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Positive news emerges, as do opportunities

Property

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Australian real estate investment trust fund managers are hoping to move onwards and upwards after a year littered with property value write-downs and debt-laden balance sheets.

The December 2009 quarter saw a 4.2 per cent average loss for Australian real estate securities funds, according to a survey by asset consultant Mercer.

However, those same fund managers managed to deliver an average 13.6 per cent return over 2009.

Dalton Nicol Reid Listed Property was the best performing Australian real estate securities fund manager in 2009, returning 33.4 per cent.

Chief investment officer Jamie Nicol says the fund manager had a "big focus in avoiding problem stocks", particularly those with high gearing such as Centro Properties Group.

"We participated in quite a few of the placements in 2009 where we saw balance sheets being repaired and that affected our performance. We have a bit of a view of the strong getting stronger in this environment," Nicol says.

Top and bottom

Best and worst performing Australian real estate securities funds in 2009 (%)

SOURCE: MERCER

He predicts that property groups with enough cash in their back pockets will soon be trawling the market for opportunities.

"Those funds with good balance sheets and good-quality assets will be in a position to make acquisitions over the next year or so as funding costs start to come in."

During the reporting season just ended, positive news began to trickle through.

While Stockland Corp's commercial property values dipped by $330 million and managing director Matthew Quinn flagged they would fall further in the latter half of the year, he said Stockland could finally be at the bottom of the capitalisation rate cycle.

Westfield Group, the biggest real estate investment trust in Australia, also signalled in its full-year results that the global property value slump was coming to an end.

With some $7.8 billion in available cash, the shopping centre juggernaut is considering acquisitions.

But Nicol concedes that for some A-REITs, property acquisitions still do not stack up.

KEY POINTS

- Commentators say the property market is on the upswing.
- There is some uncertainty, with low supply and cautious expectations.
- Many groups have slashed debts..

"Funding costs are still quite high and transaction valuations haven't come in enough to make some of [those sales] work," he says.

Stockland, Mirvac Group and Westfield, all particularly defensive investments, are Nicol's picks.

Winston Sammut, Maxim Asset Management's managing director, recently said he took the view early in 2009 that the sector "had been bashed about too much".

"A lot of these stocks were being priced on an Armageddon scenario and we didn't think that was going to occur," he said.

Maxim Property Securities Fund was the second-best performing Australian real estate securities fund for 2009, returning 26 per cent.

Sammut says that in 2009 the best-performing stock in the benchmark S&P/ASX 200 A-REIT index, ING Industrial Fund, was up 280.95 per cent, and the worst, GPT Group, was down 24.28 per cent.

A recent Moody's Investors Service report placed the A-REIT sector into stable territory, thanks to significant recapitalisations and improving consumer and business sentiment.

Moody's senior analyst Clement Chong says there's still some uncertainty with the sector as capital markets were yet to fully open, and the supply of office, retail and industrial space was still below trend as a result.

This means vacancies and rents will remain relatively stable in the short to medium term, the ratings agency says.

However, Moody's points out many groups had managed to pay down massive amounts of near-maturity debt, removing any urgency to offload assets.

"We are not going to see the sorts of returns we saw a few years ago, but we are going to see double-digit returns somewhere around 10 to 12 per cent," Sammut says.

Over the reporting period, the A-REIT sector failed to outperform the broader market.

While the S&P/ASX 200 was up 3.1 per cent in February, the benchmark S&P/ASX 200 A-REIT index was up only 1.7 per cent.

Simon Wheatley of Goldman Sachs JBWere says while the sector has stabilised, there is limited upside in earnings growth.