1. Property Investment Trends.
   I. Listed Property - Investor issues.
   II. Direct Property - Investor requirements.
   - Concerns.

2. Background on Lonsec Property Research.

Contact Details:
Pete Morrissey - Lonsec Ltd
Senior Investment Analyst – Property and Infrastructure
Email: peter.morrissey@lonsec.com.au  Ph: 613 9623 6336.
• Offshore acquisitions will continue to dominate ($5.4b equity raised in 2005, approx 75% being used to acquire foreign assets!).

• European and Asian opportunities more prevalent in 2006 due to more attractive fundamentals and re-rating opportunities.

• Acceptable but lacklustre returns from LPTs in 2005. Similar for 2006?

• Domestic opportunities limited - world’s most securitised market (70%+ including syndicates etc).

### Sector Performance

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian LPTs</td>
<td>32.0%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Australian Direct Property</td>
<td>11.9%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Australian Equities</td>
<td>27.6%</td>
<td><strong>22.5%</strong></td>
</tr>
<tr>
<td>US REITs</td>
<td>25.7%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Global REITs</td>
<td><strong>33.9%</strong></td>
<td>15.8%</td>
</tr>
<tr>
<td>Global Equities</td>
<td>10.6%</td>
<td><strong>16.4%</strong></td>
</tr>
</tbody>
</table>

(figures to December 2005)  
Source: Lonsec
• Gearing (circa 37%).
• Offshore assets (circa 35%).
• 30% of LPT assets held in mature US!
• Currency implications – income and capital.

• Narrowing yield spreads/cap rate compression – introducing offshore asset quality issues?
• Rising corporate earnings (non-rental income) (4% in 2000, 11% in 2005).
• LPTs remain a lower risk option than equities.
New Investment options – Hybrid Property Funds

- Combine direct/unlisted property with listed.
- Low volatility, higher income than LPTs.
- Suited to traditional property investors with a yield focus.
- Benefits of direct property income and stability plus liquidity.

![The Merits of Hybrid Property Fund Investments](image-url)

Table to December 2005
– Macro factors driving real estate investment growth.
– Total return focus (yield circa 4% vs. 7% LPTs).
– Opportunity from property market re-ratings and adoption of Real Estate Investment Trust (REIT) structure.
– Australia is a roadmap for the Global REIT markets potential.
– Maturing US REIT market a concern – circa 50%+ of global REIT market.
– Fundamentals may weight on US REITs – flow on to global performance.
– Developing markets (e.g. Japan) will mature quickly as more companies go public.
• Listed property has been the standout performer relative to other asset classes.

• Performance driven by Australia and US (circa 60% of global REIT index) as their property markets matured and re-rated.

• New REIT markets (Japan/UK/Germany?) will provide further upside.
• General investors – move to total return focus.
• Emergence of sector specific funds.
  – Residential Land Subdivision.
  – Coastal Property Development.
  – Infrastructure products.
• Retirees – income driven (accept lower yields?)
• Planners – move from upfront fees to fee for service.
• Platforms and wrap accounts.
• Products – diversified vs. single asset.
Investor expectations are for increasingly sophisticated direct property investment products:

- Liquidity mechanisms:
  - Unit pricing
  - Specified annual buy-back
  - Secondary market listing
  - Listed investment allocation
  - Cash

- International exposures – fully hedged (income).

- Internationalisation attractive due to yield and lack of stamp duty – traditionally NZ & US, move to Asia and Europe looming.
• Tightening yields have led to asset quality slippage.

• Secondary markets providing higher yielding opportunities but introduce more risk.

• Introduction of underlying business risk.

• New operators with limited direct property expertise.
1. Basic Service (Reports & Recommendation Lists)
   • Direct/Unlisted Property Syndicates/Trusts.
   • Open-ended property securities funds:
     – Australian Listed Property Trust Funds.
     – Hybrid Property Funds (combining listed and direct/unlisted property).
     – Global Property Securities Funds – investing in REITs.

2. Premium Services
   • Unlisted Property Sector Guide.

3. Property & Infrastructure Industry Outlook & Database