



III portfolio  
construction  
CONFERENCE

[PortfolioConstruction.com.au](http://PortfolioConstruction.com.au)

# 5th Annual PortfolioConstruction Conference

23 – 24 August 2006 | AJC Convention Centre, Randwick, Sydney

Pillars for building better  
quality investor portfolios...



# Getting real about Diversified Property investing

Sean Murray - Head of Property Securities  
PortfolioConstruction Conference 2006

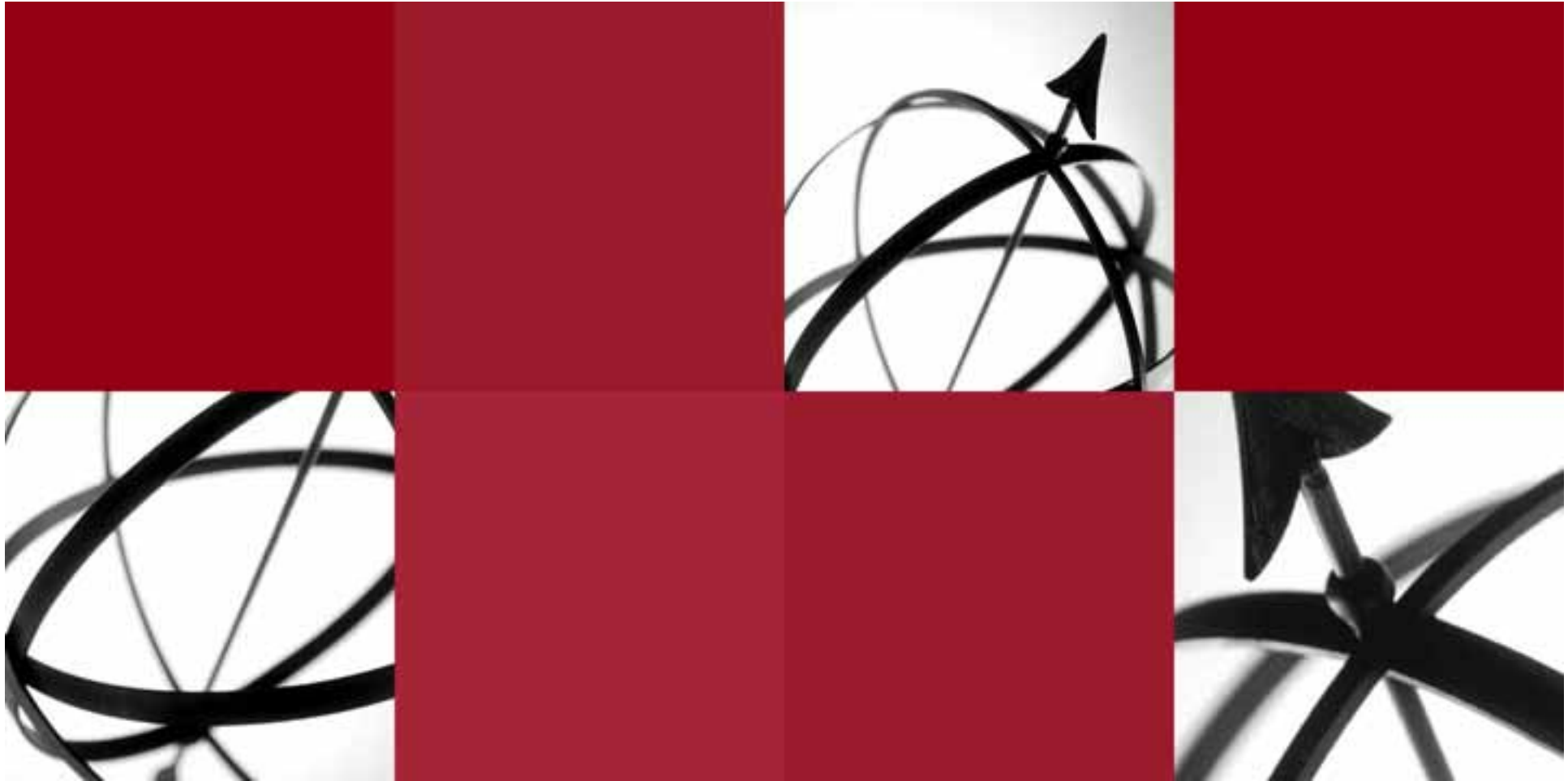
Perpetual  
INVESTMENTS 



# Agenda

- Property market dynamics
- Overview of Australian Listed Property Trusts sector
- Overview of Global property securities
- Overview of Direct Property sector
- The alternative – Diversified Property Funds

# Property market dynamics



# Australian property funds are a \$275 billion market

<b>Total assets</b>	2004		2006	
	<b>Market size</b>	<b>Share</b>	<b>Market size</b>	<b>Share</b>
Listed property trusts	\$104 billion	50%	\$143 billion	52%
Unlisted wholesale trusts	\$42 billion	20%	\$47 billion	17%
Property securities funds	\$25 billion	12%	\$39 billion	14%
Mortgage schemes	\$24 billion	11%	\$26 billion	10%
Direct property syndicates	\$10 billion	5%	\$12 billion	4%
Unlisted retail trusts	\$4 billion	2%	\$8 billion	3%
<b>TOTAL</b>	<b>\$209 billion</b>	<b>100%</b>	<b>\$275 billion</b>	<b>100%</b>

Source: PIR Australian Property Funds Industry Survey 2006



# Australian property funds projected over 10 years

	Current	5%	10%	15%	20%
Total Funds (2005)	\$275 bn				
Total Funds (2015)		\$447bn	\$713bn	\$1,112bn	\$1,702bn
Est. Funds Flow over 10 yrs		\$172bn	\$438bn	\$837bn	\$1,472bn

Source: Perpetual



# Key driver of renewed interest in real estate

Percentage of population aged 65 years plus, with estimates of aging population changes over 20 years

Country	2000	2010	2020
United States	12.50%	13.20%	16.60%
Japan	17.10%	21.50%	26.20%
Germany	16.40%	19.80%	21.30%
Italy	18.20%	20.80%	24.10%
UK	16.00%	17.10%	19.80%
Australia	12.42%	13.31%	16.37%

Source: UBS, OECD estimates

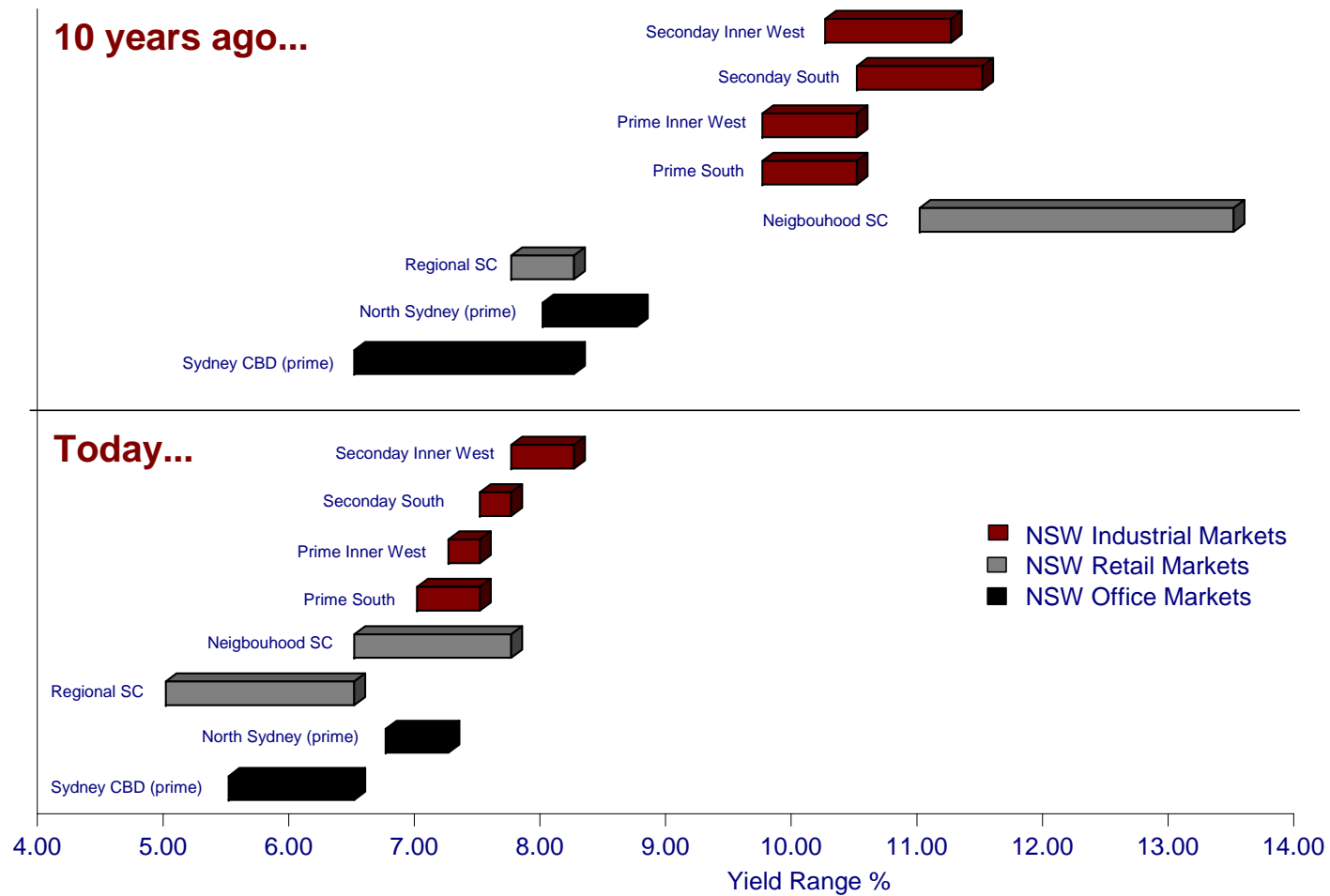
# Increased demand for property investments

## Contributing factors:

- The flow of funds into the superannuation market which grew to \$905 billion at 31 March 2006.\* An increase of over 24% for the year and 6% for the quarter
- Increased domestic demand for Australian property
- Low interest rates and reduced income taxes prompted growth in investment lending and increased demand for higher income producing assets
- Fund managers desire to invest in property that is not highly correlated with the Australian stock market
- The emergence of overseas investors seeking Australian direct property investments and listed property securities

