Post-crunch struggle lies ahead

Lisa Carapiet

Property securities fund managers will still be grappling with restrictive market conditions long after the credit crisis has passed, a ratings house report says.

The report by Adviser Edge, gave four Australian property securities managers a top class – four out of five rating – even though all were well into negative territory for the past 12 months.

The funds rated 4 stars were BT Wholesale Property Securities Fund, Goldman Sachs JBWere Property Securities Wholesale Fund, Principal Property Securities Fund and APN Property for Income Fund No. 1.

Adviser Edge noted that BT Wholesale Property Securities Fund, which returned -18.5 per cent over the year, had enjoyed excess returns for the year ended January 31, well above its peers, but "experienced a higher than average level of staff turnover" and future staff movements would be monitored closely.

BT Investment Management's head of property securities Peter Davidson narrowed the fund's good performance down to four factors.

"Firstly, our process is the same as the successful BT Australian shares process, as we use a range of valuation techniques," he said. "Second, at any point in time we know what the stock price should be and we have an absolute value target. Thirdly, we put a lot of analytical effort, cross-checking and validation into everything that is said to us, which gives us a lot of depth to our research. Finally, we're not a one-man band and everyone's opinions are valued."

Adviser Edge's Louis Christopher says a broader index is needed. Photo: PETER BRAIG

GSJBW Property Securities Wholesale Fund, returning -23.4 per cent over 12 months, was awarded for its absolute returns over three and five years, as well as for being part of a global group. Where GSJBW fell short was its returns below peer and benchmark averages, and holdings in ex-index stocks.

Principle Property Securities Fund had continued to outperform its peers despite weak returns over the past 12 months, at -22.1 per cent.

Overall performance and experienced senior management were where APN Property for Income Fund No. 1 gained points with Adviser Edge, but the fund lost out as its rolling returns have varied in the past and fee structures are higher than its peers. It returned -15.9 per cent over the year.

Inherent risk remains for all real estate investment trusts in the composition of the S&P/ASX 300 A-REIT Index and S&P/ASX 200 Property Accumulation Index, Adviser Edge said, highlighting the significant weighting given to Centro Properties Group last year.

Head of property research Louis Christopher said a more flexible mandate that allowed fund managers to act on their convictions instead of being tightly restricted was advocated by the ratings house.

"We also believe the Australian Stock Exchange, as well as Standard & Poors, needs to come up with a broader index that is not as heavily influenced by a small number of stocks," he said.

Century draws energy tenants

Julie-anne Sprague

KEY POINTS

- The Perth office and retail tower has attracted businesses keen on consolidating dispersed offices.
- Tenants are paying a premium to rent in the city's space-starved CBD.

The 24-level Century City office and retail tower under construction in the centre of Perth's CBD is shaping up to be an oil and gas hub – with US-headquartered Apache Energy expected to join Japan's INPEX in the new development.

Property sources have told *The Australian Financial Review* that Apache has committed to taking 7000 square metres of space in the tower at about $690 a sq m.

Neither Apache nor leasing agent Knight Frank would comment on the proposed deal.

It is understood a lease was close to being finalised this week.

Apache will join INPEX, which has 7000 sq m of space spread across the top four floors, National Offshore Petroleum Safety Authority, which has secured 1000 sq m, and the National Australia Bank. NAB has leased about 10,000 sq m of office and retail space at the site.

Century City, which is being developed by Industry Superannuation Property Trust, is on schedule for practical completion on June 1, 2009 while retailers are expected to open in its ground floor malls as early as December.

The 30,000 sq m of office space sits above 8500 sq m of retail tenancies, which have been marketed to mid-level to upmarket retailers. Several big-name groups understood to be finalising leasing deals to open up alongside Hardy Brothers Jewellers and Woolworths.

The development is one of many towers under construction across Perth. It has been jumped on by businesses eager to consolidate expanding operations under one roof.

Apache staff are now spread between 256 St Georges Terrace and 88 Colin Street in West Perth.

The tight vacancy market in the CBD, which is sitting at about 0.5 per cent, has put enormous pressure on rents and has also meant those businesses that have not been quick to secure space are paying a hefty price.

Property sources told *The Australian Financial Review* that the little remaining office space in the tower is being offered at about $800 a sq m – roughly 15 per cent more than leases settled a few months ago.