



## MONEY DUE REWARDS:



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### Listed Property – Not What it Used to Be

For many years now in Australia, listed property trusts (LPTs) have been popular with investors and advisors alike. This has been partly because of Australians' natural attachment to property of all kinds, and partly because LPTs have produced excellent returns year in and year out. In recent months, however, something seems to have gone wrong, and for the first time in many years the returns have been negative.

For the uninitiated, the concept of LPTs is quite simple. The investors invest by purchasing units in a trust, and the trust's managers purchase commercial property with the invested funds. Rental income is collected, the managers are paid, and the rest flows out to investors as distributions, typically with a yield of 5-10% on the moneys invested. As the properties increase in value, the investors also see capital gains in the value of their units.

This model has produced a great deal of success for Australian investors, however in February 2007 the LPT index peaked, and then retreated over the following 6 months. This has left many investors wondering about what is happening, and whether these investment vehicles are still as good as they used to be.

When we look "behind the scenes", however, we find that the picture is quite a complex one, because the truth is that LPTs have changed quite dramatically from the simple investments that they once were. To put it quite simply, they have become victims of their own success!

As more money has flowed into the property trust sector, more commercial properties have been bought by such vehicles, until it has reached the stage where there is too much money chasing a limited pool of assets. The result is higher property prices, which translates into lower returns for investors, if everything else stays the same.

In the real world, however, everything else does not stay the same, and in this situation the managers of many of the property trusts have devised strategies aimed at maintaining the returns for investors. In some cases, this has meant increased borrowings, while in others it has meant expanding into offshore commercial properties. For some, it has meant a diversification into property development, rather than buying the finished building as has traditionally been the practice.

All of these strategies are well thought out, and may well be very effective, however investors who buy into these investments need to understand that most of the LPTs in today's market are simply not the "plain vanilla" investments of yesteryear – they are more risky and far more complex.

Thus, when the "sub-prime" crisis began to hit the radar screens of the investment world in recent months, LPTs were one of the sectors which were sold off, largely on the expectation that higher interest rates would have a negative impact on those with significant debt levels.

This is not to say that LPTs aren't a good investment any more, because given the right circumstances, they certainly can be. Speak to a professional advisor if you wish to discuss the suitability of listed property trusts to your own particular circumstances

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