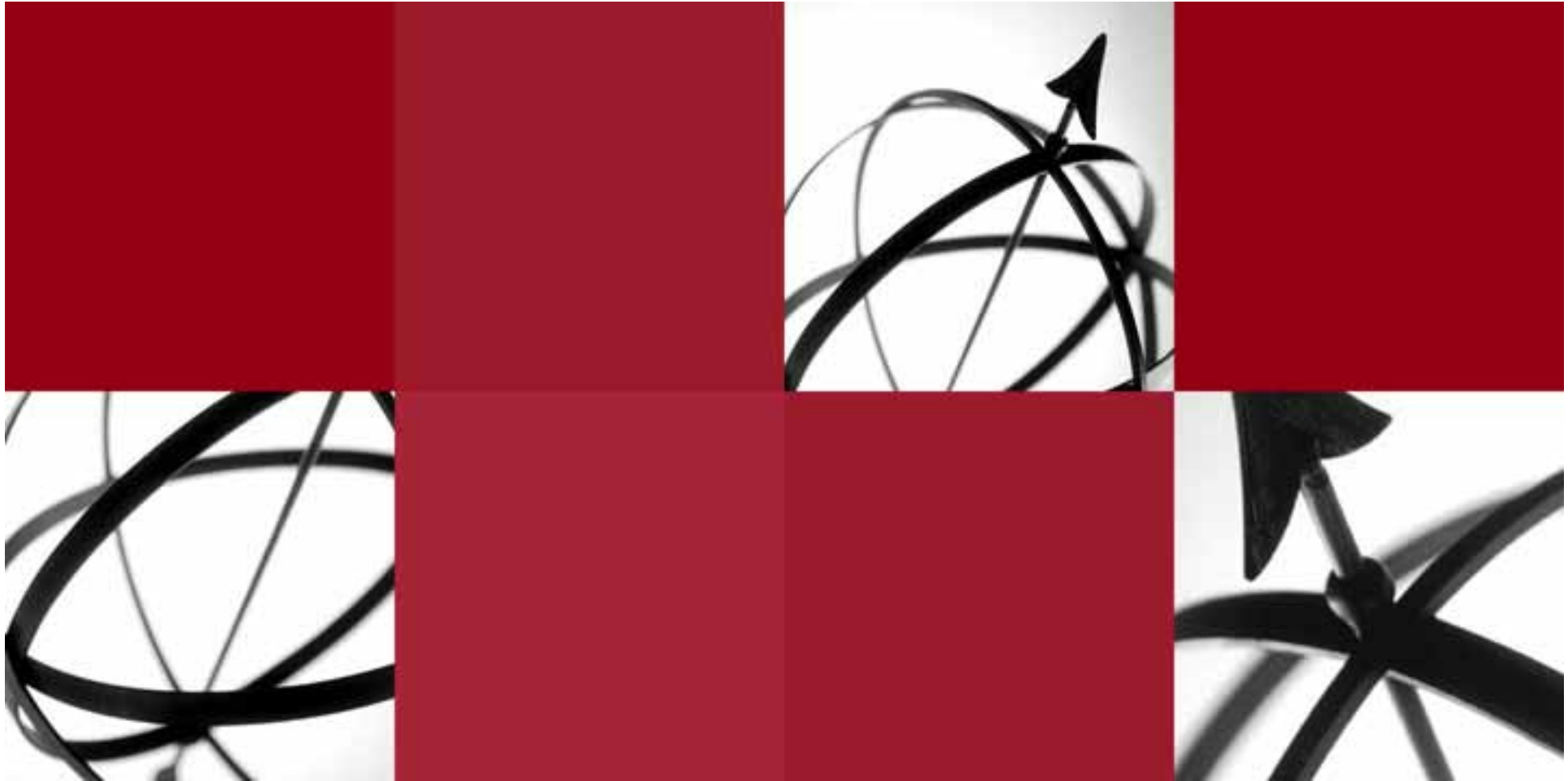
\* Source: Rainmaker

# Significant yield compression



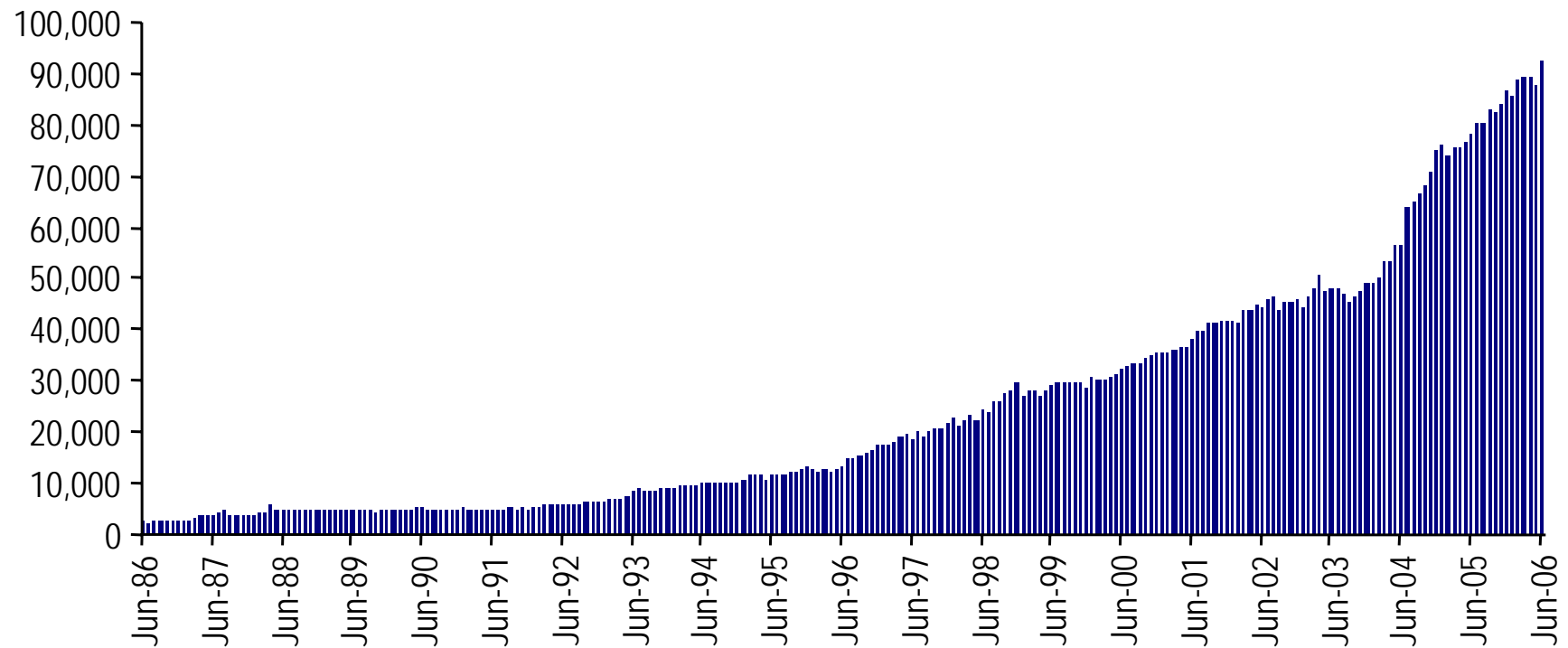
Source: Jones Lang LaSalle Research, Perpetual Investments

# Overview of Australian Listed Property Trust sector



# LPT sector market capitalisation grows

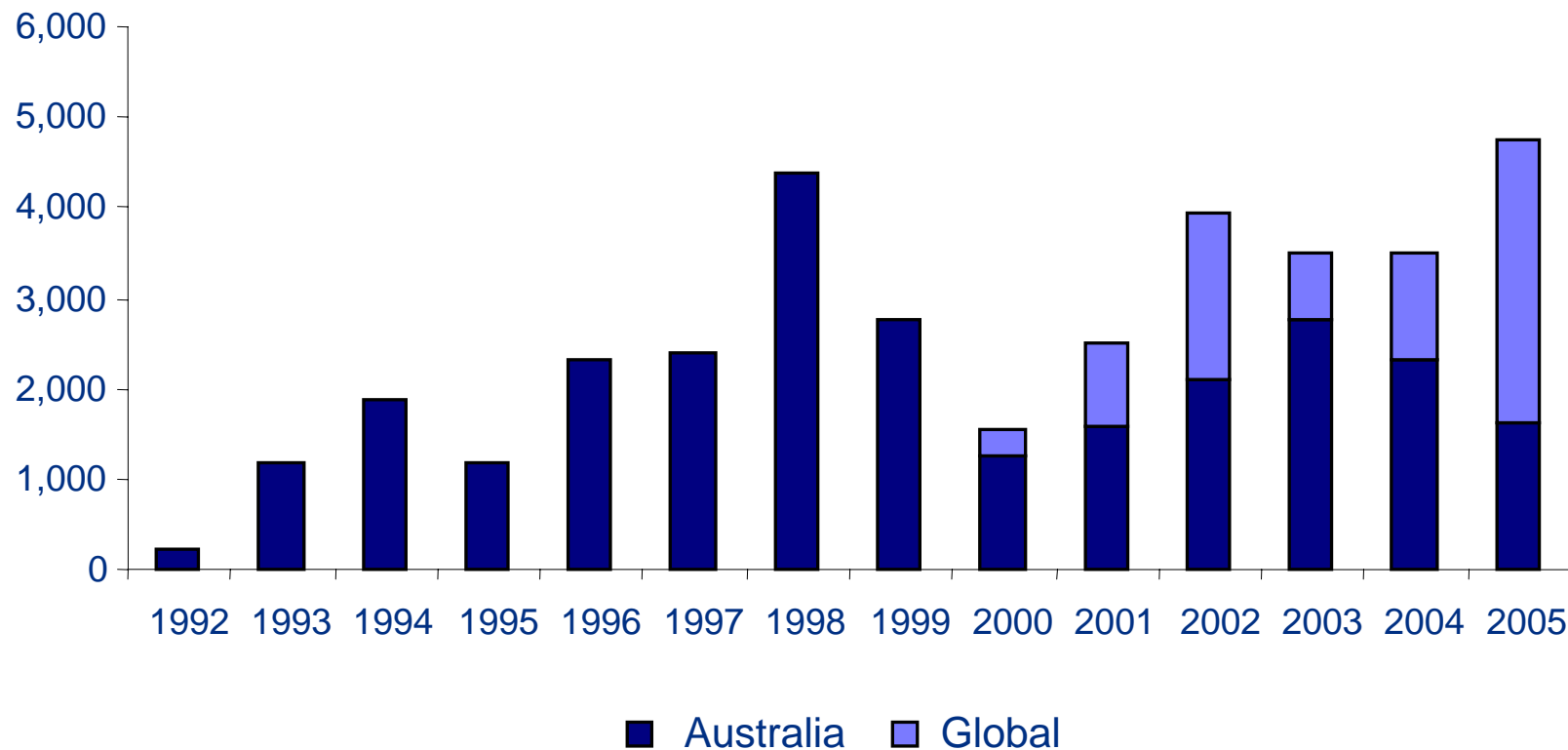
LPT market cap



Source: IRESS/UBS

# Capital raisings continue to be strong

Underwritten capital raising summary (includes Australian and global split)



