding risk but likely to continue to climb in our view

Traditional measurement exacerbates the movement

REITs better placed to leverage as a result of growth and expertise

Low by world / private standards

Source: Company data

## Summary

In the race to create superior returns the internally operated, vertically integrated, global companies are believed to be the best proponents at the moment

But it is unlikely that everyone can do it all. Some may make mistakes too

From time to time, company specifics will be more important than the real estate

- Corporate strategy

- Financial leverage

- Services industries

But the bulk of the income is still rental and the market will select the best operators with the most efficient structure to control the assets

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