PERENNIAL INVESTMENT PARTNERS

What's News at Perennial?

Australian Listed Property (AREITs): Post GFC revitalisation leads to stellar performance

David Kivell
Head of Perennial Real Estate

David is the Head of Perennial Real Estate and manages a team of 11 investment professionals located in Sydney, Hong Kong, Connecticut and Amsterdam.

David has over 21 years' investment management experience.

For more information on Perennial's real estate boutique or a copy of the relevant Product Disclosure Statement, please visit www.perennial.net.au or call us on 1300 730 032 or email us at invest@perennial.net.au or call your financial adviser.

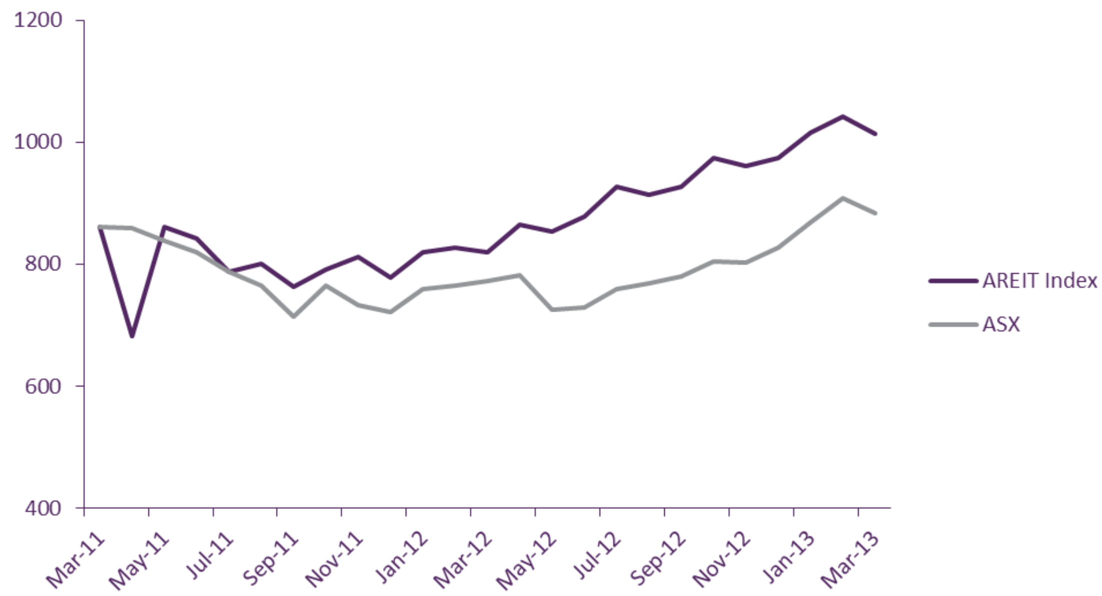
In spite of their defensive nature, AREIT asset values took a heavy hit during the GFC. The market fell an astounding 75% over the period - this was largely due to over leveraged balance sheets driven by the availability of cheap debt in late 2006 and 2007. On average, sector gearing was at 35%. This significant increase in financial engineering across the market pre GFC saw an exponential increase in the use of derivative instruments to boost earnings, manage capital and income exposures. AREITs increasingly relied upon these other secondary sources of income and moved away from their primary focus of being rent collectors. They also pursued aggressive growth strategies due to limited stock domestically and overzealously expanded internationally. As liquidity dried up and capital markets froze, AREIT exposure to these riskier investments backfired as asset values plummeted and debt could not be refinanced.

As a result, the period from 2009-2011 was a transitional (and in some cases transformational) one for the sector, with significant structural changes required. AREITs went back to basics in essence, heavily recapitalising their balance sheets and reducing gearing levels, exiting offshore positions and divesting non-core assets. This transition revitalised the sector and now the underlying fundamentals of AREITs once again reflect their low risk, defensive mandate.

Since early 2011, the performance of AREITs has been stellar. The S&P/ASX200 Property Index has appreciated by 32.6% in this period, outperforming the broader index by almost 20%. The market has acknowledged the attractiveness of a defensive yield play in an uncertain economic environment, continually plagued by spot fires in the Eurozone and US. The simplification of business structures to a model of owning quality assets with stable growth characteristics and low volatility was, and continues to be, an attractive proposition.

This sector continues to be well supported with the likelihood of improving valuations due to domestic and foreign capital chasing assets. AREITs are currently trading at yields of around 5.1%, this represents a premium to equity market yields. AREITs are, in our opinion, offering a very solid, lower risk total return package compared to other asset classes, especially in the current low interest rate environment. The Perennial Australian Property Wholesale Trust has positions in leading AREITs including the Westfield Retail Trust, Mirvac Group and Charter Hall Group.

Two Year AREIT Return versus ASX200 Return



Source: Perennial, Bloomberg.