Source: UBS

# Change is constant

## Top 10 Trusts by market capitalisation

Trust Name	Sep-97 \$m	May-04 \$m	Mar-06 \$m	Jun-06 \$m
Westfield Group	0	0	26,868	27,229
Westfield Trust	3,444	9,152	0	0
Westfield America	1,036	6,914	0	0
Stockland Trust Group	1,330	6,480	8,976	9,377
GPT	3,307	5,869	8,329	8,753
Macquarie Goodman Group	117	2,629	6,339	7,814
Centro Properties Group	268	2,538	5,274	5,453
DB RREEF Trust	0	0	4,119	4,105
Mirvac Group	413	2,846	3,697	3,852
Investa Property Group	397	2,643	3,295	3,341
Macquarie Office Trust	0	1,180	2,641	2,676
Gandel Retail Trust	815	1,611	2,543	2,426
Average Market Cap	457	1,783*	2,793*	2,887*
Number of Trusts	47	30	32	32
<b>Total Market Cap</b>	<b>21,460</b>	<b>53,490*</b>	<b>89,387*</b>	<b>92,390*</b>

\*Based on free-float market cap in Index

Source: PIR, UBS

# Market update

## Sector Composition – June 2006

	No. of Trusts	Market Cap. (\$bn)
Diversified	12	30.6
Retail	8	40.0
Office	8	10.8
Industrial	4	10.9
<b>S&amp;P/ASX 300 Prop.</b>	<b>32</b>	<b>92.3</b>
Ex 300	27	6.9
R.E. Mgers & Developers	7	9.5
<b>Possible Investment Universe</b>	<b>66</b>	<b>108.7</b>

Source: UBS



# Market update

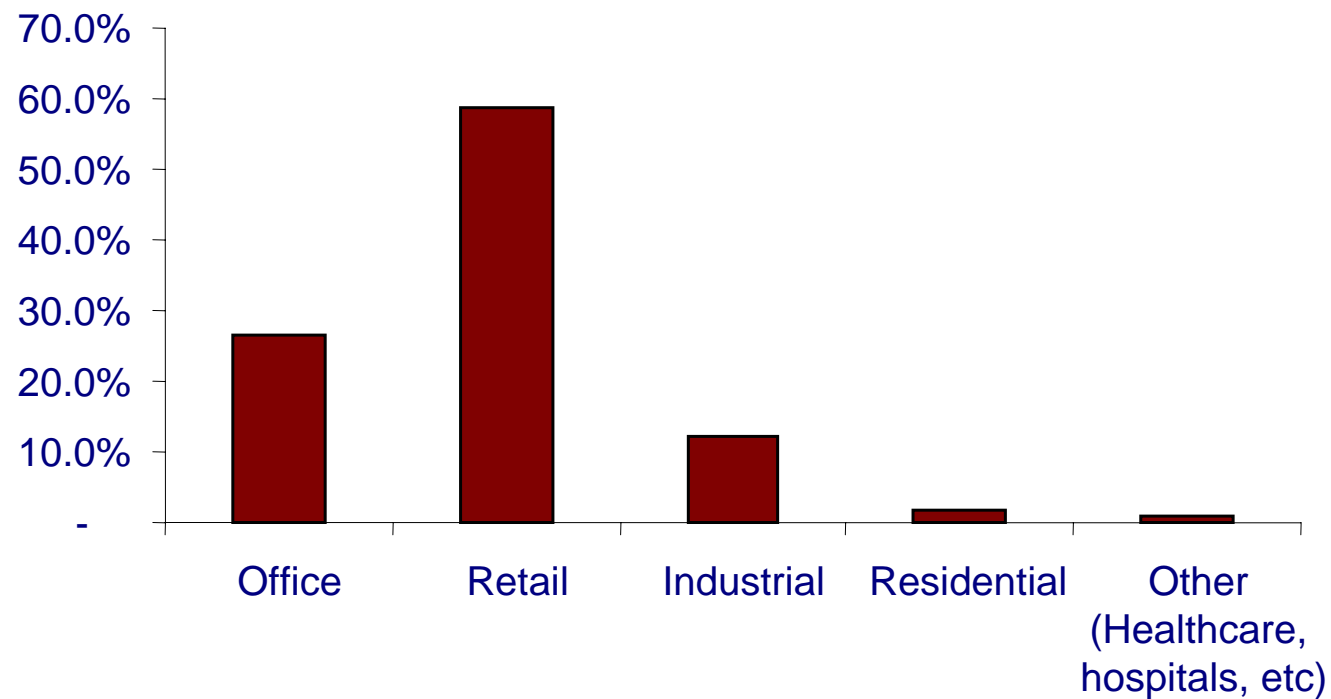
## Global Breakdown (Asset Diversification by Value)

	Australia / New Zealand	US	Europe	Asia	Total
<b>Retail</b>	31.6%	22.4%	3.5%	0.4%	57.9%
<b>Office</b>	20.3%	5.4%	0.8%	0.4%	26.9%
<b>Industrial</b>	7.3%	3.4%	0.7%	0.0%	11.4%
<b>Other</b>	3.8%	0.0%	0.0%	0.0%	3.8%
	63.0%	31.2%	5.0%	0.8%	100.0%

Source: UBS

# ASX 300 Property asset allocations

ASX300 LPT Sector Allocation

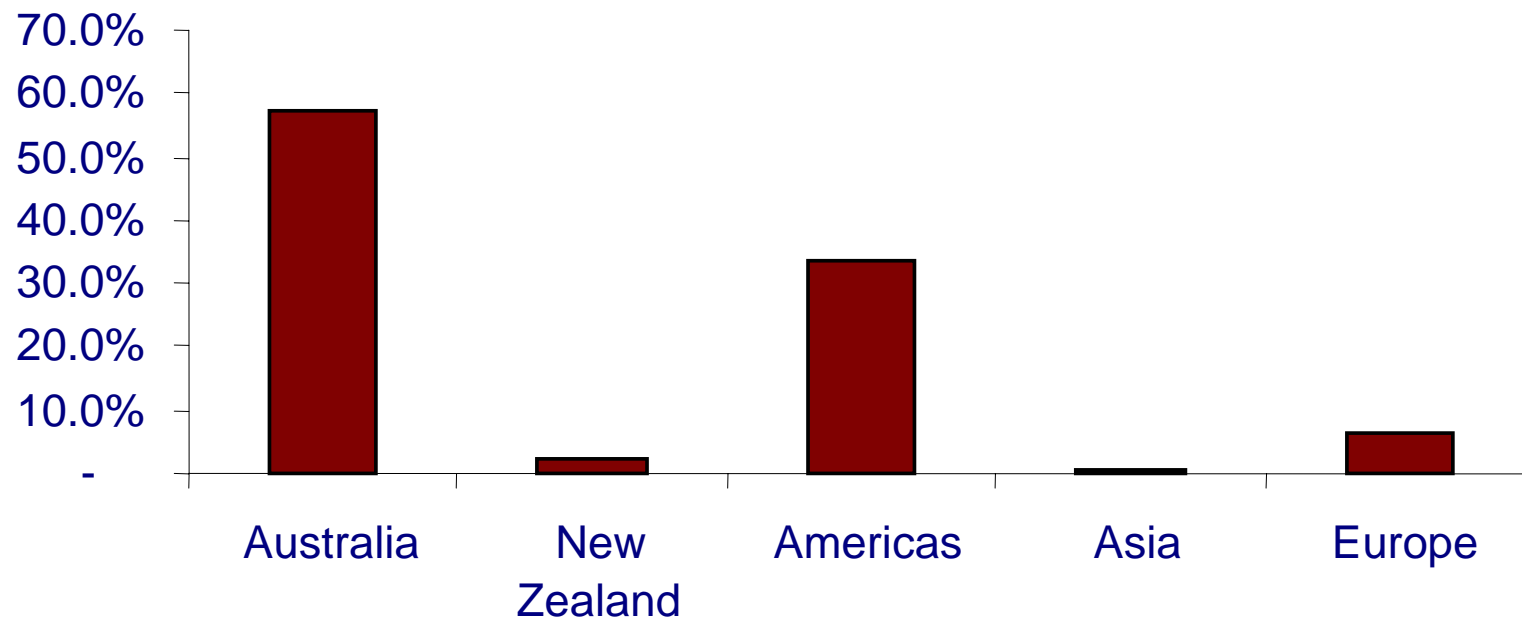


Source: Perpetual Investments and IPD/Property Council of Australia



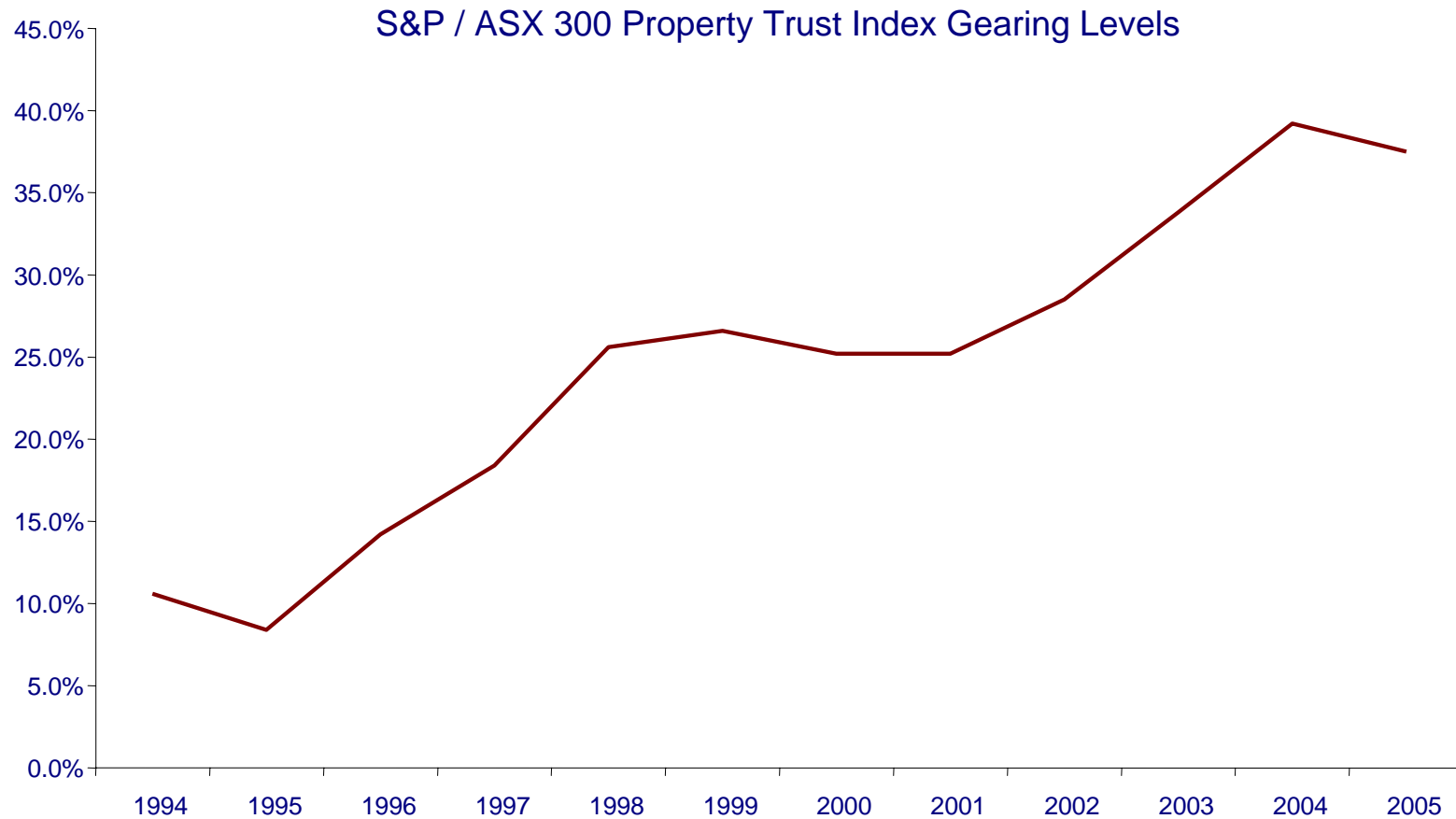
# ASX 300 Property asset allocations

## ASX300 LPT Country Allocation



Source: Perpetual Investments and IPD/Property Council of Australia

# ASX 300 Gearing levels

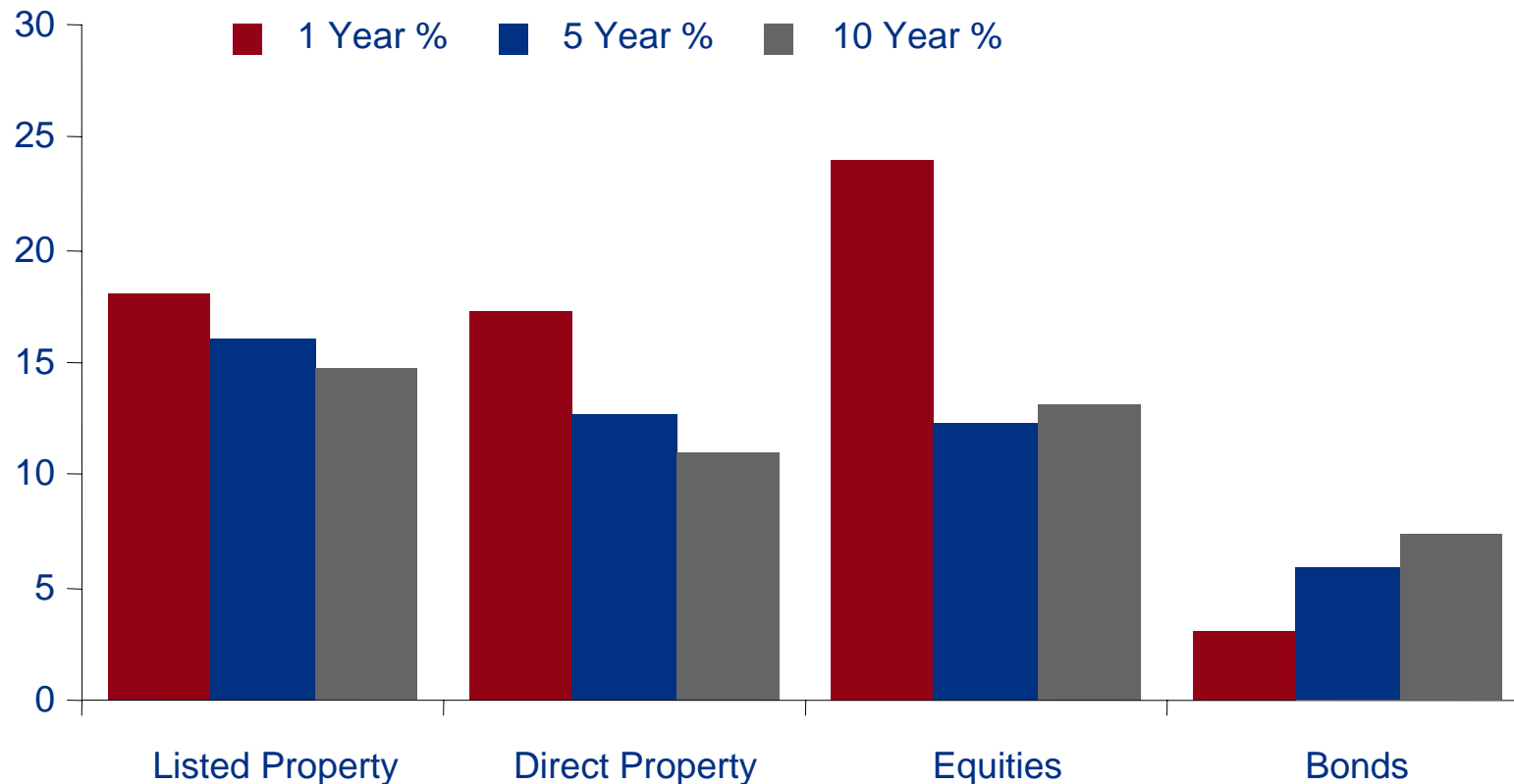


Source: UBS, Perpetual Investments



# LPTs relative performance positive

Total returns to June 2006



Direct Property Figures as at May 2006

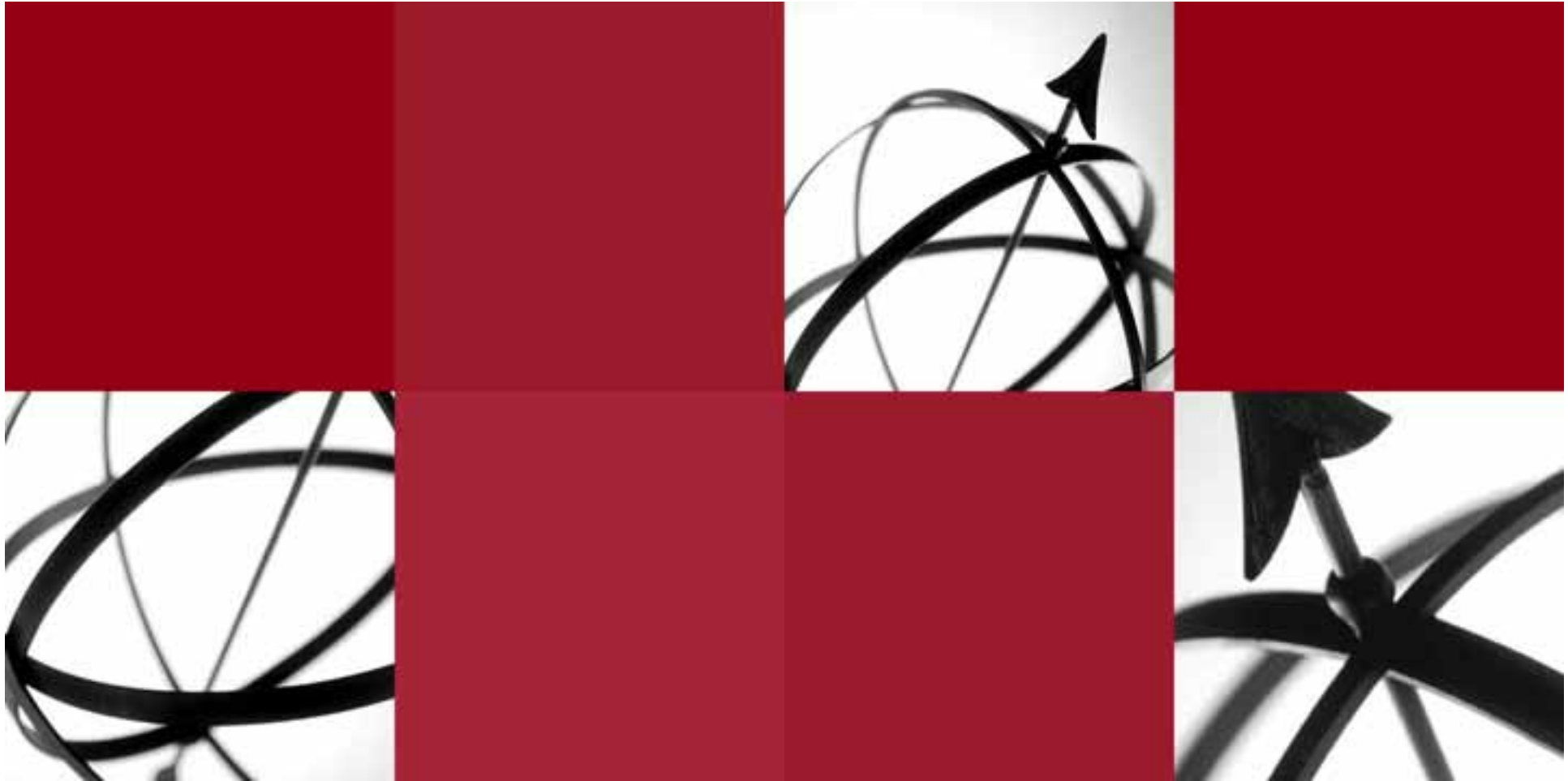
Source: S&P/ASX 300 Prop. Accum. Index, Mercer Unlisted Property, S&P/ASX 300 Accum. Index, UBS Gov. Bond Index (all maturities)



# Listed Property Trusts - summary

- LPTs are a large and growing asset class
- Increased overseas exposure a positive
- Performance has been competitive with equities over the long-term
- Large bias to retail
- Gearing levels have risen
- Consequently, the LPT sector has become more volatile

# Overview of Global Property Securities



# Forecast growth in Global listed real estate universe

US \$bn	December 2005 (estimates)	December 2008 (estimates)	December 2011 (estimates)
US & Canada	320	371	454
Continental Europe	60	91	166
Japan	59	102	156
Hong Kong/China	39	45	60
UK	55	69	92
Australia/New Zealand	65	73	82
Other Asia	9	13	20
<b>Total (approximately)</b>	<b>606</b>	<b>759</b>	<b>1,016</b>

Source: UBS estimates – Australian Real Estate Compendium – March 2006  
 Note: \$USbn, market capitalisation (not Free float weighted)



# Global Property Investment - Regional valuation overview as at March 2006

Security (local currency)	Market Capitalisation (US \$m)	2006(E) Dividend Yield (%)
Australia	76,294.1	6.6
New Zealand	1,731.8	7.7
Hong Kong	129,913.9	2.7
Japan Property Co. JREIT	65,920.4	0.4
Thailand	7,890.5	3.6
Singapore Property Co. SREIT	3,551.3	5.2
Philippines	17,656.9	1.4
Malaysia	4,292.6	5.1
Continental Europe	4,318.9	1.9
United Kingdom	1,565.9	5.8
United States (ex- lodging)	62,851.9	3.3
United states (lodging)	56,737.9	2.1
Mexico	155,629.0	2.7
<b>Global Total</b>	<b>17,536.2</b>	<b>3.5</b>
	<b>20,862.9</b>	-
	<b>626,754.3</b>	

Source: UBS

# Global REIT asset allocation

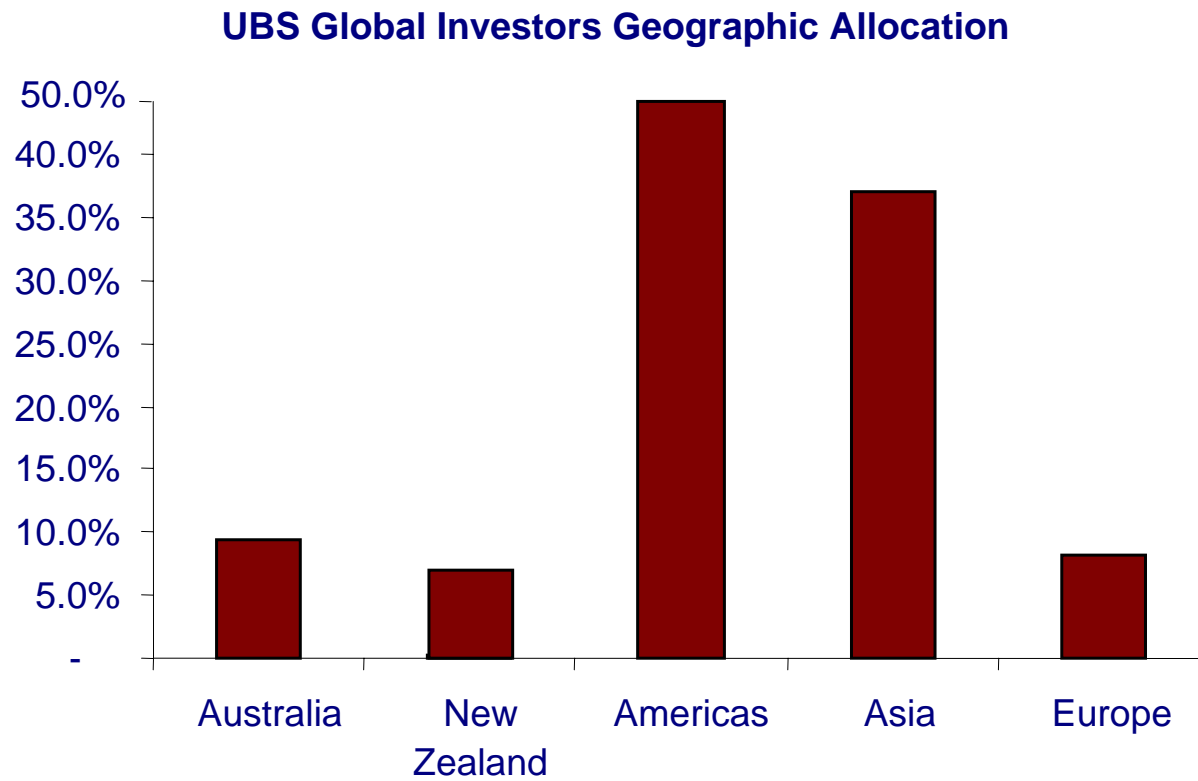
UBS Global Investors Sector Allocation



Source: UBS, Perpetual Investments



# Global REIT asset allocation

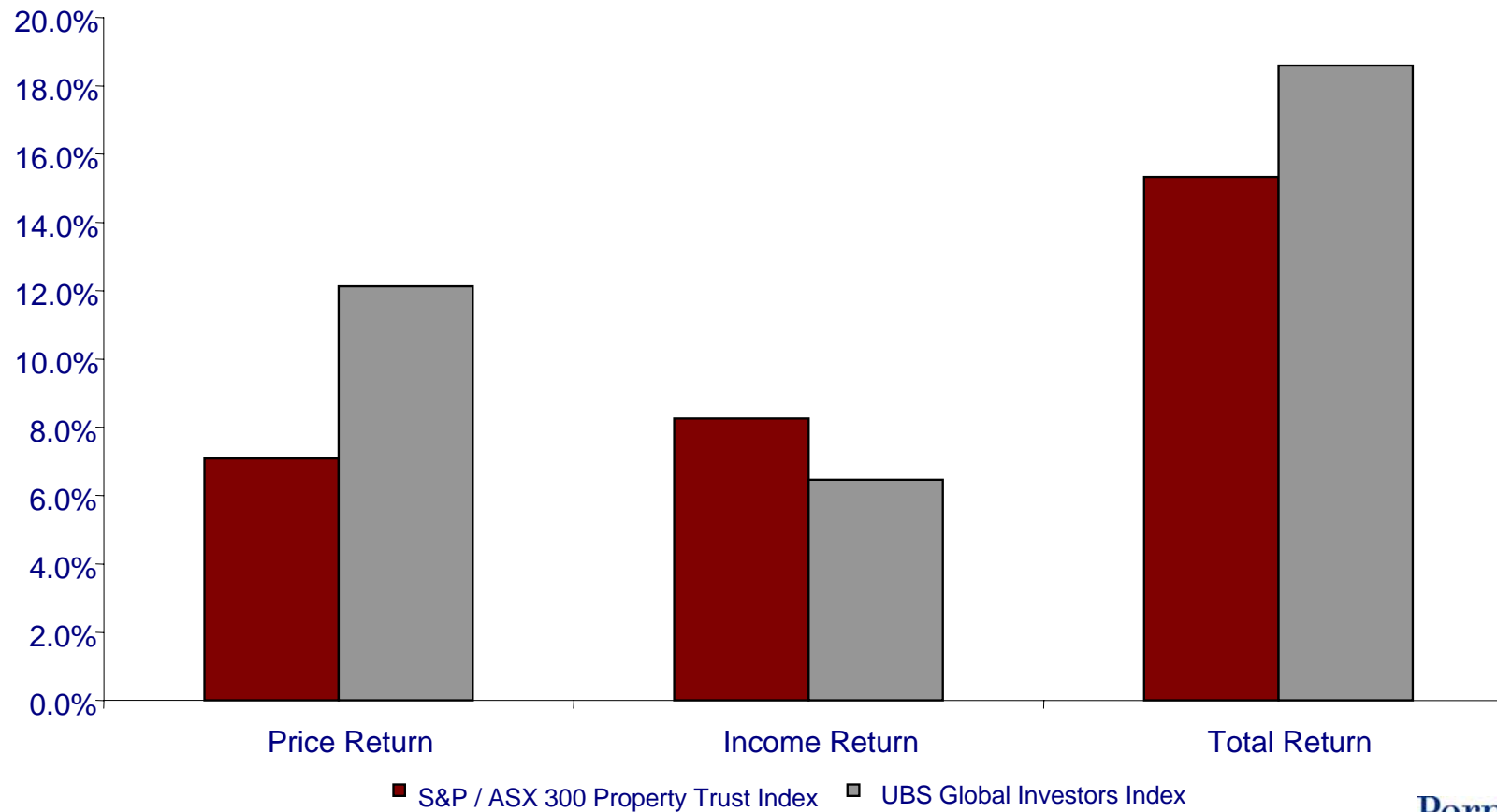


Source: UBS, Perpetual Investments



# Domestic and Global Property returns

Domestic and Global Property Returns  
For the 7 years ended 30 June 2006

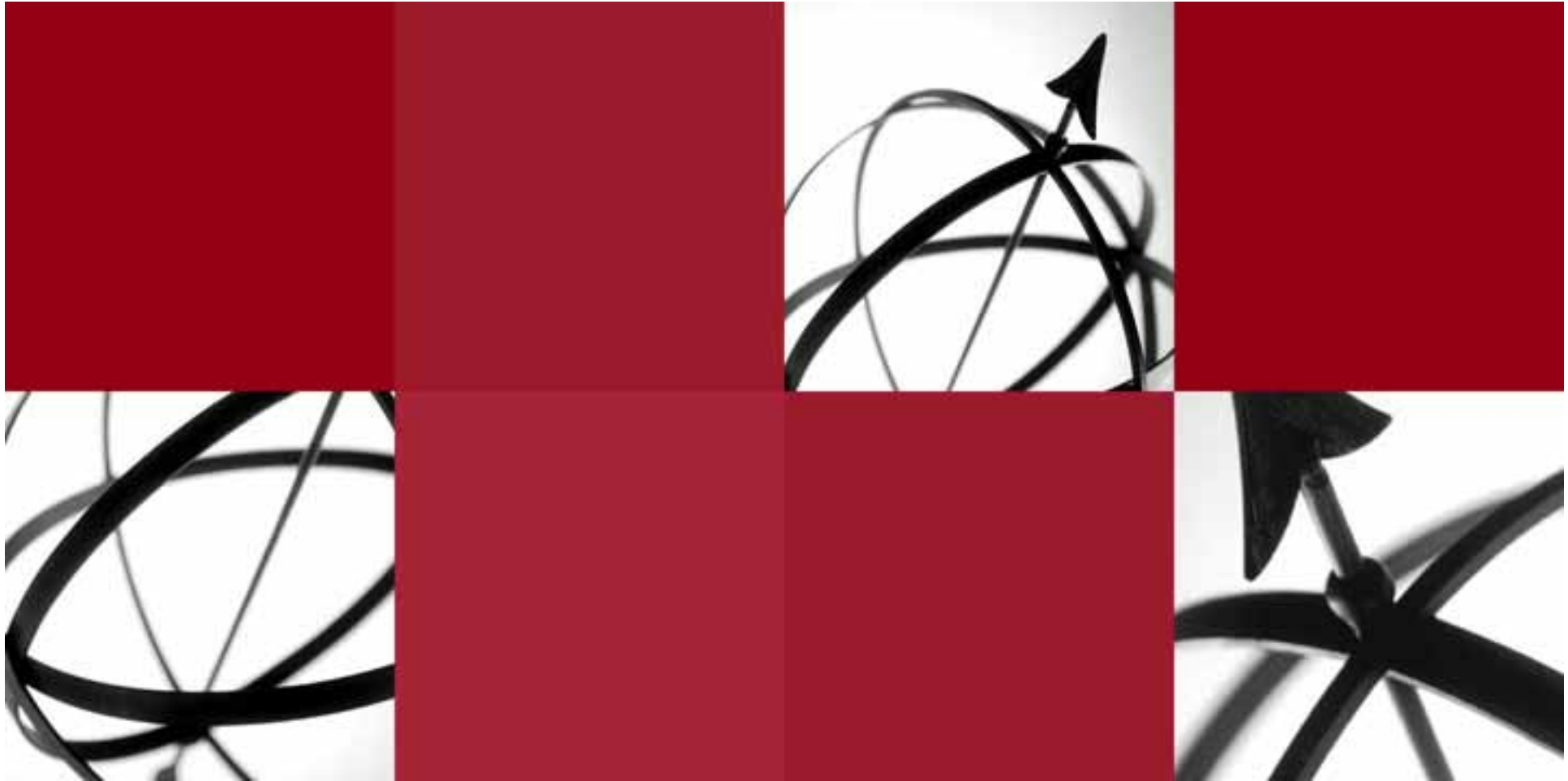


Source: UBS, Iress

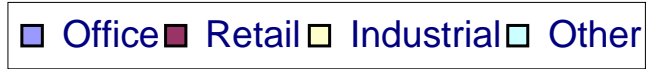
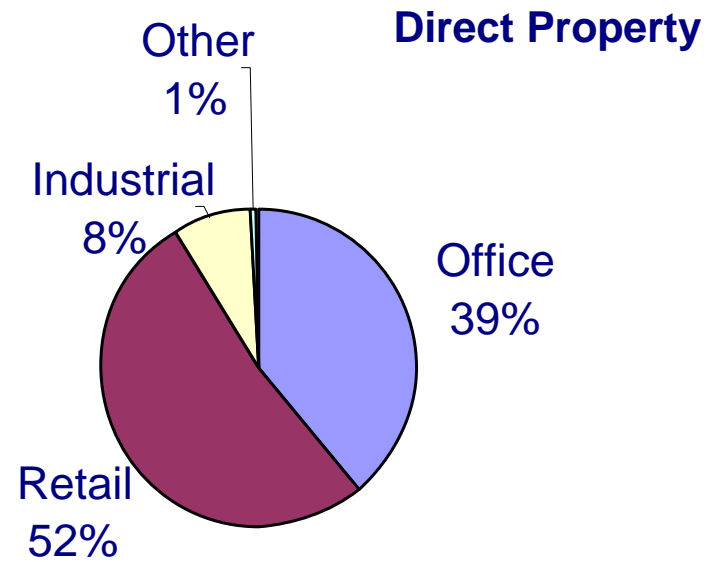
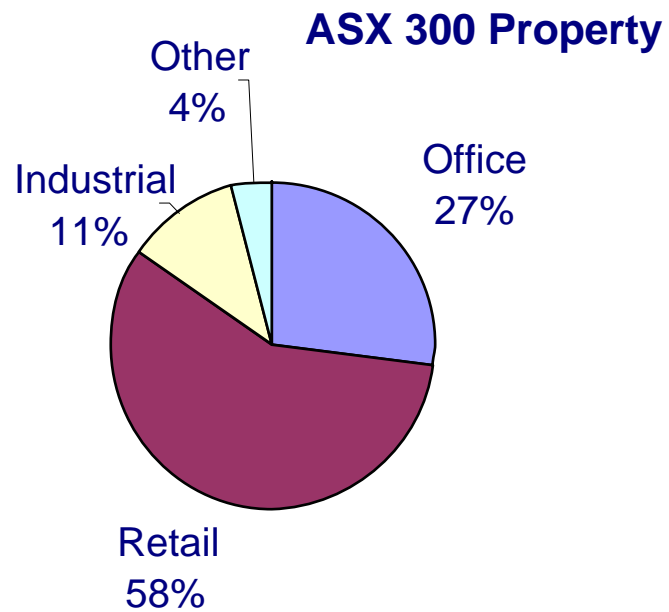
# Global Property Securities - summary

- A large investment universe, expected to grow substantially over the next decade
- Broader sector and geographical diversification
- Income yields typically lower than Australia
- Higher gearing relative to Australia
- Total returns are more dependant on price gains, rather than income
- Multi-jurisdictions, currency fluctuations, higher gearing, multiple international equity markets imply higher volatility

# Overview of Direct Property sector



# Recent sector allocations

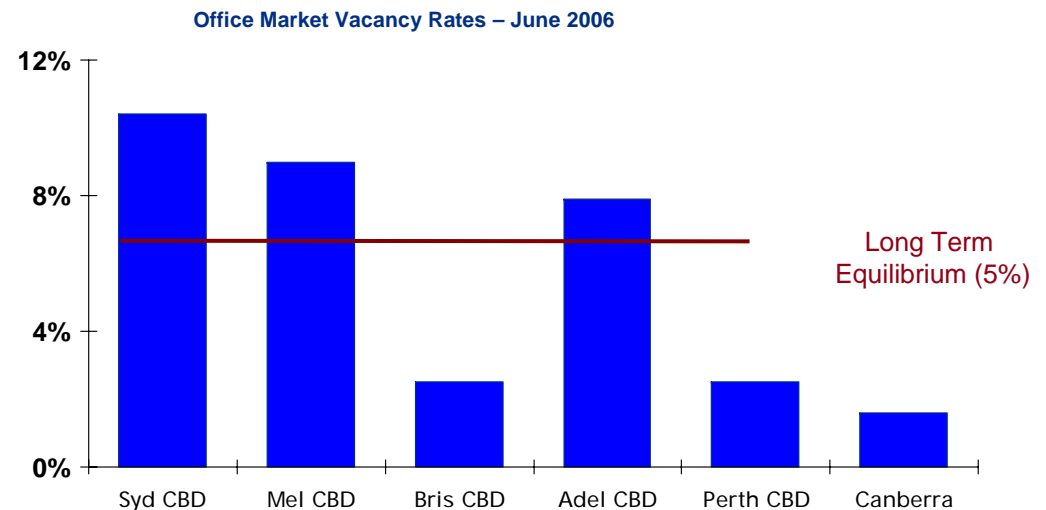


Source: UBS, Perpetual Investments and IPD/Property Council of Australia



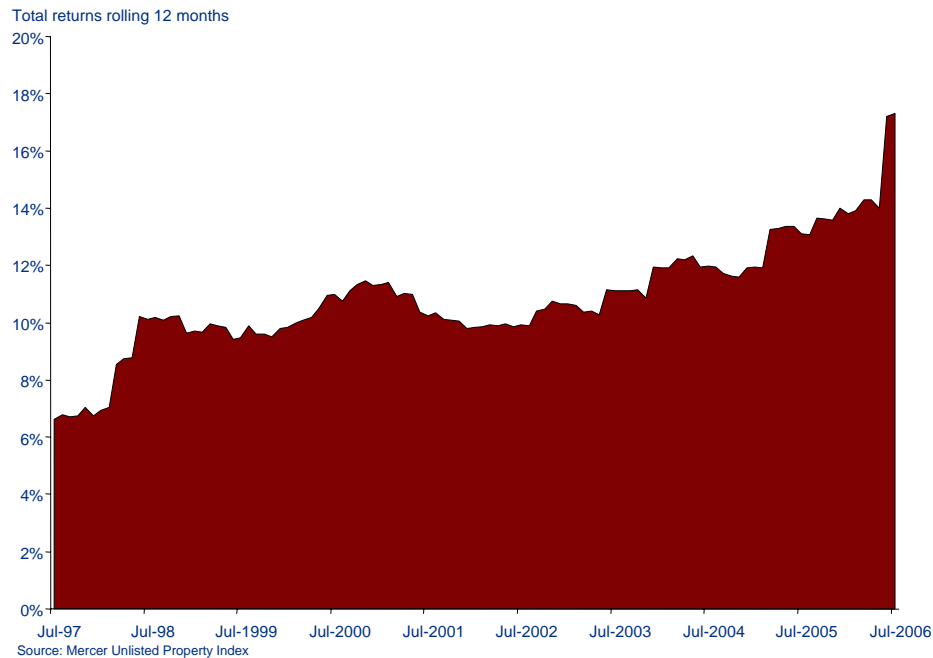
# No obvious trigger for a market correction

- **Office** – fundamentals strong, net absorption positive, rents rising, vacancies falling
- **Retail** – despite recent high levels of supply and a more subdued trading environment, vacancies for better quality centres remain low.
- **Industrial** – new road and transport infrastructure has been a major growth catalyst.

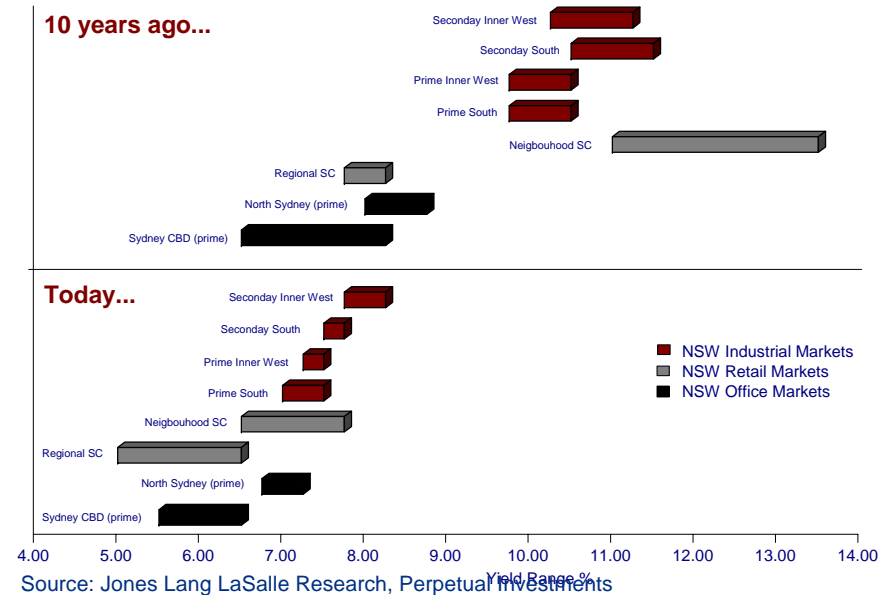


# Values up sharply as yields have compressed

Returns have spiked

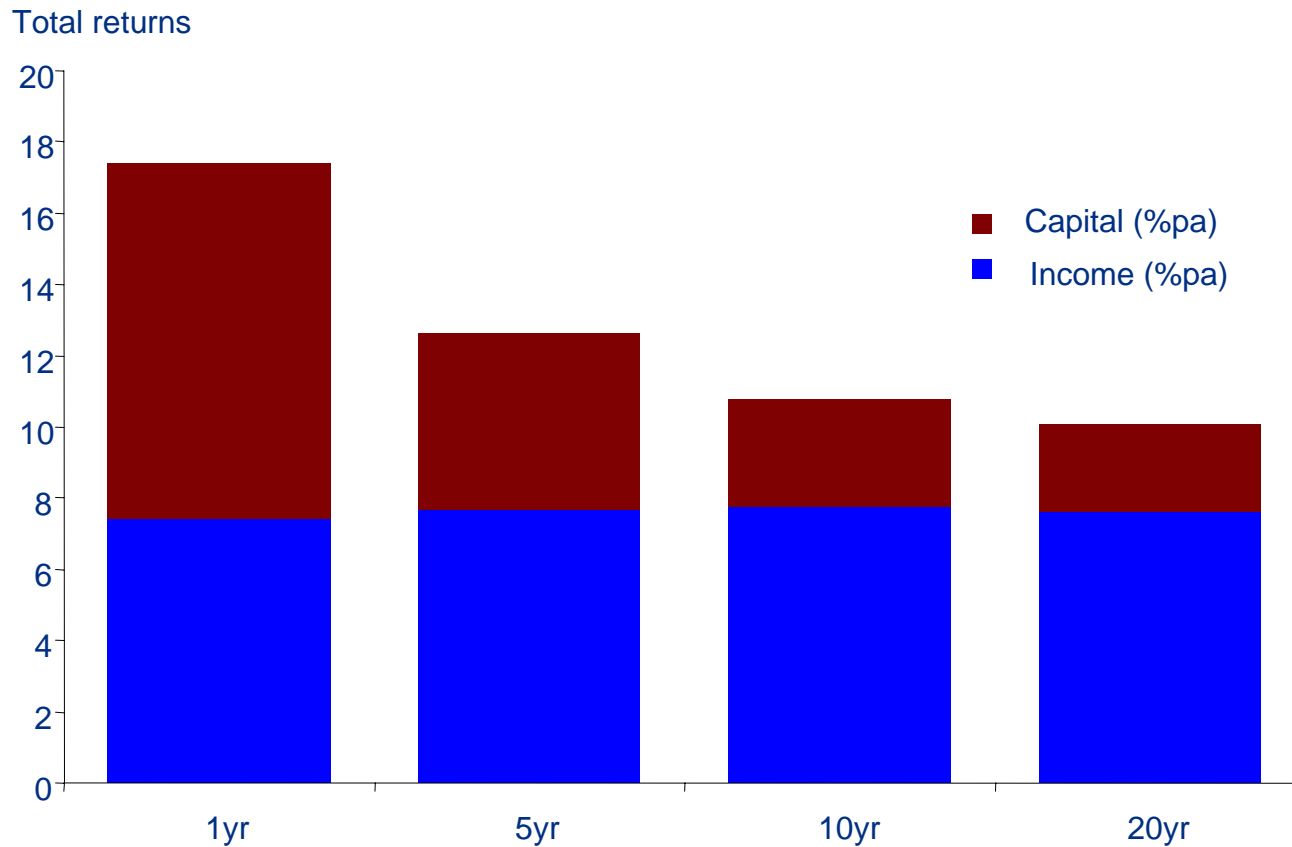


Yields have firmed significantly



# Attractive returns relative to other asset classes

Income underpinning property returns

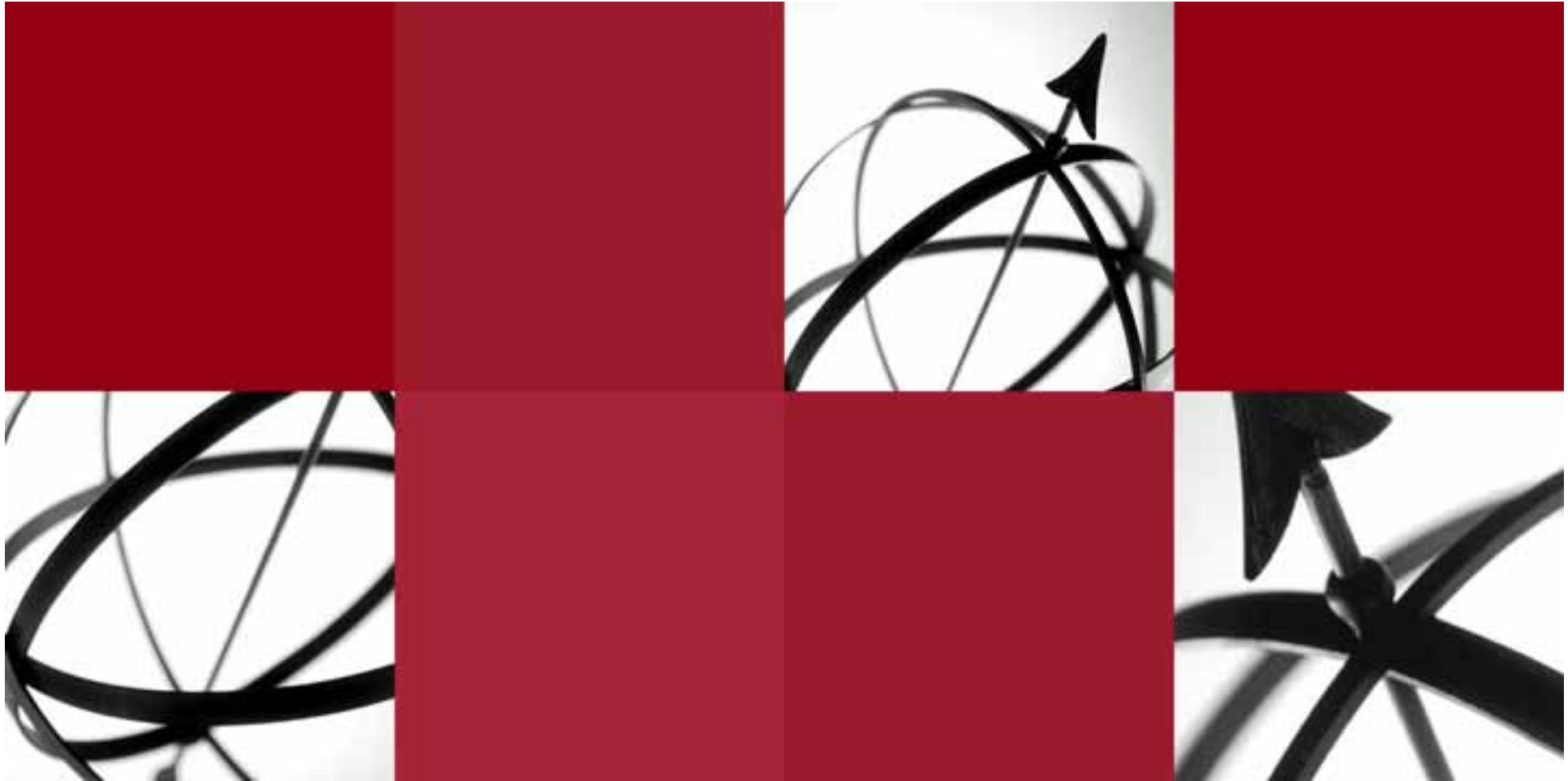


Source: IPD March 2006, Intech

# Direct Property sector - summary

- Sector allocation of Direct Property compliments that of Listed Property Trusts
- Fundamentals for office, retail and industrial sectors remains positive with no obvious trigger for a correction
- Yield compression has underpinned the Direct Property sector's stronger performance
- Consistent income continues to support Direct Property returns
- Low volatility remains a key feature of Direct Property sector

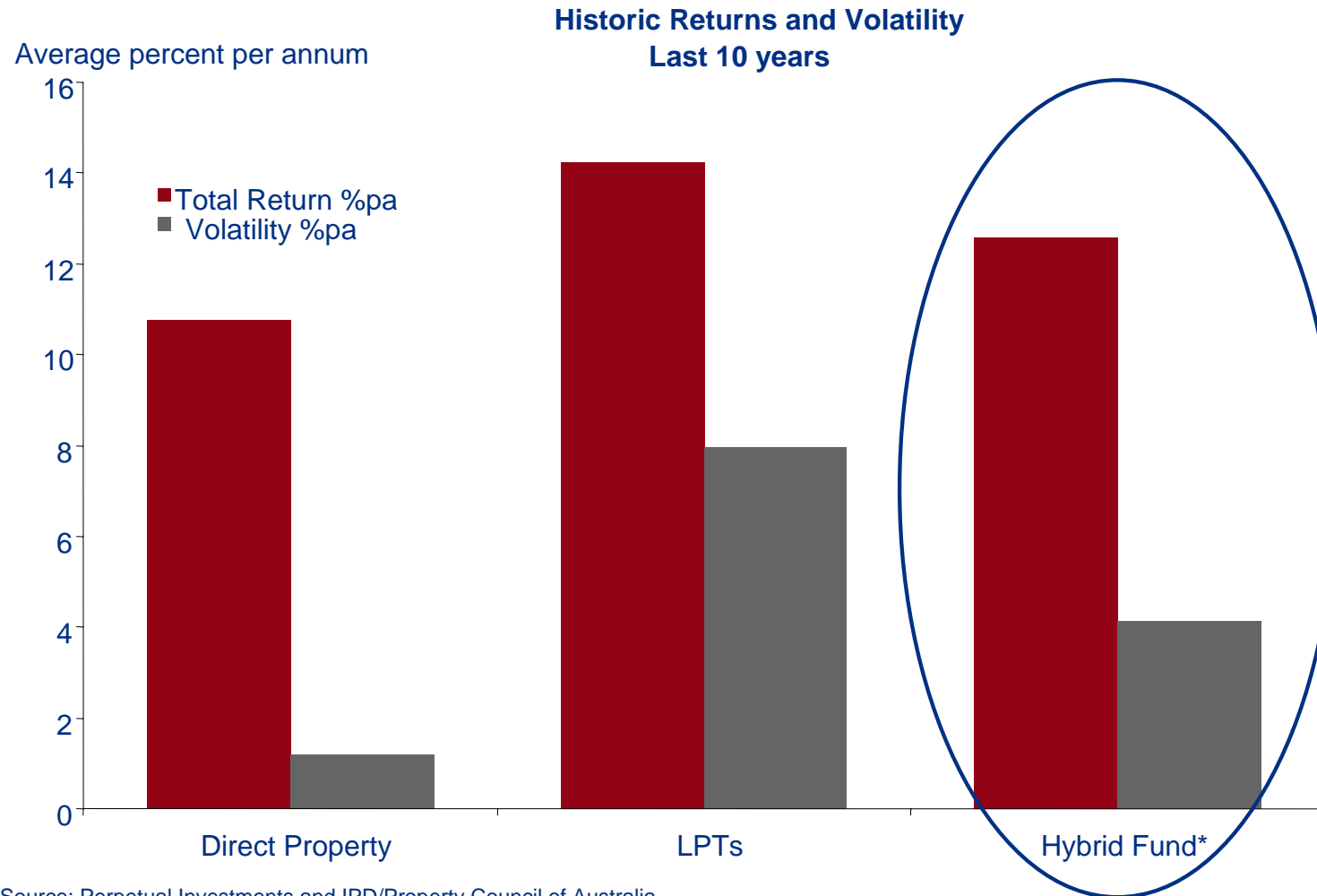
# The alternative – Diversified Property funds



# Asset class characteristics

Characteristics	Domestic LPT's	Global Reits	Direct Property	Diversified Property
Return (past)	High	High	Medium	High/Medium
Volatility	Medium/High	High	Low	Low/Medium
Income	Medium/High	Low/Medium	Medium	Medium
Asset Diversification	High	High	High/Low	High
Management Diversification	Medium/High	High	Low	Medium
Liquidity	High	High	Low	Medium
Gearing	Medium	High	Low/Medium	Medium

# Ten year historic returns and volatility



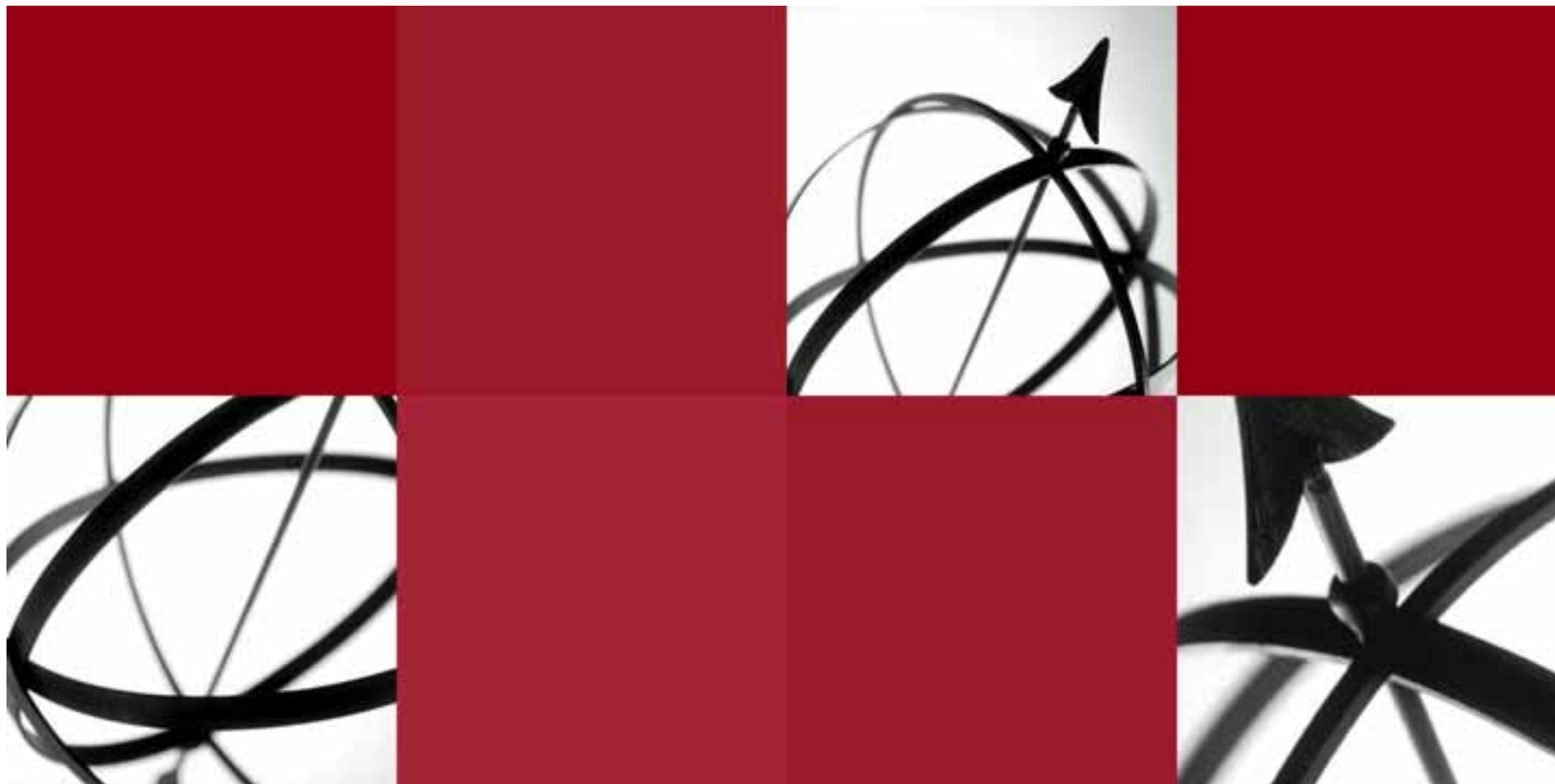
Source: Perpetual Investments and IPD/Property Council of Australia

Note: \*Assumes 50% allocation to Direct Property via the IPD/PCA Australian Property Composite and 50% allocation to ASX S&P/LPT 300 index

# Diversified Property Funds - summary

- Hybrid combines the higher office and lower retail exposure of direct with the higher retail and lower office exposure of LPTs
- Strong returns over the long-term, with less price movement
- Returns are more income oriented
- Higher liquidity than direct property investment
- Medium levels of gearing
- The result is competitive return with some what lower volatility

# Perpetual's Property funds



# Portfolio update

## Perpetual Property Securities Fund

As at 30 June 2006	Perpetual Property Securities Fund (%)	Index (%)	Excess (%)
6 months	6.5	6.3	+0.2
1 year	20.4	18.1	+2.3
2 years p.a.	19.5	18.2	+1.3

- Active management
- No. of Stocks: 21
- Estimated Yield: 6.0-7.0%

# Portfolio update

## Perpetual Property Income Fund

As at 30 June 2006	Perpetual Property Income Fund (%)	Index (%)	Excess (%)
6 months	8.2	6.3	+1.9
1 year	19.2	18.1	+1.1
2 years p.a.	-	-	-

- % of LPTs: 65%
- % of Unlisted 35%
- Estimated Yield: 7.0-8.0%

# Property income fund

## Sector positioning

	Listed	Unlisted	Total
Office	14.1%	8.3%	22.4%
Retail	22.3%	15.2%	37.5%
Industrial	10.8%	13.1%	23.9%
Hotels	3.4%	0.0%	3.4%
Other	9.4%	1.1%	10.5%
Cash			2.3%
<b>Total</b>	<b>60.0%</b>	<b>37.7%</b>	<b>100%</b>

# Key questions when constructing property portfolios

- **Growth versus income** - income requirements influencing portfolio allocation
- **Risk profile**
- **Size of investment** – portfolio size is an important consideration
- **Liquidity / time horizon**
- **Asset allocation** – to the office, retail, industrial and alternate asset classes

# Diversified property features

From a portfolio construction perspective an active diversified property fund utilises in-built management expertise to adjust the portfolio composition to reflect:

- Changes in gearing levels
- Changes in sector weightings to take advantage of opportunities arising along the different stages of the economic cycle
- Increases or decreases in the global composition of the listed property trust sector
- Mis-pricing of assets between direct property markets and the listed property trust sector

# Summary

- LPTs are a large and growing asset class and have similar performance to equities
- Global property returns are more dependant on price gains, rather than income
- In globalised markets, the skill of managers is critical in relation to sector and country selection and rotation
- ‘Growth versus income’, risk tolerance and time horizon are key considerations
- Diversified property has strong returns over the long-term, with less price movement

# Disclaimer

**IMPORTANT NOTE:** This presentation has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, an Australian Financial Services Licensee, Licence Number 234426, a subsidiary of Perpetual Trustees Australia Limited. While Perpetual strives to provide accurate information, this presentation should not be treated as a comprehensive statement of any law or practice. This presentation is not intended to provide you with personal advice and in providing this information, we have not taken into account your particular investment objectives, financial situation or needs. You should assess whether this information is appropriate for your particular needs, either by yourself or with your adviser. Perpetual expressly disclaims any responsibility or liability to anyone who acts or relies upon anything contained in, or omitted from, this presentation. Total returns shown in the presentation/slides have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance. The offer to invest in any fund is made in a copy of the current Product Disclosure Document for the relevant fund. Anyone wishing to invest in the funds will need to complete the application for the relevant fund.



III portfolio  
construction  
CONFERENCE

[PortfolioConstruction.com.au](http://PortfolioConstruction.com.au)

# 5th Annual PortfolioConstruction Conference

23 – 24 August 2006 | AJC Convention Centre, Randwick, Sydney

Pillars for building better  
quality investor portfolios...